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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548



114656

Statement of

Thomas D. Morris
Special Assistant to the Comptroller General

before the

Defense Task Force
House Committee on The Budget

HSE 00809

Management Improvement and Cost Reduction in

016049

Dear Mr. Chairman:

You have asked that GAO officials most knowledgeable about GAO's work in the Defense area appear this morning for further discussion. The matters in which you have an interest were briefly discussed by Mr. Staats during his appearance last week, and copies of two memoranda which have been sent to the Secretary of Defense were placed in the record. These were entitled "Proposed Agenda of Significant Management Improvements and Cost reduction Opportunities--Department of Defense." In addition, the Committee has been furnished separately a memorandum on the "Need for Significant Improvements in Financial Management--Department of Defense."

Accompanying me today are our experts in the several fields, namely:

Mr. Walton Sheley, Director, Mission Analysis & Systems Acquisition Division, which conducts our studies of weapon systems programs, and other major systems.

Mr. Werner Grosshans, Deputy Director of the Procurement, Logistics, and Readiness Division, and our expert on the vast supply and logistic programs of the Department of Defense.

Mr. Kenneth Coffey, Associate Director, Federal Personnel and Compensation Division, who is in charge of our work in the area of military personnel.

Note: Other testmonies delivered at this time include
Accession Number _____, _____, and _____ (C)

The witnesses are each prepared to provide a statement on a selected area of interest to the Committee and to answer questions on all of the recommendations we have made to the Secretary in their area of expertise. In addition, Mr. John Simonette, Associate Director of the Accounting and Financial Management Division is present and will be pleased to discuss any interest you might have in Defense accounting and financial management issues.

With your permission, we would like to place in the record a response from Secretary Weinberger which reached us just yesterday. In this letter the Secretary has declared his intention to intensively review our suggestions, and he has emphasized this to the Secretaries of the Military Departments. We are highly impressed with the effort which we see taking place.

One of the most fruitful areas is weapon systems acquisition and major procurement. Here the Secretary has announced that Deputy Secretary Carlucci is overseeing a major internal review of the entire acquisition process, and that he is looking forward to working with Congress and industry to make efficiencies and other improvements in this area.

In his testimony on March 4 before the Senate Armed Services Committee, the Secretary said that "the recent report by the Comptroller General is very useful...We take this report very seriously. We do not take issue with it. And in the near future we will be back to the Congress with our specific proposals for follow-through."

It is also worth calling your attention to the fact that on February 18, 1981, Secretary Weinberger wrote the Military Departments requesting their study of a wide range of possible economies and with a mandate to each department to respond to him identifying potential reductions of \$10 billion over the period 1983-1987.

We cite the above to illustrate the seriousness with which the Secretary is treating these matters. In our opinion, such determination and priority emphasis can make the difference between successful results and the lack of progress.

I would now like to introduce Mr. Werner Grosshans to discuss logistical economies. In our memorandum report we touched on six proposals, the first of which is the desirability of consolidating military base support activities. Mr. Grosshans will highlight that recommendation and then be prepared to discuss your questions on this and the other recommendations. He will be followed by Mr. Sheley and Mr. Coffey.

THE SECRETARY OF DEFENSE

WASHINGTON D C 20301

6 MAR 1981

Honorable Elmer B. Staats
Comptroller General of the United States
441 G Street, NW
Washington, D.C. 20546

Dear Elmer:

This is in further response to your letter, dated January 21, 1981, which provided me with a "Proposed Agenda of Significant Management Improvements and Cost Reduction Opportunities." You also indicated in your letter that there existed a potential "several billion dollars a year of savings" and that the time had come when opportunities to cut costs "must be dealt with more aggressively."

I want to reiterate the general position I outlined in my letter to you dated February 11, 1981; that is, I share your concern about the sound management of available resources and have placed a high priority on the identification and review of potential cost reductions in existing Defense programs.

At my direction, the various elements within the Defense Department, are taking a vigorous look not only at the 15 general agenda items provided with your letter, but also at the 26 individual audit reports you cited in support of the agenda items. Deputy Secretary Frank Carlucci emphasized the need for a positive approach in this review in a recent meeting with the Secretaries of the Military Departments.

I am hopeful that after the completion of these individual review efforts, my Comptroller, Jack Borsting, and others concerned can meet with your representatives to pursue further actions, beyond individual report recommendations, which may be appropriate. In the meantime, I trust that the general comments which follow will provide some indication of the seriousness of our review effort. These comments are structured along the lines of the three major categories covered in your letter.

A. Logistical Support Economies

We can agree in general that there are savings to be made through economies in supply, maintenance and distribution. The six agenda items identified in your report are as follows: (1) consolidate military base support activities; (2) consolidate supply activities; (3) begin to establish single management of aircraft depot maintenance; (4) consider the application of the single manager concept to transportation activities (5) use repair parts inventories

more effectively; and (6) consider early in the planning cycle logistics and backup equipment requirements.

With respect to these six items, because of past concerns about mission impairment and impacts on readiness, I will doubtless need to review specific proposals for consolidation of base support activities, consolidation of supply activities and a single manager for aircraft depot maintenance, before any final decision to move ahead. We are already considering the application of the single manager concept to transportation, and will press to use spare parts inventories more effectively, and to consider early in the planning cycle requirements for logistics and backup equipment.

B. Major Procurement Economies

My preliminary assessment indicates that we should and must seek out and exploit procurement economies at least in part along the lines postulated in the four agenda items. Specifically, we can accept in general the thesis that weapon system funding should be consistent and better managed. I can also accept in principle related observations on OMB Circular A-109 which would require more effort in analyzing missions and determining needs. However, the A-109 acquisition process itself should not necessarily be accepted at face value; improvements may well be feasible. We also support the concept of "multi-year contracting." If this concept can be effectively implemented, there could well be several billion dollars of savings over the longer term. The achievement of such savings, however, will require statutory changes and strong Congressional support, including some changes in existing Congressional review procedures affecting our specific proposals as they may be subsequently identified and presented to Congress. Similarly, I can support a call for examination of lower cost alternatives before approval of new systems and your expression that impediments to reducing the cost of weapon systems should be one of my prime concerns.

C. Manpower Issues

As you know, the Administration is committed to taking another look this year at the military retirement question. Other issues posed by your five manpower agenda items may very well be sufficiently interrelated that a coordinated overall review and assessment is required. And this obviously will take time.

In this respect, there has been some concern expressed that while GAO recommendations in the logistics and procurement areas are usually the product of specific audits of operating systems, its findings in the manpower area appear to be more often the product of general policy preferences. For instance, no particular GAO audit finding apparently

suggests that a military salary system would be preferable to the present pay and allowance system. Rather, there is a general belief that the salary system would be better. On the other hand, the concern in the past within the Department has been that the benefits of such a radical transformation have not been demonstrated. There may well be a question, not so much whether the audit findings are correct, but whether the policy preferences expressed by the GAO offer attractive benefits. I believe this concern should be addressed in the forthcoming meeting between GAO and DoD.

Nonetheless, DoD in fact has responded favorably to and has begun implementing many of the manpower proposals in GAO reports.

- o DoD has developed a proposal for substantial reform of the military retirement system which, as earlier indicated, is now being reviewed by the Administration. It is responsive to many of the issues raised by the GAO.

- o DoD has made substantial improvements in its ability to manage enlisted personnel systems, and this is particularly apparent in our increasing ability to target enlistment and reenlistment bonuses to specific skills.

- o DoD has made substantial improvements in our management of morale, welfare and recreation activities, and we have reduced the number of military spaces in these programs by almost 3000 since 1976.

- o DoD is presently completing a study of military pay setting, and will be reporting the results to the Congress in April.

Our major concern in the manpower area is that the actions we take contribute to the overall goal of fielding a military force composed of able and dedicated men and women. Often narrow studies of specific areas in the manpower arena miss the interactions with other related subjects. For example, reducing support for community programs, while it may save some manpower, could also lower the quality of life of members, especially at remote locations, and cause them to leave the Service. The same sort of interaction is even more pronounced in the compensation area.

We welcome the review of manpower programs by GAO and others, but in the end I must retain the responsibility to present to the President, and defend before the Congress, a balanced and low-risk defense manpower program.

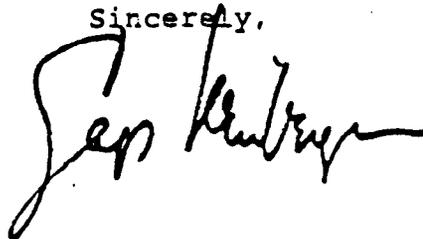
In summary, let me reassure you that in the coming months we will pursue to decision each agenda item you provided with your letter of January 21, 1981. Where decisions can be made now, we will make them. Where specific proposals need to be

developed for review and further study, we will develop such proposals and follow the studies to completion and subsequent decision.

For the future, as I indicated in my February 11, 1981 letter, I look forward to a continued close and productive working relationship between the Defense Department and GAO. The recent implementation of a comprehensive audit follow-up program in Defense should provide increased assurance that we will effectively come to grips with audit findings. In this respect, I want to thank you for the remarks in your recent interview which appeared in the Washington Post on March 3, 1981, indicating that there has been some response in the past to audit findings. While the thrust of the article is that more can and should be done, you are also reported as saying: "At the same time he praised DoD for accepting GAO recommendations that in the last 5 years produced measurable savings of \$8.9 billion - 54 percent of the total for the entire government. The DoD share of the budget has been much smaller, about 24 percent."

Finally, in light of your retirement, I want to express my personal thanks for your faithful service to the Nation throughout a long and distinguished career.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Byrnes". The signature is fluid and cursive, with a long horizontal stroke at the end.