



Highlights of [GAO-09-41](#), a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

Why GAO Did This Study

In 2001, the Department of Defense (DOD) identified performance based logistics (PBL) as the preferred weapon system support strategy. Within DOD, PBL is the purchase of performance outcomes, such as system availability, rather than the purchase of individual elements of logistics support—such as parts, repairs, and engineering support. Although PBL initially arose from efforts to reduce support costs, questions have arisen about whether PBL has reduced support costs as originally intended. GAO was asked to evaluate the extent to which DOD has used business case analyses to guide decisions related to PBL arrangements and the impact PBL arrangements have had on weapon system support costs. In conducting the review, GAO analyzed the implementation of PBL arrangements for 29 weapon system programs. GAO also looked at the use and characteristics of performance-based contracting in the United Kingdom's Ministry of Defence.

What GAO Recommends

GAO makes five recommendations, including that DOD require the development of business case analyses, clearly define specific criteria for their development, and require that the services improve their internal controls to ensure that the analyses are performed. GAO also recommends that DOD require program offices to collect and report detailed support cost data for their PBL arrangements. DOD generally concurred with these recommendations.

To view the full product, including the scope and methodology, click on [GAO-09-41](#). For more information, contact William M. Solis at (202) 512-8365 or solisw@gao.gov.

DEFENSE LOGISTICS

Improved Analysis and Cost Data Needed to Evaluate the Cost-effectiveness of Performance Based Logistics

What GAO Found

Although DOD's guidance recommends that business case analyses be used to guide decision making regarding the implementation of PBL to provide weapon system support, the services are not consistent in their use of such analyses. About half of the DOD program offices responsible for the 29 PBL arrangements GAO reviewed either did not use a business case analysis or could not provide documentation for significant parts of their analyses. Almost all of the remaining analyses were missing one or more of the recommended elements in DOD's instruction for economic analysis. Finally, business case analyses were often not updated in accordance with service policies and guidance. Program office use of these analyses is inconsistent because DOD only recommends, but does not require, that they be prepared and because DOD's guidance on preparing a business case analysis is not comprehensive and does not adequately specify the criteria to be included. Also, most of the services have not established effective internal controls to ensure that the analyses are prepared or that they provide a consistent and comprehensive assessment. As a result, DOD has implemented PBL arrangements without the benefit of sound analyses that ensure that the chosen approach will provide the most cost-effective support option.

While one of DOD's goals in moving toward the use of PBL arrangements was to reduce weapon system support costs, the ability of these arrangements to reduce costs remains unclear 7 years after DOD first identified PBL as the preferred weapon system support strategy. Many DOD program offices that implemented PBL arrangements have limited cost data, and various other factors—such as the lack of business case analyses—further limit an evaluation of the costs of this support strategy. Available data from the programs GAO reviewed indicated mixed results. Although a few programs in GAO's sample provided evidence of some cost reductions, GAO's analysis of the only two systems in its sample that are managed using both a PBL arrangement and a more traditional, non-PBL arrangement indicated that in both cases the PBL arrangement had higher costs. Also, GAO found that certain characteristics of DOD's PBL arrangements—contract length, funding stability, ownership of inventory, and the lack of cost metrics and effective incentives—could limit the ability of and incentive for contractors to reduce support costs. Neither DOD nor the services require detailed cost reporting for PBL arrangements and the lack of detailed cost data hinders DOD's ability to determine whether PBL has reduced support costs as intended.

GAO describes the use of performance-based arrangements for weapon system support in the United Kingdom's Ministry of Defence, which the ministry refers to as contracting for availability. The Ministry of Defence began awarding availability contracts as an approach to reduce weapon system support costs, and officials believe that support cost reductions have been achieved as a result of using availability contracts. In general, the availability contracts used are significantly longer than those used by DOD, and the ministry uses an "open book accounting" arrangement to gain visibility into the contractors' costs to provide support.