DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:
CERM-P/CERM-F

22 MAY 2003

MEMORANDUM FOR ALL USACE MSC COMMANDERS

SUBJECT: Fiscal Policy - Consolidated Departmental Overhead (CDO)

1. The U.S. Army Corps of Engineers is well into the second year of the two-year test period evaluating the CDO concept of pooling overhead costs for interrelated technical organizations in a District structure (please see Encl 1). Sufficient information and data have been evaluated to draw conclusions regarding the use of CDO in accounting and budgeting operations. This memorandum declares an end to the test on 30 September 2003 and directs implementation of CDO Corps-wide NLT FY05 according to operational guidelines given in paragraph 2. CDO will be the standard mechanism to achieve equitable departmental overhead distribution in a matrix organization and is reserved exclusively for USACE Districts. A regional plan leading to a standard CDO with minor variation should be drafted in FY04 and provided to my POC (NLT April 2004). The Engineer Regulation (ER 37-1-30, Chapter 19, Revolving Fund Accounting for Departmental Overhead) is currently in development and will incorporate specific language consistent with this memorandum.

2. CDO will be implemented as follows: use, modification or expansion of the concept beyond the test phase and with respect to FY04 will be at the discretion of MSC Commanders as advised by their respective Regional Management Boards. MSC are required to apply a standard configuration regionally in FY05 under the following guidelines:

a. Each individual RMB will choose the departmental accounts to consolidate and districts (FY04 only) to participate. Some latitude is being allowed to work through the development of CDO during FY04 and until the Corps gets through its transformation under USACE 2012, RBC 2012 and regional database implementations. The departments targeted for consolidation should be linked by virtue of their shared product outputs. This will justify the distribution of cost across shared resources. Initially, the departments to be consolidated for Civil Works should include Planning, Engineering, Construction, Contracting, and Programs and Project Management (PPM) and, for Military Programs should include Engineering, Construction, Contracting, and PPM.

b. The CDO account must designate a single manager who is responsible for authorizing the costs accumulated in the account and then distributed to appropriations or reimbursable orders. However, a corporate approach to the account's budgetary formulation and execution review is essential. The CDO manager must attest to the propriety of the financial controls and the requirements as defined in the Army Management Control Plan and USACE Annual Statements.

c. The account may be used to commingle indirect costs only and residual balances must be distributed in accordance with USACE financial policies and guidelines. Just as with all accounts, the CDO account will be regularly reviewed and put under the rigors of management controls and performance analysis.

d. Budgetary approval of the account must be done as part of the Command Operating Budget (COB) cycle. The Resource Management Officer will advise the CDO team and is the overall manager of the Revolving Fund vis-a-vis the conduct of the Program Budget Advisory Committee (PBAC) and COB processes.

3. Some general conclusions and recommendations that have been drawn through evaluation of the U.S. Army Audit Agency report (Encl 2), existing regulations and the test sites' analyses (Encl 3) are at the appendix.

4. I want to extend my thanks and appreciation to the Districts for exploring this dynamic concept. As we transform USACE and wrestle with the needs of a matrix organization, new financial concepts and innovations will emerge and be available for use. I believe CDO will strengthen management oversight and better enable us to meet the challenges ahead. It is a necessary step toward regional control, regional rates, regional databases and a more consistent pattern of overhead distribution. CDO will enable us to fully embrace RBC 2012 operations.

5. Questions regarding CDO implementation or the test should be referred to Bob Corace, CERM-P at (202) 761- 5554.

FOR THE COMMANDER:

Encls

STEPHEN COAKLEY
Director of Resource Management

APPENDIX

General Conclusions and Recommendations:

a. The most noticeable advantage of using CDO has been its effect on managerial dynamics and departmental unity. A greater sense of cooperation among traditionally stovepipe organizations has developed along with a consistent and standard costing behavior using the CDO concept. Conciliation and propensity to sharing replaced turf protection and aversion to sharing. This is the most beneficial aspect of CDO and goes to the core of USACE initiatives such as PMBP and MEO.

b. Analysis of empirical data using the CEFMS-CDO analyzer program has led the sixteen test sites to conclude that, there is no appreciable impact on total resource consumption even though costs have migrated somewhat among appropriations, projects or accounts. In general, the test sites have recommended in favor of a departmental overhead consolidation. On the other hand, non-test sites that ran the analyzer to assess pro-forma results, while simply speculating on management outcomes, have unanimously reached negative conclusions and in some cases are vehemently opposed to CDO.

c. The U.S. Army Audit Agency has endorsed CDO as an acceptable business practice. HQ, USACE Offices of Internal Review and Counsel have opined that, the practice of grouping several organizations is not illegal and, if cost distributions are equitable, complies with generally accepted accounting principles. The USACE Revolving Fund was established to allow for the melding of expenses and various source appropriations in a controlled and orderly manner within pre-established tolerances.

d. Admittedly, there are some CDO combinations that do not make sense. To annex Civil Works, Operations and Maintenance, General function, as attested by the experience of the Mississippi Valley Division, is dubious. Although, there is testimony to support the inclusion of O&M Division when either its workforce is predominantly GS-white collar or workload is a minor portion of the consolidated department's total direct labor base. Likewise, the inclusion of Real Estate Division requires careful examination of the work products or services with respect to the sources of funds and customers.

e. Contracting Division should definitely become a part of the CDO pool due to its growing role in project management acquisition strategies and contractual actions. The historical rationale for classifying its duties among General and Administrative functions has flagged as its role in small purchases has diminished dramatically due mainly to the use of micro-purchase (IMPAC) cards.

f. Analysis of a single-year's data is insufficient to evaluate the influence of CDO on total overhead trends. My POC has advised me that, a reduction should occur within a few years as accounts and oversight duties merge.

g. The impact assessment of CDO on national programs or regions is not possible at this time. The FY02 test group represented only 40% (16 of 41 districts), while FY03 represents 43% (18/41). Two MSC have tested division-wide, three MSC have tested some districts and two MSC had no participation.

h. Current laws and regulations are adequate to permit CDO, and it may be implemented at any time using two pertinent regulations governing departmental overhead (ER 37-2-10, Chapter 22) and organizational structures (ER 10-1-2). In fact, Seattle District developed CDO under its own interpretation prior to the test and its experience, foresight and intuition have been substantiated by the results of the test. This test has proven useful and gone beyond the Seattle experience in applying the concept to diverse organizational circumstances involving various workloads and conjoint management environments.

Consolidated Departmental Overhead Test Information Paper

The Consolidated Departmental Overhead (CDO) initiative has tackled the legacy accounting practice of operating various cost pools related to each technical function operating in a USACE District. CDO was conceived in 1999 in keeping with a 1998 proclamation by LTG Ballard when he established Regional Business Centers operating guidance throughout the Corps. He said, "I expect the MSC to identify optimal business practices for the region, most efficient organizations for each district, and initiatives to optimize the use of regional resources."

The thrust of the initiative has been to combine those various cost pools into a singular organizational grouping representing the Project Management Business Process. The test has hoped to show how CDO can strengthen PDT (Project Delivery Teams) by bringing stovepipe organizations together and establishing a single departmental overhead rate. A single overhead rate would be applied to direct in-house labor thereby, simplifying the estimation of project costs. The test included an additional theory to add Contracting Division to the CDO pool for two reasons. This was done to bolster the direct charge labor base and promulgate the one-hour rule for contracting effort that has been overlooked to a fault.

Purpose: The test approach was employed to recognize the diversity of USACE activities. The PMBP training curriculum purports that projects should not adapt to a "one size fits all" approach. Likewise, neither should the Districts involved with accomplishing those projects. One challenge has been to gauge whether a USACE District can operate and charge projects in accordance with GAAP under a single departmental overhead rate (pool) for its technical organizations. The CDO pool would presumably be comprised of their PDT-contributing organizations. The CDO business practice would replace the current standard practice, whereby the districts charge separate, sometimes varying widely, rates for each technical department.

Current status: Sixteen (16) test districts (in 5 of our MSC's) have been using CDO and have accumulated one year of data. It will continue through FY03 and two other test beds (1 MSC) will be added culminating in a decision support package. We enlisted the advisory services of AAA. Its consulting team has concluded visits to three test sites and one non-test District (Norfolk, Baltimore, St Paul and Pittsburgh Districts). No further site visits will be necessary. A CEFMS analytical tool has been written and is available for all USACE FOA to use. A user guide has been posted to the USACE RM website.

CDO Analysis Tool: It is a feature of the CEFMS Operating Budget module providing the ability to analyze the effects of the CDO business practice on unique operational circumstances. The analysis provides dollar comparisons of both

Departmental and G&A overhead charged to projects, programs or appropriations between the current organization with its associated revolving fund work item code structure and a "what-if" organizational structure. The CDO analysis is executable against either the current-FY database or the stored prior year databases.

Overview of the process: Once selected from the CEFMS Budget menu, the user will be presented with a form displaying any previously created CDO scenarios. Each scenario, identified by FY and scenario #, depicts the FOA's current organization structure (as is) and a "what-if" (to be) structure. The user will be provided on-screen buttons to manipulate scenario data, one with which to reload a previous scenario and a second button to elect specific organizations to include or reassign in the scenario. A third button will initiate a data extract procedure and generate the analysis report. The data extract procedure will collect expense information and the CDO analysis report will be generated based upon the new parameters.

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of the Deputy Auditor General
Forces and Financial Management
3101 Park Center Drive
Alexandria, VA 22302-1596

SAAG-FFC (36-2c) 10 January 2003

MEMORANDUM FOR Headquarters, U.S. Army Corps of Engineers, Directorate of Resource Management, Chief, Business Practices and Program Evaluation Division, ATTN: CERM—P (Mr. Dale Ringer)

SUBJECT: Consulting Services for the U.S. Army Corps of Engineers Consolidated Departmental Overhead Test, Audit Report: A-2003-0096-FFC

1. This is our report on our consulting review of the Corps of Engineers consolidated departmental overhead test. We conducted our work at Corps Headquarters, four Corps test sites, and one Corps non-test site.

2. We established three objectives for our review. However, we couldn't fully address objectives two and three because of delays in developing data queries to be used in obtaining and comparing overhead cost data, and delays in developing metrics to be used in measuring the results of the consolidated departmental overhead test.

3. We discussed the results of our review with personnel at the activities we visited and at Corps headquarters. We performed this consulting effort at your request. This report is intended for your internal use, and requests for copies of this report will be referred to you. This report is not subject to the official command-reply process prescribed in AR 36-2.

4. Thank you for the courtesies and cooperation extended to us during the consulting review.

FOR THE DEPUTY AUDITOR GENERAL

Michael S. Ham

Encl

MICHAEL S. HAM
Program Director
U.S. Army Corps of Engineers

U.S. ARMY CORPS OF ENGINEERS
CONSOLIDATED DEPARTMENTAL OVERHEAD TEST

WHAT WE REVIEWED

We reviewed the implementation of the U.S. Army Corps of Engineers consolidated departmental overhead process test. The Chief of the Corps of Engineers, Business Practices and Program Evaluation Division and U.S. Army Audit Agency Corps of Engineers Program Director signed an engagement letter in May 2002 defining this engagement.

We conducted our review from May through October 2002 at the Corps headquarters and selected Corps districts. We:

- Discussed the consolidated departmental overhead test with personnel from the Resource Management Directorate and technical departments.

- Reviewed documentation related to overhead costs and the calculation of overhead rates.

We performed this consulting effort at the request of the Chief, Business Practices and Program Evaluation Division, Directorate of Resource Management, U.S. Army Corps of Engineers in accordance with consulting standards issued by The Auditor General. The client determined the nature and scope of this engagement, and this report is intended for the client's internal use. Requests for copies of this report will be referred to the client.

BACKGROUND

The Corps of Engineers technical department's labor charges are a function of direct labor costs, departmental overhead costs, and general and administrative costs. (Technical departments include Engineering, Construction, Contracting, Real Estate, Programs and Project Management, Planning, and Operations Divisions.) The Corps currently uses seven technical departmental overhead accounts to identify overhead costs and charge customers for each technical service provided. The departmental overhead rates for the technical departments range from approximately 20 to 60 percent of the direct labor charges for the specific department involved. The technical departments calculate overhead rates using budgetary data to determine a budget overhead rate for the year that is then charged to the customer. Departments perform mid-year reviews of the budget rates and make adjustments accordingly.

In August 2001, in an attempt to modernize its business practices in support of the Project Management Business Process, the Corps implemented, on a test basis, a consolidated departmental overhead at 16 test sites in 6 divisions. The consolidated departmental overhead concept combines the departmental overhead costs of certain technical departments in one overhead account and recovers these costs through one consolidated overhead rate rather than separate rates for each department. The intent of the Project Management Business Process and the consolidated departmental overhead is to provide the customer with seamless service that is flexible, effective, and efficient.

OBJECTIVES AND CONCLUSIONS

In coordination with the client, we established three objectives for our consulting review. Those objectives and our conclusions follow:

Objective: Determine whether the consolidated departmental overhead concept complies with and is applied in accordance with applicable laws and regulations and with generally accepted accounting principles.

Conclusion: We did not find that the Corps' consolidated departmental overhead concept violated laws and regulations or generally accepted accounting principles.

During our initial discussions with Corps management, personnel identified a concern that the use of a consolidated departmental overhead could be a violation of law. Specifically, Corps personnel wanted to know whether the consolidated overhead concept violated the "purpose" statute or could be interpreted as an augmentation of appropriations. To determine whether the consolidated departmental overhead concept violated provisions of law, we reviewed implementation of the concept at test sites and discussed its implications with our Office of Counsel.

Technical departmental overhead costs are accumulated in Corps revolving fund accounts and are charged to projects as a "tax" on direct labor. Title 33 U.S. Code, sections 576 and 701b-10 provide the Corps the authority to create a revolving fund for "...temporary financing of services chargeable to appropriations for civil works functions...and the furnishing of facilities and services for military functions of the Department of the Army or other Government agencies... as authorized by law." According to our Office of Counsel, the use of a consolidated departmental overhead is within the intent of Title 33 U.S. Code, sections 576 and 701b-10. The decision as to whether departmental overhead is separate for each department or combined and charged at one rate for all departments is management's decision.

In addition, the use of a consolidated departmental overhead is not in violation of fiscal law by augmenting appropriations or violating the purpose statute. The statutory authority to create a revolving fund somewhat allows for overcharging or undercharging depending on the fund balance. The goal of the revolving fund is to break even, and adjustment to the charges for services must sometimes be higher than actual and other times lower than actual. Assuming proper costs are charged to the overhead account, there is no violation of the purpose statute. We did not review the specific costs included as departmental overhead due to the parameters of this consulting review; therefore, we can't determine whether the Corps, in fact, violated the purpose statute. However, merely establishing a consolidated overhead account is not a violation.

In order to determine whether the consolidated overhead concept was in compliance with generally accepted accounting principles, we reviewed accounting standards and concepts promulgated by the Federal Accounting Standards Advisory Board as well as accounting guidance issued by the American Institute of Certified Public Accountants. The Federal Accounting Standards Advisory Board issues Statements of Federal Financial Accounting Standards that are considered generally accepted accounting principles for the Federal government.

In reviewing the Statements of Federal Financial Accounting Standards, we found that the standard that applies to overhead costing is Standard Number 4—Managerial Cost Accounting Concepts and Standards. The standard requires activities to identify the full cost of outputs to include direct and indirect costs, and the standard also requires that the allocation of costs be reasonable and consistent. However, this standard doesn't specifically discuss overhead costs in any detail or the consolidation of overhead accounts and costs.

In addition to reviewing the Statements of Federal Financial Accounting Standards, we reviewed guidance issued by the American Institute of Certified Public Accountants. American Institute of Certified Public Accountants Statement of Position 81-1—Accounting for Performance of Construction-Type and Certain Production-Type Contracts, states, "Methods of allocating indirect costs should be systematic and rational." The procedures for allocating costs should also be consistently applied.

Based on our work at the test sites, we believe that the consolidated departmental overhead concept abides by the principles of systematic and rational allocation expressed in the public and private sector standards. While the different technical departments do not perform the same type of work, they can and do work on the same contract or project to produce one product for the customer.

However, while the use of a consolidated departmental overhead as set forth by the Corps appears to be in compliance with accounting principles, we believe that there may be some problems in the actual implementation of the process that could lead to noncompliance. Through our fieldwork, we had conversations with various personnel in different departments of the districts we visited. Personnel stated that they believed that the technical departments weren't always consistent in their direct and overhead time charges. This means that someone might be charging the overhead account when in reality the person is working directly on a project, or charging directly to a project when the function is overhead. If this were true, the allocation of costs between overhead and direct charging would be inaccurate and inconsistent between departments.

However, we did not intend or design our review as a test of individual time charges, and, therefore do not have specific evidence of improper charges. While several individuals reported this issue, it was not within the scope of our consulting review to conduct testing of these claims.

Objective: Assist Corps management in establishing metrics to monitor test results and establish evaluation criteria that will define a successful test.

Conclusion: The Corps has not yet fully developed the metrics to be used in its evaluation of the consolidated departmental overhead test.

As discussed with Corps personnel, possible tools the Corps plans to use in evaluating its test include:

- Total labor multiplier.
- Chargeability factor.
- Customer surveys.

However, Corps personnel responsible for monitoring the test have been focused on the implementation of the consolidated departmental overhead concept at the test districts, and with directing the development of queries and reports designed to obtain the overhead cost data for analysis from the Corps of Engineers

Financial Management System. Therefore, the development and application of these potential metrics haven't been fully addressed.

We have met with Corps personnel and provided some assistance in the development of the data queries. However, additional work related to developing the metrics should be revisited at a later date.

Objective: Determine the effects on Corps customers, product lines, and appropriations of distributed charges using direct labor hours for departmental overhead costs, which are accrued on a consolidated organization basis, versus separate overhead account groupings for each independent technical division within a Field Operating Activity.

Conclusion: The consolidated departmental overhead had little effect on Corps customers at the test sites we visited, and, as mentioned in relation to the first Objective, the effect of augmenting appropriations was not considered to be a problem. However, we were not able to fully evaluate the effect on Corps product lines because the Corps hasn't fully developed the metrics to measure this effect.

Customers are billed for services rendered, and each technical department applies the budgeted overhead rate to the specific cost. The customer generally only sees the final dollar figure, which can be negotiated. Rarely does a customer look at the individual technical costs and overheads. Customers are primarily concerned with the bottom line and the quality and timeliness of the work. At the districts we visited, the consolidated departmental overhead resulted in little difference in the total cost for work performed. Corps customers primarily use all the technical divisions and, therefore, experienced minimal bottom line changes to the final cost of the project.

In addition, we planned to use the queries and reports mentioned in relation to the second Objective to evaluate, on a larger scale, the effects on specific projects and customers. We also planned to use the data from these queries and reports to evaluate the effect on Corps product lines. As mentioned, Corps personnel are developing queries and reports designed to obtain data from the financial management system that will help in analyzing the consolidated overhead's effect on product lines and customers. However, as of the end of October, these queries and reports weren't fully developed. Therefore, we couldn't use the data to fully evaluate the effect of the consolidated departmental overhead on Corps product lines and customers.

SUMMARY

The intent of the consolidated departmental overhead concept is to give subordinate commanders the flexibility necessary to meet customer needs, obtain efficiencies, adjust to resource constraints, and optimize good business practices. The idea of aligning the Engineering, Construction, Contracting, Real Estate, Programs and Project Management, and Planning Divisions into one helps to promote the concepts of the Project Management Business Process and the Product Delivery Team. We did not find the concept of consolidating several technical departmental overheads into one overhead account to be a violation of law or accounting principles. The decision as to whether departmental overhead is separate for each department or combined and charged at one rate for all departments is a management decision. However, we couldn't fully address the effects of a consolidated departmental overhead on Corps customers, product lines and appropriations because the Corps hasn't fully developed the metrics to measure these effects.

a. What was the composition of your CDO and how did you decide which departments to consolidate?

<u>North Atlantic: Baltimore, New England, and Norfolk</u>

NAD: Three districts in the North Atlantic region volunteered to test operating the CDO concept, Baltimore, New England and Norfolk Districts. This was a good representative test group because the districts vary in terms of size, workload mix, program and complexity. NAB and NAE CDO groups include Planning, Engineering, Construction, Programs and Project Management and Contracting as designed in the CDO proposal. NAO requested and was granted a waiver from proposed composition to complement their Technical Services Organization. NAO CDO group includes Planning, Engineering, Construction, Operations, Programs and Project Management, Contracting and Real Estate.

NAB: The CDO concept was initiated in order to break down "stovepipe" mentality and instead move toward the Project Delivery Team (PDT) mentality. Functional members of the PDT are Program/Project Management, Planning, Engineering, Construction, and Contracting. Each plays an important role in delivery of products to our customers (planning, engineering, construction services). Rather than look at each as separate business centers, each with separate overhead rates & accounts resulting in different management philosophies for direct labor charging practices and overhead expenses, they should be viewed as one team that provides planning, engineering, construction, contract administration, and project management services to our customers. The CDO concept will result in one civil and one military overhead rate for the entire PDT. Operations and Real Estate functional areas were evaluated but omitted from the CDO concept at this time because their products can be distinctly isolated from the typical planning/engineering/construction product delivery cycle. That is, most operation and maintenance of Corps of Engineers water resource projects and provision of leasing services are activities typically independent of planning/engineering/construction product delivery

NAO: Norfolk implemented CDO by including all functional elements directly involved in our military, civil and environmental missions. The functional elements in CDO mirror the team members in our typical Project Delivery Team (PDT).

<u>South Atlantic: Savannah</u>

Savannah's CDO group includes Planning, Engineering, Construction, Project and Program Management, and Contracting, with the RM as their chairman. We included those that were first described in HQUSACE's description of the test. The Savannah DE, with his RM's blessing, volunteered to test CDO. Given Savannah's military and civil missions, we felt this would be a solid test of the concept. Our Commander and Command Council did not wish to perform a test at more than one site given the tremendous amount of work required to set up for a concept of operation that might eventually not be adopted.

<u>Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)</u>

LRC: Chicago District included Real Estate, Contracting, Program Management, Engineering and Operations in the test. The Operations Division consists of less than a dozen people and the work performed by the employees is essentially the same as the other offices included. Emergency Management and Regulatory were excluded because their function tends to be a one-appropriation activity.

LRL: We analyzed 6 different scenarios. These combinations included as few as 3 technical departments (CD, ED, and PM) and as many as 6 (CD, ED, OP, RE, PM and CT.... However, regardless of the combination, CD was included as a core in all 6 compositions and was negatively impact by each scenario.

LRN: We used the programs in CEFMS to establish a number of "what if" scenarios with different combinations of organizations included in the CDO unit.

<u>Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island</u>

CDO test included all Districts and the organizational make-up of the CDO was consistent for all. The CDO included PM, Planning, Engineering, Construction, Real Estate, and Contracting. This group was selected for the test by the MVD Commander, and was directed for all Districts. Operations was omitted as generally it is not seen as part of the Project Delivery Team (PDT), rather it is seen as a customer of the PDT, in operating and maintaining projects that are produced by the PDT... (Emergency Management and Regulatory, as well as Operations, were not included in the CDO.)

<u>Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento</u>

NWS: The CDO concept and practice originated in Seattle District long before the test CDO Revolving Fund Account was established in August 1999. In 1995, our CDO was comprised of Programs and Project Management Division and Engineering Division. In February 1999, Construction Division and Engineering Division were re-organized and combined into single Division; this resulted in Construction joining the CDO. Currently, Planning, Programs and Project Management Division (3PMD) and Engineering/Construction Division (EC) are the organizations that comprise the CDO at Seattle District. There are approximately 350 employees and a $10 million CDO DOH account, which is managed by the Project Delivery Management Team (PDMT). There are eight members in the PDMT, comprising of the Branch Chiefs of 3PMD and EC Divisions.

Our decision to exclude CT and RE from the CDO was based on having different business lines and customers; and not on affordability or workload. The decision not to include Real Estate (RE) Division in the CDO is that RE's main customer is the Recruiting program, which differs greatly from the PDMT Project Delivery. There are approximately 35 folks in RE and only 4 FTEs provide services related to the PDMT. Similarly, Contracting Division (CT) was excluded from the CDO, as half of the CT staff is inwardly focused on providing services to district resources while the remaining half provides services related to Project Delivery.

NWP: PM & EC. Decided by NWD and the NWD DCC.

<u>Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)</u>

Alaska District's CDO consists of Engineering, Program and Project Management, Construction Operations (excluding Regulatory), Contracting and Real Estate. The composition is based on our premise these organizations closely mirror Project Delivery Team involvement in the Program Management Business Process (PMBP).

b. How did the composition affect the management of teams and projects?

<u>North Atlantic: Baltimore, New England, and Norfolk</u>

NAD: We experienced a number of similarities in test results among the participants the most noticeable and positive being an operating concept that complements and fosters the Project Management Business Process (PMBP).

(1) The majority of the organizations in the CDO do work more closely together as a result of CDO.

(2) Sharing of resources, dollars and manpower is in fact easier. It is improving communication between technical team members.

(3) Some business processes are being standardized. We have made steps toward improving how the districts budget and track costs.

(4) Increased standardization of CDO budget formulation and execution. Detailed budget execution reports are being used to compare each organization in the same way. This encouraged scrutiny and comment of individual budgets by the corporate leadership.

(5) The degree of cooperation and trust has increased. We have solid examples of the CDO team making corporate investment decisions rather than investments that benefit an individual organization. For example, NAO has instituted an organizational training program CCBP.

(6) Contracting Division is recognized and accepted as a viable team member. Direct charging rates have increased at all test sites. However, the degree is not consistent at all test sites. NAB experienced a very steep learning curve in contracting direct charging. They are developing an internal SOP on how Contracting Division is to assess charges.

(7) Internal shopping for the best rate is no longer an issue. Construction field representatives do not hesitate to use district headquarter personnel to conduct technical reviews and other activities.

(8) Experienced consternation on part of some CDO elements because there is a propensity to want to increase spending rates to match other CDO participant divisions. Feel that we need to discipline organizations to shift their focus from analyzing rates to focusing on costs.

(9) Increased understanding of financial matters outside of the "stovepipe" organizations has increased corporate awareness and it is perceived that efficiencies will be realized as we embrace and become more experienced in applying the CDO concept.

NAB: The CDO concept fosters an atmosphere of teamwork, incorporating the Project Management Business Process (PMBP) in management of overhead funds generated by projects. It moves toward aligning USACE business process with private industry. Developing a consolidated overhead rate for the PDT will promote uniformity in charging practices and overhead budgeting practices among PDT elements, and result in accountability for efficiency on all team members. It simplifies bookkeeping and explanations to our customers on our overhead costs, and eliminates any internal "shopping for less" practices within functional elements of the PDT.

NAO: CDO has served as a successful cultural change tool for the Norfolk District. It has pointed out that organizational management and project management are inseparable. CDO has emphasized that functional organizations have a shared financial responsibility and accountability with project management. CDO has provided an opportunity to use PMBP in financial activities fostering corporate behavior. The CDO PDT is now focused on the customer. CDO has enlightened the district to the need of controlling all indirect expenses not just DOH or G&A.

South Atlantic: Savannah

The District improved teamwork, cooperation and trust at the corporate level.

CDO allowed use of District resources across the technical divisions eliminating the "haves" and "have-nots."

Scrutiny of CDO budgets by all team members resulted in more accountability for managing costs.

Members of the CDO team made corporate decisions to invest in the organization rather than the individual business unit. In addition, those participating in CDO now understand it is necessary that we all generate income for the District not just their own office.

Contracting Division (CT) became a technical organization and improved their direct charging practices.

CDO became the catalyst for great understanding of financial matters at section and branch level.

Sharing of employees between CDO Divisions became easier because there was no overhead income loss to the losing organization.

Customers were charged one single overhead rate for work instead of several different rates.

Savannah maintained accountability through the use of individual sub-accounts and budgets for each CDO office.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRC: Chicago manages at a corporate level the overhead costs that lower level managers have little or no control over, such as rent, PMBP training, and AIS. The senior managers review the budgets line-by-line, and manage costs not rates. The test is resulting in more corporate management of costs.... We have found that PMBP has been facilitated because of increased ease of sharing resources, and more stable rates, which in turn should facilitate better planning. We have not changed the technical rates at all this past year.

The ease/incentive of sharing personnel is an area where we are just beginning to explore the possibilities... This makes communications easier (no long lists), and review of financial data easier (the manager only has to query a report on one labor charge code to see who has put effort into the PMBP training.) We will be doing the same in training next year. We expect to enjoy similar positive effects in other instances where we need to 'borrow' labor for similar work efforts that span multiple organizations.

LRL: Functional chiefs must be responsible and accountable for their direct and indirect operating budgets. To implement this policy change and enable each PDT member to track budgets and costs and remain accountable, separate ordering and funded child work items would have to be created for each of the separate PDT members. Therefore, no decrease in the number of CEFMS work items would be possible. Combining parts of our organization distorts the true costs of the various functions and will make it very difficult to manage within whatever targets are handed down.

LRN: Combining overheads also seemed to blur exactly where overhead costs were truly managed well versus sloppy controls. The value of an automated system and its ability to infinitely assign and track costs by particular cost code is it allows pinpoint viewing at every level and category. A fiscal review that shows a positive and negative million-dollar variance for two separate offices would not display this problem if they were combined; they would net zero. The two offices still have balancing problems, but in the combined option, it is less visible, and therefore, less controllable.

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

The overall drivers for discontinuing the use of the CDO concept was that it was not in accordance with generally accepted accounting principles in that the income was not offsetting the cost incurred as directly as possible at the level incurred and in some cases, the customers were being charged for services not received. Also, we completed a CDO Test Result Survey, which concluded that the CDO concept had not improved management efforts and that the departmental managers were not held as accountable when each had their own DOH rate. Therefore, having one standard DOH rate did not result in any significant benefits.

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: Natural progression –NWS views the CDO practice as a natural progression towards achieving the seven imperatives of the Project Management Business Process (PMBP). The CDO increases and develops our ability to behave and operate corporately, to set an example to our staff of the team concept, to use best practices, and to ensure that projects and team members are equipped with necessary tools and training to enhance their ability for project and team success. Managers in the CDO organizations are more able to place their focus and attention towards improving and implementing the PMBP, team concept, team and project issues, and manpower resourcing, training and development.

NWP. No documented change on the management of teams or projects, either positive or negative.

Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)

The management of teams and projects is not affected by either the composition of the CDO group or use of the CDO rate. CDO has intangible benefits related to our District's financial operations and awareness. It has, however, fostered greater teamwork at the middle-management level with those individuals responsible for managing and making decisions about the CDO account.

c. Was the composition decided on the basis of affordability or influenced by scarce or abundant workload?

North Atlantic: Baltimore, New England, and Norfolk

NAD: NO!

South Atlantic: Savannah

There is no magic or deep rationalization behind our decision of which organizations to include.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRC: The composition was decided on by neither affordability nor scarce/abundant workload, but rather on a structure that would streamline accounting and eliminate resistance to corporate actions that were viewed as going against what was viewed as proprietary rates.

LRL: In the end, we decided to focus on a PDT combination of CD, PM, ED, and CT, since they reflect the core support team that delivers products and services to our external customer base.

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

Affordability was not a consideration; however, we did recognize at the outset that inclusion of Operations Division would negatively impact an already overstressed O&M, General.

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: Affordability – In the early 1990s, prior to managing in a CDO environment, customers and project managers were "parts shopping". The Departmental Overhead (DOH) costs associated with Programs and Project Management Division were so high that customers were avoiding purchasing Project Management (PM) services but instead were purchasing a significant amount of Technical Management services to supplement PM services. Since Technical Management services resided in Engineering Division, with a substantially larger project-funded labor base, they offered more affordable DOH rates. Today, we still face the affordability issue but more from outside, imposed costs. Due to the increased costs of AIS licenses such as PROMIS, PPDS and Economic Modeling and Risk Assessment systems, as well as high administrative costs that are billed to and paid by Planning, Programs and Project Management Division DOH, their proportionate costs have been rapidly increasing and are at their all time high. Distributing the PM costs across the entire project delivery team (PDT) is both equitable and fair, as everyone in both the 3PMD and EC Divisions, and in fact the entire district, benefits from the PM services provided.

NWP: Composition not decided by affordability or dollars by a strong pitch by NWS.

Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)

Neither. We did what made sense and was logical in relation to PBMP. Affordability was not an issue since CDO, from an accounting aspect, is just a different method of allocating indirect costs. One factor that was considered was the impact on our TLM. Including Contracting in our CDO composition would help us meet our TLM goals; hence, their participation.

d. What conclusions do you draw about the impact of redistributed costs on program outcomes or customers?

North Atlantic: Baltimore, New England, and Norfolk

NAD: We do know that CDO has raised the cost of supervision and administration of construction in NAB and NAE and one of the major bill payers has been the military flat rate S&A accounts, the extent not yet determined. However, CDO has increased the amount of funds available in MILCON design accounts due to the lower CDO rates applied to design branch labor.

NAB: As expected, Construction Division and to a lesser extent Engineering Division became the bill-payers for other CDO members. This increased the cost to our military customers. In addition, we project that the impact on the military flat rate S&A account will essentially consume what would have been contributions to the NAD 'checkbook' in FY03. Because Contracting was moved from G&A to CDO the G&A rate declined. This was a positive result to non-CDO organizations, especially those with large direct labor. The O&MG and O&MA appropriations were the primary beneficiaries of this result. If the CDO concept is adopted Corps-wide, the magnitude of the movement of funds could affect millions of dollars.

NAO: DPM opinion is that there was no financial impact to the three broad mission areas of the district – civil, military and environmental. Specific programs and funds were impacted. However, a quantitative analysis would be difficult because there is no control on the variables. DPM opinion is that increased financial accountability, a cultural shift, will result in more cost effective projects.

South Atlantic: Savannah

Overall Savannah reports no appreciable impact (cost increase/decrease) to their military or civil programs; therefore, no appreciable impact in terms of "redistributed costs." The Operations Division (outside the CDO) did experience a slight decrease in costs; but this is primarily due to the movement of Contracting to the CDO, and resulting decrease to G&A. Savannah will have a more extensive report by mid-year.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRC: Had we not been on CDO the real estate rate certainly would have been significantly raised, and possibly the Project Management. Technical rates were higher, but the G&A rates were lower (primarily due to the move of contracting to the technical side).... Our evaluation of redistribution indicates minimal impact. Playing what if with last year's data, the annualized difference in a given appropriation was less than $40,000. The large percentage of our expenses in the affected areas tended to be non-labor, and thus unaffected.

LRL: Although the overall cost to operate the district will remain unchanged, we will see significant migrations between product lines and customers. Significant increases will occur in Civil and military S&A costs as a consequence of this policy. The presumption that all customers use all services (e.g., planning, engineering & design, project management, real estate, and construction management) and therefore will not notice an overall increase to the cost of their project is a false assumption. Due to market conditions demanded by our customers or dictated by award schedules, we have migrated more to design-build or IDIQ contracts thereby significantly reducing or eliminating ED and P3MD during the design phase and placing more emphasis on the construction management role. Had we implemented a CDO rate in FY 02 (using a PDT concept which included ED, CD, P3MD and CT), we would have incurred a migration of costs of approximately $559,200 into the military S&A accounts. This increase is attributable to the rise in the military DOH rate for CD from 26.04% to 36.87%. This represents an increase of 10.8% in the cost of doing business for CD salaries. All other things being equal, this would permanently drive our actual S&A rate up +.3% for MILCON and O&M, and +.2% for DERP (e.g., MILCON from 5.7% to 6%; O&M from 6.5% to 6.8%; DERP 8.0% to 8.2%). Unless FTE reductions were made, an increase to the each of the military S&A flat rate accounts would be necessary.

LRN: In all of our tests the overall effect on district overhead was negligible. It was the individual functional overheads that varied, sometimes wildly.... The most promising choice was one where all technical divisions and contracting were combined. Everyone's overhead went down except operations, where it increased $1.2 million. Even the TLM's were a cinch to undershoot. The problem is obviously that Ops cannot survive with that magnitude of a hit to its funding. Other choices where Ops was not a player all placed an unfair increased burden on someone, and none of them achieved the TLM success shown in the first iteration. Segments each experienced TLM failures, depending on how we combined offices.

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

The test bore out the fact that buying power in O&M, Gen. would be degraded by including Operations Division in all Districts, except Memphis. The anomaly in Memphis is caused by the fact that a very high percentage of Operations Division employees are assigned to Plant and Facilities, and therefore do not play in the DOH account.... G&A costs were reduced by removing Contracting from the G&A pool, and including it in the CDO. Therefore, in the current test, O&M, Gen benefited from the lower G&A rate. Costs increased in Construction, General, MR&T, and to reimbursable customers. The shifting of cost to reimbursable customers was particularly disturbing to Rock Island, as their reimbursable work is very important. Rock Island District is located on the Rock Island Arsenal (RIA), and the RIA is an important customer. As the Corps costs increase, RIA may move their work elsewhere. The Rock Island District may lose funding and experience a reduction in their working relationship with Military organizations on the RIA. Increasing cost to St. Louis District's reimbursable customers was about 1% of the reimbursable workload, and was considered of minimal impact.

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: The impact of cost redistribution on program outcomes or customers as experienced only in the first year we implemented the CDO (1999). The Fiscal Years that followed focused on better CDO management, PDMT corporate-ness, workload management, and the implementation and improvements of the PBMP.

NWP: The CDO rate caused the PM rate to go down and the EC rate to go up. Indirect costs were shifted from the GI and CG appropriation to the O&M appropriation.

Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)

We did not precisely quantify the impact of redistributing costs to customers. Our "gut" feel was that some customers would pay more, and some less, but we did not consider the impact to be material. From a customer perspective, we concluded they would have to deal with fewer indirect rates. We are only in our first few months of CDO implementation, and we anticipate exploring this more as we mature in the concept.

e. What was your experience of bringing multiple account managers together under a CDO and how the issues brought on by singular account control were handled?

North Atlantic: Baltimore, New England, and Norfolk

NAD: CDO helps to break down functional "stovepipes, facilitates better communication between all team members, and is a logical component for the transition to PMBP. The CDO does "level the playing field" and in so doing, shifts overhead costs between appropriations. . It is possible that a CDO spanning all technical divisions to include contracting would link all of the team members to a central funding mechanism, strengthening the "corporate behavior" paradigm shift that has to occur. It would serve to eliminate the "have" and "have- not" organizations by standardizing how funds are allocated and managed across the District. Everyone would then have equal access to training, award and other discretionary overhead dollars. Our actual experience, however, does not support this philosophy. Organizations continue to focus on "rates" and income generated rather that standardizing discretionary spending on a per person basis.

NAB: The majority of the organizations in CDO do work more closely together as a result of CDO. Sharing of resources, dollars and manpower is in fact easier. It is improving our communication between technical team members.

NAO: The following are lessons learned with CDO at Norfolk District:

- Prior to the test, CDO PDT members needed to be better informed on the Annual Operating Budget, DOH and CDO process.
- During the early phase of the test, the CDO PDT should have reviewed expenses reports more frequently.
- CDO PDT needed to discuss various courses of action (COA) to adjust for deficits or surpluses in the CDO.
- Including Real Estate in CDO pointed out the impact of CDO on single function activities. There needs to be lead-time to adjust mission estimates using the CDO rates.

South Atlantic: Savannah

CDO has been a success story for the Savannah District. It has strengthened PMBP as well as corporate thinking by District leadership, improved direct charging, and improved accountability for overhead costs.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRC: The CDO allows us to centralize accounts that divisional managers cannot control, and leaves them with the accounts that they can influence.... From an execution standpoint, the effort to manage distributed accounts has been substantially reduced. By costing them out to common accounts the effort to do the monthly distribution has dropped to about ¼ of what it was. We are saving about 1 day of effort each month.... The biggest issue among account managers that we had to overcome was that overhead was now overhead and that special labor PR&C need not be created for special support type work. Other than that there are very few issues.

Louisville and Nashville Districts have not implemented a CDO concept.

LRN: Finally, our big chiefs pride themselves on managing, no matter to what degree, and being responsible solely for their areas of expertise. Regardless of PMBP, they do not like sharing development and management of overhead, or anything else. We still are a stovepipe organization, no matter what we say when the spotlight is on. CDO would force competition among them to reach an agreement on what rate to set. We are not ready for this step.

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

In some Districts this group worked well together, and in some, not so well. In a few cases the process resulted in funding being redirected from one organization to another that had more pressing needs. However, some Districts felt that this additional layer was counterproductive, and that responsibility for the account and rate were muddled. Some Districts felt that overall cost of the CDO went up, because of this muddled responsibility.

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: During our first year, we experienced the following:

a) The account, its management, execution and the PDMT members were watched closely by non-believers, non-supporters and staff from all organizations. Trust, equity and morale were priority issues. The Division Chiefs, PDMT members, and account manager held several briefings to share with the staff the budget progression, goals, and a summary of the advantages and benefits that the CDO produced. Staff understanding and "buy-in" is critical, since they are the first line of communication with customers who have shown an ever-increasing interest in how we manage our overhead costs.

b) Standard Costing Practices put into effect in 1999 that included the inactivation of the Field Accounts (RF6400) and the use of DOH in its place. Within the next year, the test of Supervision and Administration (S&A) was initiated, which forced the Construction and Northwest Area Office Management and staff for the first time, to be better educated on the management, use and development of the Departmental Overhead Account. Having the PDMT and the CDO helped construction managers understand and learn DOH practices and management. The construction side has benefited the most from the CDO in recent years. They have had to relocate all eight project and resident offices, establish 3 new offices, and purchase new furniture. The DOH labor charges have steadily increased each FY with the labor maintenance needed on DrChecks and RMS, coupled with the enforcement of appropriate costing identified in the S&A test study. The CDO account, with such a large labor base, was able to absorb these costs—many UFR—with little to no impact to the execution plans of the other PDMT branches or to the overall CDO account.

c) Efficiency and Effectiveness started to take place. Prior to the CDO practice, there were six analysts managing the three Technical Division Overheads. Today, one analyst and a part-time assistant manage the account. As a result, we have been able to redirect the efforts of the other analysts to standardize and develop processes, create, query and report with uniformity on data pertaining to workload, income, manpower, and budgets vs. expenditures; thereby demonstrating that the PDMT organizations can easily cross-train or shift manpower resources to accomplish sudden changes in workload/requirements. The PDMT can do so without having to worry about lost income, lost FTE, creating a RPA, etc. The ease of shifting manpower (skills set) has enhanced our ability to be more customer responsive, and grow a well-trained staff that is experienced and knowledgeable in several areas of the Project Delivery Process.

NWP: CDO group was informally established with co-chairs from PM and EC. Basically PM and EC each developed their FY COB, the expenses were combined and a single CDO rate established. Team was relatively inactive.

Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)

We are new to the CDO process, starting FY03. We opted to not have singular account control at this time. Rather, our current configuration is as follows: each CDO participant has a voting and non-voting member on the CDO team. The voting members are typically at the deputy level. Each division is responsible for managing their own budget, but the CDO team is responsible for developing consistent and uniform policies between the divisions. The CDO team is augmented by a "working group" of respective division budgeters and RM serves as the advisory member to both the working group and CDO team. The CDO group has brought a high-level focus to fiscal management and prioritizing needs. In this way, it has been a very positive experience. As a District, we are focusing on what we can afford and how to prudently manage limited financial resources. CDO has also had an educational benefit by increasing the District's awareness that everything we do, want, or buy has an impact somewhere in the organization and ultimately, on the customer. We have not yet formally decided if we will transition to a single account manager. Right now, our focus is setting ourselves up for success, taking into account our history and culture. We may or may not have a single account manager in the future.

f. Who leads or chairs the CDO group?

North Atlantic: Baltimore, New England, and Norfolk

NAD: Although recommended in the implementing guidance that RM should chair or manage CDO, the lack of unbiased manager has decreased the efficiency of CDO operations.

NAB: We need to engage the technical division leadership earlier in the process to make informed decisions and act to suppress funding appetites. (Turning over leadership of CDO to RMO may in fact help this process. We should see improved structure in the business process and there should be an improved trust factor enabling us to continue to improve and contain overhead costs.)

NAO: There is a CDO Project Manager and the Branch Chiefs for the included functional elements are the CDO PDT members. The CDO PDT operates as any PDT – there is a Project Management Plan (PMP). The Executive Staff provides broad oversight for CDO process. The Deputy District Engineer for Program Management is the CDO Program Manager. He provides guidance to the CDO PDT to ensure compliance with PMBP. The RM provides technical advice and financial reports to the CDO PDT. The Operating Staff consisting of the CDO PDT and support offices has been tasked with financial accountability and the district's training program. CDO has provided the framework and process for the Operating Staff to address all indirect expenses corporately and view indirect expenses as support to the district's PDT. The CDO results are part of the districts Annual Operating Budget process and the CDO rates are part of the PDT PMP budget.

South Atlantic: Savannah

RM as their chairman

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRC: The CDO account is handled now like the G&A account, being processed in its totality by the PBAC. The people who lead and chair it are the same as the PBAC, the Chief of RM and the Commander.

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

The CDO groups were led by PM or RM.

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: The PDMT shares management responsibility by taking turns, rotating the duties of identifying the agenda topics, writing and keeping meeting minutes, following up on action items and chairing the meetings. No one individual leads or chairs the PDMT. It is team approach, built very much on the model of a "self-directed team".

There is only one CDO account manager at NWS; she is assigned to the office of the Chief, 3PMD, but reports to and works equally with the Chief, 3PMD and the Chief, EC. CDO management is one of several responsibilities of the PDMT. No Branch Chief has an analyst in their respective branch that manages their portion of the CDO budget; the CDO Account Manager is a resource to the individual PDMT members, as well as to the team as a whole. The PDMT executes the CDO budget with a corporate behavior and focus. The CEFMS structure is set-up such that there is one parent (a Funded Work Item (FWI)) account. This means the various Branches that comprise the PDMT draw funds from a single account. To track budget and expenditures, each PDMT member has their own Ordering Work Item (OWI) and branch budget. For example, sharing a PCS budget, transferring budgets from one Branch to another and giving up a part of their budget for an Unfinanced Requirement (UFR) for another Branch, are common practices in the CDO. The PDMT corporately sets policies, expectations, norms of behavior, and operating procedures for themselves. Each branch has benefited from the CDO practice; budget cutbacks emanating from UFR or manpower resourcing issues have been minimized. Each PDMT member is fully aware of the responsibility and accountability towards managing and executing the CDO account, and has a far greater understanding of what is going on outside of their particular branch. Issues are identified promptly and most are dealt with expeditiously within the PDMT. The Chief of 3PMD and the Chief of EC have the responsibility for the welfare and status of the overall CDO account. The PDMT's commitment to (CDO) success and being continual recipients of benefits has resulted in no adverse impacts or issues with regards to having a single account manager or managing the CDO account with a corporate behavior and focus.

Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)

The various voting members of the CDO team, on a 6-month rotational basis, chair our CDO GROUP.

g. Propose a CDO policy statement that would suit your situation and business environment.

North Atlantic: Baltimore, New England, and Norfolk

This statement should address the need to modernize USACE business processes to support PMBP while maintaining fiscal and legal integrity. As to the degree of CDO standardization the long-term goal should be USACE-wide. However, this may require a phased-in approach because it is well understood that the customer that doesn't receive the full range of services e.g., construction management services only, will experience an increase in costs for this service. Budget requirements must be considered and that would be the reason for allowance of migration to CDO.

South Atlantic: Savannah

Such a statement should include an intent/pledge to establish and support an effective and efficient financial management approach that supports the Corps' customers and fosters the Corps' PMBP while maintaining necessary fiscal and legal integrity.... If the Corps decides to adopt CDO, SAD will ensure that all districts include the same organizations within each district's CDO.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRC: We believe that the CDO is an indispensable tool in providing a unified command. Our limited experience has already shown that the fights over the corporate use of what was viewed as parochial income has substantially abated.

LRH: We remain opposed to implementing a Consolidated Departmental Overhead (CDO). A CDO does not provide for a reduction in costs. It only provides for a redistribution of costs amongst the appropriations. We also believe that budgeting for a CDO would be more difficult. Organizations are not accustom to sharing one pot of money. Also, this concept further removes us from achieving our end cost objective. In other words, if a customer wants recon type work, they should only have to pay for recon type work ---- not a combination of recon, engineering, construction etc. type work.

LRL: Based upon our analysis, we recommend that a Consolidated Departmental Overhead (CDO) not be implemented for the Louisville (LRL) District. However, we recognize that due to size, mission, and organizational structure, there may be FOA's that benefit from such a concept. We would recommend that if a decision is made to implement such a policy, that it be left to the respective FOA.

LRN: So our vote is "NO" on CDO. All of this being said, however, we will make it happen if that is the final HQ decision. It will just take time and lots of conflict resolution classes to keep the Senior Leaders happy here.

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

MVD discussion and analysis of CDO was included in our last RMB meeting, 11-12 Dec 02, in Memphis, TN. We used financial analysis as well as a survey of intangible benefits. This allowed broad input from PM, RM, and other functional areas. The RMB was overwhelming in its recommendations as follows:

a. Discontinue the use of the CDO concept.

b. If CDO is continued, do not require the inclusion of Operations Division.

In keeping with the RMB decision to recommend dissolution of the CDO group and concept, the policy statement would simply revert back to the previous DOH concepts. However, if USACE keeps the CDO process, the desired policy statement would allow enough flexibility for districts to decide the appropriate players, i.e. Operations Division would not be a required player. While we felt that Contracting belonged to the current CDO configuration, it was a significant cultural change for PMs to provide Contracting Division direct funds for their work—this continues to be a problem. In some instances the result was more scrutiny of contracting charges and staff size.

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: CDO Policy Statement and Standardization: There remains too much focus on the CDO being only an accounting tool. It is and should be, far more than that. Accounting tools must facilitate organizational business practices. The CDO practice enhances and improves the culture change, morale, managements practice and the Project Management Business Process. The CDO is not primarily a cost savings tool although savings are recognized as improvements in efficiency and effectiveness. Civil Works-only Districts may differ from Military-only or full service districts in their CDO make-up. Districts need to determine the main players in the Project Delivery business lines. Civil-only districts could operate a CDO comprising Construction/Operations. Military-only or a mixed civil/military district should have a CDO consisting of Construction, Engineering and Planning, Programs and Project Management Divisions. Successful implementation of CDO requires full commitment to the change – half-measures, or hedging one's bets by maintaining legacy systems and processes will not allow the full benefit of the CDO to be realized, while making it easier to rationalize a return to the status quo.

NWP: The NWP CDO account will include all Technical Divisions including, PM, EC, RE, OP and CT.

Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)

Based on our limited experience with CDO, we would recommend continued use of the CDO concept. The CDO allows the Alaska District to prudently manage our financial resources to successfully execute our mission while achieving financial goals. We will do this through a combination of improved communications and proactive resource, process and personnel management.

h. Speculate about the degree of CDO standardization achievable in your region or Corps-wide.

North Atlantic: Baltimore, New England, and Norfolk

NAD: Although not tested in our region except at NAO, the migration of Operations and Real Estate requires evaluation with the understanding that the appropriations managers at HQ would have to level the funds USACE-wide based on MSC direct labor base. This migration may also level the increase of cost to construction management services. Recommendations.

a. Continue CDO
b. Examine/test the expansion of CDO to include all technical divisions.
c. Mandate inclusion of Contracting Division.
d. Develop one standard concept for CDO and direct its use USACE-wide.
e. USACE Program Managers evaluate the impact on appropriations of USACE-wide implementation.
f. Abolish departmental overhead rates in their entirety. Establish a single civil and military overhead rate for indirect expenses.

South Atlantic: Savannah

Ultimately, standardization across the Corps would be in order, but if that step is too great to accomplish at first, then variation between Divisions is appropriate and certainly doable. We feel the organizations we now have included in Savannah's CDO is the right mix at this point in the evolution of CDO.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

LRD: We have three districts that are adamantly opposed to CDO (Louisville, Nashville and Huntington) and I've attached their comments. These comments are supposed to represent the Districts' position (not just the RM). We discussed CDO at our last RMB and because of the diverging opinions I don't think we would ever reach a consensus position. There are some pretty strong feelings on both sides of the fence.... I know Buffalo is in favor of CDO because of the size of their program (pretty much the same reasons as Chicago.)

LRL: CDO standardization would be difficult to achieve voluntarily in our region or Corps-wide... implementation of a CDO concept would significantly increase costs for select organizations while reducing costs for others. This would migrate costs between customers and product lines to an extent that would require FTE reductions in certain organizations. It would also obscure the cost of doing business in each of the functional areas....

LRN: We reached consensus on the CDO issue only because they all hated it! Or, in my opinion, some liked it when Ops got whacked and they benefited, but no one wanted to say that in public!

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

The overall drivers for discontinuing the use of the CDO concept was that it was not in accordance with generally accepted accounting principles in that the income was not offsetting the cost incurred as directly as possible at the level incurred and in some cases, the customers were being charged for services not received. Also, we completed a CDO Test Result Survey, which concluded that the CDO concept had not improved management efforts and that the departmental managers were not held as accountable when each had their own DOH rate. Therefore, having one standard DOH rate did not result in any significant benefits.

In July 2002, St. Louis hosted an all-MSC meeting to discuss CDO. The recommendation of that group follows:

a. The standard CDO organization should be Contracting, Construction, PPPMD, and Engineering Divisions; however, with regard to RE and others – "one size does not fit all". Operations should not be included until such time HQUSACE performs an analysis as to the affect on the O&M,G program.

b. "Marketing" costs should be charged to CDO not G&A, ER 37-2-10 should be changed.

c. HQUSACE should put CDO on the agenda at the October PDT conference.

d. CDO team members should be Division Chiefs or next level down (Assistant/Branch Chiefs); the budgets should be reviewed line-by-line.

e. HQUSACE should solicit District & MSC input prior to publication of CCG TLM targets.

<u>**Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento**</u>

NWS: Though Seattle District has practiced the CDO the longest, we are continually evolving and improving the CDO management, its effectiveness and efficiency. We cannot imagine going backwards to functional management now that team management (CDO) has taken hold. Seattle District has successfully helped many Districts better understand, set-up and implement a CDO for their organization. We strongly recommend continued practice of the CDO.

NWP: Recommend one Departmental Overhead rate for all Technical Offices in the District as mentioned in (e) above. One G&A Overhead rate and one CDO rate will make it easier to budget and manage overhead in the District.

<u>**Pacific Ocean: Alaska, Japan (FY03 First Year Test Sites)**</u>

CDO standardization should not be mandatory and may not be desirable due to the varying nature/mix of Corps work. What is practical is to develop reasonable parameters to allow districts to decide what works/fits best for them. In other words, the Seattle District may have a system that works perfectly well for them, but it may not fit the culture of another district. Conversely, what we are doing in Alaska may not work for any other district. However, regardless of how the system works, in the long run the CDO will be beneficial to all.

i. Other comments:

<u>**North Atlantic: Baltimore, New England, and Norfolk**</u>

NAO: CDO has served as a successful cultural change tool for the Norfolk District. It has pointed out that organizational management and project management are inseparable. CDO has emphasized that functional organizations have a shared financial responsibility and accountability with project management. CDO has provided an opportunity to use PMBP in financial activities fostering corporate behavior. The CDO PDT is now focused on the customer. CDO has enlightened the district to the need of controlling all indirect expenses not just DOH or G&A.

More importantly, these pots of money everywhere promote the stovepipe mentality. They really don't give organizations that operate independently, the incentive to think and act corporately. They are overly protective of their turf. Take full control of the money away from them and their hearts will follow.

<u>**South Atlantic: Savannah**</u>

The decision to implement was later than it should have been causing turmoil at the beginning of the year in trying to consolidate budgets and setup new accounts.

Savannah set rates too high in FY02 - not anticipating the overall increase in direct labor that would occur and ended the year with a surplus in the CDO account.

This was a big cultural change for CT – we could have prepared them better.

As a whole the Corps has not done a good job of explaining CDO to non-testing Districts. As a result, we have a great amount of confusion among non-testing districts on the basic concept of CDO and how it works. Many people feel it will result in a loss of accountability because they don't realize that under CDO you still use separate accounts and budgets for each office. This misunderstanding could have a negative impact on the final CDO decision.

Lakes Region: Chicago (test site), Louisville & Nashville (CDO Simulation only using analyzer)

Mississippi Valley: Memphis, New Orleans, Vicksburg, St. Paul, St. Louis, and Rock Island

Northwest: Seattle, Portland, Walla Walla, Omaha, and Sacramento

NWS: Analysis to Evaluate Historical Costs: The reporting and analysis tool should be used with caution. From FY to FY, several events take place that makes evaluating historical costs and CDO operations difficult to assess. For example, in the past FY, many districts, as well as Seattle District, have experienced:

a) Increase in Effective Rate – maybe 1 or 2 increases in a FY.

b) AIS costs – these are increasing every year.

c) PMBP Training Costs – For FY02 and FY03, this cost will skew a normal FY.

d) Needs of the Organization – Relocating, establishing new project and resident offices, office rent, increasing in-house cubicles, and providing required technical training can vary from FY to FY.