By David A. Fitz, CGFM, CPA, PMP; Steve A. Johnson, CGFM, CPA, CGMA; and Jeffrey C. Steinhoff, CGFM, CPA, CFE, CGMA
While federal agencies’ missions may greatly differ, they have in common the stark realities of current spending pressures, an unsustainable long-term fiscal future, and ever-growing expectations for accountability, transparency and improved performance. At the same time, they have opportunities to leverage information technology (IT) in ways not imaginable even 10 years ago, much less decades ago when most agency financial management systems were conceptualized.

Against this backdrop, there is emerging acceptance that basic financial management systems and operations simply do not need to be tailored to each agency. Yes, one size can fit all! The barriers to changing a culture that has perpetuated development and maintenance of expensive, customized financial management systems and operations are being whittled away. As a matter of financial necessity, agencies are now more amenable to moving to shared service providers (SSPs) and common systems for administrative operations, and the Office of Management and Budget (OMB) has been turning up the heat to do so. Faced with reducing program costs or paring overhead costs, agencies will — first and foremost — preserve program dollars.

This article explores the challenges faced in moving to SSPs and letting go of day-to-day administration of basic accounting functions that have long characterized federal financial management.

The Journey to Shared Finance Services and Standardization

High-performing finance organizations effectively manage and reduce time spent on transaction processing and other routine operations to focus on higher value-added activities, such as financial analysis and managerial cost accounting. They standardize, streamline, simplify and outsource basic finance activities to the fullest extent practical.

This journey began in earnest in 1995, when the Joint Financial Management Improvement Program (JFMIP) issued the Framework for Federal Financial Management Systems; followed by the Federal Financial Management System Requirements (FFMSR). The Framework provided a system architecture, including feeder systems operating in program areas that interface data to core accounting systems to form the financial management system. The FFMSR identified standard business requirements for various feeder systems and the core accounting system. The result was expansion of off-the-shelf systems, developed by the private sector for government around compliance with JFMIP requirements, which were then customized to varying degrees to meet specific agency requirements.

In 2001, among 24 e-government initiatives — part of President Bush’s Management Agenda — were ePayroll and eTravel, which required agencies to outsource their payroll and travel systems to approved SSPs. Today, there are four payroll providers for the entire federal government, dramatically reducing processing costs.

The success of these initiatives was followed by the Line of Business (LOB) initiative in 2004. The goals were to improve agency mission performance, reduce costs through consolidation and standardization, and simplify service delivery for both customer-facing and back-office operations. A key initiative was the Financial Management Line of Business (FMLOB) — launched in 2004. OMB envisioned shared service solutions to not only enable economies of scale, but to reduce the risks and costs of individual agency systems implementations.

In December 2004, OMB created the Financial Systems Integration Office (FSIO) to manage the financial systems requirements and certification processes and to lead FMLOB initiatives. Among FSIO’s accomplishments was development of:

- a standardized data framework — the Common Government-wide Account Classification Structure (CGAC);
- a Due Diligence Checklist identifying minimum requirements for SSPs;
- Migration Planning Guidance for movement to SSPs;
- standard business processes for funds, payments, receivables, reimbursables and reporting management.

President Obama subsequently echoed the call for shared services and standardization. In January 2009, OMB revised Circular A-127, Financial Management Systems, requiring:

- compliance with CGAC;
- adoption of the standard business processes; and
- movement to SSPs instead of upgrading systems, although certain exceptions allowed many large agencies to continue to maintain their own systems.

This was followed in March 2010, with the launch of the Office of Financial Innovation and Transformation (FIT) at the U.S. Department of the Treasury (Treasury), which replaced FSIO. FIT assists OMB in leading the financial management system strategy, including migration to shared services and government-wide system solutions.
In June 2010, OMB issued Memorandum (M)-10-26, halting all new procurements for financial system projects and requiring review of financial systems for ongoing implementations with more than $20 million in planned spending and other high-risk financial system projects. OMB had concerns that, in addition to being too costly and complex, these projects delivered solutions that were not meeting business needs. It directed agencies to break projects into smaller segments, taking no longer than 90 to 120 days to complete, and with clearly defined deliverables. Each task would be reviewed and funded separately, requiring agencies to prioritize requirements, demonstrate results and provide greater transparency. Also, FIT reviewed the increased use of centralized financial management services to assist portions of end-to-end business processes, such as use of the Internet Payment Platform (IPP) to establish a central electronic invoicing platform.

In May 2012, the federal government’s Chief Information Officer (CIO) released the Federal IT Shared Services Strategy (SharedFirst) policy to increase use of shared services to deliver IT across mission and support activities, including financial systems. SharedFirst identified critical success factors and included an IT migration strategy.

On March 25, 2013, OMB further raised the bar with the issuance of M-13-08, Improving Financial Systems Through Shared Services, which:

- Requires use of shared services, with limited exceptions, for core accounting and feeder systems modernizations
- Establishes an assessment process to identify capabilities and gaps of existing SSPs
- Provides for assessment and feedback by FIT of agency proposals for new systems
- Outlines an approach to design and implement improvements to the current SSP framework, including expanded capabilities and enhanced governance

AGA’s Federal Financial Systems Summit Provides a View of the Way Forward

AGA’s January 2013 Federal Financial Systems Summit addressed near-term and future prospects of federal financial management systems from the perspective of key policymakers at OMB and Treasury, federal agency stakeholders, and private-sector participants. Five bottom-line messages were delivered in AGA’s Executive Report from the Summit:

1. OMB and Treasury communicated renewed commitment to migrating to federal SSPs.
2. A government-wide deployment strategy is under development, with significant attention to define the governance model — the tools and standards needed to transition to shared services.
3. Confidence exists to show that SSPs can deliver results, cost efficiencies, and quality services.
4. Underlying business systems are now sufficiently advanced to enable — rather than hinder — transition to SSPs.
5. The success of shared service models is highly dependent on strong leadership and rigorous governance.

For those working in federal financial management over the past two decades, this might seem like déjà vu. What will be different today that will achieve principles for which solutions have been largely elusive in the past? What can we learn from history that will help us succeed this time, since “those who cannot remember the past are condemned to repeat it?”

We are guardedly optimistic that change of this magnitude can be achieved because of the foundation laid over two decades since enactment of the CFO Act of 1990 and dramatic advancements in IT during the same period. Agencies have successfully transitioned from legacy mainframe-based systems to client server-based systems to Web-enabled systems, and are now moving to the “cloud.” A major roadblock to shared services and standardization in the past has been the fear of loss of control, but as AGA’s Systems Summit reported, “Moving to SSPs does not represent the CFO losing control. Rather, it represents the opportunity for the CFO to shed operational activities and focus on improving the business of government.”

We can learn from history, but we will need to address not only the technical challenges and scale of change required, but also the transformative nature of change of this magnitude. Deeply embedded methods of doing business will need to be closely scrutinized, and perhaps significantly redesigned and new organizational cultures developed.

Following are 10 action items to help guide the journey.

1. Benchmark current performance: Ask basic questions about your performance, costs and needs to provide a baseline to help assess SSPs’ capabilities to meet your needs. What are your business benchmarks, such as transactions processed, average end-to-end processing times, rework and cost? How much risk are you willing to accept to set the proper balance between control and cost? What information is routinely needed that is not readily available today?
Which activities preserve value but do not create value, while taking up a disproportionate share of resources? Do you know what it’s costing to execute activities and how this compares to SSP costs? Have you assessed your future human capital needs and the knowledge, skills and abilities of finance staff?

**2 Target pain points:** What causes you to lose sleep? Are your systems overly labor-intensive that require extensive, costly manual interventions and reconciliations? What are areas of improvement in business processes, controls, systems and data, especially nagging problems involving outdated systems and business operations? Can SSPs help strengthen these areas, while reducing costs?

**3 Assess standardization and CGAC adherence:** Business processes performed differently and data inconsistently presented across the organization are candidates for standardization. Eliminate unique processes, unless there is a compelling reason for not standardizing, such as national security. (These cases should be rare and the bar high in justifying non-standardization.)

Any discrepancies between data elements in the core accounting system, the CGAC, and the feeder system interfaces should be documented and discussed with potential SSPs. From the AGA Federal Financial Systems Summit Executive Report, “Although sometimes a luxury, common data structures will ease the transition to shared services and lower the cost of future changes.”

**4 Streamline and re-engineer on the front end:** What are you doing that you really do not need to do? Which processes and controls have outlived their usefulness? It’s not about shifting work to someone else, but prioritizing work that truly needs to be accomplished and determining whether that work can be cost effectively outsourced. Our view is that agencies may have far too many controls in some areas that inhibit effectiveness and efficiency. For example, more than 70 types of travel and 2,000 pages of sometimes contradictory rules and regulations made the U.S. Department of Defense’s travel system unworkable. It plans to replace these policies — "which were written to cover every possible permutation of travel" — with travel policies that are simple to understand, easy to administer and leverage industry travel capabilities.

**5 Develop business cases:** This process helps in considering alternatives and documenting the rationale for the decision. Business cases would typically include alternatives to analyze the benefits, risks and costs. While they do not select a provider, they do identify the best strategic path and scope to meet agency needs.
6 Establish a governance framework: Is your governance framework appropriate for movement to SSPs and standardization? Expectations and lines of authority must be clear and enforceable. The organizational structure must be adaptable to change, and changes should be anticipated for effective, efficient and timely implementation. Finally, there should be formal SSP service level agreements (SLA) that include:

- Period of performance;
- Roles and responsibilities;
- Expected level of SSP performance, including quality standards;
- Expected level of agency performance, including data transmission requirements; and
- Requirements for audits under Statement on Standards for Attestation Engagements (SSAE) No. 16, whereby independent auditors issue Service Organization Compliance reports on the adequacy of computer security and any other matters of interest to the agency.28

7 Incorporate change management: Agencies have learned how to make their systems work within their environments and cultures. With large-scale change, the status quo can be turned upside down. Naturally, there is a fear of the unknown. Seismic shifts in the role and culture of the finance organization must be carefully orchestrated. Prior to SSP migration, realign organizational components and train staff for new roles. Everyone must understand their contribution to organizational success under a new business model that moves to a more strategic and analytic role while transitioning basic transaction processing to SSPs.

8 Develop relationships: Understand the range of SSP services and how they align with the agency’s business operations, as well as SSP customer satisfaction track records. Discussions with SSPs, early and often, allow both sides the opportunity to understand each other’s business goals, operations and migration time frames as part of the planning process.

9 Clean up the data: What you send the SSP is what you are going to get back. Data cleansing — and keeping it clean — is important to implementing any new system, and in the case of SSPs, migrating to a new system.

10 Leadership, leadership and more leadership: You will need a strong leadership team — acting on behalf of the Secretary — with a clear mandate, aggressive timelines, empowerment to make and enforce tough decisions, resources to invest in changes with a strong return on investment and accountability for results. From the AGA Federal Financial Systems Summit Executive Report, “Successful modernization efforts are 90 percent leadership, 10 percent technology.”

The Role of the SSPs in Supporting Migration

We talked about what agencies need to do to make SSP solutions and standardization realities, but there are two sides to the equation. We will now explore the role of agency SSPs in supporting migration and continually providing high-quality, reasonably-priced services. While federal SSPs are part of federal agencies, they cannot expect a captive audience or that all agencies will want to migrate to a service provider. Federal SSPs will have to be entrepreneurial and operate like private sector businesses.

1 Re-evaluate and strategically market services: As with any business, economies of scale help hold down costs and provide capital to upgrade services. SSPs should periodically re-evaluate service offerings and customer needs, including software versions. They want to stay ahead of the curve with an eye to both current and emerging needs. Their business model has to be up-to-date, considering the element of competition and need to remain relevant, with high-quality services that hit the mark in terms of customer needs and expectations. SSPs should target new customers that fit their business model and demonstrate how their services could assist the agency. SSPs must be able to provide agencies tangible information for alternatives analyses and business case development. In other words, they must sell the value of their services.

2 Continually evaluate customer service and service levels: Keeping existing and future customers satisfied with exceptional service at reasonable costs is critical to the SSPs’ ongoing success, just like any private sector organization that wants to stay in business. In this era of performance-based contracts, SSPs should be open to including performance incentives and penalties in SLAs. This means that SSPs must be able to provide meaningful metrics for each customer, not just an overall service level average. Bill Gates said it best, “Your most unhappy customers are your greatest source of learning.”
Focus on costs: Cost will be the primary reason agencies migrate to SSPs. This is especially true for larger agencies, which limit use of SSPs and invest in their own systems. SSPs must know the true cost of delivering service and carefully manage cost. Driving out overhead will be an imperative, as in private sector companies. SSPs need to have a clear understanding of future investment needs to ensure systems and services remain current. They must recover investments in systems, similar to depreciation, so funds are available to re-invest in system upgrades and new services.

Assess IT scalability and computer security: To accommodate medium and large agencies, SSPs should assess IT scalability and ensure their cloud environment can sufficiently handle anticipated demand. SSPs must have strong IT security and an environment that protects systems and data from breach, while providing agencies flexibility to manage and access their information using enterprise tools. SSPs should have annual SSAE No. 16 audits over computer security, as well as, their own continual monitoring.

Differentiate your service from other SSPs: Besides offering different software versions, how much differentiation exists among SSPs, especially those providing “commodity” services? While there may be some market analysis and perceptions in the federal marketplace around each SSP, does one stand out as a market leader? Finding ways to meaningfully differentiate software options and services enable SSPs to stand apart from the crowd. And, if an SSP lacks clear market differentiation, should it consider alternative products, pricing, terms, services and support to attract customers? Or, more strategically, should it reorganize, merge or consolidate to gain more diverse product offerings or greater economies of scale?

Manage growth: SSPs must remain vigilant in managing growth, planning for expansion and not becoming overextended. Bringing on large agencies and expanding services, such as transaction processing and loan servicing, are examples of what SSPs must be prepared to address. Have contingency and migration plans, and guard against overextending by taking on multiple large migrations at once. In particular, large agencies may be wary of using SSPs to any great extent for core accounting functions, so migration challenges can be exacerbated if there are problems at the outset.

For more information: info@usfti.com

SBA 8 (A) CERTIFIED | GSA FABS 520 CONTRACT HOLDER

Accounting | Audit & Assurance | Audit Readiness & Remediation | Internal Controls | Financial Reporting | Policy & Procedures Documentation | Process Improvement

We offer economical solutions to streamline and support your operations so that you can fulfill your financial and performance requirements and still have time for other priorities.
The stars are aligning in the evolution of shared services. Agencies have made major strides in improving all aspects of finance operations since passage of the CFO Act, including embracing shared services in selected areas. In a world of ever-increasing accountability and transparency, standardization and leveraging economies of scale can enable CFOs to drive out costs and focus on activities that create greater value and support the accomplishment of agency missions more effectively and efficiently, especially in times of fiscal restraint. The time is right to take up the banner and move to shared services. Yes, one size can fit all! 1

End Notes
3. Established under the Budget and Accounting Procedures Act of 1950 (31 USC 65) as a collaborative effort between OMB, Treasury, GAO and the Office Personnel Management to improve federal financial management.
4. Issued in 1995, the Framework document presents an integrated financial management system that supports budget, accounting, and cost needs essential for management needs. He started his career as an accountant at the U.S. Department of Commerce and today serves many CFO Act agency clients for KPMG.

for the KPMG Government Institute. He leads the delivery of business and technology solutions to KPMG’s federal clients, helping them address their management challenges and information needs. He started his career as an accountant at the U.S. Department of Commerce and today serves many CFO Act agency clients for KPMG.

10. FSIO ceased operation in March 2010 with the establishment of OFIT (see endnote 16)
11. CGAC – uniform structure for capturing financial effects of business activities, including data elements for internal and external reporting, July 2007
12. OMB, FMLOB SSP Due Diligence Checklist, Version 4.0, August 2007
13. OMB, Migration Planning Guidance, September 2006
16. Joint effort of OMB and Treasury to provide Web-based technology to improve financial management performance, while reducing cost and duplication
18. A Web-based network to process transactions between agencies and suppliers from purchase order through payment set up and run for Treasury by the Federal Reserve Bank of Boston

10. FSIO ceased operation in March 2010 with the establishment of OFIT (see endnote 16)
11. CGAC – uniform structure for capturing financial effects of business activities, including data elements for internal and external reporting, July 2007
12. OMB, FMLOB SSP Due Diligence Checklist, Version 4.0, August 2007
13. OMB, Migration Planning Guidance, September 2006
16. Joint effort of OMB and Treasury to provide Web-based technology to improve financial management performance, while reducing cost and duplication
18. A Web-based network to process transactions between agencies and suppliers from purchase order through payment set up and run for Treasury by the Federal Reserve Bank of Boston
22. George Santanyana, noted philosopher, essayist, poet and novelist, who lived from 1863 to 1952
24. A general term for delivery of hosted IT services on a shared platform over the Internet
28. SSAE No. 16, Reporting on Controls at a Service Organization, issued by the American Institute of Certified Public Accountants and effective for periods ending on or after June 15, 2011

10. FSIO ceased operation in March 2010 with the establishment of OFIT (see endnote 16)
11. CGAC – uniform structure for capturing financial effects of business activities, including data elements for internal and external reporting, July 2007
12. OMB, FMLOB SSP Due Diligence Checklist, Version 4.0, August 2007
13. OMB, Migration Planning Guidance, September 2006
16. Joint effort of OMB and Treasury to provide Web-based technology to improve financial management performance, while reducing cost and duplication
18. A Web-based network to process transactions between agencies and suppliers from purchase order through payment set up and run for Treasury by the Federal Reserve Bank of Boston
22. George Santanyana, noted philosopher, essayist, poet and novelist, who lived from 1863 to 1952
24. A general term for delivery of hosted IT services on a shared platform over the Internet
28. SSAE No. 16, Reporting on Controls at a Service Organization, issued by the American Institute of Certified Public Accountants and effective for periods ending on or after June 15, 2011