

RM RESOURCE MANAGEMENT

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HIGHLIGHT P. 20
COST MANAGEMENT
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Cost Management

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Cost Accounting

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Cost Analysis

Cost Control



Achieving Better Decision Making Through Increased Army Financial Transparency and Cost Management Capabilities

By: Mr. Mort Anvari

ABSTRACT: The Army is committed to financial transparency, achieving greater efficiencies and delivering best-in-class products and services. Army leaders from all Financial Management (FM) and non-FM organizations are actively engaged in driving FM transformation by implementing Cost Management (CM) capabilities across all levels and spans of control and influence. CM analytical decision support capabilities help maximize the use of limited resources and improve performance. Recent developments in Army Financial Management Optimization (AFMO), the formation of the Cost Management Steering Group, standardized cost management processes, and Army enterprise ERP cost framework illustrate the commitment of Army senior leaders. These developments will guide, influence, and accelerate the optimization of the FM enterprise into a high-performing organization with integrated, enterprise-wide cost and performance management analytical capabilities that ensure the Army's mission success as good stewards of the nation's resources.

The Army is committed to implementing Cost Management capabilities across all levels, and spans of control and influence to help augment financial transparency, achieve greater efficiencies and deliver best in class products and services. Army leaders from all FM and non-FM organizations are actively engaged in driving FM transformation and they are increasingly benefiting from CM analytical decision support capabilities that help maximize limited resources and improve organizational performance. The Cost Management Steering Group plays a key role in providing leadership guidance to the Army Financial Management Optimization (AFMO) efforts across the enterprise to help accelerate and enable the effective integration of these CM capabilities.



AFMO is a comprehensive FM enterprise transformation initiative, as directed by the Secretary of the Army to achieve four key objectives: achieve and sustain auditability; optimize operations, systems, and workforce; improve and sustain readiness in FM units; and provide better analysis for decision making. Cost Management is a key enabling capability to achieving better analysis for resource informed decision making and therefore it is part of the AFMO campaign plan. A total of seven lines of efforts (LOE) provide a complete roadmap required to achieve the desired results across all four objectives with two LOEs enabling Cost Management capabilities. These are: 1) Standardized CM business practices and processes and 2) Army cost framework.

Standardized CM business practices and processes

The standardized cost management business practices and processes provide resource managers and operational managers with relevant cost and performance knowledge and business intelligence to manage and maximize value in their business operations while delivering products and services more efficiently and effectively. The CM capabilities include cost modeling, cost planning, measurement, analyses, and control methods integrated across Army's end-to-end processes. The results are improved resource informed decision making that allow Army leaders to target and manage improvements, and reallocate savings to better resource Army mission requirements. These capabilities also effectively link the Army's products and services total costs and performance to the costs of processes, activities, inputs, and outputs consumed.

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Non-financial and financial data along with metrics are essential enablers and are acquired through data capture strategies designed to convert data into knowledge and business intelligence in support of improved leadership resource informed decision making. This in turn provides the necessary financial transparency and capabilities for leaders to make better decisions at all Army levels, and spans of control and influence.

The Army cost framework

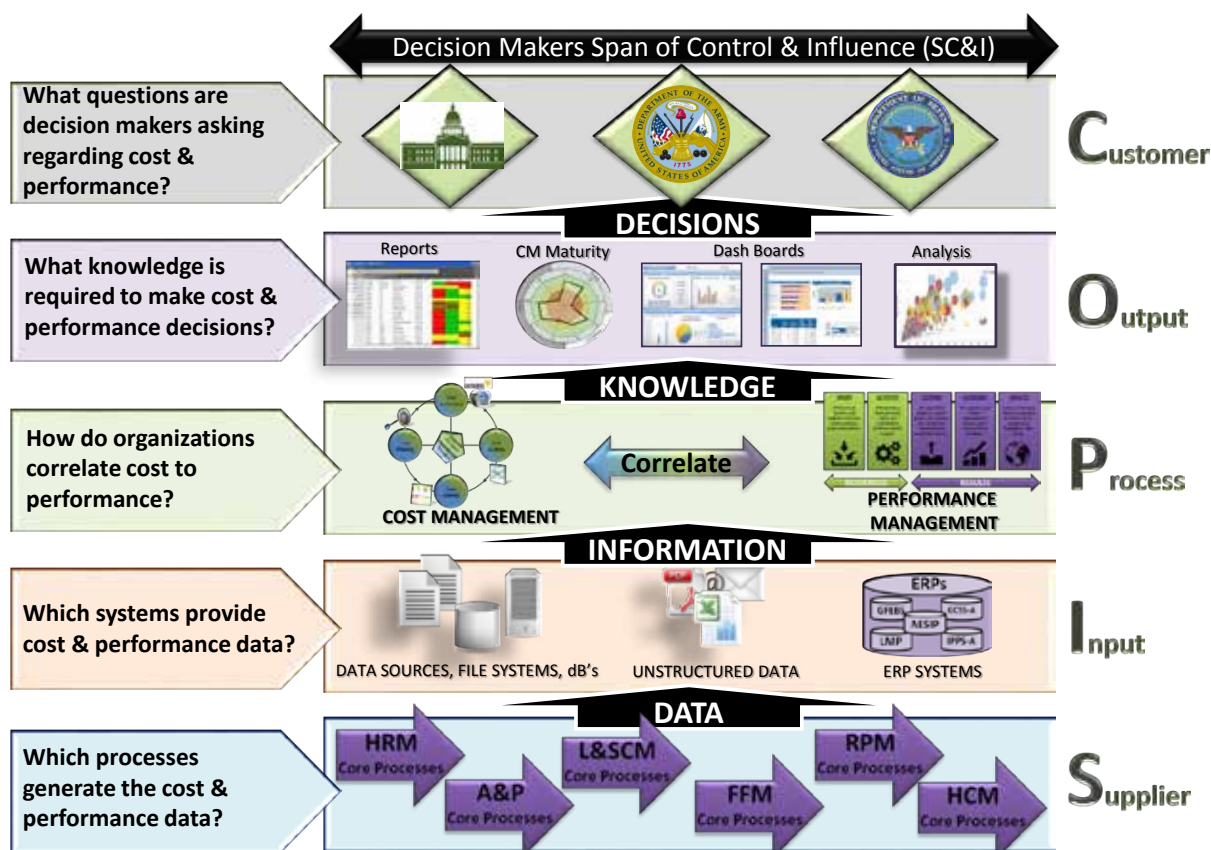
The Army cost framework provides: 1) the cost and performance data structure, 2) “Big data” capture strategies, and 3) methods for developing cost models and analyses within the Army Enterprise Resource Planning (ERP) systems to fully support leadership’s cost and performance information needs and decisions. The data structure is derived from the Army end-to-end processes that generate all products and services. This provides the foundation for financial transparency through the anatomy of the Army’s data, including all relevant financial and non-financial data associated with the activities and outputs consumed. This also provides leaders with full access to accurate and timely data and “Big data” capture strategies used to convert relevant data into information, which enables knowledge and business

intelligence required to make decisions. Structured and unstructured sources of cost and performance data are integrated across ERPs to generate relevant cost and performance information for analysis using CM methods and practices. Organizations and analysts develop models that correlate costs information to outcome performance in order to determine the real value of the investment and provide analysis, ‘Cost of’ reports, and dashboards for leadership decision making.

Both Cost Management LOEs provide a full spectrum of DOTMLPF-P capabilities across the Army. This includes a comprehensive roadmap to training the Army workforce to further augment and strengthen the Army’s analytical decision support skills and competencies in support of leadership resource informed decision making. The implementation of these capabilities are on track and senior leaders are engaged and committed to guide, influence, and accelerate the optimization of the FM enterprise. This will transform the Army into a high-performing organization with integrated cost and performance management analytical capabilities across the enterprise, ensuring Army’s mission success as good stewards of the nation’s resources.



Cost Management & Performance Management



About the Author:

Mr. Mort Anvari is a member of the Army Senior Executive Service. As Director of Programs and Strategy and the Lean Six Sigma Deployment Director at office of Assistant Secretary of the Army Financial Management and Comptroller, Mr. Anvari is responsible for providing policy direction and guidance to the Army on the conduct of mission, force, installation, and personnel costing in support of the Army cost management end-to-end process implementation.

Mr. Anvari at the office of Deputy Assistant Secretary of the Army for Cost and Economics leads evaluation of all matters concerning cost control, output and performance metrics for Army programs. He defends cost products at appropriate Army, Department of Defense, and Office of Management and Budget corporate reviews. He represents the Army to senior cost and economic officials in government, academia, and the private sector and fosters improved understanding of Army cost and economic issues through public speaking in military, academic and professional forums.

He directs independent cost and economic studies, cost benefit analysis reviews, risk and uncertainty analysis in support of major defense programs. As the Army Financial management Lean Six Sigma Deployment Director, Mr. Anvari is responsible for implementation of all Army financial management process improvement initiatives.

Mr. Anvari is a prolific publisher having produced numerous articles on cost, risk, and systems analysis. He has continued his passion for teaching as an adjunct professor at local universities in Washington DC, where he taught project management, operating systems, networking, systems analysis, , and cost management. Mr. Anvari developed and maintains an excellent project and cost management educational web site, www.anvari.net or <http://h222767.temppublish.com> which is greatly referenced by students and military decision-makers.

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An Interview with Mr. Mort Anvari - DASA Cost & Economics

Mr. Mort Anvari (Director, Programs & Strategy Directorate)

(General Question about the Directorate)

1. Like the rest of the federal government, the Army is operating in a constrained budget environment and is facing difficult decisions on how to best allocate its limited resources. What is DASA-CE doing to inculcate and sustain a cost culture mindset across the Army?

Many believe that cost culture and cost management started with constrained resources and budget reductions. But the Army has been a pioneer in the implementation of cost culture and cost management since 2007 when Under Secretary of the Army, Mr. Nelson Ford, coined the term “cost culture”. At that point, cost analysts were deployed for the first time into theater to work alongside the operational manager to understand the requirements, the cost of war, and how to reduce the Army’s Costs. During contingency operations in theatre, there is less understanding of the requirements and cost estimating an essential component of cost management is difficult. By getting closer to commanders in the field, we were able to understand the requirement and improve our cost estimating.

Another important component of cost management is cost accounting. In the past, stove-piped organizations and disparate data sources made execution based cost forecasting almost impossible. Today, the Army leadership and ERPs focus on an enterprise perspective with 17 end-to-end processes interacting with each other. As a result, financial transparency has increased drastically, particularly with respect to the interpretation and allocation of cost information. We have been able to do this through better systems, improved processes, training, and senior leader awareness. Army leadership has made cost management one of the Army high priorities. Our cost analysis models and tools complemented our cost estimates and cost accounting and positioned Army for more effective cost control.

Finally, there has been a tremendous amount of success in cost management training. Over two thousand Personnel have been trained and now are capable of conducting Cost Benefit Analysis or CBA. When any decision over \$10M is being considered, it must include a CBA, which is a big breakthrough in resource informed decision making. We have also developed tools such as Army Financial Benefit Reporting and Tracking (AFBRT), which requires that any organization claiming a savings report those savings in AFBRT to track progress for Army to reallocate resources from real savings to other Army priorities that are short on funding. Even though we still have some challenges in creating a cost culture -I believe the Army is ahead of the curve implementing cost management and financial transparency compared to all other federal agencies.

2. The high degree of budget uncertainties underscores the importance of cost management. Which DASA-CE best practices are being followed to ensure accurate and reliable cost estimates are being developed and aligned with cost and performance management?

What we do to improve the accuracy of cost estimates gets back to cost management and closing the Planning (cost estimate), Programming, Budgeting and Execution, or PPBE, cycle by providing execution feedback to improve the Army cost estimating activities. The Army ERPs, GFEBS and GCSS-Army, are examples of best practices to ensure proper data collection. Our analytical tools are becoming sharper and the quality of cost analysis in the Army has also greatly improved. Army Financial Management Optimization or AFMO was implemented with the goal of enhancing auditability and optimizing the financial management workforce and operations. AFMO has also given us the opportunity to focus on the Army cost framework and cost data architecture which has improved the quality of Army cost estimating. One of AFMO’s objectives is improved resource informed decision making influenced by understanding cost and performance metrics. From this framework we have been able to link processes in different organizations to data that is needed to provide information for decision makers. Early on, cost management was more in the promoting stage, but now most organizations see the benefit as leaders are becoming more accountable.

	Planning (6-10 Years)	Programming (5 Years)	Budgeting (1-2 Years)	Execution (Current Year)
HQDA	Apply Cost Planning	Apply Cost Planning and Cost Analysis	Apply Cost Analysis and Cost Control	Apply Cost Accounting and Cost Analysis
Command /DRU		Apply Cost Planning	Apply Cost Planning and Cost Analysis	Apply Cost Accounting, Cost Analysis and Cost Control
Operational Activity			Apply Cost Planning	Apply all Four Steps of Cost Management

When you look at all the functions with multiple objectives in constrained environments for analysis and planning, it becomes very complex and I think the knowledge that is now being generated within our analysis community is very usable. We are in a predictive analytical phase in support of decision making. This field, even though well understood for many years, was not equipped with the right data and tools to perform the job - now it is. Now we have processes and tools in place and leadership support. At the same time, the challenge of constrained resources has been a forcing function which gives the needed emphasis.

3. What specific actions is DASA-CE taking to ensure the cost culture business initiative is institutionalizing cost management principles and practices? Please elaborate on specific training, governance, costing tools available and results (i.e., GFEBS and other ERP systems affects on AFMO).

DASA-CE has taken many actions to enable a cost culture in the Army. We have provided cost management strategic guidance and published manuals and guides to support the financial community. Specific actions include resolving issues as they arise such as how reimbursable transactions should be managed in GFEBS for better data quality. We provide cost management solutions along with needed training, standard operating procedures, or new policy. A tool we support is Cost Benefit Analysis or CBA. This decision making requirement was a major change for the

Army. AMC, TRADOC and FORSCOM have seen the value in CBAs and have institutionalized them at lower dollar threshold and established an internal CBA review process. The dialogue that a CBA creates is the most important part of resource informed decision making. Discussions about courses of actions that might result in lower-cost or a higher benefit are valuable to Army.

DASA-CE also provides cost management knowledge online and the Cost & Performance Portal for cost and performance data. We also provide courses like cost management certification training that was previously taught at the Naval Post Graduate School and now is being taught at University of South Carolina. This course has generated a large number of graduates from different backgrounds and we have labeled them the Army “Cost Warriors”. The Cost Warriors have a monthly cost management roundtable discussion and a publication for the resource and operational management communities. Cost management is one of top Army priorities and DASA-CE is the functional proponent for this initiative. In general, we strive to have a better understanding of the cost culture challenge—from process, system, data quality and decision making perspectives so we can continue to support the Army.

4. Please highlight how costs savings and improvements in business Operations will be captured and tracked, and the challenges of this process?

Capturing and tracking cost savings is a big challenge. NDAA 2012 requires the DoD to track their cost saving initiatives and annually report them to GAO. The Secretary of Army directive requires all savings be documented in Army Financial Benefit Reporting and Tracking system or AFBRT. This system will validate and provide projected cost savings information to the programming evaluation groups or PEG for their consideration and reprogramming. Using GFEBS as an example of the benefits tracking challenge, the Army is now asking why we are not saving what we initially thought as a result of the brown out of the legacy financial management systems as originally planned. The legacy systems such as STANFINS and over 50 other systems should now be phased out according to the original plan as they were included in the projected savings. However, due to auditability requirements and other external factors, these legacy systems are still maintained and the cost savings

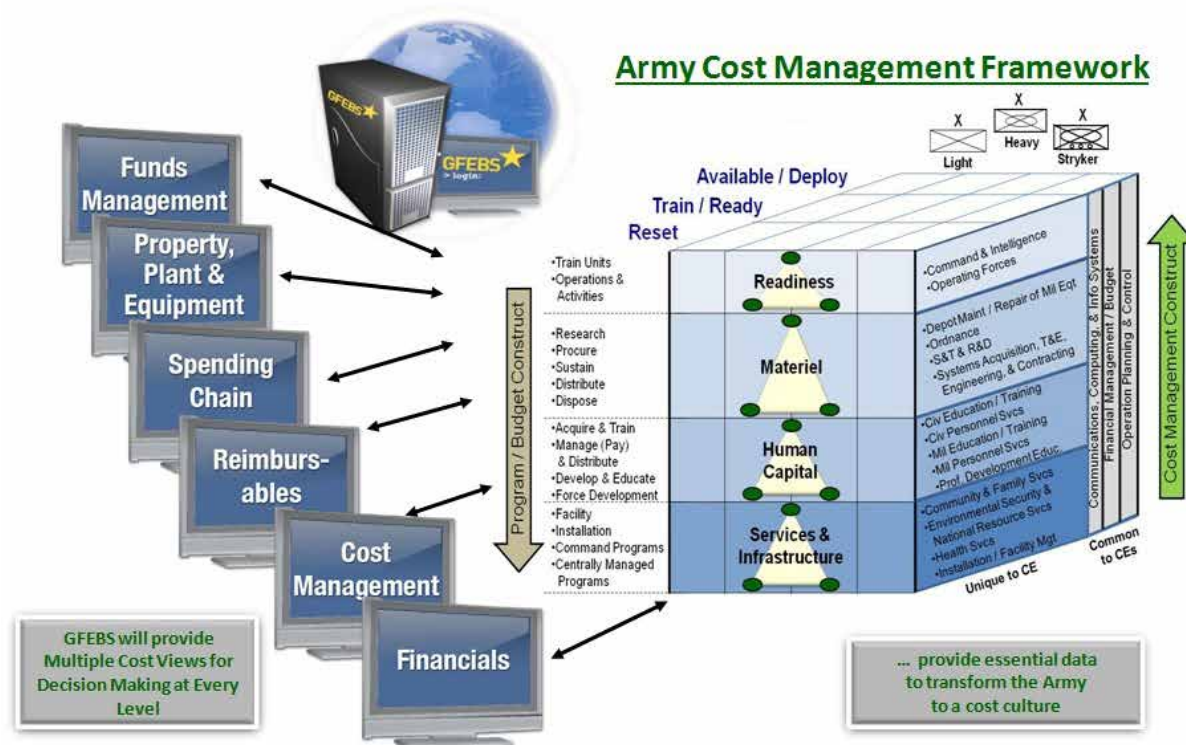
have not completely been realized. The perception that the initial saving estimate was not reliable misses the reality that the quality of the cost estimate depends on the questions being asked and assumptions being made at the time of study.

5. What questions are decision makers asking regarding Cost & Performance?

In the past enterprise financial information was not readily available. However, the utilization of financial information can only be enhanced and complemented by performance metrics. If we don't have performance metrics, financial information cannot be used optimally. Our leadership is realizing this capability and now they're asking questions like "What is the cost of readiness?" They are not only interested in how much it costs to be ready, but what are the costs associated with the readiness of training, personnel, supply, etc. Another great question is "what is

the cost of recruiting?" which again is metrics oriented. The methodology that we use to answer these questions is fairly simple. We begin by identifying the decision maker's span of control and influences as well as their information needs; making sure that those needs are realistic and actionable. We are trying to understand decision-makers at different levels with different information needs and tailor our approach for that type of decision. We determine who the decision-makers are and ask them what types of gauges of information are needed in their dashboard display to make the decision. Once we identify the cost information or generic financial information and performance metrics associated with the decision maker, we have to ask what systems contain that information and what processes provide that information. Linking cost and performance metrics create a cause-and-effect relationship or correlation between cost information and performance metrics.

GFEBS Technology Enables Cost Management



Decision makers can then increase or decrease either the performance metrics or financial information to be able to see the impact. So that's the ideal world.

We have seen a lot of success stories in different organizations and I was surprised to learn that we have several thousand SMS (Strategic Management System) users and dashboard type models from FORSCOM, TRADOC and AMC. We found out that the Army as a whole has become quite aware of the relationship between financial and performance metrics so we fine-tune it and try to create somewhat of a standard approach.

6. As the Lean Six Sigma (LSS) Deployment Director for Army, how do you see LSS aligning with Cost Management?

LSS aligns with cost management in a very integrated way. The cost management cycle consists of four stages: Cost Planning, Cost Accounting, Cost Analysis, and Cost Control. Practitioners in cost management use LSS and other CPI tools during the final two stages of the CM cycle. During cost analysis, LSS can support the identification of root causes that increase cost. With cost controls, savings can be realized and reallocated. The information from the cost management effort can also provide feedback to the Planning cycle. The results of LSS will be an improved product or service, better financial management, and full application of the AFMO initiative. Internally, within our financial management organizations, we are doing funds control process mapping, implementing GFEBS managed spend plans, root cause analysis on unmatched transactions, and many more LSS projects focused on improving Army's financial processes. After we map these processes we then look at it from the cost management perspective.

7. Do you believe the adoption of LSS and/or cost-savings/cost-avoidance is against the current DoD mantra of "spend all"?

The "spend all" mantra comes from aligning requirements to a budget. If those budgeted resources are executed optimally to your spend plan, then the "spend all" mentality is working. LSS allows leadership to improve on processes they assumed would require a certain level of resources and if savings can be realized, these additional resources can be reallocated to other Army priorities or UFR's within the organization that controls those resources. All of the Army initiatives that I mentioned earlier--like Cost Management, Performance Management, AFMO, GFEBSs and LSS--are

designed to enable resource informed decision making so that all the resources provided to the Army by Congress are fully utilized to optimize cost with mission requirements.

8. What career advice would you provide to someone entering Army's Cost & Economics field?

The need for analysis and in particular cost analysis is increasing in the defense industry. I think the job of cost analyst is rewarding. It is intellectually challenging and provides continuous learning. Simply having a state of mind that includes a cost-benefit analysis mentality can help a lot of decision-makers. Finally, I want to add that cost management or cost analysis is a support field; we're not selling the requirement. We're not the ones, in some cases, saying how but rather we are the ones able to identify different options, different courses of action regarding cost and effectiveness for leadership to make decisions.

9. Which course did you take in your background that helped shape you decision to enter this field?

I took courses in engineering economics, linear and nonlinear optimization from the University of Michigan at the school of industrial systems engineering. However, the course that had the most impact on my decision to enter in cost analysis field was the cost analysis for decision-making or CADM from the Army Logistics Management College, now Army Logistics University. The CADM course brought everything together for me and I started to realize that I needed to take the decision support message to the community and our young analysts about what it takes to be a systems, process, and enterprise thinker. I also share how valuable this knowledge is to an organization and what personal satisfaction they get from the understanding cost Management process and functions. **RM**



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