



Introduction to Cost & Performance Management and Army Implementation Overview



Learning Objectives

- ◆ **Understand the federal government's direction toward increasing emphasis on managerial accountability**
- ◆ **Know the requirements for cost and performance established by OSD and HQDA**
- ◆ **Know and understand the intent of the Army's cost and performance management initiatives**



Topics Presented

- ◆ **Review Recent Federal Actions**
- ◆ **Identify Recent Army Cost Management Initiatives**
- ◆ **Provide Background on Latest OSD Directives and Army's Response**
- ◆ **Establish Army Direction for Cost and Performance Management**



Chief Financial Officer's (CFO) Act - 1990

Purpose:

- ◆ Establish more effective financial management practices and systems in the federal government
- ◆ Improve systems:
 - Accounting
 - Integrate functional & financial management
 - Internal controls
- ◆ Provide complete, reliable, timely, consistent financial information



Government Performance and Results Act (GPRA) of 1993

- ◆ Shifts the focus of government managers from program inputs to program execution
- ◆ Requires systemic identification of output and outcome measurement in budget formulation and management
- ◆ Requires each federal agency to prepare an annual performance plan identifying performance goals and indicators for each program activity
- ◆ Starting in 2000, requires each federal agency to prepare and submit an assessment to the President and Congress on program performance for the previous FY



GPRA Performance Indicators

Measures of output or outcomes:

- ◆ **Output - Products or services**
- ◆ **Outcome - Results or impact of program output against intended purpose**

Assessment indicators include:

- ◆ **Efficiency indicators - Measure the transaction on production costs, such as unit cost per output**
- ◆ **Effectiveness Indicators - Measure output or outcome quality, timeliness, and customer satisfaction**
- ◆ **Financial indicators - Measure fiduciary characteristics such as receipt, collection, and credit obligation rates.**



National Performance Review

Key Principle: Empower Employees to Get Results

- ◆ **Step 1: Decentralize Decisionmaking Power**
- ◆ **Step 2: Hold All Federal Employees Accountable for Results**
- ◆ **Step 3: Give Federal Workers the Tools They Need to do Their Jobs**
- ◆ **Step 4: Enhance the Quality of Work Life**
- ◆ **Step 5: Form a Labor-Management Partnership**
- ◆ **Step 6: Exert Leadership**

Original Managerial Costing Steering Committee





Conceptual Managerial Costing Steering Committee





Evolution of CM and ABC Approach

Army Started ABC Projects in 1992

- ◆ Center for Public Works sponsored early efforts in ABC within DPWs
- ◆ Installation Support Module Office sponsored efforts in DOL
- ◆ FORSCOM Efforts in ABC
- ◆ TRADOC Efforts
- ◆ AMC Efforts



ABM Pilot Efforts

Fort Huachuca

Fort Riley

Fort Detrick

**Fort Leonard
Wood**



Current OSD Direction in Cost Management

July 1999 – Under Secretary of Defense for Acquisition and Technology directed Service Secretaries to:

- ◆ **Aggressively pursue ABC/M implementation in maintenance depots**
- ◆ **Implement ABC/M anywhere else it might provide improved cost management**
- ◆ **Prepare written status updates quarterly**



Army Response to OSD Direction

November 1999 – Secretary of the Army issued *Army's Strategic Plan for Implementing Cost Management/ Activity Based Costing.*

The Secretary:

- ◆ **Fully endorsed cost management, using ABC where appropriate, as a process of continuous improvement**
- ◆ **Directed the Army to pursue ABC as a tool for the local manager to better understand operational cost and performance**
- ◆ **Established an aggressive goal to complete implementation in 11 business areas within 3 years**



Army Response to OSD Direction

The Secretary Committed to:

- ◆ Provide ABC software and sustainment
- ◆ Establish CM/ABC course to rapidly train each business area
- ◆ Conduct prototypes in business areas as needed
- ◆ Provide CM/ABC training material



Army CM/ABC Strategic Plan

GOAL: Continually deliver better quality products and services to customers while continually improving cost

OBJECTIVES:

- ◆ **Create a cost management culture within all business areas**
- ◆ **Implement cost management and assess if ABC is appropriate in the following 11 business areas:**
 - Depot Maintenance Operations
 - Supply Management
 - Ordnance
 - Information Support
 - Civilian Human Resources
 - Institutional Training
 - Base Support
 - R&D Laboratories
 - Test and Evaluation
 - Contracting Process
 - Acquisition Process



Army CM/ABC Strategic Plan

OBJECTIVES (continued):

- ◆ **Where appropriate, develop ABC models for local managers to achieve cost measurement**
- ◆ **Implement CM/ABC in 3 years**
- ◆ **Establish a formal CM/ABC course**
- ◆ **Conduct prototypes in each business area**
- ◆ **Link CM/ABC implementation to other Army Quality Programs**
 - **APIC**
 - **ISR (Services)**



Summary

- ◆ **Our leaders have said, “Get on with it!”**
- ◆ **Remainder of course:**
 - **Who**
 - **What**
 - **When**
 - **Where**
 - **How**
 - **And a little more why**