

STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON READINESS & MANAGEMENT SUPPORT

SENATE ARMED SERVICES COMMITTEE (SASC)

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Good afternoon Mr. Chairman and distinguished members of the Subcommittee. I am Lieutenant General Tom Glisson, Director of the Defense Logistics Agency (DLA). I appreciate the opportunity to appear before this subcommittee to discuss DLA's integral role on the joint warfighting team, highlight our efforts to ensure America's warfighters are logistically prepared – today, tomorrow, and in the 21st century -- through better, faster, and lower cost support, especially with the help of acquisition reform initiatives.

I will start by providing some background about DLA's increasingly broad scope of responsibility and diverse missions, and a brief "state of the Agency." Then I will address each of the topics you would like to discuss, and give some examples of initiatives.

BACKGROUND

Since the Defense Supply Agency was established in 1961 and designated the Defense Logistics Agency in 1977, the Agency missions, roles, and responsibilities have grown significantly. From an initial focus on wholesale supply management of many consumable supplies and services, DLA has become the foremost Department of Defense (DoD) broker and manager of integrated logistics support and services. More specifically, we

- Buy and manage over 4 million items with nearly \$13 billion/year in sales
- Store and distribute nearly all of DoD's materiel.
- Market and manage reuse of surplus military materiel.
- Hold and market the national stockpile consisting of 87 internationally traded commodities.
- Manage the logistics information for over 7 million items, and operate the central contractor registry for DoD electronic commerce.
- Administer and manage most weapon system and support contracts, with a face value totaling over \$970 billion.
- Manage DoD's automated printing.
- Manage a number of joint programs for OSD, including
 - Joint electronic commerce;
 - Joint total asset visibility (JTAV);

Agency manpower has gone from the high of about 65,000 in 1992 to the low 40,000s today; and it is going down to the low 30,000s by FY05. Since 1992, our business process reengineering, reinvention and reform activities, and shift to commercial practices, among other initiatives, have enabled us to improve performance and lower the costs of operation. That is a 50% decrease since 1992 despite an incredible growth in Agency missions, roles, and responsibilities.

While we pursue greater effectiveness and efficiency, our priority and focus are stronger than ever on readiness and sustainment. In DLA we emphasize that we are warrior-focused professionals and an integral part of the Joint Warfighting Team. Warfighters can count on us to be there, every time, wherever they are, providing

required logistical support around the clock, around the world. Since the Gulf War, DLA Contingency Support Teams (DCSTs), DLA's "Minutemen," have deployed with the warfighters and provided the CINC with on-site combat logistics support and contingency contract administration services (CAS).

STATE OF THE AGENCY

In pursuit of better, faster, lower-cost combat logistics support to the warfighter, DLA has made continuous process improvement and "quantum leaps" in performance. As a result, we continue to improve quality, reduce response time, lower costs, return dollars to the Services and DoD, improve customer satisfaction and warfighting capability. In short, we have become a catalyst for the revolution and transformation in DoD logistics and acquisition practices.

The innovations we've introduced across the Agency have enabled us to achieve over \$1 billion in one-time and recurring savings for the last five years¹. We have returned an additional \$1.3 billion to the Services in the last three years and projected additional savings of over \$900 million between fiscal years 2000-2005. We are achieving a major objective to expand the quality of service we give our customers

In addition, as we improve support to our customers, we are exploiting business practices to reduce inventory and the costs associated with holding it. Our total inventory at the end of fiscal year 1998 was \$9.8 billion. Between fiscal years 1997 and 1998, our inventory decreased \$137 million despite taking in over \$700 million in inventory transferred in the Consumable Item Transfer (CIT) from the Military Services. Excluding the items transferred in the CIT, DLA inventory has decreased 43 percent from fiscal year 1991.

We are positioning the Agency for the future. Clearly, logistics will become more information-dependent and critical as warfare increases in sophistication, speed, and complexity. Power projection will require a system that achieves much greater speed and agility. Supply chain integration, distribution and transportation-based logistics, and leading-edge technology will be key enablers. We will have a greater reliance on industry; and our forces will operate in an increasingly joint warfighting environment. Acquisition and logistics reform are helping us meet the opportunities and challenges ahead.

To more specifically address the opportunities and challenges for the 21st century, DLA's conceptual framework for change focuses on five key areas.

- First, logistics organization must change to accommodate or adapt to the changing environment. To do so, I have chartered an effort to develop and propose a vision and organizational structure for the Agency in the new

¹ Report of KPMG, Peat Marwick, in reviewing impact of DLA's medical and subsistence prime vendor programs.

millennium for evolution and implementation during the period of the Future Years Defense Plan (FYDP).

- ❑ Second, we must modernize our logistics systems. The legacy systems have outlived their usefulness, and we are hostage to their very limited capabilities. Therefore, plans are underway to replace our legacy systems with state-of-the-art business enterprise systems and solutions.
- ❑ Third, in the process of adopting best business practices, we must better integrate our reengineering efforts, and better prioritize and tailor our initiatives. Thus, we have developed a comprehensive materiel strategic sourcing strategy.
- ❑ Fourth, continued emphasis on acquisition reform is key to our shift to commercial practices. Without true civil-military integration, we will be unable to full realize the true potential of a Revolution in Business Affairs.
- ❑ Fifth, a world class workforce is the common denominator for success. We continue to emphasize their training, development, involvement, and empowerment as the workforce gets smaller and focuses on inherently Government functions and core competencies.

SUBCOMMITTEE TOPICS

Now, I would like to address the topics of specific interest to the subcommittee.

DLA has been a leader in all of the Department's reform efforts – especially acquisition, logistics, and resource management reforms. We have been aggressive to change the ways we do business, streamline organizations, maintain current world-wide support of readiness and operations, and build partnerships, processes and capabilities for future world-class logistics support to America's warfighters.

In support of the Defense Reform Initiatives (DRIs) of Secretary Cohen, Dr. Hamre, and Dr. Gansler, we have initiated action and demonstrated considerable progress in implementing their guidance on almost 20 Management Reform Memorandums (MRMs) and Defense Reform Initiative Directives (DRIDs). These MRMs and DRIDs focus directly on reforming acquisition, business processing reengineering, adopting best practices, applying market mechanisms, and reducing excess support structures. They address functions, processes, and enablers that offer the greatest opportunity for improvement. Examples of the MRMs and DRIDs include requiring the DoD components to employ paperless contracting, expand DoD electronic commerce and DLA prime vendor (PV) programs, use commercial electronic data interchange (EDI) standards, and redesign a large number of processes.

Shift to Commercial Practices

Clearly, the most significant change across the Agency, and the change with the greatest and most positive impact, has been DLA's shift to commercial practices. In the continuous process of benchmarking and learning from world-class operations in industry, we continue incorporate the most successful ideas for effective and efficient support to the customer. At the same time, in partnership with the Military Services and other Defense Agencies, we continue to leverage commercial capability in all of our business areas.

As DLA becomes more of a "broker" of products and services and puts a number of responsive and best value support arrangements in place, we also continue to pursue the complementary and enabling tools that simplify the ways we do business, especially from the warfighter's perspective.

The DoD Electronic Mall (E-Mall) is an example of DLA's commitment to providing world class logistics to the warfighter while simultaneously embracing commercial business practices. The E-Mall will provide a single point of access to a wide range of electronic catalogs that cover both items supplied directly from contractor inventories as well as from Government stocks. Customers will be able to choose based on the overall best value afforded to them, considering price, delivery, and the manufacturer/supplier. Direct delivery, contractor supplied material will be covered by Government contracts (Military Services and DLA) and will generally offer rapid deliveries with lower cost recovery rates than stocked material. Our general approach is to buy entire lines or catalogs of vendor material at the best discounts possible and pass along savings to customers. The multiple sourcing capabilities of E-Mall will allow a wider range of choices similar to what the commercial sector offers. Customers will be encouraged to pay using the Government Purchase Card. We will also continue to support standard interdepartmental payment processes as long as this is needed.

In December 1998, the Deputy Secretary of Defense signed a DRID to adopt commercial EDI standards for DoD logistics business transactions. This initiative is related to the Government Paper Elimination Act. The DRID directed the Joint Electronic Commerce Program Office (JECPO) to form an Integrated Product Team to develop a comprehensive implementation plan in conjunction with the Military Services and Defense Agencies. The plan will outline a phased implementation approach to migrate the Department's logistics transactions from the current proprietary and technically obsolete standards to open commercial EDI standards. The goals are to simplify DoD interfaces with the private and federal civilian sectors and to enable the required changes to the Department's logistics business processes. This change will create new levels of interoperability across the full range of logistics business processes within DoD and between DoD and its commercial trading partners.

In the process of reengineering how DLA operates, leveraging commercial capabilities and adopting best practices, our initial focus has been on common items like

clothing and textiles; food and associated items; medical products; and energy. We are pleased to report commercial practices and processes we introduced are now in place for over 90% of these commodities. Therefore, our primary focus has shifted to hardware and other more complex items. I'll discuss **only a few** examples of these initiatives, beginning with the troop and general support area.

Subsistence Prime Vendor (SPV) is a mature program that has been successfully implemented throughout CONUS and Europe and is now being expanded into the Pacific region. The program utilizes commercial distributors to deliver high quality commercial food within 48 hours or other negotiated time frames. SPV reduces or eliminates conventional DoD intermediate dry and cold storage supply points and their associated inventories. Depot storage/transportation of semi-perishable items will ultimately be eliminated.

Pharmaceutical Prime Vendor (PPV) is a fully implemented program, with coverage of 21 geographic regions, including Europe and the Pacific. But we think we can do better for the Government by working with the Department of Veterans Affairs to obtain more advantageous product prices based on the national leveraged buying power of the 2 agencies. We anticipate realigning VA's program with DoD's 13 TRICARE regions when its current contracts expire in the near future.

DLA is developing a **Dental Initiative** that mirrors the commercial practice of using multiple electronic catalogs. DLA's solicitation covers Navy-wide dental requirements but enables participation by other services customers. We anticipate multiple awards of contractors' entire catalogs. Two contracts were awarded in January 1999 and order testing is being initiated. These commercial catalogs, encompassing approximately 23,000 items, will be placed on DLA's Electronic Catalog to enable Internet ordering. This initiative will enable one stop shopping for dental supplies, and faster delivery times. Previous support for these items was provided out of DLA depots.

DLA is establishing a program called the **Consumable Optical Product Service (COPS)** to provide optical supplies to 40 CONUS and OCONUS Navy and Army customers, plus Naval aircraft carrier facilities, that fabricate eyewear. (The Air Force does not fabricate eyewear.) This program has been developed based on extensive coordination with the Naval Ophthalmic Support and Training Activity, DoD's largest optical lab, located in Yorktown, Virginia. We anticipate multiple awards of contractors' entire catalogs, which will be placed on DLA's Electronic Catalog to enable Internet ordering. We made the first COPS award in November 1998 and anticipate making additional awards in the next three months, as contractor capabilities to handle electronic ordering and invoicing are verified. This program will provide customers with one-stop shopping for approximately 2,600 items and shorter delivery times. Typical items include: lens, frames, inserts for gas masks, and miscellaneous items used to make lens.

DLA is establishing a **Laboratory Integrated Delivery System (LIDS)** program to support 35 research centers and numerous clinical customers (fixed facilities that perform testing lab analysis, sampling, and diagnostics) with laboratory supplies. We

will award multiple contracts for contractor's entire catalogs and make them available for Internet ordering. Delivery will be made directly to customers within 72 hours after receipt of order. Customers previously purchased supplies locally, using credit cards. Delivery was 10 to 15 days for common lab supplies, and up to 30 days + for chemical/research supplies. We have already made 4 awards and are now testing these contractors' systems capability to process electronic orders and invoices. Orders are being placed by several customers. Four additional awards will be made in the near future. This initiative will enable one stop shopping for approximately 500,000 items. Typical items include: common lab supplies (for clinical hospitals) for microbiology, hematology, cytology, blood bank and specimen collection; and chemicals (for research centers) for control and eradication of infectious disease and chemical warfare.

Uniforms Virtual Prime Vendor. DLA sought commercial solutions for a modernized method of receiving, storing and distributing very large quantities of clothing and textiles to approximately 2,500 customers in the Southeastern United States. Items to be supplied are recruit clothing items such as dress coats, slacks, shirts, undergarments, shoes, caps, and sweatsuits. These "Recruit Clothing Bag" items are issued to every recruit to meet daily training requirements. Annual dollar value of sales of these items within this region is \$160 million. Anticipated savings due to inventory reduction range from \$6M the first year, \$15M in the second year, and \$21M each year thereafter. The solution developed was through the use of "Virtual" Prime vendors (VPV) which will reduce order ship times, lower warehouse costs, optimize inventory levels, maintain customer visibility of material during shipment, and improve and maintain readiness. This VPV will be expected to use commercial practices, provide 100% supply availability, and anticipate customer demand.

The Maintenance, Repair and Operation (MRO) Prime Vendor (PV) initiative is a regional program designed to provide DoD activities with commercial supplies that support public works and base maintenance missions. The MRO program capitalizes on industry integrated supply chain management and the use of electronic catalogs to attain program benefits. Those benefits include: quickly providing regional customers what they desire while reducing overall costs (infrastructure, inventory, and prices). Facility maintenance customers are able to place orders through an electronic order entry system directly to a prime vendor, and the required items are supplied from the vendor to the customers' designated delivery sites. Customers can expect competitive commercial pricing, rapid delivery for routine items, 24-hour service for emergency orders, and bills-of-materials orders for specific projects to be assembled, held, and delivered 100 percent complete by the prime vendor to wherever and whenever the customer requires. Contracts also require contractor customer service representatives and technical experts to resolve problems, and provide technical support. The MRO program relies on a high volume of customer participation to take advantage of DoDs leveraged buying power to maximize the program benefits. MRO contracts are long-term flexible arrangements of one year with four 1 year performance based options. Metrics tracked include delivery, fill-rate, pricing, customer satisfaction and socioeconomic factors. Credit card acceptance capability is available for customers. All MRO contracts include clauses to ensure surge and sustainment capability in the event of national emergency.

To date, 50 military sites are placing orders and are actively participating in the program. An additional 27 sites are committed but not yet deployed. A summary of program sales is as follows: FY99 to Date: \$11M, FY98: \$18.54M, FY97: \$1.67M.

The **Industrial Prime Vendor (IPV)** initiative is an acquisition strategy for integrated logistics solutions for consumable items used in the overhaul, repair and maintenance of weapons systems, which are normally stocked at or near the point of use, sometimes referred to as benchstock. Benchstock is comprised of commercial items, such as: O-rings, bolts, screws, nuts, washers, seals, couplings and rivets. The purpose of this initiative is to demonstrate a guaranteed warfighter surge and sustainment capability at the lowest infrastructure cost.

Contracts are being awarded to firms who demonstrate total logistics approaches to providing supplies, supply chain management and anticipatory services to include technical and engineering support, forecasting and configuration management. The projected outcomes associated with this initiative are:

- Reliable direct industry surge and sustainment for military customers during times of industrial mobilization.
- A reduction in total logistics costs.
- A reduction in time for customers to accomplish their overhaul and maintenance mission.
- A reduction in support and supply infrastructure costs.
- A reduction in inventory-related burdens.

The implementation strategy for this initiative is to initially award prototype contracts with major industrial and operational customers for proof of concept and ultimately provide worldwide support through regional contracts.

Now I'd like to get into our initiatives that center on improving logistics support for Class IX spare parts. Although a greater challenge than for troop and general support items, we believe there is great potential in this area.

Corporate contracts remain as one of the most valuable tools in the DLA repertoire. They provide significant savings in leadtime and logistics response time for the items supported. For some items and some customers they represent the optimal logistic support solution. The services of a PV or VPV are not profitable for or required by all customers, nor do all manufacturers wish to become PVs. A corporate contractor can provide consistent, timely support to support customer requirements. By taking advantage of the long term contracting strategy they also reduce the repetitive workload on the staff of the inventory control point, allowing them to expand the use of these contracts, and to target their efforts to more complex integrated methods of contracting support. Corporate contracts permit DLA to leverage its national buying power by consolidating common requirements of the Hardware Centers. DLA's goals in corporate contracting are to negotiate long term contracts, contract on a Direct Vendor Delivery (DVD) basis, use EDI as the method to send orders, use commercial practices and seek

substantial lead time reductions where direct vendor delivery is not practical. Where feasible, long-term DVD contracts are issued for the vendor's entire catalog of applicable parts and use their commercial distribution system or network to support the customers directly.

DLA has leveraged our DoD buying power and awarded many Corporate Contracts to some of the leading manufacturers in the automotive industry. They include contracts with AM General, Oshkosh Truck, Penn Detroit Diesel (Detroit Diesel Distributor), NAPA, Freightliner, Westside Tractor (John Deere Distributor), and Komatsu. These corporate contracts cover thousands of automotive and engine parts, take advantage of extensive commercial inventory, allow for electronic ordering/processing and use of the Government purchase card in most cases, and provide for direct vendor delivery (DVD). These contracts provide a greater selection of items available to our customers, better quality, lower prices, and dramatic improvements in logistics response time. For example, in the corporate contract with NAPA, the entire commercial automotive catalogue of approximately 200,000 items is available. There is a discount from the commercial price. Customers can acquire parts through the contractor's dealer network located throughout the United States using the Government purchase card. Premium service allows for delivery within 48 hours and 5 days for routine stocked items.

DLA is developing a VPV program, called **Fleet Automotive Support Initiative (FASI)**, to provide logistics support for automotive/vehicle fleets utilized throughout DoD. This acquisition initiative divides the country into eleven different regions with one contract to be awarded for each region. This initiative was developed for DLA's first FASI customer, the USMC, from discussions with Camp Pendleton and Camp LeJuene, to provide support for the first two identified regions (Southwest Coast and Southeast). DLA is currently conducting final price analysis, identifying systems issues, and preparing a business case analysis. Awards are anticipated in FY99. DLA is also working with a concept for integrated logistics support for spares on the M9 ACE, both Army and Marine versions. Approximately 2000 NSNs unique to the M9 ACE are being targeted in the initial phase, plus any common NSNs needed to achieve readiness. Afterwards, 2000 common items will be evaluated and possibly included for support. The contractor will provide technical and supply support as well as spare parts. We are currently addressing pricing methodology and readiness/surge capability issues. Anticipated award timeframe is 3rd quarter FY99. In addition, to the above, DLA has numerous corporate contracts for automotive parts.

In addition to seeking best commercial practices for the items we manage, we are also seeking similar practices for those activities we still perform in house. To promote this concept, DLA is conducting A-76 public/private competitions on 16 of its distribution depots (i.e., all except its two primary distribution depots). Performance Work Statements (PWS) will be used to define requirements instead of the classic Statement of Work approach, to provide contractors the flexibility of defining how they will provide the support. This will promote the introduction of commercial practices regardless of the outcome of the competition. The draft request for proposal (RFP), forms, and

publications are being posted on the Web to ensure maximum exposure and access to all information.

The first PWS, which is serving as a template for other efforts, covers DLA's distribution depot at Columbus, Ohio. This PWS and another one that covers 10 Defense Reutilization and Marketing Offices (DRMOs) have recently been approved by the Source Selection Advisory Council. The review process for PWSs for our distribution depots at Warner Robins, GA, and Barstow, CA are now underway with rapid progress being made toward solicitation release. While further efforts will follow these initial ones, we have already estimated net savings of \$158 million over our future year programming horizon and will subject almost 7,100 full time equivalent positions to public-private competition during that period.

An ongoing partnership with industry to exploit commercial practices is our Premium Service arrangement with Federal Express (FedEx) Corporation. Premium Service provides time-definite delivery of government-owned materiel prepositioned in a FedEx (Contractor Owned, Contractor Operated) facility in Memphis, Tennessee. FedEx receives, stores and issues high priority materiel owned by DLA and the Military Services. Order and shipping services are provided 24 hours a day, 365 days a year, using the latest commercial practices. Standard delivery of Premium Service orders received prior to midnight Central Time is 10:30 a.m. the next day at installations located within the Continental United States. Currently, over 5,000 Army, Navy, Air Force, and DLA lines of materiel are stocked in the Premium Service facility. These lines of materiel generate over 16,000 orders per month. The Premium Service Program has grown from 279 orders during FY 1995 to over 174,000 orders in FY 1998. The growth is directly attributed to the customers' high confidence and overall customer satisfaction. The program was awarded the prestigious NPR Hammer Award in 1997. The Reinvention Lab status for Premium Service was officially closed during 1998.

The impact of our shift to commercial practices has been tremendous. Overall, as I have mentioned before, DLA programs have saved DoD more than \$1B. In the various commodities, DLA has reduced wholesale and retail inventories by 43% to 59%, response times by 56% to 90%, , and distribution workload by 20% to 30%. DLA anticipates this shift will continue in the foreseeable future.

Military Specification (MILSPEC) Reform

Since 1994, DLA has been participating with the Military Services in the overall effort to reform DoD's system of military specifications and standards. Since 1994, the number of specifications and standards for which we are responsible has tripled, as the Services transferred many documents used for the acquisition of consumable and reparable items to us. Every military specification and standard has been reviewed and slated for action. Slated actions include cancellation, retention, or conversion to commercial specifications or performance-based military specifications.

It is relatively quick and easy to replace military specifications and standards with commercial specifications and standards that already exist. That work is complete. Unfortunately, there are many areas in the commercial market not addressed by specifications and standards other than proprietary, company unique documents. We are now into the more difficult phase of spec reform - the development of new commercial specifications and standards to replace military documents for commercial items. The low hanging fruit has been picked.

We are working with a wide range of non-government standards setting bodies to develop new industry standards in those areas that appear to be promising. The non-government standards process is one of consensus, bringing together manufacturers and users from government and industry. The value of non-government standards is in the consensus they represent; however, achieving consensus is a time-consuming process. New non-government standards to replace military documents do not come quickly.

For those areas in which there is no industry interest in developing specifications for commercial items or, as an interim measure, until a non-government standard is finalized, we are developing commercial item descriptions. Our commercial item descriptions are based on thorough research of the commercial market in a given area. Our intention is to develop a set of commercial item descriptions describing available commercial items that meet defense requirements and enable competitive acquisitions of quality products.

Acquisition Reform in Contract Management

As DoD's contract manager, DLA continues to be in the forefront of acquisition reform. Our Defense Contract Management Command (DCMC) has introduced a number of initiatives that represent a "win-win" approach for DoD and industry.

As a result of declining defense expenditures, contractors have been consolidating and restructuring their operations to reduce costs through activities such as deposing facilities, combining operations and systems, relocating workers and equipment, and reducing workforce personnel. As part of the process to ensure that the expected restructuring savings exceed projected costs, DCMC requires contractors to submit a restructuring proposal for audit and negotiation. These proposals include details on planned restructuring activities, projected costs and anticipated savings. OSD has certified projected costs and anticipated savings for eight business combinations. Between July 21, 1993 and December 31, 1998, projected costs and savings for these combinations were estimated at approximately \$869.2 million and \$3.9 billion, respectively. Additionally, industry consolidations have caused DCMC to realign its organizational structure to match industry adjustments in order to better serve our customers. This means leaner operations through consolidations and closure of DCMC field offices. This is evident by the reduction in size of DCMC since 1990. Specifically we have moved from 144 CAO's, 1,200 operating locations, and 25,000 contractor locations to 70 CAO's, 1,024 operating locations, and 23,000 contractor locations.

DCMC's Contingency Contract Administration Services (CCAS) Teams have shared the battlefield with contractors to gain first hand knowledge on the relationships between contractors and the warfighter. DCMC has had the opportunity to share this knowledge with both Army Material Command and Army Corps of Engineers during the development of their current contingency support contracts. To date, 10 teams and more than 186 people have deployed and worked in areas of operation that include Bosnia, Croatia and Hungary. They are a key component of the Defense Logistics Agency Contingency Support Team. DCMC's teaming initiatives in providing early contract administration services (CAS) support to these and other commands have ensured procuring activities consider the following issues when developing contingency support contracts: Taxes, Status of Forces Agreements, Chemical/Biological Support, Force Protection, Medical Care and Personnel Evacuation. The responsibility for providing battlefield support to the contractor should be clearly defined in the contract. DCMC's up-front involvement in providing early CAS helps ensure these requirements are clearly articulated in the contract, and that quality support is provided to the warfighter while minimizing disruptions in the contractor's performance.

The goal of achieving Civil Military Integration (CMI) requires long-term vision. DCMC-facilitated Management Councils are key tools for accelerating improvements in the acquisition process. Management Councils are high performance teams consisting of senior representatives from key customer buying activities, DCMC, the Defense Contract Audit Agency, and contractors. The councils are established at all contractor sites that have major acquisition programs and at any other contractor site where a council would be beneficial. The councils charter joint Government/contractor multi-functional teams and then manage the activities of those teams – providing guidance, coordinating issues, resolving disagreements, approving team recommendations, and following up on implementation of good ideas. To further speed this integration, industry is working with the supplier base to facilitate reform and acceptance of best practices. Industry associations are beginning to take a more active role in facilitating supplier involvement.

Additionally, several major defense contractors have initiated Corporate Management Councils designed to expedite reform processes across their entire enterprises, not just at an individual facility. CMI offers several ways for both the Government and contractor to benefit, e.g., access to commercial technology, lower product costs on future buys, savings negotiated into existing contracts, and lower overhead rates applied to future business. Achieving CMI goes beyond dollars returned to DoD. It facilitates wide conversion to commercial practices, industry consolidations, modernization, and is a critical component to acquisition reform.

Since December 1995, the DLA's DCMC has been managing DoD's initiative to transition contractor facilities from multiple Government unique management and manufacturing systems to common, facility-wide processes. This initiative was built on the premise that the Department should capitalize upon and adopt existing commercial processes converting multiple specifications and standards to a single facility-wide process. DCMC's Single Process Initiative (SPI) represents an important step towards achieving CMI. SPI uses an administrative streamlined approach of a block change

contract modification that unifies requirements in contracts facility-wide, rather than on a contract-by-contract basis with one contract modification. SPI facilitates converting all existing contracts at a facility to a contractor proposed common process. To date, 307 contractors have participated in the initiative, 1,155 processes have been modified with a total cost savings/cost avoidance of over \$452M.

Over the past four years, DCMC contract management policies have been completely revised to emulate industry practices of risk-based supplier management. These policy changes reflect the use of Earned Value Management Systems integrating Civil and Military processes through the Single Process Initiative and managing suppliers instead of supplies. In short, these techniques support the concept of supplier excellence and focus DCMC surveillance resources on those contractors where acquisition risks are considered significant. This allows DCMC to more efficiently allocate resources using risk management techniques.

DLA is committed to effective implementation of the Government Performance and Results Act of 1993 (GPRA): setting goals, accountability for results, measuring performance, and reporting on progress. We are committed to implementation not just because it's the law but because it makes good business sense. GPRA propels us to manage outcomes and not just budgets. Through an Activity Based Management approach, the Agency is identifying key output processes and their resultant costs. High cost processes that are driving unit costs are systematically identified and evaluated for reengineering or process improvement. Our DCMC and elements of the Defense Logistics Support Command (DLSC) are leading the way with this effort. This approach allows more insight into our true costs, our productivity, our potential for improvement, and the positive impact we have on our customers.

DCMC has vigorously pursued several Defense Reform Initiative Directives that streamline, reform and achieve a paperless defense acquisition process. Over 90% of all Administrative Contracting Officer (ACO) contract modifications are posted to the Defense Information Systems Agency's Electronic Document Access Web site as well as updating the Mechanization of Contract Administration Services contract payment system. Over 60% of contractor progress payments are handled electronically. DCMC is also modeling a "to be" shared-data-environment procurement process which supports a Defense initiative to implement a paper-free contract writing, administration, finance and auditing process by January 1, 2000. DCMC is working hard to meet the year 2000 goal of paperless contracting.

DCMC is leading the DOD team to eliminate FAR policies and procedures that lead to the performance of unnecessary government source inspection. This effort continues to reduce costs as we move toward commercial-like approaches to contract quality assurance and initiate risk management methods. Overall, government source inspection has been removed from 35.7 percent of national stock numbers, streamlining decision processes and reducing administrative lead-time. DCMC also leads an interagency team to dispose of excess Government-owned property at contractor plants and disposing of underutilized and excess property, eliminating property where the value

does not surpass the cost of ownership. We are close to meeting our goal to dispose of \$7B of excess Government property by Jan 2000.

Our DCMC is also a leader of DoD's Price-Based Acquisition (PBA) Study Group. This PBA Study Group was established in October to analyze implementation of PBA with the Department. PBA is essentially making purchases without reliance upon the supplier's estimated or incurred costs. The intent behind moving to PBA is to eliminate, to the greatest extent possible, differences between Government contracting and commercial purchasing. Expected benefits include reduced prices for military products (by enabling companies to integrate their military and commercial production lines) and greater access to commercial products, technologies and services. The PBA Study Group's charter isn't to figure out whether DoD should go this way, but rather, how to make it happen. The completion date for their study is in April 1999.

As a leader in fulfilling the objectives of the GPRA, DCMC is positioned to be a centralized service provider for the defense acquisition community. The key to future success will be teaming with Service customers and industry partners to drive the end-to-end business process of DoD to a more efficient and effective commercial-like approach. DCMC's focus, now and in the future, is to support the warfighter, our customer.

Acquisition Workforce

All of these initiatives have enabled us to continue reductions to the size of our acquisition and logistics workforce. The twin pressures of this continued downsizing and the widespread introduction of reengineered business processes have had a tremendous impact on the men and women of DLA. While they have stepped up to every challenge, the nature of the changes being introduced, especially shifts to more commercial ways of doing business, have emphasized the importance of developing our workforce to be ready for tomorrow's way of doing business.

We have committed to investing 1.5 percent of our payroll costs in targeted training and development that will prepare the employees for the job demands they face now and will face in the future. Each employee will receive at least 40 hours of training per year in areas keyed to developing job requirements. The Agency has introduced new approaches to assure that this training is in the high impact areas that will make a difference in acquisition reform. For example:

- DCMC has established a network of Senior Functional Advisors (SFAs) to maintain and enhance the core competencies of Contracts, Property, Pricing, Quality, Production, and Engineering. The SFAs ensure the free flow of information on best practices and lessons learned to specialists implementing acquisition reforms.
- DCMC has also established centers of expertise to enhance its abilities in mission critical areas such as overhead negotiations, earned value management, and software surveillance.

- DCMC has increased management focus on Defense Acquisition Workforce Improvement Act (DAWIA) training requirements and has established certification goals for field activities.
- DLSC has established training goals for each of its subordinate activities and has deployed guidelines on developing a multi-skilled cadre of leaders focused on managing acquisition outcomes as well as processes.
- In response to several DoDIG reports on commercial spare parts pricing, DLSC developed courses for field procurement and technical personnel to improve application of reformed and streamlined acquisition practices. Over 2,700 have been trained so far.
- We have developed web-based, or distributed training on integrating commercial business practices into the government acquisition process. Since its introduction in December 1998, over 150 employees have enrolled.
- The Agency has invested in the development of a satellite training system to offer more timely and affordable training to our employees around the world.

The data below relate to DLA's DAWIA development activity:

	<u>FY98</u>	<u>FY99 (YTD)</u>
Students Trained	3,081	333
Quota Utilization Rate	85%	98%
Costs*	\$3,523,523	\$1,319,799

*Funded by Defense Acquisition University

DAU has taken the lead in updating its courses to reflect a focus on business and best practices. DLA employees naturally benefit from the updated curricula and are able to immediately apply the new techniques in the workplace.

SUMMARY

DLA continues to work hard to ensure we consistently provide responsive, best value products and services to the warfighters. Our DLA vision is to be America's Combat Logistics Support Agency, the warfighter's choice for integrated life cycle solutions through teamwork and partnership, with an approach that emphasizes "One Team, One Focus."

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions from the Committee.

