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**DOD SUPPLY CHAIN MANAGEMENT: CAN  
THE DEPARTMENT IDENTIFY AND MEET  
ITS SUPPLY NEEDS EFFICIENTLY?**

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HEARING

BEFORE THE

PANEL ON DEFENSE ACQUISITION REFORM

OF THE

COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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HEARING HELD  
SEPTEMBER 24, 2009



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PANEL ON DEFENSE ACQUISITION REFORM

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**DOD SUPPLY CHAIN MANAGEMENT: CAN THE DEPARTMENT IDENTIFY AND MEET ITS SUPPLY NEEDS EFFICIENTLY?**

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
PANEL ON DEFENSE ACQUISITION REFORM,  
*Washington, DC, Thursday, September 24, 2009.*

The panel met, pursuant to call, at 9:38 a.m., in room 2175, Rayburn House Office Building, Hon. Robert Andrews (chairman of the panel) presiding.

**OPENING STATEMENT OF HON. ROBERT ANDREWS, A REPRESENTATIVE FROM NEW JERSEY, CHAIRMAN, PANEL ON DEFENSE ACQUISITION REFORM**

Mr. ANDREWS. Good morning. Please be seated, ladies and gentlemen. Welcome. We thank our witnesses, thank our colleagues on the panel and thank our guests for being with us this morning for today's hearing. Any large organization has a responsibility for acquiring goods and getting the amount of goods that they need to the place that they are needed in the time they are needed in the most efficient and productive way. There are a few organizations in the world, perhaps no other organization in the world with the responsibility as large as that as the United States Department of Defense (DOD). The best approximation I have read of the total amount to do that in any given year is about \$42 billion a year. That is a lot of items. Whether it is food, "Meals Ready to Eat" (MRE), whether it is fuel cells, it is a lot of items that have to be moved, and I would say from the outset that we are grateful for the men and women in the federal service, both uniformed and non-uniformed who have taken on that responsibility. We thank them for it. We know it is a very difficult job.

So I want to preface all of our questions and remarks this morning by acknowledging that the men and women in that field have taken on a very hefty responsibility that has huge consequences. The chairman of the full committee is fond of giving committee members reading assignments. And a few years ago, I was given the reading assignment of reading about Guadalcanal. There is a famous book about Guadalcanal that is very voluminous. And the lesson that I learned from reading the book—two lessons. One was that if the chairman gives you a book to read, read it. And the second was that in many ways, the battle of Guadalcanal was won obviously through the incredible heroism and performance of American warfighters, Marines and others.

The second was logistics really won that battle, that the Americans were better prepared logistically than the Japanese enemy

and were able to withstand huge assaults by many, many more warfighters, because they could outlast them, because they had the logistics to do it. Happily, there aren't as many of those dramatic circumstances very often. We don't want those kind of circumstances if we can avoid them. But every day there is the challenge of accounting for and moving around, taking proper care of \$42 million worth of items. Now, we come to this morning's discussion frankly in a context of some challenges and difficulties that have been raised in that context. The Government Accountability Office (GAO) has looked at this issue over a number of years and identified some of those challenges.

Some of the more difficult examples that have come up in the past I want to stress, in the past really jump out at you. Between 2004 and 2007, it was concluded that the Army had \$3.6 billion more of spare parts than it needed. In the same fiscal year as the conclusion was that the Navy had \$7.5 billion more of various parts than needed, which was 40 percent of its inventory. At the other end of the spectrum, around the time of the Iraq buildup—fully understanding that this was a very stressful time for everyone involved in the Department of Defense—for example, the demand for lithium batteries was 18 times greater than the supply that we had of lithium batteries. So for every 18 lithium batteries that we needed to accomplish a task in the field, we only had one. There are other sort of eye-catching facts that come out of some of the work the GAO has done. In March of 2002, the price of a refrigerator which would go on an aircraft was about \$13,800. But in September of 2004, not much later than that, the price jumped to \$32,600 for the same product.

This indicates that the challenges are substantial. The purpose of our hearing this morning is to hear about the progress that has been made in meeting those challenges. There have been efforts to reorder the way our relevant DOD agencies work to identify these challenges and work with them. We are interested in hearing this morning about the progress of that work. Suffice it to say that it is easy to Monday morning quarterback this, to say “my goodness,” you paid \$32,000 for a refrigerator you paid \$13,000 for a few months earlier.

That is not our intention. We understand the monstrous scale of the job that our agencies have here in purchasing \$42 billion a year worth of items. But we do want to take a serious look at how we can improve the way we look at that, so we can get better value for those who serve our country and better value for those who pay the bills for our taxpayers. That is our approach this morning and we look forward to the witnesses. And at this time, I would ask the senior Republican on the panel, my friend, Mr. Conaway for his statement.

**STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, PANEL ON DEFENSE ACQUISITION REFORM**

Mr. CONAWAY. Thank you, Mr. Chairman. And witnesses, welcome. Thank you for setting aside time in your schedules to come visit with us this morning. Last week's panel looked at the DOD's role in tackling the challenges facing the industrial base in the

global market. Today we are here to receive expert testimony about another major component in the acquisition process, which is the purchase of commodities, the suppliers of those commodities which are a significant part of the industrial base. There is no question that our Nation's ability to project and sustain military power depends on effective logistics.

It was General Eisenhower who said you will not find it difficult to prove that battles, campaigns and even wars have been won or lost primarily because of logistics. The challenge, of course, is how does the government—how does the Department manage the supply chain more effectively and efficiently. Clearly the Defense Logistics Agency (DLA), which, by the way, supplies almost every consumable item America's military services need to operate, has learned a lot in the last eight years. DLA has made many improvements in the last eight years such as placing senior executives at each of the four major buying activities to serve as the head of the contracting activity which ensures the efficacy and the integrity of the acquisition process. When you get it right, a scant thank you is offered up. When you get it wrong, people get hurt and die and it is a wreck.

So thank you for all the good things that you do do unnoticed. Because like I say when you get it right, they just keep going. When you get it wrong, then things get out of whack. I look forward to hearing our testimony from our witnesses today. And with that I yield back, Mr. Chairman.

Mr. ANDREWS. Thank you very much. The staff has assembled an outstanding panel of witnesses this morning. We are very glad these three individuals are with us. I want to take a few minutes to read their respective biographies. I think all three of you are experienced Capitol Hill witnesses, so you know without objection your written testimony will be entered into the record of the hearing in its entirety. And we will ask you to provide a five-minute or so oral synopsis of your testimony. When each of you has done that, we will turn to the panel for questioning so that we can maximize the amount of time that we can interact with the witnesses. Mr. William Solis is on his second appearance before our panel, I believe. He serves as the Director of the Defense Capabilities and Management team at the GAO.

Prior to this appointment, he worked in a variety of engagements that covered topics such as military readiness, training, weapon system effectiveness, housing and military doctrine. Much of his work involves close interaction with Congress and key national security experts. For example, he works with the congressional authorization as we know, appropriation oversight committees that have jurisdiction over DOD agencies.

Throughout his over 30 years at the GAO, Mr. Solis has served in a wide variety of positions and has become the recipient of numerous honors and awards. Most recently he was selected to receive the 2008 GAO Award for Distinguished Service. And we so much appreciate your work. The work that you and your colleagues did on the Weapons Systems Acquisition Reform Act of 2009 (WASTE-TKO) bill that was signed by the President in May was invaluable. You continue to demonstrate each time you are here

the professionalism and quality of the GAO's work. We thank you very much for it.

Nancy M. Heimbaugh. Did I pronounce your name correctly, Ms. Heimbaugh? Okay. Currently serves as the Director of Acquisition Management, the Defense Logistics Agency at Fort Belvoir. In this capacity, she is responsible for the development, application and oversight of DLA acquisition policies, plans, programs, functional systems and operations. Her past assignments include Executive Director for Contracting and Acquisition Management at the Defense Supply Center in Philadelphia. Did you live in New Jersey or Philadelphia when you had that job?

Ms. HEIMBAUGH. Philadelphia.

Mr. ANDREWS. That is the wrong answer. But a lot of my constituents work there and it was a pleasure to have you there. The Director of Field Contracting Management, Director for Naval Supply Systems Command and frankly a long list. She then served as Chief of Contracting Operations in the Acquisition Directorate at DLA where she was responsible for overseeing procurement operations at all DLA field contracting activities in support of the DLA Senior Procurement Executive Component Acquisition Executive.

She has a Bachelor's of Science, *magna cum laude* from Strayer University, a Master's in National Resource Strategy from the National Defense University, a Certificate of Completion from the Defense Acquisition University Senior Acquisition Course. In 1996, Ms. Heimbaugh received Vice President Gore's National Performance Review's Heroes of Reinvention Hammer Award for electronic commerce. Congratulations on that and welcome to the committee, Ms. Heimbaugh.

Major General Gary T. McCoy is the commander of the Air Force Global Logistics Support Center (AFGLSC), located at Scott Air Base in Illinois, an Air Force Materiel Command Sustainment Center. The AFGLSC executes the Air Force supply chain by integrating enterprise-wide planning and strategy with global command and control serving as the single focal point for the warfighter. The command manages an \$8.5 billion budget. It has over 4,200 personnel.

General McCoy is a South Carolina native, was commissioned through Officer Training School in July 1976. He has his Bachelor of Arts degree from Culver-Stockton College in Missouri, as the chairman instructed us to pronounce it that way. His military career has been very distinguished. Prior to his current assignment, General McCoy was the Director of Logistics Readiness Office of the Deputy Chief of Staff for Logistics Installations and Mission Support Headquarters, U.S. Air Force, Washington, DC.

Thank you, General, for your service and welcome to the panel.

Mr. Solis, we are going to start with you this morning. As I say, we would ask you to summarize orally in about five minutes. We will not rigidly hold to that rule. We had a chance to review the written testimony of each of you. It is very well prepared and you are on.

**STATEMENT OF WILLIAM M. SOLIS, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. SOLIS. Thank you. And good morning again. Chairman Andrews, Ranking Member Conaway and members of the panel, I am pleased to be here today to discuss DOD supply chain management and more specifically the challenges DLA faces in ensuring it provides good value and adequate oversight for goods and services bought from contractors with taxpayer dollars. Effective and efficient supply chain management is important because the availability of spare parts, commodities and other critical supply items affects the readiness and operational capabilities of U.S. military forces.

Moreover, the investment of resources in the supply chain is substantial, amounting to approximately \$178 billion in Fiscal Year 2007 according to DOD. As a result of weaknesses in DOD's management of supply inventories and responsiveness to warfighter requirements, supply chain management has been on our list of high risk government programs and operations since 1990. To execute its support missions and supply troops with the goods and services they need, DOD relies to a great extent on contractors; however, the Department faces many long-standing contracting challenges which are especially important to address as the Department's use of contractors has grown.

As DOD's largest combat support agency, DLA provides over \$42 billion in goods and services to our military serving domestically and around the world, including the ongoing campaigns in Iraq and Afghanistan in Fiscal Year 2008. This crucial logistical support to our military makes it vital that DLA along with the rest of DOD employ sound contracting practices in order to ensure that goods and services are attained in a cost efficient and effective manner.

As we have continued to report, however, the Department struggles to implement sound contracting policies such as clearly defining requirements using appropriate contract type and exercising effective contract management. In absence of these, DOD exposes itself to unnecessary risk and may not be able to ensure that tax dollars are spent on goods and services that provide the best value. There are several contracting practices we continue to review as most vital in order to mitigate this risk. First, when making a contract decision, a prerequisite to good outcomes is a match between well-defined requirements and available resources. This requires accurate demand and supply forecasting and realistic timeframes among other things. Our previous reports and testimonies have highlighted several cases where poorly defined and changing requirements have contributed to increased costs as well as services that did not meet DOD's needs.

For instance, because DLA could not produce an accurate demand forecast for "Meals Ready to Eat" in Iraq in early 2003, some combat units came within a day of running out of MREs. Also the difficulty of military services had with forecasting demand for spare parts is among several reasons we have placed DOD supply chain management on our high-risk list.

Second, when the correct contract type is selected, the government's risk is minimized. Due to the volume and value of con-

tracting arrangements made by DLA, it is critical that the agency choose the most appropriate contract vehicle. DLA has taken steps to mitigate the risk of choosing the wrong contract type for the situation, such as reexamining programs to decide whether a prime vendor, for example, is the best acquisition strategy. Third, DOD has long had significant issues providing adequate management and assessment of contractor performance, making it difficult for DOD to identify and correct poor contractor performance in a timely manner. Proper contract management requires an adequate number of personnel who are suitably trained or in place to perform oversight. We have previously reported DLA officials had not conducted the required price reviews for prime vendor contracts for food and service equipment and construction equipment and commodities. DLA officials acknowledge that part of what led to the problem was poorly trained contracting personnel and the agency has since implemented additional training for its contracting officers and managers.

Over the last several years, we have made numerous recommendations for DOD to improve contract management and the use of contractors to support deployed forces and Congress has enacted legislation requiring DOD to improve its management and oversight of contracts. To improve outcomes on a whole, DOD and its components, such as DLA, must ensure that these changes and other efforts are consistently put into practice and reflected in decisions made on individual acquisitions. This will take sustained commitment by senior DOD leadership to translate policy into practice and to hold decisionmakers accountable.

Finally, the recent surge of forces in Afghanistan make it critical that contract oversight is adequately performed to minimize the risk of fraud, waste and abuse experienced in Iraq. To better ensure that DLA has minimized the risk for government in fulfilling its combat support mission in the most effective and efficient manner, DLA will need continued vigilance with regard to its contract administration and oversight. Mr. Chairman, this concludes my oral statement. I would be happy to take any questions.

[The prepared statement of Mr. Solis can be found in the Appendix on page 25.]

Mr. ANDREWS. Thank you very much. I want to apologize, General, for my breach of protocol in not recognizing you first. This hearing is so much later in the day than we usually start. We are usually a 7:30, 8:00 a.m. deal. I apologize for the breach of protocol. And, Ms. Heimbaugh, if it is okay with you, I am going to recognize the General next for his testimony.

**STATEMENT OF MAJ. GEN. GARY T. MCCOY, USAF, COMMANDER, AIR FORCE GLOBAL LOGISTICS SUPPORT CENTER**

General McCOY. Chairman Andrews, Congressman Conaway and distinguished members of the Defense Acquisition Reform Panel, I thank you for this opportunity to address the mission of the Air Force Global Logistics Support Center which I will refer to as the AFGLSC and how it links with the Defense Logistics Agency. The AFGLSC has rapidly evolved since the standup in March of 2008 at Scott Air Force Base, Illinois, as a new center in Air Force Materiel Command. The AFGLSC was born out of a compelling need for

change in the 2005 and 2006 timeframe. The Air Force was challenged with increased operational tempo, manpower cuts, increased deployments, aging aircraft and budget constraints. In addition to these pressures, we were transforming into a highly expeditionary Air Force. A more efficient, streamlined and effective supply chain was required to sustain and improve our performance in such challenging times.

I took command of the Air Force GLSC in November of 2008 and I am honored and delighted to lead this great organization as we transform supply chain management in the Air Force to improve our combat capability. As a career logistician, I look forward to discussing how the professional men and women of the AFGLSC are executing our challenging global mission, how we are improving our enterprise operations through the implementation of a comprehensive and forward thinking strategic campaign plan and how we are working closer with DLA to ensure we can successfully support our Air Force and other worldwide customers.

To execute the service function of organize, train and equipment and provide forces to combatant commanders, we are heavily reliant on our logistics and supply chain capabilities. The formation of the AFGLSC enabled the establishment of a one supply chain process owner who provides a single point of entry and contact for our Air Force warfighters and customers throughout the supply chain. Employing lessons learned from commercial industry, from academia and government, we are eliminating duplication and focusing on standardization of our critical processes. We are just getting started and are extremely proud of our progress to date.

As a total force organization consisting of active duty, Guard, Reserve and civilian personnel, the AFGLSC has three primary functions. Enterprise supply chain planning execution, operations and strategy and integration. Our total team simplifies the complexities of the Air Force supply chain for our warfighters, providing the most logical, expedient and cost effective solution. Our warfighters and other worldwide customers don't have to worry anymore about chasing information or chasing parts because AFGLSC assumes that role for them.

Now, I would like to turn your attention to our partnership and collaboration with DLA to improve and drive improvements to the Air Force supply chain. We have three primary initiatives at work. First, we are developing a set of joint customer metrics with the intent of presenting one picture of the supply chain health to the warfighter.

Secondly, the AFGLSC has established an organization devoted to the consolidation and submittal of the Air Force requirements to DLA. This initiative is called Planning for DLA Managed Consumables or PDMC and is a means for the Air Force to more accurately project supply plans to DLA that are based on information that would not otherwise be anticipated through historically based forecasting techniques. And third, we are working closer with DLA to improve the support we provide to Air Force depot maintenance operations. We have created a depot supply chain management team that uses predictive analysis and identifies and solves supply chain constraints well ahead of the need for the item to support that operation.

The AFGLSC and DLA have also been working on a number of joint sourcing initiatives to commit resources for joint collaboration opportunities for long-term strategic contracts. The purpose is to apply our combined buying power where appropriate to leverage tactical and strategic relationships with our commercial buyers, the collaborative sourcing opportunities that govern through a joint service board that meets quarterly.

In closing our mission, our role, our responsibilities and vision are clearly defined for the Air Force Global Logistics Support Center. We are a relatively new organization that has stepped out quickly to achieve the results the Air Force envisioned when they established the center in March of 2008. Our early success has motivated us to bring even better support to the warfighter. I am equally proud and pleased with our strong relationship with DLA and I am encouraged by the collaborative initiatives we have developed together. Global logistics with a warfighter focus, that is what the Air Force Global Logistics Support Center is all about. I look forward to your questions.

Mr. ANDREWS. General, thank you very much.

[The prepared statement of General McCoy can be found in the Appendix on page 42.]

Mr. ANDREWS. And, Ms. Heimbaugh, it is my understanding it is your first time testifying on the Hill. We are honored that we would be your maiden voyage here. This is a very aggressive, hard edge committee here, so you should be on guard. No. You are very welcome. We appreciate your service to your country and look forward to your testimony this morning. Welcome.

**STATEMENT OF NANCY HEIMBAUGH, SENIOR PROCUREMENT EXECUTIVE AND DIRECTOR OF ACQUISITION MANAGEMENT, DEFENSE LOGISTICS AGENCY**

Ms. HEIMBAUGH. Thank you. Chairman Andrews—

Mr. ANDREWS. Ma'am, would you turn your microphone on? It would be better if we could hear you that way. Okay. Thank you.

Ms. HEIMBAUGH. Chairman Andrews, Congressman Conaway and distinguished panel members, thank you for the opportunity to appear today and discuss the Defense Logistics Agency's mission as a supply chain manager responsible for providing the best available supplies and services to the warfighter at the best value to the taxpayer. The Defense Logistics Agency, or DLA, is the Department's combat logistics support agency. It manages 4.8 million items and supports nearly 1,600 weapons systems. It is the end-to-end supply chain manager for 8 supply chains and it provides approximately 84 percent of the repair parts and nearly all of the subsistence, fuels, medical, clothing and textiles and construction material required by the military services.

DLA has a global distribution capability, including 26 distribution centers around the world. DLA is an integral part of the end-to-end supply chain it works closely with the services to ensure support for their requirements. For example, DLA is partnering with the Air Force Global Logistics Support Center to execute the base realignment and closure decision to realign depot level repairable acquisition, as well as supply, storage and distribution responsibilities to DLA. DLA provides storage and warehouse man-

agement for service required items and coordinates movement of items directly with vendors or with the U.S. Transportation Command to ensure on-time delivery. DLA's responsibilities also include stock positioning at forward locations for faster delivery.

DLA uses demand planning and forecasting to reflect usage factors accurately and leverages distribution to complete the supply chain. And DLA now uses the Northern Distribution Network to move supplies and equipment to the U.S. forces deployed in support of operations Enduring Freedom and Iraqi Freedom. DLA provides support to the warfighter no matter where located.

Acquisition is a core DLA competency and essential to its success as a supply chain manager. As requirements are identified by the service, DLA develops the supporting acquisitions, drawing upon a portfolio of tailored acquisition solutions. For example, DLA's prime vendors distribute commercial products to assigned customers in a designated region, accelerating deliveries, eliminating inventory and reducing costs. They provide the same high quality support to deployed warfighters as to military service members in the continental United States. DLA is aware of its responsibility to maintain its industrial base of which small businesses are a critical component.

DLA invests approximately \$50 million of congressional funding annually to maintain production capacity for go-to-war items such as nerve agent antidote auto-injectors. In addition, DLA supports the Department's socioeconomic programs, having awarded approximately \$7.9 billion to small businesses in Fiscal Year 2008. In executing its stewardship responsibilities, DLA has established a separate acquisition management directorate and has placed senior acquisition executives at its major activities to enhance management and oversight.

DLA also has a sound oversight program in place to ensure effective stewardship. A performance-based agreement with the Defense Contract Management Agency (DCMA) emphasizes contract administration. In addition, a new Center of Excellence for Pricing identifies contract pricing issues and supports improved management decisions. And it has already generated significant savings. DLA's workforce is a key to its mission. And DLA ensures that these professionals are fully trained and job ready. DLA is also planning for the future with 399 contracting interns in its 2-year intern program. DLA monitors acquisition performance using metrics that relate directly to success.

Analyzing these metrics allows DLA to assess performance and identify effective solutions if performance lags, a key capability of DLA's recently implemented Enterprise Resource Planning System. Given the size of its program, DLA is prepared to face major challenges. For example, the pending rollout of a single agency-wide contract writing system is a major undertaking; however, DLA is confident that it will meet its challenges and that it will continue to provide effective support to the warfighter while being an efficient steward of the taxpayer dollar.

Mr. Chairman and distinguished members of the panel, this concludes my statement. I will be pleased to answer your questions.

Mr. ANDREWS. Thank you very much, Ms. Heimbaugh, and welcome to the committee. We hope you are here many times.

[The prepared statement of Ms. Heimbaugh can be found in the Appendix on page 52.]

Mr. ANDREWS. I thank all three of the witnesses. And we begin with Mr.—is it “Solis” or “Solees”? I am sorry. Which do you prefer.

Mr. SOLIS. “Solis” is fine.

Mr. ANDREWS. Mr. Solis, I notice in your written testimony there was the discussion of one of the prior reports about this refrigeration unit and this is on page 10 of the written statement that—the price was \$13,825 in March of 2002 and apparently in September of 2004, we paid \$32,642. Was it the same unit? Was it the same product?

Mr. SOLIS. That is my understanding.

Mr. ANDREWS. And the report goes on to say that there was an acknowledgement by senior officials that there wasn’t proper supervision. But I would like to try to get into the weeds of that one a little bit more. How did the person who bought the second refrigerator not know that the price was so much higher than the one for the first?

Mr. SOLIS. I think a couple of things in terms of the history. At the time when we went back—and this actually was at the behest of the Armed Services Committee that we did this work—some of these things had been occurring in terms of the lack of pricing reviews and the lack of emphasis on price going back several years prior to this even happening within DLA. This had been brought to senior management attention. We are not sure why things—I mean, within—the DLA internal review brought this up. There were other internal studies that were brought forward in terms of the problem. But there was not an emphasis as much as it could be on doing pricing reviews. The metrics were more towards how much sales volume do you have. So I think there was a disconnect between the emphasis on—

Mr. ANDREWS. So the person who was doing that job understood his or her responsibility, prime responsibility is buying “X” number of refrigerators by some deadline?

Mr. SOLIS. That is correct.

Mr. ANDREWS. And there wasn’t an emphasis on how much they cost?

Mr. SOLIS. There wasn’t the emphasis on cost or pricing reviews at the time.

Mr. ANDREWS. Do you recall under what kind of contract the refrigerator was purchased under?

Mr. SOLIS. I am not sure.

Mr. ANDREWS. If you could supplement for the record how that happened. How about the personnel involved? I don’t mean the specific people. Was it the same subunit of the DLA that made the two purchases or was it two different subunits?

[The information referred to can be found in the Appendix on page 69.]

Mr. SOLIS. It was the same unit. I don’t know if it was the same individual who made the decisions.

Mr. ANDREWS. Did they have access at the time to a database that would show what had been paid in March of 2002? Or would they not have known that?

Mr. SOLIS. If it was, I don't believe that they accessed that database.

Mr. ANDREWS. What I hear you saying is it wouldn't be a part of the sort of regular routine of the person doing the job.

Mr. SOLIS. That is why I mentioned in my oral statement, I think as well as in testimony, there was a lack of emphasis on that kind of training to do the pricing reviews as we indicated.

Mr. ANDREWS. We certainly can't fault the person if their job is to purchase quantity and not price. You follow orders. But I guess the question that I would raise is—this is more of a rhetorical question. Are we orienting people properly not to look at—let me put it to you this way. I would bet you anything that the person or the people responsible for making that decision, if they had bought a refrigerator for their home in March of 2002 and paid \$900 for it, they would have been shocked to go pay \$2,000 for one 2 years later. They wouldn't do that. They would say wait a minute, what is different about this refrigerator, why does it cost more. Does that not happen because we are not expecting people to think that way? Or does that not happen because they don't have the information? Why do you think that happens?

Mr. SOLIS. I think that happened before because there wasn't an emphasis on it. Maybe Nancy can probably answer this better where they are at.

Mr. ANDREWS. I was coming to that. Yeah, I want to ask Ms. Heimbaugh—

Mr. SOLIS. The orientation has changed. I know there is a unit that is doing that right now.

Mr. ANDREWS. Let us ask it in terms of that specific example, Ms. Heimbaugh. Let us say that I work for you, I am part of the Agency and it is my job this morning to go buy a refrigeration unit. What would be different today than occurred in 2004? And let us say hypothetically that the unit that comes across my desk for approval is \$40,000. What would be different today about the way I would approach that problem than when this situation arose the first time?

Ms. HEIMBAUGH. I can assure you that there would be a big difference. A lot of corrective actions have been put in place since the time that that issue became identified. And actually folks, there were personnel that were either removed or specific action was taken because to answer your question, there was a need for more focus not only from a pricing standpoint, but from a training standpoint as well.

Mr. ANDREWS. Let me ask you this way. If I signed off on the \$40,000 refrigerator and we should be paying \$17,000 for it, what would happen to me?

Ms. HEIMBAUGH. Well, first of all, we have measures in place that precludes one individual from making that sole decision.

Mr. ANDREWS. What if myself and my superiors had access to information that told us that it could be gotten for 17, and we signed off on it anyway for 40. What would happen to us?

Ms. HEIMBAUGH. There would be specific action taken. We also have processes in place that monitor even after the awards are made to ensure through various internal reviews and external reviews to ensure that we are reviewing these actions very closely.

Mr. ANDREWS. How would I know—do I have access to the data that would tell me it would cost 17 instead of 40? Is there a database that would let me know that information?

Ms. HEIMBAUGH. Yes, in some cases we have a database that every order is recorded in this database that has the item that was bought, how much it was bought for and the description. It also requires contracting officers to clearly document the source of the information that they receive—

Mr. ANDREWS. So I would know—I would have easy access to data that would tell me in March of 2002, we paid \$13,000 for this refrigerator?

Ms. HEIMBAUGH. I have a group of folks that are focused strictly on pricing. They go in and they have access to this database and they review the specific items in this database. And if they saw something questionable, they would bring that to our attention.

Mr. ANDREWS. Would that be after it was purchased, though?

Ms. HEIMBAUGH. It would be after it is purchased.

Mr. ANDREWS. What about the person that makes the purchasing decision, are they expected to know this and do they have the availability of the information to know it?

Ms. HEIMBAUGH. Yes, they are expected to know this. They are trained. They have been since this event. They have been put through numerous training programs and so they know how to properly determine a price is fair and reasonable. In addition to that, we have process reviews prior to making these types of awards.

Mr. ANDREWS. Thank you very much. I appreciate it. I am going to turn to Mr. Conaway for his questions.

Mr. CONAWAY. Thank you, Mr. Chairman. Witnesses, thank you very much for being here. I appreciate that. My professional background gives me a keen appreciation of how hard your job is. And it is mind boggling the reach that what you do—I think it is around the world. So I appreciate your efforts on—Mr. Solis, the—you said that you made numerous—GAO has made numerous recommendations. I would really rather focus not on the ones that have been done and implemented, but on the recommendations that have been made and not implemented. Where should the focus for purchasing be or acquisitions be in your mind?

Mr. SOLIS. Well, a couple of things come to mind and this refers back to some of the inventory reports, for example, that we just did with the Army and the Navy and going back to the Air Force. I think one of the things that we would suggest is that there needs to be a better emphasis on demand forecasting. We understand the nature of the beast. Things are going to change in terms of what the services are going to need and DLA is going to order. We understand that. But we also understand that in terms of our reports, what you end up with is a lot of excess inventory on hand or on order. And we view that also as an opportunity cost, that better demand forecasting be used and you can also use that money elsewhere.

Mr. CONAWAY. Are the just-in-time inventory management systems being used throughout the system in your mind where they are supposed to be used?

Mr. SOLIS. I am not sure that they are, just-in-time. I think—and if you go back, a lot of times it is a just-in-case scenario. Again, I understand that the military has to have the parts that they need. But at the other hand, there is \$82 billion worth of inventory total that the Department has and yet we still have shortages as well. So again—

Mr. CONAWAY. Shortages of stuff that is in inventory or shortages of—

Mr. SOLIS. Of things that they need to order. Things that are—deficits, as they call them.

Mr. CONAWAY. Nancy or General McCoy, do you want to visit with us about this idea? We have got obviously inventory management. If you are in the commercial business it is important, because there are carrying costs associated with that inventory and the less you have to spend on stuff in inventory, the better. But at the same time, you have got to have it available. Are there ways of knowing that you have got excess inventory in one part of the world or one part versus buying new stuff in another one when you can swap it around? How do you manage that inventory in your mind appropriately?

General MCCOY. Yes, sir. In fact, one of the reasons we established the agency that I have the honor of commanding today is so that we could have a single face to the customer but also an agency whose responsibility is to look across the enterprise. You are absolutely right. In an expeditionary world in which we live, we have inventory scattered around the world. What we don't want to do is buy more or place more in locations where the need is not there in that location.

So we spend a tremendous amount of our analysis capability trying to make sure that we can identify where the need will occur and to put the right amount of inventory in those locations. In the event that a need arises greater than we anticipated at another location, then our first objective is to try to move that inventory rather than buying new inventory. The precious dollars that we have, we know that we have to spend them wisely. In fact, to your earlier question, one of the principles that we operate by is to treat resources as though they were our own. So if we are buying components to go on aircraft or buying refrigerators, we want to treat those as though they are our own resources and therefore not buy one more than we have to.

In an expeditionary environment, however, we also want to make sure we can consider contingencies. But we also want to make sure that we don't exceed that requirement even preparing for contingencies even with old airplanes that often break today and it becomes even more difficult to find those parts. But the answer is, yes, sir, we move resources around. We have visibility of those around the world. And we would rather move them rather than replace them with new inventory when they have that opportunity.

Mr. CONAWAY. Ms. Heimbaugh, we are doing the Defense Reauthorization Act right now. I am getting significant pushback on whether or not the Department of Defense should be audited or within what timeframe. And part of the issue is resource allocation to that deal. Back office work, which is a lot of what you do, is sometimes resource-starved to make sure you get the right re-

sources on the front end of the deal. Do you have the right number of people to do the contract management? Do you have the right resources to train? Or are there gaps—General McCoy, you can pitch in on this one as well. What do you need to do your job better than you are currently able to do it?

Ms. HEIMBAUGH. Yes. The way that we are—the way that DLA is established is that we are a working capital fund environment, and what that means is that we have the ability based upon the funds that generate our business through our sales is how we fund our resources. And today what we are looking at in the contracting arena is to ensure that the contracting resources that we have today is the right balance to meet the mission that we have. So what that means is that—although we have a very strong intern program, we also want to ensure that we have the right mix at the journeyman level as well as the senior level and so we are looking at recruiting plans, marketing and recruiting plans to ensure that as we hire new people into the workforce, that we have a sufficient level of experience in order to meet those requirements.

Mr. CONAWAY. But are you constrained as to actually hiring those folks? It is one thing to know you need somebody, but to not have the resources to be able to hire those folks, you are telling me that you have got the resources you need if you could just find the right people to plug into the jobs you have got available?

Ms. HEIMBAUGH. I would say right now our focus is being on very efficient. So we want to take a look at the resources that we have and focus on being more efficient and then determining after that if there is additional resources that are needed. But I would say we are not as concerned as perhaps the military services are in how they obtain their resources.

Mr. CONAWAY. Okay. General McCoy, any thought?

General MCCOY. Often when we look at our acquisition process or our supply chain, the first conclusion if you see problems is to simply assume that if I can just add more people to this, I can do it better. In many cases, that is not the answer. The first thing we try to look at is “what is the process?” And we find that in many cases that is where we find our greatest opportunity to make things better. We have antiquated processes that we need to change, we need to streamline, and we need to make sure that the people that are in that chain have the authority to make the decisions at the right level.

I think the other thing is—and I will—is with DLA, we also need to make the right investment in our workforce, to make sure that they are properly trained and that we are acquiring the people with the right skill sets and that we are investing in the right kind of information technology (IT). You just cannot do this business at the dollar amount and the number of items we are talking about on the back of an envelope.

So we want to make sure that we are continually looking at upgrading and bringing in the right IT. So the visibility is there. We have talked a little bit about pricing. So you have that information and you don't have to search for it. It is there available to your buyers. It is there available to those in the supply chain. And it is there for those who want to challenge it if they see things not going properly in their mindset.

Mr. CONAWAY. One final thought. Ms. Heimbaugh, is the Air Force's efforts with its Global Logistics Command, are there similar commands in each of the other services or is this the prototype that you are going to use to see whether or not to set these same processes up at other services?

Ms. HEIMBAUGH. Well, I would say that the Global Logistics Support Center is something that we view as something very beneficial to DLA in supporting our supply chain management functions. Of course, we look across all of the services and having a particular or a specific service be able to look and standardize its processes within the supply chain really does make our job much better. Now, I certainly think that that is something that will reap benefits into the future and probably serve as a model.

Mr. CONAWAY. So you are telling me that the Air Force is far enough along that you are going to recommend this to the Army and the Navy as well?

Ms. HEIMBAUGH. No. I think right now in terms of working with the Air Force and their concept, I think we are just beginning to see the improvements. But I cannot really speak for the other services in how they choose to structure.

Mr. CONAWAY. Okay. Thank you, Mr. Chairman.

Mr. ANDREWS. The Chair recognizes Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman. First, thanks to the Defense Logistic Agency. As a former consumer of those MREs, I want to say that they have improved over time. I can recall in the first Gulf War where my Marines referred to them as "Meals Rejected in Ethiopia," to being in Iraq in 2005 and 2006 in some forward operating bases where we relied on those. They are much improved today. There was an article recently in *The Army Times* that talked about the camouflage pattern for the Army utility uniform that it was inadequate. And how does that—how does the Army interface with DLA to make decisions like that? Does DLA have input on those issues or was that strictly an Army decision?

Ms. HEIMBAUGH. The requirements are developed by the services, and in this case, it would be the Army. They determined what the wear policy was, they determined what the design of the uniform is and then we do work closely with them to provide them with information in terms of the impact that that would have, for example, in the industrial base or from a logistics standpoint. So they really make those requirement decisions and then we take that and we develop an acquisition strategy.

Mr. COFFMAN. What would be the cost of—or is there an estimate in what it would cost to correct that issue as it has been raised?

Ms. HEIMBAUGH. I don't have that number with me. I can get it for you if we have it. But I do know that any time that they develop a requirement, we do sit down and we take that into consideration.

[The information referred to can be found in the Appendix beginning on page 69.]

Mr. COFFMAN. Who makes—but it is the Army that ultimately makes the decision?

Ms. HEIMBAUGH. Yes, sir.

Mr. COFFMAN. For all of you, there has been talk in acquisition reform about the need to in-source expertise within your respective

agencies. To what extent have you all had to do that or have you had to do that, bring technical skills in house that were once contracted on for doing—for acquisition purposes? Anybody—can anybody respond to that?

Ms. HEIMBAUGH. I can tell you that we are in the process of evaluating and developing an in-sourcing plan in accordance with the requirements. But in addition to that and aside from that, we have also, again, because we want to look for those efficiencies where we can, we are looking across the contractor support where we have contractor support to see where we can be more efficient. But from a very structured in-sourcing standpoint, we want to do what is best. And so we are looking at developing a business case analysis which will allow us to make those decisions because we do want to ensure that we are—that the positions that we are looking for will be the correct positions to either in-source or remain as contractor support.

Mr. COFFMAN. So you have been given no requirements by the Department of Defense in terms of—it is basically on a case-by-case basis? There is no quantitative requirements on your agency then?

Ms. HEIMBAUGH. What we have—what the Department has asked us to do is develop a plan, an in-sourcing plan and then we provide that plan and then as we start to go through our inventory of contracts, we will prepare a business case analysis and then determine whether or not that is the appropriate mix to either bring back or retain this contractor's support.

Mr. COFFMAN. Anyone else? Mr. Chairman, I yield back then.

Mr. ANDREWS. I thank the gentleman. With the indulgence of my colleagues, I will go a second round. The difficulty of requirements seems to be a recurring theme in this panel's deliberations. And the GAO testimony this morning reflects on that as one of the challenge areas. I would like to follow up on Mr. Coffman's questions about the camouflage for the Army and ask you this hypothetical: Let us say that the Army comes up with a certain design of a camouflage and let us further say that there is a commercial design out there that looks almost exactly like it, with some minor modifications that that design could fit the Army's requirements quite well.

Number one, is there a mechanism, Ms. Heimbaugh, where someone in your agency would ask that question in the first place, would say is there a clothing manufacturer making something that looks a lot like this now? And number two, if there were, how would he or she go about reporting that back to the Army's requirement people so you could talk about this? In other words, the overall question I am asking is do we reinvent the wheel each time we go to buy a wheel?

Ms. HEIMBAUGH. I would say that one of the things that we do is we do work very closely, for example, with the Army as they are beginning to design either a new item or a new design of an item. What we can bring to the table and I am sure the Army does this as well, is look at the market and determine what is available in the market. In addition to that, they prepare a package that provides us with the right information and we work together to ensure that at the point that requirement is finalized, that we then work with industry to ensure that there is a capability in industry and most times we find that it is something that the industry is looking

at in terms of having to manufacture a particular clothing item or uniform.

Mr. ANDREWS. How about outside the clothing area? What if one of the services is looking for, I don't know, a certain kind of copier machine that can handle a heavier load of copies? What is the process? Do you begin to look in the commercial sector and then only if the commercial sector doesn't provide it, look to ask someone to manufacture it or how do you do that?

Ms. HEIMBAUGH. As soon as we get the requirement, we conduct market research so that market research will lead us to whether that particular product is available on the commercial market or not.

Mr. ANDREWS. If you had to guess and you can supplement the record later if you can, what percentage of the time does the market already supply the product that you need and what percentage of the time do you have to turn to a manufacturer to have it made for you?

[The information referred to can be found in the Appendix on page 69.]

Ms. HEIMBAUGH. I would have to—

Mr. ANDREWS. Okay. If you can supplement the record, we would be interested in that. General McCoy, I note with optimism on page three of your testimony, you say that in the very early days of your organization, you have been able to achieve, according to a memo from the Central Command area of responsibility, a reduction in daily aircraft grounding conditions from 150 groundings a year ago to about 30 today. Two questions. One is how much money does that save? Or how much economic value does that create, number one? And number two, how did you do it?

General MCCOY. I would have to get the exact number in terms of dollars for the record, but I will tell you that when we are talking about expensive components that go in our airframes, that dollar amount is significant and I will get the exact amount.

[The information referred to can be found in the Appendix on page 69.]

Mr. ANDREWS. By the way, the savings I assume would be generated because there would be less wear and tear on the planes that could fly, you would fly them less frequently if—how does the savings occur there?

General MCCOY. The savings would be, in many regards, one is if you need fewer parts because of increased reliability, for example, that lessens the amount of inventory you have to carry. The administrative overhead, the amount of people that have to manage the assets. And equally important are the amount of people you have got to have on the ground to maintain those systems.

So the more you can keep a system operational, in other words not ground it for any problem, the less cost and manpower you need devoted to that system. To your second question on how do we do it. We focus what we call weapon system teams today in the AFGLSC on a specific weapon system. For example, I have a team that works the F-15. I have a team that works the B-52. I have a team that works the C-130 and on and on. And those teams are entrusted with the responsibility of looking at how they can ensure

that we don't have grounded systems and when we do, we can respond very quickly. So the first point would be we are very focused.

Mr. ANDREWS. So they diagnosed what used to cause the groundings and they fixed it?

General MCCOY. We are proactive rather than reactive. And that has probably been one of the underpinnings of—

Mr. ANDREWS. Can you give us an example of one of the ways—what did they diagnose and start to do or stop doing?

General MCCOY. What they look at is, first of all, is what is causing those grounding activities and then how do we put solutions in place. An example in the case of the Central Command area of responsibility (AOR), it is a matter of looking at demand patterns. If you are strictly looking at historical commands, that may give you a piece of the information. But what we want to get is day-to-day information on the ground.

And we have our logisticians on the ground that are providing that information. Then we can look forward and see what changes can we make, and in some cases, even modifying the component that may be failing or bringing that airplane in for some form of modification or maintenance to get ahead of the problem. But the other point is to make sure that we have properly calculated and anticipated demand and have those parts on the ground so that you can reduce the number of airplanes that break and can't fly the next day.

Mr. ANDREWS. That is an answer which does not surprise me and sounds really very viable and valid, which leads to my final question for Mr. Solis. One hypothesis that I would offer is that the more data you have and the more you know how to manipulate it, the better job you are going to do at diagnosing problems and preventing them. I think I am paraphrasing what the general just said, but his teams got on the ground, analyzed what used to cause 150 groundings a year ago, took some preventive measures and knocked it all the way back to 30. So they created a database. They understood it and they used it. How typical are such databases throughout our acquisition system? In other words, if I was responsible for buying bottles of water, how much data would be available for me about patterns of how much water we used, when, and how much we paid for?

Mr. SOLIS. I will talk about in terms of the Army, in terms of some of the experience we have had. There are models that the Army can run for example, to look at war reserve requirements to look at higher operational tempo (optempo), particularly at the beginning or the outset of an operation. Some of the things that you mentioned in your opening statement with regards to some of the problems or shortfalls they had, there were war reserve models that I mentioned that are out there. Had they run those models prior to the operation, I believe that some of those shortfalls would have been alleviated.

Mr. ANDREWS. Have you gone back and actually run the models? Let us take the lithium—or whatever kind of battery, but lithium battery, whatever it was. Let us use the battery example. Is there a model that would have forecast how many batteries would be needed for an operation the size of the one in Iraq?

Mr. SOLIS. It would have not only for that, but for things like tank tread, tires. I mean, you get into modeling what your potential—

Mr. ANDREWS. Did anybody use it before the operation?

Mr. SOLIS. At the time when we looked at it, the answer was no.

Mr. ANDREWS. Why not? Do you know?

Mr. SOLIS. There were—one reason was that the information did not get to the logisticians, although there was some disagreement about that. It is not clear to us why that did not occur.

Mr. ANDREWS. I say this coming full circle as I said at the beginning of the hearing. I would assume part of the answer to the question “why not” is because they had to move 160,000 people 5,000 miles away in a hurry. And I understand that is a huge job. And sometimes you can’t do it as perfectly as you would like. But I would hope that one of our goals—and I see you moving in this direction—would be to institutionalize on a macro level what General McCoy just talked about on a micro level, that people responsible for those airplanes in Central Command had data in front of them about why we had 150 groundings a day, understood how to manipulate and use the data, drew some conclusions about why we had the situation and did something about it, right? And saved money. It increased our use of our resources, and I would hope that we could institutionalize that. That is the idea. Mr. Conaway, do you have any follow-up questions?

Mr. CONAWAY. Just one. Using the refrigerator as an example, folks work better with incentives and rewards and is there any system within your system, are there ways to reward or incentivize people to do the kinds of things that you are talking about? It is music to my ears to hear you say you have a focus on spending money as if it were your own money, because we all make better decisions in that regard. Are there incentive programs or reward programs that reward folks who go a little bit beyond just the normal deal to save taxpayer money? Which leads to the other point, the other semantics issue, Ms. Heimbaugh. You mentioned congressional funding. Congress doesn’t have any money. We take it away from taxpayers. So it is taxpayer funding. But are there ways to reward it within your system that makes sense? Are there ways that you like to set up that are currently in place?

Ms. HEIMBAUGH. Yes. From the acquisition standpoint, we do have and have recently established an award program that does recognize the acquisition folks that do step up and make different improvements and processes and also that do excel in some of the things that they are responsible for. So we have recently put in several acquisition programs and I think that is—will help address some of the issues.

Mr. CONAWAY. General McCoy, are there dollar incentives or savings that result from doing things better than you were doing them before?

General MCCOY. Absolutely, sir. Not only on the acquisition side, but the customer side. We encourage our customers, our airmen on the ground who receive the products and use the products to challenge particularly pricing. If for some reason they feel that an item is overpriced, we give them a challenge to bring that to the attention of their leadership. And we have had everything from zero

overpricing award systems to making sure through suggestion programs or what have you that we can even give some kind of cash incentive or some kind of award to people to do that. And trust me, that is one way to make sure that people are looking very carefully. Because they know that they can not only save the taxpayer dollars, but they can also be recognized for that kind of effort. And we applaud that and we encourage it.

Mr. CONAWAY. Thank you, Mr. Chairman. Witnesses, thank you very much. Very informative today.

Mr. ANDREWS. Could I just ask the general, does that apply to uniform personnel or civilian or simply uniform?

General MCCOY. It applies to both, yes, sir. We have a tremendous number of civilian and military uniform at every point of our supply chain and so we do apply that. And then, in fact, many of the incentives and cash rewards that we can give are those that we give to civilians, in many cases decorations to our military if over a period of time, they have shown that as a part of their job they are saving money, make things more efficient and putting more capability in the hands of the warfighter.

Mr. ANDREWS. Sound goods to us. Mr. Coffman, do you have any follow-up?

Mr. COFFMAN. Mr. Chairman, I have no further questions.

Mr. ANDREWS. I would like to thank my colleagues and this outstanding panel. You have prepared thoroughly and I think you enlightened the panel. Where we are going from here is that we will be considering your written testimony. And I would appreciate you supplementing the record with the requests we made this morning.

In the first quarter of 2010, the panel is going to meet and discuss among ourselves recommendations that we think would respond to some of the issues raised in our hearings, we would certainly solicit your input as to those recommendations as to what you think could be done. The panel will be issuing a report in the first quarter of calendar 2010 with the goal of presenting to the chairman and the ranking member of the full committee some legislative ideas for inclusion in next year's defense authorization bill.

So we welcome your continued participation, not just in this morning's hearing, we thank you for the job that you did. And the hearing is adjourned.

[Whereupon, at 10:36 a.m., the panel was adjourned.]

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**A P P E N D I X**

SEPTEMBER 24, 2009

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**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

SEPTEMBER 24, 2009

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**GAO**

Testimony  
Before the Defense Acquisition Reform  
Panel, Committee on Armed Services,  
House of Representatives

For Release on Delivery  
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**DEFENSE ACQUISITIONS**

**Sound Practices Critical to  
Ensuring Value for the  
Defense Logistics Agency's  
Acquisitions**

Statement of William M. Solis, Director  
Defense Capabilities and Management



GAO-09-1040T

Sept. 24, 2009

## DEFENSE ACQUISITIONS

**Sound Practices Critical to Ensuring Value for the Defense Logistics Agency's Acquisitions**

Highlights of GAO-09-1040T, a testimony before the Defense Acquisition Reform Panel, Committee on Armed Services, House of Representatives.

**Why GAO Did This Study**

The nation's ability to project and sustain military power depends on effective logistics. As the Department of Defense's (DOD) largest combat support agency, providing worldwide logistics support in both peacetime and wartime, the Defense Logistics Agency (DLA) supplies almost every consumable item the military services need to operate, from Meals Ready-to-Eat to jet fuel. Given current budgetary pressures and the crucial role DLA plays in supporting the military service in the United States and overseas, it is vital that DOD ensure DLA is getting value for the commodities and services it acquires.

The committee asked GAO to identify the challenges DOD faces in ensuring DLA gets value for the taxpayer's dollar and obtains quality commodities in a cost-efficient and effective manner. This testimony focuses on sound practices GAO has identified regarding obtaining value when contracting and how they can also apply to DLA's acquisition of commodities.

GAO has made numerous recommendations aimed at improving DOD's management and oversight of contractors, and DOD has concurred with many of them. GAO is not making any new recommendations in this testimony.

View GAO-09-1040T or key components. For more information, contact William M. Solis at (202) 512-8365 or solisw@gao.gov.

**What GAO Found**

DOD faces challenges ensuring DLA gets value for the taxpayer's dollar and obtains quality commodities in a cost-efficient and effective manner. GAO's previous testimonies before this committee on weapons system acquisition and service contracts highlighted how essential it is that DOD employ sound practices when using contractors to support its missions or operations to ensure the department receives value regardless of the type of product or service involved. These practices include clearly defining its requirements, using the appropriate contract type, and effectively overseeing contractors. With regard to DLA, GAO's prior work has identified the following challenge areas:

- **Accurate Requirements Definition** – Without a good understanding of customers' projected needs, DLA is not assured it is buying the right items in the right quantities at the right time. GAO's prior work has identified instances where problems in properly defining requirements can lead to ineffective or inefficient management of commodities. For example, GAO reported in 2005 that while DLA had a model to forecast supply requirements for contingencies, this model did not produce an accurate demand forecast for all items, including Meals Ready-to-Eat. As a result, the demand for these items was underestimated and some combat support units came within a day or two of exhausting their Meals Ready-to-Eat rations.
- **Sound Business Arrangements** – Selecting the appropriate type is important because certain contracting arrangements may increase the government's cost risk where others transfer some of that cost risk to the contractor. For example, GAO noted in 2007 that DLA's Defense Energy Support Center was able to purchase fuel and supply products for the forces in Iraq more cheaply than an Army Corps of Engineers contractor because DLA was able to sign long-term contracts with the fuel suppliers.
- **Proper Contract Oversight and Management** – Failure to provide adequate contract oversight and management hinders DOD's ability to address poor contractor performance and avoid negative financial and operation impacts. For example, in June 2006, GAO found that DLA officials were not conducting required price reviews for the prime vendor contracts for food service equipment and construction and equipment commodities. Agency officials acknowledged that these problems occurred because management at the agency and supply center level were not providing adequate oversight to ensure that contracting personnel were monitoring prices.

DLA has taken some actions to address these challenges. For example, DLA has begun adjusting acquisition strategies to reassign programs to a best procurement approach. DLA has also established contracting officer's representative training requirements to ensure these individuals are properly trained to carry out their responsibilities.

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss challenges the Department of Defense (DOD) faces to ensure the Defense Logistics Agency (DLA) gets value for the taxpayer's dollar and obtains quality commodities in a cost-efficient and effective manner. The nation's ability to project and sustain military power depends on effective logistics. As the department's largest combat support agency, providing worldwide logistics support in both peacetime and wartime, DLA supplies almost every consumable item the military services need to operate, from Meals-Ready-to-Eat to jet fuel. In fiscal year 2008, DLA provided more than \$42 billion in goods and services to all military services worldwide, including significant support to both Operation Enduring Freedom and Operation Iraqi Freedom. The Secretary of Defense has noted that with two major ongoing campaigns, the economic crisis and resulting budget pressures will force hard choices on DOD, including hard choices regarding defense acquisitions. He further identified defense acquisition as the chief institutional challenge facing the department. Given these budgetary pressures and the crucial role DLA plays in supporting the military service in the United States and overseas, it is vital that DOD ensure DLA is getting value for the commodities and services it acquires.

Earlier this year we testified before this committee that significant improvement in DOD's acquisition of weapons systems is possible and that the ability to measure knowledge, processes, and outcomes is critical to achieving such improvements.<sup>1</sup> We also testified that DOD continues to face challenges in employing sound practices when contracting for and managing service contracts.<sup>2</sup> While DOD's acquisition of commodities differs from weapons system and service contract acquisitions, our body of work demonstrates how essential it is that DOD employ sound practices when using contractors to support its missions or operations to ensure the department receives value regardless of the type of product or service involved. The practices include clearly defining its requirements, using the appropriate contract type, and effectively overseeing contractors. We have made recommendations on all of these practices, and DOD has concurred with many of them. My statement today will focus on these sound

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<sup>1</sup> GAO, *Defense Acquisitions: Measuring the Value of DOD's Weapon Programs Requires Starting with Realistic Baselines*, GAO-09-543T (Washington, D.C.: Apr. 1, 2009).

<sup>2</sup> GAO, *Defense Acquisitions: Actions Needed to Ensure Value for Service Contracts*, GAO-09-643T (Washington, D.C.: Apr. 23, 2009).

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practices and how they can also apply to DLA's acquisition of commodities. Our statement is based on work we have completed over the past decade, which demonstrates ongoing weaknesses in DOD's management of contracts. Our work was conducted in accordance with generally accepted government auditing standards.<sup>3</sup>

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## Background

DOD operates a worldwide supply system to buy, store, and distribute inventory items. Through this system, DOD manages several million types of consumable items, most of which are managed by DLA. DLA is DOD's largest combat support agency, providing worldwide logistics support in both peacetime and wartime to the military services as well as civilian agencies and foreign countries. DLA supplies almost every consumable item the military services need to operate. To do this, DLA operates three supply centers, including the Defense Supply Center in Philadelphia, Pennsylvania which is responsible for procuring nearly all the food, clothing, and medical supplies used by the military. In addition, DLA has supply centers in Richmond, Virginia and Columbus, Ohio. The Defense Distribution Center operates a worldwide network of 25 distribution depots that receive, store, and issue supplies. In addition, DLA's Defense Energy Support Center has the mission of purchasing fuel for the military service and other defense agencies. DLA also helps dispose of excess or unusable materiel and equipment through its Defense Reutilization and Marketing Service.

To meet its mission, DLA relies on contractors as suppliers of the commodities and as providers of services including the acquisition and distribution of certain commodities. Traditionally, DLA buys consumable items in large quantities, stores them in distribution depots until they are requested by the military services, and then ships them to a service facility where they are used. For example, DLA procures military uniforms through competitive contracts. Defense Supply Center-Philadelphia's Clothing and Textile Directorate procures commodities such as battle dress uniforms, footwear, and body armor directly from contractors and stores them until they are needed by the services.

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<sup>3</sup> Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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DLA also relies on service contractors to help with the acquisition, management, and distribution of commodities. For example, DLA has a prime vendor arrangement in which a distributor of a commercial product line provides those products and related services to all of DLA's customers in an assigned region within a specified period of time after order placement. Under the prime vendor process, a single vendor buys items from a variety of manufacturers and the inventory is stored in commercial warehouses. A customer orders the items from the prime vendor. Once the Defense Supply Center-Philadelphia approves the order, the prime vendor fills, ships, and tracks the order through final acceptance. The prime vendor then submits an invoice to Defense Supply Center-Philadelphia, which authorizes payment to the prime vendor and bills the customer. According to DLA, the benefits of prime vendor contracts include improved access to a wide range of high-quality products, rapid and predictable delivery, and reduced overhead charges. Other benefits of prime vendor contracts include significant reductions in the manpower needed to manage and warehouse these items at DLA and reduced transportation costs. In addition, prime vendor contracts provide for surge and broader mobilization capabilities, and worldwide customer support.

DLA also uses service contractors to provide services other than the acquisition of commodities. For example, the Defense Reutilization and Marketing Service uses contractors to support the disposal of government equipment and supplies considered surplus or unnecessary to DOD's mission. Similarly, DLA uses service contractors to provide oversight, audit, and verification procedures for the destruction of DOD scrap property; operate Defense Reutilization and Marketing Office locations around the world including sites in Kuwait, Iraq, and Afghanistan; and run the Defense Distribution Center, Kuwait, Southwest Asia which provides distribution services and surge capability to all four service components to support the warfighters operating in the region. Current commodities distributed by the center are repair parts, barrier/construction materiel, clothing, textiles, and tents. The center also provides consolidated shipment and containerization services, as well as, routine logistic support to the military community in the U.S. Central Command's theater of operations.

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## Sound Practices Vital to Ensuring DLA Receives Value When Acquiring Commodities

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### Proper Requirements Definition Is Essential to Obtaining Value

DLA determines what and how many items it buys based on requirements from its military service customers. Without a good understanding of customers' projected needs, DLA is not assured it is buying the right items in the right quantities at the right time. Properly defined requirements are therefore fundamental to obtaining good value for contracts administered through DLA. As with any contracting decision, a prerequisite to good outcomes is a match between well-defined requirements and available resources. Our previous testimonies before this committee on weapons system acquisition and service contracts have highlighted several cases where poorly defined and changing requirements have contributed to increased costs, as well as services that did not meet the department's needs.<sup>4</sup> We also noted that the absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisitions outcomes. In addition, requirements which are based on unrealistic assumptions make it impossible to execute programs that are within established cost, schedule, and performance targets. Our prior work has identified instances where problems in properly defining requirements can lead to ineffective or inefficient management of commodities.

- Inaccurate demand forecasting may result in inventory that does not match demand. The military services and DLA manage the acquisition and distribution of spare parts for defense weapon systems. Whereas the military services manage their own repairable spare parts, DLA provides the services with most of their consumable parts—that is, items of supply that are normally expended or intended to be used up beyond recovery. In prior work, we have reported that the Air Force, the Navy, and the Army had acquired billions of dollars of spare parts

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<sup>4</sup> GAO-09-543T and GAO-09-643T.

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in excess to their current requirements.<sup>6</sup> For example, for fiscal years 2004 to 2007, the Army had on average about \$3.6 billion of spare parts inventory that exceeded current requirements, while also having inventory deficits that averaged about \$3.5 billion. During that same time period, the Navy had secondary inventory that exceeded current requirements by an average of \$7.5 billion dollars, or 40 percent of total inventory. Mismatches between inventory levels and current requirements were caused in part by inaccurate demand forecasting. In our Navy work, for example, we noted that requirements frequently changed after purchase decisions had been made and that the Navy had not adjusted certain inventory management practices to account for the unpredictability in demand. The military services' difficulty in forecasting demand for spare parts is among the reasons we have placed DOD's supply chain management on our high-risk series since 1990.<sup>6</sup> In addition, we are currently reviewing DLA's management of consumable spare parts for its service customers. We are evaluating (1) the extent that DLA's spare parts inventory reflects the amounts needed to support current requirements and (2) the factors that have contributed to DLA having any excesses or deficits in secondary inventory. As part of our review, we expect to report on how demand forecasting may affect inventory levels compared with requirements and what actions DLA is taking to understand and mitigate problems with demand forecasting.

- Inaccurate requirements and supply forecasts can affect the availability of critical supplies and inventory for the military, which, in turn, can result in a diminished operational capability and increased risk to troops. For example, as we reported in 2005, the Army's failure to conduct an annual update of its war reserve requirements for spare parts since 1999, as well as the Army's continued decisions to not fully fund war reserve spare parts, resulted in the inventory for some critical items being insufficient to meet initial wartime demand during Operation Iraqi Freedom.<sup>7</sup> These items included lithium batteries,

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<sup>6</sup> GAO, *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts*, GAO-09-199 (Washington, D.C.: Jan. 12, 2009); GAO, *Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory*, GAO-09-103 (Washington, D.C.: Dec. 12, 2008); and GAO, *Defense Inventory: Opportunities Exist to Save Billions by Reducing Air Force's Unneeded Spare Parts Inventory*, GAO-07-232 (Washington, D.C.: Apr. 27, 2007).

<sup>6</sup> GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

<sup>7</sup> GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, GAO-05-275 (Washington, D.C.: Apr. 8, 2005).

armored vehicle track shoes, and tires for 5-ton trucks, where demand exceeded supply by over 18 times the amount on hand. Similarly, while DLA had a model to forecast supply requirements for contingencies, this model did not produce an accurate demand forecast for all items, including Meals Ready-to-Eat.<sup>8</sup> Therefore, Army officials had to manually develop forecasts for Operation Iraqi Freedom, but did not always have sufficient or timely information needed to forecast accurate supply requirements. As a result, they underestimated the demand for some items. For example, demand for Meals Ready-to-Eat exceeded supply in February, March, and April 2003, when monthly demand peaked at 1.8 million cases, while the inventory was only 500,000 cases. Some combat support units came within a day or two of exhausting their Meals Ready-to-Eat rations, putting Army and Marine Corps units at risk of running out of food if the supply distribution chain was interrupted.

- Unrealistic time frames for acquisition and delivery of commodities can also have negative impacts on obtaining value. We previously testified that the Army's decision to issue black berets to all of its forces in just 8 months placed enormous demands on DOD's procurement system.<sup>9</sup> Due to the extremely short time frame for delivery of the berets to the Army, DLA contracting officials took a number of actions to expedite award of the contracts, including undertaking contract actions without providing for "full and open" competition as required by the Competition in Contracting Act of 1984. According to contract documents, the contract actions were not competed because of an "unusual and compelling urgency," one of the circumstances permitting other than full and open competition. Despite these actions, DLA was unable to meet its deadline due to quality and delivery problems and had to terminate several contracts because the contractors could not meet delivery requirements.

**Sound Business  
Arrangements Are  
Essential to Reducing the  
Government's Risks**

When contracting for commodities or services, DLA has a number of choices regarding the contracting arrangements to use. Selecting the appropriate type is important because certain contracting arrangements may increase the government's cost risk whereas others transfer some of that cost risk to the contractor. We have previously testified before this

<sup>8</sup> DLA is the item and supply manager for Meals Ready-to-Eat.

<sup>9</sup> GAO, *Contract Management: Purchase of Army Black Berets*, GAO-01-695T (Washington, D.C.: May 2, 2001).

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committee that once the decision has been made to use contractors to support DOD's missions or operations, it is essential that DOD clearly defines its requirements and employs sound business practices, such as using appropriate contracting vehicles.<sup>10</sup> For example, we testified that we had found numerous issues with DOD's use of time-and-materials contracts that increased the government's risks. These contracts are appropriate when specific circumstances justify the risks, but our findings indicate that they are often used as a default for a variety of reasons—ease, speed, and flexibility when requirements or funding are uncertain. Time-and-materials contracts are considered high risk for the government because they provide no positive profit incentive to the contractor for cost control or labor efficiency and their use is supposed to be limited to cases where no other contract type is suitable.

With regard to commodities, it is equally important that DLA use the appropriate contracting arrangements to result in the best value and lowest risk to the government. Our prior work over the past 10 years and the work of others has identified instances where using the wrong contracting arrangement led to the ineffective or inefficient acquisition of commodities. For example, as discussed above, when DLA was tasked to purchase black berets for the Army, the extremely short time frame placed DOD in a high-risk contracting situation. In their eagerness to serve the customer, DLA contracting officials shortcut normal contracting procedures to expedite awarding the contracts, allowing little time to plan for the purchase of the berets and little room to respond to production problems. In awarding a contract to one foreign firm, using other than full and open competition, the DLA contracting officer was confronted with a price that was 14 percent higher than the price of the domestic supplier. However, the contracting officer performed a price analysis and determined the price was fair and reasonable, explaining that given the deadline, there was no time to obtain detailed cost or pricing data, analyze those data, develop a negotiation position, negotiate with a firm, and then finally make the award. When competition was introduced into the process at a later date, prices declined. As another example of higher costs resulting from using a particular contract type to acquire commodities, we reported in July 2004 that the Air Force had used the Air Force Contract Augmentation Program contract to supply commodities for its heavy

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<sup>10</sup> GAO-09-643T.

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construction squadrons.<sup>11</sup> While contractually permitted, the use of a cost-plus-award-fee contract as a supply contract may not be cost-effective. Under such contracts, the government reimburses the contractors' costs and pays an award fee that may be higher than warranted given the contractors' low level of risk when performing such tasks. Air Force officials recognized that the use of a cost-plus-award-fee contract to buy commodities may not be cost-effective and under the current contract commodities may be obtained using a variety of contracting arrangements. Similarly we noted in a 2007 report on the Army Corps of Engineers Restore Iraqi Oil Contract that DLA's Defense Energy Support Center was able to purchase fuel and supply products for the forces in Iraq more cheaply than the contractor because the Defense Energy Support Center was able to sign long-term contracts with the fuel suppliers, an acquisition strategy the contractor did not pursue because of the incremental funding provided by the Army.<sup>12</sup> In addition, in 2008, the DOD Inspector General found that DLA was unable to effectively negotiate prices or obtain best value for noncompetitive spare parts when it contracted with an exclusive distributor—a company that represents parts suppliers to the U.S. government.<sup>13</sup> Furthermore, the DOD Inspector General concluded that the exclusive distributor model was not a viable procurement alternative for DOD in part because of excessive pass-through charges, increased lead times to DOD, and an unnecessary layer of redundancy and cost.

Our prior work reported that DLA has taken some steps to determine if the appropriate contracting arrangement is being used or if contractors should be used at all. As we reported in 2006, DLA has recognized that the prime vendor concept may not be suitable for all commodities and has begun adjusting acquisition strategies to reassign programs to a best procurement approach.<sup>14</sup> For example, DLA evaluated the acquisition of food service equipment and determined not to continue acquiring food

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<sup>11</sup> GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004).

<sup>12</sup> GAO, *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraqi Oil Contract Put Government Interests at Risk*, GAO-07-839 (Washington, D.C.: July 31, 2007).

<sup>13</sup> Department of Defense Inspector General, *Procuring Noncompetitive Spare Parts Through an Exclusive Distributor*, Report Number D-2008-048 (Arlington, VA: February 6, 2008).

<sup>14</sup> GAO, *Defense Management: Attention Is Needed to Improve Oversight of DLA Prime Vendor Program*, GAO-06-739R (Washington, D.C.: June 19, 2006).

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service equipment through a prime vendor. Instead, DLA decided to develop a new acquisition strategy that will require the development of a contractual relationship primarily with manufacturers or their representatives for equipment and incidental services. DLA has also initiated several actions aimed at strengthening oversight, such as modifying contracts to change the price verification process and establishing additional training for contracting officers and managers. In addition, DLA has taken some steps to determine whether contractors are the most efficient means to meet certain requirements. For example, in 2005, DLA conducted a public-private competition for warehousing functions at 68 sites used for disposing of surplus or unnecessary government equipment and supplies. DLA ultimately determined that it was more cost effective to retain the government employees at these sites than convert to contractor performance.

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**Proper Contract Oversight  
and Management Key to  
Obtaining Value**

In addition to ensuring requirements for contracts awarded through DLA have been properly defined and the appropriate type of contract has been put in place, proper contract oversight and management is essential to ensure DOD gets value for taxpayers' dollars and obtains quality commodities or services in a cost-efficient and effective manner. Failure to provide adequate oversight hinders the department's ability to address poor contractor performance and avoid negative financial and operational impacts. In previous testimony before this committee, we noted that we have reported on numerous occasions that DOD did not adequately manage and assess contractor performance to ensure that its business arrangements were properly executed.<sup>16</sup> Managing and assessing post award performance entails various activities to ensure that the delivery of services meets the terms of the contract and requires adequate surveillance resources, proper incentives, and a capable workforce for overseeing contracting activities. If surveillance is not conducted, is insufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner.

As an agency responsible for billions of dollars of contracts for commodities and services, it is important that DLA ensure effective contract oversight and management and thereby obtain those commodities and services in an economic and efficient manner. However, we have identified several long-standing challenges that hinder DOD's effective

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<sup>16</sup> GAO-09-643T.

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management of contractors, including the need to ensure adequate personnel are in place to oversee and manage contractors, the importance of training, and the need to collect and share lessons learned. Our prior work has found while these challenges have affected DLA's ability to obtain value, in some cases DLA has also taken actions to address these challenges.

First, having the right people with the right skills to oversee contractor performance is critical to ensuring the best value for the billions of dollars spent each year on contractor support. DOD's difficulty in ensuring appropriate oversight of contractors exists is among the reasons DOD contract management has been on GAO's high-risk series since 1992.<sup>16</sup> While much of our work on contract management has been focused on weapons system acquisition and service contractors, we have found similar challenges with DOD's acquisition of commodities.

- In June 2006, we found that DLA officials were not conducting required price reviews for the prime vendor contracts for food service equipment and construction and equipment commodities.<sup>17</sup> For example, the contracts for food service equipment required verification of price increases, but officials from the supply center were unable to provide documentation on why the price of an aircraft refrigerator increased from \$13,825 in March 2002 to \$32,642 in September 2004. Both logistics agency and supply center officials acknowledged that these problems occurred because management at the agency and supply center level were not providing adequate oversight to ensure that contracting personnel were monitoring prices.
- We also found poor contract management can cause lapses in contract support and can lead to operational challenges, safety hazards and waste. For example, in 2007 DLA was given the responsibility to contract for services to de-gas, store, and refill gas cylinders in Kuwait. Warfighters use gas cylinders for a variety of purposes including, but not limited to, caring for those who are hospitalized, equipment maintenance, and construction. However, as of July 2009, DLA has yet to compete and execute this contract. As a result, instead of receiving refilled cylinders from Kuwait, warfighters are continually buying full gas cylinders from local markets in the Middle East. This may lead to

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<sup>16</sup> GAO-09-271.

<sup>17</sup> GAO-06-739R.

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operational challenges and waste as warfighters must make efforts to purchase gases in Iraq while cylinders that could be refilled remain idle in Kuwait.

A second long-term challenge for DOD's contract oversight and management is training. We have made multiple recommendations over the last decade that DOD improve the training of contract oversight personnel. We have found that DLA has recognized the need to improve training.

- As discussed above, our June 2006 report found that DLA officials were not conducting required price reviews for some prime vendor contracts.<sup>18</sup> Senior DLA officials acknowledged that weaknesses in oversight led to pricing problems and stated that they were instituting corrective actions. Among the weaknesses were the lack of knowledge or skills of contracting personnel and a disregard for the contracting rules and regulations. To address this weakness, DLA has established additional training for contracting officers and managers. In addition, DOD concurred with our recommendation that the Director, DLA provide continual management oversight of the corrective actions taken to address pricing problems.
- DLA has also taken some actions to help ensure that contracting officer's representatives are properly trained. For example, DLA's Defense Reutilization and Marketing Service has recognized that performance-based contracts will only be effective if contracting officer's representatives accurately report contractor performance and contracting officers take appropriate actions. DLA has established contracting officer's representative training requirements to ensure these individuals are properly trained to carry out their responsibilities. These requirements increase for contracts that are more complex or present higher risks to the government. While we have not evaluated the performance of DLA contracting officer's representatives, our previous work shows that when contracting officer's representatives are properly trained, they can better ensure that contractors provide services and supplies more efficiently and effectively.<sup>19</sup> In addition, a working group from DOD's panel on contracting integrity in September 2008 recognized the importance of

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<sup>18</sup> GAO-06-739R.

<sup>19</sup> GAO-07-145.

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more in-depth contracting officer's representative training for more complex contracts or contracts that pose a greater risk to DOD.

- In February 2009, we reported that businesses and individuals that had been excluded from receiving federal contracts for egregious offenses continued to be awarded contracts.<sup>20</sup> Our work demonstrated that most of the improper contracts and payments identified can be attributed to ineffective management of the governmentwide database which tracks excluded contractor information or to control weaknesses at both the agency which excluded the contractor and the contracting agency. Specifically, our work showed that excluded businesses continued to receive federal contracts from a number of agencies, including DLA, because officials (including contracting officers) at some agencies failed to enter complete information in the database in a timely manner or failed to check the database prior to making contract awards. In addition, some agencies like DLA used automated purchasing systems which did not interface with the database. In commenting on our report agency officials stated that most of the issues we identified could be solved through improved training.

A third long-term challenge for DOD's contract oversight and management is the need to collect and share institutional knowledge on the use of contractors, including lessons learned and best practices. Our prior work has found that DLA has taken some actions to improve the collection as well as the application of lessons learned. For example, in January 2000, we identified DLA's prime vendor program as an example of DLA adopting a best commercial practice for inventory management.<sup>21</sup> Our work found that DLA was developing a policy to establish the basis for lessons learned from the reviews of prime vendor programs.<sup>22</sup> Key points of the policy include specific requirements for management oversight such as pricing and compliance audits; requiring all prime vendor contracts to comply with an established prime vendor pricing model; annual procurement management reviews for all prime vendor contracts; and requiring

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<sup>20</sup> GAO, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals*

*Improperly Receive Federal Funds*, GAO-09-174 (Washington, D.C.: Feb. 25, 2009).

<sup>21</sup> GAO, *Defense Inventory: Opportunities Exist to Expand the Use of Defense Logistics Agency Best Practices*, GAO/NSIAD-00-30 (Washington, D.C.: Jan. 26, 2000).

<sup>22</sup> GAO-06-739R.

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advance approval by headquarters for all prime vendor contracts, regardless of dollar value. However, because this policy was still in draft form at the time of our review, we did not evaluate it.

In closing, Mr. Chairman, DLA has a key role in supporting the warfighter by providing a vast array of logistics support. In providing this support, DLA depends on contractors and as such must ensure that it is obtaining good value for the billions of dollars it spends every year. Regardless of whether DLA is buying commodities or services, well-defined requirements, appropriate contract types, and proper contract oversight and management are critical to ensuring that DLA gets what it pays for.

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Mr. Chairman and members of the committee, this concludes my testimony. I would be happy to answer any questions you might have.

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### **Contributors and Acknowledgements**

For further information about this testimony, please contact William Solis, Director, Defense Capabilities and Management, on (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Other key contributors to this testimony include Carole Coffey, Lionel Cooper, Laurier Fish, Thomas Gosling, Melissa Hermes, James A. Reynolds, Cary Russell, Michael Shaughnessy, and Marilyn Wasleski.

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DEFENSE ACQUISITION REFORM PANEL

UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: MISSION OF THE AIR FORCE GLOBAL LOGISTICS SUPPORT CENTER AND  
ITS LINK TO THE DEFENSE LOGISTICS AGENCY

STATEMENT OF: MAJOR GENERAL GARY T. MCCOY  
COMMANDER, AIR FORCE GLOBAL LOGISTICS SUPPORT CENTER

September 24, 2009

NOT FOR PUBLICATION UNTIL RELEASED  
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UNITED STATES HOUSE OF REPRESENTATIVES



## BIOGRAPHY



UNITED STATES AIR FORCE

### MAJOR GENERAL GARY T. MCCOY

Maj Gen. Gary T. McCoy is the Commander, Air Force Global Logistics Support Center (AFGLSC), located at Scott Air Force Base, Illinois. An Air Force Materiel Command sustainment center, the AFGLSC executes the Air Force Supply Chain by integrating enterprise-wide planning and strategy with global command and control serving as the single focal point to the warfighter. The AFGLSC manages a \$8.5B budget and is composed of over 4,200 personnel with operations at several geographically separated locations: the 448<sup>th</sup> Supply Chain Management Wing (Planning & Execution), Tinker Air Force Base, Oklahoma; 635<sup>th</sup> Supply Chain Management Wing (Operations), Scott Air Force Base, Illinois; and 591<sup>st</sup> Supply Chain Management Group (Strategy & Integration), Wright-Patterson Air Force Base, Ohio.



A South Carolina native, General McCoy was commissioned through the Officer Training School in July 1976 and has served in a variety of command and staff assignments. A career logistics officer, he has commanded a supply squadron and a logistics group, and he has served staff tours at both major command and Air Staff levels. He has also served as a deputy program manager, a joint duty officer with the Defense Logistics Agency and an air logistics center product director. Prior to his current assignment, General McCoy was the Director of Logistics Readiness, Office of the Deputy Chief of Staff for Logistics, Installations and Mission Support, Headquarters U.S. Air Force, Washington, D.C.

### EDUCATION

1975 Bachelor of Arts degree in sociology, Culver-Sjockton College, Missouri  
 1978 Squadron Officer School, Maxwell AFB, Alabama  
 1979 Master of Arts degree in human resources management, University of Redlands, California  
 1981 Marine Corps Command and Staff College, by correspondence  
 1987 Air Command and Staff College, Maxwell AFB, Alabama  
 1987 National Security Management Program, by correspondence  
 1993 Armed Forces Staff College, Joint and Combined Staff Officer School, Norfolk, Virginia  
 1996 Air War College, Maxwell AFB, Alabama  
 2003 Program for Executives in Logistics and Technology, Kenan-Flagler Business School, University of North Carolina, North Carolina  
 2007 Senior Managers in Government, Kennedy School of Government, Harvard University, Massachusetts

### ASSIGNMENTS

1. October 1976 - May 1979, Chief, Logistics Support Division, 1965th Communication and Installation Group, Norton AFB, California
2. May 1979 - May 1982, Senior Management Consultant, Air University, Maxwell AFB, Alabama
3. May 1982 - July 1983, Air Staff training officer, Headquarters U.S. Air Force, Washington, D.C.
4. July 1983 - June 1985, Air Force Logistics Command logistics liaison officer, Headquarters Strategic Air Command, Offutt AFB, Nebraska
5. June 1985 - July 1986, Assistant Chief of Supply, 51st Tactical Fighter Wing, Osan Air Base, Korea
6. July 1986 - June 1987, student, Air Command and Staff College, Maxwell AFB, Alabama

7. June 1987 - June 1989, Chief, Logistics Management Branch and A-10 Deputy System Program Manager, Sacramento Air Logistics Center, McClellan AFB, California
8. June 1989 - July 1991, Chief, Depot Maintenance Distribution Support Division and Deputy Director of Supply, Headquarters Air Force Logistics Command, Wright-Patterson AFB, Ohio
9. July 1991 - May 1993, Commander and Chief of Supply, 48th Fighter Wing, RAF, Lakenheath, England
10. May 1993 - July 1995, Chief, Air Force Readiness Support, Headquarters Defense Logistics Agency, Cameron Station, Virginia
11. July 1995 - June 1996, student, Air War College, Maxwell AFB, Alabama
12. June 1996 - May 1998, Commander, 82nd Logistics Group, 82nd Training Wing, Sheppard AFB, Texas
13. May 1998 - June 1999, Chief, Materiel Management Division, Directorate of Logistics, Wright-Patterson AFB, Ohio
14. June 1999 - July 2000, Deputy Director of Logistics, Directorate of Logistics, Wright-Patterson AFB, Ohio
15. July 2000 - March 2002, Director, Avionics Management Directorate, Warner Robins ALC, Robins AFB, Georgia
16. March 2002 - February 2003, Special assistant for Depot Maintenance Transformation to the Deputy Chief of Staff for Installations and Logistics, Headquarters U.S. Air Force, Washington, D.C.
17. February 2003 - November 2003, Deputy Director of Maintenance, Deputy Chief of Staff for Installations and Logistics, Headquarters U.S. Air Force, Washington, D.C.
18. November 2003 - January 2006, Director of Logistics and Sustainment, Headquarters Air Force Materiel Command, Wright-Patterson AFB, Ohio
19. January 2006 - October 2008, Director of Logistics Readiness, Office of the Deputy Chief of Staff for Logistics, Installations and Mission Support, Headquarters U.S. Air Force, Washington, D.C.
20. November 2008 - present, Commander, Air Force Global Logistics Support Center, Scott AFB, Illinois

#### **SUMMARY OF JOINT ASSIGNMENTS**

1. May 1993 - July 1995, Chief, Air Force Readiness Support, Headquarters Defense Logistics Agency, Cameron Station, Virginia, as a Lieutenant Colonel

#### **MAJOR AWARDS AND DECORATIONS**

Distinguished Service Medal  
 Legion of Merit with oak leaf cluster  
 Bronze Star Medal  
 Defense Meritorious Service Medal  
 Meritorious Service Medal with silver and bronze oak leaf clusters  
 Air Force Commendation Medal with oak leaf cluster

#### **OTHER ACHIEVEMENTS**

USAF Supply Junior Officer of the Year 1978  
 USAFE Senior Supply Manager of the Year 1992  
 Major General Thomas H. Chapman Product Director of the Year 2001

#### **EFFECTIVE DATES OF PROMOTION**

Second Lieutenant July 28, 1976  
 First Lieutenant July 28, 1978  
 Captain July 28, 1980  
 Major May 1, 1985  
 Lieutenant Colonel May 1, 1990  
 Colonel May 1, 1996  
 Brigadier General April 1, 2003  
 Major General September 2, 2006

(Current as of July 2009)

Chairman Andrews, Congressman Conaway, and distinguished members of the Defense Acquisition Reform Panel, I thank you for this opportunity to discuss the mission of the Air Force Global Logistics Support Center, which I will refer to as the AFGLSC, and how it links to the Defense Logistics Agency (DLA). The AFGLSC has rapidly evolved since its stand up in March 2008 at Scott Air Force Base, Illinois, as a new center in Air Force Materiel Command. The AFGLSC was born out of a compelling need for change in the 2005 and 2006 time frame. The Air Force was challenged with increased OPERATIONAL TEMPO, manpower cuts, increased deployments, and budget constraints. In addition to these pressures, we were transforming into a highly expeditionary Air Force. A more efficient, streamlined, and effective supply chain was required to sustain and improve our performance in such challenging times.

I took command of the AFGLSC in November 2008 and I am honored and delighted to lead this great organization as we transform Supply Chain Management in the Air Force to improve our combat capability. Prior to commanding the AFGLSC, I was the Air Force Director of Logistic Readiness at the Pentagon. As a career logistician, I look forward to discussing how the professional men and women of the AFGLSC are executing our challenging global mission; how we are improving our enterprise operations through the implementation of a comprehensive and forward thinking strategic campaign plan; and how we are working closely with DLA to ensure we can successfully support our Air Force and other world-wide customers. Ultimately, our vision is to be recognized and respected as a premier supply chain management organization through trusted support, continuous innovation and a professional, highly

skilled workforce. Shortly, you will hear some of the strategies we have employed to ensure we can successfully accomplish our mission and vision.

The AFGLSC is the Air Force hub for supply chain management, networking logistics experts from around the Air Force to link the field and depot supply chains. Additionally, the AFGLSC has the responsibility to integrate all supply chain processes, technologies, and resources to deliver end-to-end warfighter support with increased velocity at a reduced cost. The AFGLSC is the central, process-driven initiative designed to ensure the success of the Expeditionary Logistics for the 21<sup>st</sup> Century campaign (referred to as "eLog21"). eLog21 is an Air Force umbrella strategy that integrates and governs logistics transformation initiatives to ensure the Warfighter receives the right support at the right place and the right time. The eLog21 transformation campaign promotes data sharing, collaboration, and better decision-making across the entire Air Force supply chain. The overall goals of eLog21 are to increase equipment availability and reduce operations and support costs. The early successes achieved by the AFGLSC are producing these results.

To execute the Service mission of train, organize and equip, we rely heavily on our logistics and supply chain capabilities. However, prior to the establishment of the AFGLSC there was no single supply chain owner within the Air Force. Responsibilities were split between multiple commands and field organizations. Unfortunately, this resulted in the lack of an enterprise view, sub-optimized warfighter support, led to excessive duplication and created a lack of standardized processes. The formation of the AFGLSC enabled the establishment of one supply chain process owner who provides a single point of entry and contact for our Air Force warfighting customers for

supply chain support. Employing lessons learned from commercial industry and government, we are eliminating duplication and focusing on standardization of our critical processes. We are just getting started and are extremely proud of our progress to date. A July 2009 memo from our chief logistician forward in the Central Command AOR bears out an early success – a reduction in daily aircraft grounding conditions from 150 a year ago to approximately 30 today! We have standardized 25 of our most critical supply chain processes and have reduced contract administrative lead-time by approximately 20 percent. Through new analysis capability and collaboration with our commercial carriers we have reduced worldwide carrier shipments from an average of 7-9 days to 4-5 days for delivery to our warfighter in central command. While we are laser focused on fighting today's fight, we are also making incremental improvement across all Air Force operations. For example, we are already seeing measured improvements in support to the F-15E fleet, readiness of the B-1 bomber, and available parts to support future deployment operations.

As a total force organization consisting of active duty, guard, reserve, and civilian personnel, the AFGLSC has three primary functions: enterprise supply chain planning and execution, operations, and enterprise strategy and integration. The first of the AFGLSC's three primary missions, supply chain planning and execution, includes activities necessary to ensure adequate serviceable spare parts are in the Air Force inventory. This includes developing and executing plans for the purchase, repair, distribution, and sustainment of reparable and consumable parts. This mission is performed by the 448th Supply Chain Management Wing, headquartered at Tinker Air

Force Base, Oklahoma, with planning and execution groups at Hill, Robins, and Tinker Air Force Bases.

The second primary mission of the AFGLSC, supply chain operations, is the Air Force warfighting customer's single point of contact for supply chain management, exercising global command and control with the authority to direct distribution and redistribution of assets to resolve warfighter support issues. This mission is performed by the 635th Supply Chain Management Wing, headquartered at Scott Air Force Base, Illinois with operations groups at Scott Air Force Base for aircraft, tanker, and special operation assets and Langley Air Force Base, Virginia, fighters, bombers, UAV's and trainer assets.

Finally, our supply chain strategy and integration activity provides oversight of supply chain functions such as metrics, analysis, policy and business rules, funding, as well as information technology. This part of the AFGLSC focuses on supporting and measuring the health of the supply chain to determine the effectiveness of the enterprise plan and allows us to rapidly readjust to meet emerging or changing customer needs. This mission is performed by the 591st Supply Chain Management Group at Wright Patterson Air Force Base, Ohio.

Our total team simplifies the complexities of the supply chain for our Warfighter customer, providing the most logical, expedient, and cost effective solution. Our warfighters and other customers do not need to worry about chasing information or parts because the AFGLSC assumes that role for them. This encompasses the establishment of known contact points for customer requests via standard automated

systems, a single web portal approach, dedicated weapon systems teams, a toll free number, and e-mail in the event a customer does not know exactly where to go or who to call for supply chain support. Even if we do not own the sources of supply or the process, we are still the integrator and advocate for the warfighter or customer as we interface with other components of the Air Force and Department of Defense supply chains.

Now I'd like to turn your attention to our partnership and collaborative efforts with DLA to drive improvements to the Air Force supply chain. Specifically I'd like to discuss the content outlined in our joint AFGLSC/DLA Integrated Process Team (IPT), the charter of which was signed on March 28, 2008, and the work we're doing to pursue joint sourcing opportunities. The joint AFGLSC/DLA IPT was developed to improve critical processes, with the intent to maximize support to the Air Force Warfighter. We have three primary initiatives at work. First, we are developing a set of joint customer metrics with the intent of presenting one picture of supply chain health to the Warfighter. No longer will our warfighting customers need to piece together the Air Force and DLA supply chain issues – we will present our support posture together. This was a key topic at the recent AF/DLA Day in July 2009 and received tremendous positive feedback.

Next, the AFGLSC established an organization in the 448th Supply Chain Management Wing devoted to the consolidation and submittal of Air Force requirements to DLA. This initiative is called "Planning for DLA-Managed Consumables" or PDMC and is a means for the Air Force to more accurately project supply plans to DLA that are based on information that would not otherwise be anticipated through historically based

forecasting techniques. Our PDMC organization will facilitate the validation and verification of these supply plans with the Air Force organizations that generate the requirement, primarily our aircraft program offices and depot maintenance organizations before submitting the requirement to DLA.

Our third initiative we are working as part of the joint IPT is to improve the support we provide to Air Force depot maintenance operations. We have created a depot supply chain management team, comprised of AFGLSC, Air Logistics Centers and DLA personnel that will use predictive analysis indicators to identify and resolve supply chain constraints. Our depot maintenance operations are engaged in multiple process improvement activities such as high velocity maintenance that have reduced the amount of flow days for an aircraft modification, repair and overhaul. Our depot supply chain management team will focus on the parts needed to drive these accelerated maintenance processes. We are very excited about these new initiatives and will jointly monitor our progress over the coming months and years.

In addition to the work we're doing through the IPT, the AFGLSC and DLA have also been working on a number of joint sourcing initiatives to commit resources for joint collaboration opportunities for long term strategic contracts. The purpose is to apply our combined buying power, where appropriate, to leverage tactical and strategic relationships with our commercial suppliers. We have jointly identified 12 contracting opportunities totaling over 500 parts and \$400 million in buy requirements through this initiative. These collaborative sourcing opportunities are governed through a joint service board that meets quarterly.

The BRAC 2005 decision directed the realignment of depot level reparable procurement management and related support responsibilities from the Air Force to DLA. To execute this function, we have 125 DLA personnel physically embedded with our planning and execution wing. We were the first service to complete this transition and consider mission transfer to be a success. Let me also add we have DLA personnel embedded in our operations wing to provide daily customer service and expedite buying services for time-sensitive warfighter needs.

In summary, our mission, roles, responsibilities and vision are clearly defined for the Air Force Global Logistics Support Center. We are a relatively new organization that has stepped out quickly to achieve the results the Air Force envisioned when they established this center in March 2008. Our early success has motivated us to bring even better support to the Warfighter. I am equally proud and pleased with our strong partnership with DLA and am encouraged by the collaborative initiatives we have developed together. DLA is a critical component in supporting the Air Force mission and we will continue to work closely with them to enhance warfighter support, unit readiness and the logistic sustainment of our forces. Global logistics with a warfighter focus...That is what the Air Force Global Logistics Support Center is all about. I look forward to your questions and discussions today.

**HOLD UNTIL RELEASED BY THE  
HOUSE ARMED SERVICES COMMITTEE  
DEFENSE ACQUISITION REFORM PANEL**

**STATEMENT OF  
MS. NANCY HEIMBAUGH  
SENIOR PROCUREMENT EXECUTIVE  
DEFENSE LOGISTICS AGENCY**

**HEARING BEFORE THE  
HOUSE ARMED SERVICES COMMITTEE  
DEFENSE ACQUISITION REFORM PANEL**

**SEPTEMBER 24, 2009**

**HOLD UNTIL RELEASED BY THE  
HOUSE ARMED SERVICES COMMITTEE  
DEFENSE ACQUISITION REFORM PANEL**

Chairman Andrews, Mr. Conaway and distinguished members of the Panel:

Thank you for the opportunity to appear before you and discuss the Defense Logistics Agency's acquisition mission in support of the United States Military Services, and specifically in providing the best available services, supplies, equipment and technology to the Warfighter when they are needed, and best value to the taxpayer for every dollar expended.

Our Agency was founded as the Defense Supply Agency in 1961, the culmination of the single manager concept under which the Department of Defense centralized management of commodities such as food, clothing, medical supplies, petroleum, industrial parts and electronics. This allowed the Department to reduce its investment in the items it purchased by centralizing wholesale stocks, simplifying the supply process and implementing standardization. In recognition of its increased mission of worldwide support to the United States Military Services it was renamed the Defense Logistics Agency (DLA) in 1977; and in 1986 it was identified by the Goldwater-Nichols Act as a combat support agency.

In executing its mission of providing effective and efficient support to the Warfighter and its other customers worldwide, DLA manages 4.8 millions items (3.8 million national stock numbers) and supports nearly 1600 weapons systems. Through its four supply centers it provides approximately 84 percent of the repair parts used by the Military Services and nearly 100 percent of their requirements for subsistence, fuels, medical, clothing and textiles, and construction and barrier material. Through its field operating activities DLA provides the full range of distribution services and information

to the Warfighter and the Department; provides best value services for the reuse, transfer, donation, sale or disposal of excess or surplus property; provides interoperable, quality logistics data and enterprise information technology solutions; provides document services ranging from traditional offset printing, through on-demand output to on-line document services; and provides safe, secure and environmentally sound stewardship for strategic and critical materials in the United States National Defense Stockpile.

DLA's large and diverse mission continues to evolve and grow in direct response to the needs of the Department and its customers. As the result of Base Realignment and Closure decisions, DLA's mission has expanded beyond consumable items to include the acquisition of Depot Level Repairable Items as well as responsibility for the complete privatization of the Department's management of tires, chemicals, petroleum, oil and lubricants and compressed gases and cylinders. At the same time, DLA is assuming responsibility for supply, storage and distribution functions at Military Service industrial sites. During the five-year period ending in Fiscal Year 2011, we will return \$707 million to the Department (and, ultimately, the taxpayer) through our efforts.

DLA is dedicated to insuring that we obtain best value for every taxpayer dollar, and has made stewardship excellence a strategic focus. It has successfully implemented an Enterprise Resource Planning system that provides greatly improved visibility of its processes; and has established a comprehensive suite of metrics, among them perfect order fulfillment, response time, attainment to plan and inventory turns, in order to monitor efficiency and effectiveness. DLA has also developed the capability to monitor performance against those metrics with authoritative data and to identify the drivers of that performance through drill-down analysis. DLA has a continuous process

improvement program dedicated to enhancing its business processes by eliminating waste, increasing value-added activities and delivering improved results – all with a focus on improving support to the Warfighter and fulfilling its stewardship responsibilities. DLA seeks out and adapts best practices from government activities and from the private sector to improve performance and achieve greater efficiencies.

DLA is the end-to-end supply chain manager for eight supply chains: subsistence, fuel and energy, land systems, maritime systems, aviation systems, medical, clothing and textiles, and construction and equipment. These supply chains are managed by supply centers located in Philadelphia, Pennsylvania, Columbus, Ohio, and Richmond, Virginia. DLA has a global distribution capability that includes 26 distribution centers around the world.

DLA is an integral part of the end-to-end supply chain. It works closely with the Services before and during the acquisition process to ensure their requirements are being met appropriately. DLA also provides storage and warehouse management for items required by the Services. DLA's Defense Distribution Center coordinates movement of items directly with vendors or in partnership with U.S. Transportation Command to ensure on-time delivery. To facilitate the end-to-end process, DLA's responsibilities include stock positioning at forward locations and tactical distribution centers to enable faster delivery to the customer. DLA uses demand planning and forecasting to reflect usage factors accurately and leverage distribution to complete the supply chain; and in support of Operations Enduring Freedom and Iraqi Freedom, DLA now uses the Northern Distribution Network to move supplies and equipment to U.S. forces. DLA is a key

player providing support from its contractors' factories all the way to the Warfighter, no matter where located.

Acquisition is a core competency and a key contributor to the success of the DLA mission as a supply chain manager. DLA established a separate Acquisition Management Directorate in 2007, led by a senior executive, to ensure that proper emphasis is placed on the management and oversight of its acquisition programs. In addition, DLA has placed senior executives at each of its four major buying activities to serve as the Head of the Contracting Activity and insure the efficacy and integrity of the acquisition process. Supported by the headquarters acquisition staff, these senior executives lead an acquisition workforce of more than 3000 trained professionals, working in support of the Warfighter at ten field activities and seven detachments

DLA's strategic goal is to have in place a comprehensive portfolio of acquisition solutions that represent best practices for all the products and services it acquires and for all the customers it supports. In implementing that goal, DLA develops approaches that address our customers' specific needs and challenges. For example, drawing on lessons learned from Operations Desert Shield and Desert Storm DLA searched for a better model for providing pharmaceuticals to the Warfighter and adapted a private sector best practice known as "Prime Vendor." Prime Vendors, which are responsible under contract for distributing commercial products to all customers in a designated region or zone, made it possible to accelerate delivery (often to less than 48 hours from receipt of order), empty warehouses and reduce costs to the customer. In addition, transitioning to commercial distributors provided our customers with access to a much wider variety of pharmaceuticals than could be maintained in government warehouses. In short, DLA

improved customer service and dramatically reduced overhead, motivating customers to discontinue local procurement practices and rely on DLA for their support.

DLA has subsequently used the Prime Vendor concept to support its customers' worldwide requirements for medical and surgical equipment, subsistence, maintenance repair and operations materials, metals and special operations requirements. Most recently, DLA adapted the Prime Vendor model to support the Military Services' requirement for jet fuel in Afghanistan. Fuel Prime Vendors are responsible for the total supply chain using multiple supply points, and for arranging transportation to the delivery point at Bagram Air Base. This approach has significantly reduced vulnerability to the disruption of fuel shipments. In total, DLA's annual sales to its customers through Prime Vendors, including fuel, are approximately \$8 billion. A significant portion of these sales represent support for the Warfighters deployed in the United States Central Command Area of Responsibility, who receive the same high-quality support as Military Service members stationed in the continental United States.

For customer requirements that are not compatible with Prime Vendor contracts, DLA pursues tailored vendor logistics solutions that align directly with the requirement. For example, our Industrial Product-Support Vendor contracts deliver needed repair parts directly into shop floor bins in Military Service maintenance and repair facilities. Such contracts are in place at ten Army, Air Force and Navy facilities, including Letterkenny Army Depot, Tinker Air Force Base and Jacksonville Fleet Readiness Center, where DLA's contractors insure the availability of parts valued at more than \$180 million annually. The Integrated Logistics Partnership in support of the Army's HMMWV reset program provides the same direct-to-shop-floor support while postponing government

acquisition of, and payment for, the needed part to the point of use. That partnership incorporates lessons learned over two generations of contracts and delivers parts on time with 99.99 percent reliability.

The incorporation of lessons learned as a means of achieving continuous improvement is a central tenet of the DLA acquisition program. For example, in planning the second generation of our Fleet Automotive Support Initiative, DLA built upon its first generation experience to develop a program that provides global support to the Warfighter while maximizing small business utilization, reserving 45 percent of the requirement, or approximately \$279 million over 4 years, for exclusive small business participation at the prime contract level.

DLA's commitment to continuous improvement and to its small business partners is also evident in its fresh fruit and vegetable acquisition program. A reduction in requirements from approximately \$600 million to approximately \$150 million annually made it impossible to maintain the network of nationwide buying offices that formerly made daily purchases from small purveyors on local markets. In their place, DLA awarded a series of regional contracts providing the same high level of support to local military customers and schools participating in the U.S. Department of Agriculture Farm to School program. Each of the 35 regional fresh fruit and vegetable contracts DLA has awarded to date has been set aside for exclusive small business participation. As an Agency, DLA is a major contributor to the Department's socioeconomic program, having awarded 32 percent of contract dollars (\$7.9 billion) to small businesses during Fiscal Year 2008.

Consumable items available only from a single source, often the original equipment manufacturer, once presented a major challenge. However, DLA has developed Strategic Supplier Alliances with more than 50 of these suppliers. These long-term agreements, replacing our transactional purchases of individual parts, incorporate large numbers of items. Through efficiencies and economies of scale they reduce prices and generate inventory savings while shrinking leadtimes and improving item availability. DLA has extended this approach to parts with multiple sources as well, competitively awarding long term contracts for related items logically grouped in market baskets to the extent that fully 76 percent of our awards, measured in dollars, are long-term contracts. Overall this strategic sourcing program has generated more than \$335 million in inventory savings to date while improving material availability for covered items from 85 percent to 91 percent. DLA has also generated savings while providing support to the Military Services Performance Based Logistics contracts for weapons systems. For example, DLA acts as Product Support Integrator in support of the F-404 engine, providing parts, warehousing, distribution and product management. DLA has saved its customers more than \$53 million since awarding that contract in September 2005.

Competition is a key factor in our ability to support the Warfighter while executing our responsibilities as stewards of taxpayer dollars. DLA has competition advocates at its headquarters level and at its major buying activities. DLA has subscribed to aggressive goals for competition for Fiscal Year 2009: 90 percent for actions and 88 percent for dollars. Through June, DLA has awarded 95 percent of actions and more than 90 percent of dollars (\$25.3 billion of \$27.8 billion) competitively for this Fiscal Year.

The 2005 Base Realignment and Closure decision expanded DLA's acquisition mission by giving it responsibility for the acquisition of Depot Level Repairable items. In compliance with that decision, DLA is establishing detachments at nine Military Service buying activities, with seven currently operational. Ultimately, DLA will be responsible for more than \$5 billion in additional annual awards and 400 more acquisition professionals. Economies of scale and the exploitation of joint opportunities will enable DLA to generate savings of approximately \$376 million by the end of Fiscal Year 2011, and additional savings every year thereafter. DLA has already produced savings of approximately \$139 million to date. In addition, bringing buying activities from the Army, Air Force and Navy into DLA will provide a unique opportunity to identify and implement best practices across the agency, with resultant measurable improvements in efficiency and effectiveness.

DLA's mission has further expanded to include assumption of responsibility for the Joint Contingency Acquisition Support Office. This organization was established in July 2008 in compliance with the Fiscal Year 2007 National Defense Authorization Act requirement that the Department put in place a senior-level organization to oversee and synchronize operational contract support for requirements definition, contingency program management and contingency contracting. Incorporation of this office in DLA will produce synergies in the areas of policy, systems and planning in support of the Warfighter. A key enabler is the organization's expeditionary character, inherent in its two scalable fly-away teams. These teams can be deployed in the initial phases of a declared contingency and during the transition to a more permanent contract management capability. In addition, the organization can provide the combatant commander the initial

leadership element for a joint contracting capability. A concept of operations for the organization has been developed and exercised during participation in the EUCOM exercise Austere Challenge and the PACOM exercise Terminal Fury '09.

The success of the DLA acquisition program is built on several key enablers. First is its outstanding and diverse acquisition workforce. DLA carefully monitors compliance with the Defense Acquisition Workforce Improvement Act to insure that the workforce is fully-trained and job-ready, just as it monitors fulfillment of continuous learning requirements. DLA is taking full advantage of the Defense Acquisition Workforce Development Funds to help fund the training needed to keep the workforce current. DLA is also planning for the future by aggressively hiring interns; DLA currently has 399 contracting interns in place at its buying activities and plans to hire approximately 230 interns in Fiscal Year 2010.

DLA's industrial base is a critical enabler of the success of its acquisition mission. DLA works closely with industry to monitor the health of the industrial base and to address issues concerning that base. For example, DLA has been working with industry representatives at both the headquarters and supply chain level to address issues confronting the Clothing and Textiles industrial base; and recently, Vice Admiral Thompson participated in a conference targeting Land and Maritime Supply Chain suppliers hosted by the Defense Supply Center Columbus.

In addition to working collaboratively with industry, DLA intervenes directly, where necessary, to protect the stability of the base needed to produce designated "Warstopper" items. DLA does this through the prudent investment of Congressionally-provided Warstopper funding. Congress provides approximately \$50 million in

Warstopper funding to DLA annually, which has been used, for example, to maintain surge capability of the sole source producer of Nerve Agent Antidote Autoinjectors. DLA has also made significant investments in batteries, barrier materials, and the Joint Service Lightweight Integrated Suit Technology chemical protective suit. Warstopper contingency contracts provided over \$129 million of coverage for medical items in support of Operation Iraqi Freedom that otherwise would not have been available in the quantity or timeframe needed. Also during Operation Iraqi Freedom, Warstopper investments in government furnished equipment supported one-third of the industry surge capacity for operational rations. A major advantage of the Warstopper program is that Warstopper investments are both effective and efficient, typically offsetting go-to-war requirements at one-fifth the cost of purchasing war reserve materiel.

Another efficient approach DLA has employed in addressing industrial base maintenance is the incorporation of surge and sustainment requirements in long-term contracts for go-to-war items. This approach leverages the competitive process to insure the ability to support mobilization requirements at least cost. For example, in developing its tire privatization acquisitions, DLA required the successful offeror to maintain the tire industrial base by obtaining designated tires from more than one source – to our knowledge, the first time that such a provision has been incorporated in a government contract.

DLA's established relationship with the Defense Contract Management Agency and the Defense Contract Audit Agency has also been critical to its success. A performance based agreement with the Defense Contract Management Agency incorporates metrics directly related to support functions that are essential. On a

quarterly basis, senior leaders from both agencies review performance and map out strategies for improvement. The Defense Contract Audit Agency plays a key role in providing authoritative information on the pricing DLA's industry partners propose, making it possible for DLA to negotiate from a position of strength and execute DLA's stewardship responsibilities.

DLA's most important partnership, however, is with its customers. Their requirements are the firm foundation of DLA's acquisitions, and their feedback enables DLA to make the corrections and adjustments that are essential to success. That feedback comes as the product of a constant dialogue supplemented by regularly-scheduled Service/Defense Logistics Agency days and Executive Steering Groups addressing specific issues and shared challenges. Feedback can also come in the form of studies and analyses that our customers commission to evaluate the support we provide them and identify areas of needed improvement. For example, a RAND Corporation study of DLA's support of its customers' tire requirements has played a significant role in the development of a second generation tire privatization acquisition strategy. Similarly, RAND's analysis of DLA's Direct Vendor Delivery program has prompted a re-evaluation of that program's success in meeting time definite delivery standards.

The use of best value source selection continues to be critical to the success of our acquisition mission. Best value source selection makes it possible to consider factors in addition to price in making award decisions. Its use has enabled DLA to reduce delinquencies and defaults and to insure that the Warfighter receives the level of quality that is required. The knowledge that past performance will influence future award decisions is a strong motivator for suppliers to deliver quality goods on time.

DLA monitors its performance in support of the Warfighter at an enterprise level. This includes execution of the acquisition mission, for which DLA has established metrics bearing directly on success. These metrics currently include: productivity; the percentage of our total obligations that are placed on long-term contracts; and the percentage of open contract lines that are delinquent. Continuous monitoring of these metrics maintains visibility of DLA's acquisition mission, and drill-down capabilities make it possible to identify problem areas quickly, perform causative research, and develop prompt and effective solutions.

For the future, roll out of the EProcurement module of DLA's enterprise business system, scheduled for Fiscal Year 2010, will be a critical enabler of its acquisition mission. EProcurement will be DLA's single contract writing tool, supporting our supply centers, our service centers and our Depot Level Repairable detachments. EProcurement will improve efficiency and effectiveness by automating solicitation, evaluation and award processes, by improving approval and routing processes, and by providing enhanced contract administration capabilities. In addition, EProcurement will maintain all contract documents in one accessible location, provide milestone tracking capabilities for long-term contracts and provide enhanced reporting capabilities. This will afford greater visibility of processes and make it possible to monitor and manage performance continuously. EProcurement also addresses Office of Management and Budget Circular A-123 internal control requirements and will assist compliance with the Federal Managers' Financial Integrity Act.

Led by a Vice Admiral or Lieutenant General supported by a Senior Procurement Executive, DLA has consistently had leadership in place appropriate to the size and

complexity of its acquisition mission. In addition, DLA has an aggressive oversight program in place at both the headquarters and buying activity levels to maintain surveillance over the integrity of our processes. DLA has further strengthened this program by establishing a separate Acquisition Management Directorate at our headquarters, led by a senior executive who serves as the agency's Senior Procurement Executive. DLA has also placed senior executives at each of its four major buying activities to oversee and insure the integrity of their acquisition missions. DLA has placed renewed emphasis on contract administration activities through its performance based agreement with the Defense Contract Management Activity and its own Contract Administration Campaign Plan, with its emphasis on developing performance management capabilities. DLA has instituted a post award review of major acquisitions to supplement the pre-award clearance process to determine whether major acquisitions are delivering the results for which the government contracted. DLA has enhanced its previously-existing Procurement Management Review program to focus on identification of best practices. DLA is also a participant in the Peer Review program established by the Director of Defense Procurement and Acquisition Policy.

One of DLA's most significant improvements has been the creation of a Center for Excellence in Pricing. This center is intended to deliver active, aggressive surveillance, detection and corrective actions for contract pricing issues. This supports management visibility of pricing health across the Agency and results in improved management decisions, enhanced pricing capability and reduced acquisition costs. The assigned analysts perform reviews of proposed acquisitions as well as quarterly audits of 15 Tailored Logistics Support programs to determine the sufficiency of the contracting

officer's price documentation and the vendor's adherence to the pricing methodology. DLA has realized an immediate return on its investment as its analysts have identified to date \$330,000 in overcharges offsets that have been recovered. The center has also been responsible for pricing-related improvements in contracts that will result in future savings of approximately \$1,000,000 annually.

Given the size of its acquisition program, DLA is prepared to face major challenges. EProcurement will provide a solid return on our investment for years to come, but the deployment of a single contract writing system to support the many different kinds of buying DLA does is a major undertaking. Similarly, the integration into DLA of Depot Level Reparable buyers who formerly reported to the Military Services will in the long run allow DLA to adopt acquisition best practices from across the Department, but will be a near-term challenge. DLA also faces more specific challenges, such as the issue of counterfeit microelectronics which we are addressing through development of an acquisition strategy with a strong quality assurance focus.

DLA is confident that it will be successful in meeting these challenges and those that will follow. DLA has the people, the processes, and the technology to provide best value support to the Military Services. As DLA executes its acquisition program, it will continue to provide effective support to the Warfighter while serving as an efficient steward of the taxpayer dollar. Mr. Chairman and distinguished members of the Panel, this concludes my statement.

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**WITNESS RESPONSES TO QUESTIONS ASKED DURING  
THE HEARING**

SEPTEMBER 24, 2009

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## **RESPONSES TO QUESTIONS SUBMITTED BY MR. ANDREWS**

Mr. SOLIS. As noted in the testimony, GAO previously reported that DLA acquired an aircraft refrigerator under its prime vendor program that was almost twice the amount paid two years earlier. The type of contract used for this purchase was an Indefinite Delivery, Indefinite Quantity contract. It was purchased under a prime vendor contract for food service equipment under DLA's Subsistence Directorate. The same contracting officer was responsible for both purchases. According to DLA, the problem occurred because the contracting officer was not conducting price reasonable determinations. In order to correct the problem, DLA now required that contracting officers conduct price reasonable determinations up-front. [See page 10.]

Ms. HEIMBAUGH. Based on FY 08 data, we use market supplied products for 48 percent of the Defense Logistics Agency's total contract actions representing 40 percent of award dollars. Products for the remainder of our customers' requirements are manufactured to meet those requirements. [See page 17.]

General McCoy. The primary goal of the AFGLSC is to streamline our supply chain management processes and improve support to the warfighters. A measurable outcome of our effort is increasing the number aircraft available to fly required missions each day. By reducing the grounded aircraft from 150 to 30, we are able to realize a reduction in the use of premium transportation to expedite parts shipments by approximately \$252,000 per month for 1 year.

The AFGLSC has implemented a number of initiatives that have resulted in the reduction in aircraft grounding incidents. Some examples include: 1) Implementation of a demand forecasting tool to measure forecast effectiveness; 2) Collaboration with maintenance organizations throughout the Air Force enterprise to improve component repairs; 3) Implementation of new and streamlined contracting strategies that have reduced purchasing lead times; and 4) Implementation of "proactive leveling", whereby likely critical stockouts are identified and stock levels are established to mitigate the risk. Using a global, enterprise approach to supply chain management, we have been able to improve aircraft availability while reducing operating cost. [See page 17.]

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## **RESPONSE TO QUESTION SUBMITTED BY MR. COFFMAN**

Ms. HEIMBAUGH. There would be a one-time cost for a cloth manufacturer to change the camouflage pattern of the existing Army Combat Uniform (ACU). That cost would be determined by the amount of work required by the cloth manufacturer to convert to the new cloth. In discussions with our cloth manufacturers, they are unable to quantify that exact cost without specifics on the fabric involved; however, at a minimum, for the same basic fabric, the cost to change a pattern would be between \$400.00 and \$1000.00 per loom. The cost to then field that uniform for the entire Army, Active, Guard and Reserve, would range from \$360,498,600 to \$699,383,160. This cost range is based on the new uniform being issued in an all Fire Resistant (FR) fabric with and without permethrin, half FR with and without permethrin and half non FR or all non FR fabric.

The following assumptions were made in developing this cost.

1. All soldiers would be issued four uniform coats and four trousers, one patrol cap and one sun hat.
2. Every Active duty, Guard and Reserve Soldier would get the uniform. If the new uniform distribution is limited to those soldiers deploying to Afghanistan, the total cost would be considerably less.
  - a. 562,000 authorized active duty
  - b. 572,000 Guard and Reserve
3. The only difference in the new uniform would be the camouflage pattern. No changes in material or construction from the current Army Combat Uniform (ACU).
4. Prices used to determine this cost are based on the current Standard Prices for these items.

5. This estimate does not include the potential cost of issuing other equipment type items in a new pattern. This includes such items as the Extreme Cold Weather Clothing System (ECWCS), Improved Outer Tactical Vests (IOTV), Modular Lightweight Load bearing Equipment (MOLLE), various coveralls, and any other equipment item that may have the ACU camouflage pattern.
6. This estimate does not include the cost of disposal for any residual items in the old camouflage pattern.

[See page 15.]

