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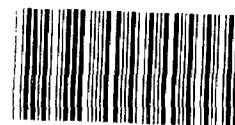
Testimony

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COMPUTER PROCUREMENT: Decision Needed on  
Navy's Standard Automated Financial System

Statement of  
The Honorable Charles A. Bowsher  
Comptroller General

Before the  
Subcommittee on Legislation and National Security  
Committee on Government Operations



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Mr. Chairman and Members of the Subcommittee:

I am pleased to participate in these hearings on the Navy's Standard Automated Financial System (STAFS). My testimony this morning is in response to your April 1988 letter, in which you expressed concern about the system's cost and management. The Navy initiated STAFS in 1980 to help improve the accounting and financial management of its Navy Industrial Fund (NIF)<sup>1</sup> engineering centers and research laboratories. Since that time, estimates of project costs<sup>2</sup> have soared from almost \$33 million to as high as \$479 million, and the system's implementation schedule has been delayed by over 5 years from its original date of early 1986.

Our review of STAFS has raised several concerns about the program. The following briefly outlines these for you.

Although initially intended as a basic financial system, STAFS has evolved into a more comprehensive management information system containing capabilities that go well beyond those originally envisioned. According to Navy Accounting and Finance Center officials, these extra capabilities were added to accommodate user

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<sup>1</sup>NIF activities are intended to operate as businesses, providing goods and services to customers who reimburse the activities with appropriated funds. The activities maintain a level of working capital to finance their operations, and they use the customers' reimbursements to replenish the working capital.

<sup>2</sup>Project costs are defined as all costs from project initiation through system deployment at all operating sites. Life cycle costs include, in addition to project costs, the costs of maintaining the system over its expected useful life.

requests in the hope of gaining their acceptance of the system. The prime contractor for STAFS has stated that these additional capabilities make STAFS a "Cadillac" system. Examples of the extra capabilities include electronic requisitioning of materials and services, automated generation of procurement documents, electronic preparation of travel orders, and electronic mailing and approval of documents.

The Navy has not fully disclosed either the system's estimated project costs or life cycle costs in its budget submissions to the Office of the Secretary of Defense (OSD) and the Congress. The Navy's fiscal year 1988/1989 budget exhibit for STAFS shows life cycle costs of \$183.8 million, even though its project cost estimate at the time was \$281.6 million, and other Navy estimates of project costs were as high as \$479.4 million. According to Navy officials, this understatement of project costs in the budget was to be disclosed by a footnote; however, the footnote was inadvertently omitted.

The Navy has unsuccessfully attempted to implement STAFS at three sites. Although it has experienced some success at a fourth site, this site does not currently provide a good indication of whether STAFS can be successfully deployed to all the centers and laboratories. This is because the fourth site (1) is not representative of the other planned sites, (2) has not yet loaded all active transactions onto STAFS (i.e., all transactions prior to

fiscal year 1988 are being processed on its old system), and (3) has not yet conducted testing to ensure that the system is operationally ready.

In part because of its high cost and its history of performance problems and unsuccessful implementation attempts, STAFS is facing opposition from the centers and laboratories as well as their parent commands. In April 1988, the parent commands for all but one of the centers and laboratories recommended that STAFS be cancelled, and in June 1988, they reaffirmed their earlier position. Additionally, Navy Accounting and Finance Center and STAFS project office officials told us that the individual centers and laboratories do not support the system.

Although we did not evaluate the STAFS test plan, we did examine the testing STAFS actually underwent prior to the Navy's attempts to implement the system at the four sites and found that the testing does not provide assurances that the system can be successfully deployed to all centers and laboratories. Specifically, this testing did not satisfy Defense policies requiring testing at one or more representative sites using actual transaction data.

The Navy has not adequately explored alternatives--as required by Defense directives--for satisfying its accounting and financial management requirements even though it is faced with dramatic

increases in project and life cycle cost estimates. For example, the Navy has not evaluated the possibility of using an upgraded version of one of the systems currently used at the centers or laboratories.

In late 1986, OSD directed the Navy to convert its funding of the centers and laboratories from NIF to an alternative method. OSD has cited three principal reasons for its decision. First, OSD believes that the additional costs of operating under the NIF concept offset any benefits. OSD's position is not supported by evidence and analysis, and changing to an alternative funding method would involve a costly redesign of STAFS. Second, OSD contends that under the NIF concept, the Congress and OSD lose oversight of NIF activities' funds. This argument is not persuasive because, as we earlier reported,<sup>3</sup> industrial fund reporting that includes the results of operations for individual activity groups should actually facilitate congressional oversight. Third, OSD believes that a possible one-time budgetary reduction of \$1.2 billion could be realized by reducing the funded carryover.<sup>4</sup> However, the Navy has already reported reducing its funded carryover from \$3.1 billion in fiscal year 1985 to \$993

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<sup>3</sup>Recent DOD Reporting Changes Should Facilitate Congressional Oversight (GAO/NSIAD-86-58; Apr. 11, 1986).

<sup>4</sup>The funded carryover is the amount of appropriated funds obligated by customers for work not to be accomplished by NIF activities until a subsequent fiscal year.

million in fiscal year 1987, thereby eliminating the need to achieve such reductions by converting from industrial funding.

If required to implement OSD's decision to no longer industrially fund the centers and laboratories, the Navy plans to redesign STAFS. This raises the question of whether the redesign could be accomplished under the existing contract. We found that the existing STAFS contract allows for system changes that affect 20 percent or less of the system's lines of code. Estimates of the planned STAFS redesign range from an 18 percent to a 30 percent change in the number of lines of code. Thus, until the scope of the possible redesign is more clearly defined, it is impossible to determine whether the existing contract will accommodate the redesign.

#### CONCLUSIONS

The Navy is faced with a dilemma. An estimated \$230 million will have been spent on STAFS by the end of fiscal year 1988, with estimates for implementing STAFS ranging as high as \$479 million. However, the system (1) has not been fully tested, (2) is not fully operational at any center or laboratory, (3) has grown well beyond its intended purpose, and (4) is experiencing user opposition. In addition, OSD's decision to change the centers and laboratories from industrial funding to an alternative funding method is not supported by evidence showing that such a change would be

advantageous. Finally, the full cost of the program has not been provided either to OSD or the Congress.

Against this backdrop, the Navy must decide whether to continue with some version of the current system or pursue an alternative. This decision is complicated by the fact that the Navy has not fully analyzed alternatives to STAFS.

In our opinion, the Navy needs to concurrently:

- fully test STAFS, as required by Defense policies, to determine how effectively the system will operate under the work load and operational conditions found at the centers and laboratories;
- evaluate the need for STAFS' expanded capabilities in light of its intended mission;
- fully explore alternatives to STAFS for satisfying the activities' accounting and financial management requirements; and
- ensure that, in the interim, spending for STAFS be held to the minimum necessary to complete these efforts.

If, on the basis of these efforts, the Navy decides to continue with STAFS, we believe that the Navy needs to provide OSD with the information needed to review this decision in accordance with OSD's oversight responsibilities. In addition, OSD needs to provide the Congress with a revised budget exhibit for STAFS based on a current estimate of project and life cycle costs.

Last, we believe that OSD needs to allow the Navy to continue to industrially fund the centers and laboratories, unless the need for a change can be clearly demonstrated.

This concludes my prepared statement. We will be happy to answer any questions that you may have.