GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-259670

January 6, 1995

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

Federal agencies, seeking to reduce the cost of government services and increase customer satisfaction, are attempting to capitalize on the opportunities offered by today's information technology. Our review of leading organizations indicates that accomplishing such significant improvements in performance nearly always requires that critical work processes be streamlined or redesigned in conjunction with the application of information technology.[1] Information technology projects that do not consider business process redesign may fail or reach only a fraction of their potential.

Our reviews of major system modernization efforts across the government, however, have shown that many federal agencies are still automating existing ways of doing business. This results in the expenditure of millions of dollars with little or no benefit and lost opportunities to fundamentally improve government performance and public satisfaction.

This letter responds to your request for examples of agencies that have had difficulties in applying information technology to their programs. These examples were drawn from several GAO reports that illustrate the seriousness of this problem across government.

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[1]Our report Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994), which was released at a Senate Committee on Governmental Affairs hearing on May 19, 1994, described various management techniques that federal managers can use to help solve their complex information management problems.

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REENGINEERING CAN HELP AGENCIES IMPROVE OPERATIONS

Business process reengineering (BPR) is the redesign of an organization's processes to achieve dramatic performance improvements. Reengineering involves

-- defining new organizational goals by focusing on customer needs and stakeholder values,

-- understanding and challenging the underlying assumptions and premises on which work is performed and decisions are made, and

-- systematically redesigning and streamlining work processes, decision-making, and the supporting organizational structures and information systems to achieve the desired goals.

Because an organization's business processes and decisions are supported and driven by information, reengineering taps into the enormous potential of information technology to support new ways of conducting business.

Organizations that have reengineered successfully have attained profound levels of improvement in service, quality, and cost. This success is based on a set of identifiable characteristics or practices, including strong executive leadership and commitment, a shared willingness or recognition of the need to change, a clear strategic vision of the future, a sound methodological approach, and the ability to successfully implement and manage organizational change. Reengineering efforts that do not follow these practices significantly increase their chance of failure.

Successful organizations typically follow a methodological approach to reengineering. This approach includes (1) analyzing the organization's current performance, (2) positioning the organization to begin reengineering, (3) redesigning the process and support systems and structures, (4) implementing the new process, support systems, and structures, and (5) monitoring the results. While information technology can enable organizations to fundamentally rethink and reshape their work processes, technology should not be applied until the processes have been conceptually designed.

FEDERAL AGENCIES FREQUENTLY DO NOT REENGINEER PROCESSES BEFORE APPLYING INFORMATION TECHNOLOGY

Federal agencies spent at least $25 billion on information systems in 1993, and more than $200 billion over the last 12 years. Despite these heavy investments in information technology, federal managers do not have the essential information they need to support business processes. Moreover, the information technology has often not been used strategically to simplify and streamline processes, improve service to the customer, and reduce personnel or overhead costs.

A successful modernization effort is one that is based on a strategic analysis of what the agency needs to accomplish, where the agency currently is, and where it must be at future points in order to meet its goals. While most agencies have mission statements that define general goals, many have not analyzed their business processes to learn where they are breaking down or determined how current processes can best be redesigned. Instead, agency leaders have too often given the green light to technology projects believing that the projects will somehow engender solutions to management problems.

We have reviewed many of the major information system modernization efforts underway throughout the government. We have found numerous cases where the agencies acquired information technology without analyzing their current business processes or assessing their business needs. The following are examples where federal agencies are heavily investing in technology improvements without first analyzing and redesigning current business processes.

USDA's Info Share Initiative

We reported in August 1994 that the Department of Agriculture was planning to spend hundreds of millions of dollars to automate the current way it was doing business.[2] The then Secretary of Agriculture had established a $2.6 billion program called Info Share--the biggest and most challenging modernization effort in USDA's history--as part

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[2]USDA Restructuring: Refocus Info Share Program on Business Processes Rather Than Technology (GAO/AIMD-94-156, August 1994).

of a vision to revitalize USDA and improve operations. The goal of Info Share was to develop new business processes to improve service to farm service and rural development agencies' customers.

We found that USDA, however, was managing Info Share primarily as a vehicle to acquire new information technology rather than an opportunity to fundamentally improve business processes. Basic principles of successful reengineering practices were not being followed. As a result, we concluded that the Secretary's vision of a revitalized and reinvented USDA was not likely to be achieved. In response to our report, the General Services Administration withdrew its $2.6 billion procurement authority for the program and USDA senior management agreed to refocus the program on improving business processes.

Veterans Benefits Administration's Claims Process

The Veterans Benefits Administration (VBA) of the Department of Veterans Affairs embarked on a modernization effort aimed at speeding up the processing of veterans' compensation claims. In 1992, a veteran had to wait an average of 151 days--more than a third of a year--for an original compensation claim to be processed. VBA planned for the modernization effort to eventually involve the acquisition of up to $680 million in computer and communications equipment.

VBA, however, neglected to set new performance goals and redesign its current claims process before acquiring the equipment. In our review of this modernization effort, we determined that applying the new technology to VBA's current process would only improve service by 6 to 12 days.[3] In 1993, VBA and the Office of Management and Budget entered into an agreement to redirect the modernization program, including establishing greater service improvement goals given the size of the government's investment plans.

In the meantime, veterans are faced with worsening service levels. By February 1993--over 1 year after VBA awarded the

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[3]Veterans Benefits: Redirected Modernization Shows Promise (GAO/AIMD-94-26, December 1993); Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6, November 1992).

first of three planned hardware procurements--the compensation claims processing time had slipped to an average of 177 days, and VBA estimated that by October 1994 it would take an average of 228 days to process an original compensation claim.

Social Security Administration's Disability Claims Process

The Social Security Administration (SSA) has recognized the need to redesign its work processes. For instance, attention is currently being focused on reengineering the disability determination process. SSA has determined that claimants wait an average of up to 155 days from their first contact with SSA for an initial decision, although only about 13 hours are spent actually working on a claim. The agency's proposed process is intended to reduce the number of days for a claimant's first contact with SSA to an initial decision from an average of 155 days to less than 40 days. As we testified in April 1994, SSA's April 1, 1994, proposal to restructure the disability determination process is the first valid attempt to address major fundamental changes needed to realistically cope with disability determination workloads while improving customer service.[4]

Nevertheless, SSA is allowing technology acquisitions to go forward before completing business and service delivery plans and redesigning the processes that the new technology is to support. For example, SSA is constructing a network of over 90,000 personal computers without showing that a network of this size is needed to support short- or long-term requirements. As we reported in September 1994, without linking technology improvements to business requirements, SSA runs the risk of spending an estimated $5 to $10 billion over the next 10 years on an agencywide systems modernization that may not be needed.[5]

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[4]Social Security Administration: Major Changes in SSA's Business Processes Are Imperative (GAO/T-AIMD-94-106, April 1994).

[5]Social Security Administration: Risks Associated With Information Technology Investment Continue (GAO/AIMD-94-143, September 1994).

Department of Defense's Corporate Information Management

In 1989, the Department of Defense, faced with the challenge of maintaining a strong military with fewer resources, began its Corporate Information Management (CIM) initiative to streamline operations and manage resources more effectively. Defense originally estimated that CIM could save $36 billion over 6 years. To date, however, CIM has achieved mixed results, largely because its focus has been on information technology rather than on reengineering major business processes, such as personnel, payroll, inventory management, supply distribution, and contract administration.

We reported in April 1994 that Defense, for the most part, has been absorbed in trying to pick the best of its hundreds of existing automated systems and standardizing their use across the military components.[6] This approach may be locking Defense into automated ways of doing business that do not best serve its business goals for the future. In addition, while Defense has several reengineering efforts underway, as we reported, these efforts have been unfocused and have not been driven by Defense's top management. Defense has been spending nearly $3 billion annually to develop and modernize its automated systems. But until it rethinks its business processes, it runs the risk of automating old, inefficient ways of doing business.

IRS' Tax System Modernization Effort

In 1986, the Internal Revenue Service (IRS) initiated the Tax Systems Modernization (TSM) initiative to automate its existing business functions, which were based on a 1960s approach to handling tax returns and collections. IRS estimates that acquiring hardware, software, and telecommunication services and managing the implementation of the various systems will cost about $9 billion. IRS has reported that it will have spent over $2.5 billion through fiscal year 1995 automating selected processes, although the overall design for TSM remains incomplete. While IRS has

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[6]Defense Management: Stronger Support Needed for Corporate Information Management Initiative To Succeed (GAO/AIMD/NSIAD-94-101, April 1994); Defense ADP: Corporate Information Management Must Overcome Major Problems (GAO/IMTEC-92-77, September 1992).

developed a business vision and is currently evaluating its existing business processes to determine which should be reengineered to support the business vision, the agency is also continuing to automate existing functions with limited understanding of whether or how these systems will connect to improve tax processing overall.

We reported these and other findings to the Congress in 1994.[7] As a result of our work, the Congress reduced IRS' fiscal year 1995 request by $339 million and required that IRS resolve specific program and project management issues. IRS is also scaling back plans for selected projects and has agreed to put the needed business and technical foundation in place.

Nationwide Implementation of Electronic Benefits Transfer

The administration is aggressively pursuing the nationwide use of electronic benefits transfer (EBT) by 1999 for up to 16 federal and state benefit programs. These programs, which involve tens of millions of benefit recipients and hundreds of billions of dollars in federal and state funds, include Food Stamps; Aid to Families with Dependent Children; Supplemental Security Income; Old Age, Survivors, and Disability Insurance; civil service and military pensions; Special Supplemental Food Program for Women, Infants, and Children; Medicare; and Medicaid.

As we reported in December 1994, while the administration estimates annual savings of $195 million through nationwide EBT, significant issues regarding its cost and potential for fraud remain unresolved--issues that some states estimate could cost the states hundreds of millions of dollars.[8] Moreover, the federal EBT initiative is focused strictly on the delivery of benefits. It does not address reengineering the programs and processes by which the services are provided, particularly for the welfare programs where EBT is first being implemented.

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[7]Tax Systems Modernization: Status of Planning and Technical Foundation (GAO/T-AIMD-GGD-94-104, March 1994).

[8]Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, December 1994).

7 GAO/AIMD-95-67R Reengineering: Opportunities to Improve

IMPLICATIONS

Today's information technology offers unprecedented opportunities for federal agencies to reduce the cost of government services and increase customer satisfaction. Successes at the federal level will require a strong governmentwide focus on linking modernization projects to process improvement efforts. Without this focus, federal agencies will continue to miss significant opportunities and service as usual will continue. Many low-value, high-cost, high-risk information system projects will continue to be developed unimpeded if leaders apply information technology to existing processes in an attempt to improve performance. Moreover, millions of taxpayers dollars will continue to be spent automating existing processes with marginal or no service improvement to the customer.

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We look forward to providing additional assistance to your committee and to working with you and your staff to improve the prospects of achieving greater progress in this vital area. If you have any questions about the information in this letter, please contact me at (202) 512-2600 or Chris Hoenig, Director, Information Resources Management/Policies and Issues, at (202) 512-6406.

Sincerely yours,

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