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SUPPORTING THE WARFIGHTER: ASSESSING THE DEPARTMENT OF DEFENSE SUPPLY CHAIN MANAGEMENT PLAN

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

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CONTENTS

	Page
Opening statements:	
Senator Voinovich	1
Senator Akaka	3

WITNESSES

TUESDAY, JULY 25, 2006

WITNESSES

Alan F. Estevez, Assistant Deputy Under Secretary of Defense, Supply Chain Integration, U.S. Department of Defense	5
William M. Solis, Director, Defense Capabilities Management, U.S. Government Accountability Office	6

ALPHABETICAL LIST OF WITNESSES

Estevez, Alan F.:	
Testimony	5
Prepared statement	23
Solis, William M.:	
Testimony	6
Prepared statement	35

APPENDIX

Questions and responses for the Record from Mr. Estevez	55

SUPPORTING THE WARFIGHTER: ASSESSING THE DEPARTMENT OF DEFENSE SUPPLY CHAIN MANAGEMENT PLAN

TUESDAY, JULY 25, 2006

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA,
OF THE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:05 a.m., in room SD–342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich and Akaka.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The hearing will come to order. Today's hearing entitled "Supporting the Warfighter: Assessing the DOD Supply Chain Management Plan," is the second hearing that Senator Akaka and I have held on the Department of Defense's Supply Chain Management Improvement Plan and the third hearing we have held on DOD business practices.

The hearing will focus on the progress that DOD has made in developing and implementing the Supply Chain Management Improvement Plan since the Subcommittee's last hearing on October 6, 2005. I am interested to learn if DOD has identified and implemented valid performance metrics and data to use in measuring progress over the long term. Finally, the hearing will examine the extent to which the Supply Chain Management Improvement Plan is integrated with other DOD logistic strategies, concepts, and plans.

I would reiterate that our interest in investigating and improving the Department's supply chain management is guided by two principles:

First, with a budget of well over $400 billion and a supply inventory of $77 billion, the Department must be a good steward of the taxpayers' money. I would note that Secretary of Defense Rumsfeld once estimated that the Department wastes 5 percent of its budget, over $20 billion a year at current budget levels, on redundant or outdated business practices.

Second, inefficiant, ineffective, and redundant steps within the supply chain can have a direct and negative impact on our soldiers

on the battlefield. The current system impedes the Department's ability to deliver the right items at the right time to the right place for the warfighter. According to GAO, the demand for certain items in the war reserve exceeded availability during Operation Iraqi Freedom. I know things have improved since then, but as a result of the war reserves, they did not have enough vehicle generators, tracks for tanks, body armor, lithium batteries, ready-to-eat meals, tires, up-armored, high-mobility, multi-purpose wheeled vehicles, and kits to meet the demand in the field. We all are familiar with that. We must do all we can to ensure that the men and women of the armed services have the supplies that they need.

At the first Subcommittee hearing in October 2005, Under Secretary of Defense Ken Krieg provided an overview of the current logistics structure at DOD and summarized the Department's ongoing efforts to improve and enhance the efficiency and accountability of the supply chain. In addition, Secretary Krieg outlined the next steps for the Department, which was to develop metrics and benchmarks to measure DOD's supply chain management progress.

I commend the Department for developing the Supply Chain Management Improvement Plan in an open and collaborative manner with the Office of Budget and Management and the Government Accountability Office. I am pleased that the plan includes baseline data and several metrics that can track short-term progress in the supply chain process. I also appreciate the fact that you have spent time with my staff and Senator Akaka's staff, and I want you to know that they are going to be spending more time with you.

However, it has now been a year since the plan was developed, and these short-term metrics were intended to be phased out and replaced by long-term metrics. Mr. Estevez, I am interested to learn if the Department has begun to implement those long-term metrics to ensure that this plan is driving change in the supply chain.

In addition, there are at least five DOD strategic plans that address logistics and business operations, including Quadrennial Defense Review, the Logistics Transformation Strategy, the Focused Logistics Road Map, and the Enterprise Transition Plan. Some of those plans address supply chain management while others do not. Mr. Solis, I would like to learn from you where the Department has made clear links between these various plans. Without clear links between these plans, DOD runs the risk of duplicative and inefficient operations.

I would like our witnesses to know that we are committed to working with them to ensure that necessary improvements are made in this area. Supply chain management has been on the GAO high-risk list since 1990. Sixteen years is far too long for a process of this magnitude and importance to be mismanaged. With the continued collaboration of GAO, OMB, and DOD, as well as continued congressional oversight, I am confident that supply chain management can be removed from the high-risk list. I am going to bring a bottle of champagne when we announce that.

I would like to thank both of our witnesses for coming today. Alan Estevez is the Assistant Deputy Under Secretary of Defense for Supply Chain Integration. Thank you for coming. Bill Solis is

the Director of Defense Capabilities Management at the Government Accountability Office, Mr. Solis, it is good to see you again.

I would now like to yield to my good friend and colleague, Senator Akaka, for his opening statement. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I join you in welcoming our witnesses, and I want all of you to know that it is a pleasure to work with the Chairman on these and other issues in our Subcommittee. And I am glad to have Mr. Estevez, who leads DOD's Supply Chain Integration Initiative, and, of course, to see Mr. Solis again, who has long guided GAO's oversight of this critical DOD program. And so we have been working together and trying to improve the general government management of our country.

The Chairman and I intend to move DOD's supply chain management off of the GAO high-risk list, as he has mentioned. It has been on there since 1990. Now, we are making solid progress, and I thank our witnesses for the important roles they are playing in this effort.

I am especially pleased that Mr. Estevez is with us today for a couple of reasons. First, as the head of Supply Chain Integration, you are central in identifying the capabilities and gaps in supply chain management, which is so important in trying to improve what we are doing. And, second, I would like to point out that you were last year's recipient of the Service to America Award for National Security. And I tell you that because I was honored to be at the ceremony as the presenter of the 2005 Federal Employee of the Year Award, and I am so happy that there are such awards. Again, congratulations.

Today's discussion will help us better understand where DOD is going on supply chain management. Inefficiencies in DOD business operations impact our men and our women in uniform. I know from reviewing today's written testimony that progress has been made. However, having worked on DOD business modernization as the ranking member of the Armed Services Readiness Subcommittee, I also know the road ahead is rough and that the short-term goal of meeting certain milestones by 2008 may not be achieved.

Supply chain management is not a regional issue. Moving material forward and expediting replacements without building unnecessary stockpiles impacts overseas and domestic operations equally. Until DOD builds on its strengths while addressing deficiencies within logistics system, our Armed Forces are at risk.

DOD logistics programs and operations account for close to one-third of DOD's budget, and the Chairman mentioned $400 billion as the budget. Logistics and supply chain management, which includes the purchase of equipment and spare parts, as well as their maintenance and transport, are part of the Operations and Maintenance account that supports critical portions of DOD's readiness and quality-of-life programs.

O&M funding also covers a wide range of activities, such as depot maintenance, environmental restoration, base operations, and the training of U.S. forces. Therefore, we must ensure that O&M funds are spent wisely or else the ability of our military to

meet present and future challenges will be impaired. And being the Ranking Member on Readiness, I am being very careful about that.

That is why it is so important that we have initiatives with credible and achievable short- and long-term metrics that are linked together. Developing programs, setting objectives, and establishing benchmarks are only part of the solution to improving supply chain management and moving it off the high-risk list.

One new program developed as a result of the Supply Chain Management Improvement Plan is the Joint Regional Inventory Materiel Management Initiative (JRIMM). I am very proud that the U.S. Pacific Command, PACOM, was chosen to lead this new program. So JRIMM, once fully implemented, will provide distribution services to all military commands on Oahu. The principles of JRIMM focus on a single joint logistics system to eliminate duplicative activities and inventory, leverage distribution platforms, and improve shipment loads and routes. And all of these need to be examined.

I support DOD on this effort, and I am confident PACOM's experience will increase requirements forecasting, asset visibility, and material distribution—three key areas of improvement identified by GAO as central to supply chain management processes.

Having spent time with combatant commanders, I know that they will not accept a comprehensive logistics system unless they are confident that the men and women under their commands will have what is needed to carry out their missions. To paraphrase you, Mr. Estevez, without the right equipment in the right place and at the right time, our Armed Services cannot do their jobs. And I thank you for that.

DOD's management and integration challenges demand long-term attention and sustained leadership. One critical benchmark will be how successfully DOD aligns its logistic supply management initiatives to the Department's fiscal year 2008 budget submission. I am sure Clay Johnson at OMB will let us know how DOD is doing in that regard.

So, Mr. Chairman, I want to thank you for holding this hearing. This is really key for our country and government management, and I look forward to working with you and with our witnesses on this continued partnership.

Thank you very much, Mr. Chairman.

Senator VOINOVICH. Thank you, Senator Akaka. I think we are very fortunate to not only have you as the Ranking Member of the Subcommittee, but your extensive background on the Armed Services Committee gives you an even broader perspective on what we are dealing with today. I suspect, that you have been dealing with this a lot longer than I have.

I would like the witnesses to limit their statements to 5 minutes or less. You all know that your statements will be included in the record.

It is the custom of our Subcommittee to swear in our witnesses. If you will please stand, I will swear you in. Do you swear that the testimony you are about to give this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. ESTEVEZ. I do.

Mr. SOLIS. I do.

Senator VOINOVICH. Thank you.

Mr. Estevez, thank you again for being here today, and we look forward to your testimony.

TESTIMONY OF ALAN F. ESTEVEZ,[1] ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE, SUPPLY CHAIN INTEGRATION, U.S. DEPARTMENT OF DEFENSE

Mr. ESTEVEZ. Thank you, sir. Chairman Voinovich, Senator Akaka, thank you for the opportunity to appear before you and discuss the current status of the Department of Defense's efforts to address areas of risk in the Department's supply chain processes. I welcome the opportunity to do so as we are implementing a comprehensive Supply Chain Management High-Risk Improvement Plan to improve the level of logistics support we are providing to our warfighters and to increase the return on investment for that support to the American taxpayer.

Today, I will highlight recent actions the Department has undertaken to improve our supply chain management. Before I do that, first I would like to thank Senator Akaka for the compliment, and also you, Senator Voinovich, I know also a compliment to be in the hearing with Mr. Krieg last October for winning that award, which, as I said, when I received that award, really belongs to the men and women of our services that are actually implementing and driving those programs.

I would like to compliment the respective staffs and the staffs of the Government Accountability Office and Office of Management and Budget who have worked with the Department in addressing the supply chain management high-risk area.

DOD logistics is a $151 billion a year operation supporting our forces around the world, keeping 15,000 aircraft, 300 ships, 30,000 combat vehicles, fulfilling their mission. Unlike our commercial counterparts, DOD logisticians are called upon to support operations on short notice, for an indefinite period, in parts of the world such as the mountains of Afghanistan or the desert of Al Ambar Province, in which we have little or no existing presence or capabilities. We have also supported unplanned disaster relief efforts, including along our own Gulf Coast. Under such circumstances, there will always be areas of risk.

Even as we continue to support multiple operations around the world, we have made tremendous progress in transforming DOD logistics. I will provide an update on our accomplishments.

A primary measure of performance of a logistics system is customer wait time, that is, how long it takes from the time a warfighter orders an item until they receive that item. I am pleased to report that we have seen a 33-percent decrease in customer wait time from fiscal year 2004 through April 2006, from an average of 24 days to 16 days.

The designation of the U.S. Transportation Command as the distribution process owner has already led to significant benefits in aligning the Department's distribution process. For example, average customer wait time to Iraq and Kuwait has decreased from 22 days in March 2005 to 12½ days in June 2006.

[1] The prepared statement of Mr. Estevez appears in the Appendix on page 23.

DOD is a leader in the implementation of radiofrequency identification technology, and the DOD Radio Frequency Identification (RFID) network is providing the warfighter with unprecedented visibility of incoming shipments. We continue to drive our implementation of this leading-edge technology.

We have seen excellent results in applying continuous process improvement to our maintenance depots, and lean techniques used in our distribution depots have improved processing times for air pallet builds from over 85 hours to an average of 35 hours.

The recommendations of the Base Realignment and Closure Commission reinforced the key programs highlight in our High-Risk Improvement Plan. Initiatives such as our Joint Regional Inventory Materiel Management program and our Strategic Commodity program will help us to achieve real benefits under our BRAC transformation.

We continue to develop an overarching logistics strategy. To that end, we are conducting a job logistics capabilities portfolio test to better integrate the warfighter's requirements and refine the focus of our logistics strategy. The results of that test, along with the operational support lessons learned and initiatives contained in our high-risk improvement plan, will be incorporated into the comprehensive logistics strategic plan.

Change management begins at the top, and our senior leaders are deeply involved. As you know, Ken Krieg, the Under Secretary of Defense Acquisition, Technology, and Logistics, and Jack Bell, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness, receive regular updates on our progress.

Ultimately, the proof of this process will be in the translation of these initiatives into improved performance and better risk management. We are committed to measurably improving logistics support to our military forces.

Thank you, and I would be happy to answer any questions you may have.

Senator VOINOVICH. Thank you, Mr. Estevez. Mr. Solis.

TESTIMONY OF WILLIAM M. SOLIS,[1] DIRECTOR, DEFENSE CAPABILITIES MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SOLIS. Chairman Voinovich, Ranking Member Akaka, thank you for the opportunity to discuss our views on DOD's progress in addressing issues related to improvement in supply chain management. At the onset, I would again like to thank the Subcommittee for its oversight of this important issue, which, as the Chairman mentioned, affects military readiness, the safety and well-being of our military members, and the investment of billions of dollars. The active involvement of this Subcommittee is essential to ultimately ensuring DOD's progress in addressing and resolving its high-risk areas, while enhancing public confidence in DOD's stewardship of hundreds of billions of dollars of taxpayer funds it receives each year. I would also like to mention that OMB's and DOD's continued commitment and involvement remain essential in resolving the DOD supply chain issues we will discuss today.

[1] The prepared statement of Mr. Solis appears in the Appendix on page 35.

As requested, my comments will focus on three issues: First, DOD's progress in implementing the Supply Chain Management Improvement Plan; second, its progress in incorporating performance measures for tracking and demonstrating improvement; and, third, the extent to which the DOD Supply Chain Management Improvement Plan is aligned with other logistics plans across the Department that address aspects of the supply chain.

Regarding progress and its Supply Chain High-Risk Plan, since October 2005, DOD has continued to make progress implementing the 10 initiatives in its Supply Chain Management Improvement Plan, but it will take several years to fully implement all of these initiatives. DOD's stated goal for implementing this plan is to demonstrate significant improvement in supply chain management within 2 years of the plan's inception in 2005, but the time frames for substantially implementing some of the initiatives are currently 2008 or later.

While DOD has generally stayed on track, it has reported some slippage in the implementation of certain initiatives. Factors such as the long-standing nature of the problems, the complexities of the initiatives, and the involvement of multiple organizations within DOD could cause the implementation dates of some initiatives to slip further.

Regarding progress on supply chain metrics, DOD has incorporated several broad performance measures in its Supply Chain Management Improvement Plan, but it continues to lack outcome-focused performance measures for many of the initiatives. Therefore, it is difficult to track and demonstrate progress toward improving the three focus areas of requirements forecasting, asset visibility, and materiel distribution. Although DOD's plan includes four high-level performance measures that are being tracked across the Department, these measures do not necessarily reflect the performance of the initiatives and do not relate explicitly to the three focus areas. Further, DOD's plan does not include cost metrics that might show efficiencies gained through supply chain management improvement efforts.

In their effort to develop performance measures for use across the Department, DOD officials have encountered challenges such as a lack of standardized, reliable data. Nevertheless, DOD could show near-term progress by adding what we call intermediate measures. These measures could include outcome-focused measures for each of the initiatives or for the three focus areas.

Last, regarding the alignment of the DOD high-risk plan with other logistics plans, DOD has multiple plans aimed at improving aspects of logistics, including supply chain management, but it is unclear how these plans are aligned with one another. The plans were developed at different points in time for different purposes, and in different formats, so it is difficult to determine how all the ongoing efforts link together to sufficiently cover requirements forecasting, asset visibility, and materiel distribution, and whether they will result in significant progress towards resolving this high-risk area.

Also, DOD's Supply Chain Management Improvement Plan by design does not account for initiatives outside of the direct oversight of the Office of the Secretary of Defense, and DOD lacks a

comprehensive strategy to guide logistics programs and initiatives. DOD is in the process of developing a new plan, referred to as a "To Be" roadmap, for future logistics programs and initiatives. This roadmap is intended to portray where the Department is headed in the logistics area, how it will get there, and what progress is being made toward achieving its objectives, as well as to link ongoing capability development, program reviews, and budgeting. However, until the roadmap is completed, GAO will not be able to assess how it addresses the challenges and risks DOD faces in its supply chain improvement efforts.

In closing, the plan alone will not resolve the problems we identified in the DOD supply chain. While we recognize the difficulties and long-term nature of dealing with this issue, measurable and sustained progress will be needed not only to remove the high-risk designation, but provide Congress and DOD stakeholders at all levels with the confidence in DOD's supply chain.

Mr. Chairman, Senator Akaka, that concludes my statement. I will be happy to answer any questions.

Senator VOINOVICH. Thank you very much.

Mr. Estevez, I understand that you created a Supply Chain Logistics Working Group to assess the cost and performance outcomes of DOD logistics. This group has developed short-term metrics as well as long-term benchmarks and metrics based on industry standards that will allow you to measure your effectiveness.

Has the Department been able to measure success based on those short-term metrics? And has the Department begun to implement the long-term metrics?

Mr. ESTEVEZ. Senator, let me address that in two ways.

We have obviously shown some results, customer wait time being a primary metric of the logistics system. It is analogous to a commercial metric called order fulfillment lead time, which a commercial company would use to measure whether you are delivering the material they need in an industrial capability or you are delivering the material you need to sell in the case of a Wal-Mart. We are showing measurable improvement in that.

Now, the initiatives that we are implementing are still in microcosm. They are still too small to have direct effect. But things that TRANSCOM is doing as the distribution process owner, things that our depots are doing are helping to drive that wait time down, plus the fact that we have a more robust capability of delivering material to places like Iraq and Afghanistan as the capacity of the network has increased.

That metric is going to be both a short-term and a long-term metric. That is probably the key metric of how the logistics system performs. The ultimate outcome of that is operational availability. In other words, are the platforms, the weapons systems that you are giving us the dollars to buy and sustain up to the operational capacity so they can perform their mission?

There are lots of other facets that feed into operational availability, whether I have a trained mechanic to fix that platform, as well as the logistics system that is feeding the parts into that. So that is where we get into an issue of whether you can track an initiative right back to that operational availability or which of these

initiatives are affecting the driving down of that customer wait time.

I think that is our real challenge versus do we have the right metrics. I would argue that we have, in fact, identified the right metrics to measure the logistics performance.

Senator VOINOVICH. The challenge that the Department has is it has to distribute supplies all over the world.

Mr. ESTEVEZ. That is correct, sir.

Senator VOINOVICH. I would suspect that this exacerbates the problem of trying to develop an efficient supply chain process. You are so busy just getting the stuff out there that you do not have the chance to sit back and look at the process.

On the other hand, because it is happening every day, you really get a chance to see whether or not something is being accomplished.

The question I have is this, and I asked this of Mr. Krieg. Do you have the people you need to improve the supply chain process? Have you brought on new people to do this? Or have you pulled people away from other things that they were doing in order to work with you? Could you identify for me the management team that you have in place to get the job done?

Mr. ESTEVEZ. I personally have a staff member dedicated to focusing on this effort. She is also working some other issues as well that feed into this effort, some of the initiatives that are embedded in this. Likewise across the military services, we are working with the people who are actually implementing these programs and also managing the logistics processes across the military services.

So, my counterparts across the military services, the one- and two-star generals or SES members that oversee the supply management portions of their service, are focused on directing these efforts. They recognize the value from driving this change, but simultaneously, as you just mentioned, they are managing the ongoing support. So we are doing this change while we are sustaining our current efforts.

Senator VOINOVICH. Do you think that is adequate to get the job done? I am interested in Mr. Solis' observation. Mr. Solis.

Mr. SOLIS. I know there are other folks in the Department that are also working on this. We have not really looked in terms of the capacity for the Department to do this. We have looked at what they have provided us, but we have not looked at the capacity behind it to do the plans that they have put out.

Senator VOINOVICH. I want to make sure that you have people dedicated to this. Who are staying on top of this issue.

What is your reaction to that?

Mr. ESTEVEZ. Senator, each of these initiatives is a major program in and of itself, with folks dedicated across my staff and the military service staffs that are focused on implementing these initiatives. The fact that those are knowledgeable people that are executing responsibilities across the supply chain, I frankly think, is beneficial to our ability to drive these initiatives because they understand both the flaws in our process and what needs to be done to fix that process.

So they are dedicated and focused on driving these implementations because they understand truly the benefits that they will derive from an end goal implementation.

Senator VOINOVICH. I would like to have a list of who is working on it, what their capacity is, and I would also like to know particularly if they are political appointees or whether they are civil service individuals.

Mr. ESTEVEZ. I would be happy to do that, obviously for the record, sir, to give you a definitive list.

Senator VOINOVICH. Mr. Estevez, I am very concerned about the whole issue of moving forward with change and the time it is going to take to get some of these things done. What concerns me a great deal is that I know that transformational change is not going to get done in 2 years. I am worried that after this Administration is gone, how are we going to continue to make sure that this gets done? If this has been on the GAO high-risk list for 16 years, there has to be some reason why it has not been done. I would be interested to know how often the Department has taken on improving the supply chain management over the last 16 years.

Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman, Mr. Estevez, and Mr. Solis. I want to thank our witnesses again for working with us on moving supply chain management off the high-risk list, and this is what we are trying to do here. This is not an easy undertaking, no question about that, and it will not happen overnight.

I also know it is hard for the public to appreciate fully how efficiencies in DOD's supply chain could impact them in the future. For example, Mr. Estevez, you explained that, in addition to supporting the armed services at home and abroad, the Department is engaged in disaster relief efforts throughout the world. Mr. Estevez, while I know DOD is unable to determine in advance the location or the type of disaster relief that may be needed, can you explain how DOD addresses the challenging and complexities of balancing logistical support to the troops on the one hand and on the other hand while being on call for disasters?

Mr. ESTEVEZ. A couple of facets to that. Obviously, in disaster, one of the things that we tap to provide support is our lift capability, C–17s, C–5s, our military lift capability. They are obviously being used to support our forces. We are able to swing our airplanes around to support disaster relief, plus to charter commercial aircraft on a reimbursable basis to provide that.

Much of the supply that is used for disaster relief is either commercial supply, for instance, medical equipment that we buy under contracts, that we buy direct from vendors, we do not stock that in the warehouse, so there are surge clauses in those contracts, and we are able to draw on that capability. MREs, we stock meals-ready-to-eat, we stock a certain amount of those. We are able to draw those down while replenishing those, making sure we do not hit a bottom point where we feel like we are putting our own forces in danger. Other types of meals, we are able, again, to buy off the commercial market under existing contracts and just surge those capabilities.

In point of fact, for this hurricane season we are actually engaged with the Federal Emergency Management Agency (FEMA) to provide that kind of support to them on an as-needed basis. But we do have the capacity to do that kind of dual operation.

Senator AKAKA. Mr. Estevez, would you provide us with a more complete description of what the joint logistics capabilities portfolio test entails, as well as its time for completion? And would you also explain how it will affect the supply chain plan and what we call the "To Be" roadmap?

Mr. ESTEVEZ. The joint capabilities portfolio test is top-down-driven, driven by Secretary England through Mr. Krieg. We are doing tests, similar tests, in a number of other areas aside from logistics. It is an outgrowth of the Quadrennial Review, and really the intent is to get a better management assessment structure so that we can determine what programs to focus on in the joint environment. As you know, the military services support programs that support their particular service, but when you come to the trade-off in resources to implement joint programs, those decisions in the current environment tend to peak at the top.

So this is to put that governance structure in place, trade off the capabilities for the combatant commanders, feed in the different initiatives that we are doing, the initiatives that are under the Supply Chain Management Plan, the initiatives that TRANSCOM may be implementing under their distribution process owner capability, distribution process ownership, look to determine whether we need other process owners in additional logistics areas to drive that kind of focus that we are getting out of TRANSCOM today, and really, as you assess that whole governance process, determine the trade-offs, put a structure in place to weigh capabilities against each other. The outcome of that will be the strategic plan with the initiatives in the high-risk plan as a component of that overarching strategic plan.

Hopefully I have answered your question.

Senator AKAKA. Yes. Mr. Estevez, regarding the "To Be" roadmap, when will it be completed? And do you foresee any significant delays?

Mr. ESTEVEZ. We expect to be getting initial results of the joint capabilities test in late winter or early spring next year, the February time frame. And at that point we will be able to start congealing the roadmap by—I hesitate to give you an end date for completing that. I would expect sometime next year.

Senator AKAKA. OK. Thank you.

Mr. SOLIS. If I could add, I think originally, the "To Be" roadmap was originally supposed to coincide with the President's 2008 budget submission, and I think that was going to be very helpful in terms of tying programs to resources. And if it is going to be delayed beyond that, I think that becomes somewhat problematic because then you get beyond the budget submission period, and then you have to wait maybe another year to see whether these programs can really be funded and how are they going to be funded, because I think that is really key. But I think that any delay beyond the budget year or the budget submission period, you probably would then have to wait another year to really see if DOD could execute some of these programs.

Senator AKAKA. Thank you for that explanation.

Thank you, Mr. Chairman. My time has expired.

Senator VOINOVICH. To follow up on this discussion. I am sure the Administration is already working on the 2008 budget.

Mr. Estevez, are the initiatives you are implementing in the 2007 budget?

Mr. ESTEVEZ. Some of the initiatives are covered in the 2007 budget. Some of them are not. It depends on the start date.

Senator VOINOVICH. Can you let me know which intiatives are covered and which are not?

Mr. ESTEVEZ. Absolutely. Again, if I could take that for the record and give you the detail of that.

Senator VOINOVICH. Yes.

Mr. ESTEVEZ. Some of them, Senator, if I might add, are not really resource-intensive type programs. They are basic blocking, tackling, process-focused programs.

Commodity management or JRIMM, for example, are changing the process that don't entail putting dollars in the budget. In point of fact, they should relieve focus from the budget.

Senator VOINOVICH. As I mentioned earlier, I am concerned that the people involved are so busy making sure that the process is supplying the warfigher that they do not have time to effectively manage the process.

Do you understand what I am saying? You have people that are helping you, and it is good that they have the experience and they understand what the motivation is. But I want to know how many of them have been around a while. I will never forget, I had a chief of staff when I became governor. I recognized right away that he was so busy putting out fires that we needed to move him out of the management of the operation. We put together cabinet clusters, and then I had individuals that I put in charge of those cabinet clusters. So every day I knew that somebody got up early in the morning and stayed late at night to make sure that the management changes and the transformation were accomplished.

I find it hard to believe that you are going to be able to get this done and have these people doing both jobs.

Mr. ESTEVEZ. Well, again, there is a mix. Let me use the example of radiofrequency identification. Each of the services has folks that are dedicated—I am trying to figure out how to roll that out and implement that across their departments. DLA has a program manager through headquarters, program managers at their distribution depots that are going around figuring where to put readers and how best to change the business process to take advantage of this technology that is going to help us downstream.

Now, some of those people are also involved in operating the depot because they are the people who would know how to fix that business process.

Senator VOINOVICH. This is an automated inventory system so you know that you are not selling stuff that you are buying. Right?

Mr. ESTEVEZ. That is correct, sir.

Senator VOINOVICH. So everybody agrees that this is the best technology? Where did you get that technology?

Mr. ESTEVEZ. That technology is a standard enterprise resource planning tool that most commercial companies have already——

Senator VOINOVICH. So a Wal-Mart would have a similar system?

Mr. ESTEVEZ. Yes, actually, Wal-Mart built their own, but a good segment of the top 50 Fortune companies would be using that kind of software.

Senator VOINOVICH. The software has already been tested?

Mr. ESTEVEZ. Absolutely, sir. Same with our RFID implementation. We are using the same technology that Wal-Mart is implementing today.

Senator VOINOVICH. Are you getting any help from the private sector? Do you have a private sector task force that you bounce ideas off of and that can give you some insight into things?

Mr. ESTEVEZ. Again, it varies by program. RFID, I am working very closely with the Procter & Gambles, Gillettes, Wal-Marts of the world who are implementing these programs. Many of them are in your State, as a matter of fact, of the leading-edge companies. And some of that has paid off in that——

Senator VOINOVICH. Are they doing this for pay or are they doing this pro bono?

Mr. ESTEVEZ. They are doing it pro bono.

Senator VOINOVICH. Great. I would suggest that the Department continue to use these outside exports, as well as people within the Department who are knowledgable about the supply chain process to bounce ideas off of. I think that this would help to DOD implement the plan faster.

Mr. ESTEVEZ. I could not agree more, and we are going out and benchmarking amongst leaders in supply chain management in the commercial sector and have great relationships out there to draw on.

Senator VOINOVICH. Mr. Solis, have you had a chance to observe what they are doing in this area? You mentioned you were not familiar with the personnel issues.

Mr. SOLIS. Right.

Senator VOINOVICH. You have just been looking at whether or not the short-term metrics have been achieved.

Mr. SOLIS. Right. I guess another perspective that I would offer related to that, as we mentioned, there are a lot of different plans that are out there, and from what we see, there is not a clear linkage of how all those plans interrelate, particularly with the supply chain plan. And I would only offer that until you get some overarching plan that says this is the direction we are going to go, which may be the "To Be" roadmap you are going to have a lot of folks that may or may not be working toward a common direction. It is not clear in terms of how all these plans link together.

So the question comes up: How do you better utilize all these resources that may be working on all these other different plans that are out there? And maybe there is a better way to do that once you have your "To Be" roadmap or your joint portfolio test completed.

Senator VOINOVICH. I would like to followup on what you are saying. You mentioned these various plans that the Department has. Has anybody really sat down and dissected those plans to see just how they all interrelate with each other and that there is not duplication?

Mr. ESTEVEZ. In point of fact, there is some overlap between differing plans. Let me give you an example: the Enterprise Transition Plan, which is broader than the logistics area.

For the logistics area, it overlaps with some of the initiatives that are in the High-Risk Management Plan, but the milestones that are in there are, in fact, the milestones that we have given them because visibility is a key component of the Enterprise Transition Plan——

We work closely together in the coordination of the area of logistics, not just me but the other SESes that are my counterparts in logistics. So the items that are related to supply chain that are in the Enterprise Transition Plan are, in fact, programs that we are driving——

Senator VOINOVICH. So the enterprise transition group is looking at the overall transformation of the Department. You are a piece of that?

Mr. ESTEVEZ. That is correct, sir.

Senator VOINOVICH. OK. Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman.

Mr. Estevez, the initiatives in the Supply Chain Management Improvement Plan require buy-in from the services and investment of funding resources. In some cases, this will require investments of both procurement and O&M funds from the services.

How do you plan to obtain the necessary funding commitments needed from the services?

Mr. ESTEVEZ. For those programs that require funding—and, again, not everything requires resources—I am working with the services, my counterparts in the services, to ensure that they are putting in sufficient funds to move those programs along. I am also working with the Comptroller and PA&E to ensure that there is sufficient funds should the services have issues as they move through their own funding process.

Senator AKAKA. I am asking this because I know the services care about their own funding, and I was interested in how you plan to work that out.

Mr. Estevez, I understand that the U.S. Transportation Command is completing a contract that it will use private logistic providers for both internal U.S. as well as overseas supply shipments. Do you know if other commands are taking this particular approach?

Mr. ESTEVEZ. The contract that I believe you are talking about is called the Defense Transportation Coordinators Initiative, and it is not moving overseas at this point It is just for domestic shipments. TRANSCOM is the coordinator of transportation for the Department, so this would be a first step. Other combatant commands control the transportation within their regions, if it is not coming from the United States and managed by TRANSCOM.

Now, after we do this initiative in the United States, there are opportunities overseas. TRANSCOM will certainly work with the other commands.

Now, in the case of Oahu, under the JRIMM initiative, we are looking at how to synchronize the capability of transportation on the island in support of the forces that we have out there as part of the JRIMM.

Senator AKAKA. Now that you mention that, Mr. Estevez, I am delighted that PACOM was chosen to take the lead by having the first JRIMM program. Our staff had an opportunity to meet with Navy Commander Bob Boudreau of PACOM and Deputy Commander Mike O'Brien at the Defense Distribution Center at Pearl Harbor, when Senator Voinovich and I held our NSPS field hearings at Fort DeRussy in April of this year. Their briefing and tour provided firsthand knowledge of how JRIMM is providing physical distribution services for all the combatant commanders on the island of Oahu.

You mentioned that the pilot program of the Navy in San Diego yielded a 40 percent reduction in what you termed "touches." What are your expectations and projections for JRIMM over the next 2 years?

Mr. ESTEVEZ. I think we will have at least the same results that we had in San Diego. In fact, going back to Senator Voinovich's earlier question, we had a commercial group vet what we were doing in that to give us advice that, yes, this is standard commercial practice, this is the way you should go about it, you are doing the right things.

So we should continue, just as we did in San Diego, to see a decrease in what we call customer wait time, the time it takes to provide an ordered piece of equipment to the user of that equipment. With the decrease in the amount of inventory that you need to carry because you are carrying buffer today, just because the customer wait time is not assured, and that is exactly what JRIMM will provide. So we expect to achieve at least the same results that we are achieving in San Diego.

Mr. SOLIS. Senator, if I could add?

Senator AKAKA. Mr. Solis.

Mr. SOLIS. I think those are things that we would like to see, and we would like to actually see those defined a little bit better in the actual initiative itself in terms of specifics. I think those are all things that, again, when we talk about measurable pieces, recognizing the challenge of trying to put that together, Mr. Estevez or the Department could come back and say here are things that we have actually done in terms of reducing cost or inventory, or whatever the case may be. I think that would be helpful.

Senator AKAKA. In particular, Mr. Solis, what are your expectations on JRIMM, and do you believe that significant gains in better logistic response times and reduced inventory can be achieved through this initiative?

Mr. SOLIS. Conceptually, from what I have seen and what I have heard, intuitively, it tells me it is something that is good. But, again, what I would ask is that at some point in time, we be able to see the metrics or the measures by which we can look at and say that there is actual progress being made.

Again, intuitively, conceptually, and some of the things that we have seen and heard, yes, it would lend me to believe that it is a good initiative. But I think the proof in the pudding would be that you would want to see some specific measures that go behind those things.

Senator AKAKA. Thank you, Mr. Chairman.

Senator VOINOVICH. Getting back to the issue of calculating cost savings, what is your capability?

Mr. ESTEVEZ. We are, by initiative, capable of doing that over time. Some of them we have a more robust ability to make that projection than in others. And, of course, not every one of those initiatives is geared at cost savings. Some of those are geared at better operational capability for the force, which is, of course, our main goal.

Again, RFID—since I happen to have my fingers on that one pretty closely. I think we are preliminary to be able to do a projection. We did, in fact, do a business case analysis on RFID that projected a cost savings across the Department of best case $1.7 billion, worst case $70 million, depending on how it is achieved. I do not want to call it an "academic exercise," but it was based on projections.

Now that we are implementing and we are gathering metrics as we are implementing, as we are able to do that, we will be able to get a better cost savings assessment. The same thing with something like JRIMM. As we can identify what inventory we can push back to the national level, how we can flow that inventory, we will better be able to make those cost trade-offs in identifying the cost savings.

Senator VOINOVICH. I suspect that your private sector people have been able to calculate savings that they have made as a result of the work that they have done.

Mr. ESTEVEZ. Some yes and some no, Senator, amazingly enough. Now, their businesses are slightly different than ours. In the case of a Wal-Mart, they are interested in item on shelf to sell to a consumer. I am interested in that as well, but I am more interested in making sure the platform flies at the end of the day, so I may carry slightly more inventory than they would carry. And the cost of stock-out is just greater for us than it would be for them.

Senator VOINOVICH. What have you done in the area of forecasting?

Mr. ESTEVEZ. We have a great program called readiness-based sparing, and what readiness-based sparing does, again, it uses those commercial software tools that we were talking about earlier with some additional tools that some of the venture capital folks have developed that are more robust. We need the data from an SAP type, an ERP tool that we are using. But what that does is it can take—should we be carrying the engine as a spare or should we be carrying the part of the engine as a spare? And should we be carrying that at the tactical level or should we be holding that at the national level? It helps balance that forecastability.

Navy is moving out very strongly in that, but each of the services has a pilot program to implement that because, again, they see the benefit to themselves of that operational availability at the end of the day.

Senator VOINOVICH. During my time in Congress, I have seen so often that we override the Department in regards to decision-making. So often money and importance of a job is judged by the jobs that are being generated in our respective States. You get this tremendous pressure to continue to do things that may not be the best thing for the Department in terms of money. I have an up-

armor operation in Ohio. Information has come back about these Humvees are a little dangerous, that they roll.

Are you able to analyze the initiatives and make adjustments if necessary?

Mr. ESTEVEZ. Let me address that from a logistics perspective. The logistics system receives information on demand as it is occurring. Our ability to analyze all that demand varies. So, an army item manager looking at requirements for up-armor would see the requirement for that. Then it is a matter of turning—so that is almost immediate. And that is a matter of what is the surge capability of the industry in order to support that.

If it is a particular part that starts breaking, you might not identify that component needs to be made more reliable because you are replacing that constantly, longer than you would like. But, again, it depends on the component and the system. An aircraft component, the folks that manage those parts at Wright-Patt, or in Philadelphia for the Navy, are pretty good at identifying when they are hitting demand outside the bounds.

The other thing we are doing in that regard is, of course, we are going to something called performance-based logistics programs where the manufacturer is required to sustain those platforms, so it behooves them because the cost burden now goes to them to replace parts that they did not expect to replace to increase the reliability of those components. And we have been very successful in doing that.

Senator VOINOVICH. I remember one instance a couple of years ago in one of our closed sessions, I asked Secretary Rumsfeld a question regarding the demand for up-armored Humvees. He said it was X, and I said: That is not true, it is Y. I just wondered if somebody had better information that we could have known what the capacity really was at the time.

Mr. ESTEVEZ. In the case of an up-armor, the folks at Tank Automotive Command, a subcomponent of Army Materiel Command up in Detroit, follow that pretty closely. So they should have been able to answer that question. Those are their contracts.

Senator VOINOVICH. So do you think the problem in this particular case was that he just did not have the information but somebody did?

Mr. ESTEVEZ. I really do not want to answer that, sir.

Mr. SOLIS. Senator, if I could offer some perspective also on this, we did some work, actually visited the facility that you are talking about, which I believe is in Fairfield, Ohio.

Senator VOINOVICH. Right.

Mr. SOLIS. We talked to the folks there, and part of it, the requirements are coming out of theater, and some of these are what are called "urgent requirements" that come out of theater, and then it goes to the Department. And then once the requirement is validated, then the funding has to be provided everything else has to be set aside.

I think in the case of the facility up there, I think part of the issue was what was your current capacity, as opposed to what is your max capacity. I think there was some of that that was going back and forth, and I think that is part of the problem the industrial base faces, is trying to understand what the requirements that

are coming down are. And I think TACOM was trying to work with them, but I think, again, the funding and everything else that needs to come with that was not always there.

Senator VOINOVICH. I think the Department needs to do a better job at forecasting and understanding demand.

It seems to me that the Department should be able to provide Congress with information on exactly what they need to purchase. This would make it harder for Congress to spend on items not needed.

The other question I have is regarding the war on terrorism. How have we changed the way we allocate our resources to better protect the U.S. and the world from terrorism. For example, is more money going to public diplomacy?

Mr. ESTEVEZ. Sir, I can really only answer——

Senator VOINOVICH. Or is that above your pay grade? [Laughter.]

Mr. ESTEVEZ. Again, I can only answer that from a logistics perspective because it is above my pay grade. Of course, we are looking at what our needs are and trying to plan out our needs accordingly. I will say the Department only wants to buy what we believe we need.

Senator VOINOVICH. Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman. And in a sense, following up on this line, and also in the private sector, Mr. Estevez, both you and Mr. Solis discussed the need to incorporate best practices from the private sector. I know from my experiences as Chairman of the Postal Service Subcommittee that the U.S. Postal Service and the United Parcel Service, for example, are leaders in logistics.

What is the status of DOD's efforts to incorporate commercial benchmarks for supply chain performance? And how is DOD working with the private sector on that?

Mr. ESTEVEZ. We are letting a contract to go out and do some benchmarks against the commercial sector based on our benchmarks against our metrics. Again, going back to my earlier statement, you really cannot benchmark against Wal-Mart because they are in a different business line. That is not to say we cannot learn lessons from some of the good things that Wal-Mart does, but when it comes to the benchmarking, it really comes down to what is an industrial activity doing, and there is really no one to benchmark against when it comes to deploying and sustaining a force in the field. So it is how do you segment those benchmarks. But we are letting a contract to do that.

Concurrently, as I said, I certainly am working closely with the commercial sector, including folks like United Parcel Service, on how they do their business, and they are more than willing to open up and show us things that we can learn and have, in fact, implemented in the past and will continue to do so.

Senator AKAKA. Mr. Solis, do you believe that DOD is on the right track in this regard? And what more could be done to further the incorporation of the private sector best practices into the supply chain management process?

Mr. SOLIS. Well, again, I think in terms of adopting or trying to look at commercial benchmarks, I think that is a worthwhile endeavor to do. We talked about this the last time we were here in

testimony, and there was some thought that maybe we would be further along. And I think that is part of the issue that I keep coming back to, is that where we stand today versus where we were a few months ago or last year or where we hope to be in the future. And I think that is where, again, with regard to any of the metrics, whether it is for the initiatives or commercial benchmarks, I think we would like to see progress so that we can measure where they are in relation to the high-risk issues that we are talking about.

Senator AKAKA. Mr. Estevez, large retailers have significantly reduced inventory because of gains in inventory management. One step in this process is to require suppliers to provide advanced shipping notifications with strict delivery times. To facilitate this time-sensitive coordination, there has been an increase in businesses specializing in promoting efficiencies between suppliers and their customers.

I would add that this is being done in Hawaii by the Matson Lines, for example. Warehouse space has been reduced significantly because the timing is so good. Matson comes in with containers, and by 7:30 in the morning merchandise is delivered to the stores. They do not need the warehouse space; they put it right on the shelves.

Mr. Estevez, I know that JRIMM is intended to inject efficiencies into the supply chain process, but what other steps is DOD taking to manage its huge inventory of items?

Mr. ESTEVEZ. We have a number of programs, Prime Vendor being the one that jumps out at me, that essentially is delivery from the commercial sector direct to the user at DOD, without storing that material. It has to be commercially available material, and we tend to use the same networks that the private sector company would use to distribute to a Wal-Mart or a Target or a CVS. So those are excellent programs for us.

Let me recognize retailers have more regular demand on items than the Department may have. You have to look at industrial activities to really get a better analogy, except for those consumable items that I just discussed. So Prime Vendor would be one.

Under our BRAC transformation, we are moving—the Defense Logistics Agency is changing its depot structure so that we are going to ensure that our network works better to support our industrial depot maintenance activities where we are rebuilding material. We have looked at programs. We have something called Industrial Prime Vendor where material, again, is delivered directly to the shop floor without going through a warehouse.

We are privatizing things like tires so that we are not storing tires which previously were held in warehouses—they take up a lot of warehouse space. This gives you better circulation, the newest technology.

So we do have a number of programs that do exactly what you asked, and, of course, we work with companies like Matson as well in doing those types of things.

Senator AKAKA. Yes. Let me follow up, Mr. Estevez. Wouldn't better inventory management lead to less outsourcing of logistics and supply chain activities?

Mr. ESTEVEZ. I think you have to have a mix. I think most commercial companies have a mix between their own internal proc-

esses and what they outsource. I do not expect us to be outsourcing our key supply depots, and obviously we will not be outsourcing some of our maintenance capability. But the flow in for that material—and you have to assess what material you are talking about, and where the commodity is commercially available and the surge capability is there, we do not want to store it. We want to receive it direct.

Senator AKAKA. Well, I thank you both for your responses. No question we are moving in the right direction.

Mr. Chairman, thank you very much. My time has expired.

Senator VOINOVICH. Thank you, Senator Akaka. I really appreciate your being here.

As you know, Mr. Estevez, Senator Akaka and I are concerned about how we continue this transformation. Maybe it is being pretty selfish, but I am around here at least until the end of 2010, and depending on who is in the majority, either Senator Akaka or I are going to be Chairman of this Subcommittee. We plan to continue to work on this issue. One thing that I do not want to see happen is that once the Administration changes, we lose any progress that has been made. Frankly, the private sector has had some of these initiatives in place for a number of years. Why are we so far behind the private sector in utilizing some of the resources that are out there? Why haven't we been on our toes?

What is being put in place to guarantee that this transformation that we are working on is going to continue. Because I do not expect that this is going to get off the list in 2009, and hopefully we will be closer to it in 2010. I am real concerned and that is why I want to know who is working on this and how long they have been with the Department. I am even interested in knowing when they are eligible to retire.

Mr. ESTEVEZ. I am eligible in, I believe, 2012, Senator. I enjoy my job and want to be cracking that bottle of champagne with you at the removal of this from the list.

Senator VOINOVICH. Well, can I ask you one other question? How long have you been with the Department?

Mr. ESTEVEZ. Twenty-five years, sir.

Senator VOINOVICH. OK. How come we did not do this 5 years ago, 10 years ago?

Mr. ESTEVEZ. There are a variety of facets that we have done that have laid the foundation for what we are doing today that were done in the past. So it is not that we were sitting idle in different areas. And some things we tried. The time was not right. It failed in part sometimes because our systems were not up to par in order to enable us to do that. That still remains an issue. Defense Logistics Agency has had a successful implementation of their ERP. The other military services are in various stages of implementing theirs. And they really do enable the ability to do some of the things that we are doing.

Again, some of it is just basic blocking and tackling. I can only answer for my time in my chair, and I really hesitate to second-guess what went on prior. But I do want to emphasize that people were not sitting on their hands. We were doing some of the foundational work that has enabled us to start driving this change.

Senator VOINOVICH. Well, it appears that you have been empowered to do it. Is part of the problem maybe that you were not empowered to do it before?

Mr. ESTEVEZ. Again, I will go back to that you do need the leadership commitment to do this. I believe we have that. I cannot say that we did not have that in the prior Administration, however, but I know we have it right now.

Senator VOINOVICH. Are your people excited?

Mr. ESTEVEZ. Yes, they are.

Senator VOINOVICH. Good.

Mr. ESTEVEZ. Absolutely.

Senator VOINOVICH. Senator Akaka, anything else?

Senator AKAKA. Mr. Chairman, let me follow up here.

Senator Voinovich makes a good point in wanting to know what kind of team is working on supply chain management. When I heard him mention that, I was thinking of other parts of government where committees or commissions deal with issues, like this area.

So given the move toward joint logistics, could you give more detail as to how this high-risk area is integrated into the DOD Business Modernization Plan?

Mr. ESTEVEZ. Well, the supply chain management piece of the Enterprise Transition Plan, the Business Modernization Plan, is driven by our requirements. So while Mr. Brinkley would be driving the governance over what systems get implemented and the architecture of those systems, they are designing to our requirements and putting systems in place to meet the requirements laid out by the functional logistics community for our piece of that plan.

The Enterprise Transition Plan addresses other areas, like procurement, financial management, that the logistics system is a user of versus the driver of those requirements. For the requirements related to logistics, we are the functional drivers of those, and they relate to our milestones and our needs.

Senator AKAKA. And I am assuming from what you are saying that this is integrated into that plan.

Mr. ESTEVEZ. Absolutely. I am very comfortable working with those folks on what they are doing.

Senator AKAKA. Thank you. Thank you very much, Mr. Chairman.

Senator VOINOVICH. Thank you. This has been a good hearing, and we really appreciate your being here. And, Mr. Estevez, we want you to know that we want to help you in any way that we can, and if there are some things that we should be doing that you think will help, we want to hear from you.

Mr. ESTEVEZ. Thank you, sir.

Senator VOINOVICH. The hearing is adjourned.

[Whereupon, at 11:27 a.m., the Subcommittee was adjourned.]

APPENDIX

Overview of the Department of Defense
Supply Chain and Logistics

Mr. Alan F. Estevez
Assistant Deputy Under Secretary of Defense
(Supply Chain Integration)

Chairman Voinovich, Senator Akaka and Members of the Committee:

Thank you for the opportunity to appear before you and discuss the current status of the Department of Defense's efforts to address areas of risk in the Department's supply chain processes. I welcome the opportunity to do so as we have developed and are implementing a comprehensive Supply Chain Management High Risk Improvement Plan to both improve the level of logistics support we are providing our soldiers, sailors, airmen, and marines and to increase the return on investment, for that support, to the American taxpayer. It is our obligation as leaders to provide our warfighters with the policy, procedures, and systems that they need to be successful today and in the future. In that vein, today I will summarize our current logistics posture, describe some emerging challenges, and highlight recent actions the Department has undertaken to improve our supply chain management.

Before I address those areas, I would like to compliment your respective staffs, and the staffs of the General Accountability Office (GAO), and the Office of Management and Budget (OMB) who have worked with the Department staff in addressing the Department's supply chain management high risk area. Congressional staff, GAO, OMB and DoD logisticians have worked together to develop DoD's

concerted plan to address areas of mutual concern. This cooperation speaks highly of the professionalism and dedication of this intragovernmental team. This collaboration extends to the effective working relationship between Mr. William Solis of GAO, who joins me today on this panel, and to senior members of the Congressional staff and OMB.

Scope of DoD Supply Chain

If the DoD supply chain were a for-profit company, it would be number 9 on the Fortune 500, accounting for $151 billion in spending in Fiscal Year 2005. The 1 million uniformed, civilian, and contract employees who support all aspects of the Department's supply chain manage $79.5 billion in inventory and keep 15,000 aircraft, 300 ships, and 30,000 combat vehicles capable of fulfilling their mission. The Defense Logistics Agency (DLA) alone would be in the Fortune 50 as a $35 billion business, ranking with such well known companies as Lockheed Martin, Caterpillar and Intel.

DoD logisticians are called upon to support a wide variety of activities. Every day, the DoD logistics enterprise supports troops forward deployed in desert, mountain, jungle and urban environments, around the world. Unlike the other members of the Fortune 10, DoD logistics can be called upon to support operations on short notice in parts of the world in which we have little or no existing presence or capabilities. Where DoD is unique is that no commercial firm, including Wal*Mart and Dell, would consider logistically supporting operations at any location in the world on short notice or for indefinite periods. Operating in the mountains of Afghanistan or the desert of Al Ambar province is simply unthinkable in the private sector. It is not just about profitability. It is

also about capability.

In addition to support of the warfighter in both current, planned, and what-if warfighting scenarios, over the past 18 months, we have been engaged in disaster relief efforts in the Asian tsunami, the Pakistani earthquake, and, or course, Katrina relief. It is indicative of the high esteem in which DoD logistics is held that we have been asked to work closely with the Federal Emergency Management Agency (FEMA) in preparing for the current hurricane season. In advance of the current hurricane season, various components of the DoD logistics enterprise, including United States Northern Command (NORTHCOM), the combatant command whose area of responsibility is the Continental United States, the Defense Logistics Agency, the Joint Staff, and various agencies within the Office of the Secretary of Defense have worked together to pre-position material for disaster relief, to run simulations of relief operations, and to establish channels of communications and personal relationships which will enable quick response to natural disasters. DLA has also supported FEMA in procuring shelter, medical supplies, food and other materiel for disaster relief.

A $151 billion enterprise supporting our warfighting forces around the world, DoD logistics manages over 5 million different secondary items. There will always be elements of risk. In his testimony of October 2005, the Under Secretary of Defense for Acquisition, Technology, & Logistics, Mr. Ken Krieg, provided a broad outline of the challenges we face, and how we planned to address them. We face an increasingly uncertain world, both in terms of the nature of military or asymmetric threats and natural disasters. Our logistics system must project American power or support worldwide, on

short notice, to support both an increasingly mobile and distributed coalition forces worldwide, which adds complexity to the task, and to support unpredictable disaster relief efforts in remote areas such as the mountains of Pakistan. The logistics system must do so while expending fewer resources, both to meet the expectations of the taxpayer and to free up resources for recapitalization of our vital weapons systems.

However, we have made tremendous progress in transforming DoD logistics, even as we continue to support multiple warfighting and disaster relief efforts around the world. I will provide an update on some of our accomplishments.

Successes

The Supply Chain Management High Risk Improvement Plan is a component of the Department's larger transformation effort. A primary metric is customer wait time, i.e., how long does it take from the time the customer orders an item until he or she receives the item. This is a key factor in the performance of the logistics system. I am pleased to report that we have seen a 33% decrease in customer wait time from FY 2004 through April 2006, from an average of 24 days to 16 days. We expect to see further progress in this number as the initiatives we are pursuing are implemented.

Distribution Process Owner (DPO)

The designation of U.S. Transportation Command (USTRANSCOM) as the Distribution Process Owner (DPO) has already led to significant benefits in aligning and synchronizing the Department's distribution process. As a result of this better alignment,

average customer wait time in theater has decreased from 22 days in March 2005 to 12.2 days in June 2006. Additionally, DLA, working with USTRANSCOM and the U.S. Central Command (CENTCOM) established the Defense Distribution Depot Kuwait Southwest Asia (DDKS) to improve levels of support in Southwest Asia and decrease shipping costs for materiel required in that region. In his testimony in October, 2005, Mr. Krieg shared the financial benefit of $400 million we saw from the operations of DDKS.

Radio Frequency Identification (RFID)

Asset visibility is another area that the GAO has identified as a high risk area. One of the key initiatives DoD is implementing to overcome this deficiency is the use of radio frequency identification technology, or RFID. In fact, DoD is considered a leader in this technology area. The DoD operates the largest active RFID network in the world, and today all consolidated shipments moving to Iraq and Afghanistan are tagged providing the warfighter with unprecedented visibility of incoming shipments. Personally, I am working closely with my counterparts in the commercial world to drive development of standards and adoption of passive RFID to facilitate the broader use of this technology to improve supply chain management.

A microcosm of what we can expect from broad adoption can be seen in the results of the U.S. Marine Corps' (USMC) implementation in Iraq. In June of 2005, I had the opportunity to spend time with the Second Marine Expeditionary Force at Al Taqqadam in Iraq. The Marine Corps streamlined their business processes by capitalizing on RFID, satellite technology, and data integration software to more

effectively manage their distribution pipeline to USMC Forward Operating Bases — literally the "last tactical mile." This streamlined distribution system has enabled the Marines to:

- Reduce Marine inventory on hand in Iraq from $127 million to $70 million;
- Increase the percent of requisitions filled from supplies already in Iraq from 77% to 89%;
- Reduce the requisition backlog processed at the Marine logistics hub in Iraq from 92,000 to 11,000, in part by reducing redundant ordering;
- And most importantly, instill confidence in the reliability and predictability of the logistics system for Marine forces.

Continuous Process Improvement

Successful efforts to achieve operational excellence are based on senior leadership commitment, an understanding that improvement is a never ending journey, not a temporary initiative, and that there are a set of structure techniques which must be rigorously applied to achieving increasing levels of customer satisfaction. A DoD-wide commitment to implement Continuous Process Improvement (CPI), which includes the application of Six Sigma quality techniques and the Lean approach to operations, has been launched out of the logistics community within DoD. In fact, a DoD CPI Process Manual has been signed out by the Deputy Secretary of Defense, Secretary Gordon England.

In his testimony of October 2005, Mr. Krieg discussed some of the excellent

results we've seen in applying the principles of CPI to our maintenance depots, including the reduction in cycle times on such activities as aircraft and vehicle maintenance. As we have moved CPI into other areas, we are seeing similar results in the distribution process as well. Currently, we have two strategic distribution depots, in New Cumberland, Pennsylvania (Defense Depot Susquehanna, Pennsylvania) and Tracy, California (Defense Depot San Joaquin, California), which, among other functions, act as consolidation points for our shipments to Iraq and Afghanistan. Starting in 2005, DLA implemented a comprehensive Lean program in both depots, leading to the following results:

- Improved processing times for air pallet builds from over 85 hours to an average of 35 hours
- An increase in the percentage of freight processed in under 2 days from 38% to 91%
- 40,000 square feet of space freed up in the San Joaquin distribution depot as a result of the implementation of process redesign.

This is an excellent example of the ability of our CPI efforts to impact customer wait time and cost, two areas of vital importance to our warfighter and the taxpayer. It speaks well of the innovative nature and leadership position of DoD logistics, that the logistic organization deployed CPI as a leading initiative and has been designated as the lead organization for the entire Department.

Base Realignment and Closing Process Will Reinforce Logistics Programs

The recommendations of the Based Realignment and Closure Commission (BRAC), which were approved by Congress and signed the President in September 2005, will serve to reinforce the programs highlighted in our Supply Chain Management High Risk Improvement Plan.

Joint Regional Inventory Materiel Management (JRIMM), one of the initiatives included in the Supply Chain Management High Risk Improvement Plan, eliminates duplication of inventory and materiel handling in a region and creates a smoother materiel flow for all of the Components in that region. A Regional Inventory Materiel Management pilot with the Navy in San Diego led to a 40% reduction in the number of touches (move, stow, pick, ship) required to move materiel to the point of use in the maintenance shops and the elimination of an entire warehouse with slightly improved customer wait times. The benefit to the warfighter is more efficient logistics. Our first JRIMM implementation, on the island of Oahu, is being lead by United States Pacific Command (PACOM), the combatant commander for the Pacific. On Oahu, the DLA operates a regional hub, which provides service to Marine, Army, Air Force and Navy installations on the island.

BRAC designated the DLA as the primary operator of storage facilities in the Continental United States (CONUS), and sought to eliminate duplicate capabilities by establishing DLA as the materiel handler at DoD's industrial sites. Going forward, the JRIMM principles we are leveraging on Oahu are being embedded in our BRAC plan for Supply & Storage consolidation.

Another example of the alignment of BRAC mandates with our program principles is in the area of strategic commodity management. Commodity management is a widely use business best practice, under which items which are purchased from similar suppliers, or share similar technology, are managed as a group. BRAC moved the procurement of reparable items and the respective contracting resources from the Military Services to DLA. This will enable the Department to take advantage of its purchasing leverage, and it will also enable the Services and DLA to better collaborate in developing a common strategy for like items, rather than managing our tens of billions of procurement of weapons system support parts as individual items. The execution of these strategies will be facilitated by the fact that there is now one procuring organization, instead of five.

Capabilities Plan and Logistics Road Map

The GAO has identified the lack of a "comprehensive, Departmentwide reengineering strategy" to guide the implementation of the Department's improvement initiatives. Let me outline how we are developing this strategy.

Mr. Krieg, the Under Secretary of Defense for Acquisition, Technology, & Logistics, has challenged all his direct and extended organization to focus on their respective customers, to understand their needs, and to improve the level of service we provide. In the case of the logistics organization, our customer clearly is the warfighter, and the support we provide is ensuring that he or she has the right materiel at the right time at the right place at the right price. In addition to implementing the initiatives in the

Supply Chain Management High Risk Improvement Plan, we are developing a comprehensive logistics strategy. The logistics strategy will incorporate key logistics aspects of the Quadrennial Defense Review, the Joint Staff's Focused Logistics Concept, and the Business Architecture and Enterprise Transition Plan.

As part of the development of the logistics strategy, we are conducting a joint logistics capabilities portfolio test to better support the warfighters' requirements. This portfolio includes all capabilities required to sustain joint force operations. Along with traditional capabilities such as deployment and distribution or operational engineering, other capabilities, such as contracting and personnel services support will be incorporated. The development of the portfolio will build on the success of the DPO effort, and the lessons learned from the Joint Theater Logistics initiative in Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF) will be utilized.

The joint logistics capabilities portfolio test will address governance in a way that facilitates integrated decision-making at every level. Roles and authorities invested across the governance structure will be clear and transparent. Finally, the test will ensure that the process to "govern" this portfolio is focused on delivering the outcomes the Joint Force Commander needs. The results of the test along with operational support lessons learned and the initiatives contained in our Supply Chain Management High Risk Improvement Plan will then be incorporated in the comprehensive logistics strategic plan.

Dedicated Focus on Progress

In July 2005, Mr. Krieg led an initial session to discuss each of the DoD initiatives contained in the Supply Chain Management High Risk Improvement Plan. Since that time, there has been a concerted and structured effort to keep GAO, OMB and Congressional staff and senior leaders apprised of our progress and challenges.

The structures we have put in place to facilitate communication on the initiatives include:

1. An in depth briefing each month on a key initiative by the leader of that initiative with GAO, OMB, and Congressional staff.
2. A summary report, updated monthly, listing accomplishments, milestones and challenges for each initiative.
3. A quarterly meeting, as needed, of senior leaders from DoD, GAO, OMB, and Congressional staff to discuss any problem areas. It is indicative of the positive status and strong communication that both sides have determined this meeting was not necessary in each of the past two quarters.
4. Regular updates to Mr. Krieg and the Deputy Under Secretary of Defense for Logistics and Materiel Readiness, Mr. Jack Bell, on our progress. Change management begins at the top, and our senior leaders are deeply involved in addressing our efforts in the high risk areas.

Ultimately, the proof of this process will be in our outcomes and the translation of these outcomes into improved performance and better risk management. We continue to implement our transformational strategy, of which the Supply Chain Management High

Risk Improvement Plan is one component. As we broaden the breadth and scope of the implementation, measurable improvement in performance metrics will occur.

Conclusion

In summary, again I thank you Mr. Chairman for the opportunity to testify today on the important issues associated with DoD supply chain and logistics. I hope my testimony has provided you with a solid understanding of our progress in this area and our willingness to work with other national-level stakeholders to continue to improve our effectiveness, efficiency, and, accountability. I look forward to continuing to work with you to improve our processes and request your continued assistance in providing our military forces with the logistics support they need and deserve.

Thank you and I would be happy to answer any questions you and the Members of the Committee may have.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

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DOD'S HIGH-RISK AREAS

Challenges Remain to Achieving and Demonstrating Progress in Supply Chain Management

Statement of Williams M. Solis, Director
Defense Capabilities Management

GAO-06-983T

July 25, 2006

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-983T, testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

DOD'S HIGH-RISK AREAS

Challenges Remain to Achieving and Demonstrating Progress in Supply Chain Management

Why GAO Did This Study

The Department of Defense (DOD) maintains a military force with unparalleled logistics capabilities, but it continues to confront decades-old supply chain management problems. The supply chain can be the critical link in determining whether our frontline military forces win or lose on the battlefield, and the investment of resources in the supply chain is substantial. Because of weaknesses in DOD's supply chain management, this program has been on GAO's list of high-risk areas needing urgent attention and transformation since 1990. Last year, DOD developed a plan to resolve its long-term supply chain problems in three focus areas: requirements forecasting, asset visibility, and materiel distribution. In October 2005, GAO testified that the plan was a good first step.

GAO was asked to provide its views on DOD's progress toward (1) implementing the supply chain management improvement plan and (2) incorporating performance measures for tracking and demonstrating improvement, as well as to comment on the alignment of DOD's supply chain management improvement plan with other department logistics plans.

This testimony is based on prior GAO reports and ongoing work in this area. It contains GAO's views on opportunities to improve DOD's ability to achieve and demonstrate progress in supply chain management.

www.gao.gov/cgi-bin/getrpt?GAO-06-983T.

To view the full product, click on the link above. For more information, contact William Solis at 202-512-8365 or solisw@gao.gov.

What GAO Found

Since October 2005, DOD has continued to make progress implementing the 10 initiatives in its supply chain management improvement plan, but it will take several years to fully implement these initiatives. DOD's stated goal for implementing its plan is to demonstrate significant improvement in supply chain management within 2 years of the plan's inception in 2005, but the time frames for substantially implementing some initiatives are currently 2008 or later. While DOD has generally stayed on track, it has reported some slippage in the implementation of certain initiatives. Factors such as the long-standing nature of the problems, the complexities of the initiatives, and the involvement of multiple organizations within DOD could cause the implementation dates of some initiatives to slip further.

DOD has incorporated several broad performance measures in its supply chain management improvement plan, but it continues to lack outcome-focused performance measures for many of the initiatives. Therefore, it is difficult to track and demonstrate progress toward improving the three focus areas of requirements forecasting, asset visibility, and materiel distribution. Although DOD's plan includes four high-level performance measures that are being tracked across the department, these measures do not necessarily reflect the performance of the initiatives and do not relate explicitly to the three focus areas. Further, DOD's plan does not include cost metrics that might show efficiencies gained through supply chain improvement efforts. In their effort to develop performance measures for use across the department, DOD officials have encountered challenges such as a lack of standardized, reliable data. Nevertheless, DOD could show near-term progress by adding intermediate measures. These measures could include outcome-focused measures for each of the initiatives or for the three focus areas.

DOD has multiple plans aimed at improving aspects of logistics, including supply chain management, but it is unclear how these plans are aligned with one another. The plans were developed at different points of time, for different purposes, and in different formats, so it is difficult to determine how all the ongoing efforts link together to sufficiently cover requirements forecasting, asset visibility, and materiel distribution and whether they will result in significant progress toward resolving this high-risk area. Also, DOD's supply chain management improvement plan does not account for initiatives outside the direct oversight of the Office of the Secretary of Defense, and DOD lacks a comprehensive strategy to guide logistics programs and initiatives. DOD is in the process of developing a new plan, referred to as the "To Be" roadmap, for future logistics programs and initiatives. The roadmap is intended to portray where the department is headed in the logistics area, how it will get there, and what progress is being made toward achieving its objectives, as well as to link ongoing capability development, program reviews, and budgeting. However, until the roadmap is completed, GAO will not be able to assess how it addresses the challenges and risks DOD faces in its supply chain improvement efforts.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of Defense's (DOD) efforts to resolve long-standing problems in supply chain management. DOD maintains a military force with unparalleled logistics capabilities and can claim success in meeting the challenges to supplying the warfighter. For example, by early 2005, DOD moved more than 2 million short tons of cargo, including equipment, spare parts, and supplies, several thousand miles to the Persian Gulf in support of Operation Iraqi Freedom. At the same time, there are pervasive, decades-old problems in DOD's supply chain management that need to be addressed and resolved. The Under Secretary of Defense for Acquisition, Technology, and Logistics, as well as other senior DOD officials, has shown a commitment to improving supply chain management. The continued active involvement of this Subcommittee is important to focusing attention on this issue and encouraging DOD to demonstrate progress.

The fundamental premise of supply chain management is the operation of a continuous, unbroken, comprehensive, and all-inclusive logistics process, from initial customer order for materiel or services to the ultimate satisfaction of the customer's requirements. Supply chain management in DOD consists of processes and activities to purchase, produce, and deliver materiel—including ammunition, spare parts, fuel, food, water, clothing, personal equipment, and other items—to a force that is highly dispersed and mobile. In 2005, the Army alone had some 260,000 soldiers serving in 120 foreign countries. Altogether, DOD manages more than 4 million separate types of items that are procured from thousands of suppliers. The challenges to successfully improving management of this vast and complex supply chain network are formidable. Challenges may include fragmentation in the way supply chain management is understood and applied, failure to develop true integration of supply chain processes, organizational resistance, lack of buy-in from top managers, lack of or slow development of needed measurement systems, and lack of integrated information systems linking participants in the supply chain. Private industry, it should be noted, also faces these types of challenges to improving their own supply chains.[1]

Why is effective supply chain management important for DOD? There are two primary reasons. First, supply support to the warfighter affects

[1] Deputy Under Secretary of Defense, Supply Chain Integration, *DOD Supply Chain Management Implementation Guide*, (McLean, Va.: Logistics Management Institute, 2000).

readiness and military operations. In fact, the supply chain can be the critical link in determining whether our front-line military forces win or lose on the battlefield. Second, given the high demand for goods and services to support ongoing U.S. military operations, the investment of resources in the supply chain is substantial. For example, DOD estimated that the annual costs of supplies and associated operations were expected to be about $50 billion for fiscal year 2005. In addition, DOD's inventory was valued at approximately $80 billion at the end of that fiscal year. Over the next 6 years, DOD also plans to invest about $54 billion in aircraft, trucks, ships, and other mobility assets to deploy and supply its forces. In addition, the Secretary of Defense recently stated that one of his top priorities between 2006 and 2008 is improving effectiveness and efficiency across the department, including creating a culture of efficiency and eliminating waste. These are issues that we have identified as critical to improving supply chain management.

Because of weaknesses we have identified through our work, DOD's supply chain management is on our list of 26 high-risk government programs that need urgent attention and transformation to ensure that our national government functions in the most economical, efficient, and effective manner possible. Last year, with the encouragement of the Office of Management and Budget (OMB), DOD developed a supply chain management improvement plan aimed at putting DOD on a path toward resolving long-term supply chain problems and, eventually, removal from our list of high-risk programs. More specifically, with the plan's inception in July 2005, DOD hoped to produce significant improvements over the next 2 years. This month marks approximately the midpoint of that 2-year period, which ends in July 2007. The plan encompasses 10 initiatives to address three key areas of the supply chain management process: requirements forecasting, asset visibility, and materiel distribution. (Attachment 1 provides a description of the initiatives and shows the focus area or areas that they are intended to address). The requirements forecasting initiatives in the plan aim to improve inventory management by reducing low-usage inventory, increasing the availability of high-usage and critical inventory, more accurately identifying war reserve stocks, forecasting wartime demand, and identifying items with long procurement lead times. The plan's initiatives that affect asset visibility seek to improve DOD's ability to provide timely and accurate information regarding the location, quantity, condition, movement, and status of materiel assets across the department. Finally, the materiel distribution initiatives were included to improve the timely and seamless flow of materiel in support of deployed forces. We have frequently identified systemic weaknesses in these three areas as impeding effective supply chain management.

During the Subcommittee's October 2005 hearing on this subject, I stated that DOD's plan addressing supply chain management was a good first step toward putting DOD on a path toward resolving long-standing supply chain management problems, but that the department faced a number of challenges and risks in fully implementing its proposed changes across the department and measuring progress.[2] That bottom-line view remains the same today. Since October, DOD has regularly updated its supply chain management improvement plan, added more details, and has made progress implementing individual initiatives by generally meeting the milestones laid out in its plan. However, as DOD moves forward, we believe that there are opportunities to further improve DOD's ability to show progress toward resolving long-term supply chain problems.

As requested, my comments today will focus on DOD's progress in (1) implementing the supply chain management improvement plan and (2) incorporating performance measures for tracking and demonstrating improvement. In addition, you also asked me to comment on the extent to which DOD's supply chain management improvement plan is aligned with other logistics plans across the department that address aspects of the supply chain. My testimony is based on previous GAO reports and testimonies and our preliminary observations from an ongoing engagement requested by this Subcommittee on DOD's efforts to resolve long-standing problems in its supply chain management process. To obtain our preliminary observations, we have met on a regular basis with DOD officials and staff from OMB to discuss the overall status of the plan, the implementation of the plan's individual initiatives, and performance measures; and we have reviewed relevant documents, such as current DOD and military service logistics plans and strategies. This work is being performed in accordance with generally accepted government auditing standards.

Summary

Since October 2005, DOD has continued to make progress implementing the 10 initiatives in its supply chain management improvement plan, but it will take DOD several years to fully implement these initiatives under current schedules. DOD has sought to demonstrate significant improvement in supply chain management within 2 years of the plan's inception in 2005; however, the department may have difficulty meeting its short-term goal. Some of the initiatives are still being developed or piloted and have not yet reached the implementation stage, others are in the early

[2] GAO, *DOD's High-Risk Areas: High-Level Commitment and Oversight Needed for DOD Supply Chain Plan to Succeed*, GAO-06-113T (Washington, D.C.: Oct. 6, 2005).

stages of implementation, and some are not scheduled for completion until 2008 or later. While DOD has generally stayed on track, it has reported some slippage in the implementation of certain initiatives. Given the long-standing nature of the problems being addressed, the complexities of the initiatives, and the involvement of multiple organizations within DOD, we would expect to see further slippage in the future. We have also previously identified challenges to implementation such as maintaining long-term commitment for the initiatives and ensuring sufficient resources are obtained from the organizations involved, including the military services and the Defense Logistics Agency (DLA).

While DOD has incorporated several broad performance measures in its supply chain management improvement plan, the department continues to lack outcome-focused performance measures for many of the initiatives. Therefore, it is difficult to track and demonstrate DOD's progress toward improving its performance in the three focus areas of requirements forecasting, asset visibility, and materiel distribution. Performance measures track an agency's progress toward achieving goals, provide information on which to base organizational and management decisions, and are important management tools for all levels of an agency, including the program or project level. Outcome-focused performance measures show results or outcomes related to an initiative or program in terms of its effectiveness, efficiency, impact, or all of these. DOD's plan includes four high-level performance measures, such as customer wait time, that are being tracked across the department, but these measures do not necessarily reflect the performance of the initiatives and do not explicitly relate to the three focus areas. In addition, DOD's plan lacks outcome-focused performance measures for many of the specific initiatives. Further, DOD still has not included cost metrics in its plan that might show efficiencies gained through supply chain improvement efforts, either at the initiative level or overall. Although DOD officials have made efforts to develop supply chain management performance measures for implementation across the department, they have encountered challenges such as a lack of standardized, reliable data. Consequently, DOD lacks a means to track and assess progress toward improving efficiency and eliminating waste in supply chain management. However, DOD could show near-term progress by adding intermediate measures. These measures could include outcome-focused measures for each of the initiatives or for the three focus areas.

DOD has multiple plans aimed at improving aspects of logistics, including supply chain management, but it is unclear how all these plans are aligned with one another. In addition to the supply chain management improvement plan, current DOD plans that address aspects of supply

chain management include DOD's Logistics Transformation Strategy, Focused Logistics Roadmap, and Enterprise Transition Plan; and DLA's Transformation Roadmap. These plans were developed at different points of time, for different purposes, and in different formats. Therefore, it is difficult to determine how all the ongoing efforts link together to sufficiently cover requirements forecasting, asset visibility, and materiel distribution and whether they will result in significant progress toward resolving this high-risk area. Also, the DOD supply chain management improvement plan does not account for initiatives outside the direct oversight of the Office of the Secretary of Defense (OSD) that may have an impact on supply chain management. Until DOD clearly aligns the supply chain management improvement plan with other department plans and ongoing initiatives, supply chain stakeholders will not have complete visibility and awareness of actions DOD is taking to resolve problems in the supply chain. Moreover, DOD lacks a comprehensive, integrated, and enterprisewide strategy to guide logistics programs and initiatives. To address this concern, OSD is working with the military services, DLA, and other stakeholders to develop a new strategic plan for future logistics programs and initiatives. Referred to as the "To Be" roadmap, this plan is intended to portray where the department is headed in the logistics area, how it will get there, and what progress is being made toward achieving its objectives, as well as to institutionalize a continuous assessment process that links ongoing capability development, program reviews, and budgeting. According to DOD officials, the initiatives in the supply chain management improvement plan will be incorporated into this roadmap. The first edition of the "To Be" roadmap is scheduled for completion in February 2007, in conjunction with the submission of the President's Budget for Fiscal Year 2008. However, until it is completed, we will not be able to assess the extent to which the roadmap aligns and integrates DOD's various supply chain improvement efforts.

Background

For 16 years, DOD's supply chain management processes, previously identified as DOD inventory management, have been on our list of high-risk areas needing urgent attention because of long-standing systemic weaknesses that we have identified in our reports. We initiated our high-risk program in 1990 to report on government operations that we identified as being at high risk for fraud, waste, abuse, and mismanagement. The program serves to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public. The department's inventory management of supplies in support of forces was one of the initial 14 operational areas identified as high risk in 1990 because, over the previous 20 years, we had issued more than 100 reports dealing with specific aspects and problems in DOD's

inventory management. These problems included excess inventory levels, inadequate controls over items, and cost overruns. As a result of this work, we had suggested that DOD take some critical steps to correct the problems identified. Since then, our work has shown that the problems adversely affecting supply support to the warfighter—such as requirements forecasts, use of the industrial base, funding, distribution, and asset visibility—were not confined to the inventory management system, but also involved the entire supply chain. In 2005, we modified the title for this high-risk area from "DOD Inventory Management" to "DOD Supply Chain Management." In the 2005 update, we noted that during Operation Iraqi Freedom, some of the supply chain problems included backlogs of hundreds of pallets and containers at distribution points, millions of dollars spent in late fees to lease or replace storage containers because of distribution backlogs and losses, and shortages of such items as tires and radio batteries.

Removal of the high-risk designation is considered when legislative and agency actions, including those in response to our recommendations, result in significant and sustainable progress toward resolving a high-risk problem.[3] Key determinants include a demonstrated strong commitment to and top leadership support for addressing problems, the capacity to do so, a corrective action plan that provides for substantially completing corrective measures in the near term, a program to monitor and independently validate the effectiveness of corrective measures, and demonstrated progress in implementing corrective measures.

Last year, with the encouragement of OMB, DOD developed a plan for improving supply chain management that could reduce its vulnerability to fraud, waste, abuse, and mismanagement and place it on the path toward removal from our list of high-risk areas. This plan, initially released in July 2005, contains 10 initiatives proposed as solutions to address the root causes of problems DOD identified in the areas of forecasting requirements, asset visibility, and materiel distribution. By committing to improve these three key areas, DOD has focused its efforts on the areas we frequently identified as impeding effective supply chain management. For each of the initiatives, the plan contains implementation milestones that are tracked and updated monthly.

[3] GAO, *Determining Performance and Accountability Challenges and High Risks*, GAO-01-159SP (Washington, D.C.: November 2000).

DOD Continues to Implement Its Supply Chain Management Improvement Plan, but Full Implementation Will Take Several Years

Since October 2005, DOD has continued to make progress implementing the initiatives in its supply chain management improvement plan, but it will be several years before the plan can be fully implemented. Progress has been made in implementing several of the initiatives, including its Joint Regional Inventory Materiel Management, Readiness Based Sparing, and the Defense Transportation Coordination Initiative. For example:

- Within the last few months, through its Joint Regional Inventory Materiel Management initiative, DOD has begun to streamline the storage and distribution of defense inventory items on a regional basis, in order to eliminate duplicate materiel handling and inventory layers. Last year, DOD completed a pilot for this initiative in the San Diego region and, in January 2006, began a similar transition for inventory items in Oahu, Hawaii.

- Readiness Based Sparing, an inventory requirements methodology that the department expects to enable higher levels of readiness at equivalent or reduced inventory costs using commercial off-the-shelf software, began pilot programs in each service in April 2006.

- Finally, in May 2006, the U.S. Transportation Command held the presolicitation conference for its Defense Transportation Coordination Initiative, a long-term partnership with a transportation management services company that is expected to improve the predictability, reliability, and efficiency of DOD freight shipping within the continental United States.

DOD has sought to demonstrate significant improvement in supply chain management within 2 years of the plan's inception in 2005; however, the department may have difficulty meeting its July 2007 goal. Some of the initiatives are still being developed or piloted and have not yet reached the implementation stage, others are in the early stages of implementation, and some are not scheduled for completion until 2008 or later. For example, according to the DOD supply chain management improvement plan, the contract for the Defense Transportation Coordination Initiative is scheduled to be awarded during the first quarter of fiscal year 2007, followed by a 3-year implementation period. The War Reserve Materiel Improvements initiative, which aims to more accurately forecast war reserve requirements by using capability-based planning and incorporating lessons learned in Operation Iraqi Freedom, is not scheduled to begin implementing an improved requirements forecasting process for

consumable items[4] as a routine operation until October 2008. The Item Unique Identification initiative, which involves marking personal property items with a set of globally unique data elements to help DOD track items during their life cycles, will not be completed until December 2010 under the current schedule.

While DOD has generally stayed on track, DOD has reported some slippage in meeting scheduled milestones for certain initiatives. For example, a slippage of 9 months occurred in the Commodity Management initiative because additional time was required to develop a departmentwide approach. This initiative addresses the process of developing a systematic procurement approach to the department's needs for a group of items. Additionally, the Defense Transportation Coordination Initiative experienced a slippage in holding the presolicitation conference because defining requirements took longer than anticipated. Given the long-standing nature of the problems being addressed, the complexities of the initiatives, and the involvement of multiple organizations within DOD, we would expect to see further milestone slippage in the future. In our October testimony, we also identified challenges to implementation such as maintaining long-term commitment for the initiatives and ensuring sufficient resources are obtained from the organizations involved. Although the endorsement of DOD's plan by the Under Secretary of Defense for Acquisition, Technology, and Logistics is evidence of a strong commitment to improve DOD's supply chain management, DOD will have to sustain this commitment as it goes forward in implementing this multiyear plan while also engaged in departmentwide business transformation efforts. Furthermore, the plan was developed at the Office of the Under Secretary of Defense level, whereas most of the people and resources needed to implement the plan are under the direction of the military services, DLA, and other organizations such as U.S. Transportation Command. Therefore, it is important for the department to obtain the necessary resource commitments from these organizations to ensure the initiatives in the plan are properly supported.

[4] Consumable items are items that are discarded after use rather than repaired. Examples include food, clothing, hardware, and medical supplies.

Supply Chain Improvement Plan Lacks Outcome-focused Performance Measures for Many of the Initiatives

While DOD has incorporated several broad performance measures in its supply chain management improvement plan, the department continues to lack outcome-focused performance measures for many of the initiatives. Therefore, it is difficult to track and demonstrate DOD's progress toward improving its performance in the three focus areas of requirements forecasting, asset visibility, and materiel distribution. Performance measures track an agency's progress made towards goals, provide information on which to base organizational and management decisions, and are important management tools for all levels of an agency, including the program or project level. Outcome-focused performance measures show results or outcomes related to an initiative or program in terms of its effectiveness, efficiency, impact, or all of these. To track progress towards goals, effective performance measures should have a clearly apparent or commonly accepted relationship to the intended performance, or should be reasonable predictors of desired outcomes; are not unduly influenced by factors outside a program's control, measure multiple priorities, such as quality, timeliness, outcomes, and cost; sufficiently cover key aspects of performance; and adequately capture important distinctions between programs. Performance measures enable the agency to assess accomplishments, strike a balance among competing interests, make decisions to improve program performance, realign processes, and assign accountability. While it may take years before the results of programs become apparent, intermediate measures can be used to provide information on interim results and show progress towards intended results. In addition, when program results could be influenced by external factors, intermediate measures can be used to identify the programs' discrete contribution to the specific result. For example, DOD could show near-term progress by adding intermediate measures for the DOD supply chain management improvement plan, such as outcome-focused performance measures for the initiatives or for the three focus areas.

DOD's supply chain management improvement plan includes four high-level performance measures that are being tracked across the department, but these measures do not necessarily reflect the performance of the initiatives or explicitly relate to the three focus areas. DOD's supply chain materiel management regulation requires that functional supply chain metrics support at least one enterprise-level metric.[5] In addition, while not required by the regulation, the performance measures DOD has included in the plan are not explicitly linked to the three focus areas, and it has not included overall cost metrics that might show efficiencies gained through supply chain improvement efforts. The four measures are as follows:

[5] DOD 4140.1-R, *DOD Supply Chain Materiel Management Regulation* (May 23, 2003).

- Backorders—number of orders held in an unfilled status pending receipt of additional parts or equipment through procurement or repair.
- Customer wait time—number of days between the issuance of a customer order and satisfaction of that order.
- On-time orders—percentage of orders that are on time according to DOD's established delivery standards.
- Logistics response time—number of days to fulfill an order placed on the wholesale level of supply from the date a requisition is generated until the materiel is received by the retail supply activity.[6]

The plan also identifies fiscal year 2004 metric baselines for each of the services, DLA, and DOD overall, and specifies annual performance targets for these metrics for use in measuring progress. For example, one performance target for fiscal year 2005 was to reduce backorders by 10 percent from the fiscal year 2004 level. Table 1 shows each performance measure with the associated fiscal year 2005 performance targets and actuals and whether the target was met.

Table 1: Supply Chain Performance Measures (Fiscal Year 2005)

Performance measure	Target	Actual	Target met/Not met
Backorders	514,800	642,000	Not Met
Customer wait time	18 days	21 days	Not Met
On-time orders[a]	75%	48%	Not Met
Logistics response time[a]			
Army	27 days	57 days	Not Met
Navy	27 days	28 days	Not Met
Air Force	27 days	36 days	Not Met
DLA	27 days	13 days	Met

Source: GAO analysis.

[a]Data includes the continental United States only.

[6] DOD maintains spare parts at two levels of inventory. Wholesale-level inventory represents inventory managed centrally, while retail-level inventory represents inventory held for use at maintenance activities or operational units.

As table 1 shows, DOD generally did not meet its fiscal year 2005 performance targets. However, the impact to the supply chain as a result of implementing the initiatives contained in the plan will not likely be reflected in these high-level performance metrics until the initiatives are broadly implemented across the department. In addition, the high-level metrics reflect the performance of the supply chain departmentwide and are affected by other variables; therefore, it will be difficult to determine if improvements in the high-level performance metrics are due to the initiatives in the plan or other variables. For example, implementing Radio Frequency Identification—technology consisting of active or passive electronic tags that are attached to equipment and supplies being shipped from one location to another and enable shipment tracking—at a few sites at a time has only a very small impact on customer wait time. However, variables such at natural disasters, wartime surges in requirements, or disruption in the distribution process could affect that metric.

DOD's plan lacks outcome-focused performance metrics for many of the specific initiatives. We noted this deficiency in our prior testimony, and since last October, DOD has not added outcome-focused performance metrics. DOD also continues to lack cost metrics that might show efficiencies gained through supply chain improvement efforts, either at the initiative level or overall. In total, DOD's plan continues to identify a need to develop outcome-focused performance metrics for 6 initiatives, and 9 of the 10 initiatives lack cost metrics. For example, DOD's plan shows that it expects to have radio frequency identification technology implemented at 100 percent of its U.S. and overseas distribution centers by September 2007, but noted that it has not yet identified additional metrics that could be used to show the impact of implementation on expected outcomes, such as receiving and shipping timeliness, asset visibility, or supply consumption data. Two other examples of initiatives lacking outcome-focused performance measures are War Reserve Materiel, discussed earlier, and Joint Theater Logistics, which is an effort to improve the ability of a joint force commander to execute logistics authorities and processes within a theater of operations. Although the plan contains some performance metrics, many have not been fully defined or are intended to show the status of a project. Measures showing project status are useful and may be most appropriate for initiatives in their early stages of development, but such measures will not show the impact of initiatives on the supply chain during or after implementation. DOD officials noted that many of the initiatives in the supply chain management improvement plan are in the early stages of implementation and that they are working to develop performance measures for them. For example, an official involved with the Joint Theater Logistics initiative stated that the processes necessary for each joint capability needed to be defined before

performance metrics could be developed. The recently issued contract solicitation for the Defense Transportation Coordination Initiative contains a number of performance measures, such as on-time pickup and delivery, damage-free shipments, and system availability, although these measures are not yet included in DOD's supply chain management improvement plan. Additionally, we observed that DOD's plan does not identify departmentwide performance measures in the focus areas of requirements forecasting, asset visibility, and materiel distribution. Therefore, it currently lacks a means to track and assess progress in these areas.

Although DOD has made efforts to develop supply chain management performance measures for implementation across the department, DOD has encountered challenges in obtaining standardized, reliable data from noninteroperable systems. The four high-level performance measures in DOD's plan were defined and developed by DOD's supply chain metrics working group. This group includes representatives from the services, DLA, and the U.S. Transportation Command, and meets monthly under the direction of the Office of the Under Secretary of Defense. For example, the working group developed a common definition for customer wait time which was included in DOD guidance.[7] The DOD Inspector General has a review underway to validate the accuracy of customer wait time data and expects to issue a report on its results later this summer. One of the challenges the working group faces in developing supply chain performance measures is the ability to pull standardized, reliable data from noninteroperable information systems. For example, the Army currently does not have an integrated method to determine receipt processing for Supply Support Activities, which could affect asset visibility and distribution concerns. Some of the necessary data reside in the Global Transportation Network while other data reside in the Standard Army Retail Supply System. These two databases must be manually reviewed and merged in order to obtain the information for accurate receipt processing performance measures.

DOD recognizes that achieving success in supply chain management is dependent on developing interoperable systems that can share critical supply chain data. The Business Management Modernization Program, one of the initiatives in DOD's supply chain improvement plan that has been

[7] DOD Instruction 4140.61, *Customer Wait Time and Time Definite Delivery* (December 14, 2000).

absorbed into the Business Transformation Agency,[8] is considered to be a critical enabler that will provide the information technology underpinning for improving supply chain management. As part of this initiative, DOD issued an overarching business enterprise architecture and an enterprise transition plan for implementing the architecture.[9] We previously reported that Version 3.1[10] of the business enterprise architecture reflects steps taken by DOD to address some of the missing elements, inconsistencies, and usability issues related to legislative requirements and relevant architecture guidance, but additional steps are needed.[11] For example, we said that the architecture does not yet include a systems standards profile to facilitate data sharing among departmentwide business systems and promote interoperability with departmentwide information technology infrastructure systems. Furthermore, we also stated that the military services' and defense agencies' architectures are not yet adequately aligned with the departmental architecture.

DOD Has Multiple Plans Addressing Supply Chain Management, but Alignment Among Them Is Unclear

DOD has multiple plans aimed at improving aspects of logistics, including supply chain management, but it is unclear how all these plans are aligned with one another. In addition to the supply chain management improvement plan, current DOD plans that address aspects of supply chain management include DOD's Logistics Transformation Strategy, Focused Logistics Roadmap, and Enterprise Transition Plan; and DLA's Transformation Roadmap.

[8] The Business Transformation Agency leads and coordinates business transformation efforts across the department. The Business Management Modernization Program's mission is to advance departmentwide business transformation efforts, particularly with regard to business systems modernization.

[9] The enterprise architecture, or modernization blueprint, provides a clear and comprehensive picture of an entity, whether it is an organization (e.g., federal department or agency) or a functional or mission area that cuts across more than one organization (e.g., financial management). This picture consists of snapshots of the enterprise's current "As Is" operational and technological environment and its target or "To Be" environment, as well as a capital investment roadmap for transitioning from the current to the target environment. These snapshots further consist of "views," which are basically one or more architecture products that provide conceptual or logical representations of the enterprise.

[10] Version 3.1 is a minor update to its business enterprise architecture released on March 15, 2006.

[11] GAO, *Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed*, GAO-06-658 (Washington, D.C.: May 15, 2006).

In December 2004, DOD issued its Logistics Transformation Strategy. The strategy was developed to reconcile three logistics concepts—force-centric logistics enterprise, sense and respond logistics, and focused logistics—into a coherent transformation strategy. The force-centric logistics enterprise is OSD's midterm concept (2005-2010) for enhancing support to the warfighter and encompasses six initiatives, one of which includes "end-to-end distribution." Sense and respond logistics is a future logistics concept developed by the department's Office of Force Transformation that envisions a networked logistics system that would provide joint strategic and tactical operations with predictive, precise, and agile support. Focused logistics, a concept for force transformation developed by the Joint Chiefs of Staff, identifies seven key joint logistics capability areas such as Joint Deployment/Rapid Distribution.

In September 2005, DOD issued its Focused Logistics Roadmap, also referred to as the "As Is" roadmap. It documents logistics-enabling programs and initiatives directed toward achieving focused logistics capabilities. It is intended to provide a baseline of programs and initiatives for future capability analysis and investment. Seven of the 10 initiatives in the DOD supply chain management improvement plan and some of the systems included in the initiative to modernize the department's business systems—under the Business Transformation Agency—are discussed in the Focused Logistics Roadmap.

In September 2005, DOD's Enterprise Transition Plan was issued as part of the Business Management Modernization Program. The Enterprise Transition Plan is the department's plan for transforming its business operations. One of the six DOD-wide priorities contained in the Enterprise Transition plan is Materiel Visibility, which is focused on improving supply chain performance. The Materiel Visibility priority is defined as the ability to locate and account for materiel assets throughout their life cycle and provide transaction visibility across logistics systems in support of the joint warfighting mission. Two of the key programs targeting visibility improvement are Radio Frequency Identification and Item Unique Identification, which also appear in the supply chain management improvement plan.

The Defense Logistics Agency's Fiscal Year 2006 Transformation Roadmap contains 13 key initiatives underway to execute DLA's role in DOD's overarching transformation strategy. The majority of the initiatives are those that affect supply chain management, and several are found in DOD's supply chain management improvement plan. For example, the Integrated Data Environment, Business Systems Modernization, and Reutilization Modernization Program initiatives found in DLA's

Transformation Roadmap are also in the department's supply chain management improvement plan under the initiative to modernize the department's business systems.

These plans were developed at different points of time, for different purposes, and in different formats. Therefore, it is difficult to determine how all the ongoing efforts link together to sufficiently cover requirements forecasting, asset visibility, and materiel distribution and whether they will result in significant progress toward resolving this high-risk area. Moreover, DOD's supply chain management improvement plan does not account for initiatives outside OSD's direct oversight that may have an impact on supply chain management. The initiatives chosen for the plan were joint initiatives under the oversight of OSD in the three focus areas of requirements forecasting, asset visibility, and materiel distribution. However, the U. S. Transportation Command, DLA, and the military services have ongoing and planned supply chain improvement efforts in those areas that are not included in the plan. For example, the U.S. Transportation Command's Joint Task Force – Port Opening initiative seeks to improve materiel distribution by rapidly extending the distribution network into a theater of operations. Furthermore, DLA is implementing a National Inventory Management Strategy, which is an effort to merge distinct wholesale and retail inventories into a national inventory, provide more integrated management, tailor inventory to services' requirements, and reduce redundant inventory levels. Another example is the Army's efforts to field two new communications and tracking systems, the Very Small Aperture Terminal and the Mobile Tracking System, to better connect logisticians on the battlefield and enable them to effectively submit and monitor their supply requisitions. DOD officials told us they would be willing to consider adding initiatives that impact the three focus areas. Until DOD clearly aligns the supply chain management improvement plan with other department plans and ongoing initiatives, supply chain stakeholders will not have a comprehensive picture of DOD's ongoing efforts to resolve problems in the supply chain.

Although we are encouraged by DOD's planning efforts, DOD lacks a comprehensive, integrated, and enterprisewide strategy to guide logistics programs and initiatives. In the past, we have emphasized the need for an overarching logistics strategy that will guide the department's logistics

planning efforts.[12] Without an overarching logistics strategy, the department will be unable to most economically and efficiently support the needs of the warfighter. To address this concern and guide future logistics programs and initiatives, DOD is in the process of developing a new strategic plan—the "To Be" roadmap. This plan is intended to portray where the department is headed in the logistics area, how it will get there, and monitor progress toward achieving its objectives, as well as institutionalize a continuous assessment process that links ongoing capability development, program reviews, and budgeting. According to DOD officials, the initiatives in the supply chain management improvement plan will be incorporated into the "To Be" logistics roadmap.

The roadmap is being developed by a working group representing the four services, DLA, the U.S. Transportation Command, the U.S. Joint Forces Command, the Joint Staff, the Business Transformation Agency, and the Office of the Secretary of Defense. The working group reports to a Joint Logistics Group comprised of one-star generals and their equivalents representing these same organizations. Additionally, the Joint Logistics Board, Defense Logistics Board, and the Defense Logistics Executive (the Under Secretary of Defense for Acquisition, Technology, and Logistics) would provide continuous feedback and recommendations for changes to the roadmap. Regarding performance measures, the roadmap would link objective, quantifiable, and measurable performance targets to outcomes and logistics capabilities. The first edition of the "To Be" roadmap is scheduled for completion in February 2007, in conjunction with the submission of the President's Budget for Fiscal Year 2008. Updates to the roadmap will follow on an annual basis. Efforts to develop the "To Be" roadmap show promise. However, until it is completed, we will not be able to assess how the roadmap addresses the challenges and risks DOD faces in its supply chain improvement efforts.

Concluding Observations

DOD faces significant challenges in improving supply chain management over the coming years. As it develops its "To Be" roadmap for logistics, DOD would likely benefit from including outcome-focused performance measures demonstrating near-term progress in the three focus areas of requirements forecasting, asset visibility, and materiel distribution. With outcome-focused performance measures, DOD will be able to show results in these areas that have been long identified as systemic weaknesses in the

[12] GAO, *Defense Logistics: Strategic Planning Weaknesses Leave Economy, Efficiency, and Effectiveness of Future Support Systems at Risk*, GAO-02-106 (Washington, D.C.: Oct. 11, 2001).

supply chain. While we recognize the challenge to developing outcome-focused performance measures at the department level, DOD could show near-term progress with intermediate measures. These measures could include outcome-focused measures for each of the initiatives or for the three focus areas. To be most effective, the roadmap also would reflect the results of analysis of capability gaps between its "As Is" and "To Be" roadmaps, as well as indicate how the department intends to make this transition. DOD would also benefit by showing the alignment among the roadmap, the supply chain management improvement plan, and other DOD strategic plans that address aspects of supply chain management. Clearer alignment of the supply chain management improvement plan with other department plans and ongoing initiatives could provide greater visibility and awareness of actions DOD is taking to resolve problems in the supply chain. In the long term, however, a plan alone will not resolve the problems that we have identified in supply chain management. Actions must result in significant progress toward resolving a high-risk problem before we will remove the high-risk designation.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared remarks. I would be happy to answer any questions you or other Members of the Subcommittee may have.

Staff Contacts and Acknowledgements

For further information regarding this testimony, please contact me at 202-512-8365 or solisw@gao.gov. Individuals making contributions to this testimony include Tom Gosling, Assistant Director; Michael Avenick; Susan Ditto; Marie Mak; Thomas Murphy; Janine Prybyla; and Matthew Spiers.

Attachment 1: Initiatives in DOD Supply Chain Management Improvement Plan

Initiative	Description	Focus area		
		Visibility	Forecasting	Distribution
Radio Frequency Identification	Technology consisting of active or passive electronic tags that are attached to equipment and supplies that are shipped from one location to another and enable shipment tracking.	X	X	X
Item Unique Identification	Marking of personal property items with a machine-readable Unique Item Identifier, or set of globally unique data elements, to help DOD value and track items throughout their life cycle.	X	X	
Joint Regional Inventory Materiel Management	Streamlining of the storage and distribution of materiel within a given geographic area in order to eliminate duplicate materiel handling and inventory layers.	X	X	X
Readiness Based Sparing	An inventory requirements methodology that produces an inventory investment solution that enables higher levels of readiness at an equal or lower cost.		X	
War Reserve Materiel Improvements	An improved war reserve requirements forecasting process.		X	X
Commodity Management	Process of developing a systematic procurement approach to the entire usage cycle of a group of items.	X	X	
Joint Theater Logistics	Improving the ability of a joint force commander to execute logistics authorities and processes within a theater of operations.	X		X
Joint Deployment and Distributions Operations Center	Provides Combatant Commands with a joint theater logistics capability (supply, transportation, and distribution) for command and control of forces and materiel moving into and out of the theater.	X		X
Defense Transportation Coordination Initiative	Long-term partnership with a coordinator of transportation management services to improve the reliability, predictability, and efficiency of DOD materiel moving within the continental United States by all modes.			X
Business Management Modernization Program	Departmentwide initiative to advance business transformation efforts, particularly with regard to business systems modernization.	X	X	X

Source: GAO analysis.

Hearing Date: July 25, 2006
Subcommittee on Oversight of Gov't Management, the Federal Workforce and the District of Columbia
Member: Senator Voinovich
Witness: Mr. Estevez
Question #1

Question: Is there a clear linkage between the supply chain management improvement plan and the other DoD logistic strategic plans? If so, please describe in detail how they are linked. If not, should there be? Is this discrepancy deliberate and should it be addressed?

Answer: The Supply Chain Management High Risk Improvement Plan and the initiatives within the plan have a clear linkage to the overall DoD logistics strategy. The Government Accountability Office (GAO) High Risk Area of Supply Chain Management includes three focus areas: asset visibility, forecasting, and distribution. The Supply Chain Management High Risk Improvement Plan was developed to identify initiatives and provide accomplishments and milestones for the key initiatives the Department has underway to improve the three focus areas.

The overall DoD Logistics Strategy incorporates the principles of several major logistics efforts. The Department published an "As Is" Logistics Roadmap, which focuses on the broader logistics area, including performance based logistics and maintenance, as directed by the Quadrennial Defense Review (QDR), as an initial step to defining the overall logistics strategy. The "As Is" Roadmap mapped the current major programs, within the DoD Components, to warfighter capabilities outlined in the Focused Logistics Concept. The initiatives highlighted in the Supply Chain High Risk Improvement Plan were also incorporated in the "As Is" Roadmap. Using the Roadmap and QDR as a baseline, a Joint Logistics Capabilities Portfolio test is being conducted to ensure that the future logistics strategy is based on required warfighter capabilities.

The Enterprise Transition Plan (ETP) was developed to describe a systematic approach for the transformation of business operations within the Department of Defense and to allow leadership to evaluate gaps and overlaps between current programs, and redirect efforts to minimize redundancy and provide needed business capabilities. The logistics areas addressed in the ETP mirror the key initiatives in the Supply Chain Management High Risk Improvement Plan that focus on asset visibility.

The initiatives provided as part of the Supply Chain Management High Risk Improvement Plan, the "As Is" Logistics Roadmap, and the results of the Joint Logistics Capabilities Portfolio test will be included in the completion of the overarching Logistics Strategy.

Hearing Date: July 25, 2006
Subcommittee on Oversight of Gov't Management, the Federal Workforce and the District of Columbia
Member: Senator Voinovich
Witness: Mr. Estevez
Question #2

Question: Do you have the workforce in place to implement the 10 initiatives in the Supply Chain Management Improvement Plan? Please provide the Subcommittee with names of the individuals in charge of each of the initiatives listed in the Supply Chain Management Improvement Plan.

Answer: The initiatives highlighted in the plan are the key Department initiatives that will improve at least one of the three focus areas highlighted by Government Accountability Office (GAO) as Supply Chain Management High Risk. The Department is committed to ensuring these initiatives are implemented. Alan F. Estevez, as the Assistant Deputy Under Secretary of Defense for Supply Chain Integration, is a career member of the Senior Executive Service and the individual responsible for the plan. He regularly reports progress to the Deputy Under Secretary of Defense for Logistics and Materiel Readiness and the Under Secretary of Defense for Acquisition, Technology, and Logistics. His representative, Debra S. Bennett monitors the implementation of each of the initiatives, reviews milestone slippages, prepares monthly updates to the plan, assists the initiative leads with metric development, and provides the GAO and Office of Management and Budget (OMB) progress reviews at monthly meetings. Each of the initiatives within the plan is led by a senior leader within the Department. The name and title of each of the senior leader's are listed below:

Initiative	**Lead**
Radio Frequency Identification (RFID)	Mr. Alan F. Estevez, Assistant Deputy Under Secretary of Defense for Supply Chain Integration
Item Unique Identification (IUID)	Ms. Leantha Sumpter, Deputy Director for Program Development and Implementation
Joint Regional Inventory Materiel Management (JRIMM)	Mr. Alan F. Estevez, Assistant Deputy Under Secretary of Defense for Supply Chain Integration
Readiness Based Sparing (RBS)	Mr. Alan F. Estevez, Assistant Deputy Under Secretary of Defense for Supply Chain Integration
War Reserve Materiel Improvements	MGen Ed Usher, Joint Staff, Vice Director, J-4 and Mr. Alan F. Estevez, Assistant Deputy Under Secretary of Defense for Supply Chain Integration
Commodity Management	Mr. Alan F. Estevez, Assistant Deputy Under Secretary of Defense for Supply Chain Integration
Joint Theater Logistics (JTL)	MGen Ed Usher, Joint Staff, Vice Director, J-4
Joint Deployment and	MGen Charles Fletcher, Director of Operations,

Distribution Operations Center (JDDOC)	USTRANSCOM (TCJ3)
Defense Transportation Coordination Initiative (DTCI)	Lt Col James Lovell, Director for Defense Transportation Coordination Initiative, USTRANSCOM
Business Management Modernization Program	Mr. Paul Brinkley, Deputy Under Secretary of Defense for Business Transformation

Additionally, each of the senior leaders has designated a key representative within his or her organization to monitor progress and provide guidance to the components responsible for implementation of the initiatives. The majority of the resources responsible for implementing the initiatives are located within the Combatant Commands, Military Services, and Defense Agencies. They also support the key representatives through joint teams that have defined expected outcomes, developed milestones, assist in resource decisions as required, are responsible for establishing metrics to show improvement, and identify implementation impediments to the senior leader for resolution.

Our commitment to the implementation of these initiatives and the removal of Supply Chain Management as a high risk area is also evident in our status meetings with the Under Secretary of Defense for Acquisition, Technology, and Logistics and our quarterly Senior Executive Service (SES) In-Process Reviews and monthly key representative meetings between DoD, OMB, and GAO.

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