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Subject: *Defense Transportation: DOD Has Taken Actions to Incorporate Lessons Learned in Transforming Its Freight Distribution System*

The Department of Defense (DOD) transports second destination freight[1] from over 600 locations to thousands of destinations throughout the continental United States each year at a cost of approximately $900 million. In 2001, DOD conducted a prototype program to better understand whether commercial best practices—specifically the use of a third-party logistics provider[2]—could be applied to its freight transportation system and reduce costs. The prototype, which included a 1-year base agreement with two 1-year option periods, was conducted at selected Defense Logistics Agency (DLA) and military service shipping locations in the southeastern United States. At the conclusion of the first year, DLA exercised an option to extend the prototype at its shipping locations, whereas the military service shipping locations returned to DOD's previous freight shipping system due to dissatisfaction with the prototype's performance.

On the basis of the prototype, DOD concluded that a third-party logistics provider could successfully integrate with DOD transportation processes if the program was designed and implemented correctly to capitalize on the benefits of using a third-party logistics provider while also addressing the performance problems that were experienced with the prototype. In 2004, the Under Secretary of Defense for Acquisition, Technology, and Logistics initiated the Defense Transportation Coordination Initiative (DTCI) to improve the reliability, predictability, and efficiency of moving materiel within the continental United States through a long-term partnership with a third-party logistics provider. DOD issued a request for proposals in June 2006 and plans to award a contract during fiscal year 2007. The DTCI contracting vehicle will be an indefinite-delivery, requirements-type

[1]Second destination transportation is the movement of freight among and between depots, logistics centers, and field activities. It excludes freight that is shipped from commercial suppliers to DOD locations.

[2]A third-party logistics firm, also known as a 3PL, provides logistics services to companies for part or all of a company's supply chain management functions, such as transportation or warehousing.

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contract[3] that will pay the contractor on a cost-reimbursable basis for moving freight, a monthly fixed price for management services, and a semi-annual award fee based on contractor performance. The contract covers commodities that DOD refers to as "freight all kinds"[4] and excludes a number of shipment types, such as household goods; arms, ammunition, and explosives; and sensitive and classified shipments. Scheduled for a phased implementation over 3 years, DTCI will encompass 67 DLA and military service shipping locations by the end of 2009, with the potential to add almost 200 more military service shipping locations. According to DOD, freight costs at the DTCI locations are estimated at about $250 million annually.[5] DOD has projected a savings in freight costs of approximately $60 million in the third year of implementation, after DTCI has become operational at all sites. Net savings will be less due to management costs associated with implementing DTCI.

DOD views DTCI as an organizational transformation aimed at leveraging a third-party logistics provider's existing commercial business, along with its best commercial practices, to achieve efficiencies in distribution and associated cost savings. The implementation of DTCI represents a shift from the current decentralized transportation management practice of having individual DOD transportation officers manage freight, to the use of a centralized system in which a single third-party logistics provider coordinates freight transportation for the sites. DTCI is also a key DOD initiative to address distribution problems in supply chain management, which we have designated as a high-risk area in the federal government.[6]

In response to Senate Report No. 109-254 accompanying the National Defense Authorization Act for Fiscal Year 2007 and as agreed with your office, this letter provides information on DOD's plans for implementing DTCI. Our specific objectives were to (1) identify the actions DOD took to incorporate lessons learned from the earlier prototype program in its planning for DTCI and (2) evaluate the steps DOD has taken to achieve the organizational transformation envisioned under DTCI.

The Senate Report also asked us to assess the business case analysis DOD developed, including the assumptions regarding cost savings that could be generated by DTCI. The

[3]An indefinite-delivery, requirements-type contract provides for filling all actual purchase requirements of designated Government activities for supplies or services during a specified contract period, with deliveries or performance to be scheduled by placing orders with the contractor. Federal Acquisition Regulation (FAR) Subpart 16.503 (2006).

[4]"Freight all kinds" consists of those commodities that carriers offer to transport at one inclusive rate or charge regardless of their differing transportation characteristics or their classification rating, except for excluded freight classifications.

[5]This figure, based on historic data, is the estimated total direct freight costs during the third year of DTCI implementation.

[6]In 2005, DOD developed a supply chain management improvement plan to address problems in this high-risk area and place it on a path toward removing supply chain management from our high-risk list. The plan lists 10 related initiatives, which include DTCI. For more information on this high-risk area, see GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

business case analysis was addressed in a Comptroller General decision[7] on a protest that was filed regarding the terms of the DTCI request for proposals. In that decision, we denied the protest and concluded that DOD reasonably determined that consolidating the management of freight shipments under a third-party logistics provider would result in substantial cost savings and efficiencies and was necessary to meet the agency's needs. The Comptroller General's decision further stated that DOD had concluded the third-party logistics provider concept could work if designed and implemented correctly. Therefore, we did not address the business case analysis in this letter.

## Scope and Methodology

To identify the lessons learned from the prototype program, we reviewed several assessments commissioned by DOD that were completed in 2002 and 2005.[8] We also obtained the views of the military services regarding both the lessons learned from the prototype and DOD's plans for DTCI. For reporting purposes, we consolidated lessons learned that covered similar issues and grouped them into the following categories—role of the third-party logistics provider, program development and implementation, information technology systems and integration, performance and performance metrics, business processes, contracting, and miscellaneous. We met with DTCI program officials to discuss the actions taken to incorporate lessons learned from the prototype into DOD's planning for DTCI. To verify these actions, we obtained key program documents such as the acquisition plan, communication plan, and contract solicitation, which included the performance work statement. We considered a lesson learned to be incorporated when we determined that DOD's planned actions were evident in these key program documents. Because the provisions of the contract solicitation, including those that resulted from lessons learned, will be subject to negotiation and may change following contract award, it was too early to determine whether DOD fully implemented all the actions planned in response to lessons learned from the prototype. In reviewing the steps DOD has taken to achieve the organizational transformation envisioned under DTCI, we made use of our prior work to identify key practices organizations use to transform their cultures to become more results oriented, customer focused, and collaborative in nature. We determined the extent to which the DTCI program management office had incorporated these practices into its plans and operations. As part of this effort, we reviewed DOD's plans for assessing and managing performance after the contract is awarded. We determined that the data we used were sufficiently reliable for our purposes. We conducted our work between July and August 2006 and

[7] 2B Brokers, et al., B-298651, Nov. 27, 2006, 2006 CPD ¶178.

[8] PricewaterhouseCoopers, *Third Party Logistics (3PL) Prototype TEST - Management Reform Memorandum #15 - Final Report* (Aug. 15, 2002); Center for Transportation Research, National Transportation Research Center, The University of Tennessee, *Third Party Logistics (3PL) Prototype Test Conducted by MTMC/DLA Business Case Analysis* (Sept. 15, 2002); IBM Business Consulting Services, *Addendum Report to Third Party Logistics (3PL) Prototype Test*, *Management Reform Memorandum #15*, *Final Report* (July 29, 2005).

between December 2006 and March 2007[9] in accordance with generally accepted government auditing standards.

## Summary

DOD took numerous actions to incorporate lessons learned from the prototype program in its planning for DTCI. Specifically, we identified 36 lessons learned—including successes and problems—from the prototype, and determined that DOD had taken actions that were responsive to each of these. For example, the prototype succeeded in showing the benefits of using both electronic data interchange[10] between the government's and contractor's systems and a Web-based tracking system to provide visibility over shipments, and DOD plans to require the DTCI contractor to use both of these technologies. However, the prototype also experienced problems in areas such as program development and implementation, information technology systems and integration, performance, business processes, and contracting. DOD, in its planning for DTCI, has made changes in response to these lessons learned. For example, during the prototype, the military services had several concerns about performance, such as the contractor's inconsistency in picking up freight on time, contributing to their dissatisfaction with that program. To address this lesson learned, the contract solicitation for DTCI includes on-time pickup as one of several key indicators to measure contractor performance. The prototype also showed that a 1-year base contract period was inadequate to secure a level of commitment or investment from the partners in a third-party logistics relationship and to develop effective communication processes. In contrast to the prototype contract, DOD plans to enter into a 3-year base agreement with a third-party logistics provider for DTCI with the option for two 1-year extensions and the possibility of two additional 1-year award options—a potential contract period totaling up to 7 years. Furthermore, the prototype experienced problems because the interfaces between the contractor's and the government's information technology systems were not fully operational when the prototype began. For DTCI, DOD has established a team addressing interface integration, and it plans to conduct robust testing at each site before DTCI is implemented. The DTCI program management office has also developed a policy of "safe start," intended to reduce risk to the government and build confidence in the partnership between the third-party logistics provider and the government. For example, according to program officials, in the initial phase of DTCI implementation, only DLA shipping sites are involved. The military service sites will not be participating until the contractor has demonstrated full capability with their system interfaces and training of shipping installation personnel is completed. While DOD incorporated lessons learned from the prototype in its planning for DTCI, DOD components pursuing similar types of acquisitions may be unable to benefit from the successes and problems experienced during implementation of DTCI because DOD lacks a plan for disseminating DTCI lessons learned. Effective sharing of lessons learned is a key tool for institutionalizing change and facilitating efficient operations. The DTCI

[9]We suspended audit work when the protest was filed on the contract solicitation and resumed our work after the issuance of the protest decision.

[10]Electronic data interchange is the business-to-business electronic exchange of documents using standard formats that are widely recognized both nationally and internationally.

program management office has initiated efforts to gather lessons learned. However, without dissemination of these lessons learned to the broader DOD acquisition community, other DOD components pursuing similar types of acquisitions may lack useful information that could assist their efforts. Therefore, we are recommending that DOD develop and implement a plan for sharing DTCI lessons learned across the department. In commenting on a draft of this correspondence, DOD concurred with our recommendation.

To make the fundamental changes in the freight transportation system envisioned under DTCI, DOD has taken positive steps to initiate best practices employed by other private and public sector organizations to transform their cultures so they can become more results oriented, customer focused, and collaborative in nature. Still, the long-term success of DTCI remains uncertain given the challenges inherent in undertaking organizational transformation and because the program is still in its early stages, with a contract yet to be awarded and the program scheduled for rollout over a 3-year period. Our prior work has identified key practices that have been used by large organizations to achieve transformation. Some of these practices include dedicating an implementation team to manage the transformation process, establishing a communication strategy to create shared expectations and report related progress, and focusing on a key set of principles and priorities. So far, DTCI has employed these and other best practices in its efforts to move from the current decentralized transportation management activities to a centralized system under a single third-party logistics provider. For example, the DTCI program management office has established a transition planning team to oversee the transformation of DTCI from acquisition activity to implemented program, including developing initial plans and building relationships with all the government stakeholders at sites where DTCI will be initially implemented. One of the key priorities of the DTCI program management office has been to establish plans and initiate efforts for assessing and managing performance after contract award. Specifically, DOD has built performance indicators into the DTCI contract solicitation, scheduled periodic program management reviews, initiated a process improvement team, developed a quality assurance surveillance plan, and proposed to use award fees as an incentive to promote desired outcomes—elements aimed at ensuring the delivery of services to meet or exceed the terms of the contract. For example, DOD plans to conduct periodic performance management reviews at various points during the rollout of the program. The first review is scheduled to occur after DTCI is implemented at the first three sites, and a second review is scheduled after implementation at the next three sites. Subsequently, the contractor is expected to conduct program management reviews on a monthly basis. According to program officials, the reviews will include, among other things, a comparison of actual costs to projected costs and a review of various performance indicators. While these planned post-contract award efforts are promising, the long-term success of DTCI will depend on the extent to which DOD follows through on institutionalizing the practices it has initiated to transform its freight transportation system, as well as the contractor's performance during implementation of the program.

## Background

DOD's freight transportation is currently managed by transportation officers, who are assigned to various components of DOD, such as DLA and the military services. To arrange for freight movements within the United States, transportation officers generally use one of two vehicles: a Tailored Transportation Contract, which is generally awarded to multiple carriers for large and small-volume shipments based on specific regions, shipment lanes, and commodities;[11] or tenders, which are generally issued to carriers for shipments outside the requirements of a Tailored Transportation Contract, such as ammunition, explosives, or unit moves.[12]

When notified of a shipment requirement, the transportation officer may contact several potential carriers, eventually selecting one and arranging for the shipment. DOD shippers execute these actions without centralized planning, coordination, or control. They independently select the mode of transportation, level of service, and transportation provider. This decentralized process focuses on satisfying the requirements of local shippers, rather than on achieving DOD-wide efficiencies or cost savings.

We have previously reported on deficiencies in DOD's management of its transportation. These deficiencies included a lack of coordination among the services, which contributed to ineffective oversight programs. In 1993, we reported on strategies that commercial shippers use for managing their transportation functions and reducing costs.[13] We identified opportunities where DOD can make greater use of commercial practices and encouraged DOD to adopt some of these practices where feasible. In 1999, we noted that DOD had made progress in reforming its transportation system through initiatives to reengineer its financial management processes, and we recommended that DOD assess the costs and benefits of reengineering the transportation financial management processes through contracting to a third-party logistics provider.[14]

Noting the growing use of third-party logistics providers in the commercial sector, the Deputy Secretary of Defense approved a study to assess the feasibility of using third-party logistics providers to meet some of DOD's continental United States surface

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[11]The Tailored Transportation Contract is an indefinite-delivery, indefinite-quantity type contract with traffic lanes awarded to multiple contract carriers where the shipment capacity may not necessarily be guaranteed and the contract carriers can decline transportation requests.

[12]According to DOD, a tender is an unsolicited rate provided by a carrier that an agency can use to offer freight shipment services to carriers; a contract based upon a tender is created only when the agency and carrier agree to the shipment of services and a bill of lading has been issued.

[13]GAO, *Defense Transportation: Commercial Practices Offer Improvement Opportunities*, GAO/NSIAD-94-26 (Washington, D.C.: Nov. 26, 1993).

[14]GAO, *Defense Transportation: Process Reengineering Could Be Enhanced by Performance Measures*, GAO/NSIAD-00-7 (Washington, D.C.: Dec. 20, 1999).

freight transportation requirements. The feasibility study,[15] initiated in 1998, concluded that using a third-party logistics provider had the potential to generate transportation cost savings, provide better access to performance data, improve customer service, and improve shipment data. The study recommended a prototype study in a small region using a third-party logistics provider.

Based on that recommendation, the Assistant Deputy Under Secretary of Defense for Transportation Policy requested the U.S. Transportation Command and DLA serve as codirectors for the prototype to ensure effective implementation and thorough analysis of the full range of options a third-party logistics provider may offer in satisfying DOD freight movement requirements. To support this prototype, the Military Traffic Management Command, a subcomponent command of the U.S. Transportation Command, contracted for a third-party logistics provider to manage freight transportation and provide related services in support of installation transportation officers for the movement of freight shipments for selected commodities outbound from DLA and military service locations in the southeastern region of the United States—specifically in the states of Alabama, Georgia, and Florida—to all points in the continental United States. The prototype began in 2001 and ended in 2004.

DOD concluded from its experiences with the prototype that a third-party logistics provider (or coordinator) could successfully be integrated with DOD's shipping processes if the program was designed and implemented correctly and that the integration of coordination services with freight transportation could achieve cost savings. In 2004, the DTCI logistics transformation concept was initiated by the Under Secretary of Defense for Acquisition, Technology, and Logistics. U.S. Transportation Command, designated as DOD's single manager of transportation and the department's distribution process owner, is the lead agency for DTCI and has established a program management office to manage this effort. In June 2006, DOD issued a request for proposals for a third-party logistics provider to handle all aspects of freight shipment for certain commodities.

Under plans for DTCI, the coordinator would eliminate the need for DOD transportation officers to contact freight carriers for those commodities covered in the program. The coordinator would be expected, among other things, to

- coordinate, manage, and optimize freight shipments from notification to delivery;
- provide in-transit visibility to government systems and real-time access to shipment information;
- facilitate the resolution of loss and damage claims with carriers;
- manage carrier quality and performance; and
- collaboratively develop, recommend, and implement process improvements.

The DTCI contractor is expected to assume responsibility for transportation services in a phased approach, increasing the number of DOD sites as implementation progresses. Phase I will include DLA Defense Distribution Centers, Phase II will include various

[15]PricewaterhouseCoopers Draft Report, *Third Party Logistics (3PL) Feasibility Study* (Dec. 23, 1999).

military service locations that are located within close proximity of the Defense Distribution Centers, and Phase III will include additional military service locations.

**DOD Took Numerous Actions to Incorporate Lessons Learned from the Prototype Program into Plans for DTCI**

DOD took numerous actions to incorporate lessons learned from the prototype program into its planning for DTCI. Specifically, we identified 36 lessons learned—including successes and problems—from the prototype, and determined that DOD had taken actions that were responsive to each of these. Some of the lessons learned highlighted benefits derived from using a third-party logistics provider. For example, one success of the prototype was its demonstration that a contractor could serve as a single point of contact for transportation officers, enabling them to initiate a request for shipment simply by contacting the third-party provider instead of making multiple calls to potential carriers. Hence, a third-party logistics provider could reduce the time needed to find a freight carrier, allowing transportation officers to concentrate on other duties. The prototype also demonstrated that the systems DOD uses to manage its shipping could successfully interface with commercial shipping systems through the use of an electronic data interchange. This paperless process reduces processing time and minimizes data errors. Prior to the prototype, the transportation officers in the prototype region relied on telephone, fax, and e-mail to transmit information. In addition, the prototype revealed the benefit of using a Web-based tracking system to provide visibility over shipments. In response to both of these benefits demonstrated by the prototype, DOD plans to require the DTCI contractor to use electronic data interchange and to provide DOD with the ability to track and trace shipments through the use of a Web-based tool. DOD has also included provisions in the contract solicitation that would require the contractor to establish a secure connection with DOD systems, as well as maintain an appropriate level of security in its information technology systems.

However, the prototype also experienced problems in areas such as program development and implementation, information technology systems and integration, performance and performance metrics, business processes, and contracting. In its planning for DTCI, DOD has made changes in response to these lessons learned. Some of these lessons learned and DOD's related actions are highlighted below. Enclosure I provides a more comprehensive list of lessons learned and related DOD actions.

For example, during the prototype, the military services had several concerns about performance, such as the contractor's inconsistency in picking up freight on time, contributing to their dissatisfaction with that program. To address this lesson learned, the DTCI contract solicitation includes on-time pickup as one of several key indicators to measure contractor performance. Another performance-related concern that one military service expressed was that on numerous occasions, the contractor in the prototype was unable to provide next-day service. This concern is addressed in the DTCI performance work statement which provides for urgent deliveries through the use of expedited service and surge requirements. Furthermore, the DTCI quality assurance

surveillance plan specifies penalties for failure to achieve the key performance indicators, which includes not meeting delivery dates.

The prototype also showed that a 1-year base contract period was inadequate to secure a level of commitment or investment from the partners in a third-party logistics relationship and to develop effective communication processes. In contrast to the prototype contract, DOD plans to enter into a 3-year base period with a third-party logistics provider for DTCI with the option for two 1-year extensions and the possibility of two additional 1-year award term options—a potential contract period totaling up to 7 years.[16] Furthermore, the prototype experienced problems because the interfaces between the contractor's and the government's information technology systems were not fully operational when the prototype began. For DTCI, DOD has established a team addressing interface integration, and it plans to conduct robust testing at each site before DTCI is implemented. The DTCI program management office has also developed a policy of "safe start," intended to reduce risk to the government and build confidence in the partnership between the coordinator and the government. For example, according to program officials, in the initial phase of DTCI implementation, only DLA shipping sites are involved. The military service sites will not be participating until the contractor has demonstrated full capability with their system interfaces and training of shipping installation personnel is completed.

Another lesson learned from the prototype was the value of having a third-party logistics provider help develop the request for proposals. To assist in the development of the DTCI request for proposals, DOD hired a logistics management consultant and its subcontractor—a commercial third-party logistics provider. Both the consultant and its subcontractor signed organizational conflict of interest agreements and agreed not to compete under the DTCI solicitation. DOD also provided several opportunities for industry involvement, including discussions with industry representatives early in the development of requirements and later on to share comments and concerns on the draft solicitation.

Finally, the contract requirements in the prototype program limited the contractor's ability to optimize shipment consolidations and make process improvements. The contract structure also limited the incentives for the contractor to assess DOD's logistics systems and offer suggestions to improve service and lower cost. In contrast, DTCI is designed to provide more flexibility to the contractor in order to encourage efficiencies in distribution and associated cost savings. The solicitation establishes a cost savings goal based on the contractor's ability to consolidate and optimize freight shipments and the contractor is expected to show significant annual progress toward that goal. In addition, the DTCI solicitation provides historical workload data to include spikes due to seasonal demands for the offerors to base their proposed rates and has a "Not-To-Exceed" structure for all DTCI shipment route rates, therefore balancing risk to the contractor and providing greater flexibility to satisfy requirements.

[16]The DTCI award term option plan describes the specific criteria and procedures used to assess the contractor's performance and to determine the amount of additional performance periods, if any, the contractor may earn.

While DOD incorporated lessons learned from the prototype in its planning for DTCI, other DOD components, including the military services and agencies, may be unable to benefit from the successes and problems experienced during implementation of DTCI because DOD lacks a plan for disseminating DTCI lessons learned throughout DOD. As GAO has previously noted, effective sharing of lessons learned is a key tool for institutionalizing change and facilitating efficient operations. During our review, we identified a number of steps DOD has taken to transform the freight transportation system under DTCI. These steps, discussed later in this letter, could result in lessons learned about the successes and problems experienced during this organizational transformation. Further, the DTCI program management office has initiated efforts to gather lessons learned during implementation For example, the DTCI program management office has drafted a charter to establish a process improvement team to serve as a forum to collect and implement lessons learned by gathering, reviewing, and approving proposed process improvements, authorizing rollout of process improvement plans, and acting as an advocate within DOD for changes to improve DTCI. However, without dissemination of these lessons learned to the broader DOD acquisition community, other DOD components pursuing similar types of acquisitions may lack useful information that could assist their efforts. For example, DOD components seeking to apply commercial practices to their logistics or other service functions may not be aware of, or have access to, DTCI lessons learned. The Under Secretary of Defense for Acquisition, Technology, and Logistics, as the principle advisor to the Secretary of Defense for all matters relating to DOD acquisition, maintains a knowledge-sharing Web site operated in conjunction with the Defense Acquisition University. This Web site could be one vehicle for disseminating the DTCI lessons learned.

**DOD Has Initiated Practices Needed for Organizational Transformation**

To make the fundamental changes in the freight transportation system envisioned under DTCI, DOD has taken positive steps to initiate best practices that have been used by private and public sector organizations to transform their cultures so they can become more results oriented, customer focused, and collaborative in nature. Still, the long-term success of DTCI remains uncertain given the challenges inherent in organizational transformational efforts and because the program is still in its early stages, with a contract yet to be awarded and the program scheduled for rollout over a 3-year period.

Our prior work has identified key practices that large private and public sector organizations have used to achieve transformation.[17] Some of these practices include dedicating an implementation team to manage the transformation process, establishing a communications strategy to create shared expectations and report related progress, and focusing on a key set of principles and priorities. So far, DTCI has employed these and other best practices in its efforts to move from its current decentralized transportation

[17]GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

management activities to a centralized system under a single third-party logistics provider.

For example, the DTCI program management office has established a transition planning team to oversee the transformation of DTCI from acquisition activity to implemented program, including developing initial plans and building relationships with all the government stakeholders at sites where DTCI will be initially implemented. As GAO has previously reported, a strong and stable implementation team that is responsible for day-to-day management of the transformation is important to ensure that the program receives the focused, full-time attention needed to be sustained and successful. DTCI's transition planning team, which includes guidance from a change management expert, has already conducted several site visits to bring stakeholders on board with the changes DTCI will bring about compared to DOD's current freight distribution practices. In doing so, the team has started preparing notebooks, called "battle books," to be used as a reference point for site unique requirements and to familiarize team members traveling to each DTCI site for implementation purposes. Each battle book will eventually incorporate site visit notes, "as is" and "to be" process charts denoting potential process changes, key personnel, blueprints of warehousing and shipping facilities, minutes from video and teleconferences, photos, local maps, and action items. In addition, DTCI's transition planning team is responsible for drafting plans covering the areas of transition, change management, and training, as well as a plan of action and milestones. Once a contractor is on board, the team intends to assist in the integration process, address issues unique to certain sites, perform "rehearsal of concept" drills, and document lessons learned from each site implementation.

Based on our review, we found that implementing an effective communications strategy is a key priority for the DTCI program management office. During organizational transformations, communicating information early and often helps to build an understanding of the purpose of planned changes and builds trust among stakeholders. For example, the DTCI program management office has worked towards gaining buy-in and collaboration through a steady flow of communication with stakeholders. In doing so, the DTCI program management office has made information-sharing a priority through several avenues. For example, the program manager and office division chiefs participate in biweekly teleconferences with all military service representatives and other key DOD stakeholders, during which participants discuss program updates, scheduling, and other concerns, among other things. Two-way exchange that allows for feedback from stakeholders is central to forming the effective internal and external partnerships that are vital to the success of any organization. Further, the DTCI program manager has briefed senior leaders at various venues such as the Distribution Process Owner Executive Council, the Defense Business Board, and the Surface Deployment and Distribution Command Symposium.

DOD has initiated efforts indicating that it is focused on a key set of principles and priorities at the outset of the transformation. For example, the DTCI program management office has embedded customer satisfaction as a core value. Embedding core values is one way an organization can show that it is focused on a key set of principles and priorities by defining the attributes that are intrinsically important to what

the organization does and how it will do it. The implementation of DTCI will affect a large number of stakeholders. According to the DTCI program management office, the greatest internal effect will be on the transportation officers, who will be changing the way they do their work. To adapt to this change, DTCI's transition planning team has had to manage the expectations of stakeholders, including explaining to transportation officers that the third-party logistics provider will perform some—but not all—of the transportation officers' current functions while their responsibilities will expand into other areas such as process improvement, distribution analysis, and customer relations management. Furthermore, the contractor will be expected to monitor and measure customer satisfaction on an ongoing basis to ensure that any problems reported by customers, including government stakeholders, are addressed upon receipt and resolved as quickly as possible. Finally, according to the contract solicitation, the contractor will be responsible for staffing, managing, and providing resources for customer support 24 hours a day, 7 days a week.

Another key priority of the DTCI program management office has been to establish plans and initiate efforts for assessing and managing performance after contract award. Our prior work has shown that assessing and managing contractor performance is important to ensure that the business arrangement is properly executed. Specifically, DOD has built performance indicators into the DTCI contract solicitation, scheduled periodic program management reviews, initiated a process improvement team, developed a quality assurance surveillance plan, and proposed to use award fees as an incentive to promote desired outcomes—elements aimed at encouraging the delivery of services to meet or exceed the terms of the contract. While these planned post-contract award efforts are promising, the long-term success of DTCI will depend on the extent to which DOD follows through on institutionalizing the practices it has initiated to transform its freight transportation system, as well as the contractor's performance during implementation of the program.

Some of the key performance indicators that the contractor is expected to track include on-time pickup and delivery, processing time for loss and damage claims, information technology system availability, and small business subcontracting goals. We observed that these indicators are directly related to meeting the desired program goals such as increasing efficiencies and reducing cycle time—the time from request for movement to delivery. According to the contract solicitation, the performance threshold for on-time pickup and delivery is 96 percent for the first 2 years, increasing to 97 percent by the third year; and the performance threshold for processing of claims and system availability is 99 percent. The performance threshold for meeting small business subcontracting goals is 20 percent of all subcontract dollars during the first year, increasing to 25 percent by the third year.

Furthermore, DOD plans to conduct periodic program management reviews at various points during the rollout of the program. Specifically, after DTCI is implemented at the first three sites—Defense Distribution Center in Barstow, California; Defense Distribution Center in Corpus Christi, Texas; and Defense Distribution Center in Puget Sound, Washington—the contractor, in collaboration with the DTCI program management office and stakeholders, is expected to conduct a thorough review, over a

30-day period, of those sites to determine necessary adjustment to schedules, identify areas of improvement, and develop methods to ease implementation at future locations. A second review, again over a 30-day period, is scheduled after implementation at the next three sites—currently planned for Defense Distribution Center in San Diego, California; Defense Distribution Center in Red River, Texas; and Defense Distribution Center in San Joaquin, California. Subsequently, the contractor is expected to conduct program management reviews on a monthly basis. During the monthly program management reviews, a review and discussion of the government assessment and the contractor's self-assessment for the previous month is planned. The government intends to review metrics and performance data supplied by the contractor as well as present the government's own findings on contractor performance. According to program officials, the reviews will also include a comparison of actual costs to projected costs and a review of various performance indicators.

Also, as mentioned previously, the DTCI program management office is establishing a process improvement team. This team plans to meet on a monthly basis, in conjunction with monthly program management reviews, and capture all process improvement requests through a DTCI Web site into a process improvement database repository. The process improvement requests may be prioritized by the originator of the request and that priority should be based on potential resource savings to be realized if the change is implemented. All process improvement requests will be presented before the team, and the team will vote on whether to implement them. Some of the questions that will need to be addressed with each process improvement request include: actions that precipitated the submission of the request, which stakeholders will benefit and be required to work the change, the cost in time and resources, the return on investment, and whether the proposed improvement conflicts with the performance work statement requirements.

To assess performance, the quality assurance surveillance plan lays the foundation for evaluating contractor performance while implementing the DTCI performance work statement. The plan defines the performance objectives and thresholds, the procedures for evaluating performance and resolving issues, and the process to be followed to reduce contractor payment for nonperformance of services. In addition to enterprisewide performance objectives and thresholds, the contractor will be held to site-specific objectives and thresholds for on-time delivery and pickup. This plan also states that the contractor, at the commencement of shipping, will need to compile data to review performance, conduct trend analysis, and identify potential process improvements. For example, the quality assurance personnel representing the government shipper will review DTCI's shipments and make comparisons between the scheduled pickup date and time with the actual shipment information to determine the contractor's performance level in relation to the performance threshold. During the first phase of implementation, this evaluation is expected to be conducted on a quarterly basis with report findings presented to the DTCI program management office. In turn, the DTCI program management office will share the information with the contractor to help focus management attention on performance areas below contractual standards.

To motivate the contractor's performance, DOD has established an award fee plan to provide a financial incentive to the contractor to achieve program outcomes beyond the contract requirements. In examining DOD's plans for including award fees in the DTCI contract, we found that the award fee factors are linked to the outcomes outlined in the program's performance work statement. In developing the DTCI award fee plan, the DTCI program management office identified four areas as evaluation criteria—implementation, information management, transportation coordination services, and small business participation. Within each of these areas, there are three levels of performance—satisfactory, very good, and exceptional—under which the DTCI contractor's performance will be evaluated.

## Conclusions

By incorporating the lessons learned from the prototype into its plans for DTCI, DOD is continuing to make progress in improving its transportation management. DOD also has recognized the challenges of making fundamental changes to its current decentralized freight distribution system and has adopted key practices that—with appropriate follow through during program implementation—should enable this organizational transformation to occur. Just as DOD has applied the lessons learned from its own past experiences with the prototype, the lessons that DOD learns from implementing DTCI and transforming the freight transportation system could be useful to other DOD components that plan to undertake similar types of acquisition and organizational transformation efforts. However, without disseminating lessons learned from DTCI's implementation, the knowledge of successes and problems derived from the implementation of DTCI will be of limited use beyond the program.

## Recommendations

To provide for effective dissemination of lessons learned from the implementation of DTCI, we recommend the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics, in conjunction with the Commander, U.S. Transportation Command, to develop and implement a plan for sharing DTCI lessons learned across the department.

## Agency Comments and Our Evaluation

In its written comments on a draft of this correspondence, DOD concurred with our recommendation. DOD stated that it will include DTCI lessons learned in an existing Web site maintained by the Defense Acquisition University. We believe this action, if implemented, will be responsive to our recommendation. DOD also provided technical comments that we incorporated as appropriate. DOD's comments are reprinted in enclosure II of this correspondence.

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We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense; the Deputy Secretary of Defense; the

Under Secretary of Defense for Acquisition, Technology, and Logistics; the Commander of the U.S. Transportation Command; the Director of the Defense Logistics Agency; the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. This report will also be available at no charge on our Web site at http://www.gao.gov. Should you or your staff have any questions concerning this report, please contact me at (202) 512-8365 or solisw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Carleen Bennett, Susan Ditto, Chanee Gaskin, Dawn Godfrey, Tom Gosling, Curtis Groves, Art James, Kevin Keith, and Marie Mak.

William M. Solis
Director, Defense Capabilities and Management

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## Actions Taken by DOD to Incorporate Lessons Learned from the Third-Party Logistics (3PL) Prototype Program into Its Plans for the Defense Transportation Coordination Initiative (DTCI)

| Lesson learned from the 3PL prototype | DOD actions in planning for DTCI |
|---|---|
| **Role of the 3PL** | |
| The 3PL prototype provided "one-stop-shopping" for the coordination of freight transportation services, enabling DOD transportation officers to spend less time tendering shipments to carriers and more time planning their shipments and carrying out other duties. | Under plans for DTCI, the 3PL will be the single point of contact to complete all transportation services. Instead of directly dealing with freight carriers, DOD transportation officers will contact the 3PL, which will serve as the intermediary to arrange for freight transportation. |
| Based on the 3PL prototype contractor's perspective, DOD will need to delegate more authority to the 3PL, placing the 3PL in a stronger position to negotiate and execute with the carriers. In successful 3PL relationships, there is a partnership between the client and 3PL where the 3PL is an extension of the client in working with carriers, and actions it takes are done in the best interests of the client. | Under plans for DTCI, carrier management will reside solely with the contractor. According to the performance work statement, the contractor shall establish, maintain, and manage all necessary subcontracts with carriers that move freight under this contract. |
| There should be a continuous exchange of information between DOD and the contractor. The 3PL needs to have a thorough understanding of the contract to operate more effectively. In any 3PL environment, a spirit of partnership is critical for operations as well as for smooth flow of information. | The DTCI program management office has made information a priority of the program through several avenues. The solicitation requires the winning contractor to hold a postaward conference within 7 days after contract award, engage transportation association leaders and industry partners for the purpose of sharing information, conduct monthly program management reviews, and participate as a member of the DTCI Process Improvement Team. |
| The 3PL prototype was too restrictive to make best use of a 3PL's capabilities. The program, for example, was restricted to a small number of sites in the southeastern United States and included a limited volume of commodities. The 3PL prototype also limited functions that use 3PL management, such as inbound and outbound transportation, warehousing, and bill paying. | The plans for DTCI cover all Defense Logistics Agency sites and 49 additional service sites across the continental United States. While shipments will be restricted to freight all kinds, program officials believe that the freight volume will be sufficient to take advantage of the 3PL's capabilities. The DTCI is structured for a 3PL to manage outbound freight transportation, freight payment, and carrier management. DOD made a decision not to include the warehousing function as this would have required A-76 studies to implement. |
| **Program development and implementation** | |
| Stakeholder buy-in and collaboration is needed for successful implementation. All stakeholders must support the program, and the support must come from the highest level in the organization's hierarchy. | The DTCI program management office has initiated several actions to gain and maintain buy-in from stakeholders. The DTCI program manager and division chiefs host a biweekly teleconference with all the service representatives and any other key service stakeholders, along with sending out weekly e-mail updates. The DTCI program management office has made several service site and headquarters visits. The DTCI program manager briefs at senior leader distribution governance meetings. The DTCI transition planning team holds planning meetings to ensure stakeholder collaboration. |

| Lesson learned from the 3PL prototype | DOD actions in planning for DTCI |
|---|---|
| Successful program development and implementation requires a thorough understanding of what 3PLs can do. Experienced 3PL representatives should be included in the project team. The 3PL prototype employed an integrated process team consisting of transportation experts from DOD, the commercial sector, and representatives from stakeholder organizations. | During program development, the DTCI program management office worked with stakeholder organizations, including the Defense Distribution Centers, the military services, and the Surface Deployment and Distribution Command. The effort was also supported by a management consultant and a commercial 3PL. Private sector companies were engaged though industry days, requests for information, and individual face-to-face meetings. For the implementation phase, the DTCI program management office intends to form an integrated government/contractor partnership for site implementation. |
| Site visits should be conducted with DOD and contractor personnel before start-up to ensure that all sites understand the process and are ready to begin shipping. If face-to-face site visits are not possible, a conference call should be conducted to review any requirements and issues specific to the shipping site. | DOD's schedule calls for a gradual rollout, which it refers to as a "safe start" approach. Coordination has been completed with all the stakeholders in determining the rollout plan. Initial sites will be DLA Defense Distribution Centers with high-volume shipping activity. The DTCI program management office has established a transition planning team that has visited implementation sites to provide information about DTCI processes and benefits. The team will visit or conduct video teleconferences with all sites prior to implementation at each site. According to program officials, these visits will also help identify site unique requirements in order to tailor implementation efforts at each location. |
| The first shipment should not be released until all systems and processes have been tested and are functioning properly. A poorly executed start-up can jeopardize the success of the program. Both parties (the government and the contractor) should ensure that their systems and processes are ready before initiating the first shipment. | The DTCI solicitation specifies the contractor shall establish information systems communications integration prior to initiating shipments. The contractor will prepare a test plan that must be approved by the DTCI program management office. The final DTCI joint test plan is due no later than 30 days after contract award. To accommodate any site-specific differences, the contractor shall deliver site-specific test plan addendums no later than 30 calendar days prior to implementation at each DTCI shipping location. |
| Training of DOD transportation officers should have been conducted in multiple sessions rather than completed all at once. The transportation officers were expected to learn several new processes and systems to operate within the 3PL prototype. A phased training approach would help transportation officers go through the transition more effectively without being flooded with information and training. | According to the DTCI performance work statement, shipper training will be provided on-site during Phase I and on-site or regionally during Phases II and III. Training will be conducted between 1 and 4 weeks before site implementation. The contractor is expected to work with DOD to establish an on-going training curriculum for government personnel that will be kept up-to-date to reflect current operating procedures. |
| There should be on-site 3PL representatives based at selected shipping sites. The criteria for having on-site 3PL support would be large shipping volume or unique shipping requirements that need special attention. The one DLA depot out of four that had an on-site representative from the 3PL prototype firm was extremely pleased with the support and service it received. Benefits included claims processing and a reduced time and effort for placing shipping orders. | Under DTCI plans for Phase I of implementation, 3PL personnel will be on-site for at least the first 60 days. For Phases II and III, regional support is required. The solicitation also requires permanent on-site personnel at some locations. |

| Lesson learned from the 3PL prototype | DOD actions in planning for DTCI |
|---|---|
| **Information technology systems and integration** | |
| Use the 3PL's systems and procedures to the maximum extent, including information systems. | A goal of DTCI is to learn from the best commercial practices of the 3PL. This entails maximizing the use of the 3PL's procedures and information systems. During the training of DOD transportation officers, emphasis will be placed learning all the applicable capabilities of the coordinator's information systems to facilitate the incorporation of those systems into their daily operations. The DTCI program management office also intends to use its process improvement team to share and incorporate useful processes throughout the enterprise. |
| The 3PL's Web-based tracking system allowed shippers to track their shipments. Where operationally and economically feasible, the contractor's systems should be used to process shipment requests and track shipments. DOD personnel should be trained on how to use the system. | The DTCI contract solicitation requires the 3PL to provide a track and trace capability of materiel in-transit through the contractor's Web-based system and through transmission to the government's shipper systems. According to the program office, this capability will enable DOD customers to track shipments through the contractor's Web site, their service/agency shipping system, or the Global Transportation Network. While operational needs require DLA and service shippers to prefer the use of their existing tracking shipment systems when available, the coordinator's shipment system will be used whenever those systems are not available. Also, the coordinator's system may become the preferred method for tracking shipments due to constraints in the government system. Use of these tools will be thoroughly covered in the training of DOD transportation officers. |
| During the 3PL prototype, a Web-based reporting tool was used to generate monthly Contracting Officer Representative Reports, monthly Customer Satisfaction Reports, and Service Exception Reports. The use of this tool should be continued. | Web-based reporting and the automated capture of data for reporting is a requirement in the DTCI solicitation. |
| Electronic data interchange provides the capability to transmit shipment requests and receive shipping information. In the past, the government has relied on telephone, fax, and e-mail to transmit this information. The use of electronic data interchange will speed up this process and reduce the chance of data errors. | DOD transportation officers at DTCI sites will be able to electronically submit their shipment requests to the 3PL. The DTCI performance work statement defines the use of the electronic data interchange interfaces. |
| During the early phases of the 3PL prototype, DOD personnel experienced problems using the information technology systems because of the department's restrictive security firewalls. This problem was subsequently resolved. A core systems technical team should have been dedicated during the development stage of the 3PL prototype. Early involvement of systems personnel in the development team would have avoided, or greatly reduced, the amount of time and effort required to resolve systems-related issues. In future 3PL arrangements, allocate sufficient time and resources for thorough testing of the systems and interfaces before going live. | The DTCI program management office established an information technology integration team to address system integration issues. The team has developed an action plan and meets monthly with systems personnel. In addition, according to the DTCI performance work statement, thorough testing of the systems and interfaces is required prior to initiating shipments. DTCI's information technology integration team will work closely with the selected contractor to ensure the necessary data links have been connected and verified before site activation. |
| **Performance and performance metrics** | |
| While the 3PL prototype probably improved customer service by reducing transit times and achieving more reliable on-time delivery, such improvements could not be validated through metrics. Lowering costs was also not a stated goal of the 3PL prototype. | Key performance indicators including on-time delivery, on-time pickup, and others have been built into the DTCI performance work statement. In addition, DOD plans to track and document cost savings achieved under DTCI. |

| Lesson learned from the 3PL prototype | DOD actions in planning for DTCI |
|---|---|
| Obtain agreement regarding the data and methodology to be used to develop metrics before moving the first shipment. In the 3PL prototype, reporting discrepancies could have been avoided or minimized if both parties met early in the project, and agreed to the data source and methodology. | The DTCI program management office assembled a team of subject matter experts from key DOD stakeholders to collaborate on the development and fielding of the performance work statement. Performance indicators were identified that make up the basis of the metrics that will be collected and evaluated during the life cycle of the program. The quality assurance surveillance plan (and Contracting Officer's Representative document) describes the process by which the contractor's performance will be evaluated. |
| One military service noted that certain high-priority aircraft spare parts were currently transported using small-package express carriers and expressed concern that consolidating these shipments under the 3PL could result in longer transit times. | DTCI has provided exclusions within the performance work statement that address the concerns of the military service and other stakeholders. Small-package shipments have been excluded from the DTCI program. |
| Definitions of service levels should be clearly defined and understood by both the transportation officers and the 3PL contractor to avoid confusion. DLA and the military services require different types of transportation service. DLA requires regular (daily), volume oriented service. Military services require urgent service for critical spare parts with periodic unit moves involving numerous truckload moves. During the 3PL prototype, since the military services' requirement for urgent service was not fully satisfied, the military services' transportation officers perceived that their workload actually increased rather than decreased. | The DTCI solicitation is written as a performance contract. The solicitation has defined expedited service and surge requirements. The DTCI performance work statement is structured to allow urgent deliveries using a "Mandatory Delivery Date." The 3PL prototype was a firm fixed-price contract that limited the contractor's ability to provide delivery if the service exceeded the allowed price. |
| According to some military services, smaller, low-volume sites did not receive acceptable levels of service under the 3PL prototype. | The DTCI performance work statement requires the contractor to provide an acceptable service to all shipping locations, regardless of volume. |
| One military service expressed some concern regarding performance and operational issues in the 3PL prototype that included late freight deliveries and hazardous shipments offered to nonqualified carriers. | In the DTCI performance work statement, there are key performance indicators for on-time delivery and the quality assurance surveillance plan specifies penalties for failure to achieve. The DTCI performance work statement describes the contractor requirements for offering freight to the carriers. |
| **Business processes** | |
| DOD's claims process for lost and damaged goods was ineffective and confusing to users, and many claims were probably not filed because of frustration with the transportation discrepancy report system. The 3PL prototype improved the claims process by making the use of transportation discrepancy report system optional when filing claims. | Although the transportation discrepancy report system will continue to be used under DOD's plans for DTCI, the contractor will be required to accept, process, and resolve claims within a specified time period. |
| One military service noted problems that occurred during the 3PL prototype with the 3PL's interface with PowerTrack (method of payment to contractor for freight movements). | The DTCI performance work statement states that the contractor's information systems must be able to interface with PowerTrack. |
| In the 3PL prototype, the 3PL process was not designed for shippers that do not have the capability to order their own transportation services. | All shippers in DTCI have the capability to order shipments using one of the government's electronics systems. In addition, the performance work statement requires the contractor to provide its own Web-based system as a backup capability. |
| **Contracting** | |
| The 3PL prototype showed that acquisition of 3PL services could be acquired through a Federal Acquisition Regulation (FAR)-based contract, in accordance with DOD policy. | DOD's contract solicitation for DTCI is FAR-based. |

| Lesson learned from the 3PL prototype | DOD actions in planning for DTCI |
|---|---|
| The contracting process needs to be flexible to test or implement a 3PL. The contracting team must: have experience with 3PLs, use commercial or 3PL contracting processes, relinquish some control of the processes, and not be overburdened with excessive workload to be innovative and responsive. | Market research was conducted for DTCI to benefit from commercial 3PL experience. DTCI program management office advisors supporting the DTCI acquisition have 3PL experience and include a leading commercial 3PL firm. Further, the DTCI requirements have been developed in a performance-based manner, encouraging the offerors to submit their own approaches to meeting the DTCI objectives by employing their own proven commercial best practices. |
| Proposed contract modifications should be resolved and implemented quickly. It is impossible to anticipate and include every requirement in the initial contract. But when a situation occurs that requires a contract change, both parties should resolve the issue and implement the change to the contract in an expeditious manner. | U.S. Transportation Command is building a robust capability within the DTCI program management office to manage postaward contract activities and respond quickly to any contractual issues. |
| The contract's structure should allow the 3PL to identify cost savings and create incentives to share those savings with DOD. To achieve cost savings and additional service improvements, the 3PL prototype would have to be expanded to permit a 3PL to take advantage of its abilities to improve overall logistics processes, like reducing inventories, and saving on total costs while improving service. | While "gain sharing" may be used for commercial 3PL arrangements, it is not an option available to DTCI under FAR. The contract solicitation has cost savings goals identified throughout the life of the contract and metrics for measuring the coordinator's progress toward those goals. The cost-reimbursable provisions of the contract solicitation allow the government to retain savings achieved from the contractor's optimization and consolidation efforts. |
| Use 3PLs to help write the request for proposals. | The DTCI program management office used a 3PL to help develop the request for proposals requirements. In addition to having commercial 3PL expertise in developing the solicitation, the contracting officer led extensive market research to include industry interaction and collaboration on draft requirements. |
| Commit to a 6-month contracting process. | The DTCI program evolved over a 2-year period. The program was initiated in 2004, and the final solicitation was distributed in the summer of 2006. As of early 2007, the source selection process was ongoing. |
| Use a down-select process, then write a contract. | U.S. Transportation Command is evaluating proposals and intends to award a contract after conducting discussions, both written and oral, with offerors whose proposals have been determined to be within the competitive range. |
| Select a World-Class 3PL that has done an implementation as large as the one pursued by DOD. | The 3PL's ability to implement DTCI will be considered during the source selection process. |
| A 1-year timeframe is inadequate to demand commitment or investment from the partners and to develop effective communications processes. 3PLs want a minimum of 3 years to enter into a 3PL relationship with a shipper. They prefer 5 years with a 5-year option. 3PLs can invest in equipment, processes, and personnel and expect a return on investment with a longer contract timeframe. | The DTCI solicitation provides for a 3-year base period with two 1-year options and two 1-year award term options, for a total potential contract period of 7 years. |

| Lesson learned from the 3PL prototype | DOD actions in planning for DTCI |
|---|---|
| Allow for seasonal pricing in the contract to give the 3PL greater flexibility in securing capacity during periods of heavy demand. The spring and summer months are "produce season" in the southeastern United States (the geographic region where the 3PL prototype was implemented). During these months, truck capacity is at a premium as most are being used to transport produce. Since the 3PL was locked into the contracted rates, it had difficulty in obtaining carriers to move some DOD freight at these rates. Commercial best practices usually allow for seasonal pricing to compensate for this spike in demand and supply of trucks in the market. | According to program officials, the DTCI solicitation balances risk to the contractor by providing significant historical workload data to include spikes due to seasonal demands for the offerors to base their proposed rates. In addition, proposed rates will be priced on a Not-To-Exceed basis, with actual costs reimbursed on a direct cost basis allowing for some degree of fluctuation (within the Not-To-Exceed limit) caused by foreseen seasonal demands and other factors. The Not-To-Exceed rates will cover seasonal pricing fluctuations. |
| **Miscellaneous** | |
| Address personnel reductions and reassignments that may result from implementation of the program and changes made from process improvements. | According to program officials, DTCI is designed to be "personnel neutral," with no cost savings projected as a result of personnel reductions. The change management plan and communications plan are structured to carry this message forward from the DTCI program management office. |
| Military services expressed concern regarding management and award fees under DTCI coming from their service budgets. | The DTCI program management office has advised the services to plan for these costs in their fiscal year 2008 to fiscal year 2013 Program Objective Memorandum (POM). The DTCI program management office also noted that in future years, these costs should be offset by reduced transportation costs. |

Source: GAO analysis.

## Comments from the Department of Defense

DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

MAY 2 2007

Mr. William M. Solis
Director, Defense Capabilities and Management,
U.S. Government Accountability Office
441 G Street, N.W.,
Washington, DC 20548

Dear Mr. Solis:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-07-675R, "DEFENSE TRANSPORTATION: DoD Has Taken Actions to Incorporate Lessons Learned in Transforming Its Freight Distribution System," dated April 11, 2007 (GAO Code 350880).

The Department has reviewed the subject GAO draft report and concurs with the recommendation. A detailed response is enclosed.

Sincerely,

Earl Boyanton
for Jack Bell

Enclosure:
As stated

Enclosure II

**GAO DRAFT REPORT - DATED APRIL 11, 2007**
**GAO CODE 350880/GAO-07-675R**

**"DEFENSE TRANSPORTATION: DOD Has Taken Actions to Incorporate Lessons Learned in Transforming Its Freight Distribution System"**

**DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATION**

**RECOMMENDATION:** The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics, in conjunction with the Commander, U.S. Transportation Command, to develop and implement a plan for sharing Defense Transportation Coordination Initiative (DTCI) lessons learned across the Department. (pg. 14/GAO Draft Report)

**DOD RESPONSE: Concur.** The Defense Acquisition University (DAU) already has a "lessons learned" section within their "contingency contracting" section of their website (https://acc.dau.mil/CommunityBrowser.aspx?id=18215). Action will be taken to alter/expand the DAU website to include lessons from the DTCI contract.

(350880)

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