

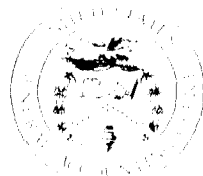
GAO

Report to the Honorable
Jim Bates, House of Representatives

March 1989

COMPUTER PROCUREMENT

Navy Decision to Terminate Its Standard Automated Financial System



Information Management and
Technology Division

B-224148

March 30, 1989

The Honorable Jim Bates
House of Representatives

Dear Mr. Bates:

In your January 24, 1989 letter, you expressed interest in the Navy's recent decision to terminate its Standard Automated Financial System (STAFS) program and asked us to examine the events surrounding the decision. We subsequently agreed to report on (1) the problems the Navy faced with STAFS, (2) the events leading to the decision to terminate it, and (3) the consistency of the decision with our recent report and testimony¹ as well as recent legislation and congressional direction concerning the program.² This report responds to that agreement.

Background

In 1980, the Navy initiated STAFS to (1) standardize accounting and financial management functions within Navy Industrial Fund³ activities in accordance with government requirements, (2) satisfy the financial management information needs of these industrial fund activities, and (3) correct known accounting deficiencies at 14 industrially funded Research, Development, Test and Evaluation centers and laboratories. The Navy planned to initially implement the system at these 14 sites and then consider deploying it to the other Navy Industrial Fund activities such as shipyards and aviation depots. STAFS' estimated project costs at the time of its initiation were \$32.9 million. Early deployment schedules showed system implementation at the 14 sites by early 1986.

Problems With STAFS

In April 1988, the former Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations, expressed concern about STAFS' cost and management and asked that we review the program. In September 1988, we reported that STAFS was experiencing serious problems. For example, the Navy had spent about

¹Computer Procurement: Decision Needed on Navy's Standard Automated Financial System (GAO/IMTEC-88-47, Sept. 13, 1988); (GAO/T-IMTEC-88-7, Sept. 13, 1988).

²Conference Report accompanying the Department of Defense Fiscal Year 1989 Appropriations Bill (H.R. 4781).

³These activities use a self-sustaining, working capital fund to operate in a business-like manner. Under industrial funding, the activities provide goods and services to customers who reimburse the activities with funds from various sources. The activities use the reimbursements to replenish their working capital funds.

\$230 million on the system, estimates for completing implementation ranged as high as \$479.4 million, and deployment had slipped by more than 5 years to at least 1991.⁴ Additionally, the Navy had yet to fully test the STAFS, had failed in four out of five attempts to implement it at four different sites, had allowed it to grow well beyond its originally intended purpose, and was experiencing strong opposition from STAFS' users.

In light of these problems, the Navy had to decide whether to continue STAFS or pursue some other alternative. Not having adequately analyzed alternatives to STAFS, it lacked the necessary information upon which to base a decision.

Because of the Navy's dilemma with STAFS, we recommended in our report⁵ and in testimony before the House Committee on Government Operations, Subcommittee on Legislation and National Security,⁶ that the Navy:

- Evaluate the need for STAFS' expanded capabilities in light of its intended mission;
- Fully explore alternatives to STAFS for satisfying the centers' and laboratories' accounting and financial management requirements;
- Fully test STAFS to determine how effectively it will operate under the work load and operating conditions found at the centers and laboratories; and
- Ensure that, in the interim, spending for STAFS is held to the minimum necessary to complete these efforts.

STAFS Termination Decision

The decision to terminate STAFS followed several months of Navy study and high-level deliberations. In the final analysis, the decision was based on the Navy's finding that upgrading the centers' and laboratories' existing accounting systems in lieu of continuing STAFS or pursuing some other alternative was the least costly, least risky, and most timely course of action. The events leading to and the analysis supporting the Navy's decision are described below.

⁴Estimates since September 1988 show deployment to be completed as late as November 1994.

⁵GAO/IMTEC-88-47.

⁶GAO/T-IMTEC-88-7.

Navy's Analysis of Alternatives

In response to our recommendations, the acting Navy Comptroller, who also chairs the STAFS Executive Review Board,⁷ directed the Navy Accounting and Finance Center, in collaboration with the Navy Information Resource Manager and the Navy Center for Cost Analysis, to analyze alternatives to STAFS and report the results to the board. The analysis evaluated STAFS and three alternatives against prescribed government accounting requirements and Navy financial management information needs. The focus of the analysis was to identify the most economical means of satisfying these needs. The alternatives evaluated were

1. Continue with STAFS after (1) correcting existing deficiencies, (2) fully testing the system, and (3) successfully operating it at one additional site for one year.
2. Modify STAFS to permit data exchange with the sites' existing management information systems so that, if desired, a site could implement only the basic accounting modules in STAFS and continue using their existing systems. However, the entire STAFS system would be available to sites wishing to implement it. As with alternative 1, correction of existing system deficiencies and full system testing would be required.
3. Terminate STAFS and upgrade the sites' existing systems to correct known accounting deficiencies.
4. Terminate STAFS and develop a new industrial fund accounting system. Three starting points for this alternative were evaluated. They were (1) use that part of the STAFS functional specification related solely to accounting functions and develop new software, (2) select an existing government system and modify it, and (3) obtain a commercial, accounting system software package and modify it. The new system would be subject to the same testing requirements as alternatives 1 and 2.

The Navy's analysis showed that all four could satisfy the government's accounting requirements and the Navy's information needs. Cost, risk, and time then became the issue. According to the analysis, terminating STAFS and upgrading the sites' existing systems (1) could be accomplished for \$192.7 million less than the next least costly alternative, (2) was the least risky alternative, and (3) could be completed 3 years

⁷The STAFS Executive Review Board is a senior-level, oversight body responsible for monitoring, reviewing, and providing advice and recommendations on system development and implementation. It is chaired by the acting Navy Comptroller and includes representatives from the centers' and laboratories' parent commands.

ahead of the next most timely alternative. Appendix II summarizes the cost, risk, and schedule findings for each alternative.

Further Assessment of the Alternative Selected

After reviewing the results of the analysis of alternatives, the acting Navy Comptroller directed the Navy Accounting and Finance Center to further assess the sites' existing systems to ensure that (1) sites claiming compliance with government requirements truly were so and (2) sites requiring system improvements could be "economically upgraded in acceptable time frames and maintained at reasonable cost." According to the Navy Accounting and Finance Center, Deputy Commander for Information Resource Management and Financial Management System Development Projects, this assessment confirmed the results of the analysis of alternatives.

Navy's Decision

The acting Navy Comptroller later wrote to the Under Secretary of the Navy stating that he saw "no advantage to proceeding with STAFS because its remaining costs far exceed its benefits." He added that he "strongly recommends that STAFS be terminated immediately . . . and that existing financial systems be upgraded." The Under Secretary agreed with this recommendation, and on January 11, 1989, halted STAFS' further development and implementation.

Consistency of Navy Decision With GAO and Congressional Direction

In our opinion, the Navy's decision to terminate STAFS was consistent with our report and testimony, and was not in violation of congressional legislation or direction.

Although early Navy cost/benefit analyses showed that STAFS was the more cost effective solution to the Navy's accounting and financial information needs, these analyses had not been updated to reflect the problems STAFS was facing when the Navy made its termination decision. Accordingly, we recommended that the Navy analyze alternatives to satisfying its basic accounting and financial management needs, and as stated by the Navy Accounting and Finance Center, Deputy Commander for Information Resource Management and Financial Management System Development Projects, the Navy "looked at what GAO had to say, followed its recommendations, looked at alternatives, and found a cheaper way to be compliant."

The Navy's decision did not violate recent legislation or congressional direction. Although the Fiscal Year 1989 Department of Defense Appropriations Act does not specifically address STAFS, the program is addressed in the September 28, 1988 Joint Conference Committee Report that accompanied the appropriations bill. In this report, the conferees stated that the Navy should proceed with STAFS' deployment after successful completion of a Major Automated Information System Review Council⁸ review and should report to the Appropriations Committees within 90 days thereafter on its plan for successful and cost-effective deployment. Among other things, the conferees directed the Navy to report on how it resolved issues raised in our report.

We believe that the Navy's termination decision is consistent with the conferees' direction. Specifically, the conferees directed the Navy to report to the Appropriations Committees on how it resolved the concerns we raised (i.e., our recommendations). As stated earlier, we believe that the steps the Navy took in arriving at its decision addressed our concerns and were consistent with our recommendations. Further, once the Navy terminated STAFS in favor of a more cost-effective alternative, the remaining direction in the conference report no longer applied. In other words, the conferees' conditions for proceeding with STAFS—successfully completing a Major Automated Information System Review Council review and providing a deployment plan to the Appropriations Committees—could not be followed because the program was canceled.

As your office requested, we did not obtain official agency comments on a draft of this report. However, we discussed its content with the Navy Accounting and Finance Center, Deputy Commander for Information Resource Management and Financial Management System Development Projects, and have incorporated his comments where appropriate. Our work was performed between January 1989 and March 1989 in accordance with generally accepted government auditing standards. Appendix I contains a detailed explanation of our objectives, scope, and methodology.

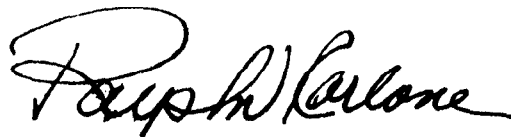
As you requested, we are providing a copy of this report to the Chairman, Subcommittee on Defense, House Committee on Appropriations. However, unless you publicly announce its contents earlier, we plan no further distribution until 30 days from the date of this letter. At that

⁸The Major Automated Information System Review Council is the Defense Department's senior management oversight and decision-making body for general-purpose, major information system projects.

time, we will send copies to the Chairmen, House and Senate Committees on Appropriations; Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations; Secretaries of Defense and the Navy; and other interested parties. We will also make copies available to others upon request.

This report was prepared under the direction of William S. Franklin, Associate Director. Other major contributors are listed in appendix III.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ralph V. Carlone".

Ralph V. Carlone
Assistant Comptroller General

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Information Management and Technology Division
Washington, D.C.

Abbreviations

GAO	General Accounting Office
IMTEC	Information Management and Technology Division
STAFS	Standard Automated Financial System

Objectives, Scope, and Methodology

Interest in the Navy's recent decision to terminate STAFS prompted Representative Jim Bates to ask us to examine the circumstances surrounding the decision. On the basis of the request and subsequent discussions with the requester and his office, we agreed to report on:

- the problems the Navy faced with STAFS,
- the events leading to the decision, and
- the consistency of the decision with our recent report and testimony and recent legislation and congressional direction concerning STAFS.

To develop the report, we used information on the problems STAFS was facing that was contained in our earlier report on the program. Additionally, we interviewed Navy officials and reviewed relevant documentation concerning (1) the chain-of-events leading to the decision, (2) the basis for the decision, including the Navy's recent analysis of alternatives to STAFS, and (3) the implementation of the decision. We also researched recent Defense Department appropriations bills and committee reports for direction concerning STAFS' future and compared this direction to the recommendations in our above cited report and testimony.

We discussed the contents of this report with the Navy Accounting and Finance Center, Deputy Commander for Information Resource Management and Financial Management System Development Projects, and have incorporated their comments where appropriate. We performed our work between January 1989 and March 1989 in accordance with generally accepted government auditing standards.

Comparison of Cost, Risk, and Schedule Findings in the Navy's Analysis of Alternatives to STAFS

Alternative	Cost ^a	Risk ^b	Scheduled Completion ^c
1. Continue STAFS	\$450.4	High	November 1994
2. Modify STAFS	\$595.4	High	June 1995
3. Terminate STAFS and Upgrade Existing Systems	\$257.7	Low	October 1991
4. Terminate STAFS and Develop New System	\$455.8–\$616.8 ^d	Moderate	July 1997

^aRepresents total life cycle costs (i.e., costs to complete system development and to implement, operate, and maintain the system over its useful life) in millions. The defined life cycle is fiscal year 1989-2000, 12 years.

^bAssessments based on such variables as size and complexity of system, developer and user familiarity with system, user acceptance of system, and difficulty of system implementation methodology.

^cRepresents system implementation at last site.

^dRange due to consideration of three possible starting points for developing a new system.

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