TO: FI

DEPARTMENT OF THE ARMY
OFFICE OF THE SECRETARY OF THE ARMY
107 ARMY PENTAGON
WASHINGTON DC 20310-0107

Office, Director of Information
Systems for Command, Control,
Communications, & Computers

SAIS-PAC-S

24 Aug 01

MEMORANDUM FOR Director, Cost and Economic Analysis Center,
1421 Jefferson Davis Highway, Suite 9000, Arlington, VA 22202-3259

SUBJECT: Cost Management/Activity Based Costing (CM/ABC) Implementation Plan for the Information Support Business Area

1. In accordance with Secretary of the Army memorandum dated 10 November 1999, subject: Strategic Plan for Implementing CM/ABC, enclosed is our CM/ABC implementation plan for the Information Support Business Area for your review and concurrence. We staffed the plan with Army Materiel Command (AMC) and have incorporated their recommended changes.

2. Our plan is limited in scope and only covers two organizations under AMC, the Information Systems Engineering Command (ISEC) and the Software Engineering Center (SEC). The majority of organizations encompassing the Information Support Business Area, which include the Directors of Information Management and Program Executive Officers, are covered under other HQDA agency CM/ABC plans developed by the Army Chief of Staff for Installation Management and the Assistant Secretary of Army for Acquisition, Logistics and Technology. The only remaining organizations performing predominantly information technology related missions are ISEC and SEC, with the exception of Army Signal Command (ASC). We excluded ASC because they are a Table of Organization and Equipment activity.

3. Upon your concurrence with our plan, we will request AMC develop a comprehensive plan by 1 December 2001 that will depict the organizational structure, performance measures, training requirements, planned prototypes, and concept of operations for implementing CM/ABC within ISEC and SEC.

4. Any questions on our plan may be directed to my point of contact for this action, Ms. Patricia Bodenstein, 703-693-7155, email patricia.bodenstein@hqda.army.mil.

Enclosure

PETER M. CUVIELLO
LTG, GS
Director

CF:
Commander, U.S. Army Materiel Command, ATTN: AMCCS/AMCRM/AMCIO
5001 Eisenhower Avenue, Alexandria, VA 22333-0001

INFORMATION SUPPORT

COST MANAGEMENT/ACTIVITY BASED COSTING

IMPLEMENTATION PLAN

AUGUST 20, 2001

DIRECTOR OF INFORMATION SYSTEMS FOR COMMAND, CONTROL, COMMUNICATIONS, AND COMPUTERS

Information Support
Cost Management/ABC Implementation Plan

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D. Fort Riley's ABC Experience Article
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Information Support
Cost Management/ABC Implementation Plan

I. Purpose. The purpose of this plan is to provide guidance and instructions for the implementation of Activity Based Costing/Activity Based Management (ABC/M) in the Director of Information Systems for Command, Control, Communications and Computers (DISC4) Information Support Business Area.

II. Goal. To assist the Information Support Business Area agencies in using cost management tools to better understand and control costs for services or products rendered. Cost management tools will allow organizations to determine what the true cost of doing business is, and then to make informed decisions about resource allocation based on that information.

III. Background. On January 5, 1993, The 103rd Congress enacted the Government Performance and Results Act. The Act cited the waste and inefficiency observed in federal programs, and their impact on the confidence of the American People. Congress found that "Federal managers (were) seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance."[1] The Act sought to initiate program performance reform, and set out a plan for implementation activities no later than September 30, 1997.

In 1996, the Clinger-Cohen Act was drafted, which outlined use of Information Technology (IT) in Federal Programs. It tasked the agencies with promotion and responsibility for "improving the acquisition, use, and disposal of information technology by the Federal Government to improve the productivity, efficiency, and effectiveness of Federal Programs."[2] The Act also directed agencies to "encourage the use of performance-based and results-based management in fulfilling the responsibilities assigned under section 3504(h), of title 44, United States Code."[3] During the July 1997 National Performance Review, the Secretary of Defense established a DoD Acquisition Year 2000 Goal to "Define requirements and establish an implementation plan for a cost accounting system that provides routine visibility into weapon system life-cycle costs through activity based costing and management. The system must deliver timely, integrated data for management purposes to: permit understanding of total weapon system costs; provide a basis for estimating costs of future systems; and feed other tools for life cycle cost management." [4] In November of the same year, DoD's Senior Acquisition, Financial, and Logistics Executives met to discuss courses of action. They decided that ABC/M would be better suited on a broader, department-wide basis, as opposed to merely focusing on individual products or services (weapon systems). They also set forth guidance requiring Military Departments and Defense Agencies to develop, and report status on, individual implementation plans.

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[1] Government Performance and Results Act of 1993; Public Law 103-62. 103d Congress of the United States of America (Senate and House of Representatives). Section 2.
[2] Clinger-Cohen Act of 1996; August 8, 1996, Division E of Public Law 104-106. Section 5111.
[3] Clinger-Cohen Act of 1996; August 8, 1996, Division E of Public Law 104-106. Section 5113.
[4] Memorandum from the Under Secretary of Defense, Subject: Defense-Wide Implementation of Activity Based Management. July 9, 1999.

The Under Secretary of Defense (Acquisition &Technology) published a memorandum on July 9, 1999 (Appendix A) directing all services to implement an ABC/M program. The Secretary of the Army endorsed the Army's Strategic Implementation Plan for Cost Management/Activity Based Costing (CM/ABC) (Appendix B) requiring all Business Areas to prepare and submit a detailed implementation plan through the Army Managerial Cost Steering Committee.

The Army's Cost and Economic Analysis Center (CEAC) developed the Army's Strategic ABC Implementation Plan and was appointed the implementing agency. CEAC will provide Army-wide guidance and oversight of the Strategic Plan during implementation, to include required training and software.

IV: Defining the Information Support Business Area

A. Mission. The DISC4 is responsible for all aspects of Information Management/ Information Technology (IM/IT) across the Department of the Army. In this role, the ODISC4:

1. Serves as Chief Information Officer (CIO) for the Army.

2. Serves as military deputy to the Army Acquisition Executive for acquisition of command, control, communications, and information technology systems with responsibility for the research, development, and acquisition of these systems.

3. Develops policy and guidance on IM/IT (to include automation, telecommunications, visual information, and related activities and programs) throughout the Department.

4. Integrates the budget, program management, and acquisition decisions affecting information technologies to promote Army efficiency and productivity in all of its activities.

5. Develops the information technology management (ITM) strategic planning perspective to the Army strategic planning process.

6. Provides CIO validation of requirements for warfighting, Base Operations (BASOPS), and administrative and other mission-related processes associated with an IT impact.

7. Provides CIO assessment of adherence to requirements for National Security Systems and Information Technology Systems as defined in the Clinger-Cohen Act (CCA).

8. Provides CIO certification of CCA compliance for all Major Automated Information Systems.

9. Serves as functional proponent for the business/functional process improvement program with a C4/IT impact.

10. Serves as the senior authority for telecommunications programs, and provides oversight of joint military satellite communications programs and projects.

11. Establishes and implements Army-wide information technology architectures.

12. Serves as the senior authority for Army Visual Information (VI) and manages non-tactical VI products.

13. Acts as the Army's Software Executive Officer, and serves as the Army focal point for all software acquisition and development activities.

14. Develops and provides oversight for the Army Information Assurance Program.

15. Serves as the single focal point for all electronic commerce activities within the Department of the Army, and manages and executes the Army Electronic Commerce Program.

16. Provides oversight for the Army Spectrum Management Program.

17. Serves as the single focal point for all smart card activities within the Department of the Army, and manages and executes the Army's Smart Card Program.

18. Develops and implements the Army Knowledge Management program.

B. Contact Information.

Office: 703-693-7155; DSN: 223-7155

V: Information Support Activity Based Costing Plan

A. DISC4 Business Areas Covered Under Other Agency Plans.

1. Installation Directors of Information Management (DOIMs) to include their VI mission are currently being covered by the Assistant Chief of Staff for Installation Management ABC Plan.

2. Program Executive Officer for Standard Army Management Information Systems (PEO STAMIS) and Program Executive Officer for Command, Control, and Communications Systems (PEO C3S) are currently being covered by the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) ABC Plan.

B. DISC4 Business Areas Covered Under This Plan.

1. US Army Information Systems Engineering Command (ISEC): Serves as the Army's engineer and integrator for infrastructure and force projection information systems.

2. Software Engineering Center (SEC): Develops and maintains Army-wide information systems and provides for quality assurance, field assistance, software research, and Army-wide executive software procurements and deployments.

C. DISC4 Business Areas Not Considered Under This Plan. While Army Signal Command operates, manages, and protects Army and theater C4 systems and networks in support of combatant Commanders in Chiefs and Major Army Commands in the execution of joint and combined operations; this agency was not considered under this plan, as it is a Table of Organization and Equipment activity.

VI. Current Cost Management/Activity Based Costing Efforts. Much effort has been made to comply with the Clinger-Cohen Act, which focuses on economy and efficiency in the Information Support Business Area; however, there has not been a concerted effort within the Information Support Business Area to implement Activity Based Costing to date as IT is embedded in all functional business areas across the Department of the Army. The DISC4, however, currently manages the Information Support Business Area through its IT acquisition oversight role by:

- Setting policy to ensure performance measurements are prescribed for all IM/IT programs, acquisitions, and processes, and thereby assigning accountability for results-oriented performances.

- Acting as the technical authority for Army Business Process Reengineering (BPR) initiatives with an IT/C4 impact. Develops, coordinates, promulgates, and monitors execution of Army-wide BPR policy and procedures. Provides guidance and approval to requesting organizations to ensure appropriate criteria have been followed.

- Promoting the inclusion of BPR methodology in Joint mission plans and assessments, which affect the Army.

- Monitoring, reviewing, and analyzing process improvement initiatives. Ensures that no system selection occurs unless a process analysis has been completed and that, as appropriate, the process has been reengineered. Recommends approval of BPR submissions.

- Evaluating results of process analyses to ensure adequate performance measurements are available to measure mission outcomes and evaluate process changes.

VII. Cost Management/Activity Based Costing Overview

A. Cost Management (CM) Methodology

1. CM is planning, organizing, and controlling product and service costs to improve business processes, eliminate waste, influence cost drivers, and plan operations. The resulting information will have utility in reviewing and evaluating an organization's strategies. CM focuses on processes, products, and outputs, rather than on inputs. At the Agency level, CM focuses on relating cost to product development and sustainment, and services provided. Activity Based Costing (ABC) is one CM methodology. ABC has become one of the most effective enablers in the Federal, state, and local government environments. Most public sector organizations are facing intense pressure to do more with less. This is a daunting challenge that often requires: "determining the true costs of services and rates; implementing process improvements; determining make vs. buy outsourcing decisions; and aligning activities to mission and strategic planning."[5]

2. ABC is a cost measurement technique used to measure the cost of activities done to produce a product or service. By identifying activities and measuring their costs and consumption rates, it becomes possible to determine the unit cost of every output produced by the process. ABC analysis is facilitated first, by producing an activity model of the process being studied. With a fully decomposed activity model, it becomes relatively easy to research financial data, develop unit costs, locate non-value added activities, and identify cost drivers. As part of the ABC analysis, activities are evaluated in terms of whether they add value or they do not add value to the output product or service. When this information is known, process improvement efforts can be directed to minimizing or eliminating non-value added costs and activities from the process (this may include the decision to outsource a particular service).

3. Due to the demonstrated success of ABC plans that have been implemented at several installations (Appendix D), ODISC4 has selected ABC as the preferred model for implementation in its business area.

B. Information Support CM/ABC End-state

1. Strategic Objectives:
   a. Create a CM culture within the Information Support Business Area that supports information superiority.
   b. Ensure business areas adopt performance measures to conduct continuous process improvement initiatives.
   c. Ensure cost and performance are on par with mission accomplishments.

[5] Activity-Based Costing in the Public Sector, Alan Fabian, Bettermanagement.com, 2001.

d. Determine IT investments that will improve the Army's mission performance in the areas of software engineering and force projection information systems.

2. Operational Objectives:
   a. Develop an ABC Model that provides timely and relevant data for identification, selection, and evaluation of IT investments in the two DISC4 designated agencies. ABC provides the agencies the capability to analyze IT investments and systems by cost and performance, and identify areas for BPR.
   b. Ensure designated agencies utilize available Benchmarking and Best Practices Analysis Tools to enhance their business processes. Benchmarking is an analytical tool designed to aid an organization with identifying low performance areas, prioritizing those performance areas that need improvement, and defining improvement goals for those areas. Best Practices Analysis involves comparing your business practices with those of other industry leaders (both government and commercial).
   c. Actively deploy and sustain ABC by local commanders and managers to evaluate and make continuous resourcing and process improvement decisions.

C. Strategic Performance Measures. The two designated agencies covered by this plan support DISC4 in the Information Support Business Area with technical products and services. While their missions and products may differ greatly, DISC4 will collect information on two performance measures (as described in Section VIII, Paragraph I) pertaining to resource utilization and product delivery. The goal is to ensure agencies continually use ABC as a CM tool to reduce cost of providing services by streamlining high cost activities or eliminating non-value added activities while improving customer service and reducing process time.

D. Creating a Cost Management Culture

1. DISC4 will take an active role in providing overall guidance to the Army Materiel Command (AMC) as they begin developing their ABC plans. CEAC will provide ABC training for both the managerial/executive level, and the user/model developer level. CEAC has offered to provide a trained team from ABC Technologies to aid with developing a pilot for one of the Information Support Business Area agencies.

2. AMC will develop a strategic ABC plan, provide for CM training early, pick a candidate for the first model (prototype), and ensure recurring meetings are scheduled to assess implementation progress and recommendations.

VIII. ABC Implementation

A. Concept of Operation. DISC4 is the proponent for ABC/M in the Information Support business area, and will serve as the interface between CEAC and AMC. CEAC will coordinate training, software provisions, after action review (AAR), and oversight. This operation will consist of the following phases:

1. CM/ABC Plan Development
2. Prototype Development and Modeling
3. Prototype Site Training
4. Prototype Implementation
5. Training – All Sites
6. Full Implementation
7. Sustainment

B. CM/ABC Plan Development. AMC will develop a comprehensive CM/ABC plan for the Information Support Business Area. The plan will follow guidelines contained in Appendix C. The plan will be submitted to DISC4 no later than 1 December 2001.

C. Prototype Development and Modeling. An ABC model is a graphic representation of the activities that compose a business process. It also shows the flow of information and objects (e.g., forms, reports, and products) used and created by these activities, and the resources consumed by the activities (e.g. labor, facilities, materials, equipment, technology).[6] AMC will develop model(s) based on the activities inherent to their organizations and will select one of their centers/field offices to develop a prototype model by the end of January 2002. The chosen center/field office will have until August 2002 to develop the model and begin the prototype. AMC is urged to capture and build upon lessons learned from the development and implementation of the prototype ABC model. This information should then be shared with the other centers/field offices that will be implementing similar models. Appendices G and H provide ABC references and terminology to assist agencies in developing ABC models.

[6] Activity Based Costing & Performance. Karen B. Burk and Douglas Webster, Ph.D. American Management Systems 1994.

D. Prototype Site Training. AMC will identify appropriate personnel at the prototype site for training just prior to developing the prototype model. CEAC has offered to aid one agency with prototype design, by sending consultants from ABC Technologies, Inc. AMC should contact DISC4 if they are interested in this service.

1. Software (See Appendix F for technical requirements)
   a. CEAC will purchase and sustain Oros ABCPlus software from ABC Technologies, Inc and will provide initial training in CM/ABC and the use of Oros ABCPlus required to implement ABC. ABC Technologies will provide the core Oros ABCPlus software package, for operation on a local area network (LAN) with an appropriate number of seats. If required, they will provide a remote package to support sites located greater than three miles from the parent location. The core software provides the capabilities needed to build models, electronically input data provided from legacy systems (e.g. STANFINS, SOMARDS, etc.), and electronically generate reports for use by other systems or by local management. The enhancement package extends the Activity Based Management (ABM) capability of the core software to support commercial management initiatives such as the Balanced Scorecard.
   b. As discussed above, the software provides the capability to share data electronically with STANFINS, SOMARDS or other systems. During prototype development, CEAC will provide technical support for data extraction from these systems. If a desired system is found to be incompatible, and therefore unable to produce the requisite reports to allow for data sharing, CEAC will not be responsible for aiding with system redesign.
   c. CEAC will also negotiate for sustainment support for the agencies from ABC Technologies. This will include offering a help-desk to provide technical assistance, accessibility to software upgrades, and optional supplemental training.
   d. AMC will need to evaluate their ABC staffing needs, in order to determine the number of Oros ABCPlus seats required for their organization. Seats should only be provided to those personnel requiring continuous access to the agency's ABC model.

2. Training Courses
   a. AMC will be responsible for ensuring the appropriate personnel attend the provided ABC training courses.
   b. CEAC has teamed with ABC Technologies, Inc. to offer a wide range of ABC training courses to fit varying audiences. The courses are normally held in Alexandria, VA, but arrangements for on-site training are also a possibility. To increase effectiveness, it is recommended that training dates for personnel are selected no earlier than two weeks prior to model development. CEAC will incur the cost for participation in the course; all other expenses (TDY and travel) must be incurred by the agency. The

following is a list of ABC Courses offered, with a brief description detailing the information covered. See Annex E for a full description of the courses offered.

(1) Cost & Performance Management Team CM and ABC/M Training (5 days): To provide Cost Management (CM) and Activity Based Costing (ABC) and Activity Based Management (ABM) with an understanding of CM principles and the roles CM will fulfill in the Army and in their specific business area. Discuss how ABC/M can be used to implement CM at the local level to improve the delivery of goods and services and how to identify useful performance measures for application in ABC/M. Provide initial hands-on instruction in building ABC models using Oros ABCPlus software.

(2) Organization/Staff Level CM and ABC/M Orientation (2 days/on request): To provide organization and headquarters staff personnel with an understanding of CM principles and the roles CM will fulfill in the Army and in their specific business area. Provide the basis for planning and monitoring implementation of a CM program to embed CM in developing performance measures to support leadership and management decisions throughout their business area, or organization.

(3) Executive Briefing on CM and ABC/M (1-4 hours/on request): This briefing will be presented to General Officers and Senior Executives. It will present CM and ABC/M principles and doctrine, and discuss their application to Army activities.

E. Prototype Implementation. AMC will develop a prototype for CM/ABC using Oros ABCPlus software and implement the prototype model at an information support business area site. The prototype will be evaluated for effectiveness and usefulness following a selected period of operation. The prototype will be standardized for all offices as much as possible.

F. Training – All Sites. AMC will identify appropriate personnel for training and schedule training just prior to full implementation.

G. Full Implementation. Upon completion of the ABC prototype models, AMC will extend fielding to other centers/field offices deemed appropriate. AMC will determine whether to implement ABC at all centers/field offices, or a selected few. If the determination is to not implement ABC at a given center/field office, a memorandum outlining the reason(s) will be forwarded to DISC4. Decisions concerning which centers/field offices will implement ABC must be determined by November 2002. Those centers/field offices not participating in prototype development will have until December 2003 to fully develop and employ their ABC models.

H. Sustainment. DISC4 will require quarterly reporting during ABC implementation and sustainment as described in Section VIII, Paragraph I below. Sustainment of the ABC models is AMC's responsibility. Only when ABC models are maintained, do they provide value for identifying organizational process improvement areas. It is important to keep ABC models manageable such that the level of data is easily understandable and maintainable.

I. ABC Reporting

1. DISC4 will require AMC to report quarterly on the status of their ABC efforts in the Information Support Business Area. The information acquired through development and use of an ABC model will be multipurpose. The ABC software being provided produces electronic reports, which may be generated and passed to other applications used for CM by HQDA. The idea is to allow for full use of the ABC data collected and produced on the agency level.

2. Initial Report Requirements. AMC will submit the following information to DISC4, no later than December 1, 2001.
   a. Description of agency's end-state vision for Cost Management/ABC.
   b. Performance measures for management. List performance measures that will be reviewed at the agency level to measure process improvements and success of ABC.
   c. Agency ABC Plan (in accordance with guidance provided in Appendix C) to include concept of operation, size and scope, roles and responsibilities, implementation schedule, planned prototypes, proposed training program (outline projected training requirements), and software requirements.
   d. Initial notification outlining non-participation by any center/field offices, with supporting justification, for senior leadership review and approval.

3. Quarterly Report Requirements. Agencies will submit the following information beginning the end of the second quarter, FY 2002, and continuing every quarter thereafter.
   a. Centers/field offices planned to employ ABC models.
   b. Centers/field offices currently employing ABC models.
   c. Centers/field offices where ABC models have been employed and are actively being used for cost management.
   d. Number of ABC trained personnel.
   e. Number of personnel needing training.
   f. Total number of personnel and costs affected by ABC plan.
   g. Performance Measures
      (1) Resource Utilization: Report areas that resulted in cost reduction measures (e.g., management overhead, labor rates).
      (2) Product Delivery: Report areas that resulted in improved delivery time of products or services.

4. Beginning FY03, on an annual basis, AMC will report on process improvement initiatives, and changes to performance measures, to allow DISC4 to assess recommendations, evaluate progress towards stated goals, redefine information requirements as needed, and communicate decisions, rationale, and changes.

J. Implementation Schedule

1. September 2001 – December 2001
   -AMC develops and submits CM/ABC Implementation Plan to DISC4 to include initial notification outlining non-participation of any center or field office with supporting justification.
   -DISC4 reviews and approves implementation plans and proposed performance measures, in coordination with CEAC.

2. January 2002 – August 2002
   -AMC selects one center/field office to develop a prototype model.
   -AMC identifies initial training requirements to DISC4.
   -ABC software is disseminated to prototype site.
   -AMC implements prototype and reports status to DISC4.

3. September 2002 – December 2002
   -AMC operates prototype at selected site and evaluates its effectiveness.
   -AMC submits formal notification outlining non-participation of any center/field office, with supporting justification, for senior leadership review and approval.

4. January 2003 – December 2003
   -Full dissemination and development of ABC for all appropriate centers/field offices.

IX. Roles and Responsibilities

A. DISC4

1. Develop and maintain the CM/ABC strategic implementation plan for the Information Support Business Area.

2. Serve on the Army's Managerial Costing Steering Committee and prepare Information Support updates for this committee.

3. Provide interface between CEAC and AMC to ensure software, technical support, and training are being adequately provided.

B. CEAC

1. Provide CM/ABC implementation policy and develop CM/ABC implementation guidance.

2. Coordinate training, software provision, after action review, and oversight at all levels.

3. Provide ABC model development guidance for ensuring locally developed ABC models can interface with legacy systems.

4. Evaluate CM/ABC implementation progress and compliance with CM/ABC guidance.

C. AMC.

1. Support ABC efforts within the agencies identified by DISC4.

2. Resource and use ABC as a management and decision making tool to establish, benchmark, and sustain continuous process improvement in centers/field offices.

3. Ensure initial CM/ABC training is provided for base support managers and staff in accordance with approved CM/ABC implementation plan.

4. Report to DISC4 quarterly on respective ABC efforts in accordance with Section VIII, Paragraph I.