Audit Report

INITIATIVES TO IMPROVE ACQUISITION LEAD TIME

Report Number 99-037 November 23, 1998

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Department of Defense

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Acronyms

CECOM	Communications Electronics Command
DSCC	Defense Supply Center - Columbus
OC-ALC	Oklahoma City Air Logistics Center

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

November 23, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Initiatives to Improve Acquisition Lead Time (Report No. 99-037)

We are providing this report for your information and use. The audit is a follow on to Inspector General, DoD, Report No. 95-238, "Administrative Lead Time at DoD Inventory Control Points," June 15, 1995. Because this report contains no findings or recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Wayne K. Million, at (703) 604-9312 (DSN 664-9312) or Mr. Michael A. DiRenzo, at (703) 604-9314 (DSN 664-9314). See Appendix C for the report distribution. Audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-037 **November 23, 1998**
(Project No. 8CG-0023)

Initiatives to Improve Acquisition Lead Time

Executive Summary

Introduction. The audit is a follow on to the Inspector General, DoD, Report No. 95-238, "Administrative Lead Time at DoD Inventory Control Points," June 15, 1995. This report addresses the initiatives implemented by DoD inventory control points to reduce acquisition lead time. This report also addresses management oversight of acquisition lead time. Acquisition lead time is the time from the identification of an item reorder point to the receipt of the first significant delivery. Reducing acquisition lead time decreases required inventory and inventory holding costs, thus freeing DoD funds for other uses.

Audit Objectives. The overall audit objective was to review recent initiatives to improve acquisition lead time. We also reviewed management controls applicable to the audit objectives.

Audit Results. DoD Components have implemented many initiatives to reduce acquisition lead time. Those initiatives include increased use of automated contracts, flexible long term contracting, use of commercial practices, and the team concept of contracting. DoD Components have also implemented management processes for monitoring and reducing acquisition lead time such as developing goals for reducing acquisition lead time and establishing process action teams to monitor acquisition lead time. As a result of those actions, DoD Components have shown an overall reduction of 14 percent in acquisition lead time since the issuance of the previous report.

Management Comments. We provided a draft of this report on October 5, 1998. Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Part I - Audit Results

Audit Background

Purpose of the Audit. The purpose of this audit is to address initiatives implemented by DoD Components since the issuance of Inspector General, DoD, Report No. 95-238, "Administrative Lead Time at DoD Inventory Control Points," June 15, 1995. The report states that DoD inventory control points could reduce administrative lead time and improve readiness by sharing with one another their best practices for reducing administrative lead time and by establishing performance measures. The report recommended that DoD Components establish performance measurement systems and goals for administrative lead time. In addition, recommendations were made that the DoD Components include administrative lead time as an assessable unit in their management control programs. The report also states that implementation of recommendations could result in cost reductions of as much as $2 billion for FYs 1996 through 2001 by reducing DoD inventory and the cost to maintain inventory needed to cover administrative lead time.

Policy Guidance. DoD Regulation 4140.1-R, "DoD Materiel Management Regulation," January 1993, establishes policy, assigns responsibility, and provides guidelines for defining and developing acquisition lead time. Acquisition lead time is composed of two consecutive periods: administrative lead time and production lead time. Administrative lead time is the period from the item reorder requirement until the contract is awarded. Production lead time begins on the date the contract is executed and extends to receipt of the first significant delivery (approximately 10 percent of the routine contract requirement).

Effect of Acquisition Lead Time on Inventory. To properly manage inventory, the DoD inventory control points forecast when to reorder to meet the needs of the users. For every day of acquisition lead time, sufficient inventory must be available to satisfy daily use. Reductions in acquisition lead time decrease inventory levels and associated inventory holding costs, thus freeing DoD funds for other uses.

Audit Objectives

The overall audit objective was to review recent initiatives to improve acquisition lead time. We also reviewed management controls applicable to the audit objectives.

Initiatives to Improve Acquisition Lead Time

Since the previous audit, DoD Components have developed initiatives to more efficiently award contracts and have increased management oversight of acquisition lead time. As a result, DoD inventory control points have shown an overall reduction of 14 percent, with some activities achieving as much as 50 percent reduction.

Efforts to Reduce Acquisition Lead Time

Since the issuance of Inspector General, DoD, Report No. 95-238, DoD Components have implemented many initiatives to reduce acquisition lead time. Those initiatives apply to the two consecutive periods that comprise acquisition lead time: administrative lead time and production lead time.

Administrative Lead Time. Some of the initiatives to reduce administrative lead time include:

- automated contracts,
- flexible long term contracts,
- commercial practices, and
- team concept of contracting.

Automated Contracts. DoD Components have recognized a need to automate the contract award process, which in turn reduces administrative lead time. Some of the initiatives that the DoD Components have used to reduce lead times promote increase use of electronic commerce. Use of electronic bulletin boards, internet, and the paperless ordering placement system are examples of electronic commerce.

Flexible Long Term Contracting. The DoD Components are using flexible long term contracting, which has had a significant impact on improving administrative lead time. A basic contract is negotiated and executed covering a 5 to 10 year period. As requirements arise, orders are placed against the basic contract, thereby reducing the administrative time it takes to process an award.

Commercial Practices. The DoD Components are using commercial practices such as corporate or prime vendor contracts. Corporate contracts combine the Department's requirements for repetitive buys of commercial items to obtain substantial discounts from catalogue prices. Under corporate contracts, DoD customers place orders electronically through local computer terminals. Prime vendor contracts take advantage of private sector distribution capabilities and electronic data processing to supply DoD customers. The customer orders supplies from the prime vendor, using electronic ordering

systems. The supplier then ships directly to the DoD Component, as needed, within a specific geographical area. Corporate and prime vendor contracts reduce order processing and delivery time for customers and reduce the Department's inventories and associated warehousing and redistribution costs.

Team Concept of Contracting. The DoD Components are using the team concept of contracting, which involves co-locating all personnel responsible for the various parts of the administrative award process. An example of this teaming would be item managers, engineers, buyers, and contracting officers working together as a team on a weapon system or commodity group. By teaming together, problems that arise during the administrative contracting cycle can be solved more quickly, thereby expediting the process for awarding contracts.

Production Lead Time. The DoD Components are placing more emphasis on initiatives to reduce production lead time. Some of these initiatives include delivery as a factor in source selection, and consideration of the best valued as a combination of delivery performance and lowest cost. The DoD Components have formed working groups and process action teams that are chartered to pursue and institute strategies for reducing future lead times.

Management Oversight

Inventory control points implemented management processes for monitoring and reducing acquisition lead time and, for the items reviewed, measured and reported lead times accurately. Those actions helped achieve overall reductions in acquisition lead time.

Managing Acquisition Lead Time. Each of the inventory control points developed goals for reducing acquisition lead time. They also established process action teams to develop and monitor lead time reduction initiatives. Several inventory control points developed additional management tools for improving lead times.

Army Communications-Electronics Command. The Army Materiel Command established a goal for Army inventory control points to reduce acquisition lead time from an FY 1995 baseline of 724 days to 300 days by FY 1998. To meet this goal, the Army Communications-Electronics Command (CECOM) increased its use of flexible long term contracts and increased the use of automation in its acquisition process. As a result, by the end of the second quarter of FY 1998, CECOM had reduced its acquisition lead time to 222 days. CECOM has also added an element to contracting officers' performance plans that requires them to be evaluated on efforts to reduce acquisition lead time.

Defense Supply Center-Columbus, Ohio. Defense Supply Center - Columbus (DSCC) established and monitored fiscal year goals for reducing acquisition lead times, which are calculated for stocked replenishment items. In addition, DSCC generated a comprehensive set of metrics for all purchases, including nonstocked items that were purchased using direct delivery

arrangements. Those metrics are broken out by contract dollar levels, types of contracts, and commodity groups, and are briefed monthly to the commander and senior executives in all DSCC directorates and reported to Defense Logistics Agency headquarters. We observed, however, that the comprehensive metrics were not measured against goals for reducing acquisition lead time. As a result, DSCC was using the metrics to monitor changes in acquisition lead times, but was not working toward lead time reduction goals. We brought this matter to the attention of DSCC representatives and on August 4, 1998, the DSCC Lead-Time Reduction Working Group assigned overall reduction goals to key acquisition lead time metrics and to business unit goals under those metrics. The DSCC will incorporate those goals into Application Group Level FY 1999 Business Plans and use them to benchmark lead time reductions.

Naval Inventory Control Point-Philadelphia, Pennsylvanian. The Naval Inventory Control Point-Philadelphia monitored acquisition lead time metrics monthly through its Executive Information System, which is an automated component within the inventory control point Metrics Program. The Executive Information System is updated monthly and used as a report card for monitoring acquisition lead time.

Oklahoma City-Air Logistics Center, Oklahoma. The Oklahoma City Air Logistics Center (OC-ALC) established an integrated product team (IPT) for acquisition pipeline inventory reduction. The IPT reviewed processes and institutes policy and procedural changes to reduce acquisition lead time. The OC-ALC also established acquisition lead time reduction goals that implemented the Office of the Secretary of Defense target of reducing cycle times by 50 percent by the year 2000. For FY 1997, the OC-ALC acquisition lead time goal was 648 days, down from the baseline of 864 days. Actual FY 1997 lead time was 432 days, significantly below the FY 1997 goal and reflecting a 50 percent lead time reduction. The OC-ALC assessed progress and reported results to its Senior Management Review Board and to the Air Force Materiel Command.

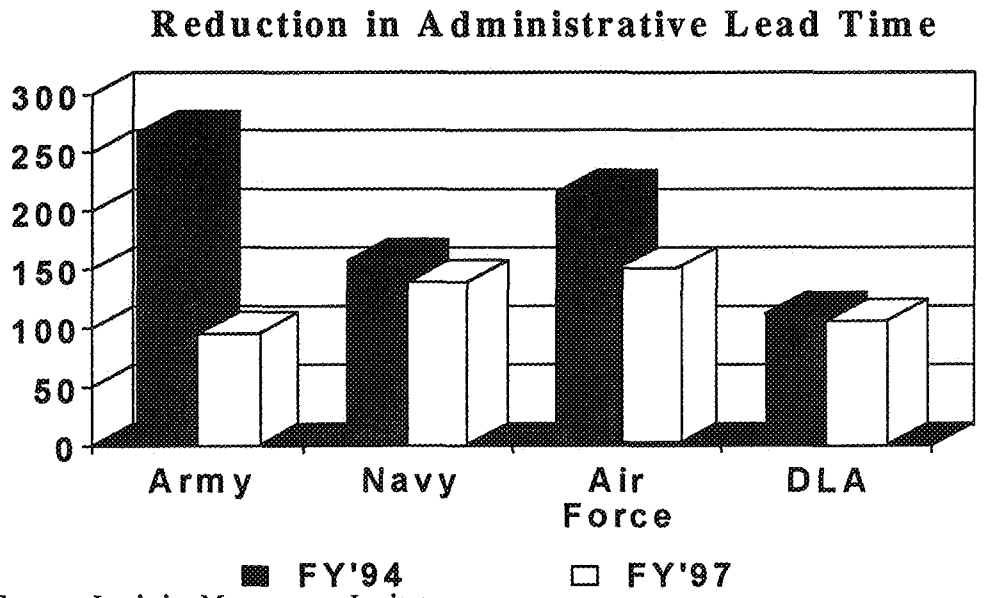
Management Process Improvements. Management process improvements provided effective visibility and accountability for acquisition lead time reduction efforts.

Measuring Acquisition Lead Time

At the four inventory control points in our sample, we reviewed the lead times reported for items purchased under 142 contracts valued at approximately $161 million. Our purpose was to determine whether the inventory control points accurately measured and reported administrative and production lead time data used to compile metrics and statistical analyses. We compared the lead time reported for each item to the actual lead time disclosed by contract file documents. With minor exceptions, inventory control points accurately measured and reported administrative and production lead times.

Improvement in Acquisition Lead Time

DoD Components are actively addressing initiatives and implementing management oversight to improve acquisition lead time. Initially, these efforts were focused on administrative lead time. As a result, since the issuance of Inspector General, DoD, Report No. 95-238, administrative lead time has been reduced.



Source: Logistics Management Institute

The DoD Components are now focusing their attention on developing more initiatives, such as additional direct vendor delivery and corporate contracts, to improve production lead time. Those initiatives represent potential for further reduction in acquisition lead time throughout DoD.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the effectiveness of initiatives being implemented to improve acquisition lead time at the following DoD inventory control points:

- Communications-Electronics Command, Fort Monmouth, New Jersey,
- Naval Inventory Control Point, Philadelphia, Pennsylvania,
- Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma, and
- Defense Supply Center-Columbus, Columbus, Ohio.

We reviewed the processes for measuring and monitoring acquisition lead time. To determine whether the inventory control points were accurately reporting their acquisition lead times, we computed lead times for items purchased under a judgmental sample of FY 1997 contracts. We then compared our computed acquisition lead time to what each location had reported as acquisition lead time for the same item.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following DoD-wide corporate level objective and goal.

Objective: Fundamentally reengineer DoD and achieve a 21st century infrastructure.

Goal: Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

Acquisition Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following acquisition functional area objective and goal.

Objective: Deliver Great Service.

Goal: Achieve visibility of 90 percent of DoD materiel assets while resupplying military peacekeepers and warfighters and reducing average order to receipt time by 50 percent. **(ACQ-1.2)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the DoD. This report provides coverage of the Defense Contract Management high risk area.

Methodology

Use of Computer-Processed Data. We relied on computer-processed data without performing tests of general system and application controls to confirm the reliability of the data. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that contract numbers, award dates, and purchase requests reviewed generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the objectives of the audit or that would change the conclusions in the report.

Universe and Sample. For the four DoD inventory control points visited, we reviewed documentation for 142 contracts, valued at approximately $161 million, to determine the actual acquisition lead time. Contracts were judgmentally selected based on type of contract and dollar value. We measured the time elapsed from issuance of the purchase request to the receipt of the first significant delivery (10 percent of contract requirement). Specifically, we reviewed purchase requests, contract files, and delivery receipts. In addition, we interviewed item managers, buyers, contracting officers, and budget officials.

Audit Type, Dates, and Standards. This economy and efficiency audit was conducted from February through September 1998 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of controls.

Scope of Review of Management Control Program. We reviewed compliance with DoD Directive 5010.38 by DoD inventory control points. Specifically, we evaluated the policies and the guidance issued by DoD Components for measuring acquisition lead time and implementing management controls over monitoring and measuring acquisition lead time. We also reviewed the results of any self-evaluations of those management controls.

Adequacy of Management Controls. DoD Components implemented management controls over measuring acquisition lead time. Management controls were adequate to keep DoD inventory control point managers aware of problems with acquisition lead time.

Appendix B. Summary of Prior Coverage

General Accounting Office

GAO/NSIAD-95-2 (OSD Case No. 9792), "Acquisition Leadtime Requirements Can Be Significantly Reduced," December 1994.

Inspector General, DoD

Inspector General, DoD, Report No. 95-238, "Audit of Administrative Lead Time at DoD Inventory Control Points," June 15, 1995.

Inspector General, DoD, Report No. 95-188, "Air Force Measurement of Administrative Lead Time," May 5, 1995.

Army Audit Agency

Army Audit Agency, Report 97-304, "Materiel Command Efficiencies: Administrative/Production Lead Time," September 26, 1997.

Appendix C. Report Distribution

Office of the Secretary of Defense

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  Deputy Under Secretary of Defense (Logistics)
  Director, Defense Logistics Studies Information Exchange

Department of the Army

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Commander, Army Materiel Command
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Commander, Navy Supply Systems Command
  Commander, Navy Aviation Supply Office

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Commander, Air Force Materiel Command
  Commander, Oklahoma City Air Logistics Center

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Director, Defense Logistics Agency
  Commander, Defense Supply Center, Columbus
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Senate Committee on Appropriations
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House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for (Auditing), DoD, produced this report.

Paul J. Granetto
Wayne K. Million
Michael A. DiRenzo
Henry P. Hoffman
Veronica G. McCain
Suzanne J. Servis
Veronica H. Harvey
Tina S. Leach
Charlene K. Grondine