

DoD Performance and Cost Management Policies

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DoD Performance and Cost Management Policy

Statement of the problem: Current budget granularity is insufficient for optimizing resource allocation at all levels of command.

Solution: Improve granularity by identifying the results of more detailed work activities and collect and report information about the full cost of producing those results. This in turn will permit true comparisons and fully informed allocation decisions at lower levels of command.

Background: "Performance and cost management" is a phrase used to capture that solution. It is a management approach that focuses on the results of work (performance of an outcome) and has available the cost of all the inputs (people and things) that were used to create that outcome. Alternative terms used to denote this solution are "activity-based costing," "activity-based management," and "activity-based resource management." All these terms get to the same issue: understanding what it really takes to get a specific outcome accomplished and how much it really costs.

Discussion: The Chief Financial Officers Act of 1990 (Sec 902. a. 3.D. ii. and iv.) requires the identification of "cost" and "performance" information. However, it is silent regarding the level of granularity expected. (Tab A)

In July 1995, the Federal Financial Accounting Standards Board issued its Statement #4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." While it uses the term "managerial cost accounting," it describes a process identical to that denoted by the phrase "performance and cost management." This statement was advisory in nature but indicated: "Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, should be integrated with other parts of the system...(and) (E)ach reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes." (Tab B)

In July and September 1999, the Under Secretary of Defense issued guidance for the "Defense-Wide Implementation of Activity Based Management." In it, the Secretaries of the Military Departments were directed to: "...pursue aggressively ABC/M (activity based costing/management) in maintenance depots and everywhere else it could be expected to provide improved cost management." (Tab C)

The Defense Business Board (DBB) also supports the application of activity-based management in the Department (Tab D).

Existing accounting systems were not established and designed to easily collect or accommodate the additional information needed to provide the granularity required for effective performance and cost management at all levels of command. Indeed, the information requires the subdivision of traditional cost categories (for example, military pay). When all budget/cost information had to be developed and maintained manually by

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hoards of clerks and accountants, the required subdivision was simply too expensive to undertake. Automated information systems (AIS) now make it feasible but the requirement to do so was generally not built into the current generation of finance/budget/accounting systems.

We are augmenting existing automated accounting tools with additional capabilities (both manual and automated) that will permit the collection, extraction, integration, and analysis of data at the granularity desired.

Elements of the DoD are in the process of establishing the needed data collection and analysis tools and techniques that will permit the degree of granularity required. (See Tabs E (Marine Corps); F (Navy), G (Army), and H (Air Force))

Current Status: It is not clear that a separate/new policy statement for the application of performance and cost management is needed beyond that of the July 1999 guidance (assuming it is still operative). Both the Army and Air Force currently are using it as their authority for implementing ABC/M.

My perception is that the difficulty in implementation comes not from a lack of authority, but rather from the unfamiliarity with the data and the kinds of decisions that can now be made from it. It may be an issue of maturity. Only now are the fruits of about four years of instituting the necessary data handling processes coming to bear. I am not in a position to observe how the resultant data now may be influencing decisions but my impression is that it is now happening.

Should a policy statement be desired, it will have to be developed in the context of the Business Management Modernization Program (BMMP). Performance and cost management requirements need to be built into the BMMP at the level of granularity required to support activity-based decisions. I do not know enough details about BMMP to know whether this is occurring.

A policy directive similar to the July 1999 could easily be developed for staffing in conjunction with the presentation of IL-13 "Managing for Results." The BIC staffing process might expose the planning underway in the BMMP and perhaps, if not already included, influence the direction of the BMMP in this regard.

Submitted by: Gene Bacher
April 22, 2004

TAB A

Chief Financial Officers Act of 1990

One Hundred First Congress of the United States of America AT THE SECOND SESSION Begun and held at the City of Washington on Tuesday, the twenty-third day of January, one thousand nine hundred and ninety An Act To amend title 31, United States Code, to improve the general and financial management of the Federal Government.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I--GENERAL PROVISIONS

SEC. 101. SHORT TITLE.

This Act may be cited as the Chief Financial Officers Act of 1990.

SEC. 102. FINDINGS AND PURPOSES.

(a) Findings.--The Congress finds the following:

1. General management functions of the Office of Management and Budget need to be significantly enhanced to improve the efficiency and effectiveness of the Federal Government.
2. Financial management functions of the Office of Management and Budget need to be significantly enhanced to provide overall direction and leadership in the development of a modern Federal financial management structure and associated systems.
3. Billions of dollars are lost each year through fraud, waste, abuse, and mismanagement among the hundreds of programs in the Federal Government.
4. These losses could be significantly decreased by improved management, including improved central coordination of internal controls and financial accounting.
5. The Federal Government is in great need of fundamental reform in financial management requirements and practices as financial management systems are obsolete and inefficient, and do not provide complete, consistent, reliable, and timely information.
6. Current financial reporting practices of the Federal Government do not accurately disclose the current and probable future cost of operating and investment decisions, including the future need for cash or other resources, do not permit adequate comparison of actual costs among executive agencies, and do not provide the timely information required for efficient management of programs.

(b) Purposes.--The purposes of this Act are the following:

1. Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the Office of Management and Budget a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.
2. Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial

- information and to deter fraud, waste, and abuse of Government resources.
3. Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs.

TITLE II--ESTABLISHMENT OF CHIEF FINANCIAL OFFICERS

SEC. 201. DEPUTY DIRECTOR FOR MANAGEMENT.

Section 502 of title 31, United States Code, as amended by this Act, is amended--

1. by redesignating subsections (c), (d), and (e), as amended by this section, as subsections (d), (e), and (f); and
2. by inserting after subsection (b) the following: (c) The Office has a Deputy Director for Management appointed by the President, by and with the advice and consent of the Senate. The Deputy Director for Management shall be the chief official responsible for financial management in the United States Government..

SEC. 202. FUNCTIONS OF DEPUTY DIRECTOR FOR MANAGEMENT.

- a. Clerical Amendments.--Sections 503 and 504 of title 31, United States Code, are redesignated in order as sections 505 and 506, respectively.
- b. Functions of Deputy Director for Management.--Subchapter I of chapter 5 of title 31, United States Code, is amended by inserting after section 502 the following:

Sec. 503. Functions of Deputy Director for Management

- a. Subject to the direction and approval of the Director, the Deputy Director for Management shall establish governmentwide financial management policies for executive agencies and shall perform the following financial management functions:
 1. Perform all functions of the Director, including all functions delegated by the President to the Director, relating to financial management.
 2. Provide overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and requirements, and by monitoring the establishment and operation of Federal Government financial management systems.
 3. Review agency budget requests for financial management systems and operations, and advise the Director on the resources required to develop and effectively operate and maintain Federal Government financial management systems and to correct major deficiencies in such systems.
 4. Review and, where appropriate, recommend to the Director changes to the budget and legislative proposals of agencies to ensure that they are in accordance with financial management plans of the Office of Management and Budget.
 5. Monitor the financial execution of the budget in relation to actual expenditures, including timely performance reports.
 6. Oversee, periodically review, and make recommendations to heads of agencies on the administrative structure of agencies with respect to their financial management activities.
 7. Develop and maintain qualification standards for agency Chief Financial Officers and for

- agency Deputy Chief Financial Officers appointed under sections 901 and 903, respectively.
8. Provide advice to agency heads with respect to the selection of agency Chief Financial Officers and Deputy Chief Financial Officers.
 9. Provide advice to agencies regarding the qualifications, recruitment, performance, and retention of other financial management personnel.
 10. Assess the overall adequacy of the professional qualifications and capabilities of financial management staffs throughout the Government and make recommendations on ways to correct problems which impair the capacity of those staffs.
 11. Settle differences that arise among agencies regarding the implementation of financial management policies.
 12. Chair the Chief Financial Officers Council established by section 302 of the Chief Financial Officers Act of 1990.
 13. Communicate with the financial officers of State and local governments, and foster the exchange with those officers of information concerning financial management standards, techniques, and processes.
 14. Issue such other policies and directives as may be necessary to carry out this section, and perform any other function prescribed by the Director.
- b. Subject to the direction and approval of the Director, the Deputy Director for Management shall establish general management policies for executive agencies and perform the following general management functions:
1. Coordinate and supervise the general management functions of the Office of Management and Budget.
 2. Perform all functions of the Director, including all functions delegated by the President to the Director, relating to--
 - A. managerial systems, including the systematic measurement of performance;
 - B. procurement policy;
 - C. grant, cooperative agreement, and assistance management;
 - D. information and statistical policy;
 - E. property management;
 - F. human resources management;
 - G. regulatory affairs; and
 - H. other management functions, including organizational studies, long-range planning, program evaluation, productivity improvement, and experimentation and demonstration programs.
 3. Provide complete, reliable, and timely information to the President, the Congress, and the public regarding the management activities of the executive branch.
 4. Facilitate actions by the Congress and the executive branch to improve the management of Federal Government operations and to remove impediments to effective administration.
 5. Provide leadership in management innovation, through--
 - (A) experimentation, testing, and demonstration programs; and
 - (B) the adoption of modern management concepts and technologies.
 6. Work with State and local governments to improve and strengthen intergovernmental relations, and provide assistance to such governments with respect to intergovernmental programs and cooperative arrangements.
 7. Review and, where appropriate, recommend to the Director changes to the budget and legislative proposals of agencies to ensure that they respond to program evaluations by, and are in accordance with general management plans of, the Office of Management and Budget.
 8. Provide advice to agencies on the qualification, recruitment, performance, and retention of managerial personnel.
 9. perform any other functions prescribed by the Director..

SEC. 203. OFFICE OF FEDERAL FINANCIAL MANAGEMENT.

- a. Establishment.--Subchapter I of chapter 5 of title 31, United States Code, as amended by this Act, is amended by inserting after section 503 (as added by section 202 of this Act) the following: Sec. 504. Office of Federal Financial Management
- a. There is established in the Office of Management and Budget an office to be known as the 'Office of Federal Financial Management'. The Office of Federal Financial Management, under the direction and control of the Deputy Director for Management of the Office of Management and Budget, shall carry out the financial management functions listed in section 503(a) of this title.
 - b. There shall be at the head of the Office of Federal Financial Management a Controller, who shall be appointed by the President, by and with the advice and consent of the Senate. The Controller shall be appointed from among individuals who possess--
 1. demonstrated ability and practical experience in accounting, financial management, and financial systems; and
 2. extensive practical experience in financial management in large governmental or business entities.
 - c. The Controller of the Office of Federal Financial Management shall be the deputy and principal advisor to the Deputy Director for Management in the performance by the Deputy Director for Management of functions described in section 503(a)..
- b. Statement of Appropriations in Budget.--Section 1105(a) of title 31, United States Code, is amended by adding at the end the following: (28) a separate statement of the amount of appropriations requested for the Office of Federal Financial Management..
- c. Clerical Amendment.--The table of contents at the beginning of chapter 5 of title 31, United States Code, is amended by striking the items relating to sections 503 and 504 and inserting the following: 503. Functions of Deputy Director for Management. 504. Office of Federal Financial Management. 505. Office of Information and Regulatory Affairs. 506. Office of Federal Procurement Policy..

SEC. 204. DUTIES AND FUNCTIONS OF THE DEPARTMENT OF THE TREASURY.

Nothing in this Act shall be construed to interfere with the exercise of the functions, duties, and responsibilities of the Department of the Treasury, as in effect immediately before the enactment of this Act.

SEC. 205. AGENCY CHIEF FINANCIAL OFFICERS.

(a) In General.--Subtitle I of title 31, United States Code, is amended by adding at the end the following new chapter:

Chapter 9--Agency Chief Financial Officers

Sec.

901. Establishment of agency Chief Financial Officers.

902. Authority and functions of agency Chief Financial Officers.

903. Establishment of agency Deputy Chief Financial Officers.

Sec. 901. Establishment of agency Chief Financial Officers

- a. There shall be within each agency described in subsection (b) an agency Chief Financial Officer.

Each agency Chief Financial Officer shall--

1. for those agencies described in subsection (b)(1)--
 - A. be appointed by the President, by and with the advice and consent of the Senate; or
 - B. be designated by the President, in consultation with the head of the agency, from among officials of the agency who are required by law to be so appointed;
2. for those agencies described in subsection (b)(2)--
 - A. be appointed by the head of the agency;
 - B. be in the competitive service or the senior executive service; and
 - C. be career appointees; and
3. be appointed or designated, as applicable, from among individuals who possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities.

b.

1. The agencies referred to in subsection (a)(1) are the following:
 - (A) The Department of Agriculture.
 - (B) The Department of Commerce.
 - (C) The Department of Defense.
 - (D) The Department of Education.
 - (E) The Department of Energy.
 - (F) The Department of Health and Human Services.
 - (G) The Department of Housing and Urban Development.
 - (H) The Department of the Interior.
 - (I) The Department of Justice.
 - (J) The Department of Labor.
 - (K) The Department of State.
 - (L) The Department of Transportation.
 - (M) The Department of the Treasury.
 - (N) The Department of Veterans Affairs.
 - (O) The Environmental Protection Agency.
 - (P) The National Aeronautics and Space Administration.
2. The agencies referred to in subsection (a)(2) are the following:
 - (A) The Agency for International Development.
 - (B) The Federal Emergency Management Agency.
 - (C) The General Services Administration.
 - (D) The National Science Foundation.
 - (E) The Nuclear Regulatory Commission.
 - (F) The Office of Personnel Management.
 - (G) The Small Business Administration.

Sec. 902. Authority and functions of agency Chief Financial Officers

a. An agency Chief Financial Officer shall--

1. report directly to the head of the agency regarding financial management matters;
2. oversee all financial management activities relating to the programs and operations of the agency;
3. develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which--
 - A. complies with applicable accounting principles, standards, and requirements, and internal control standards;
 - B. complies with such policies and requirements as may be prescribed by the Director of

- the Office of Management and Budget;
 - C. complies with any other requirements applicable to such systems; and
 - D. provides for--
 - i. complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
 - ii. the development and reporting of cost information;
 - iii. the integration of accounting and budgeting information; and
 - iv. the systematic measurement of performance;
 - 4. make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;
 - 5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including--
 - A. the preparation and annual revision of an agency plan to-- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;
 - B. the development of agency financial management budgets;
 - C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
 - D. the approval and management of agency financial management systems design or enhancement projects;
 - E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
 - 6. prepare and transmit, by not later than 60 days after the submission of the audit report required by section 3521(f) of this title, an annual report to the agency head and the Director of the Office of Management and Budget, which shall include--
 - A. a description and analysis of the status of financial management of the agency;
 - B. the annual financial statements prepared under section 3515 of this title;
 - C. the audit report transmitted to the head of the agency under section 3521(f) of this title;
 - D. a summary of the reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255); and
 - E. other information the head of the agency considers appropriate to fully inform the President and the Congress concerning the financial management of the agency;
 - 7. monitor the financial execution of the budget of the agency in relation to actual expenditures, and prepare and submit to the head of the agency timely performance reports; and
 - 8. review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.
- b.
1. In addition to the authority otherwise provided by this section, each agency Chief Financial Officer--
 - A. subject to paragraph (2), shall have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material which are the property of the agency or which are available to the agency, and which relate to programs and operations with respect to which that agency Chief Financial Officer has

- responsibilities under this section;
- B. may request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this section from any Federal, State, or local governmental entity; and
 - C. to the extent and in such amounts as may be provided in advance by appropriations Acts, may--
 - i. enter into contracts and other arrangements with public agencies and with private persons for the preparation of financial statements, studies, analyses, and other services; and
 - ii. make such payments as may be necessary to carry out the provisions of this section.
2. Except as provided in paragraph (1)(B), this subsection does not provide to an agency Chief Financial Officer any access greater than permitted under any other law to records, reports, audits, reviews, documents, papers, recommendations, or other material of any Office of Inspector General established under the Inspector General Act of 1978 (5 U.S.C. App.).

Sec. 903. Establishment of agency Deputy Chief Financial Officers

- a. There shall be within each agency described in section 901(b) an agency Deputy Chief Financial Officer, who shall report directly to the agency Chief Financial Officer on financial management matters. The position of agency Deputy Chief Financial Officer shall be a career reserved position in the Senior Executive Service.
- b. Consistent with qualification standards developed by, and in consultation with, the agency Chief Financial Officer and the Director of the Office of Management and Budget, the head of each agency shall appoint as Deputy Chief Financial Officer an individual with demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than 6 years practical experience in financial management at large governmental entities.. (b) Clerical Amendment.--The table of chapters at the beginning of subtitle I of title 31, United States Code, is amended by adding at the end the following: 9. Agency Chief Financial Officers..... 901..
- c. Chief Financial Officers of Department of Veterans Affairs and Department of Housing and Urban Development.--
 1. Designation.--The Secretary of Veterans Affairs and the Secretary of Housing and Urban Development may each designate as the agency Chief Financial Officer of that department for purposes of section 901 of title 31, United States Code, as amended by this section, the officer designated, respectively, under section 4(c) of the Department of Veterans Affairs Act (38 U.S.C. 201 note) and section 4(e) of the Department of Housing and Urban Development Act (42 U.S.C. 3533(e)), as in effect before the effective date of this Act.
 2. Conforming amendment.--Section 4(c) of the Department of Veterans Affairs Act (38 U.S.C. 201 note) and section 4(e) of the Department of Housing and Urban Development Act (42 U.S.C. 3533(e)), as added by section 121 of Public Law 101-235, are repealed.

SEC. 206. TRANSFER OF FUNCTIONS AND PERSONNEL OF AGENCY CHIEF FINANCIAL OFFICERS.

- a. Agency Reviews of Financial Management Activities.--Not later than 120 days after the date of the enactment of this Act, the Director of the Office of Management and Budget shall require each agency listed in subsection (b) of section 901 of title 31, United States Code, as amended by this Act, to conduct a review of its financial management activities for the purpose of consolidating its accounting, budgeting, and other financial management activities under the agency Chief

- Financial Officer appointed under subsection (a) of that section for the agency.
- b. Reorganization Proposal.--Not later than 120 days after the issuance of requirements under subsection (a) and subject to all laws vesting functions in particular officers and employees of the United States, the head of each agency shall submit to the Director of the Office of Management and Budget a proposal for reorganizing the agency for the purposes of this Act. Such proposal shall include-- (1) a description of all functions, powers, duties, personnel, property, or records which the agency Chief Financial Officer is proposed to have authority over, including those relating to functions that are not related to financial management activities; and (2) a detailed outline of the administrative structure of the office of the agency Chief Financial Officer, including a description of the responsibility and authority of financial management personnel and resources in agencies or other subdivisions as appropriate to that agency.
 - c. Review and Approval of Proposal.--Not later than 60 days after receiving a proposal from the head of an agency under subsection (b), the Director of the Office of Management and Budget shall approve or disapprove the proposal and notify the head of the agency of that approval or disapproval. The Director shall approve each proposal which establishes an agency Chief Financial Officer in conformance with section 901 of title 31, United States Code, as added by this Act, and which establishes a financial management structure reasonably tailored to the functions of the agency. Upon approving or disapproving a proposal of an agency under this section, the Director shall transmit to the head of the agency a written notice of that approval or disapproval.
 - d. Implementation of Proposal.--Upon receiving written notice of approval of a proposal under this section from the Director of the Office of Management and Budget, the head of an agency shall implement that proposal.

SEC. 207. COMPENSATION.

- a. Compensation, Level II.--Section 5313 of title 5, United States Code, is amended by adding at the end the following: Deputy Director for Management, Office of Management and Budget..
- b. Compensation, Level III.--Section 5314 of title 5, United States Code, is amended by adding at the end the following: Controller, Office of Federal Financial Management, Office of Management and Budget..
- c. Compensation, Level IV.--Section 5315 of title 5, United States Code, is amended by adding at the end the following:
 - Chief Financial Officer, Department of Agriculture.
 - Chief Financial Officer, Department of Commerce.
 - Chief Financial Officer, Department of Defense.
 - Chief Financial Officer, Department of Education.
 - Chief Financial Officer, Department of Energy.
 - Chief Financial Officer, Department of Health and Human Services.
 - Chief Financial Officer, Department of Housing and Urban Development.
 - Chief Financial Officer, Department of the Interior.
 - Chief Financial Officer, Department of Justice.
 - Chief Financial Officer, Department of Labor.
 - Chief Financial Officer, Department of State.
 - Chief Financial Officer, Department of Transportation.
 - Chief Financial Officer, Department of the Treasury.
 - Chief Financial Officer, Department of Veterans Affairs.
 - Chief Financial Officer, Environmental Protection Agency.
 - Chief Financial Officer, National Aeronautics and Space Administration.

TITLE III--ENHANCEMENT OF FEDERAL FINANCIAL MANAGEMENT ACTIVITIES

SEC. 301. FINANCIAL MANAGEMENT STATUS REPORT; 5-YEAR PLAN OF DIRECTOR OF OFFICE OF MANAGEMENT AND BUDGET.

(a) In General.--Section 3512 of title 31, United States Code, is amended by striking the heading thereof, redesignating subsections (a) through (f) in order as subsections (b) through (g), and by inserting before such subsection (b), as so redesignated, the following:

* * * * *

a.

1. The Director of the Office of Management and Budget shall prepare and submit to the appropriate committees of the Congress a financial management status report and a governmentwide 5-year financial management plan.
2. A financial management status report under this subsection shall include--
 - A. a description and analysis of the status of financial management in the executive branch;
 - B. a summary of the most recently completed financial statements-- (i) of Federal agencies under section 3515 of this title; and (ii) of Government corporations;
 - C. a summary of the most recently completed financial statement audits and reports-- (i) of Federal agencies under section 3521 (e) and (f) of this title; and (ii) of Government corporations;
 - D. a summary of reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255); and
 - E. any other information the Director considers appropriate to fully inform the Congress regarding the financial management of the Federal Government.
3.
 1. A governmentwide 5-year financial management plan under this subsection shall describe the activities the Director, the Deputy Director for Management, the Controller of the Office of Federal Financial Management, and agency Chief Financial Officers shall conduct over the next 5 fiscal years to improve the financial management of the Federal Government.
 2. Each governmentwide 5-year financial management plan prepared under this subsection shall--
 - i. describe the existing financial management structure and any changes needed to establish an integrated financial management system;
 - ii. be consistent with applicable accounting principles, standards, and requirements;
 - iii. provide a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems to ensure adequacy, consistency, and timeliness of financial information;
 - iv. identify and make proposals to eliminate duplicative and unnecessary systems, including encouraging agencies to share systems which have sufficient capacity to perform the functions needed;
 - v. identify projects to bring existing systems into compliance with the applicable standards and requirements;
 - vi. contain milestones for equipment acquisitions and other actions necessary to

- vii. identify financial management personnel needs and actions to ensure those needs are met;
 - viii. include a plan for ensuring the annual audit of financial statements of executive agencies pursuant to section 3521(h) of this title; and
 - ix. estimate the costs of implementing the governmentwide 5-year plan.
- 4.
 - A. Not later than 15 months after the date of the enactment of this subsection, the Director of the Office of Management and Budget shall submit the first financial management status report and governmentwide 5-year financial management plan under this subsection to the appropriate committees of the Congress.
 - B. (i) Not later than January 31 of each year thereafter, the Director of the Office of Management and Budget shall submit to the appropriate committees of the Congress a financial management status report and a revised governmentwide 5-year financial management plan to cover the succeeding 5 fiscal years, including a report on the accomplishments of the executive branch in implementing the plan during the preceding fiscal year. (ii) The Director shall include with each revised governmentwide 5-year financial management plan a description of any substantive changes in the financial statement audit plan required by paragraph (3)(B)(viii), progress made by executive agencies in implementing the audit plan, and any improvements in Federal Government financial management related to preparation and audit of financial statements of executive agencies.
- 5. Not later than 30 days after receiving each annual report under section 902(a)(6) of this title, the Director shall transmit to the Chairman of the Committee on Government Operations of the House of Representatives and the Chairman of the Committee on Governmental Affairs of the Senate a final copy of that report and any comments on the report by the Director.
- b. Clerical Amendment.--The table of contents at the beginning of chapter 35 of title 31, United States Code, is amended by striking the item relating to section 3512 and inserting the following: 3512. Executive agency accounting and other financial management reports and plans..

SEC. 302. CHIEF FINANCIAL OFFICERS COUNCIL.

- a. Establishment.--There is established a Chief Financial Officers Council, consisting of--
 - 1. the Deputy Director for Management of the Office of Management and Budget, who shall act as chairperson of the council;
 - 2. the Controller of the Office of Federal Financial Management of the Office of Management and Budget;
 - 3. the Fiscal Assistant Secretary of Treasury; and
 - 4. each of the agency Chief Financial Officers appointed under section 901 of title 31, United States Code, as amended by this Act.
- b. Functions.--The Chief Financial Officers Council shall meet periodically to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter.

SEC. 303. FINANCIAL STATEMENTS OF AGENCIES.

- a. Preparation of Financial Statements.--
 - 1. In general.--Subchapter II of chapter 35 of title 31, United States Code, is amended by

adding at the end the following: Sec. 3515. Financial statements of agencies

- a. Not later than March 31 of 1992 and each year thereafter, the head of each executive agency identified in section 901(b) of this title shall prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year, covering--
 1. each revolving fund and trust fund of the agency; and
 2. to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.
 - b. Each financial statement of an executive agency under this section shall reflect--
 1. the overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof;
 2. results of operations of those revolving funds, trust funds, offices, bureaus, and activities;
 3. cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and
 4. a reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.
 - c. The Director of the Office of Management and Budget shall prescribe the form and content of the financial statements of executive agencies under this section, consistent with applicable accounting principles, standards, and requirements.
 - d. For purposes of this section, the term 'commercial functions' includes buying and leasing of real estate, providing insurance, making loans and loan guarantees, and other credit programs and any activity involving the provision of a service or thing of value for which a fee, royalty, rent, or other charge is imposed by an agency for services and things of value it provides.
 - e. Not later than March 31 of each year, the head of each executive agency designated by the President may prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year, covering accounts of offices, bureaus, and activities of the agency in addition to those described in subsection (a)..
2. Effective date of subsection.--Subsection (e) of section 3515 of title 31, United States Code, as added by paragraph (1), shall take effect on the date on which a resolution described in subsection (b)(1) of this section is passed by the Congress and approved by the President.
 3. Waiver of requirement.--The Director of the Office of Management and Budget may, for fiscal year 1991, waive the application of section 3515(a) of title 31, United States Code, as amended by this subsection, with respect to any revolving fund, trust fund, or account of an executive agency.
- b. Resolution Approving Designation of Agencies.--
 1. Resolution described.--A resolution referred to in subsection (a)(2) is a joint resolution the matter after the resolving clause of which is as follows: That the Congress approves the executive agencies designated by the President pursuant to section 3515(e) of title 31, United States Code..
 2. Introduction of resolution.--No later than the first day of session following the day on which the President submits to the Congress a designation of executive agencies authorized to submit financial statements under section 3515(e) of title 31, United States Code, as added by subsection (a), a resolution as described in paragraph (1) shall be introduced (by request) in the House by the chairman of the Committee on Government Operations of the House of Representatives, or by a Member or Members of the House designated by such chairman; and shall be introduced (by request) in the Senate by the chairman of the Committee on

- Governmental Affairs of the Senate, or by a Member or Members of the Senate designated by such chairman.
3. Referral.--A resolution described in paragraph (1), shall be referred to the Committee on Governmental Affairs of the Senate and the Committee on Government Operations of the House (and all resolutions with respect to the same designation of executive agencies shall be referred to the same committee) by the President of the Senate or the Speaker of the House of Representatives, as the case may be. The committee shall make its recommendations to the House of Representatives or the Senate, respectively, within 60 calendar days of continuous session of the Congress following the date of such resolution's introduction.
 4. Discharge of Committee.--If the committee to which is referred a resolution introduced pursuant to paragraph (2) (or, in the absence of such a resolution, the first resolution introduced with respect to the same designation of executive agencies) has not reported such resolution or identical resolution at the end of 60 calendar days of continuous session of the Congress after its introduction, such committee shall be deemed to be discharged from further consideration of such resolution and such resolution shall be placed on the appropriate calendar of the House involved.
 5. Procedure after report or discharge of committee; vote on final passage.--
 - A. When the committee has reported, or has been deemed to be discharged (under paragraph (4)) from further consideration of, a resolution described in paragraph (1), it is at any time thereafter in order (even though a previous motion to the same effect has been disagreed to) for any Member of the respective House to move to proceed to the consideration of the resolution. The motion is highly privileged and is not debatable. The motion shall not be subject to amendment, or to a motion to postpone, or a motion to proceed to the consideration of other business. A motion to reconsider the vote by which the motion is agreed to or disagreed to shall not be in order. If a motion to proceed to the consideration of the resolution is agreed to, the resolution shall remain the unfinished business of the respective House until disposed of.
 - B. Debate on the resolution, and on all debatable motions and appeals in connection therewith, shall be limited to not more than 10 hours, which shall be divided equally between individuals favoring and individuals opposing the resolution. A motion further to limit debate is in order and not debatable. An amendment to, or a motion to postpone, or a motion to proceed to the consideration of other business, or a motion to recommit the resolution is not in order. A motion to reconsider the vote by which the resolution is passed or rejected shall not be in order.
 - C. Immediately following the conclusion of the debate on the resolution and a single quorum call at the conclusion of the debate if requested in accordance with the rules of the appropriate House, the vote on final passage of the resolution shall occur.
 - D. Appeals from the decisions of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedure relating to a resolution described in paragraph (1), shall be decided without debate.
 - E. If, prior to the passage by one House of a resolution of that House, that House receives a resolution with respect to the same designation of executive agencies from the other House, then-- (i) the procedure in that House shall be the same as if no resolution had been received from the other House; but (ii) the vote on final passage shall be on the resolution of the other House.
 - F. It shall not be in order in either the House of Representatives or the Senate to consider a resolution described in paragraph (1), or to consider any conference report on such a resolution, unless the Director of the Office of Management and Budget submits to the Congress a report under subsection (e).
- c. Report on Substantial Commercial Functions.--Not later than 180 days after the date of the

enactment of this Act, the Director of the Office of Management and Budget shall determine and report to the Congress on which executive agencies or parts thereof perform substantial commercial functions for which financial statements can be prepared practicably under section 3515 of title 31, United States Code, as added by this section.

d. Pilot Project.--

1. Not later than March 31 of each of 1991, 1992, and 1993, the head of the Departments of Agriculture, Labor, and Veterans Affairs, the General Services Administration, and the Social Security Administration shall each prepare and submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department or administration.
2. Not later than March 31 of each of 1992 and 1993, the head of the Departments of Housing and Urban Development and the Army shall prepare and submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department.
3. Not later than March 31, 1993, the head of the Department of the Air Force, the Internal Revenue Service, and the United States Customs Service, shall each prepare and submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department or service.
4. Each financial statement prepared under this subsection shall be audited in accordance with section 3521 (e), (f), (g), and (h) of title 31, United States Code.

e. Report on Initial Financial Statements.--Not later than June 30, 1993, the Director of the Office of Management and Budget shall report to the Congress on the financial statements prepared for fiscal years 1990, 1991, and 1992 under subsection (a) of section 3515 of title 31, United States Code (as added by subsection (a) of this section) and under subsection (d) of this section. The report shall include analysis of--

1. the accuracy of the data included in the financial statements;
2. the difficulties each department and agency encountered in preparing the data included in the financial statements;
3. the benefits derived from the preparation of the financial statements; and
4. the cost associated with preparing and auditing the financial statements, including a description of any activities that were foregone as a result of that preparation and auditing.

f. Clerical Amendment.--The table of sections at the beginning of chapter 35 of title 31, United States Code, is amended by inserting after the item relating to section 3514 the following: 3515. Financial statements of agencies..

SEC. 304. FINANCIAL AUDITS OF AGENCIES.

- a. In General.--Section 3521 of title 31, United States Code, is amended by adding at the end the following new subsections: (e) Each financial statement prepared under section 3515 by an agency shall be audited in accordance with applicable generally accepted government auditing standards-- (1) in the case of an agency having an Inspector General appointed under the Inspector General Act of 1978 (5 U.S.C. App.), by the Inspector General or by an independent external auditor, as determined by the Inspector General of the agency; and (2) in any other case, by an independent external auditor, as determined by the head of the agency. (f) Not later than June 30 following the fiscal year for which a financial statement is submitted under section 3515 of this title by an agency, the person who audits the statement for purpose of subsection (e) shall submit a report on the audit to the head of the agency. A report under this subsection shall be prepared in accordance with generally accepted government auditing standards. (g) The Comptroller General of the United States-- (1) may review any audit of a financial statement conducted under this subsection by an Inspector General or an external auditor; (2) shall report to the Congress, the

Director of the Office of Management and Budget, and the head of the agency which prepared the statement, regarding the results of the review and make any recommendation the Comptroller General considers appropriate; and (3) may audit a financial statement prepared under section 3515 of this title at the discretion of the Comptroller General or at the request of a committee of the Congress. An audit the Comptroller General performs under this subsection shall be in lieu of the audit otherwise required by subsection (e) of this section. Prior to performing such audit, the Comptroller General shall consult with the Inspector General of the agency which prepared the statement. (h) Each financial statement prepared by an executive agency for a fiscal year after fiscal year 1991 shall be audited in accordance with this section and the plan required by section 3512(a)(3)(B)(viii) of this title..

- b. Waiver of Requirements.--The Director of the Office of Management and Budget may waive application of subsections (e) and (f) of section 3521 of title 31, United States Code, as amended by this section, to a financial statement submitted by an agency for fiscal years 1990 and 1991.

SEC. 305. FINANCIAL AUDITS OF GOVERNMENT CORPORATIONS.

Section 9105 of title 31, United States Code, is amended to read as follows: Sec. 9105. Audits

- a.
1. The financial statements of Government corporations shall be audited by the Inspector General of the corporation appointed under the Inspector General Act of 1978 (5 U.S.C. App.) or by an independent external auditor, as determined by the Inspector General or, if there is no Inspector General, by the head of the corporation.
 2. Audits under this section shall be conducted in accordance with applicable generally accepted government auditing standards.
 3. Upon completion of the audit required by this subsection, the person who audits the statement shall submit a report on the audit to the head of the Government corporation, to the Chairman of the Committee on Government Operations of the House of Representatives, and to the Chairman of the Committee on Governmental Affairs of the Senate.
 4. The Comptroller General of the United States--
 - A. may review any audit of a financial statement conducted under this subsection by an Inspector General or an external auditor;
 - B. shall report to the Congress, the Director of the Office of Management and Budget, and the head of the Government corporation which prepared the statement, regarding the results of the review and make any recommendation the Comptroller General of the United States considers appropriate; and
 - C. may audit a financial statement of a Government corporation at the discretion of the Comptroller General or at the request of a committee of the Congress. An audit the Comptroller General performs under this paragraph shall be in lieu of the audit otherwise required by paragraph (1) of this subsection. Prior to performing such audit, the Comptroller General shall consult with the Inspector General of the agency which prepared the statement.
 5. A Government corporation shall reimburse the Comptroller General of the United States for the full cost of any audit conducted by the Comptroller General under this subsection, as determined by the Comptroller General. All reimbursements received under this paragraph by the Comptroller General of the United States shall be deposited in the Treasury as miscellaneous receipts.
- b. Upon request of the Comptroller General of the United States, a Government corporation shall provide to the Comptroller General of the United States all books, accounts, financial records, reports, files, work papers, and property belonging to or in use by the Government corporation

and its auditor that the Comptroller General of the United States considers necessary to the performance of any audit or review under this section.

- c. Activities of the Comptroller General of the United States under this section are in lieu of any audit of the financial transactions of a Government corporation that the Comptroller General is required to make under any other law..

SEC. 306. MANAGEMENT REPORTS OF GOVERNMENT CORPORATIONS.

- a. In General.--Section 9106 of title 31, United States Code, is amended to read as follows: Sec. 9106. Management reports

- a.

1. A Government corporation shall submit an annual management report to the Congress not later than 180 days after the end of the Government corporation's fiscal year.
2. A management report under this subsection shall include--
 - A. a statement of financial position;
 - B. a statement of operations;
 - C. a statement of cash flows;
 - D. a reconciliation to the budget report of the Government corporation, if applicable;
 - E. a statement on internal accounting and administrative control systems by the head of the management of the corporation, consistent with the requirements for agency statements on internal accounting and administrative control systems under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255);
 - F. the report resulting from an audit of the financial statements of the corporation conducted under section 9105 of this title; and
 - G. any other comments and information necessary to inform the Congress about the operations and financial condition of the corporation.

- b. A Government corporation shall provide the President, the Director of the Office of Management and Budget, and the Comptroller General of the United States a copy of the management report when it is submitted to Congress..

- b. Clerical Amendment.--The table of sections for chapter 91 of title 31, United States Code, is amended by striking the item relating to section 9106 and inserting the following: 9106. Management reports..

SEC. 307. ADOPTION OF CAPITAL ACCOUNTING STANDARDS.

No capital accounting standard or principle, including any human capital standard or principle, shall be adopted for use in an executive department or agency until such standard has been reported to the Congress and a period of 45 days of continuous session of the Congress has expired.

TAB B

**Statement #4/Managerial Cost Accounting Concepts and Standards
for the Federal Government**

**Executive Office of the President
Office of Management and Budget**

**"Managerial Cost Accounting Concepts and
Standards for the Federal Government"**

**Statement of Federal Financial Accounting Standards
Number 4**

July 31, 1995

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EXECUTIVE SUMMARY

1. The managerial cost accounting concepts and standards contained in this statement are aimed at providing reliable and timely information on the full cost of federal programs, their activities, and outputs. The cost information can be used by the Congress and federal executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance. The cost information can also be used by program managers in making managerial decisions to improve operating economy and efficiency.
2. The concepts of managerial cost accounting contained in this statement describe the relationship among cost accounting, financial reporting, and budgeting. The five standards set forth the fundamental elements of managerial cost accounting: (1) accumulating and reporting costs of activities on a regular basis for management information purposes, (2) establishing responsibility segments to match costs with outputs, (3) determining full costs of government goods and services, (4) recognizing the costs of goods and services provided among federal

entities, and (5) using appropriate costing methodologies to accumulate and assign costs to outputs.

3. These standards are based on sound cost accounting concepts and are broad enough to allow maximum flexibility for agency managers to develop costing methods that are best suited to their operational environment. Also, the managerial cost accounting standards and practices will evolve and improve as agencies gain experience in using them. The following is a summary of the concepts and standards contained in this statement:

Managerial Cost Accounting Concepts

4. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, should be integrated with other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement appropriate for the intended purpose. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

Managerial Cost Accounting Standards

Requirement for cost accounting

5. Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost finding techniques.

Responsibility segments

6. Management of each reporting entity should define and establish responsibility segments. Managerial cost accounting should

TABC

DoD



ACQUISITION AND TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE

**3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010**

09 JUL 1999

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN, JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
DIRECTORS, DEFENSE AGENCIES

SUBJECT: Defense-Wide Implementation of Activity Based Management

In July 1997, as part of the 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.”

On November 23, the Department’s senior Acquisition, Financial, and Logistics Executives met to decide on the course of action to be pursued. It was agreed that:

Declining resources are providing significant incentives to manage better all costs;

Activity Based Costing and Management (ABC/ABM) is most appropriately pursued on a broad department-wide basis, rather than being narrowly focused on “weapon system life-cycle costs” only;

The near term need for visibility into weapon system life-cycle cost should be satisfied by improvements in the Visibility and Management of Operational and Support Costs (VAMOSOC);

The Military Department and the Defense Agencies will be responsible for developing individual implementation plans and presenting implementation status updates;

In furtherance of the above, I direct the Secretaries of the Military Departments and the Directors of the Defense Agencies to pursue aggressively ABC/M implementation in maintenance depots and everywhere else it could be expected to provide improved cost management. The Military



Departments and Defense Agencies will prepare implementation plans within 90 days of this memorandum, and the Military Departments and DLA will provide those plans to the USD(A&T) and USD(C). Acceptance of the Military Departments and DLA implementation plans will constitute completion of the NPR goal to “define requirements and establish an implementation plan.” In addition, the Military Departments and DLA will prepare written status updates quarterly and also present them to USD(A&T) and USD(C)—the first update is due 90 days from the date of this memorandum. An interim written status report should be submitted to my Deputy Under Secretary for Acquisition Reform by July 27.

I further approve the VAMOSC improvements presented on November 23. The Military Departments shall aggressively pursue implementation according to the schedule presented on November 23 by the Cost Analysis Improvement Group (CAIG).



J. S. Gansler

ARMY



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3010

16 SEP 1999

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS, DEFENSE AGENCIES

Subject: Defense-Wide Implementation of Activity Based Costing/Management (ABC/M)

In the attached July 9, 1999 memorandum, I directed the Military Departments and Defense Agencies to prepare and submit ABC/M implementation plans within 90 days. These plans should include outcome-oriented, time-phased goals and metrics. As we agreed, OSD will not establish such goals and metrics at this time. Each Component may choose the ones that best support its particular implementation plan, but those goals and metrics should be included in the plans.

If you have any questions, please direct them to my point of contact in this matter,
at (703) 695-5166.

A handwritten signature in black ink, appearing to read "J. S. Gansler".

J. S. Gansler

Attachment
As stated

cc:
USD(C)



90903422

TAB D

DEFENSE BUSINESS PRACTICE IMPLEMENTATION BOARD

Minutes of Quarterly Meeting Board Meeting (PARTIAL) January 29, 2003

Mr. Gus Pagonis, Chairman of the Board, opened the meeting at 8:00 a.m., in Room 1E801#1, the Pentagon. The list of attendees and the agenda for the meeting are attached.

The first session allowed for administrative updates (Tom Modly), an introduction of the new Deputy Director (Ivan Thompson), and a brief review of the 2002 deliverables and next steps. A public session was held in the morning to discuss the Human Resources – MBA recruitment Study (Fred Cook). MG Peter Chiarelli and Laura Downing of the Balanced Scorecard Collaborative briefed the Board on what the Army is doing with the Balanced Scorecard. A luncheon was held for the Board Members in which Lou Kratz of AT&L presented his briefing on the Future Logistics Enterprise.

The afternoon began with a photograph session of the Defense Business Implementation Board with Mr. Rumsfeld. This was followed by a twenty minute meeting with the Secretary to inform him of the work that the Board has been doing.

The Board then broke into four teams to meet with representatives from the Department of Defense to clarify specific deliverables that the Board can supply that would provide value to the Department. The four task groups were: Supply Chain, HR Outplacement Services, Financial Management and Defense Core Competencies. The Board's next scheduled sessions is May 14, 2003.

- ❖ 0800 Gus Pagonis → The Board may get a few minutes to meet the Secretary. I think we will have a 2 or 3 minute update on each of the projects we have been working on. If we weren't in the current situation, he would make more time. Dov has been a great advocate of what we are doing. The Secretary wants these projects to be tracked and make sure that we follow through. We want to concentrate on a few topics but do them thoroughly. Meetings offsite can be set up. Please talk to Tom Modly.
 - The Board introduced new member Herb Shear, CEO of Genco.
- ❖ Tom Modly → It is important that we measure improvement. We are developing a mechanism for the SEC to give us feedback on all of the reports that we provide. It will help us develop metrics on how we are performing. This afternoon we will be breaking into the task groups. They are:
 - BRAC → Fred Cook
 - Supply Chain → Herb Shear
 - FM → Bill Phillips
 - Defense Core Competencies → Travis Engen

Working Session I

Financial Management Modernization Program (FMMP) (Tom Modly)

- ❖ 0815 Tom Modly → The role for COO in the Department of Defense on this project would be to provide continuity to ensure that this project to be successful. All the stakeholders, including the process owners need to be involved.
 - JoAnn Boutelle
 - The Defense Business Board's recommendations have been very helpful and consistent with GAO's findings.
 - The Department has implemented several of these recommendations. We have actively been working with folks to understand that this is an end-to-end business process. The project is going to change its name to the Business Modernization Program.
 - Gus Pagonis → Have you used the name Change Management?
 - JoAnn Boutelle → We have used this name with process owners.
 - David Walker → Has this been linked to the transformation initiative?
 - JoAnn Boutelle
 - We have set up groups to focus on specific areas.
 - We are looking for the right talent to fill key areas including a CIO, so they can bring the necessary expertise to this group.
 - We have started the recruitment process.
 - The biggest thing we have done is setting up a governance system. We move responsibility to domain owners and they will choose a lead agent to manage the effort.
 - We have tremendous buy-in from the domain owners. We still have to clearly define their roles and responsibilities.
 - We also have to control the spending and strategy to develop a portfolio management framework.
 - Gus Pagonis → Any budget request for IT needs to go through a central point to avoid duplication and ensure tie in to the architecture. We have done this successfully at Sears.
 - David Walker → Is there central control over new initiatives?
 - JoAnn Boutelle
 - We have mechanisms in place. Some of the details need to be worked out.
 - The controls will be in place in another 2 months. By the time we meet again that should be laid out.
 - We are into the final path of getting the architecture completed.
 - Team IBM owes us the final architecture this week and then there will be a fine tuning process. They will also have a transition strategy by the end of April.
 - This will be Implementable but not executable architecture. It needs to be taken down a little bit lower to get to the data element level.
 - Gus Pagonis → Will IBM stay around to take it to the next level?
 - JoAnn Boutelle

- It will require a new statement of work for the detailed architecture. The timeline shows that an RFP will occur in about a year.
- IBM promised to lay out a framework. Now we are managing expectations. Domain owners really didn't know what the architecture meant to them. It was presented in very technical terms. We are moving to plain English terms.
- Her office is writing a new statement of work.
- There is not a slip in schedule. It has always shown delivery at the end of April and then another year for the pilots.
- We need the executable level. I am not overly thrilled with what the Department has bought. We need to go further to execute.
- We have the right people on board who understand what needs to happen to make this work. I feel confident we get to where the Department needs to be.
- David Walker → There is a high risk involved because of the difficulty in managing expectations.
- Bob Hale → Are you thinking of having a product by the end of this administration?
- JoAnn Boutelle
 - We are working with IBM to get quick wins, to show successes next year.
 - HR is flowing out processes to make strides quickly.
 - There are a few areas that can show progress quickly.
 - GAO has been critical of the schedule. Do we push folks to get a quality project? Or rush delivery with a lower level of quality? I am hopeful that we will get some quick wins.
- Dana Mead → How are we managing expectations? What are we doing to avoid surprises in the future?
- JoAnn Boutelle
 - We created a CIO working group. We have a Financial Management working group. To keep them in the loop on all major decisions. They are helping us. JoAnn is accountable and is a CPA with strong technical knowledge.
 - The attitude has changed. The domain owners are truly being engaged. We are doing a much better job of managing expectations.
- Gus Pagonis → What can the Board do to help?
- JoAnn Boutelle
 - We need help on the portfolio management piece and how to educate the Department on how to do that.
 - You should consider moving people back to their domains to be cheerleaders for the effort.
 - The change management and communication is the hardest challenge in this whole effort.
 - I want a tool kit with some hard hitting tools.
 - The process owners are key to make the change management successful.
- Dana Mead → How fast can this be done? I would work with the contracts folks to make the requirement clear. I would pick one domain and make it happen. To be an example of potential success.
- Gus Pagonis → You should focus on one domain and make it an example.
- Dana Mead → If you give IBM a pilot and 6 months to complete, it can be used

as a success story. Accountability is critical, especially in an organization this size. You must drive home accountability.

- Gus Pagonis → are there incentives we can tie to the accountability aspect.
- David Walker → get the domain experts involved in making the requirements and get control of the money.
- Gus Pagonis → Sears put together a Steering Committee to control IT spending. Its one of the best things we've done.
- David Walker → Accountability needs to be on both the politicals and career folks.
- Bob Hale → You can't give all of the money before anything has been delivered.
- Michael Bayer → The longer a projects takes, the less control you have.
 - The Department needs to have performance incentives on their contracts.

Balanced Scorecard Metrics (Tom Modly for Neil Albert)

- ❖ 0853 Tom Modly for Neil Albert → Balanced Scorecard Metrics
 - Gus Pagonis → We have implemented the Balanced Scorecard successfully at Sears.
 - The definition Balanced Scorecard covers a huge area and I extract from that a dashboard of items I want to concentrate on for a short term. I read Kaplan and I simplified it more to fit my organization's needs.
 - The dashboard is flexible but the actual Balanced Scorecard is less flexible. Everyone's incentives are tied to the Scorecard. Rumsfeld has to extract exactly what he wants to focus on for the implementation to be successful.
 - My Scorecard ties into the top goals of Sears.
 - David Walker → The results oriented measure, client measures and employee measures need to fit into a total portfolio management framework. It is at a high level that links into pay and other incentives.
 - JoAnn Boutelle → It shows you where you need to focus efforts.
 - Tom Modly → The four quadrants of the private sector scorecard are customer, learning and growth, financial, internal. We added financial management metrics that ties in with Bill Phillips's work.
 - Rumsfeld has bought into the four areas. His schedule will not allow for the time to focus on this. He wants a starting point. This reinforces the ideas of a having COO who can focus on these issues.

Financial Indicators (Bill Phillips)

- ❖ 0900 Bill Phillips → Financial Indicators
 - Bill Phillips
 - The only change is #1, which is what our budget measure is. This number is not helpful. We are interested in what the "management reserve" is.
 - Michael Bayer → #2 how do you describe that other than an input?
 - Bob Hale → There are other metrics measures to monitor output.
 - JoAnn Boutelle → The Department hasn't looked at metrics in this way before. If we can focus on what we obligated. We are making the services accountable for

measuring outcome to what they have spent. We don't want to have to budget for the same item more than once. These trends and measures should be looked at across the entire federal government.

- Gus Pagonis → #4 can your committee break this down to see the results side?
- David Walker → You need a total portfolio to see what we are getting for the money that we spend.
- Bob Hale → Ken has more specifics on the Scorecard than what is presented here.
- Gus Pagonis → At Sears, I have found having the dashboard very useful. Over time, you can eliminate some measures that don't help you that much and add others that you want to focus on. When you have the dashboards you can look for common threads. This way I can be sure that my people are working on what I want them to work on.
- Bill Phillips → Each of these measures would drill down to operational level.
- Travis Engen → There are problems with frequency and latency. You need to stay on top of these measures for them to provide value.
- Gus Pagonis → The review of the metrics has to occur at least monthly. Each of the Services may have a little different twist on how they implement their Scorecards.
- Dana Mead → Once you decide on the metrics you want and everything cascades from there. There may be some acquisition cycle aberrations. Trends need to be looked at monthly. Reviewing the metrics quarterly is not enough.
- Bill Phillips → Over time the trend analysis will point this out.
- Gus Pagonis → We should take the Secretaries top 10 priorities list, and develop the dashboard to align with those priorities.
- David Walker → This needs to be implemented using sound management principles so that stand the change in administration. We should consider activity based costing.
- JoAnn Boutelle → The Department is working on a process that changes how we track execution of the budget. We don't capture the right information to do that right now. How do we reorganize the information to capture that? We don't break out our costs by process.
- Dana Mead → You need to show the Secretary why tracking these things is important. It needs to tie back to the mission.
- Gus Pagonis → Takes these as a start and take the top 10 priorities and superimpose them and see where we are. Then look to see how we are tracking this right now.
- Bill Phillips → Activity based costing will isolate problem areas quickly.
- Gus Pagonis → The dashboard is flexible enough to change to the priorities of now and maintain continuity. The CEO needs to focus on what is important to him. The dashboard does change.
- Tom Modly → We should look to see how the Army's Balanced Scorecard ties into our effort.



Review of 2003 Taskings (Tom Modly)

❖ 0920 Review 2003 Taskings

- Tom Modly
 - Dr. Dov Zakheim wanted to board to focus on acquisition, general management, financial management, supply chain.
 - Acquisition → In the area of supply chain reform with AT&L, what processes and HR insights does the Department need.
 - Diane Morales is open to ideas.
- David Walker → How broad is the definition of the supply chain?
 - That is something the subcommittee will have to decide.
- JoAnn Boutelle → The logistics group's research has brought concern from the people in uniform. It needs to be neutral. It is a change management issue because you are changing the thought process.
- Gus Pagonis → You either use it or stop working on it. There is a perceived loss of control when you do strategic sourcing. What specific items does Diane want us to focus on?
- Travis Engen → What are the factors that we would like better? What are we trying to optimize?
- Michael Bayer → This is nothing new to the building. Where can we provide leverage? There are many books on this topic.
- Bob Hale → We should start small and build confidence with the Services
- Arnold Punaro → We can improve how we support the troops in the field.
- Michael Bayer → We can't make a recommendation on boot distribution.
- Dana Mead → Folks on the ground know the most about how well things run and what can be improved.
- Gus Pagonis → We can have a shoe shop that can make changes before the mission begins.
- Travis Engen → This could be a quick win. We have to focus on specific impediments.
- David Walker → We measure success by budget. This is a fundamental problem for the government.

World-Class Outplacement Services in Support of BRAC activities (Fred Cook)

- #### ❖ 0930 Contracting World-Class Outplacement Services Support of BRAC activities (HR issues and BRAC and dislocation of people)
- Should we look globally or in the US?
 - You should focus on US and only on Civilians.
 - What does change management mean?
 - Gus Pagonis → How do your people buy-in to change?
 - Tom Modly → Need to focus all deliverables on the fact that the Department may be aware of the best business practices but that they need help in knowing how to implement them. How do we make these things happen?
 - David Walker → We need to consider how people can stay in the civil service system. We also need to consider the unions. They have made partnership that