

GAO

Report to the Chairman, Joint
Committee on Printing, House of
Representatives

August 1991

DEFENSE
MANAGEMENT

DOD's Plans to
Consolidate Printing



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**National Security and
International Affairs Division**

B-244875

August 1, 1991

The Honorable Charlie Rose
Chairman
Joint Committee on Printing
House of Representatives

Dear Mr. Chairman:

On February 12, 1991, you requested that we review the Department of Defense's (DOD) plans to consolidate the Army's, Air Force's and the Defense Logistics Agency's (DLA) printing and duplicating functions into the Navy Publishing and Printing Service (NPPS). Specifically, you requested that we determine (1) the validity of the savings estimate, (2) where and how the savings are expected to be achieved, (3) whether comparable savings can be achieved without consolidation under one service, (4) what plants and operations will be eliminated or reduced, (5) the impact on printing procured through the Government Printing Office (GPO), (6) what equipment will be bought to implement the consolidation, and (7) the pros and cons of the consolidation plans.

As we discussed with your staff on June 24, 1991, DOD has not completed its current consolidation study and will not provide us with preliminary study reports and supporting documentation until final decisions and necessary concurrences have been obtained. Therefore, our ability to provide specific answers to your questions within the time frame specified by your staff is limited at this time. We have, however, obtained preliminary information that raises additional issues and questions for congressional review.

Background

While all the services and DLA have their own printing and duplicating functions, the Navy is the only service that centrally manages most of these functions through its NPPS Management Office. It uses an industrially funded financial structure in which one standard price is applied for printing and duplicating services regardless of where they are obtained within NPPS, and all such services are performed on a reimbursable basis. The other services' and DLA's financial operations, on the other hand, are directly supported by appropriated funds, and their printing plants and duplicating operations are under the control of local commands.

On November 16, 1990, the Deputy Secretary of Defense approved a Defense Management Report Decision that called for the consolidation of all DOD printing and duplicating services under NPPS. NPPS would serve as the single DOD manager. In accordance with this decision, DOD plans to implement this consolidation by October 1, 1991.

The savings estimated from the consolidation decision was expected to be approximately \$25 million annually. However, officials from the Office of the Secretary of Defense (OSD) and the military services questioned the savings estimate and the methodology used by the DOD Comptroller's office. As a result, the Navy was tasked by the OSD Director of Administration and Management on February 15, 1991, to conduct an implementation study to validate the accuracy of the savings estimate. Specifically, the study, which was originally scheduled to be completed by May 1991, was to (1) determine the amount of funds saved and the number of people to be affected by the consolidation and (2) identify the organizations and functions to be included in the new structure.

As of July 26, 1991, the Navy's study was still being reviewed within DOD. DOD and Navy officials were not willing to provide us with a copy of their preliminary study or any of the documentation used to prepare the study until concurrences within DOD were obtained. However, an unofficial copy of the Navy's June 5, 1991, preliminary report was obtained by our office. This report estimated that about \$41 million could be saved if 338 Army, Air Force, Marine Corps, and DLA printing and duplicating activities were placed under NPPS.¹

Results in Brief

The preliminary information that we have obtained confirms the need for answers to your questions as well as other questions, some of which may be addressed once the study on the consolidation of DOD's printing and duplicating functions is completed. For example, our discussions with DOD officials have resulted in additional questions concerning (1) the methodology and assumptions used to determine the consolidation savings estimate, (2) a possible failure to consider (in the savings estimate) the cost of equipment (currently estimated at \$20 million), training, and logistics required by the consolidation, and (3) conflicting claims by the Navy, the other services, and DLA concerning the possible

¹According to DOD officials, there were 542 Army, Air Force, DLA, and Marine Corps facilities identified for inclusion in this structure. However, only 338 have been summarized. OSD must decide if the other activities will be included or excluded from the new structure before a final savings figure is obtained.

impact of the consolidation on the cost and efficiency of procuring commercial printing services. Other important questions such as (1) how the savings will be realized, (2) what plants and operations will be eliminated or reduced, and (3) what equipment will be bought, will not be addressed by DOD officials until well after the consolidation has been implemented.

Preliminary Savings Estimate

The Navy's June 5, 1991, preliminary report estimates that the consolidation under NPPS will save approximately \$41 million for the 338 activities included in the report. This is a net annual savings.

Methodology

NPPS officials informed us that they collected fiscal year 1990 cost and production data for the Army, Air Force, DLA, and Marine Corps activities that would be included in the new consolidated structure. These costs were compared with NPPS costs for similar work. The savings estimate was determined by taking the difference between each activity's total costs and the estimated cost for comparable production from NPPS.

The preliminary NPPS data shows that most of the 338 activities had higher costs than NPPS, but the data also showed that a number of activities had lower costs. Specifically, there were 49 of the 338 activities that had production costs of approximately \$10 million less than NPPS costs. Table 1 presents, by source, the number of affected printing and duplicating plants and facilities, and the estimated loss or savings relative to NPPS costs levels for comparable work.

Table 1: Summary of Preliminary Net Savings Relative to NPPS Costs

Source	Plants	Less than NPPS	Plants	More than NPPS	Net savings
Army	43	(\$9,254,376)	151	\$20,506,623	\$11,252,247
Air Force	4	(697,092)	114	27,055,102	26,358,010
DLA	1	(11,964)	13	1,504,112	1,492,148
Marines	1	(179,415)	11	1,790,761	1,611,346
Total	49	(\$10,142,847)	289	\$50,856,598	\$40,713,751

Although the preliminary NPPS data shows that most activities had higher costs than NPPS, the differences in cost were not significant in many cases. Additionally, a relatively small number of activities (24) accounted for 53 percent of the savings (or \$21.6 million).

Assumptions

The savings estimate is largely dependent on a number of assumptions. Although specific information regarding their study results was not made available, discussions with NPPS officials did reveal some of the general ground rules and assumptions used in the study. The first assumption is that NPPS can reduce each of the higher-cost activities to the NPPS cost. NPPS officials told us that they intended to reduce the services' and DLA's costs by using their professional printing organization and management techniques. However, some activities, including some currently under NPPS, may have characteristics that result in higher costs. For example, DOD studies² indicate that activities that have a higher proportion of short production runs, which are generally more costly, may result in relatively higher overall costs. They further state that long production runs, which are normally procured, are less costly because equipment is being operated at peak performance and fewer changes or steps in machine set-ups and other processes are required.

Officials from the services and DLA believe that their activities appear to be less efficient and more expensive since they retain short-run, labor-intensive jobs in-house. Noting the long average-run lengths reported for the Navy as part of the supporting documentation for the Deputy Secretary's decision to consolidate (approximately 700 copies per run for the Navy and under 100 for the Army and Air Force), the military services and DLA believe that the Navy is retaining long-run, more economical jobs in-house to keep its costs down.

As part of their current study, NPPS officials stated that they recalculated the services' average-run lengths to arrive at the average jobs included in their preliminary reports' savings determination. They told us that the average-run lengths they computed for the Army and Air Force were just as high as theirs. However, they did not share the exact data with us since it was part of the study. Consequently, without such support, we were not able to verify this information.

Another assumption is that the cost structure for NPPS costs and the one used in the validation study for Army's, Air Force's, and DLA's costs are comparable. According to Army, Air Force, and DLA officials, they participated in the validation of the cost and production data for their activities but were not privy to the determination of comparable NPPS costs for their activities' work. Some officials have expressed concern

²"Review of DOD Printing Facilities in the Norfolk, Virginia Area," Aug. 1984 and "Review of DOD Printing Facilities in the San Francisco-Sacramento-Monterey, California Area," Mar. 1985.

about the validity of the NPPS cost and resulting savings estimate since that cost determination was not shared with them.

We compared NPPS cost data from its Cost and Financial Management Summary with the validation study cost structure. We found data elements that were not comparable. For example, military personnel costs are included within the services' cost estimates, but are not reported in the NPPS financial summary. In addition, NPPS records do not contain personnel support costs (overhead costs for personnel, payroll, and data processing, for example) or depreciation costs (cost items that were collected for the services and DLA). NPPS officials acknowledged that fiscal year 1991 Standard Prices excluded depreciation and personnel support costs; however, they told us that the fiscal year 1992 prices would include depreciation and that funds would be provided in the fiscal year 1992 budget for personnel support costs. If military, depreciation, and personnel support costs were also deleted from the acquired activities' validated costs, it could bring the latter amounts closer to NPPS costs and thus eliminate some of their potential savings. However, until supporting documents are obtained from DOD, the impact of those costs on the savings estimate are unknown.

Another assumption is that the defense force structure will remain the same. According to NPPS officials, force structure reductions were not considered in the study. Specifically, the NPPS savings estimate does not reflect the impacts from the planned DOD 25-percent reduction in defense spending nor the impacts of the Defense Base Closure and Realignment Act of 1990 (P.L. 101-510). NPPS officials told us that they did not know the impact of these items. They stated that plants would naturally close if bases were shut down; however, they did not know if a 25-percent reduction would necessarily mean an equivalent reduction in printing. With regard to base closures, we have identified 17 of the 338 printing plants that may be affected, per the July 1, 1991, closure list. These plants represent \$1.7 million of NPPS preliminary savings estimate.

Implementation and Costs Issues

According to DOD officials, decisions regarding how the consolidation will be implemented have not been made and will not be made until after October 1, 1991, when NPPS becomes the central DOD manager of printing and duplicating services. Specifically, no decisions have been made regarding which plants to cut back or eliminate, or what equipment to purchase to implement the consolidation. It is expected, however, that

some plants and operations will be reduced or eliminated and old equipment from the acquired activities will be replaced. A \$20-million increase to the NPPS Capital Purchases Program is anticipated in 1992 for such equipment purchases. However, NPPS officials told us that they had not identified what equipment would be bought or what plants or operations would be reduced or eliminated. Such issues, according to these officials, will be the subject of a follow-on study. They also noted that the DOD Comptroller has given them a year and a half to begin realizing savings.

Without decisions on how to implement the actual consolidation of people and facilities, it is clear that the information we have on the NPPS projected savings study does not reflect the full costs of achieving the savings. Such costs could include disposing of obsolete or inefficient equipment, resolution and development of personnel issues (more training and transfer of staff, for example), and additional costs associated with closing down or merging facilities.

Further, we were told that NPPS, when determining the prices to charge customers to break even in fiscal year 1992, did not factor in the higher production costs of the facilities that would be consolidated under NPPS. One NPPS official told us that NPPS may initially incur some losses associated with supporting these additional facilities. Another NPPS official told us that funds, apart from the \$20 million for equipment, were included in the fiscal year 1992 budget to cover the costs of personnel support, utility costs, and other support costs associated with taking over these activities. This official, however, would not specify the amount.

Impact on Commercial Printing

The Joint Committee on Printing has directed that the commercial procurement of printing be maximized. Section 501 of Title 44 of the U.S. Code states that all government printing, binding, and blank-book work (except for that of the Supreme Court of the United States) shall be done at GPO. Exceptions include classes of work that the Joint Committee on Printing considers urgent or necessary to have done elsewhere. Paragraph 4-2 of the Joint Committee on Printing's Government Printing and Binding Regulations states that all authorized printing plants shall be equipped to produce only that work not deemed commercially procurable. It further states that all work that can be procured within the necessary time constraints, with some specified exceptions, will be forwarded to GPO or its Regional Printing Procurement Office for commercial procurement under contracts established for that purpose.

DOD and GPO officials told us that they believed the proposed consolidation may have an impact on the amount of printing procured through GPO. Currently, the Army, Air Force, and DLA can procure directly from GPO. However, after the consolidation, some officials stated that NPPS would make decisions whether to print work in-house or contract through GPO. Some officials stated that they believed more work would be done in-house to keep the NPPS crews busy and production costs down.

Although NPPS officials told us that they procured approximately 70 percent of their work commercially through GPO, we found that retention of commercially procurable work was a concern with current NPPS customers at one NPPS activity. A June 1991 meeting between the Director of the Defense Printing Service (DPS)—a NPPS activity—and some of its customers was held to discuss, among other things, jobs originally sent to DPS for procurement but subsequently kept in-house at additional costs. Some of the customers that attended the meeting told us of instances in which DPS was allowed from four to six weeks to procure printing through GPO; however, the work was kept in-house at additional cost. These customers told us that this work was retained to keep DPS crews busy.

According to NAVPUB Instruction 5604.23C of 1983, NPPS activities are authorized to retain jobs in-house if, among other things, the material is required within a five day turn-around time. It further states that each order must be considered on its own merit rather than expressing a hard and fast rule based on the number of days. DPS officials told us, however, that, among other criteria, jobs are retained in-house when the turn-around is within four weeks.

GPO officials told us that if their printing demand from the services were significantly reduced (by 25 percent, for example), it might increase GPO's cost. One official stated that if GPO knew the impact of the consolidation on printing demand, it could plan for reductions by downsizing its activities. If it could not downsize quickly enough, prices would have to be increased. He added that, under the latter circumstance, the other executive agencies, and possibly Congress, may have to bear the price increases that would be necessary.

Additionally, DOD officials told us that commercially procurable work may be more expensive under the consolidation since, as part of the proposed management role of NPPS, the rest of DOD would be required to send their commercial printing requirements through NPPS to GPO rather

than directly to GPO. NPPS officials informed us that under the proposed consolidation plan, a 5.5-percent surcharge would be levied on such work. This surcharge, according to officials, will cover the salaries of the procurement personnel and overhead for the facilities. Air Force and DLA officials feel this amount far exceeds the costs for such employees. For instance, the Bolling Air Force Base procures about \$20.3 million in commercial printing per year. Under the proposed NPPS conditions, Air Force officials said that the additional 5.5 percent from the Navy would add an additional \$1.1 million.

Conclusions

The questions of the Joint Committee on Printing concerning the validity of the consolidation's savings estimate, how and where such savings will be realized, and the possibility that comparable savings could be achieved in other ways, still need to be answered. In addition, issues such as NPPS' ability to reduce the cost of printing at other facilities, the comparability of the cost structures of NPPS and the validation study, and the impact of the planned budget reductions and base closures on the savings estimate also need to be addressed.

With minimal information on how the consolidation is to be implemented and without information on future facilities and equipment, any questions on the details of implementation costs are premature. Additionally, the cost-effectiveness and efficiency of in-house printing as compared with that of commercially procured printing will be an issue that will have to be considered if DOD decides to include commercial printing under the consolidation. The conflicting claims of NPPS, the services, and DLA regarding the impact of the NPPS management of consolidated DOD printing on the costs and benefits of commercial printing need to be supported with appropriate analyses by all parties, and the soundness of those analyses will need to be reviewed.

Matters for Congressional Consideration

While DOD believes the consolidation of printing and duplicating functions may result in some savings, they have not demonstrated, at this point, that such savings will be realized. Therefore, Congress should consider not providing the \$20 million in investment funds until answers are provided to the above questions—especially those regarding how the savings will be achieved, which plants will be reduced or eliminated, and what equipment will be purchased under the proposed consolidation.

Scope and Methodology

We interviewed officials from GPO, OSD, DLA, the Army, Navy, Air Force, and Marine Corps regarding the proposed consolidation. We visited the Defense Printing Service Office and the Air Force Printing Plant in the Pentagon, and the Navy Publishing and Printing Service Branch Office in White Oak, Maryland. We also reviewed Title 44 of the United States Code, the Government Printing and Binding Regulations, service printing guidance, the NPPS June 5, 1991, Preliminary Report on the Consolidation of DOD Printing, and other related GAO, DOD, and service reports.

Our review was limited because DOD has not completed its current consolidation study and would not provide us with its preliminary study reports and supporting documentation until final decisions were obtained. Moreover, decisions regarding how savings were expected to be achieved, which plants and operations may be reduced or eliminated, and what electronic and traditional printing equipment DOD may acquire to implement the consolidation were not made. According to NPPS officials, these issues are to be included in a follow-on study that will be performed after NPPS assumes management responsibility for the consolidation.

We performed our review between May 1991 and July 1991 in accordance with generally accepted government auditing standards.

As requested, we did not obtain written agency comments on this report. We did meet with DOD officials to discuss the contents of this report; however, they declined to discuss specific issues until their study, scheduled to be completed by the end of August 1991, was finalized.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Secretary of Defense and to other interested parties upon request.

Please contact me at (202) 275-4587 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with loops and a long horizontal stroke at the end.

Paul F. Math
Director, Research, Development, Acquisition,
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