

July 2009

MILITARY BASE REALIGNMENTS AND CLOSURES

DOD Needs to Update
Savings Estimates and
Continue to Address
Challenges in
Consolidating Supply-
Related Functions at
Depot Maintenance
Locations



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Report Documentation Page

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Why GAO Did This Study

As a result of a 2005 Defense Base Realignment and Closure (BRAC) recommendation, the Defense Logistics Agency (DLA) is charged with consolidating supply, storage, and distribution functions at 13 military service depot maintenance locations to streamline operations and save money. The BRAC Commission data indicate that these consolidations would generate net savings of nearly \$1 billion through 2011 and about \$137 million annually thereafter.

Because these actions could affect depot maintenance operations, the conference report accompanying the National Defense Authorization Act for Fiscal Year 2008 directed GAO to assess implementation issues associated with the consolidations. GAO's objectives were to assess (1) DLA's progress and challenges to implement these consolidation actions and (2) the extent to which DLA's most recent cost and savings estimates related to these consolidations differ from those of the BRAC Commission. To meet these objectives, GAO visited three depot locations where consolidation actions had begun, interviewed service and DLA officials, and analyzed estimated cost and savings data.

What GAO Recommends

GAO recommends that the Department of Defense (DOD) improve the accuracy of its savings estimates by taking a number of steps, including updating inventory data and removing savings not clearly the result of 2005 BRAC actions. DOD concurred.

View [GAO-09-703](#) or [key components](#). For more information, contact Brian J. Lepore at (202) 512-4523 or leporeb@gao.gov.

MILITARY BASE REALIGNMENTS AND CLOSURES

DOD Needs to Update Savings Estimates and Continue to Address Challenges in Consolidating Supply-Related Functions at Depot Maintenance Locations

What GAO Found

While DLA has made progress to consolidate supply-related functions at the 13 depot maintenance locations recommended by BRAC and has taken steps to minimize the risk to ongoing operations, some of the most difficult tasks are yet to be undertaken and pose implementation challenges for DLA. For example, the Army and DLA officials are still negotiating what specific functions and personnel will transfer to DLA and the information technology interfaces needed to consolidate DLA's and the services' supply inventories continue to evolve and have experienced delays. Nevertheless, DLA anticipates that the consolidation actions will be completed by the mandated September 2011 BRAC deadline for completing recommended actions. For the actions to be complete, DLA officials told GAO the military services must have transferred all related personnel positions to DLA and physically consolidated all applicable inventories with DLA. While personnel transfers are under way, DLA has not begun physically consolidating inventories. And, although DLA has taken several steps to mitigate risk to ongoing depot operations such as involving stakeholders in the decision-making process, ensuring high-level leadership to drive these transformational actions, and employing time-phased transfers, continued collaboration between the services and DLA and periodic monitoring by DOD are critical to ensure the timely completion of these BRAC actions.

Compared to the BRAC Commission's 2005 cost and savings estimates, DOD expects to spend more and save significantly less by implementing the supply-related consolidation actions. DLA's current data indicate that the cost to implement the recommended consolidation actions has increased by about \$158 million (378 percent) while estimated savings have decreased by \$753 million (73 percent). Consequently, estimated net savings of about \$82 million over the 2006-2011 BRAC implementation period are considerably less than the BRAC Commission's estimate of about \$993 million. Further, net annual savings beyond 2011 are projected to be \$52 million per year, rather than the Commission's \$137 million estimate—an annual decrease of about \$85 million (62 percent). Moreover, GAO found that DLA's most recent savings estimates are unrealistic because they are based on practices that count some savings that GAO believes are not attributable to BRAC actions, use 4-year-old data, assume an inventory reduction scenario that is unlikely to occur, and employ an overall methodology that has not been approved by senior-level officials. DOD's financial management regulation requires BRAC savings estimates to be based on the best projection of savings that will actually accrue, but GAO's analysis indicates that DLA could actually incur a net cost of \$22 million during the implementation period if non-BRAC-related savings were removed from the estimate, compared to the \$82 million in net savings that DLA currently projects. Although the potential exists for DLA to eventually realize savings over time as it assumes control over supply-related operations, updated savings estimates based on sound estimating practices would provide better information for congressional oversight and help maintain public confidence in the BRAC process.

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Abbreviations

BRAC	Base Realignment and Closure
COBRA	Cost of Base Realignment Actions
DLA	Defense Logistics Agency
DOD	Department of Defense
OSD	Office of the Secretary of Defense
SS&D	supply, storage and distribution

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Washington, DC 20548

July 9, 2009

Congressional Committees

The Defense Logistics Agency (DLA) is the largest combat support agency for the Department of Defense (DOD), providing worldwide logistics support in both peacetime and wartime to the military services. Under existing arrangements with the military services, both DLA and the services perform supply, storage, and distribution (SS&D) functions¹ and maintain inventories of repair parts at 13 domestic depot maintenance locations.² As part of a larger 2005 base realignment and closure (BRAC) recommendation concerning supply-related functions within DOD, DLA was charged with consolidating SS&D functions, along with associated inventories, at all 13 locations—and is required to do so by September 15, 2011, the mandated completion date for implementing all recommendations from the 2005 BRAC round. DOD expects that the consolidation actions will eliminate unnecessary redundancies and duplication, streamline supply-related processes, and save money. The BRAC Commission projected that nearly \$1 billion in savings would accrue through 2011 by implementing the recommended actions and that additional savings of over \$137 million would occur annually thereafter.

Although such consolidation actions are historically atypical of BRAC recommendations, the Secretary of Defense made it clear at the outset that his primary goal for the 2005 BRAC round was military transformation. As such, many of the BRAC 2005 recommendations involve complex realignments such as reconfiguring the defense supply, storage, and distribution network. The BRAC actions related to SS&D are transformational in that they focus on complex business process

¹In this context, supply, storage, and distribution functions refer to various actions to provide repair parts to depot maintenance personnel who perform repairs and upgrades on equipment that are needed to maintain readiness and support ongoing military operations.

²Affected locations include three Air Logistics Centers located in Warner Robins, Georgia; Oklahoma City, Oklahoma; and Ogden, Utah; three Fleet Readiness Centers located in Cherry Point, North Carolina; Jacksonville, Florida; and San Diego, California; two Naval Shipyards located in Norfolk, Virginia; and Puget Sound, Washington; two Marine Corps Logistics Bases located in Albany, Georgia; and Barstow, California; and three Army depots located in Tobyhanna, Pennsylvania; Corpus Christi, Texas; and Anniston, Alabama. Figure 1 shows a map of these locations.

reengineering³ efforts involving the transfer of personnel and management functions, and the consolidation of inventories in addition to synchronizing several existing and evolving information technology systems. While these transformational actions are intended to provide benefits to DOD over time, their implementation could have an adverse impact on depot maintenance operations during a time of high wartime demands, if not carefully managed.

Further, unlike prior BRAC rounds, BRAC 2005 included a number of joint recommendations involving more than one military component, thus creating challenges in achieving unity of effort among the services and defense agencies. We have previously reported that BRAC recommendations such as the consolidation of SS&D functions, which involve a significant amount of joint cooperation and complex organizational transformation, place DOD at risk of not implementing recommendations on time and in some cases risk mission disruption. In our most recent report focusing specifically on the SS&D-recommended actions at the depot level in October 2007, we reported⁴ that the military services had expressed concerns about disruptions that could result from the SS&D consolidation process, and we concluded that periodic monitoring by the Office of the Secretary of Defense was critical to ensure that DLA implementation actions were on track.

In addition to furthering transformation and fostering jointness, anticipated savings resulting from BRAC implementation remained an important consideration and was a factor in justifying the need for the 2005 BRAC round. To realize savings⁵ from BRAC 2005, DOD typically must first invest billions of dollars in facility construction, renovation, and other up-front expenses, and we have previously reported that DOD planned to spend more and save less than the BRAC Commission

³Business process reengineering can be generally defined as an approach for redesigning the way work is done to better support an organization's mission and reduce costs.

⁴GAO, *Military Base Realignment and Closures: Transfer of Supply, Storage and Distribution Functions from Military Services to Defense Logistics Agency*, [GAO-08-121R](#) (Washington, D.C.: Oct. 26, 2007).

⁵Savings are typically in the form of cost avoidances—avoiding costs that DOD would have incurred if BRAC actions had not taken place. While savings may begin to accrue over the implementation period, additional savings typically occur annually on a longer term basis beyond the implementation period. One-time savings may include reduced costs associated with inventory reduction, for example; whereas recurring savings may include reduced annual sustainment costs associated with maintaining less warehouse space.

originally estimated. In October 2007, for example, we reported that implementation cost estimates for the transfer of SS&D functions at the depot level had increased and that savings estimates had decreased, and we reported that it is critical for DOD to continue to monitor and adjust projected savings attributable to BRAC as necessary. In a March 2008 report,⁶ we noted higher costs and lower savings projected for two DLA-managed BRAC recommendations, including the consolidation actions discussed in this report. In addition, in January 2009, we reported⁷ that the services and other DOD components were not consistently updating BRAC savings estimates, and we recommended that the Office of the Secretary of Defense take steps to ensure that BRAC savings estimates are based on the best projection of savings that will actually accrue from approved realignments and closures. DOD subsequently concurred with that recommendation and stated that regularly updating savings is essential.

Due to continued concerns about the implementation of the recommended supply-related consolidation actions at the depot level and their potential impact on depot maintenance operations, the conference report⁸ accompanying the National Defense Authorization Act for Fiscal Year 2008⁹ directed us to assess issues associated with the implementation of the consolidation actions at the depot level as required by BRAC. Accordingly, our objectives were to assess (1) DLA's progress and challenges in implementing these BRAC supply-related consolidation actions with minimum disruption to depot operations and (2) the extent to which DLA's most recent cost and savings estimates for implementing these consolidations differ from those of the 2005 BRAC Commission.

⁶GAO, *Military Base Realignment and Closures: Higher Costs and Lower Savings Projected for Implementing Two Key Supply-Related BRAC Recommendations*, [GAO-08-315](#) (Washington, D.C.: Mar. 5, 2008).

⁷GAO, *Military Base Realignment and Closures: DOD Faces Challenges in Implementing Recommendations on Time and Is Not Consistently Updating Savings Estimates*, [GAO-09-217](#) (Washington, D.C.: Jan. 30, 2009).

⁸H.R. Conf. Rep. No. 110-477, at 893-894 (2007).

⁹Pub. L. No. 110-181 (2008).

To address our objectives, we initially reviewed a June 2008 DOD report¹⁰ on matters associated with implementing the recommended supply-related consolidations as well as our prior work germane to our objectives. To determine DLA's progress and challenges, we analyzed DLA implementation planning documentation, including its business plans and supporting data, and interviewed officials at various levels within DOD, DLA, selected services' maintenance depots, and military customers aligned with these depots. We visited three of the seven depot maintenance locations where some portions of the consolidation actions have taken place. To evaluate the extent to which DLA's most recent cost and savings estimates varied from those of the BRAC Commission, we compared DLA's estimates as presented in supporting documentation to its February 2009 business plan with those of the BRAC Commission and discussed the rationale for variances with DLA officials. We further analyzed the overall methodology and associated assumptions used by DLA in deriving its estimates. We conducted this performance audit from June 2008 through July 2009 in accordance with generally accepted government auditing standards. Those 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. More detailed information on our scope and methodology appears in appendix I.

Results in Brief

While DLA has taken steps to minimize potential disruptions to depot operations as a result of its planned consolidation efforts and has made progress in implementing the SS&D consolidation actions, the most difficult tasks still lie ahead, posing challenges for DLA in completing those actions. DLA has taken steps in its plans to mitigate risks to the depots' mission by implementing a number of key actions—several of which are considered best practices for organizational transformation—such as ensuring that leadership drives the transformation and involving military stakeholders in decision making. Senior DLA officials we spoke to told us that they will consider consolidation actions complete when the agreed-upon SS&D functions, personnel positions, and associated personnel have been transferred from the military service to DLA and

¹⁰Office of the Under Secretary of Defense (Acquisition, Technology & Logistics), *Department of Defense Report to Congress on the Implementation of the Consolidation of Depot Supply, Storage, and Distribution Functions with the DLA as Required by the 2005 BRAC* (June 2008).

when related applicable military and DLA inventories have been physically consolidated. As of May 2009, the Air Force had completed the transfer of all positions and associated personnel at all 3 of its affected depots; the Navy had completed transfers at 4 of its 5 locations, and the Marine Corps and the Army had not yet begun to transfer positions. In addition, as of May 2009, DLA had not physically consolidated any inventories and the first is not scheduled to occur until August 2009, which represents a 3-month slippage from the milestones set forth at the beginning of our review. DLA does not currently plan to consolidate any inventories at 5 of the 13 locations—3 Army and 2 Marine Corps locations—because, according to DLA and military service officials, neither of these services have any applicable inventories to consolidate. Although DLA expects to complete the recommended actions by the statutory BRAC deadline of September 15, 2011, we identified several challenges, including finalizing strategic agreements—for which the schedule for completion has slipped several times—and addressing information technology issues, which may impede DOD’s efforts to achieve efficiencies envisioned by the BRAC Commission. As we have previously reported, continued collaboration between the services and DLA and periodic monitoring by DOD are critical to ensure that implementation actions are on track and that any issues that could adversely affect depot operations are resolved as implementation proceeds.

In comparison to the BRAC Commission’s estimates, DOD expects to spend more and save less to implement the recommended SS&D consolidation actions, and our analysis indicates that DLA’s current savings estimates are unrealistic.¹¹ According to DLA’s latest estimates, the net savings to transfer the supply-related functions and associated inventories will be reduced by \$911 million over the 6-year BRAC implementation period compared to the BRAC Commission’s estimated net savings. DLA now projects about \$82 million in net savings over this time period, which is a decrease of \$911 million (92 percent) from the BRAC Commission’s net savings estimate of about \$993 million. The \$911 million reduction consists of a combination of an increase of about \$158 million (378 percent) in expected one-time implementation costs and a \$753 million (73 percent) decrease in expected savings. Additionally, the

¹¹The figures presented in this report are in then-year dollars. While the BRAC Commission reported its figures in fiscal year 2005 constant dollars (i.e., excludes projected inflation), DLA subsequently converted the Commission’s estimates to then-year dollars in its business plans and also expressed its estimates in then-year dollars (i.e., includes projected inflation).

estimated net annual recurring savings that DLA expects to achieve after the SS&D actions have been completed have decreased from the BRAC Commission's estimate of nearly \$137 million per year to \$52 million per year. This represents an annual decrease of about \$85 million (62 percent). Our analysis indicates that these decreases in estimated net savings are attributable primarily to increased costs for information technology integration efforts and a large reduction in estimated savings to be achieved by reducing inventory levels. Furthermore, DLA's most recent savings estimates are unrealistic because they count some savings that we believe are not attributable to BRAC actions, use 4-year-old inventory data that are not likely to reflect current inventory levels, assume an inventory reduction scenario that is unlikely to occur as planned, and employ a methodology that is still in draft form and has not been approved by senior-level DLA officials. DOD's Financial Management Regulation¹² requires BRAC savings estimates to be based on the best projection of what savings will actually accrue. Our analysis indicates that, as a result of updating just one of these factors—excluding savings resulting from service inventory reduction efforts not attributable to BRAC—DLA could actually incur net costs of \$22 million during the implementation period, compared to the \$82 million in net savings DLA currently projects.¹³ Once the services' and DLA's SS&D consolidations are completed and DLA assumes control over supply-related operations, DLA could achieve some efficiencies, but the magnitude of those savings is unknown. As we have previously reported, imprecise savings estimates could diminish public trust in the BRAC process by producing an unrealistic sense of the savings that this BRAC round may actually produce. Updated savings estimates, based on sound estimating practices and more recent data, would provide sound information to congressional decision makers while maintaining public confidence in the BRAC process. Therefore, we are making four recommendations intended to improve the accuracy of DLA's current savings estimates.

¹²DOD Financial Management Regulation, 7000.14-R, *Base Realignment and Closure Appropriations*, vol. 2B, ch. 7, para. 070303E (Sept. 2008).

¹³We have previously reported and recommended that DLA not include savings from initiatives that are not directly the result of BRAC actions and would have occurred regardless of BRAC. While DLA disagreed with this recommendation in stating that these particular savings are "enabled" by the BRAC process, we continue to believe that including savings unrelated to specific BRAC actions distorts and effectively overstates projected savings, as will be discussed in more detail later in the report.

In written comments on a draft of this report, DOD concurred with all of our recommendations and described actions it intends to take to implement them. DOD's comments are printed in their entirety in appendix III. DOD also provided us with technical comments which we incorporated as appropriate.

Background

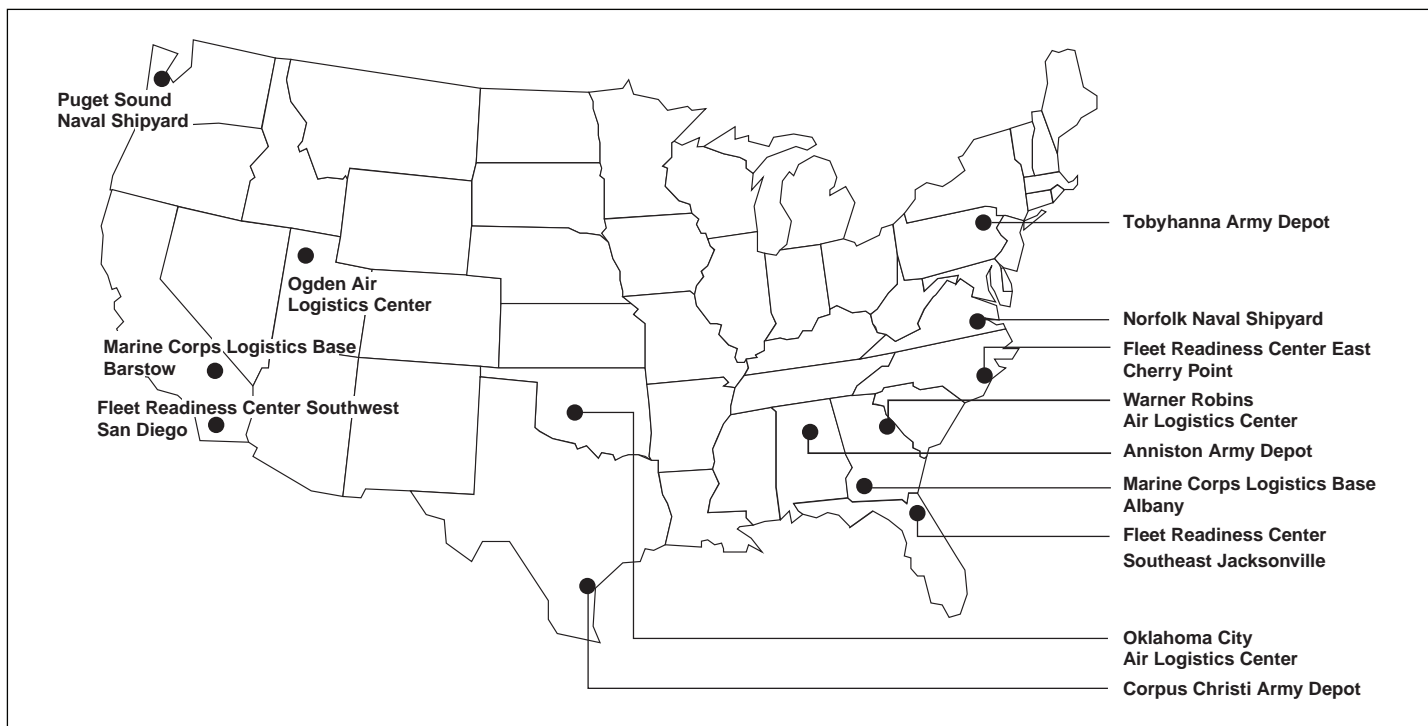
DOD has undergone four BRAC rounds since 1988 and is currently implementing its fifth round. In May 2005, the Secretary of Defense made public more than 200 realignment and closure proposals. In making these proposals, DOD applied legally mandated selection criteria that included not only expected costs and savings but also military value, which considers criteria such as an installation's current and future mission capabilities. Additionally, in establishing the goals of the 2005 BRAC round, the Secretary of Defense expressed interest in transforming DOD to attain greater efficiencies by aligning the infrastructure with the defense strategy and by implementing opportunities for greater jointness across DOD. The BRAC Commission, which was established by law as an independent entity to review DOD's proposals, ultimately forwarded 182 recommendations to the President for approval. The President approved the recommendations and forwarded the list to Congress. The BRAC 2005 recommendations became effective on November 9, 2005, with completion required by September 15, 2011.

For the 2005 BRAC round, DOD's Basing Directorate, under the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics), monitors the services' and defense agencies' implementation progress, analyzes budget justifications for significant differences in cost and savings estimates, and facilitates the resolution of any challenges that may impair the successful implementation of the BRAC recommendations within the 6-year implementation period. To facilitate its oversight role, the Office of the Secretary of Defense (OSD) requires the military service or agency in charge of implementing a specific BRAC recommendation to prepare and submit a detailed business plan and update it every 6 months, usually in February and August, to support annual budget preparation and documentation. These plans are to include such information as a list of all actions needed to implement the recommendation, schedules for personnel movements, and updated costs and savings estimates based on better and updated information.

One of the most complicated BRAC recommendations in the 2005 round with potentially one of the largest amount of savings is commonly referred to as the supply, storage, and distribution (SS&D) recommendation, which

has two primary components. One is to reconfigure DLA's wholesale SS&D network into a streamlined hub and spoke network across the United States while the other is to consolidate the SS&D functions and related inventories at 13 specified military depot maintenance locations where the military services have SS&D functions and associated inventories co-located with a DLA distribution center. DLA, as the business manager for the recommendation, is responsible for implementing the overall recommendation. This review focuses only on the consolidation portion of the SS&D BRAC recommendation at the depot maintenance level. Figure 1 provides a map of the 13 BRAC-affected military locations where depot maintenance is performed.

Figure 1: Locations of the 13 BRAC-Affected Military Depot Maintenance Sites



Source: DLA and Map Resources (map).

DLA Has Taken Steps to Minimize Disruptions to Depot Operations and Made Progress Toward Completing SS&D Consolidation but the Most Difficult Tasks Lie Ahead, Posing Challenges

While DLA has taken steps to minimize potential disruptions to depot operations as a result of its planned consolidation efforts and has made progress in implementing the SS&D consolidation actions, the most difficult tasks still lie ahead, posing challenges for DLA in completing those actions. According to DLA officials, the SS&D consolidation action will be certified as complete when two key actions are completed: personnel are transferred to DLA and applicable service inventories are consolidated with DLA. As of May 2009, personnel transfers had occurred at 7 of the 13 depot locations, but the physical consolidation of inventories has yet to begin. While DLA expects to complete recommended consolidation actions by the statutory BRAC deadline of September 15, 2011, we have identified several challenges that, if not properly addressed and monitored, could impede progress towards completing the recommended actions and achieving the efficiencies envisioned by the BRAC Commission. Although DLA has incorporated in its approaches to implementation a number of best business practices that have helped to facilitate the implementation process, continued monitoring of ongoing actions is critical to ensure that challenges are properly addressed and any actions that may pose a risk to depot operations are resolved.

DLA Has Taken Steps to Minimize Disruptions to Depot Operations

In planning for BRAC consolidation actions, DOD has taken steps to minimize potential disruptions to depot operations that could occur during or as a result of its planned consolidation efforts. DLA's evolving plans incorporate several features that we believe, if implemented as intended, conform to best practices that we have identified for successful organizational transformations. These mitigating actions include providing for an organizational structure involving top leadership and key stakeholders to drive the implementation process, establishing integrated process teams to facilitate planning and communication among stakeholders, using a time-phased approach to transferring SS&D functions from the services to DLA, and transferring service personnel to DLA in a minimally disruptive way. These features, some of which are designed to address challenges faced by DLA and the services, include the following:

- **Leadership**—DLA has provided for high-level leadership, supported by an organizational structure that includes stakeholders from the military services and DLA, to help ensure that issues arising during the implementation process are addressed and the intent of the recommended actions are achieved. This organizational structure fulfills the best practice of ensuring that top levels of leadership drive the transformation process. In addition, both DLA and service

personnel affected by the transfer have noted that the commanders in charge of the transformation visited affected sites and conducted town hall meetings prior to the actual transfer to answer questions and were very helpful in allaying the fears of affected personnel.

- **Integrated process teams**—At each transfer site, DLA and the services have established integrated process teams¹⁴ that include representatives from DLA and the services. These teams incorporate the best practices of involving stakeholders and establishing a communication strategy that helps share expectations and report on progress and challenges as implementation continues. Each team is responsible for developing a topic- and site-specific comprehensive plan that includes detailed tasks and identifies each task’s duration, start and completion dates, percentage completed, organization and personnel assigned, criticality of task, and milestones. The teams meet regularly to discuss implementation issues, work through problems and concerns, and identify potential solutions and mitigating actions where possible. In addition, each team has the ability to sit in and observe, and share lessons-learned, with other teams.
- **Time-phased transfer of SS&D functions from the services to DLA**—To proceed cautiously and build upon lessons learned, the transfer of SS&D functions from the military services to DLA is being phased in by service, beginning with personnel transfers in each service. According to DLA officials, timed phasing of transfers is intended to allow for the focused dedication of resources to one site at a time. For example, at some Air Force locations, DLA encountered problems issuing a large volume of common access cards—which are a necessary form of personnel identification—at one time. Due to the time-phased approach, each Air Force location had the opportunity to apply lessons learned from the experiences of the previous one and the Navy, as they began their transfers, were applying lessons learned from the Air Force. Thus, DLA has been able to more readily address issues as implementation progresses.
- **“As-is-where-is” transfer of personnel from the services to DLA**—In addition, the transfer of all affected SS&D personnel positions is occurring on an “as-is-where-is” basis. This means that employees filling the transferred positions perform the same general

¹⁴The seven teams formed are Inventory Management and Stock Positioning, Financial Management, Facilities and Equipment, Information Technology, Metrics, Human Performance, and Change Management.

duties at the same location as they did prior to the transfer, albeit for DLA instead of for one of the services. To the extent that this construct is implemented, there is likely to be less risk for disrupting maintenance production schedules due to personnel transfers since the employees are already experienced in performing these jobs.

DLA Has Made Progress Transferring Personnel, but Physical Inventory Consolidation Has Not Yet Begun

As shown in figure 2 below, DLA had established integrated process teams as of May 2009 at all 13 BRAC-affected locations. In addition, DLA and the Air Force had finalized strategic agreements guiding agreed-upon details for transferring functions and personnel and consolidating inventory at the three Air Force locations. Further, 7 of the 13 affected locations—all three Air Force locations and four Navy locations—have completed the transfer of personnel through the “as-is-where-is” approach. DLA’s current plans call for transferring over 2,100 positions at the 13 specified military service depot maintenance locations from the services to DLA by July 2011. (See app. II for more detailed information on these positions broken out by depot location.) As of May 2009, 1,391 civilian positions had been transferred to DLA. Also, DLA and the Air Force have stated that they have the ability to integrate their existing information technology systems—a critical prerequisite for being able to consolidate inventories as recommended by the BRAC Commission. Finally, DLA has established preliminary completion dates for physically consolidating inventories, which is currently scheduled to begin in August 2009. Figure 2 provides an overall picture of the status of key steps that must be implemented in order to complete the recommended BRAC actions.

Figure 2: Completion Status of Key Milestones, as of May 2009

13 co-located sites	Air Force			Navy					Marine Corps		Army		
	Warner Robins Air Logistics Center, Ga.	Oklahoma City Air Logistics Center, Okla.	Ogden Air Logistics Center, Utah	Fleet Readiness Center East Cherry Point, N.C.	Fleet Readiness Center Southeast Jacksonville, Fla.	Fleet Readiness Center Southwest San Diego, Calif.	Norfolk Naval Shipyard, Va.	Puget Sound Naval Shipyard, Wash.	Marine Corps Logistics Base Albany, Ga.	Marine Corps Logistics Base Barstow, Calif.	Toboyhanna Army Depot, Pa.	Corpus Christi Army Depot, Tex.	Anniston Army Depot, Ala.
Key steps													
Integrated process teams formed	● Jan. 07	● Jan. 07	● Jan. 07	● July 07	● July 07	● July 07	● Oct. 07	● Oct. 07	● Nov. 07	● Nov. 07	● Jan. 09	● Jan. 09	● Jan. 09
Strategic agreements finalized	● Aug. 07	● Aug. 07	● Aug. 07	● Apr. 09	● Apr. 09	● Apr. 09	● Apr. 09	● Apr. 09	○ June 09	○ June 09	○ July 09	○ July 09	○ July 09
As-is-where-is personnel transfer completed	● Oct. 07	● Feb. 08	● July 08	● Aug. 08	● Oct. 08	● Feb. 09	● May 09	○ July 09	○ Sept. 09	○ Sept. 10	○ Feb. 10	○ Feb. 11	○ July 11
Information technology solution available ^a	● Apr. 09	● Apr. 09	● Apr. 09	○ July 10	○ July 10	○ July 10	○ July 10	○ July 10	○ Aug. 10	○ Aug. 10	■	■	■
Inventory consolidation completed	○ Aug. 09	○ Nov. 09	○ Jan. 10	○ Feb. 11	○ Mar. 11	○ Apr. 11	○ June 11	○ July 11	■	■	■	■	■

- Met
- Scheduled
- Not applicable

Source: GAO analysis of DLA data.

Note: All dates associated with scheduled actions are subject to change as implementation proceeds, if DLA or the services deem it necessary.

^aThis refers to when the necessary information technology modifications have been made to DLA's business systems to provide functionality needed in order to integrate with the services' business systems.

Some of the Most Complex Tasks Are Yet to Be Undertaken, Posing Implementation Challenges

While DLA expects to complete the recommended consolidation actions by the statutory BRAC deadline of September 15, 2011, some of the most complex tasks required to fully implement the SS&D BRAC actions are yet to be undertaken and pose implementation challenges. These tasks include finalizing strategic agreements between DLA and some of the services on issues such as costs for DLA-provided services as well as the number of service personnel to be transferred in the future to DLA, and integrating new and legacy information technology systems necessary for inventory consolidation efforts. In addition, issues related to human capital could ultimately degrade productivity if not properly addressed.

DLA and the Military Services Continue to Resolve Issues

According to military officials, while strategic agreements do not need to be finalized in their entirety in order for transfer activities to commence, negotiations are continuing to resolve issues as implementation progresses. At the time of our review, agreements had been finalized between DLA and the Air Force and the Navy. Although the Navy agreements had been signed, there are unresolved issues regarding how the Navy will reimburse DLA for DLA's SS&D service, according to DLA officials. The Army and the Marine Corps have not finalized their agreements with DLA because, according to DLA officials, the personnel functions to be transferred to DLA have not yet been agreed upon. DLA officials have stated that as implementation of the consolidation actions approaches, they will work with the applicable service to come to agreement on any remaining outstanding issues. However, any delays in reaching agreement could affect the dates set forth for remaining tasks in the implementation schedule presented in figure 2.

Since the beginning of our review, the scheduled milestones for having approved strategic agreements between DLA and the services have slipped several times. For example, while the Navy and DLA were initially scheduled to sign their strategic agreement (referred to as a concept of operations in the Navy) in July 2008, DLA signed the agreement in August 2008 but the Navy did not sign until April of 2009. Likewise, although the Army and DLA were previously scheduled to sign their agreement in August 2008, the current schedule now calls for July 2009. The Marine Corps has also slipped from its previously scheduled date of August 2008 to June 2009 to sign its strategic agreement with DLA.

Information Technology
Integration Issues

As we have previously reported,¹⁵ the services have also been concerned about the consolidation actions' impact on their inventory levels and how this could potentially affect readiness and depot functions to serve the warfighter. Tied into this concern for the services is what pricing structure DLA will use once the recommended actions are implemented. As previously reported, service officials have expressed concern about the price DLA will charge them for providing the SS&D functions that the services previously provided in-house. Service officials have expressed concern that DLA will charge them a higher cost than what they could provide the same service for, thereby resulting in increased costs for depot maintenance operations, which in turn would be passed on to the customers of the maintenance depots. However, DLA officials have stated that upon assumption of responsibility for the transferred SS&D functions, the cost for DLA-provided services will be no greater than the costs currently incurred by the services. Costs will differ depending on what costs are included in the price DLA charges for its services and there is currently a lack of agreement on how these costs should be calculated.

Another challenge to the completion of SS&D consolidation actions involves delays and issues associated with the integration of DLA's information system with those of each military service. As we have reported in our High-Risk Series,¹⁶ information technology planning and development within DOD has been a long-standing area of concern, including difficulties associated with creating interfaces among different automated systems. DLA's supply information technology system needs to interface with each of the services' systems before any inventory consolidations can take place. This integration requires ongoing coordination between DLA and service information technology experts to make the necessary modifications to their systems in order to provide for the proper connectivity among those systems. However, this coordination process has experienced difficulties and has resulted in an adverse effect on the systems integration process. For example, DLA's progress in integrating its system with that of the Air Force has been slowed due to the limited availability of Air Force technical experts to work with their DLA counterparts. Air Force officials told us that the limited availability is caused primarily by a general shortage of technology technicians and they are often assigned to higher priority service projects. As a result, the integration schedule has slipped, which in turn has delayed the timing of

¹⁵ [GAO-08-121R](#) and [GAO-08-315](#).

¹⁶ GAO, *High-Risk Series: An Update*, [GAO-09-271](#) (Washington, D.C.: Jan. 22, 2009).

inventory consolidation with DLA. Another major complicating factor for the integration process is that all military services, excluding the Marine Corps, are in the process of upgrading and integrating their depot-level automated systems with servicewide business system upgrades. The timelines for these improvements were in flux at the time of our review, thus creating the possibility that DLA may have to integrate with service legacy systems at some sites and later integrate with new service information technology systems as they become available. As shown in figure 2, as of May 2009, DLA had made only the necessary modifications to its system in order to integrate with the Air Force's legacy system at all three of the Air Force's locations. At the time of our review, the need for testing the connectivity remained before consolidations of applicable inventories could occur.

Human Capital Issues

The transfer of personnel from the services to DLA has raised some challenges for the personnel involved. During our site visits, we spoke with some personnel who had recently been transferred from the Air Force or Navy to DLA, and many of those personnel expressed concerns about several human capital issues, such as employee turnover, a lack of administrative support, and low morale following the transfer. For example, service officials and employees told us that a number of employees at the affected depot locations decided to retire or pursue positions elsewhere in anticipation of or in response to their transfer to DLA. In addition, some former service personnel we spoke with expressed concerns about fewer promotion opportunities and career options with DLA compared to their former position with one of the services. On the other hand, some personnel we spoke with were generally satisfied with their transfer to DLA.

DLA officials stated that they are working with the services to address human capital issues, pointing to the agreement they reached with the Air Force, which allows employees to transfer and maintain eligibility for service positions for the first year after being transferred. However, DLA has not reached similar agreements with the other services that have yet to fully transfer their positions. Table 1 shows the number of civilian personnel that the Air Force and Navy have transferred to DLA, compared with the number of associated positions.

Table 1: Full-time Equivalent Civilian Positions Transferred to DLA Compared to the Number of Personnel in Those Positions, as of May 2009

Service	Depot location	Number of full-time equivalent positions transferred	Number of personnel filling those positions	Vacancies
Air Force	Warner Robins Air Logistics Center, Ga.	267	245	22
	Oklahoma City Air Logistics Center, Okla.	366	335	31
	Ogden Air Logistics Center, Utah	232	181	51
Navy	Fleet Readiness Center East Cherry Point, N.C.	158	145	13
	Fleet Readiness Center Southeast Jacksonville, Fla.	112	91	21
	Fleet Readiness Center Southwest San Diego, Calif.	101	86	15
	Norfolk Naval Shipyard, Va.	155	146	9
Total		1,391	1,229	162

Source: GAO analysis of DLA data.

Note: Some positions were vacant before the transfers occurred. Therefore, the number of current vacancies does not necessarily reflect the total number of personnel who opted to retire or pursue other opportunities.

As shown in table 1, while personnel transfers have occurred at 7 of the 13 locations affected by the BRAC actions, some locations are experiencing more unfilled or vacant positions than others. It is unclear at this point to what degree these vacancies may affect depot operations, particularly in the administrative areas.¹⁷ On our visits to the Ogden Air Logistics Center and Cherry Point Fleet Readiness Center, DLA and service officials told us that, due to consolidation actions, the administrative workload has increased, while support for certain administrative tasks has decreased. At the time of our review, DLA did not have the dedicated human capital staff at Ogden to advertise and hire personnel to fill the vacant positions. However, DLA officials we spoke to were aware of the situation and were in the process of taking steps to rectify the issue. In addition, some other administrative details, such as organizing van pools and disseminating information about on-base activities, which the services customarily provided to depot employees, are no longer available to transferred staff. As a result, we observed and spoke with some employees who told us that they felt overlooked and overworked and their morale was low.

¹⁷In commenting on a draft copy of this report, DLA officials noted that administrative support was not included as part of the SS&D functional transfer.

DOD Expects to Spend More and Save Less to Transfer Supply-Related Functions and Associated Inventories, Although Savings Estimates Are Unrealistic

In comparison to the BRAC Commission's estimates, DOD expects to spend more and save less to transfer the SS&D functions and associated inventories from the services to DLA, although our analysis indicates that those savings estimates are unrealistic.¹⁸ The combination of projected increased costs and decreased savings results in an overall reduction in the expected net savings resulting from implementing the recommended actions. DLA's latest estimates indicate that increased information technology costs and decreased inventory reduction savings have resulted in significantly lower estimated net savings over the 6-year BRAC implementation period ending in 2011, as well as lower estimated net annual recurring savings thereafter. However, we believe that these estimates are unrealistic for a variety of reasons. Nonetheless, the potential exists for DLA to realize savings from expected efficiencies over time as DLA assumes broader responsibility of supply-related operations at the depot level.

Current Estimated Net Savings during the BRAC Implementation Period and Recurring Savings Thereafter Are Less Than Those Projected by the BRAC Commission

According to DLA's latest estimates, the net savings to transfer the supply-related functions and associated inventories will be reduced by \$911 million over the 6-year BRAC implementation period compared to the BRAC Commission's estimated net savings. As shown in table 2, DLA now projects about \$82 million in net savings over this time period, which is a decrease of \$911 million (92 percent) from the BRAC Commission's net savings estimate of about \$993 million. The \$911 million reduction consists of a combination of about a \$158 million (378 percent) increase in expected one-time implementation costs and a \$753 million (73 percent) decrease in expected savings. In addition, the net annual recurring savings that DLA expects to achieve after the implementation period have decreased by about \$85 million per year, dropping from the BRAC Commission's estimate of nearly \$137 million annually to \$52 million annually.

¹⁸It should also be noted that the BRAC Commission's estimates are based on DOD's use of the Cost of Base Realignment Actions (COBRA) model, which is not intended to and does not present budget quality estimates. Consequently, the costs and savings estimates calculated by the model are likely to be different from the costs and savings that will actually materialize.

Table 2: Comparison of DLA's Current Cost and Savings Estimates to BRAC Commission's Estimates for the Consolidated Depot-Level SS&D Actions

(Dollars in millions)

Category	BRAC Commission estimate ^a	DLA estimate ^b	Difference	
			Amount ^c	Percentage change
Fiscal years 2006-2011				
One-time costs	\$41.8	\$199.7	\$157.9	378
One-time savings	703.8	121.1	(582.7)	(83)
Recurring savings	330.9	160.4	(170.5)	(52)
Total net savings	\$992.9	\$81.9	(\$911.0)	(92)
Fiscal year 2012 and beyond				
Net annual recurring savings	\$136.8	\$52.1	(\$84.7)	(62)

Source: GAO analysis of documents supporting DLA's approved February 2009 business plan and the BRAC Commission's 2005 report.

Note: Totals may not sum because of rounding.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars (i.e., excludes projected inflation), DLA subsequently converted them to then-year dollars (i.e., includes projected inflation) in its business plans.

^bThese figures are derived from documents supporting DLA's February 2009 business plan.

^cRepresents the variance between the DLA estimate and the BRAC Commission estimate.

Higher Estimated Costs Are Largely Due to Increased Spending on Information Technology Integration Efforts

According to DLA's latest estimates, the total estimated costs for transferring the SS&D functions and associated inventories have increased about \$158 million over the 6-year BRAC implementation period compared to the BRAC Commission's estimates. As shown in table 3, DLA's estimated costs are nearly \$200 million over this period, which is an increase of about \$158 million (378 percent) over the BRAC Commission's estimate of almost \$42 million. Our analysis of DLA data indicates that the main driver for projected cost increases is greater spending on information technology integration efforts with about \$130 million (82 percent) of the overall cost increase due to this cause. DLA currently reports information technology costs of nearly \$166 million, which is about \$130 million (351 percent) more than the BRAC Commission's estimate of about \$37 million. However, the BRAC Commission's estimate was a placeholder amount that was expected to change as information technology requirements became known. According to DLA officials, the majority of the necessary information technology requirements involve modifying DLA's business systems to provide functionality needed in order to integrate with the services' business systems at the depot level. DLA reports that it expects to spend \$123 million (74 percent) of information

technology costs on modifying its systems to perform inventory and financial transactions previously provided by the services, and another \$26 million to incorporate newly transferred employees' computers at the 13 depot maintenance sites into DLA's network, to include hardware installation, software licensing, and computer desktop support. The remaining \$16 million in information-technology-related costs is slated for the military services in interfacing their business systems with DLA's systems

Table 3: Comparison of DLA's Cost Estimates to BRAC Commission's Estimates for Fiscal Years 2006-2011 for the Consolidated Depot-Level SS&D Actions

(Dollars in millions)

Category	BRAC Commission estimate ^a	DLA estimate ^b	Difference	
			Amount ^c	Percentage change
Information technology	\$36.8	\$165.9	\$129.2	351
Other ^d	1.0	17.2	16.2	1636
Personnel ^e	4.0	16.6	12.6	313
Total costs	\$41.8	\$199.7	\$157.9	378

Source: GAO analysis of documents supporting DLA's approved February 2009 business plan and the BRAC Commission's 2005 report.

Note: Totals may not sum because of rounding.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars (i.e., excludes projected inflation), DLA subsequently converted them to then-year dollars (i.e., includes projected inflation) in its business plans.

^bThese figures are derived from documents supporting DLA's business plan.

^cRepresents the variance between the DLA estimate and the BRAC Commission estimate.

^dIncludes BRAC Transition Office, supplies and other administrative costs.

^eIncludes personnel separation costs.

Lower Estimated Savings Are Primarily Due to Reductions in Inventory-Related Savings

According to DLA's latest estimates, expected savings from transferring the SS&D functions and associated inventories from the services' depots to DLA have decreased by about \$753 million over the 6-year BRAC implementation period and by about \$85 million annually after the implementation period, compared to the BRAC Commission's estimates. As shown in section A of table 4, DLA projects combined one-time and recurring savings of nearly \$282 million during the implementation period, which is about \$753 million (73 percent) less than the BRAC Commission's estimate of more than \$1 billion in savings. As shown in section B of table 4, DLA also projects \$52 million in annual recurring savings beginning in fiscal year 2012, which is a decrease of almost \$85 million (62 percent)

over the BRAC Commission's estimate of nearly \$137 million annually. These decreases in expected savings are primarily due to a dramatic fall in projected inventory-related savings, which account for \$739 million (98 percent) of the decrease in estimated savings during the implementation period and nearly \$83 million (98 percent) of the decrease in estimated annual recurring savings thereafter.

Table 4: Comparison of DLA's Savings Estimates to the BRAC Commission's Estimates for the Consolidated Depot-Level SS&D Actions

(Dollars in millions)

Category	BRAC Commission estimate ^a	DLA estimate ^b	Difference	
			Amount ^c	Percentage change
Section A: One-time and recurring savings over fiscal years 2006-2011				
Inventory	\$703.8	\$119.1	(\$584.7)	(83)
Other ^d	0.0	2.0	2.0	100
Total one-time savings	\$703.8	\$121.1	(\$582.7)	(83)
Section B: Annual recurring savings beginning in fiscal year 2012				
Inventory	\$304.8	\$150.3	(\$154.6)	(51)
Other ^e	1.6	0.0	(1.6)	(100)
Personnel ^f	24.4	10.2	(14.3)	(58)
Total recurring savings	\$330.9	\$160.4	(\$170.5)	(52)
Total savings	\$1,034.7	\$281.6	(\$753.1)	(73)

Source: GAO analysis of documents supporting DLA's approved February 2009 business plan and the BRAC Commission's 2005 report.

Note: Totals may not sum because of rounding.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars (i.e., excludes projected inflation), DLA subsequently converted them to then-year dollars (i.e., includes projected inflation) in its business plans.

^bThese figures are derived from documents supporting DLA's February 2009 business plan.

^cRepresents the variance between the DLA estimate and the BRAC Commission estimate.

^dRepresents procurement savings from Naval shipyard and aviation depots.

^eIncludes information technology and facilities savings.

^fRepresents civilian salary savings.

The decrease in savings due to less than expected inventory reductions is attributed primarily to a misinterpretation in defining unneeded or duplicate inventory that occurred during the BRAC decision-making process for formulating recommendations. The BRAC Commission based its savings estimate on the belief that the elimination of duplicate inventory—inventory stored by both the services and the DLA depots—would produce one-time and recurring savings.¹⁹ However, as we previously reported, after further review of the potentially duplicative items, DLA and the services found that data generated by DOD during the BRAC decision-making process were flawed.²⁰ For example, war reserve materiel, materiel held for other customers, and materiel stored at the Red River Army Depot were incorrectly included in the BRAC estimation model. However, these items were not actually duplicative and thus could not be eliminated. As a result, the expected savings associated with these items will not occur. In order to offset this loss of savings, DLA recalculated inventory reduction savings to include only items supporting depot maintenance and also expanded the scope of what could be identified as duplicative to include all DLA-owned inventory stored at any of its warehouses in the continental United States, as opposed to the BRAC Commission’s approach of comparing DLA and service-owned inventories stored at co-located depot maintenance sites. In addition, while the BRAC Commission based its savings estimate on the assumption that 100 percent of the duplicative inventory would be reduced over a period of 2 fiscal years, DLA applied a lower inventory reduction factor of 25 percent over the same period.²¹ After these recalculations, DLA projected inventory reduction savings totaling over \$269 million during the 6-year implementation period and \$44 million in annual recurring savings after the implementation period.

¹⁹One-time savings result from procurement avoidance—consolidating service and DLA inventories to create lower overall inventory levels—which allows DLA to sell off inventory without need for replenishment. Recurring savings result from the cost avoidance associated with storing less amounts of inventory.

²⁰[GAO-08-121R](#) and [GAO-08-315](#).

²¹DLA justifies the use of a 25 percent inventory reduction factor based on commercial program assessments as well as the results of a December 2001 study conducted for the Army by Dynamics Research Corporation. The study examined the potential for savings from transferring inventory management of clothing and equipment from the Army to DLA.

Although DLA Projects Savings, Current Estimates Are Unrealistic

Although DLA projects almost \$282 million in savings over the 6-year implementation period and \$52 million in annual recurring savings thereafter resulting from the consolidation actions, our analysis shows that some aspects of these estimates are unrealistic. DOD's Financial Management Regulation instructs the services and defense agencies to update BRAC savings estimates as part of their annual budget process²² based on the best projection of what savings will actually accrue.²³ However, DLA's estimates do not represent the best projections that could be made for a number of reasons.

- First, our analysis shows that DLA's expected net savings of nearly \$82 million during the implementation period could be a net cost of \$22 million because DLA includes about \$104 million in expected savings that we believe should not be counted as BRAC savings. In previous reports, we identified three inventory reduction initiatives that DLA included in its savings estimates which we believed were not the direct result of BRAC actions and therefore should not be counted as BRAC savings.²⁴ The savings from these three initiatives resulted from pre-BRAC actions and initiatives already planned by the services and would have occurred regardless of BRAC. In commenting on our March 2008 report, DOD did not concur, stating that while the potential savings from these initiatives were not directly the result of BRAC actions, they were "enabled" by BRAC actions and therefore should be attributable to the recommendation.²⁵ Since that time, DLA revised its estimate and removed the expected savings from one of those initiatives. However, the two that remain include \$104 million in savings attributed to service initiatives that identify and eliminate dormant or obsolete inventory, even though such actions respond to a supply regulation and are part of DOD's routine materiel management

²²DLA's savings estimates included in DLA's business plans are used for the annual BRAC budget justification process.

²³DOD Financial Management Regulation, 7000.14-R, *Base Realignment and Closure Appropriations*, vol. 2B, ch. 7, para. 070303E (Sept. 2008).

²⁴The three initiatives were provided by the Army, Air Force, and Marine Corps. They were designed to create efficiencies through reducing and phasing out obsolete inventory and improving procurement practices.

²⁵According to DOD, "enabled" savings are those generated from non-BRAC initiatives that were enhanced (e.g., increased in scope, more aggressively pursued, or moved in new directions) in some way by the implementation of the BRAC recommendations.

practices²⁶ and this inventory would have been eliminated regardless of BRAC. We continue to believe that the expected savings resulting from the services' initiatives not connected to BRAC should not be counted as BRAC savings. In fact, BRAC implementation officials from the Army and DLA acknowledged that the projected savings from the services' obsolete and terminal inventory reductions were not related to this BRAC recommendation and would have been eliminated regardless of BRAC. We believe that including savings unrelated to BRAC actions distorts and effectively overstates projected savings from implementing the SS&D recommendation.

- Second, DLA's current savings estimates are based on 4-year-old inventory data that were collected on March 14, 2005. Given the passage of time, it is unlikely that these data represent more recent inventory levels—either higher or lower—from which duplicate items can be identified given the nature of ongoing operations in Iraq and Afghanistan.
- Third, the inventory reduction scenario currently considered in DLA's savings estimates is unlikely to occur as planned. DLA currently projects a 25 percent reduction of duplicative inventory from all the services that will occur over a 2-year period, with the first half achieved in fiscal year 2009 and the second half in fiscal year 2010. However, in our discussions with DLA officials implementing the inventory transfer, we learned that expected savings from inventory reductions are not expected to appear until the beginning of fiscal year 2010 due to delays in integrating DLA's and the services' information technology systems. Our analysis shows that postponing inventory reduction by 1 year eliminates over \$19 million in recurring savings during the implementation period. Moreover, in prior related work we demonstrated that while achieving savings from reducing inventory levels at service maintenance depots may be possible, it is a gradual process that occurs over many years.²⁷ Therefore, we believe that it is unlikely that DLA will achieve its entire inventory reduction within 2 years as projected, which would further postpone the accrual of

²⁶DOD 4140.1-R, *DOD Supply Chain Materiel Management Regulation*, para. C.2.9 (May 23, 2003).

²⁷GAO, *Military Base Closures: Projected Savings from Fleet Readiness Centers Likely Overstated and Actions Needed to Track Actual Savings and Overcome Certain Challenges*, [GAO-07-304](#) (Washington, D.C.: June 29, 2007).

inventory-related recurring savings.²⁸ Also, while DLA includes duplicative inventory from all the services in its current estimates, Army and Marine Corps officials maintain that they do not have any inventory for DLA to consolidate. Our analysis shows that excluding these services' inventories would eliminate an additional \$21 million in expected one-time and recurring savings during the implementation period.

Moreover, in our March 2008 report,²⁹ we recommended that the Secretary of Defense direct the Director of DLA to implement a methodology with clear metrics for measuring the magnitude of actual savings. Although DOD concurred with our recommendation, DLA has yet to implement an approved methodology for estimating inventory savings from the SS&D recommendation. DLA produced a draft version of its savings methodology in September 2008, but could not provide us an estimate of when it might be approved. While the savings methodology is in draft, DLA could not give us an account of how actual savings from inventory reduction will be captured. Until the methodology, data, and assumptions supporting DLA's savings estimates are updated and implemented, the extent of the savings from the implementation of the recommended consolidations remains uncertain, which may deny DOD decision makers and Congress the information needed to assess the overall financial performance of this BRAC effort. Further, without more precise savings estimates, Congress and DOD will lack an important perspective about BRAC results that could inform decisions in any future BRAC round.

Potential for Savings Still Exists Beyond the Implementation Period

While DLA's current savings estimates are not based on the best projections of what savings will actually accrue, the potential still exists beyond the BRAC implementation period for DLA to realize some savings and achieve efficiencies as it assumes control over consolidated supply-related operations. The transfer of SS&D functions and associated inventories is a complex organizational transformation, yet it is possible that over time, DLA could achieve savings through reductions in inventory levels, which provide for both one-time and recurring savings on an annual basis. However, the magnitude of any future savings is unknown at this time. As DLA assumes consolidated management responsibility for supply-

²⁸Because we believe there is uncertainty as to how long it will actually take DLA to reduce the entire duplicative inventory, we did not attempt to quantify the loss during the implementation period from the delay in the accrual of recurring savings.

²⁹[GAO-08-315](#).

related inventories at the depot maintenance level, DLA expects that it will have the ability to take advantage of improved oversight of inventories and the opportunity to further reduce excess inventory through a process of balancing inventory levels against customer supply requirements to save money while also providing quality service to its military service customers.

Conclusions

While DLA's planning process incorporates several key elements that are intended to provide a smooth transition and mitigate the risk of disrupting depot operations, DLA still has a long way to go before it completes the recommended BRAC actions, and some of the most difficult steps are yet to be taken. Therefore, as we have previously reported, continued collaboration between the services and DLA and periodic monitoring by OSD are critical to ensure that implementation actions are on track and that any issues that could adversely affect depot operations are resolved as implementation proceeds. Furthermore, it is important that DLA present the most accurate information on the costs and savings associated with the implementation of this BRAC recommendation in order to provide congressional decision makers with credible information to perform their oversight duties and maintain public trust in the BRAC process—now and in the future.

Recommendations

In order to provide more accurate and up-to-date information to congressional decision makers and to enhance OSD's oversight role, we recommend that the Secretary of Defense instruct the Director of the Defense Logistics Agency to improve the accuracy of its cost and savings estimates associated with the consolidation of the SS&D functions and inventories at the 13 specified depot locations by

- removing savings estimates that are not clearly the direct result of 2005 BRAC actions (including savings sometimes referred to as "BRAC enabled"),
- updating its 4-year-old data to reflect the most recent estimate of inventory levels available for consolidation (especially given the wartime demands currently being placed on maintenance depots),
- applying current information on the timing of inventory consolidations (specifically, when they will begin and how long they will take) and excluding projected savings for consolidating Army and Marine Corps inventories with DLA, and

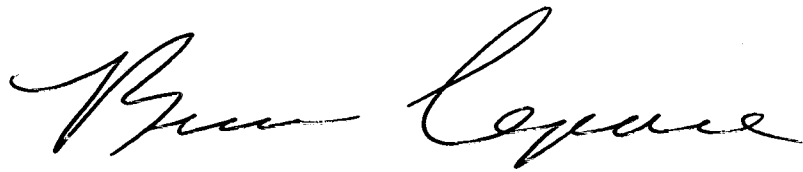
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- revising and finalizing an approved methodology which implements these steps and can be consistently followed by all the services and DLA over time.

Agency Comments

In written comments on a draft of this report, DOD concurred with all four recommendations and described actions it intends to take to implement them. DOD's comments are included in their entirety in appendix III. In response to our first recommendation for DOD to remove savings from its estimates that are not the direct result of the BRAC 2005 actions (sometimes referred to as "BRAC enabled"), DOD concurred, stating that they will be removed from the savings estimates reported in the August 2009 business plan submission. In response to our second recommendation for DOD to update the data used in its savings estimates to more accurately reflect current inventory levels, DOD concurred, stating that it will use the most recent estimate of inventory levels available and update the savings calculations for inventory reductions in its August 2009 business plan. In response to our third recommendation for DOD to improve the accuracy of its savings estimates by applying the most current information on the timing of inventory consolidations and excluding Army and Marine Corps inventories from the projected savings estimates, DOD concurred, stating that savings calculations for projected inventory reductions will reflect the current schedule of consolidating materiel and will be updated in the August 2009 business plan. Moreover, DOD stated that the update will show that no Army or Marine Corps inventory is available for consolidation. Finally, in response to our fourth recommendation for DOD to finalize an approved methodology that implements these steps, DOD concurred, stating that the new calculations will be documented in the August 2009 business plan and updates and revisions will be incorporated and staffed by the end of calendar year 2009. In addition to these written comments, DOD separately provided technical comments that we have incorporated into the report where appropriate.

We are sending copies of this report to other congressional committees and members; the Secretary of Defense; the Director of the Defense Logistics Agency; Secretaries of the Army, Navy, and Air Force; Commandant of the Marine Corps; and the Director, Office of Management and Budget. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-4523 or by e-mail at leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

A handwritten signature in black ink, reading "Brian Lepore". The signature is written in a cursive style with a large, stylized initial "B".

Brian J. Lepore, Director
Defense Capabilities and Management

List of Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Kay Bailey Hutchison
Ranking Member
Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Howard P. "Buck" McKeon
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable John P. Murtha, Jr.
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Chet Edwards
Chairman
The Honorable Zach Wamp
Ranking Member
Subcommittee on Military Construction,
Veterans Affairs and Related Agencies
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

We performed our work at and obtained information from DOD's Basing Directorate under the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics); Defense Logistics Agency (DLA) headquarters, Fort Belvoir, Virginia; DLA's Defense Supply Center, Richmond, Virginia; Warner Robins Air Logistics Center, Warner Robins, Georgia; Ogden Air Logistics Center, Ogden, Utah; and Fleet Readiness Center East, Cherry Point, North Carolina. We relied on our related BRAC work and resulting reports issued in October 2007 and March 2008 on key specific actions associated with the implementation of the recommended supply-related consolidations of the BRAC SS&D recommendation.

To determine the progress made in implementing the depot-level supply-related consolidation actions as recommended by the 2005 Base Closure and Realignment Commission and the challenges DLA faces, we initially reviewed a June 2008 DOD report¹ on implementation matters associated with the recommended actions. This report was submitted to the congressional defense committees in response to direction included in the conference report accompanying the National Defense Authorization Act for Fiscal Year 2008. We further analyzed DLA planning documentation and interviewed officials at various levels within DOD, DLA, selected services' maintenance depots, and military customers aligned with these depots. Our document analyses included DLA business plans and supporting data, integrated process team charters, memoranda of agreement with the services, and action plans which included scheduled implementation milestones and timelines. We discussed the progress of key implementation actions, implementation challenges, and plans to address those challenges with BRAC officials located at DLA headquarters and each of the services. We also visited three of the seven maintenance depot locations where "as-is-where-is" personnel transfers had taken place: Warner Robins Air Logistics Center, Warner Robins, Georgia; Fleet Readiness Center East, Cherry Point, North Carolina; and Ogden Air Logistics Center, Ogden, Utah. In making these site selection visits, we chose one site from each of the services where personnel transfers had occurred (Air Force and Navy) and a second Air Force site to see if "lessons learned" were being applied. At those locations, we met with officials from DLA headquarters as well as with some personnel newly transferred to DLA at each depot maintenance location we visited and

¹Office of the Under Secretary of Defense (Acquisition, Logistics and Technology), *Department of Defense Report to Congress on the Implementation of the Consolidation of Depot Supply, Storage, and Distribution Functions with the DLA as Required by the 2005 BRAC* (June 2008).

their military customers. Although the number of people we spoke with did not represent a statistically projectable sample, we reported concerns that consistently emerged as an issue.

To evaluate the extent to which DLA's cost and savings estimates for transferring the SS&D functions and consolidating the associated inventories varied from those of the BRAC Commission, we reviewed and compared DLA's estimates supporting the approved February 2009 business plan with those of the 2005 BRAC Commission's report to the President. Because the expected cost and savings data presented in DLA's business plan represent estimates for the larger BRAC recommendation, of which the consolidated SS&D actions addressed in this report are a subset, we analyzed relevant supporting documentation to that business plan that contained data specific to the depot-level supply-related consolidation efforts. We discussed the rationale for variances in the estimates with DLA, service, and contractor officials. To better understand the underlying assumptions used to generate estimates of costs and savings, we reviewed pertinent DOD financial management and supply chain management regulations, as well as DOD guidance for reporting data. We interviewed BRAC implementation officials from DLA headquarters and representatives from each of the military services knowledgeable about the data and the assumptions underlying estimated costs and savings. We also compared DLA's savings estimates that were based on the inventory reduction scenario that supports its business plan with those based on DLA's most current timeline for reducing the services' applicable inventories. While we determined that the data presented in DLA's planning documents were sufficiently reliable for the purposes of this report, it should be noted that the business plans are considered "living" documents and the data represent a point in time and are subject to change as implementation proceeds.

We conducted this review from June 2008 through July 2009 in accordance with generally accepted government auditing standards. Those 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Status of Full-time Equivalent Positions (Civilian and Contractor) Expected to Transfer from the Services to DLA

The number of civilian and contractor positions expected to transfer from the services to DLA has changed over time as shown in table 5. The latest plans as of May 2009 call for a transfer of over 2,100 personnel positions from the services to DLA by July 2011. As of May 2009, DLA had actually transferred 1,391 positions at 7 of the 13 affected sites (as shown in table 5) with transfers at the remaining sites to occur later.

Table 5: Number of Full-time Equivalent Positions (Civilian and Contractor) Expected to Transfer from the Services to DLA at the 13 BRAC-Affected Depot Maintenance Locations over Time

Service	Depot Location	June 2005 estimated number of full-time equivalent position transfers ^{b, c}	September 2007 estimated number of full-time equivalent position transfers ^c	May 2009 estimated and actual number of full-time equivalent position transfers ^c
Air Force	Warner Robins Air Logistics Center, Ga.	131	265	267
	Oklahoma City Air Logistics Center, Okla.	393	365	366
	Ogden Air Logistics Center, Utah	140	231	232
Navy	Fleet Readiness Center East Cherry Point, N.C.	114	88	158
	Fleet Readiness Center Southeast Jacksonville, Fla.	129	71	188
	Fleet Readiness Center Southwest San Diego, Calif.	89	85	221
	Norfolk Naval Shipyard, Va.	132	157	223
	Puget Sound Naval Shipyard, Wash. ^a	62	89	154
Marine Corps	Marine Corps Logistics Base, Albany, Ga. ^a	53	59	59
	Marine Corps Logistics Base, Barstow, Calif. ^a	63	64	64
Army	Tobyhanna Army Depot, Pa. ^a	113	68	68
	Corpus Christi Army Depot, Tex. ^a	424	56	56
	Anniston Army Depot, Ala. ^a	521	68	68
Total		2,364	1,665	2,124

Source: DLA's approved February 2009 Business Plan.

Note: The shaded area represents actual position transfers; the totals may not sum due to rounding.

^aNumbers subject to change as implementation continues.

^bNumbers derived from June 22, 2005, Office of the Secretary of Defense memorandum ("Wynne Memo Baseline Numbers").

^cIncludes civilian and contractor employees.

Appendix III: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

June 23, 2009

Mr. Brian Lepore
Director, Defense Capabilities and Management
U.S. Government and Accountability Office
441 G Street N.W.
Washington, DC 20548

Dear Mr. Lepore:

This is the Department of Defense (DOD) response to the GAO draft report, "MILITARY REALIGNMENTS AND CLOSURES: DOD Needs to Update Savings Estimates and Continue to Address Challenges in Consolidating Supply-Related Functions at Depot Maintenance Locations," dated May 21, 2009 (GAO Code 351233/GAO-09-703).

The DoD concurs with the draft report's recommendations. Comments are enclosed.

The Department appreciates the opportunity to comment on the draft report. Technical comments were provided separately.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan F. Estevez".

Alan F. Estevez
Acting

Enclosure:
As stated



GAO DRAFT REPORT – DATED MAY 21, 2009
GAO CODE 351233/GAO-09-703

“MILITARY BASE REALIGNMENTS AND CLOSURES: DoD Needs to
Update Savings Estimates and Continue to Address Challenges in
Consolidating Supply-Related Functions at Depot Maintenance Locations”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense instruct the Director of the Defense Logistics Agency to improve the accuracy of its cost and savings estimates associated with the consolidation of the supply, storage, and distribution functions and inventories at the 13 specified depot locations by removing savings estimates that are not clearly the direct result of 2005 Base Realignment and Closure (BRAC) actions (to include savings sometimes referred to as “BRAC enabled”). (Page 25/GAO Draft Report)

DOD RESPONSE: Concur. While the enabled savings are from initiatives that were enhanced in some way by the BRAC implementation actions (e.g. increased scope, more aggressively pursued or moved in a new direction), they are not directly the result of BRAC actions. The removal of these enabling savings will be reflected in the August 2009 business plan submission.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense instruct the Director of the Defense Logistics Agency to improve the accuracy of its cost and savings estimates associated with the consolidation of the supply, storage, and distribution functions and inventories at the 13 specified depot locations by updating its four-year-old data to reflect the most recent estimate of inventory levels available for consolidations (especially given the wartime demands currently being placed on maintenance depots). (Page 25/GAO Draft Report)

DOD RESPONSE: Concur. In accordance with our established method of operation, we will use the most recent estimate of inventory levels available and update the savings calculations for inventory reductions in the August 2009 business plan submission.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense instruct the Director of the Defense Logistics Agency to improve the accuracy of its cost and savings estimates associated with the consolidation of the supply, storage, and distribution functions and inventories at the 13 specified depot locations by applying current information regarding the timing of inventory consolidations (specifically, when it will begin and how long it will take) and excluding projected savings for the consolidation of Army and Marine Corps inventories with DLA. (Page 25/GAO Draft Report)

DOD RESPONSE: Concur. Savings calculations for projected inventory reductions will be updated in the August 2009 business plan submission to reflect the current schedule for consolidating materiel. The update will show that there is no Marine Corps or Army inventory available for consolidation.

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense instruct the Director of the Defense Logistics Agency to improve the accuracy of its cost and savings estimates associated with the consolidation of the supply, storage, and distribution functions and inventories at the 13 specified depot locations by revising and finalizing an approved methodology which implements these steps and can be consistently followed by all the Services and DLA over time. (Page 25/GAO Draft Report)

DOD RESPONSE: Concur. Updated methodologies for projecting and/or tracking BRAC savings reflected in the business plan will be documented in the Cost and Savings Tracking Plan. Updates/revisions will be incorporated and staffed by the end of calendar year 2009.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Brian J. Lepore (202) 512-4523 or leporeb@gao.gov

Acknowledgments

In addition to the individual named above, James R. Reifsnyder, Assistant Director; Karen L. Kemper, Analyst-in-Charge; Betsey Ward; Robert Heilman; Susan Ditto; Steve Rabinowitz; and Elizabeth Weisman made key contributions to this report.

Related GAO Products

High-Level Leadership Needed to Help Guam Address Challenges Caused by DOD-Related Growth. [GAO-09-500R](#), Washington, D.C.: April 9, 2009.

Military Base Realignment and Closures: DOD Faces Challenges in Implementing Recommendations on Time and Is Not Consistently Updating Savings Estimates. [GAO-09-217](#). Washington, D.C.: Jan. 30, 2009.

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