OMB’S FINANCIAL MANAGEMENT LINE OF BUSINESS INITIATIVE: TOO MUCH TOO SOON?

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY
OF THE
COMMITTEE ON
GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS
SECOND SESSION
MARCH 15, 2006

Serial No. 109–164

Printed for the use of the Committee on Government Reform

http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 2006
CONTENTS

Hearing held on March 15, 2006 ................................................................. 1

Statement of:
  Combs, Dr. Linda, Controller, Office of Federal Financial Management, Office of Management and Budget, accompanied by Karen Evans, Administrator, Office of Electronic Government and Information Technology, Office of Management and Budget ......................... 5
  Kull, Joseph, PricewaterhouseCoopers LLP; John Marshall, vice president, CGI Federal; and Clifton A. Williams, partner, Grant Thornton LLP ................................................................. 43
  Kull, Joseph .......................................................................................... 43
  Marshall, John ....................................................................................... 54
  Williams, Clifton A. ............................................................................. 68

Letters, statements, etc., submitted for the record by:
  Combs, Dr. Linda, Controller, Office of Federal Financial Management, Office of Management and Budget, prepared statement of .................. 7
  Kull, Joseph, PricewaterhouseCoopers LLP, prepared statement of .......... 46
  Marshall, John, vice president, CGI Federal, prepared statement of .......... 58
  Platts, Hon. Todd Russell, a Representative in Congress from the State of Pennsylvania, prepared statement of ........................................ 3
  Towns, Hon. Edolphus, a Representative in Congress from the State of New York, prepared statement of .................................................... 90
  Williams, Clifton A., partner, Grant Thornton LLP, prepared statement of ........................................................................................................... 70
OMB'S FINANCIAL MANAGEMENT LINE OF BUSINESS INITIATIVE: TOO MUCH TOO SOON?

WEDNESDAY, MARCH 15, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:05 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts and Foxx.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Erin Phillips, clerk; Adam Bordes, minority professional staff member; and Jean Gosa, minority clerk.

Mr. PLATTS. This hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order. The ranking member, Mr. Towns, will be joining us shortly, and if he has an opening statement, we will have him present it when he arrives or have it submitted for the record as he so chooses.

In 2004, the Office of Management and Budget announced the creation of its Lines of Business Initiative. This program was designed to consolidate duplicative functions across the Federal Government and ultimately save taxpayer dollars by using a shared services model to provide back office functions. While the concept has significant merit, we want to use this hearing today to discuss several considerations and concerns with respect to this initiative. The hearing will also provide OMB with a chance to clarify its guidance to Federal agencies and give this committee a chance to hear from outside experts and private sector stakeholders. This hearing will provide a very important dialog on this new and important issue.

Among the concerns that we will discuss today are timing issues, contractual relationships between host and customer agencies, the current state of Federal financial management, and whether we are poised to make effective use of the shared service model. We will also examine the Center of Excellence concept. It's important to note that of the four COEs, only one has received a clean audit opinion, with no material weaknesses or reportable conditions, and is compliant with the Federal Financial Management Improvement Act of 1996.
If this initiative is to be successful, we must ensure that all stakeholders are fully informed and that the user community is ready, willing and able to embrace this initiative. Further, the Center of Excellence concept should advance the goals of the Chief Financial Officers Act and FFMIA, strategic financial management, timely information for program managers and effective stewardship.

Our witnesses today will provide the subcommittee with insight on the creation of Centers of Excellence and how Federal agencies can best continue to improve their financial management and reporting. We're pleased to have two panels of witnesses today. On the first panel will be the Honorable Dr. Linda Combs, Controller at the Office of Federal Financial Management at the Office of Management and Budget. Dr. Combs is accompanied by Ms. Karen Evans, Administrator for the Office of Electronic Government and Information Technology at the Office of Management and Budget who will participate in the question and answer portion of the program.

Our second panel will include Mr. Joseph Kull, partner at PricewaterhouseCoopers; Mr. John Marshall, vice president at CGI Federal; and Mr. Clifton Williams, a partner at Grant Thornton. I look forward to the testimony of each of our witnesses. I also appreciate the efforts in preparing both your written statements and your oral statements for today’s hearings.

As I say, when Mr. Towns arrives, after our initial opening statement, if he has a statement to make, otherwise we’ll complete the opening statement of our first witness and then go to Q and A.

[The prepared statement of Hon. Todd Russell Platts follows:]
OPENING STATEMENT OF CHAIRMAN PLATTS

In 2004, the Office of Management and Budget announced the creation of its Lines of Business initiative. This program was designed to consolidate duplicative functions across the Federal government and ultimately save taxpayer dollars by using a shared services model to provide “back-office” functions. While the concept of a shared service model has merit, we want to use this hearing today to discuss several considerations and concerns with respect to this initiative. The hearing will also provide OMB with a chance to clarify its guidance to Federal agencies and give the Committee a chance to hear from outside experts and private sector stakeholders. This hearing will provide a very important dialog on this issue.

Among the concerns that we will discuss today are timing issues, contractual relationships between host and customer agencies, the current state of Federal financial management and whether we are poised to make effective use of the shared service model. We will also examine the Center of Excellence concept. It is important to note that of the four COEs, only one has received a clean audit opinion with no material weaknesses or reportable conditions and is compliant with the Federal Financial Management Improvement Act of 1996.

If this initiative is to be successful, we must ensure that all stakeholders are fully informed and that the user community is ready, willing, and able to embrace this proposal. Further, the Center of Excellence concept should advance the goals of the Chief Financial Officers Act and FFMIA – strategic financial management, timely information for program managers, and effective stewardship.

Our witnesses today will provide the Subcommittee with insight on the creation of Centers of Excellence and how Federal Agencies can best continue to improve their financial management and reporting. We are pleased to have two panels of witnesses today. On the first panel will be The Honorable Dr. Linda Combs, Controller at the Office of Federal Financial Management in the Office of Management and Budget. Dr. Combs will be accompanied by Ms. Karen Evans, Administrator for the Office of Electronic Government and Information Technology at the Office of Management and
Budget for the question and answer period. Our second panel will include Mr. Joseph Kall, Partner at PricewaterhouseCoopers LLP, Mr. John Marshall, Vice President at CGI Financial, and Mr. Clifton A. Williams, Partner at Grant Thornton LLP. I look forward to the testimony of each of our witnesses.
Mr. PLATTS. It is the practice of the committee if I could ask both our panelists to stand and take the oath.

[Witnesses sworn.]

Mr. PLATTS. Thank you. The clerk will note that the witnesses affirmed the oath.

The subcommittee appreciates your testimony and preparation for this hearing and the knowledge and insights that you're able to share with us, and with that, Dr. Combs, if you'd like to proceed, and I think we're set at 5 or 6 minutes but we want to make sure you have a chance to cover, whatever you need to complete your opening statement, and then we'll move forward. Thank you.

STATEMENT OF DR. LINDA COMBS, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY KAREN EVANS, ADMINISTRATOR, OFFICE OF ELECTRONIC GOVERNMENT AND INFORMATION TECHNOLOGY, OFFICE OF MANAGEMENT AND BUDGET

Dr. COMBS. Chairman Platts, Congressman Towns and members of the committee, I thank you for this opportunity today to appear before you to discuss the Financial Management Line of Business Initiative. I am delighted to provide you with an overview of the Financial Management Line of Business and to explain how it supports our mutual and overarching objective of ensuring that Federal managers have accurate and timely financial information for decisionmaking. I greatly appreciate the questions that you asked me to address in my written testimony.

I believe that this subcommittee is identifying very important questions, and I look forward to working with you to answer those questions. This afternoon I would please offer that I'd like to use the time I have to share with you my overall vision for financial management for the Federal Government and to talk a little bit about how the Financial Management Line of Business actually fits in with that vision.

First of all, I truly want to emphasize that I share with you that this vision is a very long-term vision and it is not one that will be achieved overnight. My vision is based upon some of the challenges that we face today in our overall financial management arena and the opportunity we have to give our financial leaders the tools they need to meet those challenges.

And if I could for just a moment I'd like to share with you what I envision. I envision that each agency will have a financial system solution that seamlessly exchanges information among its own organizational components and business systems; in other words, they are able to talk to one another within each agency. Financial management systems across the Federal Government will eventually seamlessly exchange information and provide leadership with essential financial information for decisionmaking.

I envision that Federal agencies will operate their financial organizations at the right cost by following standard processes that strengthen internal controls and reduce financial risk in government programs. I envision that there will be transparency in terms of financial management objectives, transparency in the options...
that agencies can take to meet those objectives, and transparency in terms of how we measure the result of those efforts.

I believe that agency Chief Financial Officers will spend more time collaborating with program managers on improving the actual stewardship of taxpayer resources and delivering the right financial information to inform smarter decisions and spend less time dealing with the heroic efforts required for compliance and for daily operations.

I envision that there will be a limited number of truly excellent, high performing and stable shared service solutions providing a competitive alternative both to the public and the private sector, and that price and quality will both be taken into consideration for agencies that are ready to modernize their financial management operations.

I envision that future financial management leaders will indeed be as committed to excellence as the dedicated professionals that I have the honor of working with every day now. To ensure that we remain on the right track, we must share our feedback and our programs more often, we must develop and refine our plans more strategically, we must hold ourselves even more accountable for outcomes, and, as with the financial management line of business, we must identify more options that actually deliver true results.

Rest assured that I will continually work to overcome the barriers of uncertainty and open the roads of opportunity. I look forward to continuing to work with you to achieve this vision. And the remainder of my written testimony is submitted for the record.

[The prepared statement of Ms. Combs follows:]
Statement of The Honorable Linda M. Combs
Controller, Office of Federal Financial Management
Office of Management and Budget

Before the
Subcommittee on Government Management, Finance and Accountability
House Government Reform Committee
March 15, 2006

Chairman Platts, Congressman Towns, and Members of the Committee.

Thank you for the opportunity to appear before you to discuss the Financial Management Line of Business initiative (FMLOB). I am delighted to provide you with an overview of the FMLOB and explain how it supports our overarching objective of ensuring that Federal managers have accurate and timely financial information for decision-making.

In November 2005, on the 15th anniversary of the Chief Financial Officers (CFO) Act of 1990, I testified before this Subcommittee and described the progress that has been made in Federal financial management and the accomplishments of the hard working financial managers across the Federal Government. I spoke about a journey that began 15 years ago to become better stewards of the peoples’ money. I observed that 15 years later we have a CFO community committed to strong financial leadership, committed to transparency in financial reporting, and committed to meeting the highest government financial reporting standards in modern memory. I also credited the Improving Financial Performance scorecard under the President’s Management Agenda (PMA) as being instrumental in holding the CFO community accountable for accelerating, improving, and streamlining financial management processes.
As with every journey, we must use a roadmap to ensure we remain on course and are moving toward our destination as efficiently as possible. The Administration defines its roadmap using the standards of success that underlie the Improving Financial Performance initiative under the PMA. The standards of success are a limited number of clear, meaningful, and attainable financial criteria that every Federal agency must meet. Each standard (e.g., receiving an unqualified opinion on audited annual financial statements) is an indicator of financial management excellence. When the Administration evaluated the financial management roadmap, it found that agencies continue to struggle with the standard to implement financial systems that comply with laws and regulations. These systems are essential for capturing and reporting the financial results of the Federal Government.

Over the last 15 years, significant resources have been committed to implementing financial management systems. The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies have systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Its purpose is to ensure that the Federal Government’s financial systems can be implemented uniformly and continue to meet the information needs of the financial and programmatic communities. To assist in implementing new financial systems, the Financial Systems Integration Office (FSIO, formerly known as the Joint Financial Management Improvement Program) is responsible for core financial system requirements development, testing, and certification. Almost a decade after its passage,
the agency-heads of only nine of the 24 largest Federal organizations are able to certify that their financial systems substantially comply with FFRA.

Looking at these results, this Administration believes more should be done to successfully implement compliant financial systems; more should be done to reduce the cost of investing in and operating financial systems; and more should be done to ensure that audit findings improve, rather than decline, after implementing these systems. Through the FMLOB, the Administration believes that agencies will be equipped to make better investment decisions, improve implementation outcomes, and improve financial results.
FMLOB Overview

Improving financial system investment decisions requires that agencies understand financial managers’ information and business needs and know how to leverage technology for information delivery. To transform the Federal Government to one that is citizen-centered, results-oriented, and market-based, the Office of Management and Budget (OMB) is developing the Federal Enterprise Architecture (FEA), a business-based framework for government-wide improvement. Launched in February 2002, the FEA initiative is intended to identify opportunities to simplify processes and unify work across the agencies and within the lines of business of the Federal Government. The outcome will be a more citizen-centered, customer-focused government that maximizes technology investments to better achieve mission outcomes.

Building on the FEA, OMB announced in February 2004 that it would pursue efforts to improve efficiencies in a number of government-wide lines of business. This announcement also supported the PMA goal to expand electronic government. In March 2004, OMB launched five interagency task forces to perform a government-wide analysis of the identified lines of business, including financial management. The FMLOB task force examined opportunities to reduce the cost to government and enhance services through business performance improvements. The analysis suggested that the Federal Government could realize significant savings over a ten-year timeframe by consolidating financial systems and standardizing and optimizing the underlying business processes and functions.

The FMLOB vision and goals arose from this analysis. The vision is to improve the cost, quality, and performance of financial management systems by leveraging shared
service solutions\(^1\) and implementing other government-wide reforms that foster efficiencies in Federal financial systems and operations. The goals include providing accurate and timely information for decision-making, facilitating strong internal controls, reducing costs, standardizing processes and information, and providing seamless data exchange among Federal agencies. The task force agreed to several principles that would guide the FMLOB vision: (1) agencies would formally analyze their alternatives to decide how to pursue shared service solutions and (2) the extent to which agencies adopt shared services may vary based on the analysis. For the agencies to achieve the FMLOB objectives, it is essential they perform the analysis in context of their financial landscape to determine what scope of shared service solution(s) provide the most benefits at the right cost and least risk. In summary, the FMLOB vision and goals apply to all agencies, yet how each agency meets the FMLOB objectives may vary.

To begin realizing these benefits, OMB asked agencies with the skills, capabilities, and interest to function as government-wide financial management service providers to submit business cases as part of the fiscal year 2006 budget process. These shared service providers would provide Federal agencies with alternatives to an in-house solution to better manage the risk, performance, and cost of implementing and operating financial systems. They would enable economies of scale by centrally locating or consolidating solution assets and leverage common subject matter expertise through common acquisitions, interface development, and application management. OMB evaluated the business cases using a due diligence checklist developed in conjunction with third-party industry groups. This checklist assessed potential service providers’

\(^{1}\) A shared service provider is an entity that provides services (e.g., financial management) to multiple organizations.
abilities in terms of past performance, current capabilities, adherence to Federal policy and regulations, and skill to operate a customer-focused organization. After reviewing the business cases, OMB designated four Federal agencies as eligible to compete as shared service providers. The intention was that these agencies would also compete with private sector companies to provide these same services.

---

2 The four Federal agencies OMB designated as eligible to compete as shared service providers are the Bureau of Public Debt’s Administrative Resource Center, the Department of Interior’s National Business Center, the Department of Transportation’s Enterprise Service Center, and the General Services Administration’s External Services Division.
**FMLOB Governance**

A significant improvement driven by the PMA’s financial performance initiative has been its influence in unifying the government’s CFOs and the larger CFO community. Namely, every CFO across the Federal Government now shares common goals for improving financial performance including producing “clean” financial statements, reducing material weaknesses, and implementing FFMA compliant financial systems. In developing the FMLOB governance structure, we worked to ensure that the goals of the FMLOB and its stakeholders (i.e., sponsors, agencies, subject-matter experts) aligned with the goals and standards of success defined in the PMA. The governance structure is further built around the concepts of community and collaboration by drawing upon experts from within and outside government. This approach is intended to incorporate the most current thinking in financial systems and operations as well as to gain buy-in from the individuals, agencies, and commercial partners who are responsible for implementing the FMLOB vision.

The FMLOB governance structure is composed of three primary entities: OMB, FSIO, and the CFO Council FSIO Transformation Team. OMB is the FMLOB Executive Sponsor and, in conjunction with the CFO Council’s FSIO Transformation Team, provides initiative oversight and guidance. The CFO Council coordinates the activities of the Federal agencies on matters including the consolidation and modernization of financial systems. A liaison from Chief Information Officers (CIO) Council is also represented on the CFO Council. The FSIO Transformation Team, currently chaired by the Department of Education, is responsible for coordinating CFO Council member input into the oversight and strategic direction of FSIO. This role includes identifying risk-
reduction approaches, like standardization or shared services, when acquiring, implementing, and operating financial systems. FSIO, whose goals include contributing to an increase in the number of agency FFMIA compliant financial systems, has been assigned the FMLOB project management responsibility under the direction of the CFO Council FSIO Transformation Team.

As the day-to-day managers of the FMLOB, FSIO coordinates several tasks to ensure that they are completed timely and meet the goals of the FMLOB. Tasks are staffed with full-time FSIO personnel, OMB personnel, and agency staff. Every CFO Act agency was invited to provide personnel to participate in these efforts. I am proud to say that every agency has delivered some of the most talented financial managers in the government to assist in this initiative. I cannot stress enough the importance of this collaborative approach. The CFO community has been extremely successful in delivering financial results since the Administration came to office. I am confident that they will deliver results to further the FMLOB vision. The governance model provides a solid foundation for future success by placing the responsibility of completing the projects with the full-time, dedicated, and accountable FSIO staff working in conjunction with the CFO and CIO communities.
FMLOB Current State

Earlier, I mentioned that the agency-heads of only nine of the 24 largest Federal organizations have certified that their financial systems substantially comply with FFMIA. This number has increased since the Administration came to office and illustrates that agencies can successfully implement FFMIA compliant financial systems. However, many agencies continue to experience major challenges when implementing these systems. In some cases, agencies have been unable to implement their system. In other cases, agencies completed the implementations, but were delayed and costs were higher than originally estimated. And, unfortunately, in still other instances, agencies lost their “clean” opinions on their audited financial statements based on issues surrounding their system implementation. To avoid these consequences in the future, we must evaluate our current implementation approaches. We should look at where each agency is with respect to implementing a financial system and assess how we can reduce risk and increase the likelihood of success.

There is a wide spectrum of where agencies are in their financial system lifecycle and each agency must analyze its individual situation with respect to the FMLOB objectives. For example, the Social Security Administration, who is in a post implementation steady-state, would likely have a different plan to meet the FMLOB objectives than the Environmental Protection Agency (EPA) who is in the process of determining what solution it will implement. Other organizations, like the Departments of Health and Human Services, Justice, and Labor, who have either recently started or in the middle of their implementations would also have different set of risks that they must evaluate against the FMLOB objectives. In short, we must avoid falling into the trap of
assuming there is a one-size fits all solution. It is clear, however, that we need to provide additional financial system options to improve the likelihood of implementation success, reduce investment risk, reduce lifecycle costs, and improve audit results.
FMLOB Projects

The FMLOB is about improving and changing financial management systems and operations. As Federal agencies implement the FMLOB vision, we must remember that many public and private sector organizations have successfully standardized their business processes and migrated to shared service solutions. As the former CFO at the Department of Transportation (DOT) and EPA I understand the challenges one faces when changing financial management practices. However, I also recognize the benefits of change when it advances the broader goals and objectives of a citizen-centered government. For example, in the year 2000, 12 of DOT’s 14 Operating Administrations independently managed their own accounting offices. At the time, DOT was in the process of implementing its new financial system, Delphi, which would be hosted at its Enterprise Service Center in Oklahoma City, a shared service provider. To strengthen internal controls, ensure integrity in accounting operations, and reduce cost, DOT also decided to consolidate its accounting offices in Oklahoma City. To date, DOT has consolidated 11 accounting offices and plans to have all 14 completed by the end of fiscal year 2007. This transformation has not been easy for DOT, but most would agree that the benefits of having stronger controls, lower cost, and more predictable risks are worth the investment.

The Administration is looking for opportunities for every Federal agency to realize similar benefits and believes that this can be achieved through the FMLOB. However, we will not achieve the FMLOB vision unless we have a firm foundation for future success. To ensure that the FMLOB vision and goals had not changed, this past fall I assembled a working group comprised of personnel from OMB, the CFO Council,
and FSIO to validate the work performed by the interagency task force in 2004. The working group reviewed historical material on the FMLOB and JFMIP; held a series of forums with vendors, shared services providers, and the General Accountability Office; and gathered information and feedback from the CFO and CIO communities on possible FMLOB deliverables and work products. The previous work was validated and we were also able to incorporate lessons learned from other E-gov initiatives into our material. This past December, I issued a memorandum to update CFOs on status of the FMLOB. The memorandum was also made available to the general public. In it, I described the FMLOB vision, goals, and framework.

The FMLOB framework is comprised of three areas: transparency and standardization, competitive environment and seamless data integration, and results. The framework’s foundation is built upon having additional transparency and standardization in agency financial systems and operations. For transparency, agencies need to understand what it really costs to implement systems and run their financial organizations. Agencies need to evaluate the costs, benefits, and risks of the various alternatives for supporting financial management systems and operations. Agencies also need guidance and tools to educate themselves on the possible shared service options as well as to prepare for and manage financial systems and operations under a shared service alternative. FSIO currently has two projects underway to bring more transparency into our financial activities. The first is to identify standard cost, quality, and timeliness metrics to benchmark and compare available options. The second is to prepare additional migration guidance, including service level agreements, which outline provider and client responsibilities. Both projects are scheduled to complete their initial work by March 31.
Agencies also need to improve their cost and risk management practices when migrating to a new system or consolidating operations. To facilitate migration success, agencies have to further standardize their business processes, interfaces, and data. Specifically, the Federal Government should reduce the data and process variability within and among Federal agencies and adopt its own best practices and processes. Because of this variability, Federal agencies increase the risks and costs of implementing and maintaining their financial management systems and operations. The benefits that the Federal Government realizes through standardization should be similar to the benefits the commercial world has obtained in adopting world-class business processes. FSIO currently has two projects underway to bring additional standardization to our financial activities. The first is to develop government-wide common business rules, data, and policies for funds management, accounts payable, accounts receivable, and reporting. The second is to develop a uniform accounting code structure and definition that all Federal agencies will adopt. These projects are scheduled for completion early this fall.

The Administration believes that through additional transparency and standardization, there will be more competitive alternatives for financial systems and operations and we will create an environment where financial data can be more easily compared and aggregated across agencies. Many believe that the FMLOB is about contracting-out all agency financial systems and operations to shared service providers. I am here to say that contracting-out is only one competitive alternative that is available under the FMLOB vision. What ultimately matters is that agencies make smarter

---

3 The timeline to define a government-wide accounting structure is provided separately.
business decisions, we improve government-wide stewardship and accounting, and there
is more accurate and timely data for decision-making.
FMLOB Closing

I began my testimony by stating that during any journey, we need to periodically review our roadmap to remain on the right track. During its review of the government’s financial management initiatives and priorities, the Administration concluded that more must be done to advance the objective of having accurate and timely financial information for decision-making, particularly with respect to implementing financial systems. The FMLOB is our opportunity to strengthen how we select, implement, and operate the government’s financial systems. By doing so, the Administration is asking that agencies consider the investment risks, implementation risks, and lifecycle costs when they perform their analysis. To ensure we remain on the right track, we must share feedback on our progress more often, develop and refine our plans more strategically, hold ourselves more accountable for outcomes, and, as with the FMLOB, identify more options that deliver results. Be assured that as we chart this path, it will be based on analysis that will determine the appropriate course and timetable for each individual agency. As with any new initiative, there will always be some level of uncertainty. Rest assured that I will continually work to overcome the barriers of uncertainty to open roads of opportunity.
Mr. PLATTS. Thank you, Dr. Combs. Your written testimony is accepted in the record, and again I appreciate the in-depth preparation of that testimony and your statement here today.

First, I'd say that your goal here is one that we do share and that we truly get to state-of-the-art 21st century financial systems across the Federal Government and find what is the best match for each individual agency or department depending on their own circumstances.

You mentioned that you are and continue to work through clarification of what is expected and I think that's where we'll start with some questions. In a broad sense in some of the written documentation in the President's budget and your memo of last December 16th in dialog between the committee staff and your staff as to what is the mandatory nature of the COE model and specifically for Federal agencies, I'm uncertain based on what we've been given whether it's mandatory that every agency will either become a COE within the Financial Management Line of Business, or migrate to one, or is it mandatory that they just have to do an analysis of whether they need to become one or do one but not have to necessarily become one to migrate. So if you could clarify that specific and start there.

Dr. COMBS. Thank you. First of all, we must start with the specific systems that need either new financial systems or an upgrade to their financial systems. Those are the ones that would be in the category that you just asked about. And the answer is they must consider the step of either becoming a COE or they must consider migrating to a COE.

And as you mentioned in your question a moment ago, one size does not fit all. We are aiming to look for alternatives for specific agencies. First and foremost, they must make good business decisions as they do the analysis, and I must also add they're not in this alone when they're looking to make financial management changes. They have a wealth of services at their disposal in OMB to help them through.

We are looking forward to guiding many of these efforts as we go along to make sure that they have all the right information that they need. We're constantly updating and upgrading some of our information that we've learned over the past few years, and will continue to do that. We're continuing to get information from both the private sector as well as from you folks about what you think is working and what you hear. We welcome those kinds of opportunities. But they do need to consider the step and we just think they first and foremost have to make a very good business decision.

Mr. PLATTS. So, one, if they're not making a major rewrite or overhaul of their financial management systems then they really don't fall into this area at all. It's only if they go to make a change in their financial management systems then this analysis has to be done.

Dr. COMBS. Well, the thing I would clarify on that is that there are certain thresholds that they need to look at and I think within the financial management arena, as part of our integration here with e-Gov, there are certain thresholds that they need to meet and this would kick in.
Mr. PLATTS. Maybe we can expand so I know what those thresholds are and because some of the confusion, Ms. Evans, in your conversations with my staff, it's different than what we're hearing today, that it is mandatory that everybody's at some point going to have to become a COE or migrate to a COE.

Ms. EVANS. And so this is where the partnership comes in and this is the discussion that I have had with your staff, is the way that we constructed the governmentwide business case based on the analysis that came from the interagency task force. So there was a task force that made recommendations to us, there is a threshold, as Dr. Combs has laid out, and the IT analysis, the IT portion of this is mandatory. And so that, for lack of a better description, would be similar to application hosting.

So you do have to do that analysis and you do have to go forward. However, there is a piece that you brought up that if you aren't doing a major upgrade, if there isn't a major piece, so if an agency has a plan in place right now to implement a financial management system and we are monitoring that through several different processes that we have in place, if they meet all their milestones to go forward with that implementation from an IT perspective only, they don't fall into making the analysis of becoming a Center of Excellence or going to a Center of Excellence until that plan—they don't meet the milestones in the plan. That's the threshold.

So if I'm an agency and 2 years ago I had a plan that's in place and I have been executing that plan accordingly and going along meeting my milestones, I'm within the policy where we say it's like 10 percent of cost schedule and performance, and they're going along, then they continue along with that because we don't want to jeopardize the objective, and that is having good financial management information and having a system in place that allows you to manage that. But if they fall off of that plan and say they have to go back and rebaseline because they've missed stuff.

Mr. PLATTS. So if they have a plan in place and they're meeting their stated benchmarks or thresholds that were identified, then it's not mandatory to become a COE or migrate?

Ms. EVANS. Not at this point in the life cycle. This is all based on the life cycle of the investment. So as long as they continue on the path and they're doing well, we wouldn't go to that agency and say stop everything you're doing.

Mr. PLATTS. How about a specific example is NASA, where they are with their enterprise resource system, and they've taken some big steps trying to reorganize their financial management. How would this apply to them?

Ms. EVANS. In the particular case that we discussed with your staff, with NASA, they do have an extenuating circumstance where a vendor would come in and out of their control there's a change that's occurring within the execution of that plan, where they have to upgrade based on the product that they had selected.

Because that's a major change in the system, that is where we then ask the agency to go and do the analysis, does it make sense for you to continue on this way making a good practical business decision analyzing across the board of what does it mean if I continue on this path doing it myself or I need to look at can I share
the resources of other agencies going forward who will have this similar issue that NASA has because that particular vendor is upgrading.

Mr. PLATTS. I want to try to make sure I'm following here because your statement that with the IT component, the IT portion it is mandatory for any IT investment——

Ms. EVANS. Yes.

Mr. PLATTS. That you're going to become a COE or migrate to one, not just do the analysis.

Ms. EVANS. No. Let me restate that. It is mandatory that you have to do the analysis and that you have to meet the threshold in the business case, OK. So the business case, in the government-wide business case it's constructed in a tiered approach, so when you look at it, the first tier, which is the IT application hosting area, that is where you would become either a service center or a center, or get your services from somewhere else for the application piece only. So it doesn't mean that all the financial services that the Government does would automatically move to the Center of Excellence. So there's a real fine line in the way that you're saying it.

Mr. PLATTS. So for every department, agency, for the application hosting part of every department agency, it is mandatory that either you are a COE or you migrate to a COE.

Ms. EVANS. Yes. That you do that analysis. The basic black and white line is yes, sir, from the IT portion.

Mr. PLATTS. I think our dialog right here is part of the confusion within the financial management sector of the Federal Government, is that just getting to what is mandatory if anything I don't think has been real clear, and I think the bottom line is that portion is mandatory.

Ms. EVANS. Yes. A portion of it is mandatory the way that the business case was constructed, and the simplest way to explain it is the application hosting. So it's like where I buy my servers from, where my servers would be housed, that type of piece. And that is the floor, that's the basic mandatory piece. So think of it as does it make sense that NASA has to buy a whole host of servers and then DHS would buy a whole host of servers and Justice. So it's like the hardware and then the pipes that run that.

Mr. PLATTS. When you go beyond that, then it's maybe you have to migrate or become a COE, depending on whether you're meeting benchmarks in your delineated financial plan.

Ms. EVANS. That's where it kicks over to the analysis that Linda's team is doing.

Mr. PLATTS. You talked about the benchmarks. Can you expand on that and what you mean by where the benchmarks are achieved or reached?

Dr. COMBS. I think the best way to describe it is that if an agency comes in and they have compelling evidence that they have a best value or a lower risk alternative, we really want to help them consider that. So when we say, as Karen just pointed out very well, a COE or the best alternative, we're willing to listen to them if they have conscientiously considered what good business decision there is to be made relative to that financial management piece.
So I think exceptions to this policy will be made based upon good business decisions when it kicks over to me at that point, as Karen just made.

Mr. PLATTS. I guess before it gets to you, Ms. Evans, with it being mandatory on the application aspect, obviously—what assessment is done there as to whether they need to become a COE or are determined to be a COE or migrate to one. There’s an assessment done I guess there first before that mandatory effort takes place.

Ms. EVANS. Yes. What happens is a series of activities, the first starting with the business case that an agency would submit. They submit that on an annual basis to us for their IT investments and we go through an extensive analysis of how they manage IT overall in an agency.

So this is one of many services that they provide. So we look at all those business cases, we analyze those, we also get their cyber security information through our annual reporting requirements. We look at a whole lot of things, their architectural efforts, and that is their overall plan, what they have today, what they’re moving toward in the future, and we look at that in totality along with their ability to execute.

So we also get on a quarterly basis reports from the agencies of what we call a high risk investment. We have a list of what we have as high risk investments in each of their portfolios. So we monitor their performance on a quarterly basis as well.

Mr. PLATTS. And then you’ll make a determination that yes, you’re a COE?

Ms. EVANS. Well, we made the determination, and this is another one where I think I agree we need to do a better job communicating out what needs to be done here. What we do is we also have a due diligence list. If an agency comes in and says I have decided that I do want to be a COE, we have very specific instructions then that go out to the agencies every year on an annual basis so that they can make this determination through their internal capital planning process. When we go through this list, and what they have to do is construct their business case in a way that shows this is what it costs for me to maintain this service for myself, meeting all the objectives that they have to meet, the financial management, measuring that information, doing everything that comes out of the policy area from Dr. Combs’ area.

Then what they have to do is construct the business case in a way of showing what is the incremental cost associated with bringing on additional customers, and then we evaluate that business case based on their capability to provide the service.

So what we say, and if you go back when we announced these in the President’s budget the very first time, is we said this group of people appear to have the capability to become Centers of Excellence. So it’s not like boom, you’re a Center of Excellence and that’s it and all the business comes to you. We were very careful about saying they appear to have the capability to be able to do this based on the way that they constructed the business case and their business plan in order to meet the same objectives that they have now and then take on additional services.
Mr. Platts. So your determination is they have the capability, but you tell them so they know whether they have to migrate to somebody else or stay in-house.

Ms. Evans. From an IT perspective we work through these on a case-by-case basis. If you haven’t been determined to have the capability in this area to be a financial management Center of Excellence, then their existing plan, so we’ll go back to the first answer I gave, they continue on those existing plans that they have to meet their financial management system implementations unless we have notified them through this ongoing monitoring process that we have that you have missed all your major milestones and then we go back and work with the agencies, just as Dr. Combs said, to work on a plan to mitigate that risk and work through with them what is the best solution for that.

Mr. Platts. That agency knowing here’s what we’re doing or here’s what we think we’re doing, perhaps. At some point you have to give them a clear answer that you’re authorized to go forward as delineated, or nope, you have to migrate elsewhere. You have to make that cut.

Ms. Evans. Sure. We do that every year through the President’s budget process. So when we get these business cases in and we evaluate them and through the ongoing oversight that we have through the quarterly reports that we get, I mean it’s a constant dialog so it’s not like once a year we give them this information and they don’t know what they’re supposed to do for the next year. So we get this information and it’s a constant dialog both with my staff and Dr. Combs’ staff. So an agency knows maybe not as clearly as we need to do this and that we have to continue to put frequently asked questions out and update the policy, but they have based on the way that we’re working this and the process that we have, they know what their plans are and how they have to—and the plans that we’re holding them accountable to.

Do we need to be clearer? I would say there are a lot of questions out there that we need to answer as we move through this. And as Linda’s vision was, this is not going to happen overnight; this is a longer term effort.

Mr. Platts. How about a specific example, the 600 pound gorilla, Department of Defense, 4,200 different financial systems out there. If it’s mandatory that they are either becoming a COE or migrating, based on my 3-plus years of chairing this subcommittee, DOD has no chance of being a COE any time soon. Hopefully some day or some lifetime, perhaps, but I can’t imagine who is out there ready to be a COE to say yes, we’re ready to take on all of your application hosting. Just seems like an impossibility. So I assume it is not really mandatory for certain agencies. Is that a fair assessment?

Dr. Combs. I think that is a fair assessment. I think one of the things that I’d like to add, to clarify, when we get to the point where we’re having a migration document, and we’re in the process as I mentioned in my written testimony of upgrading that documentation which we are going to share with this committee and with a number of other outside entities by the end of this month, it will spell out more completely a menu of shared services and
more completely the due diligence checklist that Karen spoke about.

There's some changes that we need to make to that and we're planning to do that.

I think the specific question you asked, Mr. Platts, about the Department of Defense, the transition plan that was submitted by the Department of Defense was looked at very favorably I think by the General Accounting Office and that does include a lot of business transformation, not just the financial management piece of that, but that is all included in that entire business transformation, and as the financial systems investment piece of that we need to continue to work with them to see what they can do now because anything we do to help them now will help them with their audit, it will help with internal controls and it will make them a more excellent financial management arena.

Mr. PLATTS. So if you're at DOD though, so the answer is to the mandatory requirement, it's not mandatory because of the reality of their circumstances?

Ms. EVANS. Right. They submitted their transformation plan which they're required by law and there are several pieces to that transformation plan which all of us have been involved in. So they're moving through that part. So from our perspective that would be what Dr. Combs talked about earlier where there would be expectations we need to make good business decisions in order to achieve the goal, and the goal here is transformation of many things happening within DOD, one of which happens to be the financial management systems.

Dr. COMBS. Can I just add one thing to that? When I talked about this being a very long-term effort, I'm really talking long-term. I'm talking about some of the long-term you mentioned when you gave me your question a moment ago about Defense. Any time we start on this journey we're going to have to look at some things that are not optimum right now but they'll get us to where we eventually want to go. When we go on any kind of journey, we may have to go across a mountain, we make look at some stoplights along the way. All of those things serve us in getting to the long-term vision. There may indeed be some, “best practices or some shared services” right now internally within the Department of Defense that they can use and can standardize and consolidate and make use of right now. If that’s the case, and as we go through this we will definitely look at those internal shared services as a potential mid-level step for them. And I think that is a reasonable and reasoned approach as we go through this, not thinking that's going to be the most wonderful long-term solution, but maybe it is. Maybe that's where we need to be with a department like that.

Mr. PLATTS. If we set DOD aside, because it certainly is a unique animal, I mean the size of the department and the challenges it has, we look at the rest of the departments and agencies and with the four COEs that are out there right now certainly don't have the ability to assume the responsibility for all the other department agencies, and everybody is not going to be a COE overnight. So what is your timeframe for everybody else becoming a COE or migrating, and how does the private sector factor into here, and maybe a second part of it is when we look to the private sector—
I guess the first part, right now for a department or agency out there, are they going to do a more theoretical analysis of becoming a COE versus migrating, since in reality they aren't one and can't migrate, so in a sense it's theoretical right now?

The second part is if they're going to migrate to the private sector, will an A–76 study have to be done for that to occur?

Dr. COMBS. Well, first of all, there is no requirement that they actually move to a shared service solution at a specific time.

Mr. PLATTS. But they have to be a COE or move at some point, right?

Dr. COMBS. Well, it's one option that they are looking at.

Mr. PLATTS. Now I'm backing up because I thought we just said it's mandatory that at least on one part, the IT application hosting that, yes, you must be a COE or migrate. So it's not an option.

Dr. COMBS. That's the IT perspective, in that they would be that from the IT perspective.

Mr. PLATTS. On the IT perspective, what are they to do today if they're not a COE and there is no feasibility of everybody migrating to an existing COE, in the next year what do all the departments and agencies do regarding their IT portion?

Ms. EVANS. The way that we have constructed this and the way that we're working through this with the agencies is that they would do, the business case itself only assumed that two major departments would start down that path. That doesn't mean that you are completed and totally migrated this fiscal year. What it means is you start down the path and you do everything that Dr. Combs was talking about. You look at this as one of the options. You look at the IT portion of this and you say OK, I'm not going to do this any more internally within my agency. I have a contract up for re-competition that provides this portion of the services. What is the best way for me to compete that service.

So they start the planning activities moving down that path, providing all of the activities that they need to have. As Dr. Combs said, there is not a time line that says these two agencies will be completed at the end of this fiscal year, those five at the end of that fiscal year. It's that you are starting down this journey, as Dr. Combs has outlined for us, and you're doing the analysis and you have a plan that you're going to implement that's going to address the mandatory portion. It's not like you can turn it off 1 day and turn it on the next day over at your other service provider.

So you'd have to have the plan, you'd have to migrate that, and you'd have to mitigate the risk.

Mr. PLATTS. On that portion that is mandatory do you not have a specific timeframe, these two this year, five next year, that within 2 years, 5 years, 10 years?

Ms. EVANS. The business case assumes 10 years in order to realize the benefits, that this would all be analyzed and done within a 10-year time period.

Mr. PLATTS. So that everybody would be migrated to a COE or become a COE within 10 years on the mandatory portion.

Ms. EVANS. Yes.

Mr. PLATTS. On the non-IT portion, that assessment will be done as to whether they continue on their existing, like NASA, or have to do something different with the COE.
Dr. Combs. Yes. I would say, you asked about the private sector in your question as well, and we’ve had a couple of agencies fairly recent, EPA and Agriculture have both submitted proposals where they’re considering both the Federal as well as the commercial COE at the same time, and we think that’s healthy competition.

Mr. Platts. And the Circular A–76, is that review required as part of that?

Dr. Combs. Yes. If it’s 10 employees, the specific regulations that are required of that. And we think that competitive migrations are a good thing.

Mr. Platts. It would seem there’s going to need to be a healthy partnering with the private sector to handle the volume we’re talking about.

Dr. Combs. Absolutely. That’s an excellent point. Because we think that we can only get to the vision that we laid out in the very beginning if we have a very healthy relationship and collaborative effort both with private and public sector shared servicing arrangements.

Mr. Platts. The 10-year timeframe that we talked about is similar to Department of Transportation, which is kind of a model out there. Basically what they’ve done in getting to where they are, my understanding is they are a good model but they’re still kind of working on it. So when we talked about all departments and agencies is it 10 years from kind of when they begin the process or 10 years from now for everybody? I’m not sure what is envisioned, how that general timeframe of a 10-year span applies.

Dr. Combs. Well, thank you for bringing that up because that does bring up another important opportunity we have here. We’d like for it not to take 10 years for every agency to do that, we’d like for it to be done sooner, and because it was the first in that it’s the only still yet department that’s operating on one instance of software for their entire financial management system, we think that it is a good model and we very much would hope that there’s some other agencies and departments that can learn from the experiences that they had and that there are opportunities for sharing those best practices and maybe with future endeavors we can accelerate that timeline a little bit because some of the departments are going to have more data integration difficulties than others, and having been at DOT, I would say we had some very large challenges there with the data integration piece, and that is one of the more troublesome aspects of incorporating into any new financial management system as you’re aware.

So all of those conversions that have to take place are very troublesome and take up a lot of time, energy and effort. But we would hope we could learn from that and as we develop further work through this, we can standardize more, we believe, and we can make things more transparent, and we believe that we can have better opportunities and that maybe it won’t take quite that long on the next one.

Mr. Platts. And I hope that’s accurate, that we get better and better at it and learn from each other within the departments and agencies, and if we could get DOD to replicate DOT on that one plan or one providing system, that would be a miracle. But we won’t hold our breath on that effort.
I want to move on to a couple other areas. Just what is expected and the timeframe for the departments and agencies. When we talk about the migration, what’s mandatory, what’s not, the IT part versus the non-IT portion of the financial management systems. That we work hard at making sure that’s very clear out there to the departments and agencies and what their expectations are so that buy-in occurs if we’re going to be successful. We certainly need that from everybody. While we hope it’s quicker, that from some of the hearings we’ve had and regarding expenditures of funds to adopt new systems that find out that we spent $100 million and didn’t get what we need, using the Bureau of Public Debt, which seems to have taken a very methodical approach in doing what they’re doing, that model of methodical deliberateness is appreciated so that we do, whatever we migrate to, COEs or work with entities that become COEs, that those models are truly followed in all aspects.

I think, Dr. Combs, you mentioned earlier about the service level agreements and getting more guidance I think by the end of this month. That part of that, if there’s a failure of a COE to perform up to par, expectations, that the host COE is going to bear the cost of the new migration, wherever it’s to. Can you share whatever you have today while you’re formalizing or finalizing this guidance and is there any kind of arbitration plan envisioned as would be in the private sector? Typically, there it gets to litigation, ideally arbitration. But what do you envision for how to deal with that service level agreement between a COE and somebody who’s migrating to that?

Dr. Combs. I think we’re continuing to look at and encouraging good customer service and dual accountability between anyone that would engage in a Center of Excellence activity or shared service with their service provider and the customer agency. And any way that we can work through the transition of making sure that service level agreements are laid out carefully up front, and one of the things we’re going to be looking at in the document I mentioned is trying to make sure that we’ve built in some of the best practices and some of the very best encouragements we possibly can to have that accountability between those two parties.

But if something should happen and one does not live up to their agreement, then I think for the most part we will look at things that are going on today. I mean there are shared servicing arrangements that are going on today in many different aspects of what agencies, one agency does for another. There are lots of agreements out there. And most often those are able to be settled between the agencies. When that does not happen, OMB plays a role, generally in arbitrating between those two agencies. And for now, on this path I would envision that’s about where we would end up.

Now in terms of the mechanisms specifically, we need to look at that, and I appreciate you bringing it up. We look forward to any other arrangements that you feel like you are aware of and we’d be happy to look at those so we continue to evaluate best ways of doing that.

Mr. Plattts. As part of that it will be kind of two types of evaluation where OMB plays that role today between agencies, but if we are going to use more and more the private sector COEs, then it’s
a different ballgame because it’s not internal and so you have a whole different legal arrangement. Do you envision that being some of the contractual terms of a private sector COE up front agreeing that whoever the identified body, if it’s OMB, or go to court, or are envisioning something more internal still to arbitrate yes, you failed to do as you contracted to and you bear the cost?

Dr. COMBS. Well, as I understand it, there are already grievance processes in place to deal with private sector entities of that nature. I was speaking to the public sector.

Mr. PLATTS. Grievances within the typical court system?

Dr. COMBS. Within the systems that are laid out already within the Federal Government where there are some grievance systems already laid out for contractors that do not perform.

Mr. PLATTS. So basically nothing new, kind of following the existing procedures in place?

Dr. COMBS. Correct.

Mr. PLATTS. For disputes that exist. That does worry me a little bit in the sense of in some of the oversight hearings we’ve done where financial management systems at DOD, $100 million spent, and I ask how much has been recouped and the answer is usually none that I know of but we’ll check into it.

In these areas it seems that when it comes to Federal Government getting its money back, it seems often to be a lot harder or less common than when it’s two private companies that one or the other fails.

Dr. COMBS. I certainly appreciate your thoughts on that. We’ll look at that and see if there are any different opportunities we could look at relative to doing something a little bit different.

Mr. PLATTS. Thank you. In your written statement in talking about the current state of financial management, and we talked about the nine agencies that are FFMIA compliant, in our documentation there’s only five that are deemed FFMIA compliant per the requirement that the auditor report—that an auditor finds they’re in compliance, and that is only five agencies. So I’m wondering what the basis of OMB’s assessment is for when an agency is FFMIA compliant.

Dr. COMBS. The FMMIA allows for both the auditor and the head of the agency to make FMMIA determinations and FFMIA specifically requires that the independent auditor report whether the agency financial systems comply with FFMIA. It also requires that the head of the agency make a separate determination based on the financial statement audit as well as any other information deemed relevant. And when we use that definition, we have Departments of Commerce, Education, HUD, Labor, State, EPA, National Science Foundation, OPM and the Social Security Administration as of fiscal year 2005 that were in substantial compliance with FFMIA.

Mr. PLATTS. By that internal assessment the agency head, not by the auditor’s determinations.

Dr. COMBS. Having been there, I can assure you that the agencies certainly look at that, the agency head looks at that, but the agency head, i.e., the secretary or the administrator of an agency does have the determination.
Mr. PLATTS. Section 803 says FFMIA requires the auditor to report whether the reporting entity’s financial management systems substantially comply. So what you’re saying is that the auditors have independently said 5 of our 24 major agencies comply, 4 other agency heads have said well, we disagree with the auditors’ opinion and we deem our agency to be in compliance. Does that kind of defeat the purpose of that outside audit so it’s not your own in-house decision?

Dr. COMBS. I don’t think it defeats that because, as I said, having been there, I know that is a heavy, heavy weighted part of an agency head’s determination, but they do have the responsibility if there is other relevant information that they deem to be relevant to take that into consideration.

Mr. PLATTS. It seems that if I were being audited, I would certainly want my auditor to know that other information in making their determination because I’d rather not have an auditor say to everybody you’re not in compliance with the law. So I guess I give greater weight to the independent audit in assessing the financial. And that question goes to where we are. The fact even if we’re at nine, less than half are FFMIA compliant, and the intent of that act was to improve the business processes across the Federal Government and we clearly have a ways to go if 15 of our 24, even internally, are believed to be in noncompliance, if we use the independent audits, 19 of our 24 are not. It’s that foundation, our focus of getting to FFMIA compliance would probably help us moving forward on again a shared goal but just that we’re not jumping ahead.

Dr. COMBS. No doubt. I share your concerns about compliance and we continue to work on that through our internal controls as well as we have not actually looked I don’t believe at that implementation guidance on FFMIA since 2001. We’re currently looking at that and we certainly will take your thoughts into consideration.

Mr. PLATTS. And efforts like the regulations on internal control assessment and compliance, I mean, I agree, you have taken important steps toward that and that we not lose focus on that as we’re looking at other aspects such as the line of business approach.

Related to again that foundation is that governmentwide accounting code that you hope to get to by September 30th. Can you expand on what you expect to have or hope to have at that timeframe?

Dr. COMBS. By September 30th the plan, and a lot of the project management plan we hope to have in place; we certainly don’t expect to have the governmentwide accounting code spelled out and the expectation is not that agencies are going to have to do anything by then. We expect it’s going to take us a full 6 months now to look at the project management plan for doing that.

We feel like this is part of the standardization that we’re both seeking and we feel like if we can just get a set of definitions and some common understandings about what the governmentwide code structure would look like, that will help us all in many, many different ways. I think the one thing that we are sure of is that we’re doing an assessment now to determine exactly where each and every agency is at this particular moment and even standardizing their own internal accounting codes. And one of the things I think that you’ll hear both from the public and private sector folks
who deal with this is that if you're going to have a better financial management system, you have to have good data quality and it's got to be consistent. And the more we standardize, the better data quality we'll have and the more consistency we'll have.

Consequently, setting up for the things we need to do with audits governmentwide later on and internal audits themselves and the first point of my vision that I articulated earlier related to making sure these systems talk to one another internally, this standardization will help us with that. But the September 30th date that we have put on ourselves here is for our own internal planning.

Mr. Platts. So on the internal layout what you hope to achieve and then go to the departments and agencies and developing an actual code?

Dr. Combs. They're actually helping with it. Part of the as-is status that we have is that one of the things we're going to ask all of the departments and agencies to share with us what their current accounting system permits. And I know both from my EPA experience and from my DOT experience and the stream of accounting code that we had in both of those places as we standardized it across the entire enterprise of EPA and across the entire enterprise of DOT, there were certain elements of that standard accounting code that needed to help us with our financial management information. That was set aside in the stream of accounting code and the standardized code. Then there were certain other elements that the agencies needed in order to do their own business management within their own individual agencies within the department. And I think we can accomplish something like that governmentwide.

Mr. Platts. The reason for the kind of where you are and what you're hoping to have is again kind of that cart before the horse question, and you touched on in your answer about standardization being so important long term from the deficiency standpoint and things and I asked about the FFMA compliance, and my understanding is by those outside auditors' opinions, since we only have five departments or agencies compliant with FFMA, only five that are complying or using the standard general ledger as they're supposed to, so we have a long way to go to get compliance with a standard that's already out there.

How are we going to add on a new standard or a new uniformity when we haven't yet achieved compliance? That's why it's kind of all wrapped together, those questions or those issues, to what comes first. And the existing law is FFMA compliance. And if we keep focus on that, some of the things you're doing are about FFMA compliance, internal controls especially, that will help us then get to maybe the next level, which is a governmentwide accounting code and COEs and consolidations of shared services.

I guess a subtle or maybe not subtle reminder of the laws that Congress has already said are important should not be lost in the effort of new initiatives.

Dr. Combs. Well, I can assure you, it will not be lost. We have monitored, since this administration began, the President's management agenda. That is one of the criteria that we monitor, always, quarterly; and for many of these departments and agencies we monitor it monthly. It is all in our high-priority checklist.
have in my notebook that I look at, every single day, which agencies are in compliance and which ones are not.

Plus, it is transparent. There has to be a notation on everybody's part that says there is a disagreement between the auditor and the agency head, so that is not taken lightly. And there must be compelling evidence for an agency head to make that determination. So, one, it will not be lost. And, two, I don't consider this a new initiative. I consider this to be an ongoing attachment to what we are already doing in terms of standardization.

Mr. Platts. And I certainly readily acknowledge here, and with my conversation with Clay Johnson about these issues, the efforts of the administration, the President's management agenda from day one, the first year; you know, that is it is important that we have and acknowledge that we have an administration that is focusing on substantive financial management reforms and improvements and staying with it. We are seeking to do so with you as a partner.

Dr. Combs. I must say we truly appreciate the collaborative operations that we were able to work through together, because without the exposure and without the transparency that we both created, we would not be where we are today. So we thank you for that.

Mr. Platts. And when we get to our second panel, I know one of the testimonies of at least one of the witnesses talks about that foundation, that internal control, and that kind of relates to FFMIA compliance; that all these feeder systems, if they are not working well, then we can migrate everybody wherever we want, but if the data coming in is unreliable and inaccurate, it doesn't matter where we migrate to, we still get the same outcome: bad information that can't be acted upon.

So that brings us back to that core level of where we need to keep important focus as we look at strengthening the whole system, the whole political process.

I am going to try to touch on a couple of other issues. What we will probably do, because it is my understanding, the remaining votes are in about an hour; is that right? Sometime after 5, or maybe sooner. And with the second panel, we will want to get to them, too. So we may ask you to follow up some of the questions just in writing, that we may not get to, that we would like to have that clarification for us and for the public at large as far as all the players and partners in this effort.

So now the tough thing is, where to go to, all the areas I want to cover.

Why don't we talk about the issue of how agencies, in determining if they are going to be their own COE or migrate, one of the issues is going to be their ability to make the investment. And then that relates to their financial structure. And if it is an agency under compliance with the Economy Act versus franchise fund agency, there is certainly different abilities from their capital opportunity, year to year.

How are you going to acknowledge that or deal with that as agencies make these assessments of what they can do or would like to do as far as keeping it in-house or having to migrate elsewhere?

Dr. Combs. I will say that our ultimate goal for each of the COEs is that they should be in the best position possible to meet the
business needs of their customers. And I think one of the things that we are continuing to look at right now is how to evaluate these different financing alternatives. And we look forward to working with you to see which is the best path forward.

Mr. PLATTS. In the sense of how to fund them.

Dr. COMBS. Correct.

Mr. PLATTS. Whether it is direct appropriations or revolving funds? That is something you are assessing now?

Dr. COMBS. Yes. We are looking at that right now, and we would welcome thoughts from you related to that; because, obviously, if you are in the private sector and you decide you want to invest and do some venture capital and become a private sector COE specializing in a certain area, and you have the capability of doing that already, you decide you just need a little bit more seed money to put into that, you can certainly do that.

If you are in the public sector, it is a challenge for many of these, what might be very best practices in shared services, to come up with whether or not they are ready; and, if they are ready, maybe they just need some capital to help them get started to get on to enrich some of their current systems.

Maybe they have to get some additional equipment in to be able to provide the service that somebody might want from them.

Mr. PLATTS. How does an agency deal with that right now? I mean, because we have all the different types of financial arrangements out there. Yet they are all under the same requirement. On the IT side, you must do this; one or the other, you know, your own center or migrate; and then, even beyond that, for the broader picture you're going to have to make a factual determination of whether you can keep it or migrate.

So when do you expect to resolve this issue? Because I would think for a department agency this is a huge issue for them, to know up front what our expectations and abilities are. Because if there is going to be a new source of funds that OMB is going to ask from Congress for this purpose and that we need to spend some more money so that we can create these centers and here is how much it is going to cost, that is a different scenario than if you are going to do it with what you have.

Dr. COMBS. Right. And that has not been our model thus far. For example, the Department of Transportation has a franchise fund. They are able to keep about 4 percent, I believe, of that in order to upgrade their equipment and do various things. And for the most part, that is probably a pretty good model right now.

But when I said a moment ago that we were looking at what the other alternatives and other models are, we are not ready to speak yet to those other models.

Mr. PLATTS. When do you think a final determination is going to be made that the departments and agencies know that we are going to advocate for you to become a franchise agency with the 4 percent, you know, fee collection or retention.

Again, it seems like that is an issue that needs to be addressed up front for the departments and agencies.

Dr. COMBS. Well, one of the things that we have done thus far is the—it is my understanding when these were established—is that the agencies that were chosen to be a COE were worked with-
in their own—their own legislation. They had their own legislation. And we just worked with that.

I have not yet seen the need to come forward with something additional for that.

Ms. EVANS. I would like to add—and this is one of the alternatives that Dr. Combs is talking about—is that through the E-Gov Act we authorized an E-Gov fund. And one of the purposes of the E-Gov fund is to be able to do some—have some of the flexibilities and things we are talking about. The administration has gone forward, and we have asked, and it is included in the President's budget. But as we go forward and we determine exactly what needs to be done, such as capital improvements and those things for COEs, that is a flexibility that Congress has already given us through the E-Gov Act. So that is there.

And we have to look through on a case-by-case basis. And Dr. Combs is right: Given the current appropriations of the COEs that we said had capabilities now, it was—the plan was to work within their current appropriations and then request any modifications that we may need going forward, working with the agencies and working with the Hill.

Mr. PLATTS. That approach now, though, will create an inequity as far as agencies, departments, which are more likely to be able to be their own—versus those that have to migrate—doesn't it, because their source of funds vary in what they have in-house?

And that is kind of what I was after is how do you deal with the inequity between departments and agencies; what their vision is hey, we would like to be a COE, but we don't have the same funding source that they have. How do you deal with that? Or are you just thinking you don't; you deal with what you have, and if you can't do it, then you have to migrate?

Dr. COMBS. We are looking at the current authorities that are available to each one of the areas or agencies that would consider those—that as an option.

And I would say to the extent that we find any competitive disadvantage, as you just talked about, we would want to work with those potential COEs or those COEs, if we find they are already there, to identify what potential options are out there for them. And we would certainly need to work with you in order to talk through that, before we do that.

Mr. PLATTS. I guess that falls into that category of part of our hearing today is just trying, with you, to work through the kind of the gray area out there of how this is going to play out, so that, you know, you're able to give this clear delineation to departments and agencies, and our responsibilities of overseeing those same agencies; we know what is a fair expectation of them within these new efforts and this initiative.

Let me touch on a couple of other quick questions, and then we need to move to our second panel. One of the challenges of the Federal Government has been getting full cost accounting and true cost of what we do. And we have not been very successful, I guess, I would say across the Federal Government.

How can we in making the assessment that is part of the decisionmaking process, of moving, you know, migrating somewhere else, doing it in-house, or we don't have to become a COE or mi-
grate, what we are already doing is the right thing, without full cost accounting being well embraced—maybe is the right term I am looking for—by the Federal Government, how do we make that factual determination today?

Dr. COMBS. Well, obviously, I share your concern that we need full cost accounting and we are continuing, as you know, to work toward that.

But there are other ways that agencies today are capturing cost. And every year they have to submit their annual cost information through their exhibit 52s as part of circular A–11 to Karen’s office.

And I think through the performance measurement work stream that we have, as part of our financial management line of business, we are continuing to figure out different ways that will help agencies to identify these costs and quality, as well as the timeliness and metrics, and I think that agencies have the potential to look at other pricing proposals of potential providers. They don’t have to just depend on the cost information that they have within their own disposal.

Mr. PLATTS. The more we get to that shared goal of full cost accounting, the more accurate any of these types of assessments are going to be, so the more emphasis we put there, again, will help us in coming back to that foundation approach, to have the best out of possible to make an assessment on this issue.

In your written testimony, the Financial Services Integration Office did a cost analysis of what is expected here. Is that something we could have shared with us?

Dr. COMBS. Certainly. We are happy to share that original FMLOB business case with you.

Mr. PLATTS. Great. Appreciate your doing that.

Let me maybe just conclude with one final question. And the original intent of the CFO Act was really to take financial management kind of out of that, “back room,” and we’re talking about the back room services here, and really put it in the front room; in fact, put it right where the secretary for that day-to-day strategic planning decisionmaking—you name it.

Is there some concern or something you have thought of that you are, in moving it out in essence, offsite, that you are moving financial management to the CEO over here, not internal; that you are diminishing that level of importance that Congress intended with the CFO Account Act?

Dr. COMBS. No, sir. In fact, I would say that the more we can take the CFO and continue to keep the CFO in the boardroom, the better. And the way we do that is to solidify their seat at the table, the CFO’s seat at the table, by adding value to what they do.

And the more that they have an opportunity to give better data to their colleagues who are around the table with them, and to do better analysis for their colleagues around the table, and for the secretary and deputy secretaries in these departments, the better they are going to be at the seat at the table in the boardroom, not in the back room.

So the more they can do shared services, which they obviously still—they have to spend a lot of time right now when they are in-house when they are doing heroic efforts to get the clean audit and to take care of some of those daily functions that add value right
now—the more we can take that and move it to something that is truly excellent in financial management, the better the CFOs are going to be, because they are going to have more time to do the analysis and more time to do a normal CFO function.

Mr. PLATTS. I share the assessment if the premise is that CFOs are getting that reliable good information in a timely basis. My reason for the question is when we had Gwen Sykes with NASA here a year and a half or so ago, and we talked about her oversight of the 10 centers, and the fact that CFOs in those 10 centers didn’t answer to her, but she was responsible for giving, you know, the NASA, the administrator, the reliable information, being responsible to make these, but she had no control over those center CFOs, they didn’t answer to her. Her ability to tell them, “I need it today, I need this,” is a lot different than today, where they have restructured appropriately so she has more direct control.

So my worry is if it is over here, that COE is contractually responsive to that CFO in the customer agency or department, but as far as direct hiring, firing, disciplining of whatever may be, that CFO doesn’t have that direct control over the personnel that he is relying on the information from.

And so if they do the job well, it is accurate, it is excellent information, but he gives up some of his authority or control over the people he is relying on providing the information. And that seems to be going more toward what NASA used to be than what we have tried to make NASA become. That is the reason for the question.

Dr. COMBS. Well, thank you for the question. If I thought that were the case, I would definitely not be an advocate for it. But I don’t think that is the case.

In fact, I think that it will give the CFO even greater control because they, like today, they’re responsible for the information, period. And if we do the contractual agreements correctly, and the CFOs truly know what they are getting, they will actually do better.

Mr. PLATTS. I think the key there is the terms of those contractual agreements with the host COE, whether it be a public or private, maybe even especially if it is a private, of how responsive they need to be to that CFO, and to those terms.

One final area that I meant to ask about when we were talking earlier about the FFMIA compliance in general is, Ms. Evans, I think you referenced your due diligence review to become a COE and that review process.

It is my understanding of the due diligence review, GSA would not have met that in the past with an audit; 2005 audit not being a clean audit, and 2004 being rescinded, a qualified audit being rescinded. If that was the case when they first were certified, they wouldn’t have passed the due diligence review.

So what is their status today? Are they still deemed a COE, despite the 2005 audit findings and the rescission of the qualified 2004?

Ms. EVANS. And I would defer this particular question to Dr. Combs because——

Dr. COMBS. The answer is yes. GSA will continue to be recognized as a CFO.
We expect as potential customers want to go to GSA, that they would closely evaluate whether or not they are losing their clean audit opinion, would affect them or would give them any additional risk by going to GSA.

We believe that GSA's reasons for losing their clean audit was based on not anything related to their shared services arrangements with their customers, but other problems that are isolated in other program areas.

And so we believe that agencies looking to migrate to a shared service provider, they need to certainly understand whether their findings could impact their own audit. But at this point, we don't believe that is the case.

Mr. PLATTS. So having a clean opinion is not a requirement to become a COE?

Dr. COMBS. It was a requirement in the original.

Mr. PLATTS. So, from here on out, any agency that wants to be a COE in the future does not have to have a clean opinion to become one?

Dr. COMBS. Yes. Yes. They do have to have a clean opinion.

Mr. PLATTS. I am not sure, then, how you retain your status as COE if you no longer have clean opinions.

Dr. COMBS. The entity itself should have a clean opinion. For example, the Bureau of Public Debt does a great, great job, and everybody—I think some of your staff even visited with them. We are proud of the job that they do.

They are part of the Department of the Treasury, which of course does have a clean audit. They have a material weakness, for example, but it doesn't relate to the Bureau of Public Debt, it relates to another entity.

So, yes, departments that are considering a COE should look at whether or not the entity, the COE, has a clean audit opinion. If that entity does, then they need to take that into consideration. If it doesn't, they need to take that into consideration.

If it is a case like GSA where they have lost their clean opinion, we wouldn't just take all those customers out of there because they lost their clean opinion. That would not be a practical approach.

Mr. PLATTS. When would you take the customers? What has happened, or has to happen, for somebody to lose their COE status so that their customers have to migrate somewhere else?

Dr. COMBS. The customers would need to come to us and say, “We are extremely unhappy,” to begin with.

Mr. PLATTS. So it is not a factual determination, you are no longer a COE, so now you have to go somewhere else? Because it seems that is what it is up front. Maybe the customer doesn’t get to decide who is a COE, OMB does. But then whether they stay with them as a COE is up to the customer. It seems like a different standard.

Dr. COMBS. Well, the customers are going to look at that performance of that COE based on the services that they are getting. And if they have sustained poor performance, I expect that in the daily, monthly, weekly meetings that I have with the COE recipients, I would hear about that. And we would certainly need to address that.
But the sustained poor performance is probably the key factor that would cause customers to want to leave.

Ms. EVANS. And I would like to add, I want to go all the way back. When we made the determination based on the due diligence list, I want to stress again it is they appear to have the capability to provide the service.

So everything that Dr. Combs is talking about now is their actual performance. And so every—all the decisions that the agencies have to make, have to be based on risk and their ability to address that risk, as Dr. Combs has laid out.

So even though you have the designation, that you appear to have the capability to do it, that is why we are stressing and Dr. Combs has talked specifically about the competition piece and structuring what agencies need to have in order to meet the financial management improvements and get a good clean audit.

So we are relying on the agencies also, just like they would any other procurement, to be looking at what are all the risk factors as I am planning and going forward on this. And so that is—clearly, as you have highlighted, that is a risk.

Mr. PLATTS. But their requirement is to migrate to a COE, that they—I mean, that is the requirement that is going to be placed on them. Mandatory at some part, and perhaps mandatory or at least possible on other parts of the effort.

And so they don't have a say in that determination. And once they are there—so, if I am reading correctly, when they first go to COE, you are going to say, this entity is certified, so if you go with them you're complying with this requirement that you are either a COE or migrate to a COE, because they have been certified; this providing agency has been certified. They do go there.

If that agency does things that takes them out of a COE status, will they still have the choice to say, well, for us we think it is still working for us, so we can stay here even though they are no longer deemed a COE? That is a question I am not sure there is an answer to right now.

Dr. COMBS. I think you're right. There is no answer to that right now.

Mr. PLATTS. I think the department's and agencies need to know that answer before they are expected to migrate anywhere. Because if I am a guy at agency A and I say, well, we don't want to make the investment to become a COE, and the Bureau of Public Debt is doing a great job so we are going to them, but if next year they are deemed to no longer be a COE, I need to know what my choices are, what the consequences for me are in deciding to go there. You know, am I going to have to spend money? Are they going to spend money? Those are the things you need to know up front.

Ms. EVANS. We have this issue on all of the E-Government initiatives where we cross-service on all the E-Government initiatives. I am going to take it up a level, maybe a little higher than just financial management.

The issue that you're outlining right now is a major risk area that we have with all of the 25 initiatives in all the lines of business.

And so we have implementation plans that we work through with each of the agencies, not just on this initiative but on all of
them, because of what exactly you are saying. Like we have based on like E-Travel, it is when we go and we do that competition and we awarded who the travel providers are, the assumption is everybody is going to do their job. And the agencies had plans to migrate to those travel services because of the policies we had in place.

That is a good initiative to share, where we have had a few of the service providers did not do what they said that they were going to do. So we had to specifically go back and work with those agencies to work with what those migration plans are, what the effect of that is, how that addresses the governmentwide initiative from a whole, how to mitigate that risk with that agency because they are depending on those services. All of these agencies are depending on these cross-services across the board. So that—I don't disagree with you, that is a big risk on the cross-agency governmentwide initiatives.

Mr. PLATTS. I think whether it is travel, financial management, whatever it would be, those answers should, as best possible, be known up front. If the provider you go to fails, is no longer a COE, here are the consequences, your options; and whether you have the option of staying, you know, because they are serving you well, and you can show that, or you don't have the option, that goes to that just knowledge based up front.

And the reason, you know, in the financial report for GSA, why I asked is, the November 12 Report of Independent Auditors on Internal Control noticed significant weaknesses in GSA's financial management system surrounding processes and controls relating to budgetary resources arising from the primary GSA service of customer agency order processing. Further down it says, weaknesses cited in the past included that GSA's financial management systems and feeder systems were not configured to support budgetary financial reporting.

That sounds like my read on that, and as a layperson I qualify, that there is financial management problems at GSA that I would think relate to whether they are a center of excellence for financial management as a financial management line of business.

So, and the fact that they no longer have a clean opinion and the 2004 was rescinded, seems that this goes to financial management at this financial management COE.

Dr. COMBS. I think your concern I share. But the other mitigating circumstance here revolves around the actions that we take at OMB for any agency that has even any identified material weakness.

And one of the things we do is we immediately put them on a corrective action path and a corrective action plan.

And that is where GSA is right now. And we are monitoring that very, very closely.

And based on the corrective action plan, they are held accountable for making a lot of corrections and resolving the problems, both through the President's management agenda and through other work that we have.

And as I said, if we have customers of theirs that do not believe they are getting the kind of service they feel like they deserve and the excellent service that they think they are paying for, then we will definitely look at that. But thus far, that has not happened.
Mr. PLATTS. As more and more agencies and departments migrate to COEs, this is going to be an issue that is going to be more likely occurring. All the more why I think it is important to address now if an agency is a COE, everybody migrated to them, their clean opinions are rescinded, in their area especially of financial management, so now they have a corrective action plan in place. What does it mean long term, you know, if you are a customer agency, you have the right to go somewhere else that does have that clean opinion, like the Bureau of Public Debt, and the host COE has to pay for that.

Those are the type questions I think you really want to work out up front, not to when you get—not just when you have a few COEs but many, or many agencies going to those COEs.

Dr. COMBS. And I think that is excellent forward-looking, because right now, obviously, we don’t have that many different choices. But we will eventually, both in the private and public sector.

Mr. PLATTS. And even if it is 10 instead of 4, or you are going to have many more agencies migrating. And that is the real—where that migrating agency has that answer, more importantly than the actual COE has the answer. And that might be a good place where we stop, because it really is the purpose of today’s hearing and the ongoing dialog is thinking through all those scenarios of what is expected of these departments, agencies. What happens if these scenarios play out from an oversight, you know, what are we going to look to in providing our oversight, fulfilling our responsibilities, the expectations of these agencies?

So I appreciate the exchange and very much the good-faith effort of achieving this very worthy goal, which is that economy of scales. Whether it is public, private, this is obviously something we want to be pursuing and especially when it is taxpayer funds.

So we look forward to continuing to work with you, Dr. Combs and Ms. Evans, with your efforts at the committee level, members and staff; and ultimately, short term and long term, have success in this important initiative.

Thank you for your testimony.

Dr. COMBS. Thank you. And we appreciate your help and the help of your staff.

Mr. PLATTS. Thank you. And we appreciate your help and the help of your staff.

Thank you.

Mr. PLATTS. We will take maybe a 2-minute recess while we reset the second panel, and hopefully we will not have that vote board go off in the meantime.

[Recess.]

Mr. PLATTS. OK, we will reconvene the hearing and appreciate our second panel’s patience as we proceeded with Dr. Combs and Ms. Evans, and again are very grateful for your participation, your written testimonies that you have provided, as well as your being here for testimony today and Q and A.

First thing we will do is have you all stand and be sworn in and then we will get into statements and questions.

OK, if you raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. I think what we will do is just go down the line: Mr. Kull, Mr. Marshall, Mr. Williams, and we have 5 minutes. I would
like to say take more time if you need. My only worry is I think
getting to the questions will be helpful, and we have no idea when
the votes are coming. So we have been trying to get an answer, but
they have not been very forthcoming. But we will do the best we
can. But we wanted to also allow each of you to have that oppor-
tunity to capture the sentiments of your written statement.
So, Mr. Kull, if you would like to begin.

STATEMENTS OF JOSEPH KULL, PRICEWATER-
HOUSECOOPERS LLP; JOHN MARSHALL, VICE PRESIDENT,
CGI FEDERAL; AND CLIFTON A. WILLIAMS, PARTNER, GRANT
THORNTON LLP

STATEMENT OF JOSEPH KULL

Mr. Kull. Thank you, Mr. Chairman. I appreciate the oppor-
tunity to comment on OMB’s Financial Management Line of Busi-
ness Initiative. I will summarize my written testimony and ask
that it be inserted in full into the record.

Currently I am a director in the Washington Federal Practice of
PriceWaterhouseCoopers. My comments are based on almost 32
years with the Federal Government, including 4 at OMB, 10 years
as a CFO, and over 20 years as a budget director. The views I ex-
press will be my own and not necessarily represent the views of
PWC.

The FMLOB Initiative proposes to improve the cost, quality, and
performance of financial systems by leveraging shared service solu-
tions and other governmentwide reforms that enable efficiencies in
Federal financial management.

It is hard to argue with an idea that embraces those objectives,
and I believe it will and should happen. But it will take time, lead-
ership and vision.

So the question is: How best to manage the process for success?
First let me comment on the current state of Federal financial
management, which I believe is good and getting better. Every year
agencies are improving the quality and timeliness of their informa-
tion, providing managers with realtime data so they can run their
programs better. This is remarkable progress and the Federal fi-
nancial management community should be proud of its contribu-
tions to achieve this level of performance.

Of course, there is still plenty of room for improvement. Agencies
need to resolve major issues so they can get and sustain unquali-
fied or clean opinions. The key to that effort is the need to complete
efforts to improve their internal controls. This wider effort will
focus attention and resources, people and dollars, on building a
strong controlled environment. This should be the highest priority.
Our core systems are only as good as the data flowing into them
from the feeder and subsystems. Agencies need to be sure that the
feeder and subsystem business processes and controls are working
effectively before moving to a shared services environment. The pri-
ivate sector can play important roles in these efforts. Many firms
can provide the accounting, auditing, software, hardware, and con-
sulting services that will be necessary to help agencies improve as
they move toward the new environment.
Many firms also have knowledgeable staff and experience in similar private sector efforts and can leverage that knowledge and experience to ensure agencies benefit from best practices. There are valuable lessons to be learned from these experiences, including developing appropriate performance metrics, drafting enforceable service level agreements, transition migration issues, and strategies in developing backup and continuity of operation plans, just to name just a few.

Moving to a shared service environment will also have audit implications for the agencies serviced as well as the service provider. Under the revised A–123, agencies must obtain an understanding of the controls of the service provider, as well as evidence that such controls are operating effectively.

There will also be an increased need for cooperation and communication between the auditors, management, and the service providers to ensure that requests for information by the auditor are met adequately and on time.

We should not assume that moving to a shared services environment will magically standardize business processes in core accounting systems. Transformation on this scale is difficult and tedious, made more so by the fact we are dealing with the largest, most complicated business enterprise in the world. It would be like trying to standardize information for the 24 largest corporations in the country. The financial and performance data needed to run Exxon or Wal-Mart will not be the same data necessary to run Microsoft or Bank of America.

Even good proprietary accounting systems must deal with the fact that the principal financial driver for most agencies is the budget. For many agencies, compliance with budgetary accounting requirements and appropriation law is a higher priority than GAAP accounting.

In fact, my experience as a CFO was that most program people were very happy to let me worry about the GAAP financials as long as my systems gave them the reliable and timely budget information they needed to run their programs.

There is another way to use and reuse the disparate data without wholesale system changes, and that is with the standards-based recording through XBRL, which stands for Extensible Business Reporting Language. XBRL is a standardized way to tag data, similar to bar coding. It does not change the current USSGL and Federal GAAP standards. It simply captures those standards in electronic or digital format that applications and systems can process and understand.

That data element, wherever and whenever it is used, retains that tag, allowing it to be permanently identified and remembered by any application or system. It is a viable alternative that should be looked at.

Finally, and perhaps most importantly, the financial management line of business represents a major change in the way many agencies do business. Such change takes time, commitment and leadership.

Many system projects fail or falter because we have inadequate resources to train, educate, and communicate with our people throughout the process. Whether creating new systems or improv-
ing old ones, people issues are often far more difficult to overcome than the technological ones. In the end, people can make a bad system work and a good system fail.

Leadership and commitment are absolutely critical for success. In 1990, the National Science Foundation set a goal of being entirely paperless in 5 years. This was visionary as well as ambitious, considering the Internet didn't even exist at the time. Each NSF director—and there were about four of them in the nineties—subscribed to this vision and kept it as a priority. The target date kept moving, largely due to technology changes and resource constraints, but NSF management remained flexible and focused. Today, NSF is virtually paperless.

Vision, leadership, and commitment made this effort successful. Decisions about business process, reporting programs, and technology were made in the context of working in a paperless environment. Equally important was remaining able to adapt to changes. It was by no means a perfect process, but it was more successful than most ventures like it.

Shared services, centers of excellence, and standardization are good ideas that can work with adequate time, leadership, sustained commitment and excellent people. The government has an abundance of all four if it chooses to use them. Thank you Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Kull.

[The prepared statement of Mr. Kull follows:]
Testimony of Joseph L. Kull  
Washington Federal Practice  
PricewaterhouseCoopers  
Before the  
House Government Reform Subcommittee on  
Government Management, Finance, and Accountability  
United States House of Representatives  

March 15, 2006  

Mr. Chairman and members of the committee:  

Thank you for the opportunity to comment on the Office of Management and Budget's [OMB] Financial Management Line of Business [FMLoB]].  

Currently I am a Director in the Washington Federal Practice [WFP] of PricewaterhouseCoopers [PwC] specializing in federal financial and budget issues. My comments are based on almost 37 years of financial and budget management experience, including almost 32 years with the federal government. The views I will express are my own and do not necessarily represent the views of PwC.  

I retired from the federal service in 2004 at the Office of Management and Budget where I was the Deputy Comptroller for Federal Financial Management for four years. Previously, I spent more than 15 years at the National Science Foundation including 10 years as its CFO and Budget Director, and almost 12 years at the Civil Aeronautics Board, with the last 5 as Comptroller and Budget director. I have a CPA, CGFM and MBA and believe
my education and experience provides me with a unique perspective on federal financial management.

The FMLoB initiative proposes to improve the cost, quality and performance of financial systems by leveraging shared service solutions and other government-wide reforms that enable efficiencies in federal financial management.

It is hard to argue with an idea that embraces those objectives, and it is reasonable to assume that over the next 10 years, the government will move toward a single system or set of systems and some form and level of shared services. So the question is how to best manage it for success. The current proposal needs to be more strategic, focussed on performance rather than compliance, and set in a timeframe that is challenging yet achievable. It also needs to set realistic expectations as to what can and can not be achieved.

First, let me comment on the current state of federal financial management, which I believe is good and getting better. Every year agencies are improving as they continue to find and clean up old accounting problems, tighten controls, improve the reliability of information, and improve the content and style of their reports. They report quarterly and have accelerated year end reporting to 45 days. More and more agencies are moving beyond transaction processing to providing program managers with reliable data in real time so they can better run their programs.
This is remarkable progress considering that most agencies started preparing GAAP based audited financial statements for the first time less than 10 years ago, and they were due 6 months after the close of the fiscal year!! The federal financial community should be commended for its contributions to achieve this level of performance.

Of course there is still plenty of room for improvement; and it is for this reason that agencies should move gradually and thoughtfully toward FMLoB concept, and not be bound by arbitrary timeframes. Some agencies have major issues to resolve before they can get and sustain an unqualified—or clean—opinion to their financial statements, and all agencies are undergoing an intense effort to improve their internal controls. This latter effort will focus attention and resources—people and dollars—on documentation, testing and remediation of their processes over the next several years.

Building a strong control environment at the component and department level should be the highest priority, and is especially critical before moving core financials to a services provider. Core systems are only as good as the data flowing into them from the feeder and subsystems. Agencies need to be sure that their feeder and subsystem business processes and controls are working effectively before moving to a shared services environment. Any improvements agencies can make in the business processes and controls of information flowing into their core systems will further improve the quality of information coming out of those systems.
The private sector can play an important role in this effort. Many firms already know the federal market and currently provide many of the accounting, auditing, software, hardware, and consulting services that will be necessary as agencies move toward shared services. These skills are at the core of private-sector businesses, and should be leveraged to help the government move toward shared services.

Many also have knowledge and experience with similar private sector efforts, and can leverage that knowledge to ensure agencies benefit from best practices. In fact, many private sector firms have moved to shared services and outside providers to focus their attention and resources on their core business activities. There are valuable lessons to be learned from these experiences, including developing appropriate performance metrics, crafting enforceable service level agreements, transition and migration issues and strategies, and developing back up and continuity of operation plans to name just a few.

Private sector firms also have available a very large number of very talented and skilled staff, that can be brought in as appropriate, to address a particular issue or workload. Often, agencies need a critical mass of bright, energetic people to help get through a crisis. Other times, there may be a need for more experienced, highly-skilled staff to focus on a specific problem. Private sector firms have the depth and breadth of personnel to be able to provide such resources.
Moving to a shared service environment will also have audit implications for the agency serviced as well as the service provider. Most importantly, the new A-123 requires agencies to obtain an understanding of the controls at the service provider that are relevant to the agency's controls, as well as evidence that such controls at the service provider are operating effectively. This evidence can be obtained in various ways including performing tests or obtaining a service provider's auditor's report on controls placed in operation and tests of operating effectiveness (e.g., SAS 70 Type 2 report) or a report on the application of agreed-upon procedures that describes the relevant tests of controls.

There will also be increased need for cooperation and communication between the auditors, management and the service providers to ensure that requests for information by the auditor are met adequately and on a timely basis. We would not want to see agencies lose their opinions simply because information needed by the auditor from the service provider was not received in time, or was not adequate to support the line item.

We should not assume that moving to a shared services environment will magically standardize business processes and core accounting systems. Transformation on this scale is difficult and tedious, made more so by the fact we are dealing with the largest, most complicated business enterprise in the world. The U.S. government conducts activities on a massive scale across every possible business enterprise. It collects more than $2.0 trillion a year
and unfortunately, spends even more. It literally touches almost every
American's life every day.

To standardize the business processes for the 24 CFO Act agencies is like
trying to standardize processes for the 24 largest corporations in the country.
While private sector firms file SEC reports and meet GAAP standards, that
does not mean their processes and systems are the same. The financial and
performance data needed to run Exxon or Wal-Mart will not be the same as
data necessary to run Microsoft or Bank of America. Data needs are driven
by competition, market shares and the ability to attract capital.

There is another complicating factor. While there are viable financial
management systems in agencies that might work for proprietary accounting,
for most the principal financial driver is the budget. This means that in
addition to GAAP and Treasury requirements, agencies must also comply with
budgetary accounting requirements and appropriation laws. In fact, my
experience as a CFO was that most program people wanted good budget
execution data from the systems to run their programs, and were happy to let
me worry about GAAP based financials as long as our systems gave them
reliable and timely budget data to run their programs.

Besides simply moving in lockstep toward shared services, there is another
way to use and reuse disparate data without wholesale system changes, and
that is with Standards-Based Reporting through XBRL, which stands for
Extensible Business Reporting Language. XBRL is a standardized way to tag
data, similar to bar coding. XBRL does NOT change the current USSGL and Federal GAAP standards - it simply captures the standards in an electronic or digital format that applications and systems can understand and process. That data element, wherever and whenever it used, whether in consolidations, financial reporting, fund balance with Treasury, budget execution, retains that tag allowing it to be permanently identified and remembered by any application or system. This form of data standardization allows disparate applications to communicate and share information automatically, and is alternative that should be looked as an interim solution as the government moves more and more toward shared services and standardization.

Finally, and perhaps most importantly, the FmLOB represents a major change in the way many agencies do business. Such change takes time, commitment and strong leadership for success. Many systems projects fail or falter because we have inadequate resources to train, educate and communicate with our people throughout the process. They need to understand what is going and why, feel a part of the process and the solution, and be trained to use the system properly. Whether creating new systems or improving old ones, people issues are often far more difficult to overcome than the technological ones. In the end, people can make a bad system work, and a good system fail.

Leadership and commitment are also absolutely critical for success. In 1990, the National Science Foundation [NSF] set a goal of being entirely paperless—both programmatically and financially—in approximately 5 years. This was
an ambitious goal as even the internet did not exist back then. Each NSF Director, there were about 4 of them in the 1990s, subscribed to this goal and kept it as a priority. The target date kept moving, largely due to rapid technology changes and resource constraints, but NSF management remained flexible. It was an iterative process, and today, NSF is virtually paperless.

Vision, leadership and commitment made this effort successful. Decisions about business processes, reporting, programs, and technology were made in order to move toward a paperless environment. Equally important was keeping an open mind as technology changed, which it did so rapidly in the 90's, and remaining able to adapt to those changes. It was by no means a perfect process, but it was more successful than most ventures like it. That same kind of leadership and commitment is needed if the FmLOB is to be a success.

Shared services and standardization are good ideas that can work with adequate time, leadership, commitment, and excellent people. The government has an abundance of all four if it chooses to use them. Thank you for the opportunity to comment.
Mr. Platts. Mr. Marshall.

STATEMENT OF JOHN MARSHALL

Mr. Marshall. Thank you, Mr. Chairman, CGI Federal sincerely appreciates the opportunity to appear today. You have asked for our views on the current state of financial management, the Federal Government, and the Line of Business Initiatives.

My written testimony has been submitted for the record and I will quickly summarize it here.

CGI is vitally interested in these matters. They are central to our business. We have spent 30 years implementing Federal financial systems in more than 500 of the largest, most complex organizations in the world. This includes more than 20 years’ experience building, implementing, and maintaining Federal financial management systems and 34 years in delivering managed IT services to industry and government.

CGI now offers these services through our CGI Center of Excellence. We are currently migrating the General Services Administration and the Corporation for National and Community Service to our Center of Excellence, with other Federal customers to follow.

We also partner with GSA and the National Business Center of the Department of the Interior to deliver services through their Federal COEs. Based on our experience, we have four central observations for this hearing.

First, we support the line of business and center-of-excellence concept. The FMLOB and COEs, if structured properly, hold promise for achieving the next stage of evolution and improvement in financial management.

The government has evolved from establishing financial systems to certifying and implementing modern systems to achieve unqualified audit opinions.

A few agencies have tied financial and program information together for strategic decisionmaking. These successes deserve recognition, but there is still very much left to do.

In many agencies, back office administrative functions are underresourced and lack the capabilities they need to meet rising expectations for financial performance and accountability.

The LOB Initiative can eliminate wasteful duplication, establish world-class centers of excellence, and even enhance the Federal financial management work force.

As low-value operational workload is shifted to a COE, agency resources and jobs can be concentrated on the remaining high-value analytical functions of financial management that directly contribute to mission performance. This opportunity is a win-win for the Federal work force and the taxpayer. Leveraging government investments to achieve these outcomes makes good business sense. But the current operational model must change to support this evolution, and that change is very challenging.

To better understand the challenges to LOB success, CGI recently hosted a series of forums for Federal technology and financial executives. Two of these forums benefited from the personal participation of OMB Comptroller Dr. Linda Combs. And we thank her for bringing her important insights and leadership to these discussions.
Listening to Federal CFOs and CIOs in these forums, we have identified four policy and execution recommendations.

No. 1, OMB should extend its FMLOB vision to a blueprint for the end state from an agency’s perspective. This would help agencies visualize how they can apply FMLOB services in their mission context. CGI has developed a potential vision for this end state and welcomes the opportunity to share it and discuss it with Congress, OMB, and FSIO.

Second, there is an immediate need to establish a level competitive playing field for centers of excellence.

As you have discussed with the earlier panel, public COEs are not operating under the same rules. Legal constraints prevent them from taking basic business actions, such as creating financial reserves to refresh their technology, conduct marketing and make other improvements to their services.

Third, the competitive playing field is not level for public COEs and private sector COEs. As one example, private COEs must account for all their costs in a bid to protect against liabilities that affect shareholders. It is unclear whether or not public COEs fully account for all their costs, such as items in direct departmental overhead appropriations, in their bids.

Fourth, increased process and data standardization is required. CFOs and CIOs cited standardization as critical to reducing the complexity and cost of integrating feeder systems with their financial systems. We don’t recommend a drawn-out standards creation process, but useful standardization can be done and approached iteratively.

In the 1990’s, CGI and other industry representatives sat down with Federal experts to develop the JFMIP financial certification program. That effort has evolved to set the bar for software quality that enables Federal financial management compliance.

We believe a similar degree of formal collaboration between industry and Federal policymakers can help address LOB process and data standardization issues.

Our second overall observation is that success of the LOB initiative ultimately depends on agency-level leadership and execution. In terms of agency readiness for using COEs, the biggest implementation challenge is managing the required change in mind set, culture, and day-to-day operations.

Agencies will have to transform from how they manage operations today to how they would manage in a whole new and different environment, with a partnership with a shared service provider, a COE. They will have to shift their orientation from buying software to buying a fully provisioned financial management service.

In this new business model, agencies must view COEs as extensions of their operations and their enterprise architecture, bound and managed by an SLA.

By managing a COE-shared service as an extension of other architectures, agencies mitigate the audit implications of migrating to a COE. The CFO Council’s implementation guide accounts for necessary procedures to ensure proper internal controls and reduce audit exposure of using a shared service provider. If these procedures are combined with a strong governance model, agencies using
COEs can retain control and maintain full compliance with Federal audit requirements.

In addition, as you discussed, Congress might consider facilitating change by establishing new funding models for public COEs.

In terms of agency readiness to become COEs, the quality bar should be set very high.

We see five core critical competencies that COEs must possess. The first is competency in large-scale business and IT transformation backed up by many years of experience and successful engagements.

The second, COE professionals must be experts at linking financial management with technology and able to configure daily financial operations to enforce strong internal controls, integrate external systems and roll up data for reporting.

Third, COEs should offer tested best practices that are continuously improved to leverage proven standard business processes and technology.

These should extend beyond IT and application hosting to include turnkey business process services offering efficiencies and process improvements.

Fourth, COEs must be competent IT managers with proven track records in applying technology across a wide range of Federal programs and organizations.

Fifth and last, they should offer a framework for delivering standardized services in a manner that acknowledges inherent differences in agency missions and embraces agencies' variety by offering flexible service options and configurations.

Our third overall observation is the private sector has the capabilities to deliver on these promising concepts.

IT firms like ours have invested substantially in the expertise, standard processes, and proven technologies to support for formal back office functions like financial management. The government can leverage the private sector to deliver its back office efficiently, under enforceable service level agreements, so that Federal agencies can focus on their core missions. The key challenge is demonstrating agency value while managing cultural change. It works in the commercial sector, and it holds great promise for the Federal Government, if committed leadership, discipline and thoughtful execution are present.

Our fourth and final overall observation is that the private sector should actively engage in resolving these challenges to realize the full potential of the FMLOB and COEs.

The Federal financial management community is blessed with extensive expertise and robust participation from the private sector. The industry stands ready to help evaluate improvement opportunities and to develop creative solutions. Government can benefit greatly by establishing a formal mechanism for incorporating industry as an active advisory participant in LOB policy development.

The President's management agenda emphasizes that government should focus on its core competencies and leverage private sector strengths to provide services outside its core competencies. The FMLOB and COE concepts, if structured appropriately, can do this. COEs are an opportunity for government to purchase services,
driven by expected financial management outcomes, from service providers that can be held accountable for quality service delivery. COEs with large-scale IT, business transformation and financial management expertise can reduce government cost and risk. However, without the active support of top-level agency leadership and diligent execution fundamentals of managing transformational change at the agency level, the FMLOB will fall short of its promise.

We support OMB and the committee in your work and would like to offer more input through a formal mechanism for industry participation in the ongoing LOB effort. We can help bridge our agency customer perspectives with governmentwide policy perspectives to make the next stage of financial management evolution a success.

Thanks again for the opportunity to testify today.

CGI holds the work of the subcommittee, OMB, and the FMLOB Initiative in the highest regard. We share your deep commitment to improving Federal financial management and ensuring the confidence that true accountability brings to American citizens. It is a privilege to work with you toward these ends.

Mr. PLATTS. Thank you, Mr. Marshall.

[The prepared statement of Mr. Marshall follows:]
Written Testimony
before the

House Government Reform Subcommittee
on Government Management, Finance, and
Accountability
Representative Platts, Chair

Introduction

Representative Platts and members of the Subcommittee: On behalf of CGI Federal, I thank you for the opportunity to share our insights concerning the Financial Management Line of Business (FMLoB) initiative. CGI is privileged to be working with OMB, federal agencies, and other members of industry in developing practical approaches to achieving FMLoB success. I have submitted my written testimony for the record and will summarize the testimony in brief remarks here.

The Subcommittee has asked our firm to address the current state of federal financial management, the practical, logistical, and audit implications for agencies considering moving forward with the FMLoB/Center of Excellence (COE) concept; and the role of the private sector in this transformation.

CGI is vitally interested in these issues because they are central to our business. We have spent 30 years implementing financial management systems in more than 500 of the largest, most complex organizations in the public and private sectors. This includes more than 20 years experience building, implementing, and maintaining COTS federal financial management systems in all three branches of the federal government. We also have 34 years experience in delivering IT managed services to commercial and government customers.

In response to the FMLoB, we have established a fully functional CGI Center of Excellence that delivers these same capabilities to agencies as a shared service. We are currently migrating the General Services Administration and the Corporation for National and Community Service into our COE. We are also partnered with GSA and the National Business Center at the Department of the Interior to deliver COE services to their customers. We are invested in initiatives that improve the management of the federal government, especially ones like the FMLoB that align with our core capabilities.
Based on this experience, we have four central observations on these hearings.

- **First, we support the Line of Business and Center of Excellence concept.** Although not without its challenges, the FMLoB and COEs hold promise to enable the next stage of evolution and improvement in financial management. We feel a new financial management business model is not only desired, but is absolutely necessary, for the federal government to address critical issues with the current and future state of federal financial management. The FMLoB and COEs, if structured appropriately, can serve as a vehicle that enables flexible modernization across federal departments and agencies to improve financial management at reduced risk and cost.

- **Second, the success of the LoB initiative ultimately depends upon leadership and execution at the agency level.** Throughout years of multiple waves of government reform, including the current LoB initiative, federal managers have been given tools and technologies to help them manage their business more effectively. Though thoughtfully conceived, many past initiatives have not produced their full intended results. Managers have not always used the tools effectively, and performance hasn’t shown consistent improvement. The key lesson is that success will be determined by the quality of the fundamentals of managing transformational change: top leadership commitment, dedicated resources, disciplined execution, effective communication and change management, and clear accountability for results. So far, we’ve seen impressive evidence of commitment, leadership and policy development from the Administration. Real results from this reform effort will be evident at the agency level where the rubber meets the road.

- **Third, the private sector has an important role in delivering on the promise of these concepts.** Private sector firms in the IT and business process service industry focus their investments into developing and maintaining the expert people, standard processes, and proven technology to execute specific back office functions such as financial management. Your back office is our front office. The government can leverage the private sector to deliver its back office—efficiently and under accountable service level agreements—so that federal agencies can focus on their core mission objectives.

- **Fourth, we seek to actively participate in resolving challenges that exist to realize the promise of the FMLoB and COEs.** We acknowledge that making an evolutionary change in federal financial management operations is not easy. The federal financial management community needs to further clarify the roadmap to achieve FMLoB success, both in terms of an FMLoB policy that establishes a level competitive playing field for financial management shared services, as well as an FMLoB execution strategy that enables agencies to realize true value from a COE. This value is not measured just in cost savings, but in how well the COE enables improved agency performance and accountability at reduced risk and cost.

As active participants in the federal financial management community with a broad range of experience across multiple agencies and commercial customers, the private sector can play a valuable role in evaluating opportunities for improvement and offering innovative solutions.
We believe the government can benefit greatly by establishing a formal mechanism for incorporating industry as an active participant in FMLoB policy development, and would welcome the opportunity to establish such an industry advisory group.

Current State of Federal Financial Management

We support the FMLoB and COE concept because we view this initiative as enabling the next stage of evolution and improvement in financial management.

In the 1980s, it was groundbreaking for federal agencies to capture financial data in a standardized financial system. In the 1990s, the federal government and industry jointly established financial system standards and certification tests. In the 2000s, most departments and agencies successfully modernized to certified financial systems and configured these systems to achieve unqualified audit opinions. Most recently, a handful of departments, such as the Department of State, have tied financial and program information together for strategic decision-making, getting to Green on the Improved Financial Performance category of the President's Management Agenda.

This evolution of success deserves recognition, but there is still much to do. Agencies face mandates to improve their financial systems and processes, yet doing so requires process redesign and system implementations that pose risk and that can carry price tags that are difficult to fund. Even agencies who are leaders in financial management face continuous pressure to become more efficient at maintaining and enhancing their levels of excellence, so that they can focus more resources on strategic mission-related activities. In addition, pressing current events such as the Iraq war, homeland security, and the Katrina disaster require funding priority, and at the same time, put a premium on accountability and integrity for the use of federal funds to address these national crises. We have reached a point where financial resources and the federal government’s capacity to manage them are severely strained.

Government financial management reforms have often responded to crises. For example, a series of highly visible financial failures and accountability lapses in the 1980s precipitated the CFO Act and FMFIA. The Enron and WorldCom scandals precipitated Sarbanes-Oxley and its application to the government through recent revisions to OMB Circular A-123. In each case, the goal of reform has been to mitigate vulnerabilities and improve financial performance.

The current challenge, then, is this: How can the federal government keep pace with its financial management needs when budget pressure from pressing national events dictates that the government simply cannot afford duplicate effort and expensive implementation failures?

For the government to sustain the high level of financial management it requires to maximize results from taxpayer dollars, its current financial management business model must change, even if that change is hard to do.
To address this challenge head on, we see two major tracks of work that must continue. The first is a policy track. The second is an execution track.

On the policy track, we applaud OMB for taking steps to provide increased transparency to give agencies more clarity on how to evaluate FMLoB service alternatives, and increased standardization to mitigate the cost and risk of agency financial system migrations. We feel that by establishing formal workstreams to address these issues, OMB and the Financial Systems Integration Office (FSIO) managed by GSA have a sound framework for developing a new viable federal financial management business model.

That is not to say that the work is done. To understand the challenges and help develop practical approaches to achieving FMLoB success, CGI hosted a series of forums among federal technology and financial executives and OMB during the past year. Attendance has been strong, with CFOs, CIOs, and OMB senior leadership participating. The last two of these forums benefited from the direct involvement of OMB Controller Linda Combs, and we thank her for bringing important insight and leadership to these discussions.

Federal CFOs and CIOs who participated in these forums communicated a concern that there is currently no clear vision of the FMLoB end game. What would the federal government look like if it were restructured around core missions and supporting lines of business? We agree with OMB’s high level vision of an FMLoB that improves the cost, quality, and performance of financial management systems by leveraging shared service solutions and implementing other government-wide reforms. We suggest that OMB and FSIO extend this vision to provide a blueprint for what the end state would look like from an agency’s perspective. Such a blueprint would help agencies visualize how they can apply FMLoB services within the context of supporting their mission. CGI has developed a potential vision for this end state and welcomes the opportunity to share and discuss it with Congress, OMB, and FSIO in the coming weeks.

In addition, there is an immediate need to establish a level competitive playing field for Centers of Excellence. As defined by OMB, a COE is a shared service solution where a single entity provides financial management services for multiple organizations. To date, OMB and FSIO discussions of establishing a sustainable competitive environment have focused on enabling agencies’ ability to migrate from one service provider to another better performing alternative. (OMB is even considering having COEs pay for transition costs to another COE if the customer agency is dissatisfied and wants to leave. This is not a commercial practice; it certainly has legal implications; and it is antithetical to building positive, durable relationships. This topic requires more detailed discussion than can be summarized in this testimony. We can provide more input on this topic at the committee’s request.) However, federal CFOs and CIOs who participated in CGI’s Line of Business Forum series in 2005 emphasized that more basic issues in the FMLoB competitive environment exist that must be addressed.
For example, the sanctioned public FMLoB COEs are not operating under the same rules. Legal constraints prevent some of the public COEs from taking common business actions—such as setting aside financial reserves to refresh technology, engage in marketing, and otherwise improve their services. Other public COEs that operate under the franchise or revolving fund model can retain funds, giving them a competitive advantage in bidding on multi-year engagements and guaranteeing service levels.

Also, inherent inconsistencies exist in the competitive playing field between public COEs and private-sector run COEs. For example, agencies buying services from a private COE must compete the opportunity according to the terms of the Federal Acquisition Regulation. Agencies buying services from a public COE can enter directly into an interagency agreement. Public COEs cannot make binding multi-year commitments to their customers. Private COEs can make multi-year commitments, but often do so without long term funding commitment from the agency, which jeopardizes the provider’s ability to offer long term cost efficiencies. Private COEs must account for all costs in a bid, to protect against liabilities that affect shareholders. (Yes, gone are the dot com days of spending what you don’t have to undercut the competition. Stockholders don’t stand for it. We can’t do it.) It is unclear if public COEs fully account for all costs of a service—including reimbursement of appropriated overhead amounts such as Salary & Expenses—in a bid.

We applaud OMB for attempting to plug the holes in these models on a deal-by-deal basis. For example, OMB specified in a currently ongoing FMLoB procurement conducted by EPA that all offerors must account for all costs related to the service to EPA in their bids. But more work is needed to iron out inconsistencies to establish a truly level competitive playing field where agencies can make apples-to-apples comparisons.

The second track of work to enable a new evolutionary financial management business model is the execution track. On this track, we again applaud OMB for establishing formal workstreams to develop government-wide common business rules, data structures, and policies for financial functions. Again, that is not to say that the work is even close to done. Implications remain.

For example, federal CFOs and CIOs who participated in CGI’s FMLoB Forum series identified process and data standardization as a key challenge. They cited increased standardization as critical to reducing the complexity and cost of integrating feeder systems with their financial system, and to compiling financial management information for program decision-making. These CFOs and CIOs cited difficult migrations to eTravel solutions as an example of the added cost and pain that arises if process, data and integration standards do not exist.

We don’t want to get too caught up in drawn out standards creation processes. We’ve seen too many such efforts get bogged down in analysis paralysis or create standards that are too rigid to be truly useful. But working, sustainable financial management standardization can be done. In the 1990s, we and other industry representatives sat down with federal experts to develop the
JFMIP financial system certification process. That process has continuously evolved to effectively set a bar of capability that enables federal financial management compliance.

To address the key issues under these policy and execution tracks, we believe that a similar degree of formal collaboration between industry and federal experts is required. One potential mechanism would be to leverage the Industry Advisory Council’s new Financial Management Committee, which one of CGI’s thought leaders co-chairs, as an existing parallel organization of industry leaders to engage with FSIO to analyze specific policy and execution improvement tracks. Through such industry participation, we hope to help bridge our agency customer perspectives with the government-wide policy perspective to help make this next iteration of financial management evolution a success.

Agency Readiness for COEs

The issue of agency readiness for participation in COEs should be asked in two ways: How ready are agencies to use a COE as their financial management services arm? And how ready are agencies to serve as COEs themselves?

In terms of agency readiness for using COEs, the biggest implementation challenge to fully executing the COE model is managing the required change in mindset, culture, and customary operations.

Successful migration of an agency to a COE requires large scale change that effectively manages the transformation from the way the agency performs their operations today to the way they would perform the complete cycle of financial management in partnership with a COE. This change spans the full financial management life cycle across functions for capturing, maintaining, analyzing, and distributing financial management data. Change on this scale affects a wide spectrum of stakeholders, including program managers as well as the office of the CFO. Change on this scale requires proven, large-scale business and IT transformation skills and talents to prevent costly failures and rework.

Agency readiness is also affected by the way in which agency financial management projects are funded. For example, Congress could consider treating administrative funding differently than program funding to provide FMLoB migration funding that spans multiple fiscal years. The act of funding programs benefits from annual prioritization and oversight. Administrative operations could gain investment efficiencies if federal funding for such COE and other infrastructure activities more closely aligned with the multi-year funding model of an ongoing business concern. When funding FMLoB migrations, Congress can consider exploring new administrative funding models that allow for continuity of an FMLoB service across fiscal year boundaries.

Migrating to an FMLoB/COE model also requires a shift in mindset in how departments and agencies procure financial management software and services. Buying from a COE changes
their acquisition approach from buying financial system software through precise definition of specifications and requirements, to buying a financial management service from centers governed by service level agreements. This involves a cultural change from a government-contractor relationship to a mutually beneficial working relationship. In this new relationship model, agencies will most effectively view COEs as extensions of their operation and enterprise architecture bound by an enforceable service level agreement.

As a result, agency readiness is also determined by how they define their success measures in the service level agreement. Measures that focus on outcomes related to improved financial performance and customer service are most beneficial. Measures that focus on IT-related outcomes, such as per second response time, although important, do not in and of themselves measure the agency’s desired outcome. It is important to measure what matters to keep the service provider focused on the agency’s most important outcomes, and to avoid excessive SLA management costs.

By managing a COE shared service as an extension of their architectures, departments and agencies mitigate the audit implications of migrating to a COE. Under such a model, the department or agency remains in control over the entire financial system operation by defining, authorizing, supervising, and controlling all areas of financial system operations. The COE advises, counsels and executes services at the direction and authorization of the federal customer. The department or agency retains ownership and accountability for system data, data integrity due to data entry, and business rule configurations that the department/agency authorized to govern separation of duties and other internal controls. Best practice COEs would include performance measures, and powerful incentives and disincentives, tied to whether an audit finding can be traced back to a specific service area that was within the sphere of control of the shared service provider, such as the SAS 70 audit or data integrity due to system malfunction.

Further, the CFO Council’s Implementation Guide accounts for the necessary procedures to ensure proper internal controls and reduce audit exposure of using a shared service provider. OMB Circular A-123, Appendix A, Internal Control over Financial Reporting, specifically addresses Evaluating Control of Cross-Servicing Providers and Service Organizations. The implementation guide prescribes the procedures, tests and assurances that should be preformed for the required annual assurance statement. The guide covers both the entity’s controls over the activities of the service organization, controls at the service organization, and the service auditor’s report on controls placed in operation and tests of operating effectiveness (such as a Type II SAS 70 report). All of these policies establish sufficient guidance for internal controls. If the requisite procedures are coupled with a strong governance model, agencies using a COE can retain control and remain compliant with federal audit requirements.

**In terms of agency readiness to be COEs themselves, the quality bar should be set high.** To reap the benefits of improved financial information and performance at reduced risk and cost, we see five critical areas of core competency for COEs:
1. Business transformation on this scale is hard, and is the number one factor in determining the difference between success and failure. Successful COEs should possess large-scale business and IT transformation as a core competency. They should have developed, invested in, and performed that competency over many years and many successful client engagements. All organizations are not alike: One organization’s success does not necessarily translate into success for another. Successful COEs combine experiences from successfully modernizing a diverse range of customers. This enables the COE to embrace agency diversity, and apply proven processes in the hands of experienced experts so that the COE can enable the necessary transformation to meet and overcome agency-specific challenges.

2. Qualified COEs will continuously make and leverage investments in people, processes, and technology to provide excellent and continuously improving services. In terms of people, its team should be experienced in routinely successful large scale system implementations and understand the requirements of large scale change management and business transformation. They should be experts at linking financial management with technology, enforcing strong internal controls through system configurations and automated business rules. And they should be experts in financial management data, so that they can configure daily operational data to integrate efficiently with external systems and roll up effectively for management reporting.

3. In terms of process, COEs should focus on proven standards and reuse. They should offer a set of standards for migration, interface configuration, operations, and ongoing support that each agency customer can leverage. These should be tested best practices that are continuously improved to leverage proven commercial standard technology. These practices can and should extend beyond IT and application hosting to include business process services, because agencies can realize efficiencies and process improvements through a turnkey service. COEs should also be experienced at commercial management best practices, such as enforceable service level agreements and strong governance models that deliver a high degree of agency satisfaction.

4. In terms of technology, COEs should possess management of state-of-the-art technology as a core competency. They should have invested in that competency over many years and many successful client engagements. They should have specific experience in applying technology successfully, multiple times across a diverse range of federal departments and agencies. They should not just have the ability and resources to invest in emerging state-of-the-art technologies, but should instead have assessment and adoption of proven technologies as a core purpose for their existence. This focus on and core competency in technology enables the COE to offer a clear path of continuous technology improvement that enables customer agencies to stay current with technology advances, and leverage an IT infrastructure supported by ongoing investment and upgrade.

5. Finally, successful COEs should also offer a framework for delivering standardized services in a manner that acknowledges inherent differences in how agencies do business, and that embraces agencies’ variety by offering flexible service options and configurations. This includes offering multiple service options that allow the agency to configure their FMLoB.
solution to achieve the right balance of capability and cost, with compliance as a minimum. This also includes offering configurable COTS software that does not require multiple layers of extensions to meet agency-specific federal requirements.

The end result is a COE that delivers a balance among flexibility, capability and cost efficiency, all leveraging a single set of process, data and technology standards. With Centers offering these attributes, the federal government can evolve the “build once—use many” approach to a more flexible new approach that leverages process and technology standards to deliver improved financial information and improved agency management results while achieving economies of scale.

Role of the Private Sector

The private sector can play a key role in the FMLoB initiative, both in shaping FMLoB vision and direction and in delivering shared services through Centers of Excellence. Our core business is the back office functions of large organizations like agencies, departments, and other commercial firms. Your back office is our front office.

As a result, our primary investment and mission is to develop and maintain the expert people, standard processes, and proven technology to execute back office functions like financial management. We also focus on reuse—reuse of best practices in migration, conversion, change management, and business transformation from across commercial and government modernization experiences. For example, CGI alone has spent 30 years implementing financial management systems in more than 500 of the largest, most complex organizations in the public and private sectors. The private sector brings a wide range of experiences and perspectives to each financial management engagement.

Specifically in the domain of federal financial management, we often find ourselves as the change agent, bridging organizational boundaries across our clients and policymakers to recommend and reuse proven financial management modernization approaches. The areas of cross-agency sharing that we facilitate range from proven approaches to managing large scale change across federal departments, to efficiently configuring financial systems to meet agency-specific needs and comply with federal mandates. We reuse and leverage our experiences, as well as our investments in IT infrastructure assets, to control costs and risks for federal agencies.

The private sector also has decades of experience with delivering shared services to both the public and private sectors: managing the requisite IT infrastructure, enterprise applications or back-office functions on a multiyear contractual arrangement with specified service levels according to industry standards. Such services enable organizations to focus on their core business and reduce the complexity of their operations by outsourcing their IT and back office
environments. The organization gets defined service levels that align with its needs delivered by industry experts who are held accountable for results.

We concur with Linda Combs, as stated in her December 16, 2005 memo to federal CFOs, that shared services solutions and other government-wide reforms can foster efficiencies in federal financial operations. We also recognize that the way to enable this change and accelerate adoption is by demonstrating COE service value to the agencies and to Congress, in terms of better agency service, sustained improvement in financial management results, and cost efficiencies.

We recognize that implementing this model will take time and that the key challenge is demonstrating value and managing the complex cultural change. But we have seen it work in the commercial sector and we believe it holds great promise for the federal government, if committed leadership and disciplined, thoughtful execution are present.

Conclusion

The President’s Management Agenda clearly emphasizes the idea that government should focus on its core competencies and leverage private sector strengths to provide services outside these core competencies. The FMLoB and the COE concept, if structured appropriately, can enable a sustained high level of financial management. COEs offer the opportunity for government to purchase services driven by outcomes to be achieved (such as better management information, strong internal controls, and accountability for taxpayer dollars), from service providers that can be held highly accountable for service quality. By purchasing services from a COE with broad experience in large-scale IT and business transformation and federal financial management, departments and agencies can reduce risk and focus their resources on their primary mission.

However, without the presence of leadership and execution fundamentals of managing transformational change at the agency level, the FMLoB will fall short of its promise.

We support OMB in its work and would like to offer more support by establishing a formal mechanism for industry participation in the ongoing FSIO workstreams. Through such participation, we hope to help bridge our agency customer perspectives with the government-wide policy perspective to help make this next iteration of financial management evolution a success.

In closing, I thank you for this opportunity. CGI holds the work of the Subcommittee and FMLoB initiative in the highest regard. We also remain committed to improved federal financial management and the accountability it brings to all our citizens.
Mr. WILLIAMS. Chairman Platts, thank you for the opportunity to testify about OMB’s Financial Management Line of Business Initiative. My testimony source includes interviews with Federal CFOs and other financial managers done as part of an annual CFO survey conducted by Grant Thornton LLP on behalf of the Association of Government Accountants.

The AGA is an organization of accountability professionals dedicated to the enhancement of public financial management. Among other education-related activities, AGA sponsors professional development for government financial management personnel, and administers the certified Government Financial Manager [CGFM] program.

Grant Thornton is an accounting and business advisory services firm headquartered in Chicago, IL. Our global public sector practice is based in Alexandria, VA and provides financial, performance management, and systems solutions to governments and other international organizations.

The 2006 CFO survey includes questions about the Financial Management Line of Business [FMLOB]. This year’s survey is still in progress, with the completed results due in June. Today, I report on 40 interviews completed by early March of this year. We guaranteed anonymity to our survey participants, which encourages their candor.

I can summarize the findings of the survey related to FMLOB in one sentence: Most Federal financial managers that we interviewed favor the concept of the FMLOB. But they are concerned about how the initiative will be executed. For example, survey participants pointed out that the OMB Financial Management Line of Business and Centers of Excellence concepts are not new. Center of Excellence refers to shared service providers for the Federal Government. One example would be the Department of Agriculture’s National Finance Center’s work related to payroll processing for other agencies. The NFC has been a successful shared-services organization for over 23 years.

Indeed, the FMLOB Center of Excellence is part of a broader, older trend of transferring routine infrastructure and administrative activities to a shared-services provider.

Almost no survey respondent opposed the concept of shared services, just as long as the service quality is good and it’s reasonably priced. Perhaps the only difficulty respondents had in understanding the Centers of Excellence concept was the scope and range of services to be provided by the centers. Some respondents want more time to consider the option of becoming a Center of Excellence or transferring financial activities to a center. They say they have not had enough time to study the pros and cons in general and their internal investment equation. In addition, they want more guidance from OMB, such as better definitions and the services to be provided. Respondents were aware that OMB intends to provide additional guidance in the near term. Some interviewees thought pressure brought by the initiative is good because it accelerates positive trends. These include consolidating information sys-
tems, reducing cost, increasing standardization and benchmarking their systems and operations. All want a fair and honest comparison done before agreeing to a Center of Excellence arrangement.

The respondents identified specific issues that must be addressed for the concept to proceed; capital funding; lack of true competition between public entities versus private sector versus public-private consortia; the ability to fairly assess the bids and proposals from the just mentioned types of competitions; developing service quality measures and performance standards; and establishing governance structures for the relationship between the parties involved. The structures need to give customers a voice in a provider’s operations. And, last, where will the money come from for transitioning services and data?

There should be no negative audit implications for a Federal agency that transitions to a shared-services provider. This means that a Center of Excellence provider should comply with regulations for information systems and internal controls so that their customer agencies can rely on their controls for their own financial statement audit purposes. However, several respondents said that Centers of Excellence are not yet in compliance with these rules nor will they in the near term.

You asked about the private sector’s role in shared services. Many respondents said that the private sector will continue to supply much of the support and information technology solutions used in public sector shared services. Private companies are better able than Federal entities to obtain funds for capital investments in new technology. Also, the private sector has more experience in managing technologies and processes of shared services. Most survey respondents who answered this question also said that they prefer public-private joint partnering over private-sector-only or public-sector-only Centers of Excellence.

To conclude, financial leaders in our survey like the idea of the FMLOB initiative but are concerned with its implementation. Sound execution will depend on the following factors: The ability to develop standard financial management process throughout government; sound governance structures and agreements between shared-services providers and their customers; effective change management, to ease the transition to a new way of doing some financial management operations; excellent performance management, including service level agreements and performance measures; good management of customer relations and the technology and processes involved.

Thank you for the opportunity to testify. I would appreciate your inserting my statement in the record. I will be glad to answer questions.

[The prepared statement of Mr. Williams follows:]
Preliminary Results of a Survey of Federal CFOs and Financial Managers on the Financial Management Line of Business Initiative

Statement of Clifton A. Williams, CPA, CGFM
Partner, Grant Thornton LLP
before the
Subcommittee on Government Management, Finance and Accountability
House Government Reform Committee
March 15, 2006

Grant Thornton LLP
Global Public Sector
333 John Carlyle Street
Alexandria, Va. 22314
Phone: 703 837 4400
Table of Contents

Statement of Mr. Williams ................................................................. 1

About the Association of Government Accountants and Grant Thornton .......... 1

The 2006 CFO Survey and the Financial Management Line of Business initiative ...... 2

Interim findings of the 2006 CFO Survey ............................................ 2

Audit implications of shared services arrangements ........................................ 5

Private sector role in shared services ................................................... 5

Resume of Mr. Williams ........................................................................ 6

Addendum A: 2006 CFO Survey Questionnaire ........................................... 7
Statement of Clifton A. Williams, CPA, CGFM
Partner, Grant Thornton LLP

Before the
Subcommittee on Government Management, Finance and Accountability
House Government Reform Committee
March 15, 2006

Chairman Platts, Congressman Towns and Members of the Committee, thank you for the opportunity to testify about the U.S. Office of Management and Budget’s Financial Management Line of Business (FMLOB) initiative. My testimony’s source includes interviews with federal financial executives and managers done as part of an annual CFO Survey done by Grant Thornton LLP on behalf of the Association of Government Accountants (AGA).

To summarize the CFO Survey’s interim findings, most federal CFOs and other financial managers we interviewed are in favor of the central concepts of the FMLOB. Their concern is with how the FMLOB initiative will be executed. Sound execution will depend of the following success factors:

- The ability to develop standard financial management processes throughout government.
- Sound governance structures and agreements between shared services providers and their customers.
- Effective change management, to ease the transition to a new way of doing some financial management operations.
- Excellent performance management, including service level agreements and performance measures.
- Good management of customer relations and of the technology and processes involved.

About the Association of Government Accountants and Grant Thornton

The AGA is an organization of accountability professionals dedicated to the enhancement of public financial management. Among other education-related activities, AGA sponsors professional development institutes for government financial management personnel and administers the Certified Government Financial Manager (CGFM) program.

Grant Thornton LLP is one of the largest accounting and management consulting firms in the world. Grant Thornton’s Global Public Sector, based in Alexandria, Va., is a global management consulting business with the mission of providing responsive and innovative financial, performance management and systems solutions to governments and international organizations.
The 2006 CFO Survey and the Financial Management Line of Business Initiative

On behalf of the AGA, since 1996 Grant Thornton has conducted an annual survey of federal CFOs, deputy CFOs and other financial managers. We guarantee anonymity to survey participants, which encourages candor. The 2006 CFO Survey, which uses in-person interviews, includes the following questions about the FMLOB initiative. The full survey questionnaire is attached as an addendum. (The questions refer to Centers of Excellence [COE], a term used for an arrangement in the FMLOB initiative in which federal entities are the shared services providers for other federal entities.)

1. (If the participant’s organization already is a LOB/COE for financial functions, ask the following questions):

   a. In your opinion, has becoming a LOB/COE been a positive experience for your organization? Please explain.
   b. In the next two years, do you think your LOB/COE will recruit more customers?
   c. What lessons have you learned about LOB/COE that you would like to share with your colleagues in other organizations?

2. (If the participant’s organization is not a LOB/COE for financial functions, ask the following questions):

   a. Over the next two years, do you see your organization becoming a LOB/COE for financial functions? If so, which functions?
   b. Over the next two years, do you see your organization moving financial functions to an outside LOB/COE? If so, which functions and why?

This year’s survey is still in progress, with findings due in June. Today’s report is on 40 interviews completed by early March of this year. Of the 40 surveys, 20 were of federal chief financial officers at the Department or agency level. We expect that approximately 70 CFOs and financial managers will be interviewed for the 2006 CFO survey. In addition, we are conducting an on-line poll of financial managers and analysts in the field and expect to have about 100 responses from that survey. The on-line survey does not address the Financial Management Line of Business.

Interim findings of the 2006 Survey

FMLOB is not new. Several 2006 survey respondents pointed out that the FMLOB concept of using shared services providers is not new. Instead, they said, the concept is a variation on a broader, older trend in government and industry of transferring routine administrative and support activities to a shared services provider. Almost no respondents to the 2006 CFO survey oppose the concept of shared services, so long as service quality is good and reasonably priced.
Many respondents had different definitions on the scope and range of services a COE would provide for the FMLOB. Most definitions only include the hosting of application software and transaction processing as the range of services. When probed about including accounting operations and analytical services to the scope of services, most were surprised that these services would even be considered.

As discussed in the report of the 2003 AGA/Grant Thornton annual CFO Survey, *Financial Operations: Who will do it in the future and why?*, shared services arrangements already used by the Federal Government include cross-servicing, federal franchising, contracting out, outsource and the use of application service providers. In that survey, the reported trend in the CFO community was away from a clerical workforce focused on transactions toward a professional workforce focused on analysis and providing information for business cases and executive decisions for financial management. Shared services, according to the 2003 respondents, offer ways to shift financial transaction services and other routine activities to lower cost providers with the right technology and demonstrated experience to handle such services.

**Agencies want more time to consider FMLOB options.** Some respondents want more time to consider their options. In addition, they want more guidance from OMB, such as better definitions of Centers of Excellence and the services they will provide. They want to know how to evaluate their options, including calculating the return on investment of different decisions. Respondents were aware that OMB intends to provide additional guidance in the near future.

Some interviewees thought pressure by the Lines of Business initiatives is good because it accelerates positive trends. These trends include consolidating information systems, reducing costs, increasing standardization and forcing agencies to compare and benchmark their systems and operations. The purpose of the comparisons is to determine if an agency’s current financial management operations are as good as or better than services that would be provided by a Center of Excellence. This will enable them to decide whether to go forward as a customer of a COE or as a COE service provider. Many want guidance developed for agencies to how to compare fairly the bids for services between private sector versus public sector providers versus public and private sector consortia providers.

**Capability of COE providers.** While the 2006 respondents agree that there are substantial benefits that can result from shared services, they want to be ensured that COE providers have the technical and staff resources to manage an agency of their size. Also, they want the COE to have the customer service capability needed to meet a customer agency’s performance criteria. One of their greatest fears is of being forced to migrate to a COE, investing the millions of dollars of their own budgets for the integration and transition, and then finding that the COEs are not capable of delivering the promised services or managing multiple entities as customers with potentially competing priorities. Respondents from large Departments and agencies would like to see examples of similar-sized entities successfully making the move to a COE arrangement.
Service level agreements, governance and performance. Many respondents were concerned about the uncertainty of contractual relationships between the COEs and their customers. The respondents know what recourse they have when commercial contractors fall short of stated performance objectives—the contractors may pay penalties, may have reduced profits and, at the extreme, be “fired.” However, some respondents are not clear about the recourse for a customer agency if a COE’s services fall short of agreed-upon levels of performance. Some respondents said that, considering the substantial investment it requires to migrate to a COE, having clearly defined service level agreements with specific performance criteria that outline impacts for failing to meet service levels would help allay the fears of CFOs and foster more willingness to try the COE approach. Concerns remain over what would happen to a COE should a large customer pull out and go elsewhere because of poor service. In addition, where will the funds come from to make such a transition—the customer agency or the COE that failed to meet agreed upon service standards?

Situations appropriate for choosing the COE option. Some respondents said that shared services are more appropriate for some agencies than others are, meaning one size does not fit all. For example, they said, large cabinet level agencies that have already successfully implemented a financial ERP and that have their financial houses in order may not be better off transferring activities to a COE or becoming a COE. Respondents said that these agencies should have the option of migrating to a COE when their financial systems near the end of the systems’ useful life. In addition, these agencies should continue to have the latitude to make additional investments in their systems to improve internal efficiencies. Shared services might be more appropriate for large cabinet level agencies that plan for financial systems modernization or are involved in a modernization initiative that is not progressing smoothly. COEs also make sense for many of the smaller agencies with budgets under $100 million dollars. (In fact, such customers make up the base of customers for most shared services arrangements today.) Some commented that simply getting to one COE and accounting systems per CFO Act agency should be all that we should strive for, because that alone would save millions of dollars.

Sources of capital. Some respondents were concerned about how COEs will acquire and accumulate capital funding, especially for investments in innovation. Their concerns included the start-up aspects as well as down the road systems maintenance. In addition, some respondents were concerned about the ability to build up reserves for contingencies such as having to pay penalties or other fees to customers. Private companies regularly save for or otherwise acquire and invest capital to stay current in technology, to expand a business so that it can handle more customers and to maintain a prudent reserve. The Economy Act restricts the ability of COEs to do this without a working capital fund and even then, some complications remain. This was a substantial concern that must be addressed before it creates serious service issues. Congress might consider legislation allowing COEs to have greater flexibility in retaining a portion of their revenues for the purposes of enhancing operations, building capacity and maintaining reserves.
Competition. Some respondents mentioned that there is a lack of true competition between (a) commercial providers and federal agencies and (b) among federal agencies. We understand that OMB is developing guidance for how agencies should run competitions for COEs and between COEs and private companies. The guidance should address creating formal service level agreements with performance measures and enable the use of financial incentives and disincentives for performance. In addition, the rules should stipulate the recourse for failure to meet performance standards and clarify who is required to pay to migrate from one COE to another if performance levels are not met. Many respondents promoted the public/private sector partnering for the COE’s, as the Department of Transportation and General Services Administration have started.

Audit implications of shared services arrangements

There should be no audit implications for a federal agency that transitions to a shared services provider, if the provider complies with regulations for information systems and internal controls. These rules include the Federal Financial Management Improvement Act of 1996 (FFMIA), OMB Circular A-123, Management’s Responsibility for Internal Control and OMB memoranda such as M-04-11 from Linda Springer to chief financial officers and others, dated April 30, 2004, requiring provider agencies to give service auditor reports to client agencies, in accordance with AICPA Statement on Auditing Standards (SAS) No. 70, “Reports on the Processing of Transactions by Service Organizations, as Amended,” April 15, 2002. However, several respondents said that the parent agencies of designated Centers of Excellence are not yet in compliance with these rules, nor will they be in the near term. Some stated that SAS 70 reviews, required to substantiate internal controls for those providing shared services, were not being consider for by designated COEs for several more years.

Private sector role in shared services

Many survey respondents said that the private sector will continue to supply much of the support and information technology services used in public sector shared services. Private companies are better able than federal entities to obtain funds for capital investments in new technology and deal with the ebb and flow of volume fluctuations in servicing needs. In addition, the private sector has more experience in managing the technologies and processes of shared services. Under the current “rules of the game” for private versus public competition for shared services customers, the private sector has the incentive of profits and the risk of failure, which motivates industry to strive for better customer service and a larger customer base. Many respondents did support the private/public sector consortia and typically did not like the private sector only options for Centers of Excellence.

I thank you for the opportunity to testify today before the Committee and will be happy to answer questions that you may have. Thank you.
Resume of Clifton A. Williams, CPA, CGFM

Mr. Williams joined Grant Thornton LLP in 2003 and is a partner in the Global Public Sector group located in Alexandria, Va. He has more than 25 years of government and private sector experience in nearly all areas of accounting, financial information systems, financial management and accounting. This includes shared services, Chief Financial Officer (CFO) Act implementation, compliance and financial auditing, accounting systems implementation, process improvement and redesign, performance measurement, activity-based cost management (ABC/M), benchmarking, fee setting and outsourcing.

As a Federal manager, Mr. Williams worked with the Internal Revenue Service, the Department of Commerce, the Office of Personnel Management and the Department of the Navy. Working in the consulting industry, Mr. William’s federal clients include the Department of Homeland Security (Coast Guard, Transportation Security Administration), the former Immigration and Naturalization Service, the Executive Office of Immigration Review, Center for Medicare and Medicaid Services, the Drug Enforcement Administration, the National Institutes of Health, the Federal Aviation Administration, and the Departments of Energy, Veterans Affairs, Treasury, Justice, and Education.

Mr. Williams is a recognized thought leader in Federal financial management. He has directed four surveys of federal CFOs, deputy CFOs and other financial managers for the Association of Government Accountants and Grant Thornton. Topics covered in past surveys include shared service arrangements in the Federal Government (2003); structure of the federal financial community, human capital, performance management, e-Gov, financial systems and erroneous payments (2004); and the integration of performance measurement and internal control (2005). While a manager with the Internal Revenue Service, Mr. Williams developed the Federal Accounting Standards Advisory Board (FASAB) SSFAS #4, “Managerial Cost Accounting Concepts and Standards.” He has published in the Journal for Public Budgeting and Finance, PA Times and related publications. Mr. Williams a member of the American Institute of Certified Public Accountants and Maryland Association of Certified Public Accountants, and is a Certified Government Financial Manager (CGFM).
Addendum A: Questionnaire for Association of Government Accountants
2006 Survey of Federal CFOs

Date of survey interview:
Name, title and organization of people surveyed
Name           Title           Organization

Is the organization a LOB/Center of Excellence for any functions? If so, list them here.

Name and phone number of interviewer(s)
Name           Phone number

Background information
The Association of Government Accountants (AGA) is conducting its annual survey of Federal financial management leaders. As we have for the past 9 years, Grant Thornton LLP is supporting the AGA survey by doing interviews and preparing the survey report. AGA and Grant Thornton design these surveys to identify and describe emerging issues in financial management.

Interviewees. In this survey, leaders we will interview include CFOs, deputy CFOs, comptrollers and directors of major financial management agencies and programs. In addition, the AGA survey will interview a select group of customers of financial management information and services. They include high level departmental leaders and the managers of major government programs.

Topics. Earlier AGA surveys focused on issues such as electronic government, governance structure, human capital, financial systems and the integration of performance measurement with internal control. For the 2006 survey, our focus is on shaping the future of financial management, the impact of lines of business and centers of excellence, and looking at the era of new (ERP) financial management information systems.

Anonymity. AGA surveys like this one do not attribute thoughts and quotations to individual interviewees. This preserves anonymity and encourages interviewees to speak freely.

Topic 1: Shaping the future
This topic examines what financial executives think must be done in order to achieve the financial management goals of the President’s Management Agenda (PMA). What new initiatives should be started to reach the PMA goals? Which existing initiatives should be continued, and at what level—more resources, fewer resources or about the same
resources? Which should be stopped because they either are not working, too costly or are no longer a priority?

1) Thinking about your own organization (e.g., office, agency, department), how close do you think you are to achieving the financial management goals of the President's Management Agenda? Are you:
   a) Just getting started
   b) Well along the way
   c) Nearly there
   d) Arrived at the goal

2) Thinking about your organization, over the next two years which management initiatives need to be started, continued or stopped in order for you to achieve the goals? Which initiatives should receive top priority?

3) Thinking about the routine financial tasks in your organization, what still needs to be done in order for them to perform according to your expectations?
   (If the respondent mentions a task, such as accounting, ask “If you could go back to the start of this Administration, what would you have done differently in order to improve the performance of that task?”)

4) Over the past two years, what have you and your organization done to better integrate program performance and financial (accounting and budgeting) management? Over the next two years, what do you plan to do to better integrate these?

5) Since the issuance of the December 2004 revision of OMB Circular A-123, Management Accountability and Control, what steps have you taken to improve internal control in your organization? Over the next two years, how do you plan to integrate internal control and performance measurement?

**Topic 2. Line of business and centers of excellence**

The Bush Administration has emphasized Line of Business and Centers of Excellence (LOB/COE) such as travel, accounting, financial reporting, reconciliation, budget formulation and execution, payroll and other financial functions. The following questions relate to this idea and to the experience that government organizations are having with it.

1) (If the participant’s organization already is a LOB/COE for financial functions, ask the following questions):
   a) In your opinion, has becoming a LOB/COE been a positive experience for your organization? Please explain.
Mr. Plattns. Thank you for your testimony, and the information is included in the record. In your written testimony and all three of your testimony here today is the general appreciation for the benefits of this type of initiative but a clear focus on a lot of the unanswered questions. That, as you heard, was a big part of our discussion with Dr. Combs and Ms. Evans.

One of the questions I asked, which the answer was clearly not definitive, that there is no timeframe. That seems contrary to the message of the President’s budget. And then in Dr. Combs’ December memo that OMB has instituted a policy that agencies seeking to modernize their financial system must either be designated a public COE or must migrate to a COE. Those statements now, I mean, not over the next 10 years, they didn’t share a timeframe of when they think this has to happen, but based on those statements and the feedback we get from within the departments and agencies, there is a belief out there that it is really now that they need to be working toward being a COE or looking to migrate.

Is that read an accurate one in your interactions with CFOs, CIOs throughout the Federal Government? Maybe specifically with your survey results, is that this is something they are expected to be doing now?

Mr. Williams. Sir, I would tell you that almost every respondent in our survey would tell you that they know they need to be positioning for the Center of Excellence initiative. They absolutely feel that way.

Mr. Plattns. Any contrary belief?

Mr. Kull. I think part of the issue is that there is no end game to look at here in terms of where am I going to be in 2010, 2012. And if people were to have a focus on a particular place or level of performance, I think they would be able to manage toward that in a more coherent way. Instead of looking at it step by step, looking at the vision and working backward.

Mr. Plattns. Mr. Marshall, in your written testimony, you kind of capture where OMB has laid out a high level mission or view, but to that frontline financial manager, what does it mean to me today to get to that high level view?

Mr. Kull. It gets to the cultural issue, if people understand what’s driving the behavior and the organization because they all see the same place they have to be, then there is more of an understanding of how to get along, how to work with the rest of the team in order to get there.

Mr. Marshall. We’ve had discussions with Dr. Combs and her staff about what is the mission, what is the end game, and we’ve had our own takes on what that ought to be. I think what Dr. Combs said today is starting to spell it out a little more clearly than it has been before, but we think there still is an opportunity to really present a bold vision of a business architecture that enables agencies to focus their resources on strategic decisionmaking and core mission delivery. Then LOBs like finance and the others that have been cued up can be managed in a consolidated shared service environment that is driven by the Federal enterprise architecture. There’s a lot of good work that’s going on, and it really gives those agencies that ability to focus on the mission and do what’s critical.
Mr. PLATTS. As they try to get to that point where they can focus on their critical mission and allow others’ expertise to help them in day-to-day management, one of the items touched on, Mr. Kull, in your testimony about the governmentwide standardization and specifically about standards-based reporting as another option, and in your testimony, you say in moving forward that one of the things that should be looked at is this data standardization to allow the applications to come together.

Is that something that you think, in your opinion, OMB is looking at as an alternative at least in the short term? Is that what’s going to the governmentwide accounting code, along those lines? Do you see something different?

Mr. KULL. I think they’re fairly consistent. We’ve been talking to OMB, as I’m sure other people have, about the potential for XBRL. It’s becoming more and more recognized as a possibility for using information; by tagging it once and using it over and over again, it’s permanently tagged, permanently recognized. Works like bar coding. It forces the discipline that’s been lacking over the many years of getting standards in place and then using them. It takes those standards and makes them digital so that if everyone is able to employ that, then you can have data that’s coming from different systems but that can be read by virtually any system.

So I think it’s something that should be looked at, and I think they are looking at it. I think, like most people, it’s a new idea and so getting a new idea out there and testing it is very risky and sometimes people are hesitant to step forward.

Mr. PLATTS. On the specific issue of governmentwide accounting code, and Dr. Combs talked about the September 30th deadline that they’ve set out there as they see more as internal—what’s your read on the feasibility on what can we have in 6 months?

Mr. KULL. It was interesting because I think today she mentioned something about that they would have a plan in place. We do a lot of planning in the government. Having worked there 32 years, I’d rather see a phase where perhaps certain functions or activities are targeted for coding generation, if that’s what it is, and we start actually doing it to see in fact if it can work, if we can get people to the table to agree on these standards.

If we pick certain areas and we start to build on a success and a framework, we may be actually able to move this along.

Mr. PLATTS. My read was the same, that it wasn’t actually having——

Mr. KULL. There was no end date in terms of when we would actually have a code.

Mr. PLATTS. That we’ll have a plan how to move forward in achieving a code.

Mr. KULL. I’m sure we will have a plan by September 30th, if that’s the case. But there are other things I think could be looked at in the interim.

Mr. PLATTS. We touched in the first panel also on the lack of FFMIA compliance, that cart before the horse, that if we are doing better there, that will make everything else a lot easier.

I guess one, in a general sense, to all three of you, your read on that focus, that it’s great to pursue this new initiative and ultimately it can be a real benefit, but do we need to do a better job
on FFMIA compliance that will help us get to that alternate goal, and then specifically from an audit standpoint, if you migrate to a COE, your opinions on how you're going to be treated in your audit if your COE that you migrate to is not FFMIA compliant, how does that impact the customer agency's audit?

Mr. WILLIAMS. I would say in every interview we've had, each of the other COEs or those that might migrate to one expressed concern about not having a SAS 70 done and what the implication would be on their financial statement audit. Agencies are concerned, trying to figure out what that means downstream. My personal opinion is it would be hard for an agency to get a clean opinion if the Center of Excellence it uses had a qualified opinion.

Mr. KULL. I think there is a difference, too, between an audit opinion and an opinion on a control environment at a particular service provider. We have situations now where we have service providers not compliant and yet they are able to somehow provide enough evidence about controls that allows people to use their systems and get clean opinions on their financial statements.

Mr. MARSHALL. I think Dr. Combs' answer to that question was right on in that if your COE is part of a larger organization that has some issues, it doesn't necessarily mean the COE—that it would apply to the COE. It wouldn't necessarily get in its way of delivering good audit results to its customers. We see no incompatibility at all between the objectives of FFMIA and the line of business if they're managed appropriately.

Mr. KULL. This could also be, if you're looking at standards for COE, if one were to establish principles or terms and conditions around which they're built, this may be something that allows that.

Mr. PLATTS. That was going to be my followup; should a standard be that you need to be FFMIA compliant to be a Center of Excellence?

Mr. WILLIAMS. The survey would say yes. All the respondents of the survey feel that way very much.

Mr. MARSHALL. I think we would agree, but we might differ if the issue is not within the management purview of the COE, that might be a different story.

Mr. PLATTS. In assessing whether an agency is FFMIA compliant, would you give more weight to the outside auditors' opinion on that compliance or the agency head's opinion?

Mr. KULL. I'm going to express my personal opinions for sure. FFMIA is very clear that the determination rests in the agency head's hands. When I was at OMB, we had a number of agencies in that situation where the IG audit opinion on compliance was noncompliant, whereas the agency head believed that they were compliant. In every case, the agency presented us with facts as to why they believed they were compliant and in every case that I'm aware of, OMB accepted that as a compliance situation. And in the end, the evidence for me would be, is this agency head willing to sign a statement that they believe this information to be true, that they use this information to make decisions, and that they support the people who generate it, in a sense their own staff, absent anything contrary to that.

Mr. MARSHALL. I have seen similar issues from the agency side, and I would have to agree with Mr. Kull, that first an agency head
would have to be very, very careful before he signs his name to something that counters an IG or an auditor’s report. But sometimes the issues are very close judgment calls, and honest differences of opinion can exist. And I would think that wouldn’t happen very often that an agency head would make that decision, but if and when it does happen, I think it would be very well considered and again consistent with the law to give them that flexibility.

Mr. Platts. Seems that if you have that evidence that suggests that you are compliant, that you would make sure that’s presented as part of the audit, because if the agency head makes the determination and then OMB accepts it, that’s still in-house, meaning it’s still within the Federal Government and within the administration. That, I think, is in Section 803 of FFMA’s reason to have the auditor give that opinion, is to get that independent. And a concern that we have, a practice that allows that to happen, but how it’s reviewed or weighted, I guess.

Mr. Marshall, you talked about your looking at being a Center of Excellence, and GSA, and there is one other.


Mr. Platts. Where do you stand in that effort? And one who’s looking at doing this, what’s your comfort level and the guidance you have been given for this process and how it would be structured and what your perhaps liability would be if you don’t match up and fulfill what your customers believe as far as paying for them to migrate somewhere else?

Mr. Marshall. Our COE is up and running. We have customers coming to us, and it is fully operational. We’re actively applying our experience in managing agency transformation and financial management systems. We’re delivering an accountable service. It’s delivered under strong, rigorous, enforceable service level agreements, and there remain some gaps, we think, in how agencies acquire our services and how they compare private services versus public COE services.

We understand that a public COE could be engaged through an agency-to-agency memorandum of understanding without business-like, enforceable service level agreements. So the level of accountability we see going to a private COE is much stronger and much more empowering of the agency customer than might exist through a public COE. And this is, again, one reason we advocate that government and industry to develop a sustainable framework so we can move together into this new environment in a measured and business-like way.

Mr. Platts. Two followups, one is, can you walk me through the process of your being deemed a COE by OMB? And one of your customers is GSA, which is a COE. Are they in essence just a pass-through since they are also an identified COE?

Mr. Marshall. Let me explain. CGI services GSA in two ways. First, a number of years ago, GSA selected our software Momentum to be its core financial system for the agency. They call it Pegasus; that’s what they christened their accounting system. Pegasus now is in place as the financial system of record for both GSA’s own agency operations and for the services that GSA provides to other agencies as a COE.
For the last several years, GSA has hosted Pegasus on a commercial platform operated by another company, and at the same time, CGI has been providing systems integration and application support for Pegasus. So they’ve had a public-private partnership involving two contractors as well as the government.

Recently, GSA decided to consolidate all of these services, including system integration, hosting and application support under a single provider which is CGI. They think this will help give them a better handle on their services, increase accountability, and improve performance to have everything related to Pegasus and its COE handled by one contractor. So it’s a great example we think of an effective public-private partnership being delivered now in this COE context.

Bottom line relative to ourselves and CGI, we support GSA as a software provider and as the host for their official system of record. We provide the same services to GSA and to GSA’s customers through the COE. It may be a little confusing for some, but those insiders who know the market and the way it works seem to understand it pretty well.

Mr. PLATTS. And how are you deemed a COE?

Mr. MARSHALL. Our financial management software has been certified by JFMIP, the predecessor to FSIO, and it’s now offered on a hosted platform that’s CGI. We’ve had discussions with OMB, told them where we are, and they have allowed us to all call ourselves a private COE.

But there’s no other certification requirement aside from those associated with our software. Of course, we’re meeting all Federal security in our platform, and in our entire infrastructure, we will incorporate best practices and meet all appropriate Federal standards.

Mr. PLATTS. Seems less stringent or involved of a certification process than what is talked about by Dr. Combs with the agencies themselves, that to become a COE that they are going to have to go through a more involved assessment and a lot of benchmarks and reviews to establish, in other words, have a pretty heavy burden of proof to be able to do it themselves. Is that a misperception on my part?

Mr. MARSHALL. I don’t think so. I think the due diligence checklist forms the structure of OMB’s evaluation framework for a public COE, and we conform to all the elements in that checklist. We do conform. It’s a certification process that we all participate in.

Mr. PLATTS. So they work with you in running through their due diligence checklist, and you net all those before being certified.

Mr. MARSHALL. That’s right. Of course, our software, as I said, has gone through the entire process itself.

Mr. PLATTS. Now as one who’s not an insider on these issues as far as understanding them, a lay person, why would anyone contract with GSA as a COE versus just directly to you as a COE?

Mr. MARSHALL. Why would an agency go through another?

Mr. PLATTS. Rather than coming to you.

Mr. MARSHALL. It may be because the agency, the COE offers value-added services in addition to the core hosting and the application support that we provide through them that provides to them a greater value, or they might—there may be a personal relation-
ship between the government agency. Some agencies, as I think Mr. Williams’ survey reflected, just have a comfort level doing business government to government with another private sector provider behind the scenes. I think it’s a matter of preference and culture.

Mr. PLATTS. One of my last questions to Dr. Combs, and it goes to this issue, is I think there is a real benefit when we allow the financial policymakers, CFOs and things to be able to focus on the strategic decisions based on the good information, and if we are effective in getting to COEs, that can be an end result, positive, of this effort.

But my question was that concern about getting removed from having actual authority, if you’re the CFO, over who’s doing the information gathering and the assimilation and everything, and seems like that would be even complicated further if I contract with GSA as my COE, but they’re actually contracting with you. So if there’s something that now it’s two levels away. Is that a legitimate concern or is it not as involved as it seems?

Mr. MARSHALL. That’s an issue in the minds of some customers who would rather have the direct SLA relationship with the ultimate service provider rather than through another party. And so you get, I think, throughout the market, different preferences, different cultures, different customers would prefer one approach to the other. We are here to do business with the government, whether directly or indirectly, through a COE. We’ll respect their preferences.

Mr. PLATTS. Yes.

Mr. KULL. I’d like to make a comment about that. Part of the thinking around the President’s management agenda back in 2001 when the financial management part of it was developed was to move financial management in agencies from a processing environment to an analytical one. The thinking was that machines can do the processing, and it’s getting more and more evident that they can do probably a better and faster job with good controls. What we needed to do was to change the way people handled their functions to be able to use that information analytically to find out how to run the business and their programs better.

Mr. PLATTS. Right. Again, everybody focusing on their expertise. If we have the pure hosting COE versus one that’s broader and more of a full service relationship, I think in the survey results the Association of Governments published an account, not the actual survey, but that one of the COE’s for that paper said it does not encourage the pure hosting relationships, that it’s better if you’re going to be more comprehensive, full service. Opinion from the three of you. Sounds like, Mr. Marshall, your COE at least for some of your work is a pure hosting but not necessarily limited to that.

Mr. MARSHALL. That’s very true. A number of our customers just want the basic hosting, but we offer levels up. We have tiers that we describe: The first tier being the hosting; the second tier running applications for them; and then third and fourth running up to systems integration and process management and all the way to full business process servicing. So we’re prepared to grow with the market all the way as the government evolves in that direction. We
think there is a better value proposition, that the more integration you get, and with more specialization, the agency gets more ability to offload work that it may not do as well as we do. Again, all those benefits of specialization—focusing on what you do best, us in the back office and the agency in the front office—keeps compounding as you move up the four tiers.

Mr. WILLIAMS. I would say, based on the survey responses, there is a great range of opinion as to what agencies want. Several want just hosting only. We heard from an agency 2 days ago that said they really would prefer to do accounts receivable themselves because it’s so critical to their mission, but they’d like to see the whole accounting operation function being provided by some type of Center of Excellence. I think the key is one size does not fit all.

Mr. PLATTS. Mr. Kull.

Mr. KULL. I agree with the comments made by Mr. Marshall and Mr. Williams. It’s neither good nor bad, it’s the comfort level of a user. As a COE host, however, I would want to see more services offered because it means you can distribute your overhead over more activities, lower your cost and be more efficient. I could see why you would want to get out of just strictly being in software processing.

Mr. PLATTS. Interesting, because in my understanding, if I got it right with the first panelists, is, there is a mandatory requirement regarding in essence the hosting of the applications. Either you are a COE or you go to one. We’re mandating that hosting aspect but not the rest of it, so we are separating it; although it seems like there is a benefit of having taken that more comprehensive look.

Mr. MARSHALL. As you move up those four tiers, you’re moving up the value chain within the organization and driving more and more value through that.

Mr. PLATTS. One of our concerns is, in getting a better understanding today, is that mandatory, just hosting and breaking that out as opposed to waiting and making a more informed decision on the whole package, it’s a good goal, but we get a better result if it’s a more deliberate, comprehensive approach; that maybe we’re jumping the gun on one aspect rather than waiting and being more comprehensive. Let me check here.

Looks like we’re maybe about 5 to 10 minutes before the vote board goes off.

What about the impact on the financial management workforce across the Federal Government with COEs? Maybe it’s too broad a question because we don’t know how many will become COEs, how many are going to migrate to COEs, public or private. But any assessment, or did the survey——

Mr. WILLIAMS. The survey asked a bunch of those questions, and we submitted the entire survey. We asked one about the top concerns, and virtually all the respondents put HR and the skill set for financial management personnel in the top three concerns. Many believe that COEs done right can actually augment the shortage of quality people today. Many have some concerns about, if they can’t get good people, how could a Center of Excellence get good people? You hear it somewhat both sides of the conversation, but most think it’s going to be of benefit to them.
Mr. MARSHALL. We would agree with that. It’s definitely a net positive. Many of these financial management staffs today are under-resourced relative to their rising work loads. You have to remember, many were hit as all the administrative functions were across the Government by the downsizing cuts in the 1990’s. The process and streamlining improvements that were supposed to happen back then didn’t happen, so they’re stuck with platforms that haven’t been modernized, and as you shift that to COEs, it will free them up to do what they do best—policy, standards, and oversight—and let the COE’s do what they do best, executing those back-office functions. So it is a win-win for the work force and taxpayer.

Mr. KULL. I think the issue of finding the people to do the analysis and not the processing is going to be the real challenge.

Mr. PLATTS. I’m going to squeeze a couple questions in. How about thoughts on the level playing field between—within the government franchise funds versus the various forms where they’re able to set those sums apart year to year? There are a lot of variables out there as far as an agency assessing what their ability is versus a different one. Sounds like that they’re looking at that issue with not a specific recommendation or approach right now. Any thoughts?

Mr. KULL. I think that’s probably going to be one of the biggest challenges of this whole effort, because we have the private sector firms that have to deal with return on investments and equity and those kinds of issues and very competitive pricing models, whereas you mentioned earlier about the full cost disclosure, what do these Federal COEs really cost? Are they recovering those costs? Where do they get the seed money to invest in hardware or software? Those are major issues, and there needs to be some coming to the table in terms of what is the playing field so that we really understand what the competitive environment will look like.

Mr. MARSHALL. We agree with what Mr. Kull said, and I think you have hit the public-versus-public issues pretty directly. We need to get them on a comparable business model so they can compete fairly. Regarding public versus private, remember, agencies serviced by commercial entities go through the Federal Acquisition Regulations [FAR] process. It’s a whole lot different than going through a memorandum of understanding without always a requirement to compete. So we’re at a bit of a disadvantage, and we don’t think that the playing field is exactly level. We have to account for all of our costs in a bid. We don’t know that those are necessarily fully disclosed in a public bid. If an agency accepts a bid from both private and public entities and decides it wants to go public, it can cancel the acquisition and make an award directly through an MOU to a public COE, and we have no protest or appeal channel because the procurement has been canceled. Therefore, the FAR appeal rules don’t apply.

So we think we need to rethink these approaches to acquisitional and level the playing field, and it’s a place where better dialog between industry and government should be used.

Mr. WILLIAMS. The survey results would support that. Every agency would love to see more guidance on how to evaluate those bids and proposals fairly for the good of the agencies.
Mr. PLATTS. If you’re a public entity, such as the Bureau of Public Debt, and you’d have a major agency saying we want to migrate to you, which would require a significant increase in manpower, where do you get the funds for that since you have already got your appropriation. Currently there’s no provision for hiring a huge new work force. Those are some of those uncertainties out there that I think we need to work through, and I think Dr. Combs and her staff are seeking to do that, but I think there is a lot of uncertainty, a lot of those types of core questions of how you do it, not is this a good initiative or worthy goal, but how to do it in a responsible way.

Two final ones, one is on the service level agreements issue and OMB looking at the hosting, COE paying the cost of someone migrating to a new COE if things don’t work out as intended. Thoughts on the appropriateness and how that especially relates if it is a private COE.

Mr. MARSHALL. Speaking for a private COE, we’re very concerned with that idea. A point of agreement——

Mr. PLATTS. I’m not surprised.

Mr. MARSHALL. A point of agreement with people at OMB is that we thought we were on the same page and that the SLAs should be based on a commercial best practices model, as much as possible. This just isn’t the way business is done in the private sector. If a customer agency isn’t happy with the services, it should have plenty of control by including financial penalties defined in the SLAs. SLAs are a great control mechanism to ensure corrections to service and so forth, and it’s a whole lot better to manage the relationship in that kind of context than jumping into the divorce proceedings and asking, how do we split the blanket?

Mr. PLATTS. The cost of that transition to a new one, your starting over again. Actually, did either of you have comment on that premise?

Mr. WILLIAMS. All I would say is respondents felt very comfortable there was a course of action if a private sector COE didn’t do well. They felt very confused what the course of action would be for a Federal or public entity.

Mr. PLATTS. Again, comes to an appropriations question of, all right, you are not doing well, so you have to spend money to migrate me somewhere else; well, where does that money come to pay for that migration in your appropriation that’s already set? I have not seen any proposal or am aware of any that would set kind of a sum aside for that contingency with OMB.

I think we covered most of the areas I wanted to touch on. I think one is, I guess, I just want to emphasize again your insights are very helpful, and my hope is, as we go through and seek clarification, that there will be continued and enhanced dialog between your industry individually or collectively with OMB because you bring a lot of great insights into how this is going to play out and the likelihood of it succeeding, such as the issue of if you’re the host agency and you have to pay for that new migration, how many private sector COEs are actually going to want to participate, which is certainly what the administration sees is an advantage here of competition generating a good marketplace. But if that’s
hanging out there, what competition outside of the government itself are we going to have.

Your testimony is again very helpful and really kind of helped to well frame my insights as we addressed Dr. Combs and Ms. Evans, even with reading it at midnight or 1 am. It was well stated so I could capture the essence of the concerns individually or of the survey results. If you have any additional information, we'll be keeping the record open as we do for 2 weeks. But again, my sincere thanks for your testimony and your preparation and your patience here today with the previous panel. Thank you. We will keep the record open for 2 weeks for any additional documents and including from Dr. Combs on some of those written questions that we'll be submitting.

This hearing stands adjourned.
[Whereupon, at 5:46 p.m., the subcommittee was adjourned.]
[The prepared statement of Hon. Edolphus Towns and additional information submitted for the hearing record follow:]
STATEMENT OF CONGRESSMAN ED TOWNS
DHS FINANCIAL MANAGEMENT SYSTEMS
MARCH 29, 2006

Thank you, Mr. Chairman, for calling today’s hearing on the status and future of the Department of Homeland Security’s financial management information systems. It’s good to be joining with our colleagues from the Homeland Security Committee as we seek to remedy the major financial management and IT problems ailing DHS.

Since its creation in 2003, the integration of DHS and its 22 legacy agencies has posed significant barriers in our efforts to provide America with protection from domestic terrorism and effective natural disaster recovery efforts. Departmental functions for exchanging information and program data among sister agencies are failing, and high turnover throughout DHS leadership is only complicating matters.

In his FY 2006 annual performance plan, the DHS Inspector General cited approximately one dozen major challenges facing DHS in the coming years, with several specifically related to the financial management functions of agency business units. Thus, I remain concerned about the Department’s efforts to design and implement its proposed financial management system, known as eMerge**, without knowing more specifics about the program or roles DHS key management will have in its development.
Along these lines, I’m hopeful our agency witnesses before us can describe how the offices of the CFO and CIO plan on sharing development and oversight responsibilities for the proposed system. This includes describing for us who will have budget and acquisition authority for the program, as well as responsibility for the development of measures needed to determine if the new system is meeting agency expectations.

Furthermore, I want to know what DHS is doing to ensure that program vendors are sharing in the responsibility for developing a system that is on-time, under budget, and performing at a level it ought to. With so much time and money at stake, I believe these are questions that need to be answered before proceeding further along with this program.

Mr. Chairman, this concludes my statement.
Statement of MI&O Ranking Member Kendrick B. Meek

March 29, 2006

- Thank you.
- This hearing marks the first time that the Homeland Security and Government Reform Committees have held a joint oversight hearing.
- The fact that these two committees have come together today says a lot about the level of concern we have about the Department of Homeland Security.
- No one ever expected the establishment of the Department to be “an easy lift.”
- We all knew that it would take a lot of work to transform the Department and get each agency to read from the same playbook.
- Yet, the Department has not approached its integration challenges with any “sense of urgency.”
- The GAO has stated that successful transformations of large organizations take between 5 to 7 years.
- At the rate the Department is going, I cannot see full integration being achieved by the end of the decade.
- GAO put DHS on its “HIGH RISK” list because it believes that the Department’s failure to effectively address its management challenges could have serious consequences for our national security.
- I completely agree.
- That is why I am concerned about the constant turnover at the Department.
- In its short history, DHS has shown itself to be incapable of attracting and retaining professionals with the knowledge and experience to oversee complex multi-year projects.
- Every time the Department loses one of its leaders—be it the Chief Financial Officer or the Commissioner of Customs and Border Protection—progress slows down or comes to a grinding halt.
- Then the new leader comes in, reviews existing work, and makes changes.
At any given moment at the Department, this cycle is being played out and precious time is lost.

Even if we had the right people in place, I am not sure that Department-wide integration can be achieved under DHS’ current management structure.

Today, the Chief Information Officer does not hold the purse-strings over the Department’s IT projects.

He also does not have any actual authority over his counterparts in the agencies.

The CIO must be able to compel compliance on Department-wide priorities, such Emerge 2 or Information Security.

Today’s look at Emerge 2 provides us with a good jumping off point to discuss the problems with the Department’s approach to IT planning.

The problems start at the beginning of the process.

First of all, there is a lack of planning.

And as the saying goes—“if you fail to plan, you plan to fail.”

Specifically, the Department has gotten out of the habit of providing system requirements.

Without requirements, you cannot track performance.

Another major weakness is that there is no Department-wide Technology strategic plan.

The Department’s last CIO promised to release the strategy by the end of 2004.

Two years later . . . there is no technology plan, but millions—if not billions—have been spent.

Clearly, I have some concerns about the way the Department is going about purchasing technology systems.

I look forward to hearing from our panel today.

Thank you.
Statement of Ranking Member Bennie G. Thompson
Joint Subcommittee Hearing on "Department of Homeland Security Information Technology Challenges and the Future of eMerge2"

March 29, 2006

- Chairman Platts and Chairman Rogers, I want to thank you for calling today’s hearing to examine the challenges faced by the Department in implementing the financial management system known as Emerge2.

- I also want to acknowledge the unique nature of this joint hearing.

- It is rare for the Committee on Homeland Security and the Committee on Government Reform to collaborate in our oversight efforts.

- I believe that this kind of collaboration can yield positive results for the Congress and the nation.

- Oversight of the Emerge2 program is an excellent candidate for this kind of joint effort.

- The ultimate success of the Department’s merger of 22 component agencies is dependent upon its ability to construct and implement a system to manage its finances.

- Everything from travel and grants to payroll and major procurements must be tracked as is done in every other cabinet Department.

- If the Department does not have a firm grip on where its money is going, the American people and the Congress will never have a firm grip on where the Department is going and what it is doing.

- The lack of a firm grip on its finances has led the Department to be the recipient of qualified opinions by auditors and placement on GAO’s “high risk” list.

- It has even caused one of its component agencies—ICE—to have budgetary shortfalls that jeopardized its operations.

- Emerge2 was envisioned as a system that would provide the Department with the kind of financial accountability it would need to operate efficiently. But it failed.

- Emerge2 failed because the Department entrusted this program to a contractor without providing adequate guidelines or appropriate supervision.
And today—almost year after it was started—the American taxpayer is left with a $10 million tab but no financial management system. There is only one word to describe this—unacceptable.

Today, we will hear testimony from GAO about the steps the Department needs to take.

I strongly urge the Department to listen, take notes and comply with GAO’s recommendations.

While I am happy that we are having this joint hearing, I do not want to be here next year, listening to new testimony about why the Department cannot deliver.

I want to thank the witnesses and want to say to my Government Reform colleagues—I look forward to working with you on this and other shared interests.
Via Facsimile and U.S. Mail

The Honorable Janet Hale
Under Secretary for Management
U.S. Department of Homeland Security
Washington, DC 20528

Dear Under Secretary Hale:

In September 2004, the Department of Homeland Security (DHS) announced a department-wide effort to consolidate the financial systems of its 22 components. Recent news reports indicate that the Department’s Chief Financial Officer (CFO) has cancelled this program, called Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency, otherwise known as eMerge2.

We are advised that the Department has since announced its intention to utilize existing financial systems rather than develop a new integrated system. Instead of the eMerge2 model, the Department reportedly will designate agencies with well-functioning financial systems as “centers of excellence” and transfer agencies with troubled financial systems, referred to as “centers of need,” to one of the centers of excellence.

We would appreciate learning more about the Department’s decision to reevaluate eMerge2 to ensure that taxpayer dollars are put to best use. As the Department proceeds with a new, more decentralized model, we request pursuant to Rules X and XI of the House of Representatives that you respond to the following questions:

**eMerge2**

1. What were the circumstances surrounding the award, issuance of task orders, and termination of the eMerge2 contract? What was the total expenditure by DHS for this program?

2. What capabilities cannot be achieved using existing systems that the Department had hoped to gain through the development of a new system?
3. What systems were assessed and determined not capable of meeting the goals of a Department-wide solution?

4. The eMerge2 initiative illustrates the Department’s challenges in assessing its needs and executing large scale multi-layer contracts. How will DHS apply the lessons learned from eMerge2 to strengthen its planning and procurement strategies and processes?

Centers of Excellence

1. How many centers of excellence and centers of need will there be?
   a. Which agencies’ financial systems are being designated as centers of excellence?
   b. Who will make the determination as to which financial systems will be centers of excellence and what will be the criteria?
   c. Are DHS agencies with internal control weaknesses eligible to be designated as centers of excellence? If so, why?
   d. Will the CFO have line authority over either type of center?
   e. Is there a plan to transform a center of need into a center of excellence? If so, please elaborate.

2. Please discuss in detail how the decision will be made to transfer a center in need to the financial system of a center of excellence?
   a. What is the role of the Department’s Chief Information Officer (CIO) in evaluating and approving the technologies that will be adapted or expanded through this process?
   b. How will the CFO and the CIO ensure that these technologies will be consistent with the Department’s overall information technology and information security goals?
   c. What role will the agencies with centers in need play in determining which of the centers of excellence is most appropriate for their respective agencies?

3. What is the Department’s timeframe for matching centers in need with centers of excellence? What is the timeframe for implementation of these changes once such determinations are made?
Integration of Financial Information

1. Please describe how building a data warehouse, or data center, will provide the CFO with the ability to gather budget information in a timely fashion and to exercise his oversight function.

2. Will the decentralized centers of excellence approach automatically integrate internal control capabilities into the Department's financial management systems, as set forth in OMB Circular A-123 “Management’s Responsibility for Internal Controls?” How will you ensure that necessary internal controls are in place to ensure the accuracy and completeness of data, and the consistency of transaction processing?

3. How will the Department’s centers of excellence approach fulfill the “single, integrated financial management system” standard set forth in OMB Circular A-127?

Please provide the requested information to the Committee by March 1, 2006. Should you have any questions regarding this request for information, please contact Heather Hogg with the Majority staff at (202) 226-8417, or Rosaline Cohen with the Minority staff at (202) 226-2616. Thank you for your prompt and personal attention to this matter.

Sincerely,

The Honorable Mike Rogers
Chairman
Subcommittee on Management, Integration, and Oversight

The Honorable Kendrick B. Meek
Ranking Member
Subcommittee on Management, Integration, and Oversight
The Honorable Mike Rogers
Chairman
Subcommittee on Management, Integration, and Oversight
Committee on Homeland Security
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter of February 8, 2006, and the opportunity to clarify the new direction DHS is taking on the eMerge project. Answers to your questions are provided in the attached paper. I also look forward to discussing this matter in greater detail at the hearing scheduled for March 29, 2006.

A few general points to the opening paragraphs of your letter may help clarify the overall status of the eMerge project. As explained in the answers to your questions, the effort to improve financial systems in DHS, which has been known broadly as the eMerge project, has not been terminated. Rather, we are going about meeting our needs in another way. We are seeking to leverage investments in systems that have already been made, rather than implementing something new. DHS is in the process of assessing which organizations, both inside and outside DHS, have resource management systems and offer services that can meet our needs.

We are closely tying our eMerge effort into our broader effort to improve overall resource management in DHS. This includes taking the actions necessary to remediate material weaknesses in our financial statements reporting so that we can obtain an unqualified audit opinion. It also includes taking the actions necessary to put DHS senior leadership in a position to provide assurances that our internal controls over financial reporting are in place and working effectively. These are interdependent efforts which our revised eMerge plans must take into account.

I apologize for the delay in responding to your letter and would be happy to provide any additional information you may require.

Sincerely,

Eugene Schleich
Acting Chief Financial Officer

www.dhs.gov
Answers to Questions Regarding the eMerge² Project

eMerge²

1. What were the circumstances surrounding the award, issuance of task orders, and termination of the eMerge² contract? What was the total expenditure by DHS for this program?

DHS Response:

DHS issued two sets of contracts related to the planning, implementation, and integration of a new resource management system.

The first set of contracts was awarded in late Fiscal Year 2003/early Fiscal Year 2004, to BearingPoint and SAIC. This effort was to develop the Department’s functional and technical requirements for an integrated resource management solution and to build the resource management portions of the homeland security enterprise architecture. These requirements were approved by all DHS components. The cost of these contracts was $9.4 million.

Based on the requirements developed in the first set of contracts, DHS developed an RFP for the acquisition and implementation of an integrated resource management solution for the Department.

The DHS CFO formed a source selection team composed of a technical evaluation team and a cost evaluation team. After issuing the solicitation and receiving proposals, the source selection team evaluated the proposals and made a recommendation to the Source Selection Official. BearingPoint was selected as the best value choice for the Department. A BPA was awarded to BearingPoint in September 2004, with a ceiling of $228.7M.

So as to minimize the risk of such a large project, the Department structured the project so that we would incrementally issue firm-fixed-price task orders for small, measurable portions of work. The first task order (Task Order #1) was issued for $20 million for solution development and conference room pilot testing. Soon into work on this task order, concerns began to arise regarding the extent to which there was a clear understanding between DHS and BearingPoint on what was to be delivered. Deadlines were missed and products presented to the project team were not accepted. As a result, in February 2005, the DHS CFO initiated a review of the eMerge² effort.

Work under Task Order #1 was closed out in April 2005, prior to completion. Based on the work that was satisfactorily completed, the price was adjusted from $20 million to $6 million. As we halted work on Task Order #1, DHS issued a small, finite task order (Task Order #2) to BearingPoint in the amount of $2.9 million. The primary activity under Task Order #2 was to help DHS examine certain component systems in greater
detail. We again surveyed the existing financial systems in the Department against the
capabilities to meet core functional requirements, which were derived from the
requirements developed during the first phase of the eMerge project. In particular, the
system at the United States Coast Guard, which used a similar suite of products as
proposed under the eMerge project and which was already a service provider to the
Transportation Security Administration, was examined in detail.

The conclusions reached last fall by the OCFO were:

- The effort that we embarked upon under the BPA with BearingPoint should come
to an end because it had not been successful and future action down this path was
  high-risk;
- DHS' own organizational maturity issues also made the project high-risk; and
- Other viable options to leverage existing investments existed and have been
  successful.

In short, the DHS CFO concluded that several existing components in DHS had upgraded
their systems and improved operations to the extent that viable alternatives to restarting
with a new system integrator were possible. Our assessment also concluded that the
Office of Management and Budget's Financial Management Line of Business and its
Centers of Excellence offered viable alternatives to meet DHS' requirements as well. In
December 2005, DHS chose not to exercise the next option year on the BearingPoint
BPA, and so the BPA expired. The total expenditure on the second BPA to BearingPoint
BPA was $8.9 million.

The total expenditure for both BPA #1 and BPA #2 was $18.3 million.

2. What capabilities cannot be achieved using existing systems that the
   Department had hoped to gain through the development of a new system?

DHS Response: In general, both approaches should be capable of achieving the eMerge objectives, though they differ in terms of risk, timing of capability realization, and cost. However, DHS is yet to select exactly which systems and service providers it will leverage going forward. The initial eMerge effort sought to provide capabilities much sooner than will be realized under the revised approach. We have, and will continue to use the requirements developed under the earlier effort to benchmark our movement to alternative solutions.

3. What systems were assessed and determined not capable of meeting the goals of
   a Department-wide solution?

DHS Response: To date, the following organizations/systems have been assessed to one
degree or another by DHS:

- Internal
  a. US Coast Guard
b. Customs and Border Protection  
c. US Secret Service  
d. Federal Law Enforcement Training Center  
e. Immigration and Customs Enforcement  
f. Federal Emergency Management Agency  
• External -- GMB Financial Management Centers of Excellence  
  a. Bureau of Public Debt  
  b. Department of the Interior  
  c. Department of Transportation  
  d. General Services Administration  

We have not yet definitively included or excluded any organization/system as a service provider, as we are still finalizing the revised end-state vision and 5-year strategy for the new eMerge® direction.

4. The eMerge® initiative illustrates the Department's challenges in assessing its needs and executing large-scale multi-layer contracts. How will DHS apply the lessons learned from eMerge® to strengthen its planning and procurement strategies and processes?

**DHS Response:** Although DHS experienced difficulties with the project, aspects of project management worked well. We managed the contract in such a way that enabled us to minimize our risk, identify problems early on, and make course corrections before substantial sums of taxpayer dollars were expended. Our task orders were firm fixed price. We monitored performance closely. And when the risks were deemed too great, we closed out the contract.

The most important strategy to be shared from facing these challenges is the value of having effective project controls. Through the controls established by DHS, it became readily apparent that the contractor’s performance did not meet government expectations. Performance problems were documented in Weekly Status Reports, Earned Value Metrics, and the deliverable review process. Because of this thorough documentation, the government was able to close out the contract and pay only for the goods and services that met the criteria for acceptance.

DHS also placed tremendous emphasis on structuring and scheduling work products in small measurable, incremental deliveries, enabling the government to manage the contractor’s level of effort accordingly. Instead of attempting to carry out a broad range of tasks in a phased manner, analogous to the ‘waterfall approach’, large implementations like this should evolve in small increments to enable better performance monitoring.

While the effort to design and implement a new system was unsuccessful, the first lesson we learned, and it is the foundation of our new approach, is that we believe viable alternatives to meet our core requirements exist, so that we do not need to go out and rebid the earlier contract. From seeing where DHS had successful resource management transformations in the past couple of years, such as at Customs and Border Protection and
the United States Coast Guard, we see where implementing smaller and more achievable incremental functional improvements were keys to success. CBP stood their system up in phases over several years. Likewise, USCG made small but important upgrades to their system, in order to support the Transportation Security Administration.

In addition, a lesson learned over the past year is that we must closely link our systems improvement efforts to our more global financial management improvements efforts. DHS has numerous challenges in financial management. We have many material weaknesses to address, most of which are not about systems. DHS needs to reach a baseline level of financial management performance, before we can meaningfully transform DHS. Moving ineffective processes, controls, and organizations onto an improved system is not a recipe for success. Our eMerge plans going forward must take into account the reality and the plans of all aspects of DHS financial management.

Centers of Excellence

1. How many centers of excellence and centers of need will there be?

DHS Response: We will not know exactly how many service providers or customers there will be until we finish our revised end-state vision and 5-year strategy for the new eMerge direction. We presently have 5 different core financial systems products operating in DHS, and 8 financial service providers. We are in the process of putting together the business case for reducing that number, and the path for how we plan to get there.

   a. Which agencies' financial systems are being designated as centers of excellence?

DHS Response: This is yet to be determined.

   b. Who will make the determination as to which financial systems will be centers of excellence and what will be the criteria?

DHS Response: As part of the revised planning effort, we will determine the governance structure for this effort. This will set up the day-to-day oversight of the project. The overall approach is considered a major IT investment, and as such will need to be reviewed by DHS' Joint Requirements Council and approved by the Investment Review Board, whose membership includes the Deputy Secretary, Under Secretary for Management, Chief Financial Officer, Chief Procurement Officer, Chief Information Officer, Assistant Secretary for Policy, and other DHS component heads as appropriate.

Generally, criteria for determine which service centers we use could include: the degree of application integration; past performance (system and service); the extent to which the system provides required business capabilities; and how the center fits into the overall end-state vision for DHS.
c. Are DHS agencies with internal control weaknesses eligible to be
designated as centers of excellence? If so, why?

DHS Response: We have not yet defined which service centers we will use,
but as part of our criteria we will certainly consider the weaknesses in internal
control. We believe that prior to taking on any new customers, it would be
ideal for DHS service providers to have effective internal controls over
financial reporting.

We are executing a broad effort to fix the weaknesses already known to us,
and to ensure that all aspects of our internal controls over financial reporting
are sound. All DHS organizations possess at least some known or potential
weaknesses in internal control, and some of these organizations are currently
serving as a financial service center for other DHS organizations.

Where a potential service provider has some weakness, we would need to
review their corrective action plans, and determine what the risk would be to
them servicing other customers. This is why we are more closely integrating
our eMerge efforts into our broader financial management improvement
efforts, because of the interdependencies. Our revised end-state vision and 5-
year strategy for the new eMerge direction will not only lay out the criteria
for being a service center, but will also address steps that must be taken, such
as remediating weaknesses in internal control.

d. Will the CFO have line authority over either type of center?

DHS Response: Presently, through the Department’s Management Directive
on the functional integration of financial management, the CFO has a shared
authority over all financial management activity within DHS, including the
financial service centers within DHS. DHS has no central service provider
under the direct control of the CFO. Over time, we may examine the
possibility of consolidating financial services under the CFO.

e. Is there a plan to transform a center of need into a center of excellence?
If so, please elaborate.

DHS Response: Our plans are to elevate the efficiency and effectiveness of
financial management across all of DHS over the next several years, so that
we can obtain unqualified audit opinions and attest to the effectiveness and
efficiency of our internal controls over financial reporting.

As we do that, our plan will also lay out, considering factors such as cost, risk,
and capability, how we are going to reduce the number of service providers
and financial management systems. Those that have the most to offer going
forward, and considering cost, will be the ones around which we consolidate.
2. Please discuss in detail how the decision will be made to transfer a center in need to the financial system of a center of excellence.

   a. What is the role of the Department's Chief Information Officer (CIO) in evaluating and approving the technologies that will be adopted or expanded through this process?

   DHS Response: The DHS CIO is responsible for creating and maintaining the DHS enterprise architecture and oversight of all IT projects, including the eMerge³ Project. Accordingly, the DHS CIO has provided their considerations for architecture, infrastructure, hosting and technological capabilities and will weigh in during the final decision process. The CIO will be part of the revised eMerge³ governance structure, and he is part of the IRC and IRB that will oversee the project.

   b. How will the CFO and the CIO ensure that these technologies will be consistent with the Department’s overall information technology and information security goals?

   DHS Response: When the CFO introduces a new IT solution, the CIO must Certify and Accredit (C&A) that the system is compliant with IT security standards, prior to granting an Authority to Operate. The CIO may grant an Interim Authority to Operate under certain conditions.

   c. What role will the agencies with centers in need play in determining which of the centers of excellence is most appropriate for their respective agencies?

   DHS Response: Potential customer organizations have been – and will continue to be – given the opportunity to evaluate various potential service providers. The Department will take into account Customer assessments and preferences when deciding how to match customers to service providers. But other factors must be considered as well. In the end, the final decision will be made by the project’s governance board.

3. What is the Department’s timeframe for matching centers in need with centers of excellence? What is the timeframe for implementation of these changes once such determinations are made?

   DHS Response: We plan to have our revised mid-state vision and 5-year strategy for the new eMerge³ direction ready for presentation to the DHS Investment Review Board by the May/June 2006 timeframe.
Integration of Financial Information

1. Please describe how building a data warehouse, or data center, will provide the CFO with the ability to gather budget information in a timely fashion and to exercise his oversight function.

DHS Response: We are working on a data visibility initiative which will:

- Consolidate budget information and other resource management data from the Service Centers to support enterprise-wide reporting, analysis, and decision making.
- Support the individual needs of functional domains that comprise the eMerge² project scope, e.g., acquisition, asset management, financial management, and grants management.
- Implement a data warehouse, executive dashboard and business intelligence tools to create and maintain situational awareness across programs and organizations.
- Provide DHS leadership a comprehensive view of high-level, key indicators to gauge the financial health of the Department and its components on a near-real time basis.
- Improve financial reporting and increase operational efficiency and effectiveness.

2. Will the decentralized centers of excellence approach automatically integrate internal control capabilities in the Department's financial management systems, as set forth in OMB Circular A-123 “Management’s Responsibility for Internal Controls?” How will you ensure that necessary internal controls are in place to ensure the accuracy and completeness of data, and the consistency of transaction processing?

DHS Response: Nothing will automatically integrate internal controls capabilities. A major effort is currently underway to bring DHS into compliance with the provisions of OMB Circular A-123. This effort is being led by the Financial Management Division within the Office of the Chief Financial Officer. The primary focus of this effort is on improving financial reporting, a major component of internal controls, across all the Department’s financial systems. An audit has been conducted or is in progress for each of the Department’s financial systems; and, for identified weaknesses, Corrective Action Plans have been prepared. Our exhaustive implementation effort, which will be reviewed by the Inspector General and our auditors, will help ensure that we get the necessary controls in place.

The decentralized approach to systems, versus a single solution, will increase the effort required to perform audits (because multiple environments have to be considered), but this actually has little or no effect on the overall quality of the results. Part of our consideration for the systems we will use in the future will be how it fits into our controls environment. Furthermore, because corrective actions can be applied to existing systems,
the Department is able to realize improved controls sooner than would have otherwise been provided by waiting for the development of a new system.

Several eMerge strategies will ensure that data is accurate and complete and that transactions are processed consistently:

- Migration of customers will cause the affected organizations to examine and cleanse existing data—this activity is expected to improve the quality of data significantly.
- Improvements made to existing systems will correct current deficiencies causing data inaccuracies.
- Implementation of the data visibility initiative will require an enterprise-wide assessment of data meaning and use—this activity is expected to improve the consistency of data and transaction processing.

3. How will the Department’s centers of excellence approach fulfill the “single integrated financial management system” standard set forth in OMB Circular A-127?

DHS Response: The new eMerge decentralized approach will fulfill the A-127 standard by providing a unified set of financial systems that implement standard integrated business processes in order to provide decision makers with an enterprise-wide view of accurate and timely business information.

AGA CPAG Research Series: Report No. 2

July 2005
ACKNOWLEDGEMENTS

About the Author
Irwin T. (Ted) David, CGFM, CPA, performed the research for the study and prepared this research report. He is a retired partner with KPMG (now Deloitte) as well as a retired federal official. He served as the Deputy Chief Financial Officer at the Department of Agriculture and most recently was Chief Financial Officer with NOAA's National Weather Service. The views in this report are those of the author. CPAG does not make any proprietary claims on the contents nor does it place any restrictions on the use of this research report.

Motivation for the Report—The Time is Right
"Shared services for federal financial management operations is a concept whose time has come." Having said that, there remain a number of issues that must be resolved to ensure the concept is successful." [The Author]

Corporate Partner Advisory Group Leadership

Business
Hank Steilinger, CGFM, CPA
Managing Partner, Global Public Sector,
Grant Thornton LLP

Vice Chairmen
John Cherebin, CGFM, CPA
Partner, KPMG LLP

CPAG Research Leaders
Dennis J. Fleches, CGFM
Grant Thornton LLP

AGA Professional Staff
Reinold Van Damiker, DBA, CPA
Executive Director

Susan Fritzen
Director of Corporate Partner Program

Marie Force
Director of Communications

AGA's Corporate Partner Advisory Group Research Program: Building the Bridge Between Government and Industry

AGA's Corporate Partner Advisory Group (CPAG), executive director and director of research are conducting research projects of value to governments, industry and the entire AGA membership. These studies are expected to result in reports assessing current and/or best practices and make recommendations for future improvements in federal, state and local governmental accounting, auditing and financial management. CPAG members support AGA research through either cooperative or sponsored research projects. "By undertaking research, AGA is fulfilling its mission as a thought leader in advancing government accountability," said AGA Executive Director Reinold Van Damiker, DBA, CPA. "This is one of numerous research initiatives that will benefit government and bridge the gap between the public and private sectors."

The CPAG was organized in 2001 as a business element within AGA. The mission of the CPAG is to bring industry and government executives together to exchange information, support professional development, improve communications and understanding, solve issues and build partnerships and trust, thereby enhancing AGA's focus on advancing government accountability. Corporate member involvement in the CPAG is limited to organizations that sign-up for the AGA Corporate Partner membership program.

For more information on the Research Program, please visit the Research Section of the AGA website at www.agacgfm.org/Research/default.aspx.
# Table of Contents

**Part I—Executive Summary** ............................................. 4

**Part II—The Case for Shared Services** ............................... 5

Figure 1: Definition Used in Research .................................. 6

A Bit of History ....................................................... 6

The Current Landscape for Shared Services ......................... 8

**Part III—Guidance for Users of Financial Management**  ............ 8

You Are Responsible for Your Information ............................. 8

It's All About Management Support—No, It's About Management Leadership ................................................................. 9

**Figure 2: Required Characteristics for Project Managers** ........ 10

Formally justify the Shared Service Decision—the Business Case ................................................................. 10

**Figure 3: Typical Business Case Topics** .............................. 11

Know and Specify Your Requirements ................................ 12

**Figure 4: Decision Criteria Expressed by Interviewees** .......... 13

Focus on Results .................................................................. 13

Know What You Are Getting and Get It In Writing .................. 14

**Figure 5: Contents of Typical Service Level Agreement** ......... 14

What Gets Measured Gets Done ........................................ 14

Performance Measures .................................................. 14

Monitoring the Business Case ........................................... 15

Internal User Measures .................................................. 15

Pay For Services But Know What You Pay For ....................... 15

You Can't Plan Too Much For Transition/Implementation .......... 16

Training ................................................................. 16

Data Conversion ......................................................... 17

**Communications** ....................................................... 17

**A Unique Use of Contracts** .......................................... 17

**Culture Change** ....................................................... 18

**The Two Sides of Governance** ....................................... 17

The User and Provider Governance (Organizational) Arrangement ................................................................. 18

Governance in the User Organization .................................. 19

Process Engineering and Process Design—What is the Right Time? ................................................................. 19

Form a Partnership with Your Provider ................................ 19

**Part IV—Selection for a Financial Performance Indicator** ....... 20

**Part V—Conclusion** ..................................................... 20

Shared Services for Financial Management Makes Sense ........... 20

**Part VI—Resource List** .................................................. 21
FINANCIAL MANAGEMENT SHARED SERVICES:

Part I—Executive Summary

Most federal agencies, large and small, as they modernize, update or replace their financial management systems, are being required to consider opening up their financial management operations to competition. Agencies must include one or more of the U.S. Office of Management and Budget (OMB)-designated Centers of Excellence among the competition.

The objective of this project is to provide guidance to federal users of financial management operations to implement the shared service concept in the most effectively using such services. This is the first document that focuses solely on federal users of financial management shared services. The research was performed by interviews with knowledgeable individuals in and out of the federal government and by an extensive literature search.

Definitions Used in this Research:

Shared Services: Financial and administrative services provided by a single organization established to provide such services efficiently and effectively for the benefit of multiple organizations or entities.

Shared Services Provider or Shared Service Center: A separate and distinct organization established to provide financial services to other entities efficiently and effectively.

Providers: May be chosen (capture) providers, external federal providers (Centers of Excellence) or external private sector providers.

Shared Services User: The organization or entity that receives the service; the customer or client.

Interviewers and the literature indicate that sharing of financial management services can be a very positive strategy to achieve economies of scale and skills. Benefits cited include cost reduction, easier implementation of new systems, more time for financial staff to focus on analysis and decision support, and more time for agency managers to focus on core missions and standardization of processes.

The research produced a number of best practices, worst practices and lessons learned for users and potential users of financial management shared services in the federal government. The guidance is organized in the 13 categories briefly described below and discussed more fully in the full report beginning with Part II.

- You Are Responsible for Your Information—As one interviewer said, “You can’t outsource your responsibility to manage your own information.” The user is responsible for its financial information, no matter who is processing the data. Research highlights the user’s responsibility for policy-setting, strategic planning, data and financial analysis, audit, decision support, reporting and advising management, and quality assurance.

- It’s All About Management Support—No, it’s About Management Leadership—The top management structure must lead the decision to adapt and implement the shared service concept. The research discusses the roles and responsibilities of the various agency officials and staff involved—the secretary (or comparable official), other top managers, the top management sponsor, project champions, project manager and staff, who must be knowledgeable in the functionality of the underlying application software.

- Formally Justify the Shared Service Decision—The Business Case—As part of budget submission, OMB, in Circular A-11, Exhibit 30X, requires a business case for all capital improvements and for IT projects, including shared service financial systems. Agencies should leverage the Exhibit 30X requirements and use the business case process to enable management to make informed decisions on adapting a shared service strategy. The federal government’s key aspects of the business case preparation process.

- Know and Specify Your Requirements—When planning a shared service arrangement, particularly with an external provider, the user agency must clearly specify what services it wants from the provider and how the service is to be delivered. The user agency should also determine the criteria for selecting a provider. The research identified the characteristics of the requirements, common decision criteria expressed by interviewers (as well as some criteria not mentioned) and the desire for customer service.

- Focus on Results—When selecting a provider, the user agency should be concerned with the service that they are getting and the cost of that service, not “how” the service is delivered. One interviewee compared a shared service provider to an electric utility. When we turn on the switch, we get electricity, without concern of how it is generated and transmitted.

- Know What You Are Getting and Get It Written—The literature and interviews emphasized the need for a formal agreement between the user and provider, typically known as a service level agreement or SLA. Most interviewees indicated that the financial community, both users and providers, must do a fair amount of work to get useful SLAs. The research provides information on the typical contents of the SLA.

- What Gets Measured Gets Done—The user and the provider must agree on performance measures to determine whether the provider is providing the agreed-upon services. Many users and providers told us that they were just beginning to reach agreement on meaningful performance measures. The research identified several principles for developing meaningful measures, including the principle that providers receive incentives for exceeding performance goals and are penalized for under-performance. The business case should be used to track the progress of the shared service implementation.
A GUIDE FOR FEDERAL USERS

In addition, performance metrics and milestones for user-specific initiatives must be specified and monitored.

- Pay for Services But Know What You Pay For—Shared service providers use a variety of methods to charge for services. However, based on our interviews, it appears that, in many cases, the charges are not stated to the assurance use by the customer. The research also identified the need for transparency of pricing systems and for effective cost accounting systems.

- You Can’t Plan Too Much for Transition/Implementation—The history of federal financial systems implementations is replete with examples of failure due, in large measure, to inadequate planning. Three specific planning areas require special attention involve training, data conversion, cleanup and reconciliation, and communications. Such planning also enables the agency to focus on its staff, the most important factor in a successful implementation. One interviewer also described an innovative approach, using contractors to keep agency staff for training, data cleanup/reconciliation and other implementation activities.

- Culture Change—Major changes in the way financial services are delivered will meet resistance as individuals “pass in their turf.” This section supplements other discussions of the ways that management can lessen the impact of such “culture shock.”

- Two Sides of Governance—Much of the shared services literature encourages customers to be actively involved in the governance and decision-making of the shared service provider. Such involvement is not appropriate for external providers. This section discusses how users make their users’ business and communicate with provider organizations. The research also provides insights for governance of internal provider organizations as well as for governance of user organizations.

- Process Reengineering and Process Redesign—What Is the Right Time?—The research found that there are no “hard and fast” rules as to when an agency should implement process reengineering or redesign initiatives. Factors for consideration in making the timing decisions are described.

- Form a Partnership with Your Provider—One interviewer provided an excellent definition of partnership—an open relationship, clear communications, willingness to work together and share information and a focus on continuous improvement. The research identified characteristics of a productive partnership between a user and a provider—five factors being the ability of the provider to help the agency accomplish its program goals and provide performance measures. The research also identified, based on private sector practice, a potential performance measure that agencies can use to measure and track the cost efficiency of their financial management operations.

Based on the interviews conducted, discussions held and the literature review, it is clear that shared services (internal and external) and the Centers of Excellence concepts make good business sense for federal agencies. A number of issues that must be addressed to ensure success of the concept are discussed in this research report. OMB and all federal entities should continue to share information on shared services so that all concerned can benefit from both positive and negative experiences.

Part II—The Case for Shared Services

Most federal agencies are modernizing, updating, replacing, implementing new or otherwise revising their financial management systems and processes. Their objectives are to reduce operating costs, maintain or obtain unqualified opinions on their financial statements (by the required deadline but without "hurricane efforts"), resolve reportable conditions and material weaknesses in internal controls, achieve "green" on the President's Management Agenda scorecard, adapt to new financial statement and/or audit requirements, improve efficiencies and effectiveness in financial management operations; and provide agency program managers (the true financial managers of federal agencies) with timely financial and program information to lead and manage the federal enterprise.

Essentially all current approaches to improve financial management involve, in one way or another, the concepts of "sharing" so that a single entity provides financial operations services to several other entities. This strategy of shared services enables agencies to achieve economies of scale and, in the words of OMB’s Wayne Leiters, "economies of skills." OMB has endorsed the concept of shared services in financial management through its Financial Management Line of Business (FMLOB), one of six "Lines of Business," and Center of Excellence concepts (more on this later).

Recognizing the importance of shared services for federal financial management, the goal of this research project is to provide guidance to federal users of financial management operations shared services in most effectively using such services, including identification of:

- Types of financial management operations performed by federal entities using shared services.
- Benefits and risks realized by participants in federal financial management operations shared services.
- Guidance and lessons learned for selection, governance, transitions and operations from successful shared services experiences.

The focus of this report is on guidance based on experience in the federal and private sectors. The research is not a complete survey of all federal financial management shared services nor an audit of reported benefits. The research presents the status of federal financial management shared services, provides guidance to users and potential users of such services and provides recommendations to maximize the opportunity for success of the shared service endeavor.

July 2005
FINANCIAL MANAGEMENT SHARED SERVICES:

Figure 1 presents the definition of shared services and related terms used in this research.

Figure 1. Definition Used in Research

Shared Services: Financial and administrative services provided by a single organization established to provide such services efficiently and effectively for the benefit of multiple organizations or entities.

Shared Services Provider or Shared Service Center: A separate and distinct organization established to provide financial and administrative services to other entities efficiently and effectively, either within the confines of a single federal agency or across agencies. Providers may be:

- In-House (Capex) Providers—Provide services only to agencies and entities within their own department or bureau. In-house providers usually result from consolidation of financial and administrative functions in the organization.
- Internal Federal Providers—Organizations that provide services to federal organizations outside of their own “home or host” agency, as well as to some or all agencies (or other organizations) within their “host” agency. This has typically been referred to as “cross-servicing.”
- External Private Sector Providers—Private sector entities providing financial services to federal entities on a fee-for-service basis.

Shared Service User: The organization or entity that receives the service, the consumer or client. Users are typically the CFO and the financial program managers of the user organization.

The research was performed through interviews with knowledgeable individuals who are or had been affiliated with users and/or providers, by discussions with OMB and by an extensive literature search. Relatively little shared service literature deals with U.S. federal entities. Thus, this is the first research solely devoted to federal users of shared financial management operations, molding best practices of the private sector with federal experiences to provide guidance and best practices for users.

A Bit of History

Sharing financial management operations is a concept whose time has come. While financial operations are critical to a federal agency’s ability to provide services within budget, such activities are not the core mission of federal programs. Thus there is an increasing emphasis on sharing within and across agencies.

Many large private sector companies have successfully implemented shared services for financial operations since the early 1990s. Early in the current decade, the corporate sector began “outsourcing” financial operations (but not policy) to third-party domestic providers; even more recently, the private sector has gone “offshore” with financial operations performed by third parties outside of the U.S. (The federal government does not “offshore” services.) Private sector use of financial operations shared services has resulted in significant cost reductions and productivity improvements.

The concept of sharing services is not new to the federal government. Since the early-1980s federal entities have provided payroll and financial services to other federal entities (“cross-servicing”). In the early 1990s the Department of Defense formed the Defense Finance and Accounting Service (DFAS) to consolidate 358 offices (now down to 26 offices) into a single organization providing financial services to the military and other defense entities. Numerous other federal departments have consolidated financial management operations to form internal shared service organizations, particularly when implementing new financial management software. Until recently, however, few major departments have gone outside of their own organizational boundaries to seek financial shared management services.

In the last year, the “game has changed.” As an extension of the President’s Management Agenda, OMB created the Financial Management Line of Business (FM LOB) to provide a vehicle to encourage improvements for federal financial management. OMB’s Vision for the FM LOB is “A governmentwide financial management solution that is efficient and improves performance while ensuring integrity in accountability, financial controls and more effective programs.”

Goals of the FM LOB relate to achieving or enhancing process improvements and cost savings, standardization of business processes and data elements, seamless data exchange between and among federal agencies and strengthened internal controls.

OMB has designated several Financial Management Centers of Excellence (COEs) and placed significant emphasis on competition in determining how financial services will be provided. OMB requires that Executive Branch agencies planning a major life cycle change in its financial management systems (new software, consolidation, major upgrades) seriously consider using one of the COEs or a private sector provider, in lieu of rewiring the function “in-house.” Agencies currently using a COE must consider other COEs (OMB is attempting to ease the transition from one COE to another). OMB’s objective is to create a competitive marketplace where economies of scale and skills can provide the most effective delivery of financial operations.

At the time of this writing, OMB has designated the following COEs:

- Department of Treasury, Bureau of Public Debt, Administrative Resource Center (ARC) http://arc.publicdebt.treas.gov/bradminarc
- Department of Interior, National Business Center (NBC), intbdc.gov
- Department of Transportation, Enterprise Services Center (ESC), esc.dot.gov
- General Services Administration Center of Excellence: gsa.gov/opf

AGA Corporate Partner Advisory Group Research
A GUIDE FOR FEDERAL USERS

Each COE has completed OMB's due diligence checklist for COEs. Other COEs, including specialized COEs, (for example for intelligence, international and/or justice agencies) could be designated assuming they fulfill the requirements for COEs. A private provider can qualify as a COE if it meets the criteria and if it has a federal customer. Currently one private provider provides financial services to a federal agency under the COO due diligence checklist.

Each federal COE is hosted by a major federal agency and each provides financial services to many or all of the mission/program bureaus of its host organization. Outside of their own host agency, only one non-federal CFO Act agency and a bureau of another CFO Act agency are served by the COEs. The other non-host agency clients of the COEs are small executive and legislative branch agencies.

Using an experienced shared service provider results in major advantages for federal agencies.

- Since the provider already has hardware and software infrastructure, it avoids the cost of building the infrastructure for each new (new) hardware and software maintenance, patching, updating and modification is performed by the provider to benefit all users.
- Users can leverage investments by the COE host in new financial systems.
- Additional users can be added with only incremental costs; with each new user overhead is spread over more users.
- The shared service concept leverages the limited supply of experienced technical, software, accounting, financial, project management, help desk and other staff.
- The shared service provider assumes the burden of managing the staff involved in providing financial operations services.
- Shared service providers provide better security and disaster recovery than can small agencies.
- Typically providers have well-documented systems and financial controls. This, in turn, helps the customer fulfill their internal control requirements.
- Depending on the nature of the provider, more funds may be available for investment than for a stand-alone agency performing its own financial operations.
- Shared service providers can leverage buying power with vendors, both for its own benefit as well as for the benefit of its customers.

There are also potential disadvantages of the shared service concept:

- A user agency may lose control of its data (or perceive such loss).
- Unique customer needs (specific or changing legislative requirements) may not be able to be met effectively.
- User organizations, particularly small ones, may have no voice in the providers' investments, which may impact future service levels.
- Transition can be very difficult.

- The costs of implementation may be so high as to not offset operating savings.
- Customer service may be poor.
- The user may want to innovate faster than the provider is able.
- The volume and/or complexity of user transactions may overwhelm the provider.

While each COE, as well as each existing internal provider, delivers a similar set of capabilities, albeit in different ways, providers differ in their organizational structure and legislative authorities. Some providers were established as "working capital funds," others as "franchise funds," while several internal providers were established by agency management with no special legislative authority. The legislative parameters affect the extent to which the providers receive initial capitalization, can "earn a profit" and/or carry-over funds from one year to the next. The key impact on users is the way in which investments in new technology or new processes are funded—from accumulated capital or from current loss. This difference may make for an uneven playing field for the COEs as they compete for business. OMB is examining the legislative authorities of the COEs, and plans to work with Congress to determine if all COEs can be put on equal footing in initial capitalization and their ability to manage their finances.

Generally the reaction of the interviewees about the COE concept was mildly positive to neutral—they want to wait and see. However, several individuals raised questions such as:

- "Why do we have to go to a COE when we are operating fine as is?"
- "Will the COEs be able to handle the volume and complexity of another federal agency?"
- "Is there a point of diminishing returns?"
- "We have not seen a COE that can do my agency's work."
- "Why go to an agency which is not "green" (under the President's Management Agenda)?"

OMB has indicated that they plan to work with each agency on its migration plans. This is a very enlightened approach.

Current COEs provide three of the seven financial systems tested and approved for use by federal agencies by the (former) Joint Financial Management Improvement Program (JFMIP). Though COE also plans to continue to support an additional financial system no longer approved by JFMIP nor supported by its vendor, as long as any of their clients use the system. In the future OMB's Financial Systems Integration Office, together with the Chief Financial Officers Council, will administer the financial systems testing program.
FINANCIAL MANAGEMENT SHARED SERVICES:

The Current Landscape for Shared Services

Each internal and external shared service provider provides the core financial functions, identified by the Federal Financial Management Improvement Act (FFMIA) and the Office of Federal Financial Management, including general ledger, receivables, payables, payroll, and fund management and financial reporting. A 2001 OMB draft revision also includes “Funds Balance with Treasury” management.

In addition, COEs and internal providers offer billing, procurement, database management and access, inventory, fixed asset, grants, and a variety of other financial and financial-related functions. Providers must also be able to “interface” to user-specific financial systems, such as OMB mandated e-payroll and -travel systems, to other governmentwide systems (such as grants disbursements and the central vendor registration system) and to any future mandated systems.

Shared service providers offer several delivery methods; the user selects the service delivery method best suited for its operations. For example, a provider may serve as the host for hardware and software, a hardware and software provider, a hardware and software tenant, or a software provider. The infrastructure of the provider is responsible for the hardware capacity and capability, maintenance, software, operations of the financial software, security, configuration management, disaster recovery and relevant activities. However, the user executes the system (typically remotely), allowing data input, error correction (except that due to hardware or software failures), report preparation and all activities relevant to the system functionality.

At the other extreme, the provider performs all accounting operations for the user, and at times, those analytical tasks inherent in an accounting operation. In this case, the shared service provider becomes an extension of the user agency, a situation usually most appropriate for small agencies and councils. For most users, the service delivery model is a service on the continuum between hosting only and complete accounting services. One COE told us that approximately 40 percent of its users use some or all of its financial operations services; most other users use the COE’s systems capabilities. That same COE indicated that it does not encourage “pure” hosting relationships.

While there are many advantages to sharing financial management services, it is not clear that all agencies should transition to a COE. It may be more economical for a large agency to implement its own shared service. Some larger agencies may have achieved economies of scale and skill within their own boundaries. Further, one private-sector provider stated that it reached a point of diminishing returns in its operations centers, which when reached requires them to open an additional center. Yet other providers indicate the optimal size for a shared service center to be 100 to 200 staff. Thus, issues must arise when the COEs are handling the volume, complexity and the workload of major agencies. OMB and the agencies should carefully evaluate alternatives when determining the best course of action for larger agencies.

While experience is still evolving in implementing financial management shared services, federal agencies have realized or anticipated significant benefits from use of both internal and external providers. Many agencies talked to reported impressive operating and/or transition cost savings—the example operating cost savings of up to 40 percent and implementation cost savings “in the millions.”

These examples, from a limited number of federal agencies, indicate the potential for significant savings from adoption of shared services for financial operations. (OMB has estimated savings of $8 billion over the next 10 years through consolidation of financial management and human resources management.)

Other benefits cited by interviewees included:

- Financial staffs were better able to focus on financial analysis and on providing decision support and performance management information for agency management.
- The focus of financial staff to agency management issues, rather than run-of-the-mill financial operations, assisted the CFOs in those agencies “get a seat at the management table.”
- Agency management was better able to focus on their core responsibilities of providing program/mission services to the public. “We are able to shift our efforts to ‘citizen-facing’ services” was how one interviewee put it.
- Processes were standardized within the agency. Several respondents expressed surprise that individual organizations in their agency used different coding schemes.
- These differences were highlighted and resolved by the consolidation effort. This in turn resulted in improved internal efficiency.
- Agencies were better able to prepare quarterly and annual financial statements. Financial systems organize financial information in financial statement format. Agency personnel can then more effectively perform reconciliations, analyze data, prepare adjustments, and reconcile the footnotes, and provide the auditors with the information they require for audit purposes.
- Agencies can better provide useful financial information to mission/program personnel.

Part III—Guidance for Users of Financial Management Shared Services

The research identified 13 areas of guidance and “good for thought” for federal users and potential users of financial management shared services. The principles of disciplined IT systems development and acquisition of services apply to shared services implementation. Since these principles are documented in many other publications they are not repeated below, except to the extent that selected principles are particularly relevant for shared services.

You Are Responsible for Your Information

The user—you—are responsible for your financial information. The fact that an independent or semi-independent

AA Corporate Partner Advisory Group Research
A Guide For Federal Users

provider is processing the information, or providing a platform for you to process the information, does not in any way allow you to take on the responsibility for it. Even if the shared service provider performs all financial operations for a user, the user retains responsibility for the information. As one interviewee said, "You can't outsource your responsibility to manage your own information." Or, as another interviewee put it, "Don't expect a shared service provider to solve your problems; it's your responsibility." Similarly, mission and/or program business management must certify to the accuracy and validity of their financial information.

During the 1980s, internal shared service organizations were organized in two federal entities with the intent that they would become the accounting and financial management office for the department and for each bureau. To accomplish the objective, most accounting operations and financial analysts were moved from the bureaus to the shared services organizations. The concept did not work and soon "shadow" organizations were built in the bureaus. By the time the need for financial management capability in each bureau was recognized, the damage had been done. The departments and bureaus had to rebuild their capability lost when staff was transferred to the shared service organizations.

Reasons that the shared service provider was not able to provide full financial services are very similar to the reasons for establishing the shared service organizations in the first place—the shared service provider focused on operations and did not have the time or expertise to devote to analysis and decision support. The operational aspects of the reorganization worked fine but the people in the shared service organization were not able to devote sufficient time to the business tasks necessary to support the user. It is difficult to manage operational excellence with the analytical capability necessary to support a federal entity.

This fact highlights the mandate that the user must be responsible for the true management aspects of financial management, including policy-setting, strategic planning, data entry financial analysis, audit, decision support and reporting and advising management. The agency and its bureaus must employ program, financial and/or management analysts to help their management understand and use the financial information particular to each organization.

The user is also responsible for quality assurance of the information coming from the provider. Quality assurance is not the same as quality control. Responsibility for ensuring information quality is an ongoing activity, not something done at the end of the process or the end of the year, as envisioned by the term "quality control."

One key capability of the CFO and the financial organization is to employ one or more individuals who understand the functionality of the underlying financial system used by the shared service provider. That individual(s) must know how the software processes entity transactions and converts transaction codes into debits and credits—the posting model—particularly for transactions that may be unique to the entity. The user organization must also understand how the software classes the books, prepares reports, deals with over- and under-obligations and processes the many other transactions and actions inherent in financial operations. A great deal of time is devoted to "discovering" how the software is built from a functional point of view, often at an inappropriate time.

Certainly the shared service provider usually has staff who understand the functionality of the system. However, several interviewees indicated that those individuals do not always understand the intricacies of a specific organization, are not always available and that it often costs time and money to use their skills. Similarly, the software vendors may be able to provide this expertise, but it is often even less available. Resolution of functional issues is a joint effort between user and provider. The user must have that capability on staff.

The bottom line is that the user is responsible for its financial information and must ensure the validity, accuracy and integrity of the information.

It's All About Management Support—No, It's About Management Leadership

It is a well-known management principle that any major systems project (or any other new undertaking) requires top management support. That principle applies to financial management shared service implementations. Such implementations are complex, costly, and time-consuming—often temporarily—from program activities and are often on the cutting edge, for example when a private-sector provider is involved.

The "management support" approach must be replaced by the concept of "management leadership." It's not enough for management to merely support the financial operations shared service implementation—top management must provide the leadership structure to ensure that the transition is successful.

It is clear that the current administration is serious about improving financial management, using the competitive market as one vehicle for such improvement. The administration's emphasis must be imbued in both the policy and career leadership of each federal entity. Top management must internalize the need for improved financial management and demonstrate that commitment throughout the organization. Because the tenure of political appointees is relatively short, this and future administrations must continue a strong emphasis on top-notch financial management.

Top management, working with the department secretary (or comparable official), can demonstrate leadership in many ways:

- Communicate the need and the entity dedication to shared services to other top officials. This also helps ensure buy-in by other entity leaders.
- Ensure that OMB and Congress are aware of the entity's plans and, as necessary, support the concept in congressional testimony.

July 2005
FINANCIAL MANAGEMENT SHARED SERVICES:

- Meet with his or her counterpart at the outside provider agency, if necessary, to resolve disputes that cannot be settled at lower organizational levels.
- Mediate disputes between a user agency and an internal provider, if the dispute cannot be resolved at lower organizational levels.
- Make and communicate the difficult decisions that invariably come up during a shared service implementation, such as those related to people and money, that are often assigned to the implementation, including top staff from the programs organizations.
- Ensure that sufficient funds are available for implementation, even if that means temporary diversion of funds from program activities.
- Ensure that sufficient funds are available for operations, regardless of how the provider is funded. This is more often an issue for internal shared service operations than for external providers. For example, one bureau's internal shared service organization was underfunded for a number of years. The result was reduced service quality. Eventually, Congress passed Appropriations Act language requiring adequate funding.
- Visit the staff involved in implementation. It does wonders for staff morale for the secretary and other leaders to meet with the staff to express their appreciation.
- Demand periodic updates on project status and program and assist in resolving issues.

While top management leadership is necessary, each project requires a project sponsor and project champions to provide day-to-day leadership. The chief financial officer (CFO) is typically the project sponsor, working closely with the chief information officer (CIO). The CFO must make the necessary functional (business) decisions, work with the CIO on IT technical decisions, build the enthusiasm for the project, prepare (with the CIO) and monitor the business case and project plans and obtain the people and the funds to ensure the project is on time and on budget. The CIO is the "eyes and ears" of the secretary and provides guidance and counsel to the secretary so she or he can accomplish the tasks described above. Project champions come from line management throughout the organization, often at mid-level management positions.

In the private sector, it has been suggested that the project leadership structure be in place for at least one year after project implementation. This could be an issue in the federal government since major agency CFOs are often political appointees. Thus, a career official, such as the deputy CFO, must be able to assume the leadership responsibilities.

'Yet another level of leadership is the project manager. As one interviewee told us, 'If I could change anything about the project, I would go back and hire an experienced project manager.' Implementing a shared service arrangement is a complex undertaking, involving many people and tasks and a great deal of time. It is not sufficient to assign a "smart" staff person as project manager. According to one interviewee, 'We used operating staff to perform project management. We should have hired an experienced project manager.' One interviewee suggested an individual certified by the Project Management Institute should have been hired. The ideal project manager will have many skills not normally found in financial or IT staff, such as the characteristics outlined in Figure 2.

![Figure 2: Required Characteristics for Project Manager](image)

- Intelligent, Communicates Well
- Respected Throughout the Organization
- Experienced in Project Management
- "Helicopter Thinker" able to take a broad view from high above the playing field, then zoom down to one subject to another, getting into the detail of various parts of the action when necessary.
- Flexible, Determined, Passionate, Personable, Good / Cheerleader
- Knows the organization and knows how to maneuver through it


It is useful if the project manager has had prior experience implementing large financial systems or large business systems in an organization of comparable size. However, the key capabilities needed are project management and personnel-related skills. Such capabilities will ensure that plans are realistic, staff work toward a common objective, the project is monitored and plan modifications are made as necessary.

Formally justify the Shared Services Decision—The Business Case

The shared service decision is the beginning of a "journey" toward improved financial operations and management. While there will be intermediate points along the way, the journey will continue for many years as the entity gains experience working with the selected provider.

All the literature on shared services emphasizes the necessity for and value of a business case to enable top management to examine and justify multiple options and to make decisions on the shared services "journey." In addition, during the budget process, OMB requires each federal agency to submit a business case as part of Exhibit 300. This exhibit documents planning, budgeting, acquisition and management of federal capital assets, including IT investments.
A GUIDE FOR FEDERAL USERS

Contents of a business case document vary, but typically include these topics in Figure 3.

- Current situation and business issues—motivation to change the "business as usual"
- Baseline of current operations
- Benchmarks against comparable organizations
- Vision for financial systems and processes, including the role of shared services, conformance to OMB Circular A-127
- Life cycle costs/budget
- Security and privacy issues and disaster recovery
- Performance goals/services
- Acquisitions strategy
- Program management
- Enterprise architecture, conformance to OMB Circular A-130
- Performance-based management systems
- Support for the President's Management Agenda
- Alternative analysis
- Risk management
- Anticipated benefits, recommendations and action plan
- Relations to overall capital/IT plan
- Anticipated staff issues
- People/skill set requirements
- Implementation approach and timetable

Topics evaluated by OMB in reviewing the business case portion of Exhibit 30


The Exhibit 300 is critical for submission to OMB. However, an agency may supplement it with a business case for top management understanding and decision-making, for example, in the form of a financial systems strategic plan. When a business case is a valuable decision document, the process of developing the document may be even more important than the document itself. The process of preparing a business case enables management to address important issues, such as those discussed below:

- Clearly define the reason for change. What is the change imperative? Interview was shared a number of reasons for embarking on shared service, most revolving around the themes of cost reduction and modernizing financial systems.
- Involve all stakeholders, including the CEO and the mission/program offices in the planning/decision process.
- Often program staff will lead project teams examining portions of the business case. Inviting (and demanding) participation at the beginning of the planning process will help to ensure the "buy-in" of all key organization leaders. In addition, often the heads of the mission/program entities are members of the entity Investment Review Board (IRB). Early participation and "buy-in" will ensure more effective IRB treatment.
- Provide an analysis of the user "baseline." That is, what is the current volume, response time, quality of service and most important, cost of current operations? The baseline is necessary to enable the user to evaluate the success of the shared service relationship. If there is no baseline for comparison, it will be impossible to judge the performance of the shared service activity and that of the agency's success.
- Identify benchmarks to other federal agencies or the private sector. Benchmarks have been difficult to achieve in the federal sector; there is little organized benchmark information for federal financial operations and federal operations differ from private sector operations (but not as much as many believe). COEs may have benchmark information and discussions with other federal agencies may provide useful information.
- Anticipate union and staff issues that may result from a potentially dramatic change to shared services. Since people are the major reason for success (or failure) of the shared service undertaking, the "culture change" issues may be significant. While business case preparation will not resolve the people issues, it provides the platform to recognize the issues and plan for mitigation approaches. It has been observed, by the way, that people issues are really all about mid-level management issues. Thus, building champions among the mid-level management ranks can start with the business case.
- Document how the user will implement its own IT security and disaster recovery procedures (in addition to those of the provider).
- Determine use of contractors, consultants, systems integrators and/or subject matter experts to assist with the shared service implementation. Such assistance and support is valuable, particularly if the customers are inexperienced in the shared service journey (several interviewees indicated that they should have brought in experienced contractors while others told us they had used contractors, to their great benefit).
- Summarize the agency's market research and discussions with other agencies using shared service providers (many interviewees encouraged such research and discussions).
- Outline the performance expected from the shared service provider as well as internal performance objectives to be achieved.
- Identify total life cycle costs to implement and operate with a shared service center and the return on investment (ROI) to be achieved.

July 2005
FINANCIAL MANAGEMENT SHARED SERVICES:

- Specify the acquisition and selection approach and, if appropriate, the alternatives to a COE. This analysis will help justify the recommended approach to OMB and others, particularly if the recommendation is not to use an external COE.

The business case should be treated as a "living document," reviewed and updated periodically to guide access and to measure progress.

Know and Specify Your Requirements

The user must know and specify the services they want from a provider. Sounds easy, but potential users often do not completely (or even partially) specify their needs, with the result that the provider "guesses" or the implementation is less robust than it should be. Specifying requirements necessitates that the user understand its current and future operations including interfaces, data sources and flow, posting models, quantity of transactions, quality and source of historical information, required reports and their timing and other significant information.

In determining its requirements, each user must document the needs of program/mission personnel. Various interviewees mentioned "focus groups" as an effective way to obtain such input. This helps ensure program/mission personnel support and that the needs of the true financial managers are reflected in the specifications.

User requirements should include:

- Specific services required by the users. All entities require essentially the same financial services and capabilities—this system that complies with the requirements of FIMIP (and its successors), is GLC compliant at the transaction level, provides monthly and quarterly Treasury and OMB reports, provides information for quarterly and annual financial statements, supports monthly and annual closing processes. Further, the provider must meet minimal data and facility security and disaster recovery requirements and be subject to annual financial audits and service center audits (SAS 70 audits).

- Additional services beyond the minimum. Does the user desire other services, such as procurement, billing, fixed asset record keeping, inventory management, etc. capabilties? To what extent will the user support the user's budget execution and fund control processes? How about budget formulation? The user should specify what services will be provided. The user should specify what services will be provided.

- How does the user want the services delivered—hosting only, full accounting operations or another alternative? Many small agencies use the complete accounting service. As more large agencies use the COEs, there may be more of a tendency to move toward the "hosting" capability.

- Additional reports and information requirements beyond the minimum. In addition, what information will be needed for analytical support, agency performance measures and decision-making? To what extent will user require special formats and to what extent will the user require database access?

- Unique types of transactions or other unique characteristics of the user agency. For example agencies may have unique funding sources, types of funds or relationships with other agencies. Even though the COEs have processed a wide range of agencies and transactions, each may not be capable of handling all transactions.

- Unique operating processes that could require modifications of the underlying software. Potential software changes may not be known until the user testifies determines the preferred provider. Prior to final contracting, such potential modifications should be discussed, if recognized at that time. Often, however, such potential modifications are not known until implementation. They should be dealt with as soon as they are known.

- Conventional wisdom is that the underlying software should not be changed; business processes should be changed to accommodate the software. Most COEs and internal providers alike by this principle. However, research indicates that it is possible to be the benefit of changing software. In a thorough cost-benefit of software modifications versus process changes is performed and if the provider has good configuration management, that there should be no objection to changes in the underlying software. It should be kept in mind that at times enable extensive configuration decisions that do not involve customizing the software.

Information on sources of data and transaction volumes, the quality of historical information (is it "dirty"?) and the extent to which historical information has been properly reconciled. This means that the user must know a great deal about its own data and data flows, sometimes a difficult task to accomplish.

All of this means that the user must carefully think through why it is entering the shared service operation and must know a great deal about its current operations and where it wants to go. No matter, the user should not specify "how" the services will be provided, just which services will be provided.

An agency seeking an external provider should document its requirements in a Statement of Work (SOW) or a Request for Proposal (RFP). Potential vendors should submit a proposal to provide the services, detailing information on the services and the performance measures that will apply. Selection of a provider should be based on "best value" for the user.

While implementation and operating costs will be major decision factors, a wide variety of other factors must be considered. In fact, the literature indicates cost is often not the key reason for moving to a shared service—often standardization or process improvement are the deciding factors. In addition to cost, interviewees expressed a number of decision criteria, including those summarized in Figure 4.
A GUIDE FOR FEDERAL USERS

Many interviewers emphasized the need for customer service (or comparable terms) from the provider. This is one of those areas difficult to define, but “you know it when you see it.” Most respondents related customer service to “understanding the user’s business,” responsiveness, accuracy, approachability, and overall relationships, help desk management, service management, training, implementation support, expertise of provider staff, ability to handle complex transactions, and communications with the provider, a provider newsletter, or a partnership orientation and commitment among other characteristics.

One internal provider told us his view of customer service: “When the customer has a problem the customer can depend on the provider to help resolve. If not the provider is least. “ A COE manager told us that “as an efficient competitor he can’t provide top-notch customer service. Several users told us that they have seen a reduction in customer service in recent years (even before the COE concept). For example, one interviewee, currently a COE customer, told us that the number and quality of contacts with the COE staff had been reduced and a periodic newsletter eliminated. Perhaps this is one of the down sides of the competitive environment. Customer service has a price. It is incumbent on the provider to communicate to the user that “you get what you pay for.”

Decision criteria we did not hear from interviewees include those relating to the COE’s ability to assist the agency in setting program goals and performance measures, monitoring aspects of the President’s Management Agenda that are financial objectives (budget, performance integration) or the ability of the provider to help the agency meet any other Service-Oriented requirements. We encourage users to look more broadly at the value that the shared service provider can provide.

Focus on Results

Users should not tell providers “how” to provide services. Nor should users be concerned with how the services are provided. For example, the recent user should not care which accounting package is being used; emphasis should be on meeting requirements. Further, the user should not be concerned with whether provider staff are government employees, contractors or a combination. The user needs assurance that staff is well trained and will be available when needed, to meet the user needs, and that staff has appropriate security requirements. Similarly, the user need not be concerned about the number and type of computer, nor where the user facilities is located. Telecommunications makes the location irrelevant (except as it might affect operating cost).

While the employees of the staff and the number of computers should not concern users, the user must be comfortable that the provider provides consistent services to the user. The provider must have a single set of policies and procedures, consistently applied by all employees. As an example, the author is familiar with one provider shared service provider in which each location (until recently) developed its own operating policies for the same transactions and for different locations of the same customer. At times, user headquarters did not know what its branches were being told. The result is not unexpected that the shared service provider has written policies and procedures that cannot be changed except through a defined process that incorporates user needs.

The focus on results will become more acute when providers bundle various services drawn from several software (or hardware) vendors, such as a procurement package integrated with an accounting package. One experienced shared service consultant stated that the user “should care about the work flow, but not the underlying technology.”

This concept of results—not process—was summed up recently by A.G. Lafley, CEO of Procter & Gamble Co., who said, “We discovered that women don’t care about our technology and they couldn’t care less what machine a product is made on.” In other words, the woman (buyers of more than 80 percent of P&G products) care about the quality of the product, not how it was manufactured. The same concept should apply to financial services from shared service vendors.

The advice to “focus on results” is consistent with use of Performance-Based Service Contracts. However, while ideal, this focus may not be completely realistic at this stage.

July 2005
FINANCIAL MANAGEMENT SHARED SERVICES:

in the evolution to shared services. The parameters of the limited number of federal accounting packages are well known to the user community. If one package handles a user unique problem better than another package or the user is currently using a particular package, the user will tend toward the package that deals with its issues.

One respondent has predicted that accounting services will at some point be like electric utility services. When we flip the switch, we know that we are going to get electricity 24.09 percent of the time, with no concern about the process. While accounting/financial services may never reach this same point, the analogy demonstrates the focus on results.

Know What You Are Getting and Get It In Writing

The relationship between user and provider is one of customer and vendor or supplier. Both parties must understand all aspects of the relationship. This understanding may be more critical for the user, since the user will typically have less experience with a shared service relationship than the provider. Further, since competition promotes a "sales orientation," processes used during the sales process must be in writing and signed by both parties.

Memoranda of Understanding (MOUs) or Memoranda of Agreement (MOAs) have been a common form of documentation, particularly for services provided under the Economy Act. Often, however, arrangements and agreements were not written or were loose and vague, with resultant frustration on both users and providers. In one organization with which the author is familiar, the provider and users were constantly "at war" largely due to lack of understanding of the relationship.

Interviewees and the literature focus on the Service Level Agreement (SLA) as a contract, accountability document, and a means of defining roles and responsibilities between users and providers.6 As one interviewee told us, "Take time to define roles and responsibilities. The more finite the better." The SLA should specify the understanding between the parties and serve as the governance document between individual users and providers.

Providers and users indicated that development of SLAs for the federal sector is in its infancy; there is a good deal to do in designing effective SLAs. Several providers, both internal and external, told us that they are in process of signing SLAs with all customers. However, one user told us, "It was very difficult to get an SLA agreement with my provider."

As federal agencies work through the SLA issues, the following is a list of potential contents for SLAs or other contract agreements in Figure 5.

What Gets Measured Gets Done

It is a well-known fact of business that "what gets measured gets done" and "you can't manage what you can't measure." These adages have been used to drive legislative and guidance over and over in the federal environment.

Two examples are the Government Performance and Results Act (GPRA) and the President's Management Agenda (PMA). Now that OMB is demanding performance goals and measuring agency progress on meeting the goals, agencies are "paying attention" and accomplishing their goals, including the financial goals.

Three areas of measurement are important in the shared service environment: service performance metrics, monitoring the business case and monitoring internal user measures.

Performance Measures—Users, providers and OMB place great emphasis on specifying performance measures to evaluate quality, time, cost and efficiency of both provider and user. Interviews indicate that much remains to be accomplished in the development of useful performance measures. For example, we found that performance measures are not in place for all users and the quality of the measures that were reviewed varied greatly. Therefore, OMB and the current COEs is discussing potential standardized performance measures.
A GUIDE FOR FEDERAL USERS

Based on interviews and literature review, following are several principles for developing useful performance metrics for shared service agreements:

1. Include performance metrics for the users as well as the provider. Providers can only meet their commitments if the user meets its responsibilities. For example, it is ineffective to state that “financial reports must be available within seven days of receipt” if there is no system for when input data is required from the user.

2. Recognize that performance metrics define the accountability relationship between the customer and the provider.

3. Use balanced measures to accomplish the desired result. A metric for turnaround time for delivery of information to the user is not effective unless it is accompanied with a metric that specifies the maximum error rate in the information. For example, a metric such as “process 95 percent of billing accurately and timely” might be better worded as “process 95 percent of billing within time frames set by the user.”

4. Build metrics to provide opportunities for incentives for providers to exceed the metrics (additional funds) or penalties if the provider does not meet its commitments. For example, a provider could change a penalty for processing erroneous input data. Similarly, the user should expect deduction in fees if the provider sends back erroneous data. Private sector performance agreements include incentives and penalties. Several individuals object to financial penalties for federal providers. The argument is that the federal entity must “break even,” and therefore cannot give a rebate. However, if the provider gives so many rebates for under-performance that its “bottom line” is significantly affected, the provider has other business problems and maybe should not be in the business. Incentives for “good behavior” are good business practices that should be adopted by shared service providers.

5. Most metrics currently in use focus on quantity of transactions, processing time, error rates, and delivery dates. Other potential metrics include those related to system data handling, user “on-line” time, payments to vendors, response times for inquiries, help desk response times, log-in times, first call resolution, time to answer phone, number of times to deal with the same issue, security and disaster recovery testing, etc. Several shared service providers conduct annual customer satisfaction surveys. Users should respond to such surveys and perhaps can be involved in developing the surveys. The value of surveys is in the trends that demonstrate improving or deteriorating customer service.

6. Performance metrics should be for more than one year and should demonstrate the mutual commitment to “continuous improvement” in operations. In that way, the metrics can be used to modify behavior and encourage more efficient operations.

7. Include agreements on investments for specific users in performance metrics.

8. Identify the source of performance information and how often and how well performance will be evaluated. Also, ensure that the cost to develop or gather the metrics is not excessive.

9. Provide metrics useful for management. For ongoing operations, the user and provider may have many metrics. However, management needs a limited number of measures to focus evaluation of services, perhaps five to seven. These management measures may be more encompassing than routine operating measures, such as the “cost of services per employee in the user organization” or something comparable.

10. The user should be sure that the measures, and the targets, are appropriate to the user’s needs. Standard measures will accommodate most users, possibly with changes in the targets. However, if necessary, the provider and the user should establish specific measures for specific users.

11. Build a business partnership between user and provider (see later discussion).

Monitoring the Business Case—OMB requires updates of the Exhibit 300. However, for management, the business case is a “one-time shot.” Forgotten soon after it is prepared. The business case can be an effective monitoring tool, for example, to evaluate performance against the baseline and the benchmarks and to evaluate the “buy-in” process. By maintaining an up-to-date business case it can be used as another method to evaluate the transition/implementation process.

Internal User Measures—Users typically undertake a shared service arrangement to accomplish specific organizational goals and to improve its financial operations. Often internal user goals are related to provider performance. For example, the providers objective may be to provide financial information to the user within three days of month end. The internal user metric could be how long it takes to deliver the financial results to program/mission entities.

As important, management is interested in improved audit performance, elimination of material weaknesses, costs of program performance and other agencywide global issues. In addition, the user should have metrics of internal customer service—in the financial organization meeting the needs of the program/mission entities. All of these performance parameters must be defined and monitored on an ongoing basis.

Pay for Services But Know What You Pay For—Most COAs have implementation costs on an estimate of the time to implement the user into the system. A high percentage of the implementation cost can be a fixed charge, with a clear understanding of what is included in the fixed charge. The cost for unpredictable events (such as the impact of “dirty” data or conversion efforts) can be negotiated when they occur. Currently no COA is charging a
FINANCIAL MANAGEMENT SHARED SERVICES:

"Buy-in" fee for past investments. In addition, host agencies of several CCIs have recently funded, are currently fund- ing, or plan to fund, modernization of the baseline systems, with no charges to current or future customers.

Every user should pay the operating costs for services it receives. This seems obvious. However, in some cases, particular- ly for internal providers, operating costs are appro- priated from Congress, programs/funding bureaus are not charged for the services. This sounds ideal for the user of services and satisfactory for the provider. However, in a "fee goods" environment, if the provider tried to meet all the "needs" without commensurate increases in funding, the services would deteriorate. Pricing is an excellent method of "demand management," forcing the user to focus on its priorities. In addition, the costs of the shared service provider can become a "target" for congressional cost-cutter. If included as a program cost, it is less likely to be so targeted.

A variety of billing methodologies is currently in use by both internal and external providers:

- Some providers simply take the projected total cost of operations and allocate the amount to each customer based on a formula such as number of employees. In such pricing systems there is little attempt to match resource consumption to services provided.
- Some providers have a complete price list for each service they provide. The number of transactions multiplied by the price for that service yields the cost of providing services.
- Other billing systems project costs of operations and number of transactions by application by customer. Actual customer invoices may be fixed at the beginning of the billing cycle; others may vary depending on volume of transactions.
- Others accumulate costs of service into discrete cost pools and accumulate usage by customer. Each user then pays its share of the costs of that cost pool.
- One provider told us that they do not "nickel and dime" their customers with charges for each additional service. This is a result of a shared benefit. Someone is paying for that service—typically staff time. The provider must take care that it does not provide so many non-charged services to a few customers that they are penalizing other customers.

An effective, equitable billing system matches the usage of a specific service with the costs to provide the service (matches revenues to expenses). Such a system requires a good provider cost accounting system (most providers are still working on such systems) and an accurate accumula- tion of services provided. In addition, the pricing algorithm must be clear so that it cannot be "gamed" by either the user or provider in the normal course of business. Both user and provider are also seeking predictability for several future years (to correspond with the budget cycle).

One question is whether the provider can raise rates in the middle of a year (or other cycle) because the provider costs have increased. It seems that the provider is obligated to provide services at or less than the predicted cost per unit (or other measure). Similarly, the user must be able to provide assurance of the volume of services required. Of course, unanticipated events affecting a specific user must be negotiated between the user and provider. Some may argue that the provider need only cover its costs and not have to pay, even for provider "mismanagement." The provider must manage its costs; that is the nature of the business relationship.

The provider should benefit from being an efficient provider. Perhaps programs can be instituted to enable cus- tomers and the provider to share the benefits of improved provider efficiency.

The manner in which costs are determined and charged must be transparent to the user. Some providers devote sig- nificant time meeting with users to discuss its budgets and costs. All providers should engage their users in such an interchange. Each user should review the provider's annual audited financial statement and internal control and compliance letters.

You Can't Plan Too Much For Transition/Implementation:

The transition to a shared service environment in a major systems effort that requires significant planning, excellent execution and careful monitoring. As one interviewee said, "You can't plan too much for transition/implementation," a sentiment that was echoed by many others.

The history of financial systems implementations is replete with failures due to inadequate planning, ineffective execution, inattentive monitoring or weak remediation actions.

Our common reason for failure is the desire to manage- ment to meet a specific, unrealistic implementation date. Agencies must be realistic and manage expectations. If a date does not make sense, determine the appropriate date and "sell" that date to top management; avoid ever-greens. Several interviewees told us they are looking at CCIs to avoid ever-greens.

Some predict that the experience and the generic imple- mentation plans of the shared service provider will help reduce such failures. That makes sense, but the need for proper user planning for transition does not go away. The user is responsible for preparing, executing and monitoring the transition/implementation plan.

If you cannot plan too much for implementation/transition, there are three areas that deserve particular planning attention—training, data cleanup and employee communi- cations. Training—Training is the most important investment in agency personnel who does not stand the implementation is successful. A shared service arrangement represents a sig- nificant change in the way in which financial and program
A GUIDE FOR FEDERAL USERS

staff, enter, process and report on financial events. Unfortunately, too often, agencies do not provide enough training to finance and program staff. Reasons for insufficient training often relate to incomplete systems modules, insufficient funds and incomplete documentation. Shared service providers can assist with initial and updated documentation, since the provider’s procedures must be well documented and readily available.

One consideration in planning for training is the timing of the training. If it is done "hot off the press" staff will not remember what they have learned. Hence the need for "just-in-time" training, where staff are trained shortly before they begin to operate the new system. Such training makes sense, but must be continually reinforced until the new procedures have been institutionalized.

Training also encompasses retraining of individuals who may be performing new activities. One objective of a shared services operation is shift to an analysis and decision support role for the financial organization. Often this results in clerical staff being moved out of their current position.

Users should use the opportunity to retain staff to take on higher skilled activities. Providing retraining opportunities can assist in negotiations with the union, if necessary.

In addition, management must be trained (or educated) to internalize the new information available to them and the new capabilities that it represents.

One interviewee stated that he used the new shared service arrangement as a professional development opportunity for junior finance staff in the essentials of new systems and in the systems development process. By learning the functionality of the new systems, these staff were also able to take on expanded responsibilities in the new operating organization.

Data Conversion—Data conversion, cleanup and reconciliation is another major challenge for most organizations implementing a new shared service arrangement. Data conversion issues, if not properly resolved, have long-lasting (mostly negative) effects on accuracy of information for program managers and on agency financial statements and audit reports. Agencies must realistically assess the quality of its data and decide how and when the data will be "cleaned," reconciled and converted to the new system.

If agencies transition only when data cleanup and reconciliation is complete, the implementation probably would likely be delayed. Any cleanup/reconciliation after implementation could mean double work—sufficient cleanup to enable the conversion and then the final cleanup/reconciliation after the transition. However, this alternative would facilitate a more timely transition. One interviewee told us that they initiated data cleanup and reconciliation even before they selected the new system. The cost of all this work is for an agency to transition with "dirty" data and not recognize the post-transition effort to cleanup/reconcile the records.

The approach to data cleanup must be a conscious decision and included in the transition plan. The shared service provider will likely have aids useful in the planning and the conversion process.

One interviewee stated that the worst mistake his agency made was to convert summary-level carry forward balance information into the new system. Use of summary information eased the conversion problems, but made it nearly impossible to process transactions that had been "bundled" for conversion purposes. Some interviewees told us that they did not convert all historical data. They found it easier to go back to records maintained in the legacy system, if necessary, than to incur all the effort required to convert all historical information.

Communications—A significant issue with any major new system implementation is "culture change"—difficulty of people changing what they have done for many years to adapt to new systems and responsibilities. Further, in moving to a shared service provider, there is reluctance to give control of the agency’s financial information to an outsider.

All literature on culture change and discussions with knowledgeable individuals stress that training and engaging effective, relevant communications with the staff are the most important factors in dealing with culture change. Each agency’s communication strategy must carve out a role for top management as the leaders of the systems changes. One respondent said, "Agency needs to do 10 times more communications than they do." Or, as another interviewee said, "Get the right information to the right people at the right time."

Communications can and should take several forms, including “town hall” meetings, top management written memos and bulletin, email, periodic newsletters and one-on-one meetings. The communications should be honest about the impacts of the new systems and the timing of the changes. Human resources staff must be involved in the communications strategy. To communicate the impacts on individuals and, if necessary, to lead certain negotiations. One agency established an Employee Resource Center to deal with employee issues. All of these efforts must be included in the transition plan.

A Unique Use of Contractors—One frequent concern is that agency employees must continue to operate current systems even while they must be involved in the new system. Therefore, many employees devote most of their time to day-to-day operations, but then devote overtime to participate on transition teams, to learn the new software and procedures, to training, to write procedures and to cleanup/reconciliation of data and balances. One way that agencies have dealt with this issue is to hire consultants to prepare procedures, clean up the data, etc. The problem with this approach is that the knowledge leaves when the contract leaves.

One agency has partially alleviated this very real people issue by hiring outside contractors to operate the present system while agency employees perform the tasks associated with the new system. This enables agency employees to learn the functionality of the new system, ensures that knowledgeable staff are “cleaning” and reconciling transactions and enables the knowledge to remain in the organization when the shared service operation is initiated.
FINANCIAL MANAGEMENT SHARED SERVICES:

This approach has to be used judiciously; it is an ingenious way to deal with the pressures of operations and transition at the same time.

Culture Change

Many interviewees stressed the importance of planning for and dealing with "culture shock." It is a natural reaction that "an outsider cannot manage my information as well as I can, particularly if I am still responsible."

Addressing culture change (or change management) involves the entire management team. The changes must be incorporated into the psyche of the organization; all management must buy in to the benefits of the changes and communicate the "buy-in" throughout the organization. Program staff, particularly middle management, must be involved in planning for and implementing the changes, often leading the planning and implementation teams. We heard many stories of the most severe critics of the changes becoming the biggest champions when they were brought into the change process. Culture change impacts can be ameliorated with top management leadership, training, and ongoing communications. In addition, the agency records system must reward the "right behaviors."

One other area of culture is the culture at the provider organization. For example, is the provider focused on the customer and oriented to be an entrepreneur and a partner. The best way for a user to address provider culture is to talk with current and prior clients.

The Two Sides of Governance

In the world of shared services, "governance" most often refers to the manner in which the user is involved with the management of the provider organization. The other side to "governance" is the shared service environment in governance within the user organization itself.

The User and Provider Governance (Organizational) Arrangement—Much of the literature on shared services suggests that the user should be actively involved in the governance of the provider organization. That is fine if the provider and the user are in the same organization under the same ultimate management. However, an external provider (a COE or a private provider) usually does not want and does not provide for user participation in governance. The provider organization is governed by its own host agency management.

Even though federal users (outside of the host agency) are not involved directly in provider governance, providers have implemented a variety of methods to obtain input from users on product and service issues and to ensure effective communication with users:

- Some providers invite users to provide input into the provider's strategic plans.
- At times, users are invited to participate in provider configuration control boards.
- Some providers designate a client (user) executive to deal with specific users on an ongoing basis. The user executive handles problems and ensures that the users are receiving the service they have contracted for.

Some providers designate product line managers who ensure that the products are being provided as required and that problems are resolved.

Some providers have established a hierarchy of committees and task forces so that users can interact with other users and with provider staff and can advise the provider on issues such as improvements, product reviews, budgets, and potential investments.

- Other providers sponsor periodic meetings (semi-annual seems to be most frequent) with users to discuss and discuss specific issues.
- Many providers have periodic visits with users, including meetings with the director of the provider organization.
- Day-to-day communication handles the routine problems that occur in every relationship.

We did not note a consistent approach to interaction on budgets and on investments, even within the same provider. Such interaction is valuable since it promotes customer service and provides the user an opportunity to interact with the provider. Perhaps the advent of larger customers to the COEs will change the communication patterns and the opportunity for customers to influence the strategic direction of the provider. Time will tell.

For internal shared service providers, the user is usually much more involved in the governance of the provider. For internal providers, the governing body is usually an executive committee or board of directors that may include the heads of each program/major organization or the key program owners (or both). That committee makes decisions on products, services, budgets, hiring a director, people development, and succession planning. There may also be an operating committee of business or financial managers of each missions/program organization. As with COEs, the internal provider may assign client executives to work with program managers to deal with day-to-day issues. Since internal shared service organizations are part of the department—the department has much more control over the governance of the organization.

An issue for both internal and external providers is how to ensure that small clients are treated equitably with larger customers and how outside customers receive equitable treatment to the benefit of the host organization. Some smaller customers told us that they felt like "second-class citizens." Potential conflicts could be heightened with more large entities seeking outside provider services. Providers must be sensitive to this issue and implement procedures to ensure equitable treatment and access for all users.

In theory, the external customer can change providers if it is not satisfied. Currently, it is not easy to make such a change. COEs is seeking to ease the process of making such a change.
A GUIDE FOR FEDERAL USERS

Governance in the User Organization—One governance issue often overlooked is the governance within the user organization. How is the user organization to ensure clear internal rules and responsibilities and clear communication lines with the provider?

Within the user organization, the CIO (or comparable official) should "own" the financial system and assume responsibility for the financial management shared service relationship.

The CIO has a major role in ensuring the technology is properly aligned with security and back-up and in place. However, the "system owner" must be the CIO, who is responsible for the financial integrity of the agency. As one CIO said, "I am responsible for the financial architecture of the agency, working closely with the CIO." To ensure clear lines of responsibility with the provider, the CIO or designee should serve as Contracting Officer's Technical Representative (COTR) for the contract with an outside provider or comparable role for an internal provider. Several interviewees commented that having the CIO as the COTR resulted in a slowdown in communications and difficulty in getting changes made. If the CIO "owns" the system and has budget, the CIO should be the principal line of communication with the provider. Of course, a well-functioning CIO/CIO relationship will result in a smooth operation.

During daily operations many user personnel have interactions with provider staff. The user must identify who has the "official" communication with the provider, particularly for budget, issue resolution, and new service items. Usually, the CIO will identify a limited number of individuals to speak or behalf of the user, recognizing when issues must be "bumpied up" to another level of management.

The user organization must also identify how needs and issues of the mission or program organization within the user organization are to be addressed. A formal mechanism should be established (perhaps an agency CIO Council) to discuss and resolve internal needs and priorities. Depending on the issue, the agencywide Investment Review Board may have to approve new activities, others can be undertaken by the CIO and the mission/program entities directly.

Process Reengineering and Process Redesign—What is the Right Time?

A major reason for moving to a shared service environment is to reengineer or redesign the agency's systems and processes. In addition, often the software being used by the provider requires changes in the user business practice. The question arises as to when the agency should implement process changes and/or reengineer major aspects of the financial systems.

In cases where user processes must be changed based on software requirements, they must be changed prior to implementing the shared service environment. If the underlying software must be changed (a rare but potential event), those changes must also be accomplished prior to implementation.

The second type of reengineering or process modifications are those that are discretionary with the agency. For example, an agency may want to modify the point of transaction entry or the agency may have a major reorganization in the planning stage. The literature is mixed on whether the changes should take place before or after implementing the shared service relationship. It is a management judgment decision. Delaying the process change or reengineering may delay the benefits to be achieved from the changes; or the changes may be forgotten or other priorities take their place. On the other hand, implementing the process changes may delay or complicate the shared service implementation.

There are no "hard and fast" rules for when to implement discretionary agency process changes and reengineering efforts. The only rule is that management must evaluate the pros and cons of each alternative and make an informed decision. The business case is an excellent vehicle for presenting the alternatives and a recommendation.

Form a Partnership with Your Provider

The financial management shared service provider serves a vital function for the user, recording, organizing, retaining and reporting financial information. Specific services differ, but a provider organization is an integral part of the user's financial operations and those financial operations are, in turn, vital to the organization's ability to achieve its objectives and goals.

Many in the private sector advocate forming a partnership between the shared service user and the provider. Such a partnership includes the provider in planning and strategic options of the user, so that the provider expertise may be incorporated into decisions and provider capabilities can be tapped for the benefit of the user. Such partnerships may be easier to accomplish when using an internal shared service provider (same management, less risk of loss of confidentiality data). However, many private sector entities incorporate vendors into the customer's strategic decision-making (automobile companies that routinely take advantage of the capabilities of parts suppliers) under confidentiality agreements.

Building partnerships with service providers is less common in the federal environment. Most often, vendors are viewed as providers of a specific service or product according to a specific contract. Anything over and above the specific contract is viewed as an add-on service. Under this arrangement, problems arise when the service provider can provide value to a user by creating a partnership-like environment. The key is a provider that exhibits "institutional awareness" and incorporates an attitude of wanting to work with its customers both on day-to-day and strategic issues.

One interviewee provided an excellent definition of partnership that can serve as a model in a shared service environment—an open relationship, clear communications,
FINANCIAL MANAGEMENT SHARED SERVICES:

willingness to work together and share information and a focus on continuous improvement.

Characteristics of the Partnership Environment include:

- The provider must incorporate a continuous improvement program to reduce its own costs and pass benefits on to the user organization(s).
- The provider should also seek "continuous improvement" of performance (service) for its customers.
- The provider should engage in an active investment program to improve service and/or reduce costs of operations. Because several shared service providers cannot accumulate funds, they should seek other ways to pay for investments. For example, providers could "carve out" a reasonable amount from annual charges for investment (perhaps a small share of staff spending in the future). In addition, accumulated depreciation, used for capital replacement, should be directed to investments that reduce costs. The cost of the investment program should be clearly identified for the user organizations.
- The provider should actively work with each user to help identify how the user can reduce their operating costs. Often the provider staff can look at the user from a different perspective, that is "see the forest, not the trees." Reductions in operating costs can result from using other services available from the provider. For example, one provider told us that the cost of processing a manual invoice is $60 per transaction; an electronic invoice is $2 per transaction.
- Some users, particularly larger users, may have their own internal process improvement teams. Such teams should seek out the advice from the providers as to how the users can reduce costs, improve effectiveness or both.
- In some cases, a user may be asked to fund a specific improvement for its benefit as well as the benefit of the entire customer base, for example new imaging systems.
- Perhaps the area in which the provider can be of most assistance is in helping a customer achieve its goals to "get to green," or meet other financial management or agencywide goals. In the private sector, for example, customers are looking to their financial management shared service providers to help achieve the requirements of the Sarbanes-Oxley Act.

Establishing a partnership between a customer and a provider of financial management services requires thought and effort on both sides. That is out the usual way in which federal agencies operate with provider entities, particularly external providers. The first condition for such a partnership to work is a high level of trust between staff of the organizations and a related ease of working together. There must also be an attitude of "looking around," or "situational awareness" by the provider and a "willingness to listen" by the customer. None of this can be constructed. The relationship matures over time. A key for providers is to nurture and convey its dedication to such partnerships to the user community and the willingness of the user community to accept the partnership concept.

Some have suggested that a large user can "partner" with a shared service provider; however, the small user can establish only a "customer" relationship. It seems that "partnership" is possible with all users; the volume, intensity and activities may differ, but the partnership attitude is important no matter what the size of the user.

Part IV—Suggestion for a Financial Performance Indicator

All federal agencies are required to achieve specified financial milestones to "get to green." However, each measure looks at only one aspect of financial management operations. Private sector entities, however, use a measure of "total cost of financial management per dollar of revenue" to evaluate the overall performance of financial operations. While private organizations strive to reduce this ratio as low as possible (top performers are under 1 percent of revenue), the real value is in reviewing trends for a specific company.

OMB may want to encourage federal agencies to use an overall measure of financial management cost, in combination with the current measures, as a way to evaluate the efficiency and effectiveness of financial operations in an entity. Such a measure could be "cost of financial management operations as a percent of budget." Several questions need to be addressed in establishing such a measure, such as the functions to include in "financial management" (is the budget function included?) and which budget is the base (appropriated budget or total spending, including reimbursable?). In some senses the specific definitions do not matter, as long as the measure is used to evaluate trends within an agency and the definition is consistent year to year. It will take time to develop such a measure so that it is meaningful. However, such a measure provides an overall view of an entity's financial management operations.

Part V—Conclusion: Shared Services for Financial Management Makes Sense

All of the interviews, discussions and literature support the value of shared services. The federal environment represents a unique opportunity and challenge—an opportunity because of the benefits that can be achieved by federal agencies and a challenge because of unique federal contracting requirements. However, the emphasis and focus of OMB toward competition and the MSE concept and the requirements that agencies reduce budget and provide improved financial information for decision-making, all combine to provide confidence that shared services in federal financial management is "right for the times."

Having said that, there remain a number of issues that must be resolved to ensure the concept is successful. Among these issues are the needs for:

AGA Corporate Partner Advisory Group Research
A Guide for Federal Users

- Responsive and comprehensive SLAs
- COEs to be on a comparable basis with regards to ability to manage their finances and to accumulate capital (OMB is working on this issue.)
- Meaningful performance metrics
- Matching of resource use to prices charged
- True cost accounting systems at the providers
- Incentives for performance above expectations and penalties for under-performance
- A focus on customer service by the provider
- Ease of movement between COEs (an OMB initiative)
- Additional COEs only to the extent the "market will bear"
- Sound investment strategies by providers and users
- Establishing an environment of partnership

OMB should allow COEs to go out of business (with available alternatives for their clients) to make the shared services competitive environment realistic. OMB should also encourage more private sector participation to make this a more competitive market.

OMB should also evaluate each agency based on its own particular circumstances and needs and not try to make each entity fit into the same mold. The COE concept makes business sense, but needs a chance to mature. In the meantime, specific agencies may have reason for implementing an alternative shared service option, achieving the same benefits as the COEs.

This research highlights and provides guidance to shared service providers many of the issues they will face in moving to shared services. Experience will provide additional guidance to these and other related issues. OMB and federal entities can nurture the process by continual sharing of information so that all agencies can benefit from both positive and negative experiences.

Part VI—Resource List

Following is a list of publications and websites that might be useful for additional information and research:


Core Financial Systems Requirement Exposure Draft, Office of Federal Financial Management, 2005. (See www.jfhip.gov) (Comments were due on the Exposure Draft on May 6, 2005.)

Bengenmann, Tom Olavi, Shared Services in Finance and Accounting, Gower Publishing Limited, 2005.


Focus on Value: The Case for Shared Services in the Public Sector, Accenture, 2003


Next Generation Outsourcing and Offshoring, Booz-Allen Hamilton, 2003


Shared Services in a Global Economy, 2005 survey results.


Shaping the Future: How outsourcing is being used to change the structure of financial services, IDS Research


FINANCIAL MANAGEMENT SHARED SERVICES:


Supporting the U.S. Department of Defense Through Shared Services, Leavitt, Fugie, American Productivity & Quality Center.


Preparations:


Joint Accounting and Administrative Management System (JAAAMS) and Applications on Demand, Dumassey, T., 2005 JFEMP Conference, March 10, 2005.


Choosing a Financial Services Center of Excellence, Leas, W., 2005 JFEMP Conference, March 10, 2005.


Continuing the journey to optimized performance—Shared Services, Davids, S., Nov. 8, 2004.


Enterprise Services Center, ODT, Financial Management Center of Excellence; Stevens, B. And, Bagian, C., JIBF 11th Annual Government CFO/CIO Program Managers Conference, March 14, 2005.


Websites:


Office of Management and Budget—www.whitehouse.gov/omb

E-gov website—www.whitehouse.gov/egov/

Joint Financial Management Improvement Program (now Financial Systems Integration Office)—www.fmip.gov

Performance Management Institute—www.pmi.org

Department of Treasury, Bureau of Public Debt, Administrative Resource Center (ARC)—http://fis.gov/dot/bpd/treas.gov/3f2chome.htm

Department of Interior, National Business Center (NBC)—www.nbc.gov

Department of Transportation, Enterprise Services Center (ESC)—www.esc.gov

General Services Administration Center of Excellence—www.gsa.gov/fo

ASA Corporate Partner Advisory Group Research
A GUIDE FOR FEDERAL USERS

End Notes


April 28, 2006

The Honorable Todd R. Platts  
Chairman  
Subcommittee on Government Finance, Management, and Accountability  
B-371-C Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Platts:

Thank you very much for the opportunity to testify before the Subcommittee on Government Finance, Management, and Accountability on the subject of the Financial Management Line of Business (FMLOB) on March 15, 2006. Your interest and partnership on this issue are very much appreciated.

In response to the Subcommittee’s FMLOB hearing, enclosed you will find my answers to your questions for the record. I look forward to a continued partnership with you in pursuit of excellent financial management in the Federal Government. Thank you again for all of your efforts.

Sincerely,

Dr. Linda M. Combs, Controller  
Office of Management and Budget
The Honorable Mr. Todd Russell Platts  
Chairman  
Subcommittee on Government Management, Finance, and Accountability  
B-371-C Rayburn House Office Building  
Washington, DC 20515

After the March 15, 2006 testimony on “OMB’s Financial Management Line of Business Initiative: Are We Ready?”, Chairman Platts requested answers to the following questions.

1. In the case of competition between a private sector Center of Excellence (COE) and a Federal agency COE, if the decision is made to go with a Federal COE, is the procurement just cancelled? If so, what recourse does a private contractor have?

At the conclusion of a competition, an agency would be required to publicly announce its award decision in FedBizOpps. If a public (Federal agency) COE were selected, the solicitation for the procurement would not be cancelled. However, a fee-for-service agreement would be awarded instead of a contract. An unsuccessful private sector offeror could file an administrative contest with the agency challenging the award decision.

2. Please indicate whether OMB intends to require the use of the OMB Circular A-76 before non-inherently governmental work that is performed by any number of Federal employees, including ten or fewer, is converted to private sector performance, pursuant to this initiative. (This question also covers situations in which such work might nominally be transferred to a second agency but is actually performed by a contractor to the second agency.) If not, please explain why.

We are developing principles that will be applicable to all migrations. The principles will provide for: (1) the consideration of both public and private sector providers with a demonstrated capability, (2) impartial and transparent competitions, and (3) accountability for results.

The principles anticipate application of Circular A-76 for migrations that are conducted through public-private competitions and involve the potential transition of activities currently performed by more than 10 positions in the customer agency. (OMB will provide a general deviation for public-private competitions involving the potential migration of 10 or fewer positions.) We anticipate some tailoring of the A-76 process for these competitions. For example, there are various ways in which incumbent non-COE in-house providers might participate in a competition. One possible approach might involve a two-step competition. In the first step, the customer might identify the best Federal service provider after comparing the incumbent non-COE in-house provider to the Federal COEs. The best Federal service provider would then compete with private contractors in the second step. We intend to work with agencies to determine the best approach for considering in-house providers and tailor deviations as necessary and appropriate. We will also consider other deviations on a case-by-case basis in accordance with section 5.c. of the Circular.

3. If Circular A-76 is to be changed or adapted for this initiative, please identify and discuss those changes.

As described in the response to Question no. 2, some tailoring of the Circular’s processes is anticipated through the issuance of deviations.
4. If the circular is to be discarded for purposes of the initiative, please identify and discuss alternative process.

OMB does not intend to discard Circular A-76. However, as described in the response to Question no. 2, some tailoring of the Circular’s processes is anticipated through the issuance of deviations.

5. If OMB Circular A-76 is to be discarded or changed for purposes of this initiative, will the alternative process or the changed A-76 circular be consistent with the laws established to require public-private competition before conversion to contractor performance, including the provisions that were included in the FY 06 Transportation-Treasury-HUD Appropriations Bill (Section 842) and specifically for the Department of Defense the provisions in the FY06 Defense Appropriations Bill (Section 8014) and the FY 06 Defense Authorization Bill (Section 341)?

OMB’s migration guidance will be consistent with laws affecting public-private competitions.

6. Will any public-public or public-private competitions occurring as a result of this initiative allow the incumbent in-house work to compete? Or will participation in such competition be restricted to contractors and other Federal agencies?

If a public-private competition involves the potential migration of more than 10 positions, the incumbent in-house provider would be considered as part of the competition process. (See the response to Question no. 2 addressing the consideration of a non-COE incumbent.)

If a public-private competition involves 10 or fewer positions, the agency would have the discretion to restrict the competition to public and private COEs. The agency would also have discretion to restrict participation to COEs in a public-public competition.

7. In the event consideration for a particular consolidation occurring is restricted to other Federal providers, please indicate in what circumstances there would be competition and what process would be used. If competition is not used in such circumstances, please indicate what, if any, analysis an agency would be required to complete before consolidating a function in another agency.

OMB strongly favors competitive migrations through public-private competition. We do not envision competitive migrations for financial management that are restricted to Federal COE’s (i.e., public-public competitions). If a public-public competition is justified, it will be subject to general principles of fairness, just as we will expect in a public-private competition. Non-competitive migrations and migrations through other than public-private competition (including public-public competitions) would be justified in a manner similar to that required under Part 6 of the Federal Acquisition Regulation for sole source or restricted competitions (e.g., a description of the market research conducted and the results; a listing of the sources that expressed an interest in the migration).

Non-competitive migrations would be subject to a formal alternative analysis documented in a manner similar to that specified in Exhibit 300 of OMB Circular A-11, Part 7.

8. The CFO Act and FFMA have been focused on the Departments level. How do we ensure that after years of trying to centralize and integrate administrative systems and functions within the large departments we do not re-fragment these functions? For example, a department using various COE’s could conceivably have some functions in-house and various others affecting daily operations in the hands of multiple providers (e.g., general ledger, travel, procurement, purchase card, payroll, reporting, etc.) How do we avoid creating new “stovepipes”?
A Department needs to identify its options and develop a plan that is consistent with its Enterprise Architecture. For financial management shared services, the CFO (and senior leadership in other areas) must work in conjunction with the CIO to ensure that fragmentation does not occur.

9. **Do you envision the private sector COE’s providing full service financial management (accounting, internal controls, etc.) or simply hosting systems?**

Yes, we envision private sector COE’s providing full service financial management activities (e.g., hosting, application management, and accounting). However, the level and types of services offered by private sector shared of services will be determined by the business needs of the customer.
April 28, 2006

The Honorable Todd R. Platts
Chairman
Subcommittee on Government Finance, Management, and Accountability
B-371-C Rayburn House Office Building
Washington, DC 20515

Dear Chairman Platts:

Thank you very much for the opportunity to testify before the Subcommittee on Government Finance, Management, and Accountability on the subject of the Financial Management Line of Business (FMLOB) on March 15, 2006. Your interest and partnership on this issue are very much appreciated.

In response to the Subcommittee’s FMLOB hearing, enclosed you will find my answers to your questions for the record. I look forward to a continued partnership with you in pursuit of excellent financial management in the Federal Government. Thank you again for all of your efforts.

Sincerely,

[Signature]

Dr. Linda M. Combs, Controller
Office of Management and Budget
The Honorable Mr. Todd Russell Platts  
Chairman  
Subcommittee on Government Management, Finance, and Accountability  
B-371-C Rayburn House Office Building  
Washington, DC 20515

After the March 15, 2006 testimony on "OMB’s Financial Management Line of Business Initiative: Are We Ready?", Chairman Platts requested answers to the following questions.

1. In the case of competition between a private sector Center of Excellence (COE) and a Federal agency COE, if the decision is made to go with a Federal COE, is the procurement just cancelled? If so, what recourse does a private contractor have?  
   At the conclusion of a competition, an agency would be required to publicly announce its award decision in FedBizOpps. If a public (Federal agency) COE were selected, the solicitation for the procurement would not be cancelled. However, a fee-for-service agreement would be awarded instead of a contract. An unsuccessful private sector offeror could file an administrative contest with the agency challenging the award decision.

2. Please indicate whether OMB intends to require the use of the OMB Circular A-76 before non-inherently governmental work that is performed by any number of Federal employees, including ten or fewer, is converted to private sector performance, pursuant to this initiative. (This question also covers situations in which such work might nominally be transferred to a second agency but is actually performed by a contractor to the second agency.) If not, please explain why.
   We are developing principles that will be applicable to all migrations. The principles will provide for: (1) the consideration of both public and private sector providers with a demonstrated capability, (2) impartial and transparent competitions, and (3) accountability for results.

   The principles anticipate application of Circular A-76 for migrations that are conducted through public-private competitions and involve the potential transition of activities currently performed by more than 10 positions in the customer agency. (OMB will provide a general deviation for public-private competitions involving the potential migration of 10 or fewer positions.) We anticipate some tailoring of the A-76 process for these competitions. For example, there are various ways in which incumbent non-COE in-house providers might participate in a competition. One possible approach might involve a two-step competition. In the first step, the customer might identify the best Federal service provider after comparing the incumbent non-COE in-house provider to the Federal COEs. The best Federal service provider would then compete with private contractors in the second step. We intend to work with agencies to determine the best approach for considering in-house providers and tailor deviations as necessary and appropriate. We will also consider other deviations on a case-by-case basis in accordance with section 5.c. of the Circular.

3. If Circular A-76 is to be changed or adapted for this initiative, please identify and discuss those changes.

As described in the response to Question no. 2, some tailoring of the Circular’s processes is anticipated through the issuance of deviations.
4. If the circular is to be discarded for purposes of the initiative, please identify and discuss alternative the process.

OMB does not intend to discard Circular A-76. However, as described in the response to Question no. 2, some tailoring of the Circular’s processes is anticipated through the issuance of deviations.

5. If OMB Circular A-76 is to be discarded or changed for purposes of this initiative, will the alternative process or the changed A-76 circular be consistent with the laws established to require public-private competition before conversion to contractor performance, including the provisions that were included in the FY 06 Transportation-Treasury-HUD Appropriations Bill (Section 842) and specifically for the Department of Defense the provisions in the FY06 Defense Appropriations Bill (Section 8014) and the FY 06 Defense Authorization Bill (Section 341)?

OMB’s migration guidance will be consistent with laws affecting public-private competitions.

6. Will any public-public or public-private competitions occurring as a result of this initiative allow the incumbent in-house work to compete? Or will participation in such competition be restricted to contractors and other Federal agencies?

If a public-private competition involves the potential migration of more than 10 positions, the incumbent in-house provider would be considered as part of the competition process. (See the response to Question no. 2 addressing the consideration of a non-COE incumbent.)

If a public-private competition involves 10 or fewer positions, the agency would have the discretion to restrict the competition to public and private COEs. The agency would also have discretion to restrict participation to COEs in a public–public competition.

7. In the event consideration for a particular consolidation occurring is restricted to other Federal providers, please indicate in what circumstances there would be competition and what process would be used. If competition is not used in such circumstances, please indicate what, if any, analysis an agency would be required to complete before consolidating a function in another agency.

OMB strongly favors competitive migrations through public-private competition. We do not envision competitive migrations for financial management that are restricted to Federal COE’s (i.e., public-public competitions). If a public-public competition is justified, it will be subject to general principles of fairness, just as we will expect in a public-private competition. Non-competitive migrations and migrations through other than public-private competition (including public-public competitions) would be justified in a manner similar to that required under Part 6 of the Federal Acquisition Regulation for sole source or restricted competitions (e.g., a description of the market research conducted and the results, a listing of the sources that expressed an interest in the migration). Non-competitive migrations would be subject to a formal alternative analysis documented in a manner similar to that specified in Exhibit 300 of OMB Circular A-11, Part 7.

8. The CFO Act and FFMA have been focused on the Departments level. How do we ensure that after years of trying to centralize and integrate administrative systems and functions within the large departments we do not re-fragment these functions? For example, a department using various COE’s could conceivably have some functions in-house and various others affecting daily operations in the hands of multiple providers (e.g., general ledger, travel, procurement, purchase card, payroll, reporting, etc.) How do we avoid creating new “stovepipes”?
A Department needs to identify its options and develop a plan that is consistent with its Enterprise Architecture. For financial management shared services, the CFO (and senior leadership in other areas) must work in conjunction with the CIO to ensure that fragmentation does not occur.

9. Do you envision the private sector COE’s providing full service financial management (accounting, internal controls, etc.) or simply hosting systems?

Yes, we envision private sector COE’s providing full service financial management activities (e.g., hosting, application management, and accounting). However, the level and types of services offered by private sector shared of services will be determined by the business needs of the customer.