

GAO

Report to the Chairman, Legislation and  
National Security Subcommittee,  
Committee on Government Operations,  
House of Representatives

March 1989

# ADP ACQUISITION

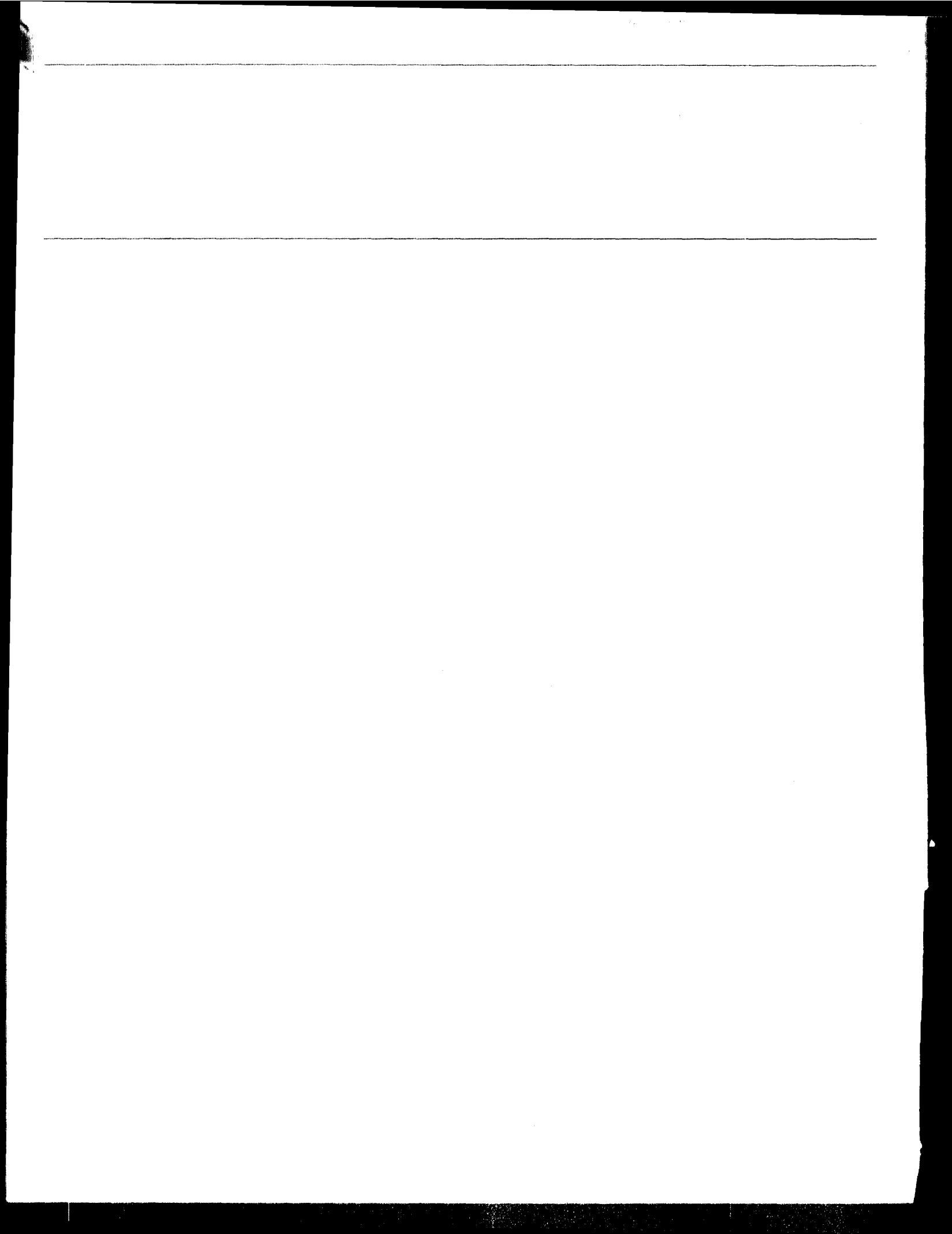
## Defense Logistics Services Center Modernization Program



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Information Management and  
Technology Division

B-234481

March 20, 1989

The Honorable John Conyers, Jr.  
Chairman, Legislation and National  
Security Subcommittee  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

On September 28, 1988, the former Subcommittee Chairman requested that we provide information on the cost of the Defense Logistics Services Center (DLSC) Modernization Program. In subsequent discussions, we agreed to provide (1) a description of the program and the acquisition approach being followed, (2) the current status of the program, (3) a description of the cost growth and a comparison of current cost estimates with information provided in budget exhibits to the Congress, (4) the reasons for cost growth, and (5) a description of actions taken by the Office of the Secretary of Defense (OSD) and the DLSC to control costs. To expedite our reply, it was also agreed that we would not independently verify cost information or the reasons for the cost growth identified by OSD and DLSC officials.

## Description and Status

The DLSC, a field activity of the Defense Logistics Agency, manages and maintains the Federal Catalog System. The catalog system is the principal source of item identification and logistics information for actions related to procuring, storing, issuing, and disposing of supply items repetitively used in the federal government. The catalog system is automated and uses a data management system called the Defense Integrated Data System. The system's data base contains about 12 million active and cancelled supply items.<sup>1</sup> The system processes approximately 69 million transactions each year. Information on cataloged items is provided to system users through remote terminals, publications, and other media.

In 1979, DLSC projected that its work load would exceed computer processing capacity by 1985. Although interim upgrades in 1981 and 1983 provided temporary solutions to computer capacity problems, a Program Management Office was established in January 1981 to

<sup>1</sup> According to DLSC, the cancelled items are kept in the data base for reference and historical purposes.

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address DLSC's long-term automated data processing needs. This marked the start of the DLSC Modernization Program.

According to DLSC life cycle management documents, the Defense Integrated Data System has insufficient capacity to process current work loads and to accommodate planned new work loads and increases in remote terminals. In addition, the documents state that the system has a rigid data base structure and inflexible software that make it difficult to modify applications. Further, the documents state that the system does not have adequate backup to meet an OSD mandate for continuity of operations, is batch oriented, and cannot deal effectively with errors in the data base. According to the life cycle management documents, these deficiencies affect DLSC's ability to provide data when and where it is needed in formats useful to logistics managers. The modernized system is intended to alleviate these system deficiencies and enable DLSC to provide customers with timely, accurate, and reliable logistics information.

In a May 1988 report,<sup>2</sup> we concluded that the Federal Catalog System did not meet the 35-year-old congressional mandate that every cataloged item be identified in a manner to distinguish one supply item from another. A major factor contributing to the problem was either the lack of contractor technical data or the catalogers' failure to use the data. During our current review, we did not assess whether the DLSC Modernization Program would address this deficiency.

The DLSC Modernization Program includes the redesign of the Defense Integrated Data System data base, and replacement of the system's hardware and most of the applications software. DLSC officials plan to accomplish this through the award of a firm-fixed-price contract. A request for proposals was issued in November 1988, and contract award is planned for January 1990. DLSC plans to move to the new system in a phased, or incremental, approach. Deployment of the new system is expected to begin in June 1990 and be completed by March 1992.

According to the program manager, the modernization had incurred about \$13.4 million in costs through September 1988. The manager told us the costs were primarily for the 98 personnel assigned to the program management office, and for technical consulting services on required life cycle management studies.

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<sup>2</sup>Federal Catalog System: Continuing Item Identification Problems (GAO/NSIAD-88-121, May 5, 1988).

## Cost Estimate Has Grown

As a result of the Subcommittee's September 13, 1988, hearing on the Navy's Standard Automated Financial System, the DLSC Modernization Program was one of seven automated information systems identified by OSD as experiencing significant cost growth. OSD reported an increase of \$54 million in the modernization program's cost estimate—from \$123 million to \$177 million. According to life cycle management documents, \$123 million is an April 1986 estimate, and \$177 million is a June 1988 estimate. Both estimates represent the cost to develop and deploy the modernized system.

OSD documents and the program manager attribute the reported cost growth to two factors. First, the April 1986 estimate was a preliminary estimate prepared during an earlier phase of life cycle management for use in evaluating various acquisition alternatives. The June 1988 estimate was based on a comprehensive economic analysis that refined the preliminary estimate and identified some additional costs. For example, a more detailed definition of program costs resulted in DLSC adding costs associated with customer remote terminals to the preliminary hardware estimate. Second, as a result of an OSD oversight review of the modernization program, the June 1988 estimate contains costs that were not included in the April 1986 estimate. For example, a clarification by OSD of functions comprising software development resulted in DLSC adding training, configuration management, and certain program management costs.

The amended fiscal year 1988/1989 budget submission to the Congress did not include the required life cycle cost estimate for the DLSC Modernization Program. In June 1988, DLSC estimated these costs at \$414 million—\$177 million to develop and deploy the system, and \$237 million to operate and maintain it through the year 2003, the end of its expected useful life. In a July 1988 Delegation of Procurement Authority, the General Services Administration reduced the system's expected life from 15 to 12 years. DLSC officials told us the economic analysis is being revised to reflect the reduced life cycle.

## Efforts to Control Cost Growth

Through April 1986, oversight reviews of the DLSC Modernization Program were conducted by the Defense Logistics Agency. DLSC is a field activity of the Defense Logistics Agency. However, in December 1987, OSD notified the Defense Logistics Agency that the modernization program's cost estimate met the thresholds for review by the Major Automated Information System Review Council (MAISRC). Organized in the late 1970s, MAISRC is the senior Department of Defense management

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oversight body responsible for reviewing major resource investments in general-purpose, automated data processing systems during development. Representing the Secretary of Defense, the Council—which is comprised of senior OSD officials—decides whether system development efforts should continue or be terminated.

During the modernization program's first MAISRC review in May 1988, DLSC was granted approval to proceed with the acquisition and full scale development of the modernized system. DLSC was also directed by the MAISRC to reassess and update the estimate for software development. The subsequent revision by DLSC contributed to the \$54 million increase discussed earlier. The MAISRC also instructed DLSC to fully document and quantify all expected program benefits prior to deployment, which is scheduled for June 1990.

The program manager told us that in order to improve DLSC's oversight of modernization costs, a tracking mechanism has been established to compare actual costs with those estimated in the economic analysis. The program manager also told us that after contract award the contractor will be required to report actual costs, and to justify significant variances from budgeted costs.

DLSC Modernization Program costs are also periodically reported to the Defense Logistics Agency and to the OSD comptroller. The OSD comptroller, in September 1988, began an initiative to strengthen visibility over major automated information system projects to permit early problem identification and initiation of corrective action. This initiative requires DLSC to report quarterly on the status and cost of the modernization program.

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As agreed, we did not obtain official agency comments on this report. However, we discussed its contents with cognizant DLSC, Defense Logistics Agency, and OSD officials and have incorporated their comments where appropriate. Our objectives, scope, and methodology are discussed in appendix I. We performed our work from November to December 1988.

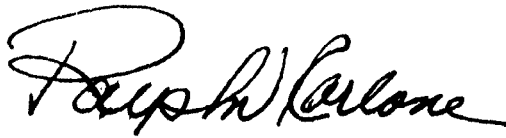
As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from its issue date. We will then send copies to the Chairmen, Senate Committee on Governmental Affairs and Senate and House Committees on

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Appropriations; the Director, Office of Management and Budget; the Secretary of Defense; and the Director, Defense Logistics Agency. We will also make copies available to others on request.

The major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Ralph V. Carlone". The signature is written in a cursive style with a large initial "R".

Ralph V. Carlone  
Assistant Comptroller General

# Objectives, Scope, and Methodology

We prepared this report at the request of the former Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations. The September 28, 1988, request asked that we provide information on the cost of the Defense Logistics Services Center Modernization Program. In subsequent discussions, we agreed to provide a description of the modernization and the acquisition approach being followed, the current status of the modernization, a description of the cost growth and a comparison with information submitted in budget requests, reasons for cost growth, and actions taken by OSD and DLSC to control costs.

Our work did not include an assessment of the need for the modernization which will, among other things, redesign the data base supporting the Federal Catalog System. In a previous report,<sup>3</sup> we noted that the Federal Catalog System continued to fall short of its legislated mandate to adequately identify supply items and avoid duplication in the supply cataloging system. A major factor contributing to the problem was either the lack of contractor technical data or the catalogers' failure to use the data.

To obtain background information regarding the modernization's description, purpose, development, acquisition strategy, and cost estimates we reviewed system life cycle management documentation, budget and planning documents, and relevant correspondence. We also reviewed applicable Department of Defense directives and instructions governing automated information system acquisitions.

Our work was conducted primarily at DLSC in Battle Creek, Michigan, where we discussed the modernization program's status, estimated cost, and reasons for cost growth with the program manager and staff. The cost estimates and reasons for cost growth were also discussed with OSD officials in Washington, D.C. We did not independently verify the cost data and reasons for cost growth provided by OSD and DLSC.

As agreed, we did not obtain official agency comments on a draft of the report. We did discuss the facts in this report with DLSC, Defense Logistics Agency and OSD officials, and have incorporated their comments where appropriate. We performed our work from November to December 1988.

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<sup>3</sup>Federal Catalog System: Continuing Item Identification Problems (GAO/NSIAD-88-121, May 5, 1988).



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# Major Contributors to This Report

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