S. Hrg. 109–272

FROM FACTORY TO FOXHOLE: IMPROVING DOD LOGISTICS

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

FIRST SESSION

OCTOBER 6, 2005

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THURSDAY, OCTOBER 6, 2005

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

The Subcommittee met, pursuant to notice, at 2:30 p.m., the Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich and Akaka.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Good afternoon. The hearing will please come to order.

Today's hearing is entitled, "From Factory to Foxhole: Improving DOD Logistics," examines a somewhat arcane yet vitally important issue that affects the men and women of our Armed Forces.

This is the fourth Subcommittee hearing Senator Akaka and I have held on the Government Accountability Office's high-risk list and the third in our ongoing investigation into the management challenges facing the Department of Defense. As you know, the Department is the leading agency with eight areas on the high-risk list. In addition, there are six government-wide high-risk areas that DOD shares with all Federal agencies.

Senator Akaka and I will be focusing our Subcommittee agenda on two of the DOD high-risk areas. Our first is the personnel security clearance process, which is an issue DOD shares with the Office of Personnel Management. Today's hearing topic, supply chain management, is the second area where we will be dedicating our time and resources to guarantee that necessary improvements are made.

Unfortunately, during Operation Iraqi Freedom, GAO found several examples of a mismanaged supply chain, including (1) a $1.2 billion discrepancy in the material shipped to, and received by, the Army; (2) cannibalized equipment because of a lack of spare parts; and (3) a war reserve that did not adequately supply the warfighter with enough body armor, lithium batteries, up-armored kits for Humvees, and meals-ready-to-eat. This is surprising to me because I thought we had a stockpile of these meals. Based on these findings, I do not think anyone would disagree that the Department

must improve the way it supplies the men and women of the Armed Services with critical life-supporting gear.

In Ohio, I spoke with a constituent who said they were sending telescopic lenses for rifles to Iraq, because the soldiers did not have them. I think it is a tragedy that important supplies like this were not available at a time when it was needed. I understand that things have substantially improved since that time.

My interest in investigating and improving the Department's supply chain management process is governed by two important principles. First, with a budget of over $420 billion, which is a little less than we borrow each year to run the Federal Government. Second, with $77 billion worth of items in its inventory, the Department must be a better steward of the taxpayers' money. In fact Secretary Rumsfeld has estimated that the Department wastes 5 percent, or $20 billion a year, on redundant or outdated business practices.

We've got something on the floor of the Senate today where we—in terms of a system that deals with taking care—it's supposed to be a computerized system where people can book airlines, and I just couldn't believe it, $500 million, 7 years and it still doesn't work. So there's some problems there and I'm sure we'll get into some of those systems.

More importantly however, inefficient, ineffective and redundant steps within the supply chain have a direct and immediate impact on our soldiers on the battlefield. This is why we are here today. In other words, the current system impedes the Department's ability to deliver the right items at the right time to the right place for the warfighter.

Even though today's hearing title implies a much broader focus, we must not lose sight of the fact that the supply chain management process, which is a key component of the Department's logistics program, has been on the GAO's high-risk list since 1990. That's 15 years. That's just too long for a process of this magnitude and importance to be mismanaged.

Therefore, I'd like our witnesses to know that I am committed to working with them to ensure that the necessary improvements are made in the supply chain area, and that it is eventually removed from the high-risk list. Then we'll set off the fireworks and have a big party. I'd like to do it before this President leaves office. Do you hear me?

Fortunately, the Department is taking steps in the right direction. In July, the Department unveiled a plan to improve their supply chain management process. The plan contains a matrix consisting of 10 specific business practices that can be measured against three strategic goals, which include improvements in (1) asset visibility; (2) forecasting; and (3) distribution.

I commend the Department for developing the supply chain management plan in an open and collaborative manner with GAO and OMB. When you get GAO, OMB, and the Department all working together, that's a sign that you've got something really good underway.

I would like to express my appreciation to OMB Deputy Director for Management, Clay Johnson, for facilitating this process. Clay, I want to thank you publicly for all the time that you have put into

this plan. You have been very conscientious and I couldn't ask for any more from you. Thank you once again.

And I applaud the Bush Administration for the no-nonsense approach that you've taken on management issues. You don't get credit for this, but this is the first administration that really has a management agenda: You rate agencies by giving them a green, red, and yellow.

Mr. JOHNSON. You're getting a green so far on this. [Laughter.]

Senator VOINOVICH. However, now that the plan is developed, the Department must begin the more difficult task of implementation. As Chairman of the Oversight of Government Management Subcommittee I will conduct continued oversight on this issue. I want to make it clear that Senator Akaka and I are committed. We may not be having frequent hearings, but we're going to have frequent visits to monitor the progress that's being made. So often we get more out of meetings than when we have a public hearing.

My goal today is to develop a clear understanding of the benchmarks and metrics that will be used to measure successful supply chain management improvements. I hope that in the testimony today it is clear that you have agreed on the metrics to judge the progress. In other words, here's the baseline. I just listed several things that aren't the way they're supposed to be. Here's the benchmarks, and how are we going to judge them as we move along whether or not we're making progress?

Mr. Solis, I really think, it is important that GAO continues looking at this issue. I think it's real important that everybody understands what the issues are, including this Subcommittee, so that a year from now, we are all on the same page. I think it's real important that we agree on what the metrics should be in terms of their performance.

Our review will also include the ability for DOD, OMB, and GAO to continually collaborate on the implementation of the plan. It is evident that this triad created the momentum for writing the Department's supply chain management plan, and continued collaboration will enable you to establish and maintain a framework of accountability necessary for successful implementation. Again, Mr. Solis, it would be nice if you keep working together as you go along on this issue. Too often, I think sometimes—and I don't know what the rules are—but you represent us but it's good to touch base and so forth.

Mr. SOLIS. We do plan to continue that relationship with OMB and DOD.

Senator VOINOVICH. Great. In addition, the unique partnership between DOD, OMB, and GAO has broader implications for outlining progress in each high-risk program area. Therefore, I applaud OMB and GAO for having the foresight to apply the DOD supply chain management model to the entire high-risk list by requiring affected agencies to development improvement plans. I'm optimistic that this exercise will have a positive impact on the performance of the 25 areas listed on the high-risk list.

Perhaps improvements will lead to the elimination of more than three high-risk areas, thereby surpassing the number of programs removed on this year's list. We congratulate you, Clay. If I had your job and I took the high-risk list and brought it down I would

brag about it. So I think that if we can keep working on it, hopefully it really will be beneficial.

Before I yield to Senator Akaka, I would like to thank each of our witnesses today, especially Under Secretary Krieg for his dedicated service to the Department, which began in 2001. Mr. Krieg came from the private sector, joined the Federal Government—and I'm not taking any shots at anybody that has left, but so often people come into the Department, start to really find out what's going on and then they go back to the private sector.

Mr. Krieg, I mentioned this to you when I met you in my office, I'm very grateful to you that you decided to stay on and take on this responsibility, because your performance is going to be so much better because you've got the experience under your belt from being in the Department of Defense. I would also like to thank your wife Ann and your two children Alan and Meredith because of the sacrifices they make.

We had a meeting this morning with the Army Corps of Engineers and I never got a chance to thank them. We've got this Katrina thing out there and we keep hearing criticisms of FEMA and this group and that group. And these people are out there 24/7, busting their backs, trying to do their job. You see on television criticism. Some of them haven't seen their wives or their kids for a long period of time. I think that, Senator Akaka, I'm going to introduce a resolution on the floor of the Senate—I know we have differences of opinion, you and I don't, but in terms of Katrina, maybe we do. But the fact of the matter is I don't think we disagree that there are some very dedicated Federal workers that are out there doing the job, and we ought to let them know how much we appreciate what they're doing for our country.

Finally, Mr. Krieg, I'd like to congratulate Alan Estevez from your staff for winning the Service to America Medal in National Security. This is the first Partnership for Public Service that I've missed and I would have loved to have seen you present that to him that night.

I now yield to my good friend and colleague, Senator Akaka.

I think this is really important. As Ranking Member of the Armed Services Readiness Subcommittee, he has a vast background on the managerial intricacies of the Department of Defense, and I'm sure, Senator Akaka, because of that position you've got staff people that are really familiar with this area. I wanted to say that I'm going to use your encyclopedic knowledge to help in making sure that we do as good a job as we can in terms of oversight in regard to this very important issue for our country.

Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. It is no secret that it is a pleasure for me to partner with the Chairman. We have worked together very well. Our Chairman heads one of the most important Subcommittees, Government Management and the Federal Workforce, which is the essence of our government. So what we are doing together is trying to do all we can to improve whatever government. And I join him in working on that. And since he has mentioned Katrina, I just want you to know I just re-

turned last night from Louisiana, where I visited with Chairman Domenici and Ranking Member Bingaman of the Committee on Energy and Natural Resources. The three of us went there to look at the aftermath of Katrina and Rita, and I am saying this just to emphasize the comment that the Chairman made. I came away feeling that there are a lot of heroes in that area who sacrificed their time, even their lives, in saving people. I was able to speak to some of these people, and I saw a different view of what is there.

However, we need to take the next steps in recovery, and one area is in the energy field by trying to bring the energy back up because it affects our whole Nation.

Mr. Chairman, last month the Nation learned a painful lesson about the importance of logistics, and, again, this came up in our visit, too. After Hurricane Katrina struck, the National Guard responded with the largest domestic mobilization in history. Unfortunately, the Guard was under-equipped. According to Lieutenant General Blum, Chief of the National Guard Bureau, the Guard lacked sufficient trucks, radios, and night vision goggles to do their job properly. At the same time, food, water, and ice that had been pre-positioned in the region was stuck in warehouses. This is history.

The Federal response to Katrina underscored three challenges of logistics: Asset visibility, forecasting, and distribution.

Commanders must have the ability to: (1) see exactly what assets they have and where the assets are located; (2) accurately predict future needs; and, (3) quickly move supplies from factory to foxhole. Defense logistics requires balancing the roles of supplier to the warfighter with accountability to the taxpayer.

DOD logistics has been on the Government Accountability Office High–Risk List since 1990, under various names, and the GAO has issued more than 72 reports in this area. While much more remains to be done, there have been some improvements.

One improvement has been in distribution. In Operation Desert Storm, it took months to move supplies into the region before the invasion. Once the supplies got there, it was often difficult to determine what had been delivered. We heard many stories of troops tearing apart truckloads of supplies looking for particular items that they needed.

In Operation Iraqi Freedom, we were able to move supplies into the region more quickly, and once we got there, we had much better accountability for what we had. One reason for the improved accountability was the increased use of Radio Frequency Identification, or RFID, to track these supplies. This is a critical improvement, and one that we need to continue to develop.

Shortages of critical supplies, however, continue. In Desert Storm, we learned about shortages of desert camouflage uniforms and boots. In Operation Iraqi Freedom, we learned about the shortages of chem-bio suits, armored Humvees, and body armor.

It is just plain wrong that family members of those fighting in Iraq and Afghanistan needed to purchase, in many cases, critical safety gear for loved ones. We included a provision in last year's Defense Authorization bill requiring DOD to reimburse Service members, up to $1,100 per item, for protective equipment. The law required the Secretary of Defense to develop regulations for reim-

bursement by February 25, 2005, yet these regulations were not issued until yesterday, while the Senate was considering Senator Dodd's amendment to expand this program. The amendment we approved yesterday will help to ensure that our warfighters have needed protective equipment.

Such problems are why we are discussing DOD's strategic plan today.

Mr. Chairman, I am very pleased that the Office of Management and Budget and the GAO are working with DOD on the broad issue of defense logistics and have developed a measurable plan for improvement.

The presence today of Mr. Johnson, who has been such a big help, Mr. Krieg, and Mr. Solis demonstrates the commitment to the request we made of OMB at our hearing last February that there be a clear strategy to review high-risk programs and get DOD off the high-risk list. I do want to add that I am especially pleased that Mr. Johnson has taken our request seriously, and I understand that all areas on the high-risk list are under close review by OMB. And I want you to know, Clay, that I really appreciate what you are doing.

Again, I want to thank our witnesses as well as their staffs for bringing all of this about and helping us improve the system.

Thank you very much, Mr. Chairman.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT OF SENATOR AKAKA

Thank you, Mr. Chairman. It is a pleasure partnering with you once again as we examine another high-risk government program. As you know, I also serve as the Ranking Member of the Armed Services Readiness Subcommittee, so this hearing is of particular interest to me.

Last month, the Nation learned a painful lesson about the importance of logistics. After Hurricane Katrina struck, the National Guard responded with the largest domestic mobilization in history. Unfortunately, the Guard was under-equipped. According to Lt. General Blum, Chief of the National Guard Bureau, the Guard lacked sufficient trucks, radios, and night vision goggles to do their job properly. At the same time, food, water, and ice that had been pre-positioned in the region was stuck in warehouses.

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Thank you, Mr. Chairman.

Senator VOINOVICH. Thank you, Senator Akaka. That was a wonderful statement.

We are fortunate to have three great witnesses today. Gentleman, it is the custom of this Subcommittee to swear in all witnesses. If you will stand, do you swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. KRIEG. I do.

Mr. JOHNSON. I do.

Mr. SOLIS. I do.

Senator VOINOVICH. Our witnesses this afternoon include Ken Krieg, Under Secretary of Defense for Acquisition, Technology, and Logistics. Mr. Krieg, we are honored to welcome you today; Hon. Clay Johnson, Deputy Director for Management at the Office of Management and Budget, who has been before the Subcommittee on many occasions. We really appreciate you being here today to show your concern for this issue; and William Solis, who is the Director of Defense Capabilities and Management at the Government Accountability Office. Mr. Solis, I am glad to have you here today. I have a great deal of respect for Comptroller General David Walker, but I like to see the people in the Government Accountability Office that handle the issue to testify before the Subcommittee because you are where the rubber meets the road.

Mr. Krieg, if you will start the testimony.

TESTIMONY OF KENNETH J. KRIEG,[1] UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS, U.S. DEPARTMENT OF DEFENSE

Mr. KRIEG. Thank you, Senator. Chairman Voinovich, Senator Akaka, I know you are committed, as I am, to providing our warfighters with the best logistics support possible. That is why I am very pleased to take the opportunity to be here today to begin to outline the work that we have had going on in the Department

[1] The prepared statement of Mr. Kreig appears in the Appendix on page 27.

and that OMB, GAO, and DOD are working together on supply chain logistics.

The need to improve the DOD supply chain is clearly based on the strategic need. First, we need increased speed and agility in our military response, which means that our logistics processes must be as rapid and agile as our warfighters on the front line. Second, we need to adjust our sustainment to meet the needs of a coalition force that is much more mobile and distributed than ever before. This demands that we work more closely with both our customers and our suppliers to create more reliable and secure distribution systems. Finally, we need clear accountability for resources and outcomes. We need this particularly in logistics, which is funded primarily through operations and maintenance money and is distributed to every DOD facility and every DOD organization.

Achievement of these objectives will enable DOD to transform its competitive advantage into a truly offensive weapon. This process will be driven by outcome performance and enabled by transparent accountability.

Let me assure you that I have heard and the Department has heard your interest in this issue. We are developing and implementing an individual plan of action in partnership with OMB and GAO that we hope will produce—I believe will produce the type of results that will remove DOD's supply operations from the high-risk list. This is not a list that anyone wants to be No. 1 on. We are also pursuing leading-edge commercial procurement practices; we are actively developing an integrated logistics transformation strategy; and we are improving our support to deployed forces with increased supply availability, reduced supply times, and smaller, more agile operational supply lines.

I would like in just a couple of minutes to briefly summarize our current logistics posture and then follow up with highlights of the next steps.

The current state of DOD logistics is strong and improving, particularly in terms of our core business, which is to project and sustain U.S. military power.

Thanks in part to continued support from Congress, we have historically materiel availability to meet the warfighter needs. There are still problems, but overall the system is performing very well.

We also have historically low back orders and cost recovery rates in organizations like the Defense Logistics Agency.

When we look at the DOD supply chains, we can see that we are dealing with a huge business that has two fundamental responsibilities: First—and I share your views on these—we provide our warfighters—we need to provide our warfighters with the best support possible; and, second, we need to ensure that the taxpayers are receiving the best value for their money.

To that end, we have made several logistics improvements to enhance both efficiency and accountability from 2001 to today. As you both noted, and obviously we are here today, we have built a set of initiatives that have accountabilities, that have metrics and that have timelines, and that are focused on improving asset visibility, forecasting and managing demand, and then improving distribution.

To improve asset visibility, we have implemented, as Senator Akaka noted, Radio Frequency Identification on all loaded ocean containers and air pallets moving through our distribution system into Iraq and Afghanistan. We will continue to expand our program, and I would note, Senator Voinovich, that is the program that Alan Estevez led, and led to his award the other night. When combined with item unique identification, or every item has a number, if you will, and integrated in supply data management systems, we will lead DOD into an era of asset visibility across the enterprise.

We are committed to employing best-in-class, not just in the Department of Defense, but best-in-class supply chains and supply chain practices. For example, for items in five key areas—food, fuel, medicines, clothing, and common shop materials—we use the commercial supply chains, hold very limited inventory inside the Department of Defense, and are realizing 24- to 48-hour turnaround times, response times. For those more military-unique items, we are moving towards consolidated purchasing and strategic buying practices, consistent with OMB guidance.

We have improved that notion of factory-to-foxhole distribution capabilities by expanding the role of the Commander of U.S. Transportation Command to include synchronization of both the front-end and end-to-end distribution, not just port to port.

More broadly, we have also implemented life cycle management and systems and notions like performance-based logistics for new weapons programs. These efforts place assets back in the hands of our warfighters much faster and will allow us to reduce inventory.

The last thing I would note, before getting to the next steps, is that we are committed inside the Department to growing our people in this area. Obviously, the intellectual property that drives these kind of systems is so valuable, and I know of this Subcommittee's hard work in that area. We thank you for that, and we hope that we will live up to the kind of standards you have set for us.

Finally, I would like to touch on a few of our major initiatives. First, we have put some benchmarks and some measures into the performance plan, but we continue to look to the best of industry to provide benchmarking to improve our performance.

Next, we plan to accelerate and expand several strategic initiatives, as I said, life cycle management, performance-based logistics, and Radio Frequency Identification.

We also plan to build on successful application of our commercial supply chains and apply similar practices for war reserve consumable materials as well. This will enable us to draw upon the commercial market for surge requirements while also reducing our need to hold war reserve inventory.

We also plan to develop strategic performance goals for our key logistics capabilities that will guide both capital investment and process improvement.

Finally, I would like to note that we sent to you last week, which I am sure you have not had time yet to go through, our Enterprise Transformation Plan, which lays out the data strategies that support the kind of business processes we are talking about here, and obviously data is a huge enabling factor in driving better perform-

ance throughout the system. We have plans, but the challenge is to turn these plans into action and those actions into outcomes. I believe our strategic actions are responsive to the needs of our customers, and we also need to be responsive to our ultimate funders, the American taxpayers, and consistent with the recommendations of GAO and OMB, and aligned with the intent of this Subcommittee.

Thank you for having us. Thank you for staying in tune with us. Thank you for the challenges you will put in front of us in the years ahead. I look forward to working with you.

Senator VOINOVICH. Thank you very much, Mr. Krieg. Mr. Johnson.

TESTIMONY OF HON. CLAY JOHNSON III,[1] DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. JOHNSON. Mr. Chairman, Senator Akaka, thank you for having me. I just have a few remarks. I am delighted to be here to say some really good things about the work that DOD has done on supply chain management.

They have developed a plan to address the risks associated with supply chain management, which involves so much money at the Department of Defense, and a plan that can be used as a model for how the Department of Defense can and should and will address the risks in all the other high-risk areas, and how the rest of the government should lay out their plans for addressing the risks in their areas. It is a really fine plan. And one of the keys to its success, I think, is there are lots of metrics, there are lots of clear identification of what success means. Success will be when they have taken it from this level, that level, the response times from this to that. Very clear goals, measurable performance goals, and also a very clear definition of what has to be done by March of next year and September of the following year and so forth, and by whom and what is their phone number and what is their E-mail address. So lots of clarity and lots of accountability. Those are two of the four things that we have proclaimed as important in getting anything done, particularly in the management area, but it is probably true in life, that you need to have a real clear definition of success. You need to have clear accountability for a very clear action plan, for a detailed action plan, detailed management, true definition of success, and clear, unadulterated commitment to make it happen. All four of those components exist at the Department of Defense from the Secretary on down, and I have no doubt that Ken and his team are going to do a wonderful job of implementing this plan and show the rest of the Federal Government and Congress what is possible, how much method can be brought to the supply chain management madness at the Department of Defense.

We talked earlier about the 25 items on the high-risk list. For 6 of the 25 items, there are plans that have been worked on by the owner of the initiative with GAO, and a general plan has been agreed to, and it is in place, and the agencies are responsible for implementing that plan. For another 7 of the high-risk list items,

[1] The prepared statement of Mr. Johnson appears in the Appendix on page 39.

there is a plan that has been developed. GAO is looking at that and addressing final issues and so forth.

For another 9 high-risk items, there is a plan in development. It has not been finalized to the point where it can be brought into GAO, but GAO has been involved in initial discussions on those plans.

There are two items that we are not yet tracking, and there is one item that we are not intending to track. That is the U.S. Postal Service.

But, anyway, there is lots of progress, lots of activity across the Federal Government to look at these high-risk list items. But the supply chain management at the Department of Defense is—one plan has been wonderfully laid out. There is strong commitment, and I think it will be very interesting, as you said, sir, over the next 3 years, 3-plus years, before this President leaves, to see just how much can be accomplished, because I think there is a lot to be accomplished, and a lot will be accomplished, and I think DOD will be the better for it, but all the other high-risk list items will be better for it also.

Senator VOINOVICH. That is very impressive, and we look forward to working with you, Clay. Again, if there are things that you need from us, you should let us know.

Mr. Solis.

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

Mr. SOLIS. Mr. Chairman, Senator Akaka, I appreciate the opportunity to be here today to discuss supply chain management within the Department of Defense and, more specifically, DOD's plans to begin resolving problems and show progress toward the long-term goal of removing supply chain management from the list of high-risk areas.

At the outset, I would like to thank the Subcommittee for its continued encouragement of OMB's effort to work with the agencies over the next several years to reduce risk in each of the 25 areas. 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 the hundreds of billions of dollars of taxpayer funds it receives each year.

The message this afternoon is focused on two main points: First, I will discuss why we have listed DOD's supply chain as a high-risk area; and, second, our assessment of DOD's plan to improve supply chain processes.

In summary, Mr. Chairman, DOD's plan is a good first step in improving supply chain management in support of the warfighter. Notwithstanding this positive first step, the Department faces challenges and risks in successfully implementing its proposed changes across DOD and measuring progress.

With regard to my first point, for 15 years DOD's supply chain management processes have been a high-risk area needing urgent

[1] The prepared statement of Mr. Solis appears in the Appendix on page 41.

attention. In 1990, we began a program to report on government operations that were 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. That year, we identified the Department's inventory management of supplies in support of forces as high risk due to a long history of problems such as excess inventory levels, inadequate controls over items, and cost overruns of logistics systems. Since then, our work has shown that the supply problems adversely affecting 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 involved the entire supply chain.

Many of these problems reoccurred in OIF. For example, we noted that due to distribution and asset visibility issues, a backlog of material accumulated at distribution points and vehicles were cannibalized due to unavailability of parts. We also noted a $1.2 billion discrepancy between material shipped to the theater of operations and material acknowledged as received.

In regard to my second point, DOD's plan to improve supply chain management, as I mentioned, provides a good start and framework for addressing some of the long-term systemic problems. However, the Department faces many challenges and risks in its efforts to improve the supply chain. Successful resolution of these problems will require DOD to diligently complete parts of the plan, fully implement the changes across the Department, and measure progress. In addition, resolution of these problems will require investment in needed information technology, a critical enabler that will provide the essential underpinning to improving supply chain processes.

We used five criteria to assess DOD's plan: Does it include a strong commitment by top leadership? Does it have sufficient capacity, that is, people and resources? Does the plan contain corrective actions, a program to monitor these actions, and a means of measuring progress? I will briefly touch on each one of these.

First, in regard to the strong commitment by top leadership, the formulation of DOD's plan and its endorsement by Ken Krieg is evidence of a strong commitment by top DOD leadership. However, it is important for DOD to sustain this leadership as it goes forward in implementing this multiyear plan. Because improving supply chain management may be one of several high-risk areas DOD will be addressing at one time, it may take the involvement of the Deputy Secretary of Defense or a Chief Management Official to ensure that a long-term departmentwide commitment is sustained.

Second, in regard to capacity, DOD has the people and other resources to draw upon to resolve its supply chain management problems, but most of them are under the direction of the military services and DLA. Therefore, it is important for the Department to obtain the necessary resource commitments from these organizations.

Third, in regard to the corrective action plan, DOD's plan for improving supply chain management addresses root causes for problems in three key areas—requirements forecasting, material distribution, and asset visibility—that we frequently identified as

impeding effective supply chain management. However, we are concerned about the time frames for completing some of the plan's initiatives. For example, DOD's milestones for implementing and improving information technology systems under it, Business Management Modernization Program are not specifically linked to improvements in the three focus areas, and until all these initiatives are substantially implemented across the Department, we will not know whether they provide effective solutions.

Fourth, in regard to program monitoring, while DOD's plan cites a general methodology for evaluating progress, the Department has not provided all the information needed for this to occur. For example, DOD has not specified all the metrics and systems to be used to track progress. Until it does, DOD cannot assure comprehensive monitoring of progress within the Department or validation by independent groups.

Last, in regard to DOD's ability to demonstrate progress in implementing corrective measures, DOD has the ability to demonstrate some progress in implementing the initiatives. However, it has not identified all of the metrics necessary to demonstrate how the initiatives are affecting supply to the warfighter. In addition, while DOD's plan identified some viable overall supply chain management performance metrics, such as level of backorders and the amount of customer wait time, it does not have cost baselines or cost performance targets. Until DOD tracks the additional cost metrics and supply performance targets needed, it will be difficult to convincingly demonstrate progress in improving supply chain management.

That concludes my statement. I would be happy to answer any questions.

Senator VOINVOICH. Thank you very much, Mr. Solis.

I will begin the questioning in reference to the last thing you said, Mr. Solis.

Mr. Krieg, in the area of metrics and systems in place to monitor progress. Would you respond to what he just mentioned in terms of the feeling that maybe we are not yet there with the plan?

Mr. KRIEG. Sure. I believe—and we have begun this work—that we will get continually smarter both about what matters and how you measure it, and then how closely you can track it and perform. So we have begun—we started with the baseline of the way the private sector thinks about success in supply chains—customer wait times, back orders, those kinds of issues. Many of those related to the way the Defense Logistics Agency does business with consumables and supply.

And so we have started to build those out. We contract some of them. Some of them we contract with some depth. But there are others that we do need to build, and we have recognized that. Part of the Enterprise Transformation Plan talks about the data strategies that will support an ever growing ability to track and see and understand. Second, part of the work we have got under way in the Quadrennial Defense Review, which is our once every 4 years looking at strategy driving changes in the way we do work inside the Department of Defense, we have added a business practices portion to it this year. One of those business practices—and I co-chair that group with Duncan McNabb, who has been J–4, the Joint Logistics

Director inside the Joint Staff. Duncan and I have been working on the supply chain. And so we have committed that we are going to go out to the next generation of benchmarking to really build the kinds of measures that will have us understand the relationship between what we say we are going to do and what the outcomes are.

So I would say we have the given capabilities to do this, a recognition that data strategies and data systems providing that information as opposed to going out and asking for individual goals every time you want to know something, is clearly the management approach that we are headed on.

Senator VOINOVICH. Do you think it is possible to have performance metrics in place in 3 or 4 months?

Mr. KRIEG. I think what you will see, sir, is that there will be a growing set of metrics and a growing set of competencies as we learn how to go get data and we learn how to tie together the various pieces in terms of outcome. So I believe in 3 or 4 months we will show——

Senator VOINOVICH. I am interested in making sure the Department has metrics in place to measure their success. I have always said, if you can't measure it, don't do it.

Mr. KRIEG. What gets tracked gets done.

Senator VOINOVICH. Exactly. The other thing I would like to discuss is cost savings. People have been asking me why am I spending all this time on supply chain management, because they know it is going to be a major commitment. Do you have a cost baseline? Do you know how much money can be saved? Do you know what you are spending now? If this plan is implemented, are we going to be able to show taxpayer savings? In other words, we are working harder and smarter and doing more with less, doing more for the warfighter.

Mr. KRIEG. The answer to your full question is no, I don't know exactly what that is, but, yes, I believe that there is opportunity, and that is exactly, right, getting a common resource baseline, understanding—the answer is we can account for and we can show you in the budget lots of ways of looking at logistics. We are going to try to—we are going to come within the Department, and then along with these gentlemen within the government, to a common way of looking at this.

What is the point? The point is everyone is doing things differently, and so you have to go together across the enterprise. We have got that work underway. I believe that is one of the really important parts to tying inputs, what we put in the budget, to outputs, what are the measures of success. When you can do that, then you have the tools to really measure performance and drive outcomes.

Senator VOINOVICH. When I was Mayor of Cleveland, we did a comprehensive management study called the Operations Improvement Task Force. It took us 6 months to complete the study. We then went back to look at how much we saved the city. I understand it is not going to be easy to evaluate the Department in this manor but it is very important to understand financial savings to be able to measure success.

Mr. KRIEG. I think the key to success there is not a one-time study to see what it looks like, but make it a part of the way you manage, and that is how it becomes the forefront in people's minds over time.

Senator VOINOVICH. Senator Akaka and I have been working on human capital issues for sometime now and have made it a priority in the Federal Government. Could you share with us the steps you have taken to incorporate human capital concepts into the plan, including the evaluation of your core competencies of your employees, succession planning in the event of retirements? I am really concerned about the issue of senior people taking early retirement.

Could you comment on how you are identifying core competencies you need and what kind of succession plans are in place for those employees retiring?

Mr. KRIEG. Let me tell you that today it is not in the plan you see in front of you because that was not the way we defined—that was not the way the high-risk plan defined the problem. That being said, the three of us committed that there was more to working on supply chain over time than just this plan.

I agree with you, and so as I look at the organizations that comprise this—for example, I think one of the most advanced in thinking through this is the Defense Logistics Agency. It is now tracking its workforce, understanding—using combinations of client surveys and all the kinds of tools you would use to really build down the business process and human capital strategies and link those together over time.

I would not contend that the entire Department of Defense supply chain is that advanced, but I believe that it is absolutely critical that we bring the human skills and human competencies along in order to perform over time.

As you have noted so many times, if you look at the average age of the Department of Defense workforce, it is 47½, 49, 50—it depends on how one looks at that—with an extensive average age of service. It is time to begin using—to drive that as a key performance responsibility of management, and I do believe that tools like the National Security Personnel System will have the tools. Now it is up to us——

Senator VOINOVICH. Mr. Krieg, if you were to do an analysis of your workforce to determine if you are lacking in core competencies to determine retirement perspectives. Who would do this for you?

Mr. KRIEG. First of all, I would ask Frank Anderson, who is the President of the Defense Acquisition University, to pull this together using the—bringing the whole community together, the acquisition technology and logistics workforce. So we have started that.

But I will tell you that looking down into the details, it will be part of charging each of the large management leaders like Keith Lippert in the Defense Logistics Agency with being able to do that. So we are going to try to set standards at the Department of Defense level; then put those managers in leadership positions in charge of understanding their data, understanding their performance, and getting back to us.

So that is the technique we are going to use. It is a large workforce, and so managing it all from central, we need to set the

standards, we need to set the requirements, and then we need to hold people accountable in that process.

Senator VOINOVICH. I want you to know I am very interested in this area, and I will continue to follow-up with talking to you on this issue. As I have said before, we need qualified people to get the job done.

Mr. KRIEG. Yes, sir.

Senator VOINOVICH. Mr. Krieg, with all of the processes you plan to put in place, I am interested in seeing how you are going to ensure that they become part of the culture of DOD. I plan to stay on top of this issue, to make sure that long after you leave the Department the processes that we are discussing today are institutionalized.

I have gone way beyond my time. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

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

I want to thank our witnesses for their testimony, but before I begin my questions, I would like to make a few observations.

It seems to me that defense logistics and its problems are longstanding, complicated, and directly tied to poor information systems, which is why I am pleased there is committed leadership by DOD and by OMB on this issue. However, previous attempts at improvement have failed because the plans were not institutionalized. Only through high-level commitment and strong oversight by Congress and OMB will this plan succeed.

I also want to mention what the Chairman just talked about, human capital. It is true, as he said, that we will be facing a huge problem in the near future when the baby-boomers begin to retire. And we really need to work on that together.

These are questions I have for Mr. Solis and Mr. Krieg. Mr. Krieg, you have testified about the expanded role of U.S. Transportation Command, TRANSCOM, in the distribution process. However, in August 2005, GAO reported that DOD has yet to finalize plans to define the role of TRANSCOM as the distribution process owner, or DPO, to improve the efficiency of the distribution process.

Mr. Solis, can you please explain the importance of TRANSCOM to DOD logistics and describe the problems that GAO has found in this area?

Mr. SOLIS. Senator, I would be glad to. During the initial phases of OIF, distribution and visibility, but particularly distribution, were some major issues in terms of not only getting the equipment and supplies in, but then distributing them to the tip of the spear, so to speak. In September 2003, the Secretary of Defense, recognizing this problem, designated TRANSCOM as the distribution process owner. With that, around December 2003, to my recollection, the initial joint distribution operations center was set up over in the Gulf. And since that time, it has been operating, and the flow of supplies has improved greatly.

Our concern has been that distribution has been an ongoing problem going back to Operation Desert Shield and Desert Storm. And until that gets solved and codified and institutionalized into doctrine, for example, for the next operation, even though every-

body around the table has agreed that this is a good way to operate, you may have different players, different personalities involved, and people aren't going to know that this is the way that we did it before and it was successful. Until you institutionalize that, until you put it in the training and doctrine, that is where we see the problem for the next operation.

Senator AKAKA. Thank you for that response.

Mr. Krieg, what is the current status of the DPO directive? And when can we expect it to be finalized?

Mr. KRIEG. I can't give you an answer to the last question as to when, but let me tell you the status. Many of the decisions we made as we were going through this was to not write the directive until you had enough experience to know what it was that you were writing the directive about. There were lots of drafts that floated around, but we decided to keep that last step open until we had gotten more confidence on notions like the joint distribution approach—and I am going to apologize, I am not going to get the acronym right—the JD–DOC, making the joint logistics commander in the theater really responsible for seeing things. Those kinds of things are now coming into place. I was just with General Schwartz, the new commander. We were just making a joint briefing and discussion with the deputy as part of the Quadrennial Defense Review Business Practices that I co-chair, supply chain, institutionalizing the DPO, the distribution process center, and incorporating these new concepts that have been developed during wartime into doctrine are key goals that we have set out for ourselves.

So I would expect—we are committed to doing that. We believe it is the right thing to do. Innovation in wartime is a key opportunity. Our challenge is to make the way you do business in wartime the way you try to build it into your structure. And so we agree with that approach.

Senator AKAKA. I am glad to hear that and of your plans to bring that about.

Mr. Solis, one of the reasons that DOD logistics was identified as high-risk is because of the excess inventory level. While supply inventory levels are down from 1990, they have been increasing again in recent years and are currently at $77 billion.

My questions are: How much confidence does GAO have in the inventory numbers? And can you explain the reason for any doubts, if you may have them?

Mr. SOLIS. Senator, as you know, over the years we have not had the ability to render opinions on DOD's financial statements, and I don't think that is any different today. I think the number itself, it is what it is, and that is the best number that is available at this point in time. But in terms of saying that is an absolute right number given the financial management problems that the Department has had and to say that is a good number, I don't think we could absolutely say that.

Senator AKAKA. As followup, Mr. Solis, how does GAO plan to monitor implementation of the plan and validate results?

Mr. SOLIS. A couple of different things that we plan to do. One, obviously, we will look at each one of these initiatives in terms of where they are in terms of their progress as we go throughout the next year and a half or so. We will be sitting down with Ken's

folks, going through the metrics, the expected outcomes, to see where they are at on that.

We also will be doing individual jobs which will look at the supply chain in total rather than just individual initiatives. And as you are aware, every 2 years we report out on the status of the high-risk series, which will be due in January 2007.

So that is kind of our general game plan to follow-up on this, and we also have engaged the Department of Defense IG and the audit services of the individual Services to also cooperate and work with us on making sure that we have covered a number of things in terms of the high-risk area.

Senator AKAKA. Mr. Johnson, although my time is up, let me ask how OMB will remain engaged on the implementation of this plan? And when can we expect to see results?

Mr. JOHNSON. Well, on this particular supply chain plan, we talked about sitting down with DOD and the DOD branch at OMB and getting an update on what we have done and what we were supposed to do within the last 6 months and what did we do and how does it look and do we need to recalibrate where we are trying to go or action plan, or whatever. And so we will do that.

We are available, I know DOD is available, GAO is available to keep you all informed in whatever fashion you all deem most appropriate about DOD's progress on this. But we intend to stay in touch with them, and also then use their example to instill the same sort of discipline and follow-up with all the other high-risk areas.

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

Senator VOINOVICH. Thank you, Senator Akaka.

Mr. Krieg, it is my understanding that each Service and Agency within DOD has its own supply chain management education programs. Since the Department's supply chain management plan includes the development of a joint theater logistics program, will DOD create a joint logistical training program to ensure that the military and civilian employees in each of the Services are trained under the same curriculum? And if so, should these be combined under the distribution process ownership program established by the Secretary of Defense?

Mr. KRIEG. Let me take that one for the record and get back to you with exactly where we are and where we are going, because I am not up to speed on that in particular. But, obviously, the more you move to a common business process, a data approach, and the more you have a common data system, then the way you train people and how you grow them should move in the same direction.

So as a matter of principle, I would say yes, but I have not worked the training part of this yet, training and education part of this year to know—to be able to tell you where we are.

I don't know, Bill, if you have a sense.

Mr. SOLIS. Senator, I know it has been a concept that has been discussed in terms of, for example, getting the Defense Acquisition University involved in that concept. I don't know that it has gone any further than the discussion phase. I know in my discussions with the folks at TRANSCOM, they have been pushing this kind of a concept of a joint logistician, which, again, I think is, at best, in discussion and it may be at the conceptual stages at this point.

But I think it is worth pursuing given the fact that if you go to a joint theater logistics management process or model, I think everybody needs to understand how you are going to work in a joint environment, particularly as it pertains to logistics.

Senator VOINOVICH. My understanding is that each have a different system. Is that corrent?

Mr. SOLIS. They are using different systems, yes. I think—again, I am going back to OIF. I know even within the Marine Corps there were two different supply systems, which caused a lot of problems. I think they have corrected that now. I think there are some differences in each of the supply systems.

Senator VOINOVICH. And the concept here would be that they would be universally the same?

Mr. KRIEG. I think if we can separate information system from data level, I think our notion is that you want to move to common data. Whether you put it in a single information system for all the Department of Defense, which is a fairly complex program management and development, or whether you want to have a limited number of systems that produce common data, thereby reducing the risk in implementation, it would tend toward the latter part, than to try to get one information system, because all the way across the Department of Defense as the exact same system, those are challenges to build them that way.

Senator VOINOVICH. The thing is, and this is probably elementary, and you will say, "Why did you ask me this question?" But we had the Army and we had the Marines and we had the National Guard and we had the Reserves, and the other Services. It seemed like when I talked to our guys from Ohio that were there, they had their own stuff in terms of what they needed.

Is there any communication back and forth between the Services as to the up-armor Humvees, for example? How does that all work?

Mr. KRIEG. I do think there is—as we move to this joint theater distribution concept, where the joint logistics commander is integrating the needs of the various organizations in the field and then helping set the demand pattern and the flow pattern back to the United States and on back in the supply chain, you will begin to move that forward. There is a lot of communications among them, but there are also specific needs of each of the individual units and each of the individual Services. So you want to figure out how to get a common supply chain that can manage the differences, can allow a Service—because they have different equipment. So you want to be able to integrate the supply chain but still manage the different needs of the different Services in the field. So that is at least the concept, and I do believe over the last couple of years, there has been a significant improvement in the concept of joint theater logistics and its implementation. I don't know what you have seen, Bill.

Mr. SOLIS. Yes, in terms of Humvees and the up-armor Humvees, the requirements that come out are coming out as theater requirements. They are not, as far as I know they are coming out for specific Services, but they are also coming out as theater requirements.

Senator VOINOVICH. One of the big criticisms that I have heard about Iraq is that we really didn't understand the religions and

curtural views of the people. But seting that aside, the preparation of going to war in Iraq and having the necessary supplies available to carry out the mission is an essential part of planning for war. Before we undertake these missions, we should have a pretty good idea of what it is that we need to be successful.

In doing this, we have to assess what the various Services need. For example who determines how many up-armor Humvees each Service needs? Rather than having the individual Services purchase their own, should we have one group purchase for all of them?

That is what we are trying to do, bring some sense to this and get systems in place so that we can do this efficiently? Last night, we had a vote on the floor of the Senate for additional funding for up-armor Humvees. I voted for it, which I ordinarily never do because I don't want to spend more money.

I was at a meeting sometime ago with Secretary Rumsfeld, to discuss up-armor Humvees. He said, "Well, we are doing the most we can at 250 a month." And I said, "I know the people that manufacture these things, and they can do 450 a month." Here is the Secretary of Defense, and he doesn't know what the capacity is out there to get the job done.

In my opinion, we could have delivered these Humvees a lot sooner had somebody really known what the details were in terms of the capacity to manufacture and deliver them.

With continued oversight I am hopeful that we are going to get this done.

Mr. KRIEG. We will be glad to come show you the details of how that proceeded and what we learned from it. I would note that—and I am not trying to defend where we were with up-armor Humvees—it is important to understand the way we think about this that the needs in operation, the needs will evolve and change. The clear challenge, particularly in the kinds of wars, the kinds of events we will deal with in the future, the clear challenge of the supply chain is to be agile so we can react quickly to changes in need, changes in demand, and, therefore, changes in supply. That is going to be more the future than it was the past, and that is clearly the kind of challenge we ourselves have put in front of us, is to be able to react quickly. That is why understanding demand, being able to track it——

Senator VOINOVICH. In terms of demand, do you turn to the war fighter in the field to determine what is needed to get the job done?

Mr. KRIEG. You want to push demand as far forward as possible. That is the clear lesson from business, the clear lesson here. And integrating operations planning and supply chain planning as part of the way you do business is one of the core challenges as we go forward.

Senator VOINOVICH. Is there a section in the Defense Department that anticipates contingencies?

Mr. KRIEG. It won't tell you everything, trust me, but, yes, that is what planners try to do. They try to anticipate contingencies. They try to think through what the needs will be. They try to work back and say does the supply chain there perform. And making that supply chain more responsive is clearly one of the key challenges in a world where the competition is ever changing, if you

will, and the need to change quickly is part of the strategic requirement.

Mr. SOLIS. Senator, if I could add one other thing, as we noted in the plan, one of the high problem areas or root cause areas has been requirements for forecasting, and that has been a continual problem, whether it is during peacetime or during operations. And we noted in some cases where things like batteries or tires were sorely underestimated even in terms of initial needs because requirements had not been updated. And so I think that process is something that needs to continually be looked at, whether it is for tires, batteries, up-armor Humvees. In the case of up-armor Humvees, there was a change in theater requirement. In other cases where you had standing war reserve materials, some of those were woefully inadequate in terms of updating the models and things of that nature.

So those requirements need to be constantly updated to make sure that the warfighter has what they need when they need it.

Senator VOINOVICH. It would seem to me that within the logistics area you would have experienced people who had been through the mill, had previous experience, that would be asking the right questions of the people who are supposed to be coordinating supply chain management.

Mr. SOLIS. And some do, and I think, again, from some of the work that we did recently—and we issued a report in April of this year—we looked at, again, things like batteries or wartime models. Some of those models had not been updated since 1999, and some of the uses for batteries had expanded beyond what was being used in 1999 from about, I don't know, 10 items to about 50 or 60 different items. And so when they went to war, the demand had shot up tremendously based on an old model.

So I think it is incumbent to make sure that we are always making sure that the requirements are as up-to-date whether it is for peacetime usage, war material usage, or whatever.

Senator VOINOVICH. Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman.

Mr. Krieg, let me ask you a question that has bothered me for a while, and hopefully you have an answer. What do you see as the root cause or causes of the logistics problems that have plagued DOD for so many years, and how does the plan address these causes?

Mr. KRIEG. Well, several things, and I think we have talked about a number of them.

First of all, you need to understand what you have. So item visibility is really important so you know what you have and where it is.

Second, you need to understand what it is you are going to need so that demand forecasting is really critical.

Third, you have got to be able to link all of the people who are participating in what you want to have—what you now have and what you can produce so that they can all see that flow.

I think that is the kind of plan—that knowledge of what you have, the knowledge of what you are going to need, and the knowledge of what you can produce—bringing those three together and the roles and responsibilities to make that happen are what supply

chain is all about. And I do believe that we have tried in this plan at least to begin building those areas out.

As Mr. Solis said, is this plan the end? No. This plan is the beginning, and we will learn as we go through it. But I think those are at least three of the key areas.

Senator AKAKA. Would anyone else want to add to that list?

Mr. SOLIS. I would echo that. Of course, in our plan we said three: Forecasting, visibility, and distribution. But in the largest context for us for the high risk, it has also been accountability and sustained commitment. And I think what I do like about the plan is that for each one of these items, initiatives, there is a name and an E-mail address clearly indicated for each one of those initiatives. So there is accountability. There are people that we can go to and say, OK, where are we with this?

The other thing, I think, though, is sustained commitment, and I think we have that here. The question comes up—and I hope Mr. Krieg would stay around for a long time. Can that commitment be sustained after Mr. Krieg leaves? And I think that it is incumbent upon all the high-risk areas in terms of really dealing with the issue.

Senator AKAKA. And I liked what you had said earlier, that we need to update whatever information we have on these items.

Mr. Krieg, how does this plan relate to the DOD logistics transformation strategy and the commercial benchmarking road map?

Mr. KRIEG. I would say that this part of the plan, this part of the high-risk series, is a part of the broader logistics road map. If you think about our overall logistics and supply chain responsibilities, we really have three kinds of economies we work in. We have a large-item, large capital management economy—the depots, the big weapons systems, the maintenance and sustainment of those systems. We have commodity supplies that the Defense Logistics Agency does. And then we have the way we distribute and sustain in an operation. All three of those are a little different. All three of them are dependent—success in operations is dependent on all three of them working together.

So this concentrates on the inventory management part of the supply chain. The overall logistics transformation strategy would then bring in those other areas. And then I think lastly, adding to it, a part of continuous process improvement. How do you continually get better? How do you tighten your performance characteristic and make it more efficient? So we use a technique—we are beginning to build a technique out inside the Department—it is already alive and well in many parts of the Department—called Lean Six Sigma. It is a common commercial technique that allows you to both shorten your process, make your process more efficient, and then make your results more effective, quality management. And it puts both those techniques together, and I think it will be a critical part of driving this kind of change over time.

Senator AKAKA. My last question is something that the Chairman and I have thought about and are always trying to find an answer. I would like to address this to Mr. Solis, although if any of you want to comment on it, that is fine, too.

So here is the question: Are there areas in the improvement plan that are outside the span of control of Mr. Krieg? And how would

the creation of a CMO, or chief management officer, affect the implementation of the plan?

Mr. SOLIS. As I mentioned earlier, I think the one thing that a CMO does in this case is give you sustained management, as we have mentioned, for a 7-year period to make sure that you have sustained look-sees at the process of improving supply chain management.

I think the thing with the CMO also, it does give the strategic point of view in terms of making sure that while Mr. Krieg is implementing some things over here, to make sure that we have things at the DOD level, at the Secretary level, that meet the goals of the Department as well.

So I think it is important at some point maybe to consider having a CMO to make sure that those things are taken care of.

Senator AKAKA. Mr. Krieg.

Mr. KRIEG. We have had wonderful conversations about this, as I have with the Comptroller General as well. As I think the Deputy sent a note up here or testified in his hearing, we are going to look at that issue. We will consider it as time goes on, and we can talk about individual views over time as we work on this. But I think in my view, the Department of Defense, when it functions well, does have a chief operating officer. I believe it is the Deputy Secretary of Defense. I believe the Acting Deputy Secretary of Defense—you all can work on that part—does believe that he is accountable for that and does believe that it is his responsibility to look across all the tools of the Department.

That being said, we also work with several important groups that help us do that—the Defense Business Systems Management Committee. You asked about commitment of the DOD management to information processes and information systems. The Deputy chairs that. It has got all the senior leaders—me, the Service Secretaries, Marty Schwartz at TRANSCOM, Keith Lippert at DLA—who come in and are working on this and we meet once a month on it.

I have a Defense Logistics Board that looks within that context at logistics, Norty Schwartz, Keith Lippert, the Vice Chiefs. We are all committed to work this issue.

And so while one person is important to have the leadership drive, it is important in an area as complex as this one to have all the parts of the leadership team pulling together because the changes are significant, they do cross—and in order to be really successful, there needs to be cultural and sustained ownership by those who are going to be there regardless of who the individual sitting in whatever the top box is.

And so I think there is a lot we need to do, and I do believe that we are trying to put the kinds of broad-scale management tools and broad-scale management efforts in so we can integrate these kinds of changes over time.

Senator AKAKA. Without leaving the Hon. Clay Johnson out, do you have any comments on this?

Mr. JOHNSON. No, sir. [Laughter.]

Senator AKAKA. Thank you. Mr. Chairman, my time has expired.

Senator VOINOVICH. Thank you, Senator Akaka.

I have additional questions, but I will submit them to you in writing. I would like to finish this by saying that I am really inter-

ested in the metrics of this plan. Mr. Solis, has GAO determined what metrics you would use to measure whether or not we are making progress on the plan that has been put together?

Mr. SOLIS. Well, specifically what I was talking about or referencing in the metrics themselves—and Ken shared or his folks shared some of the commercial benchmarks and also what is in the plan—give kind of a pulse check of the general health of the supply chain. What my comments were really going to, if you look at some of the initiatives that are there right now, for example, RFID, some of the expected outcomes that are listed, you talk about improved asset visibility, reduction of costs, things of that nature. But when you go to the metrics that are associated with that initiative, basically what you see are implementation dates. So you don't really have a sense of—you have the expected outcomes, but you don't have the associated metrics that would say this has worked or is not working from an outcome basis.

So we are not prescribing necessarily what metrics to use, but what we are looking for is an outcome-based metric that would say here is how you are doing with this initiative.

Senator VOINOVICH. Well, I would appreciate if you would continue to work with DOD so that a few months from now we could say that we have an agreement on the metrics to measure success. If there is a difference of opinion, then, of course, we will talk about it.

Mr. SOLIS. Right, and I think we plan to, and we recognize that some of this is still in process, but that was our initial observation on the metrics.

Senator VOINOVICH. Another issue is the human capital side of supply chain management. I really think it is important that you institutionalize what you are doing.

I am also interested in looking at what the private sector is doing in this area. I do understand that there is probably not a private organization in the country that can even touch the Defense Department. But are there any companies—I guess probably a Wal–Mart, that buy a lot of product and are constantly at how they distribute things. In fact, I heard a story that Sam Walton went bankrupt twice, and then he hired some guy that worked for the Army who went to work for him and put this logistics thing into place. That is when he started to make some money.

But the question I have is: How long does it really take to do this transformation that we are talking about doing so that we are realistic about the goals that we are setting in terms of getting this done?

Mr. KRIEG. I think it is a multiyear effort. If a company were to come from where we are and try to implement it, I don't think the chairman of that corporation would say he would get it done in 2 years. I think he would say it is a 5-, 6-, or 7-year effort. But I know we are not going from zero either. So we are at a running start, if you will, as we enter. But it is a complex—I like to think—as I look at the Department of Defense, we are the size and complexity of a good-size country. And at our current size, we would be 24, 25, or 26 in the rank of countries in terms of gross domestic product. And we are that complex.

So thinking through how one makes that kind of change on that kind of scale is an awesome task, and you have to hit the right things and build momentum over time.

Senator VOINOVICH. Well, I think that gets back to the CMO bill that Senator Akaka and I introduced this year. I used to say when I ran for Mayor of Cleveland that there is not a Republican way here or a Democratic way, there is a right way and a wrong way on management issues.

It seems to me that we need someone in the DOD who is there for a long period of time to oversee this tremendous transformation. Roger Kelick worked at DOD during the Clinton Administration. Mr. Kreig, you know Roger? During his time, he did a lot of good work, and after the Clinton Administration he was gone. I am concerned that if we are going to make the kind of changes that we want to make, I think we have to start to re-evaluate how we get things done in the country.

We had a hearing several years ago, that focused on, is the government organized in a way to deal with the 21st Century. We have to start thinking about different ways of doing things. We have got to make certain adjustments. Any organization that doesn't change with the times—look at any major corporation today—if they continued to operate the way they did 10 years ago, they would be out of business.

I think that we need to change the thinking that we have always done it this way. There needs to be some thought given to a Chief Management Officer to handle the management issues. Someone who is there for a termal period, who is interested in getting it done right.

I think the Administration would do a great favor to the country if they started to look at how we do things and determine if we are flexible enough and are we making adjustments to deal with some of the problems that we are going to be confronted with in this century?

Mr. JOHNSON. There was an editorial in the *Wall Street Journal* last week. Dan Henninger was talking about Katrina, but his premise was more of the same is unacceptable. And you are asking that question about everything we do, not about Katrina. And it is a very good question.

Senator VOINOVICH. Thank you very much for testifying today.

The hearing is adjourned.

[Whereupon, at 4:10 p.m., the Subcommittee was adjourned.]

APPENDIX

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COMMITTEE

TESTIMONY OF

KENNETH J. KRIEG

UNDER SECRETARY OF DEFENSE

(ACQUISITION, TECHNOLOGY & LOGISTICS)

BEFORE

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,

THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA

OF THE

SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL

AFFAIRS

OCTOBER 6, 2005

FOR OFFICIAL USE ONLY
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COMMITTEE

Overview of the Department of Defense

Supply Chain and Logistics

The Honorable Kenneth J. Krieg
Under Secretary of Defense
(Acquisition, Technology and Logistics)

Chairman Voinovich, Senator Akaka and Members of the Committee:

Thank you for the opportunity to appear before you and discuss the status of the Department's supply chain and logistics. I welcome this opportunity because I know you are committed, as I am, to providing our soldiers, sailors, airmen, and marines with the best logistics support this nation is able to provide. Likewise, it is our obligation as leaders, decision makers, and policy developers to provide our warfighters with the tools, 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 logistics

Before I address those areas, I am delighted to join my colleagues, Clay Johnson, and Bill Solis, here today. I am working with them to aggressively address those Government Accountability Office High Risk Areas under my purview – including Business Transformation and Supply Chain Management. In the past 60 days, our staffs have formalized plans with appropriate milestones and metrics to reduce risks in these areas critical to DoD. Additionally, within the last week the Department submitted to Congress our Business Enterprise Transition Plan (ETP). The ETP presents the roadmap

for transforming the business operations of the Department. Specifically, this plan describes a business transformation strategy properly aligned with the warfighting mission, a process centered on achieving business priorities with specific results-based outcomes, and the mechanisms that will guide implementation. These plans are a good start, and the commitment of the organizations to work together to strategically determine remediation courses, milestones, and metrics is a real innovation. The Department is focused on concerted implementation, leading to the results that our warfighters and taxpayers deserve.

I would like to take just a few minutes to recognize the efforts of our DoD logisticians. Recently, our civilian and uniformed logisticians successfully supported complex military operations, humanitarian relief associated with the Tsunami, and, more recently, humanitarian relief along our own Gulf Coast. This group of dedicated and professional logisticians is the only group in the world that could have successfully undertaken these efforts. With the help of this Committee, the nation has crafted a world-class military logistics system, and our men and women are recognized as such! The Department also sees the opportunity for improvement as we look to the future. We are on a clear path to achieve world-class logistics capability and to maintain our comparative advantage in power projection and sustainment.

Finally, the Department has clearly heard the call for action from this Committee and other members of Congress. We are in the final stages of issuing revised guidance on Contractors Accompanying the Force; we are pursuing leading-edge commercial procurement practices through efforts to integrate supply procurement; we are actively

developing an integrated logistics transformation strategy; and we are improving our support to deployed forces to include improved supply availability, reduced re-supply times, and smaller, more agile operational supply lines. I will provide specific examples of progress in these areas throughout the remainder of my testimony.

Current DoD Logistics Performance and Structure

The current state of DoD logistics is very strong. In terms of our core business, to project and sustain US military power, we continue to demonstrate outstanding performance under the most severe conditions. While supporting engaged forces in Afghanistan and Iraq, we executed the largest humanitarian airlift since the Berlin airlift in support of Tsunami relief. Most recently in support of other local and federal authorities, the DoD and National Guard deployed 68,000 troops and 400 aircraft to the Gulf Coast. Those personnel and equipment, along with the Coast Guard, rescued 49,000 people, evacuated 26,000 people, and treated 22,000 patients while airlifting 51 million pounds of relief supplies and 21.5 million (M) meals-ready-to-eat.

Simultaneously with current operations, we are improving our business processes that support those operations. Thanks in part to continued resource support from Congress, we are realizing historically high materiel availability to meet warfighter needs with historically low backorders and cost recovery rates. To further enhance support to forces deployed in Iraq and Afghanistan, we have established a joint deployment and distribution operations center and a forward-deployed warehouse in Kuwait. Combined, these efforts have significantly reduced warfighter wait time by over 50 percent for critical Army parts and reduced transportation costs by over $400M by reducing reliance

on more expensive air transportation into theater and relying more on cost-efficient surface transport.

When we look at the DoD supply chains, we can see we are dealing with a big business. The DoD logistics workforce is just over 1 million personnel (active duty, reserve, and civilian), managing an inventory valued at approximately $77 billion. To appropriately manage that business, we have two fundamental responsibilities:

1. To provide our warfighters the best support possible within the resources the Congress provides us, and
2. To be faithful stewards of those resources and ensure the taxpayers are receiving the best value for their money, in terms of outcomes and cost.

I have briefly highlighted current DoD performance associated with the first responsibility. Let me take a few minutes now on the second area.

Ongoing Efforts

The DoD has made several logistics improvements to enhance efficiency and accountability, from 2001 to today:

- We improved "factory-to-foxhole" distribution capabilities by expanding US Transportation Command's (TRANSCOM) role to include synchronization of end-to-end distribution. Through partnerships across our Combatant Commanders, Military Services, and the Defense Logistics Agency (DLA), we smoothed materiel flows into Iraq and Afghanistan via a Joint Deployment Distribution Operations Center and dramatically improved return flow to our depots. Currently, we are developing an integrated blueprint for distribution

systems modernization.

- We implemented life cycle management and performance-based logistics (PBL) for new weapons programs. Logistics support of our defense systems consumes approximately 80 percent of our logistics resources. Life cycle management and PBL are directed toward reducing demands, through improved equipment reliability and maintainability; integrating support by focusing on outcomes, such as equipment availability; and infusing accountability by holding our program managers and industry directly accountable across the sustainment phase.
- We demonstrated the benefits of leading commercial process improvements across our industrial and depot operations. For example, the Air Force reduced depot maintenance time on the KC-135 from 427 days to 205 days; the Navy reduced depot time on the 404 engine, which powers the F-18 Hornet, from 65 days to 30 days; and the Army slashed depot maintenance time on the T-700 engine from 261 days to 100 days. These efforts place assets back in the hands of our customers much faster and will enable us to reduce inventory over time.
- We implemented active Radio Frequency Identification (RFID) on all loaded ocean containers and air pallets moving through our distribution system into Iraq and Afghanistan. Like many leading commercial companies, DoD embraced the use of RFID to provide asset management and visibility in our supply chain. This enables our customers to track inbound materiel in near-real time and avoid duplicate ordering.

- We committed to employing best-in-class supply chains and supply chain practices. For items in five key areas – food, fuel, medicines, clothing, and common shop materials – we use commercial supply chains today, hold limited inventory, and are realizing 24-48 hour response times. For more military-unique items, we are moving towards consolidated purchasing and strategic buying practices, consistent with OMB guidance. Our efforts in this area will be greatly enhanced by implementation of the Base Realignment and Closure (BRAC) Commission recommendation to consolidate procurement of tires and depot-level repairables within DLA.

In addition, we are reviewing our supply chain efforts as part of our Quadrennial Defense Review (QDR). Lieutenant General Duncan McNabb, who is currently serving on the Joint Staff as the Director of Logistics, is co-chairing QDR business practices with me. We are working business practices as part of strategy development. The work that Duncan and I have underway includes five broad business areas, including (1) supply chain, (2) medical readiness and performance, (3) acquisition – not little "a," or how you procure, but big "A," thinking through demand and supply, and then tying it to logistics over time – (4) strategic process integration, or tying planning to resource allocation and execution management, and finally, (5) corporate governance.

After reviewing the Department's supply chain business practices against the emerging strategy, we concluded current initiatives were necessary but not sufficient to fulfill our two primary responsibilities. So we took a more aggressive approach to logistics performance and accountability. Before I summarize those emerging actions, let

me set the stage based on near-term national security and budgetary challenges.

Emerging Challenges

Recent and current world events have demonstrated the challenges that will face our national security structure for the foreseeable future. A few of those challenges include:

- An increasing operational need for speed and agility in our military response to threats and disasters. This need dictates that we have logistics processes that are as rapid and agile as our maneuver forces.
- Continued uncertainty in terms of threats, both manmade and natural. This uncertainty demands that we maintain a heightened level of military readiness and industrial preparedness.
- Increasingly mobile, distributed coalition forces. Effective sustainment of those forces demands that we migrate to a vertical distribution system at the tactical level that is reliable and secure.
- Increasing expectations from the American taxpayers for rapid, effective response to both manmade and natural disasters that includes comprehensive, cost-effective logistics support.
- Growing recognition that we must reduce the demand for logistics and its associated cost so we can afford to address other national security priorities, such as modernization.

- Clear accountability for resources and outcomes, particularly in the area of logistics which is funded, as you know, primarily with Operations and Maintenance (O&M) money. Execution of these funds is distributed across every camp, base, and station in DoD.

I highlight these challenges because our recent experience demonstrates that speed, agility, and effectiveness cannot be achieved without clear resource and outcome management. To provide our forces with the most effective logistics support, we must achieve the most efficient logistics support. Achievement of both objectives will enable DoD to transform its comparative advantage into a true offensive weapon, driven by outcome performance and enabled by transparent accountability.

Near-Term Actions

To better achieve those objectives, we initiated several focused tasks as part of our ongoing business transformation. I would like to share with you a sense of our current thinking along five major lines:

1. Use benchmarking to improve performance. Over the next few months, we will deploy a focused benchmarking program across our supply chain operations, by product line, such as aircraft parts, large vehicles, ships, food, electronics, and clothing.
2. Accelerate and expand some strategic initiatives including:
    - Codify the roles, responsibilities, authorities, and performance expectations across our distribution process over the next year. Included will be the development and resourcing of a joint distribution

analysis center at TRANSCOM to facilitate continuous improvement.

- Expand our application of life cycle management and PBL to appropriate legacy systems to enhance reliability and improve support of our existing systems in the near-term. Utilizing reliability growth and enhanced health monitoring equipment, the Army demonstrated an 89 percent reduction in manhours Black Hawk helicopter main rotor track and balance tasks in Iraq. Employing PBL, the Navy demonstrated 90 percent availability for the F-404 engine..
- Deploy a consistent, integrated continuous improvement program across all DoD processes by building on the positive results in our industrial operation..
- Initiate commercial standard passive RFID down to the box level so that we gain comprehensive visibility across our end-to-end supply chains. Using RFID in this end-to-end application, the Marine Corps II MEF in Iraq recently demonstrated a reduction in inventory from $127M to $70M, reduced wait times from 28 days to 16 days, and an increased fill rate from 77 percent to 89 percent..
- Build upon our successful application of commercial supply chains at DLA and apply similar practices for war reserve consumable items -- enabling us to draw upon the commercial market for surge requirements while reducing our need to hold war reserve inventory.

3. Develop a consistent, defendable framework that links resources to outcomes. This framework will provide clear, fact-based insight into issues associated with the resources provided by this body and outcomes from application of those resources. When fully implemented, it will enable accountability and performance improvement.
4. Link the results of the prior tasks directly to our military capability to project and sustain forces through our requirements process. This effort will be a longer run activity, but it will allow us to link for the first time our gains in business efficiency to the effectiveness of our core mission. It will also provide strategic performance goals for our key logistics capabilities that we will use to guide both capital investment and process improvements.
5. Finally, baseline our logistics business systems modernization efforts to be consistent with our broader business transformation efforts. This effort will enable better materiel control and accountability.

I look forward to continuing discussions on these areas with this Committee. My staff is proactively engaged OMB and GAO on our efforts and will continue to use the OMB/GAO high-risk remediation plan as a mechanism to document our action plans and track our implementation efforts.

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 believe our strategic actions are responsive to the needs of the taxpayers, consistent with the recommendations of GAO and OMB, and aligned with the intent of this Committee. 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.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF **MANAGEMENT** AND BUDGET
WASHINGTON, D.C. 20503

Testimony of the Honorable Clay Johnson III

before the

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

October 6, 2005

When I addressed this Subcommittee in April, I told you what I believed were the key elements necessary to reduce risk of waste, fraud, and abuse in areas highlighted by GAO as "High-Risk." They are :

- top management commitment to solving the problem
- a clear picture of what needs to be accomplished
- a clear, aggressive action plan for solving the problem, and
- a clear definition of who's responsible overall, and who's supposed to do what by when.

Because it owns 7 of 25 High-risk areas, the Department of Defense (DoD) has been hard at work ensuring that these elements are in place. In one particular area, supply chain management, the issue we are here to discuss today, DoD has committed to efforts in the following areas in order to provide more efficient and effective supply support to warfighters:

1. Asset Visibility:
   - Improve Asset Visibility across the department. Increase asset visibility and long-term goals to achieve total asset visibility.
   - More fully incorporate asset visibility into DoD's logistics business enterprise architecture and DoD's long-term logistics IT system modernization programs.

2. Forecasting:
   - Improve Inventory Management (reduce percentage of low-usage inventory, increase availability of high usage, and increase availability of critical inventory).
   - Update and improve material requirements process to identify required war reserve stocks and computer models to forecast wartime supply demand and items with long procurement lead times.
3. Distribution:
   - Improve seamless flow of materiel in support of deployed forces.

DoD has laid out a specific plan of attack to accomplish these goals, given dates for accomplishing them and specified who is accountable for accomplishing them. The Department is now implementing this plan. In the year ahead, OMB will remain engaged to monitor DoD's progress.

Following our success in agreeing to an improvement plan for supply chain management, DoD and OMB are close to agreement about what needs to be accomplished and the plans of action for achieving it for the other high-risk areas at DoD. OMB is far along with other agencies, as well. GAO is providing substantive input on what constitutes success in reducing risk and what steps must be taken to achieve that. Together we are ensuring all the elements of success I mentioned above are in place. When implemented, lasting improvement in all the high-risk areas will occur.

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

For Release on Delivery
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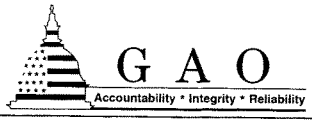
DOD'S HIGH-RISK AREAS

High-Level Commitment and Oversight Needed for DOD Supply Chain Plan to Succeed

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



GAO-06-113T

October 6, 2005

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-113T, 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

High-Level Commitment and Oversight Needed for DOD Supply Chain Plan to Succeed

Why GAO Did This Study

Since 1990 the Department of Defense's (DOD) supply chain management processes have been on GAO's list of high-risk areas needing urgent attention and fundamental transformation to ensure that they function in the most economical, efficient, and effective manner possible. Recently in collaboration with the Office of Management and Budget (OMB), DOD developed a plan to address some of the systemic weaknesses as a first step toward removing supply chain management from the list. DOD's plan focuses on three areas for improvement: accuracy of supply requirements forecasts, distribution of material, and asset visibility.

GAO was asked to provide its views on (1) the importance of supply chain management in DOD, (2) why GAO listed it as a high-risk area, (3) GAO's assessment of DOD's plan to improve supply chain processes, and (4) GAO's plans to follow up on DOD's efforts.

This testimony contains GAO's views on what remains to be done to improve DOD's supply chain management and bring about lasting solutions. Continued efforts to complete and implement DOD's plan as well as continued oversight by Congress are essential.

www.gao.gov/cgi-bin/getrpt?GAO-06-113T

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

What GAO Found

It is important for DOD to have effective supply chain management because of (1) its impact on military readiness and operations and (2) the substantial investment in inventory. While DOD maintains military forces with unparalleled capabilities, timely supply support is critical to sustaining them. For example, to support Operation Iraqi Freedom, DOD moved more than 2 million tons of cargo, but shortages of items such as vehicle track shoes and tires hampered operations. In addition, DOD spends billions on supplies. For example, its supply inventory levels have grown in recent years from $62.3 billion in fiscal year 2001 to $77.4 billion in fiscal year 2004. DOD expects to spend approximately $50 billion in fiscal year 2005 for such items and associated operations.

In 1990, we identified DOD's inventory management processes as "high risk" because of long-standing problems such as excess inventory levels, inadequate controls, and cost overruns. Since then, GAO's work has shown that the problems adversely affecting supply support to the warfighter involved the entire supply chain. As a first step toward removing supply chain management from GAO's high-risk list, DOD in cooperation with OMB prepared a plan to address weaknesses in three key areas: accuracy of supply requirements forecasts, distribution of material, and asset visibility.

DOD's plan to improve supply chain management provides a good start and framework for addressing long-term systemic weaknesses and in focusing the multiyear effort to improve supply support to the warfighter. However, successful resolution of DOD's supply chain management problems will require continued efforts to complete and successfully implement the plan. Based on GAO's criteria for removing programs from the high-risk designation, it is important for DOD to sustain top leadership commitment and long-term institutional support for the plan; obtain necessary resource commitments from the military services, the Defense Logistics Agency, and other organizations; implement proposed improvement initiatives across the department to address root causes; identify performance metrics and valid data to use in monitoring the initiatives; and demonstrate progress toward meeting performance targets.

As part of GAO's periodic reassessment of high-risk areas across the federal government, GAO will be assessing DOD's progress in resolving supply chain management and its other high-risk areas. GAO plans to follow up on DOD's actions to improve supply chain management in three ways. First, GAO will assess DOD's progress in implementing recommendations made in prior GAO reports. Second, GAO anticipates evaluating several of DOD's supply management activities as part of our planned engagements over the next 2 years. Third, GAO expects to work with other audit agencies,, as well as DOD and OMB, to coordinate audit coverage of the initiatives, metrics, and data system validity.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss GAO's list of "high-risk" areas within the Department of Defense (DOD) and, more specifically, DOD's plan to show to progress toward the long-term goal of resolving problems and removing supply chain management from our list. At the onset, I would like to thank the Subcommittee for its continued encouragement of the Office of Management and Budget's (OMB) effort to work with agencies over the next several years to reduce risk in each of the 25 high-risk areas we reported in January 2005. The active involvement of this Subcommittee is essential to ultimately ensuring DOD's continued progress in addressing and resolving its high-risk areas, while enhancing public confidence in DOD's stewardship of the hundreds of billions of taxpayer funds it receives each year.

Briefly, our high-risk list focuses on major government programs and operations that either need urgent attention and transformation to ensure that the U.S. government functions in the most economical, efficient, and effective manner possible, or that are at high risk because of their greater vulnerability to fraud, waste, abuse, and mismanagement. DOD is responsible for 14 of the 25 high-risk areas, including 8 that are specific to DOD and 6 others that are government-wide in scope. This year we added DOD's approach to business transformation to our list of high-risk areas because of our concerns over the department's lack of adequate management responsibility and accountability, as well as other concerns. Business transformation efforts are critical if DOD is to successfully address systemic management problems related to other high-risk areas, including supply chain management. In our view, an essential element to business transformation is strong and sustained executive leadership. As you know, we have recommended a chief management official or similar official be created by statute within the department of oversee DOD's business transformation efforts. We believe that two other essential elements of DOD's business transformation are (1) an integrated strategic plan coupled with a well-defined blueprint—referred to as a business enterprise architecture—to guide and constrain implementation of such a plan and (2) central control of investments in business systems modernization.

DOD's business transformation efforts are likely to have a profound impact across many areas of the department, including supply chain management. For 15 years, DOD's supply chain management processes have been on our list of high-risk areas needing urgent attention and fundamental transformation to ensure that they function in the most

economical, efficient, and effective manner possible. Senior administration leaders and advisors—including the Secretary of Defense, the nominee for Deputy Secretary of Defense, and the Deputy Director of the Office of Management and Budget—have recently demonstrated a commitment to addressing DOD's management challenges. To his credit, OMB's Deputy Director for Management and his staff have been steadfast in their message to DOD about the need for meaningful action and follow-through on resolving problems associated with all 14 of DOD's high-risk areas. For supply chain management, OMB has worked with the Under Secretary of Defense for Acquisition, Technology and Logistics and his staff to help DOD develop an action 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. OMB has proposed using DOD's plan describing how it expects to address one of its high-risk areas as a template for other areas on our high-risk list.

During the development of DOD's plan, we were frequently consulted by OMB and DOD. Based on our analysis of prior reports, we suggested three areas to DOD that would be critical to addressing our supply chain management concerns. After consultation with OMB, DOD identified these three as focus areas for the plan. They are

- improving material requirements forecasts,
- improving distribution of material, and
- improving asset visibility.

In response to DOD's request for our thoughts on its draft plan, we focused on key elements that needed to be in the plan based on work we have done, recommendations we have made, and our criteria for removal from our list of high-risk areas. We provided OMB and DOD with GAO and DOD reports citing deficiencies in these areas. As guidance for formulating the supply chain management improvement plan, we also provided OMB and DOD with reports containing our criteria for assessing agencies' progress toward resolving a high-risk problem and determining whether to remove the high-risk designation. We also provided examples where other agencies have succeeded in having the high-risk designation removed.

Today, I would like to provide our perspectives on (1) the importance of supply chain management in DOD; (2) why we have listed it as a high-risk area; (3) our assessment of DOD's plan to improve supply chain processes; and (4) our plans to follow up on DOD's efforts.

In summary, Mr. Chairman, DOD's plan is a good first step in improving supply chain management in support of the warfighter. Notwithstanding this positive first step, the department faces challenges and risks in successfully implementing its proposed changes across the department and measuring progress.

My statement is based on previous GAO reports and analysis. Our work was performed in accordance with generally accepted government auditing standards.

Background

DOD is one of the largest and most complex organizations in the world to manage effectively. While DOD maintains military forces with unparalleled capabilities, it continues to confront pervasive, decades-old management problems related to its business operations—which include outdated systems and processes—that support these forces. These management weaknesses cut across all of DOD's major business areas, such as human capital management, including the department's national security personnel system initiative; the personnel security clearance program; support infrastructure management; business systems modernization; financial management; weapon systems acquisition; contract management; and last, but not least, supply chain management. All of these areas are on our high-risk list for DOD.

DOD relies on a number of individual processes and activities, known collectively as supply chain management, to purchase, produce, and deliver items and services to the warfighter. Its goal for supply chain management is to deliver the "right items to the right place at the right time" for the warfighter in support of deploying and sustaining military capabilities as described in the National Military Strategy. The department relies on working capital (revolving) funds maintained by the defense and service logistics agencies to finance the flow of these items to the forces. Working capital funds allow these agencies to purchase needed items from suppliers. Military units then order items from the logistics agencies and pay for them with annually appropriated operations and maintenance funds when the requested items—either from inventory or manufacturers—are delivered to the units.

Effective Supply Chain Management Is Important to Supporting the Warfighter and Ensuring Effective Investment of Resources

There are two primary reasons why it is important for DOD to have effective supply chain management. First, supply support to the warfighter affects 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 scope of the supply requirements to support U.S. military operations, the investment of resources in the supply chain is substantial.

While DOD maintains military forces with unparalleled capabilities, timely supply support is critical to sustaining these forces as they are trained and deployed to protect our national security. For example, to support Operation Iraqi Freedom (OIF), DOD moved more than 2 million tons of cargo—including equipment, spare parts, supplies, and other items—thousands of miles to the Persian Gulf. Conversely, supply shortages can adversely affect the readiness of weapon systems. During OIF, for example, shortages of items such as track shoes prevented large numbers of Abrams tanks and Bradley Fighting Vehicles from operating during the summer of 2003. In another case, tire shortages caused units to strip and leave otherwise good vehicles as well as supplies behind.

Shortages of supply items also could hurt the morale of those who employ the weapon systems and raise concerns about forces' safety with their families.

Furthermore, DOD has a significant investment in inventory and spends billions for supplies each year. For example, at the end of fiscal year 2004, DOD had approximately $77.4 billion worth of items in its inventory, an increase of over $15 billion since fiscal year 2001, when DOD had approximately $62.3 billion worth. DOD estimates that the annual costs of supplies and associated operations for fiscal year 2005 are expected to be $51.4 billion, or about 12 percent of DOD's $419 billion requested budget. Unless the department has a sound management plan and acts to invest resources to buy and provide supplies to units, improve the supply system, as well as invest in essential information systems, the risk of fraud, waste, abuse, and mismanagement remains high at a time when DOD is challenged to maintain a high level of military operations while competing for resources in an increasingly fiscally constrained environment. We recognize that improving DOD's supply chain management may not save money in the near term because of necessary investments in information technology and other enablers. However, improved systems with timely and reliable data should lead to more effective investment of resources in the future and thereby avoid future costs.

Supply Chain Management Is a High-Risk Area Because of Long-Standing Weaknesses

For 15 years, DOD's supply chain management processes 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. In 1990, we began a program to report on government operations that we identified at high risk for fraud, waste, abuse, and mismanagement. This 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 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."

Since 1995 we have issued over 70 reports on various deficiencies in DOD's supply chain management system. Our assessment of these reports shows that DOD generally concurred with our recommendations. Furthermore, these reports had several common themes, including DOD's need for accurate supply requirements forecasts, an effective distribution system, and visibility over assets in inventory and while in transit. Moreover, in our prior reports, we have noted problems with the information technology systems supporting the supply chain. For example, DOD has not been able to achieve total asset visibility for over 30 years in part because the department has lacked necessary integration among its many inventory management information systems and has not corrected long-standing data accuracy and reliability within its existing systems. In addition, DOD's nearly 2,000 logistics business systems have suffered from duplication, limited interoperability, and unnecessarily costly operations and maintenance. GAO has not been alone in criticizing these aspects of DOD's supply chain management. DOD and audit organizations such as the Department of Defense Office of Inspector General and the Army Inspector General have also issued studies and reports addressing the supply systems' problems.

DOD defines requirements as the need or demand for personnel, equipment, facilities, other resources, or services in specified quantities

for specific periods of time or at a specified time. Accurately forecasted supply requirements are a key first step in buying, storing, positioning, and shipping items that the warfighter needs. However, in our April 2005 report on the effectiveness of logistics in support of OIF, we described how DOD had not modeled wartime demands for supplies as required to accurately forecast warfighter requirements. As a result, we found that DOD underestimated the demand in Iraq for some items, such as armor vehicle track shoes, lithium batteries, meals-ready-to-eat, and tires, and forces experienced supply shortages of these items.

Distribution is the process for synchronizing all elements of the logistics system to deliver the "right things" to the "right place" at the "right time" to support the warfighter. In our April 2005 report, we describe several instances where the joint distribution system did not support the forces in Iraq. We attributed these instances to conflicts in doctrine about the authority over distribution, improper packaging of shipments, insufficient transportation equipment and supply personnel in theater, and the inability of the information systems to support the requisition and shipment of supplies into and through Iraq. For example, we found that DOD was not able to effectively distribute sufficient quantities of items such as body armor, meals-ready-to-eat, tires, and generators for Marine Corps amphibious vehicles because of problems with supply chain management.

DOD describes asset visibility as the ability to provide timely and accurate information on the location, quantity, condition, movement, and status of supplies and the ability to act on that information. For over 30 years, the department has been attempting to improve the visibility over its inventory as well as items in transit, and we have repeatedly reported problems with its efforts. The continued lack of visibility over inventory and shipments increases vulnerability to undetected loss or theft; substantially increases the risk that millions of dollars will be spent unnecessarily; and if items are not delivered when needed, may impair warfighter readiness. We have recently reported on DOD's problems with existing inventory systems being unable to share data on a near real-time basis and concerns related to tracking critical supplies for Iraq. For example, in December 2003 we reported a discrepancy of $1.2 billion between the amount of material shipped to Army activities in Iraq and the amount of material that those activities acknowledged they received. Since then, in an April 2005 report we reported that the lack of visibility over items in transit significantly affected distribution. For example, incomplete identification tags attached to shipments resulted in the loss of some body armor protection plates, delays in getting meals-ready-to-eat, and the Marine Corps' ability to only

verify the receipt of 15 of 140 amphibious assault vehicle generators that were shipped. Improving asset visibility should not only improve data for supply managers' decisions, but should also improve the warfighter's trust in the supply system.

DOD's Plan Is a Good Start toward Resolving Supply Chain Management Weaknesses that Will Require Continued Diligence to Succeed

DOD's plan to improve supply chain management provides a good start and framework for addressing long-term systemic weaknesses in DOD's supply chain management and for focusing the multiyear effort that will be needed to improve supply support to the warfighter. Notwithstanding this important, positive first step, the department faces many challenges and risks in its efforts to improve the supply chain. First, successful resolution of its supply chain management problems will require DOD to, among other things, diligently complete parts of the plan, fully implement proposed changes across the department, and measure progress. Second, resolution of supply chain management problems will require investment in needed information technology. DOD's supply chain plan includes the Business Management Modernization Program as one of its 10 initiatives. In the plan, DOD recognizes that achieving success in supply chain management is dependent on developing interoperable systems that can share critical supply data. However, we recently reported that DOD had made limited progress developing a common architecture for its business system modernization investments despite having spent 4 years and about $318 million. Last week DOD, as part of its Business Management Modernization Program, issued an overarching business enterprise architecture and an enterprise transition plan for implementing the architecture. Under the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, we have 60 days to provide our assessment of the extent to which the architecture and transition plan meet statutory requirements of 10 U.S.C. section 2222.

Our assessment of DOD's plan to improve its supply chain management is based on work we have performed, prior recommendations, and the criteria cited in our November 2000 report on determining performance and accountability challenges and high risks. We use these criteria to assess an agency's progress toward resolving a high-risk problem and determine whether to remove the high-risk designation. There are five essential questions to be addressed:

1. Does DOD's plan demonstrate a strong commitment and top leadership support to improve supply chain management?

The formulation of DOD's plan and its endorsement by the Under Secretary of Defense for Acquisition, Technology and Logistics is evidence of a strong commitment by top leadership to improve DOD's supply chain management. His recent referral to supply chain management as one of the five business areas targeted for improvement by the department's Business Practices and Processes Integrated Product Team as part of the current Quadrennial Defense Review is further evidence of his commitment. However, it is important for DOD to sustain this commitment as it goes forward in implementing this multiyear plan while also engaged in departmentwide business transformation efforts. Because improving supply chain management may be one of several high-risk areas DOD will be addressing at one time, it may take the involvement of the Deputy Secretary of Defense or a chief management official, as proposed by the leadership of this Subcommittee, to ensure that a long-term departmentwide commitment is sustained. In addition, it is important that DOD act to institutionalize this effort by incorporating the elements of the plan into key Office of Secretary of Defense guidance, such as its Logistics Transformation Strategy and its follow-on document called the Focused Logistics Roadmap, that are to guide department activities.

2. Does DOD have the capacity, meaning people and other resources, to resolve the problems with supply chain management?

If DOD makes implementation of its plan a priority, the department has people and other resources to draw from in helping to resolve its supply chain management problems. However, 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 Defense Logistics Agency and the services. Therefore, it is important for the department to obtain the necessary resource commitments from the military services; the Defense Logistics Agency; and other organizations, such as U.S. Transportation Command, to ensure that the numerous initiatives on which the multiyear plan depends are properly supported. Obtaining these commitments might require the involvement of the Deputy Secretary of Defense or a position such as a chief management official.

3. Does DOD have an action plan that defines root causes, identifies effective solutions, and provides for substantially completing corrective measures over the near term?

DOD's plan for improving supply chain management addresses some of the root causes for problems in three key areas with potentially effective solutions that it may be able to fully implement over the next few years. By

committing to improve requirements forecasting, material distribution, and asset visibility in this plan, DOD has focused its efforts on three areas we frequently identified as impeding effective supply chain management. DOD's plan for improvement proposes departmentwide implementation of 10 initiatives to help resolve supply chain management problems in the three areas by addressing some of the causes. For example, implementing radio frequency identification technology is expected to provide demand data for forecasting requirements, improve distribution performance, and provide fully automated visibility over assets in inventories and distribution centers. However, the time frames for completing some of these 10 initiatives are of concern. For example, milestones for implementing the Business Management Modernization Program, a critical enabler that will provide the essential information technology underpinning for achieving progress in all three focus areas, are not specifically linked to improvements in requirements forecasting, distribution, and asset visibility. Until the initiatives are substantially implemented across the department, we will not know whether they provide effective solutions to all of the root causes of DOD's supply chain management problems.

4. Does DOD have a program to monitor and independently validate the effectiveness and sustainability of corrective measures?

While DOD's plan recognizes the need and cites a general methodology for evaluating progress associated with each of the 10 initiatives, the department has not yet provided all of the information needed for this to occur. DOD's plan cites a two-step approach. The first step is to have DOD's organizations establish a methodology (internal process) for monitoring the validity of data as part of implementing the initiatives and reporting on metrics. DOD's second step is to rely on independent groups, such as contractors and the Department of Defense Office of Inspector General, to validate the data, and GAO to monitor the department's progress in improving supply chain management as part of its planned audits. Such validation processes are important because, as we have frequently reported, DOD's systems do not have accurate and reliable data, and without valid data, it will be difficult to accurately track progress. However, until DOD specifies all of the metrics and systems it plans to use to measure progress it cannot ensure comprehensive monitoring within the department or that independent groups will know what data and systems should be validated to confirm DOD's reported progress.

5. Does DOD have the ability to demonstrate progress in implementing corrective measures?

DOD has the ability to demonstrate some progress in implementing the initiatives. However, it has not identified all of the performance metrics necessary to demonstrate how all of the initiatives are affecting supply to the warfighter. DOD's plan identified some viable overall supply chain management performance metrics, including the level of backorders, the amount of customer wait time, and the percentage of orders on time. The plan also identified baseline and annual performance targets for these metrics to use in measuring progress. But it did not have any cost baselines or cost performance targets. Furthermore, DOD has not yet identified specific outcome metrics for many of the initiatives. 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 January 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 timelines, asset visibility, or supply consumption data. In total, DOD's plan identifies a need to develop such supply performance metrics for 6 initiatives, and 9 of the 10 initiatives lack cost metrics. Until DOD develops and tracks the additional costs and supply impact metrics it has promised, it will be difficult for the department to convincingly demonstrate its progress in improving supply chain management and providing timely logistics support to the warfighter.

GAO Has Plans to Follow Up on DOD's Supply Chain Improvement Efforts

As part of our periodic reassessment of high-risk areas across the federal government, we will be assessing DOD's progress in resolving supply chain management and its other high-risk areas. Our next high-risk update is due in January 2007. We plan to follow up on DOD's supply chain management improvement efforts in three ways. First, as a matter of routine practice we will continue assessing DOD's progress in implementing the recommendations made in our prior reports. Second, we also anticipate evaluating several of DOD's supply management activities as part of our planned engagements over the next 2 years. For example, next year we expect to evaluate how the Defense Logistics Agency's and services' spare parts inventory management initiatives have progressed in meeting their performance objectives and timelines. Third, in August we met with representatives of the Department of Defense Office of Inspector General and service audit agencies as well as DOD and OMB to review DOD's plan and begin the process of sharing information on planned audits. We expect to meet periodically with these representatives in the future to coordinate audit coverage of the initiatives, performance metrics, and data system validity while minimizing audit duplication.

Along with OMB and the Congress, we look forward to doing our part by monitoring DOD's progress as it works toward mitigating supply chain management problems and achieving its goal of supporting the warfighter by providing the "right items to the right place at the right time."

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

Staff Contacts and Acknowledgments

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; Robert Brown; Richard Payne; John Pendleton; Dave Schmitt; George Stalcup; and John Wren.

QUESTION FOR THE RECORD
Submitted by: Chairman George V. Voinovich
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
From Factory to Foxhole: Improving DoD Logistics
October 6, 2005

Questions for the Department of Defense, Under Secretary Ken Krieg

1. Mr. Krieg, over the years DoD has developed strategies and plans to improve logistics and supply chain management processes. How is your strategy different from previous plans? What steps are you taking to institutionalize the plan to ensure effective implementation after you leave the Department? Financially, how much do you think your improvements will save the Department?

Answer: The key to success of any plan is accountability and sustained commitment. Our Supply Chain Management High Risk Improvement Plan is a representation of key initiatives that are underway across the Department that are focused on improving asset visibility, forecasting, and distribution. These initiatives fit within our overarching strategy for transforming our logistics capabilities. For each initiative, the plan provides accountability, timelines, and metrics. The plan also lays out a process for regular monitoring of the implementation of these key initiatives through monthly working level meetings and quarterly in process reviews by senior leaders within the Department of Defense (DoD), Office of Management and Budget (OMB), and the Government Accountability Office (GAO). Many of these initiatives are already being implemented. For example, as I stated in my testimony, we have implemented active Radio Frequency Identification (RFID) on all loaded ocean containers and air pallets moving through our distribution system into Iraq and Afghanistan, and we are commencing our roll out of passive RFID for smaller containers.

Effective implementation will only occur with sustained ownership by those who are going to be there regardless of who holds my position. The Honorable Jack Bell, the Deputy Under Secretary (Logistics & Materiel Readiness) and I are committed to our logistics transformation strategy and we provide the senior level leadership. The day-to-day responsibilities for oversight and implementation of planned initiatives resides with the senior military and civilian career leadership in the Department, who have the ownership of these initiatives and supporting metrics, and are driving the implementation to better support our forces. We are also documenting these logistics transformation requirements in the Quadrennial Defense Review (QDR), which is our quadrennial look at strategy driving changes in the way we do work inside DoD. This will

ensure the sustained commitment to transformation of our logistics capabilities to meet changing operational needs.

An important part of our plan is to benchmark key Department metrics against industry performance targets. This plan tracks such metrics as customer wait time and backorders. The first phase of this benchmarking effort will be completed in January 2006.

At this point, it is too early to quantify the financial benefits. Nonetheless, taken together with programs we are launching to improve the reliability and predictability of our maintenance and supply chain processes, we are confident that the savings will be significant.

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2. Mr. Krieg, in your testimony you discuss the Department's Business Enterprise Transition Plan. Will your supply chain management plan be rolled into this overarching plan? If so, please explain how they are related?

Answer: These efforts are both highly complementary and highly integrated. The office of the Deputy Under Secretary of Defense (Logistics & Materiel Readiness) (DUSD (L&MR)) is responsible for leading our efforts to transform how we supply the warfighter. The approach that the DUSD (L&MR) has taken is to develop a long-range strategic vision and department-wide coordinated approach to improve the inventory management and distribution aspects of DoD's supply chain in order to provide responsive, consistent, and reliable support to the warfighter during peacetime and war. Key focus areas we are working on within this area are asset visibility, forecasting and distribution. Within each of these focus areas we have identified major initiatives and goals including identifying milestones for meeting goals for initiatives identified; indicating what metrics will be used to measure improved performance; and obtaining OMB/DoD concurrence on goals, milestones, and metrics.

Additionally U.S. Transportation Command (USTRANSCOM) has been designated as the Distribution Process Owner (DPO). USTRANSCOM is responsible for managing the Distribution Portfolio of supply chain related Information Technology systems, and has the authority to establish a contracting activity for procurement of commercial transportation services.

The DUSD (Business Transformation) has the responsibility for working closely with DUSD (L&MR), USTRANSCOM, the Joint staff and other DoD Components to ensure that as we transform business systems, those changes reflect the requirements identified by our senior leadership for improved asset visibility, improved forecasting, improved timeliness, and seamless flow of materiel in support of deployed forces world-wide. To that end these changes in our business operations have been reflected in the Business Enterprise Architecture v3.0 and the metrics and milestones for these initiatives are documented within the Enterprise Transition Plan.

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3. Mr Krieg, on September 16, 2003, the Secretary of Defense designated the U.S. Transportation Command (USTRANSCOM) as the supply chain Distribution Process Owner (DPO) and the Under Secretary of Defense for Acquisition, Technology and Logistics (AT&L) as the Defense Logistics Executive. Although the directive made it clear on organizational responsibility, do you think that this directive is clear in accountability and authority? Do you, as Under Secretary of AT&L, have the authority to implement these changes across the Department and all four services?

Answer: I think the Defense Logistics Executive (DLE) and DPO roles for accountability and authority are clear. As the DLE, I am empowered by the Secretary to address issues concerning the end-to-end distribution system across all of DoD. The DPO has succeeded in initiating and implementing many distribution process improvements and is working closely with DLA, the Services and the Combatant Commands (COCOMs) to institutionalize a seamless end-to-end process to support the warfighters' needs cost effectively. We will continue to work to define and institutionalize these rules in the coming year.

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4. Mr. Krieg, it is my understanding that each service and agency within DoD has its own supply chain and change leadership education programs. Since the Department's supply chain management plan includes the development of a joint theater logistics program, will DoD create a joint logistical training program to ensure that the military and civilian employees in each of the services are trained under the same curriculum? If so, should these be combined under the Distribution Process Ownership program established by the Secretary of Defense?

Answer: The DoD Components have excellent supply chain management and change leadership education programs underway. Likewise, joint DoD training and education institutions have curriculums in these areas. These programs and curricula are designed to be complementary and appropriately emphasize joint logistics operations and processes. Instead of creating a single joint training program for such an expansive military business area, i.e., supply chain management, the Department will likely encourage further collaboration and partnerships among the DoD components, with perhaps a single institution assigned to integrate training approaches particularly for supply chain management. Such collaboration will include consideration of Distribution Process Owner program relationships with future supply chain, and will change leadership training and education.

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