

Chief Review Services

Materiel Acquisition and Support Information System (MASIS)

Review of Hardware and Software Maintenance Cost Savings at 202 Workshop Depot

September 2002

7053-31 (CRS)



SYNOPSIS

Implementation of the current phases of the Materiel Acquisition and Support Information System (MASIS) will take place over approximately five years, with the introduction at successive sites being supported by a business, or benefits, case. In this respect, the Review Services Branch was requested by the chair of the Program Management Board, to validate estimated savings for implementation of MASIS at 202 Workshop Depot in Montreal. The specific savings in question were those related to the maintenance costs for the legacy systems being replaced. The applicable Benefits Case forecast these savings to amount to \$276,000. Review Services were further requested to assess whether a corporate process was in place to capture such savings. KPMG was contracted to perform this review work.

The review determined that the actual savings amounted to \$211,000. This is a reasonably positive outcome. The principal reasons for the shortfall, relative to the forecast of \$276,000, is that the calculation of expected savings was biased upward by the inclusion of one-time (i.e. non-recurring) costs, as well as overestimation of hardware maintenance costs for the old systems.

It was also determined that there were no processes in place to make the savings at 202 Workshop visible and to ensure that they were used to offset the corporate costs of MASIS. Accordingly, recommendations have been made to adjust the Defence Management System. These changes are being undertaken by the Director General Strategic Planning and are intended to better ensure that savings associated with the acquisition of replacement equipment/systems are made visible and tracked. In future, final project approvals will be supported by a schedule indicating the disposition of savings and cost avoidance. At the same time, this should not preclude project sponsors from having the opportunity, but also the onus, to demonstrate where forecasts have differed from actual savings.

As a final note, it is worth emphasizing that, overall, new information systems may be more likely to deliver qualitative/effectiveness gains rather than to generate quantifiable downstream cost savings. In fact, from a systems support perspective, it may well be the case that these gains come at a net cost premium. Notwithstanding our recommendations aimed at capturing forecast savings, care must be taken that approval processes are not overly influenced by expectations of cost savings which may not ultimately materialize or which may be so dispersed that it would not be possible to identify exactly which budgets would be affected.

RESULTS IN BRIEF

Background

- 1. Program Management Board (PMB) (ref 06/00 29 March, 2000) requested that CRS determine if a process is in place to offset the corporate costs of the MASIS project by the resulting savings of the legacy information systems replaced at 202 Workshop Depot (WD) in Montreal.
- 2. The two objectives of the review were to:
 - a. confirm the maintenance cost savings of \$276,000 related to the legacy systems at 202 WD, following the implementation of MASIS; and
 - b. identify and report on the processes that are used to highlight the treatment of the savings in future years' budget/business plans, and recommend a departmental process to capture such savings.
- 3. KPMG conducted this review on behalf of CRS.

Review Results

4. Savings related to the legacy systems replaced were \$211,000 vice the \$276,000 estimated in the MASIS Benefits Case at project approval, as follows:

	Benefits Case	Actual Savings
Hardware Maintenance	\$100,000	\$ 65,000
Software Maintenance	\$120,000	\$120,000
Baan Support	<u>\$ 56,000</u>	<u>\$ 26,000</u>
Total	\$276,000	\$211,000

5. The savings were not utilized to offset the corporate PO&M costs of MASIS. Currently, no specific budgetary/business planning mechanisms exist to make such savings visible. Funding for the 202 WD legacy systems was provided through two different sources: 202 WD's operational budget and the National Procurement (NP) budget managed by ADM(Mat). For the 202 WD operational budget, savings were used to offset new priorities as operational needs of 202 WD exceeded available funding; 202 WD did not receive direction to do otherwise. These savings were not made visible to the Director General Land Equipment Program Management (DGLEPM) during business/budget planning by 202 WD. There are no effective processes in place at the DGLEPM level and within the Materiel Group to identify and capture the savings attributable to the legacy systems replaced, or to be replaced, by MASIS. For the NP budget, no processes are in place to identify and capture the specific savings attributable to the legacy systems replaced by MASIS. They are not specifically identified nor made known to the Director Force Planning and Program Coordination (DFPPC).

Recommendations

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- 6. To ensure a full understanding of the disposition of anticipated project savings, and that reliable information for decision-making and accountability is available, VCDS should consider the following:
 - a. Ensure Business Case analyses are used to support PMB deliberations on replacement projects, including identification of any savings contributing to the justification of the project and the specific budget holders that will accrue the benefits; and
 - b. Before Effective Project Approval (EPA) is given (or recommended to Treasury Board), DGSP/DFPPC work with the project sponsors and DG Fin/DB to propose to PMB a multi-year schedule for the disposition and/or re-allocation of achievable PO&M cost savings/avoidance. This approved disposition would be read into the PMB minutes for project EPA and implemented by Director Budget (DB).

Management Action Plan

- 7. VCDS has responded as follows:
 - a. The DMS process will be amended to ensure that a business case is prepared when legacy systems are to be replaced through a new project. The Business Case will identify PO&M costs of legacy systems to be replaced. Projected savings to be generated by the project are to be identified, including the sources. This extends the current direction that a Business Case is mandatory only for IM projects.
 - b. A process will be implemented whereby, before Effective Project Approval (EPA) is given (or recommended to Treasury Board), DGSP/DFPPC will work with the project sponsors and DG Fin/DB to propose to PMB a multi-year schedule for the disposition and/or re-allocation of achievable PO&M cost savings/avoidance. This approved disposition would be read into the PMB minutes for project EPA and implemented by Director Budget (DB).
 - c. The Materiel Group is to ensure that the PO&M costs of legacy systems to be replaced by MASIS are identified and reported to PMB with a recommendation as to how cost savings/avoidance will be used to offset the corporate PO&M costs of MASIS.

CRS Note: The recommendations are not intended to preclude the identification of the level of certainty of forecast savings, as well as the opportunity for the project sponsor to negotiate downstream validation provisions.

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