

Financial Management Shared Services: *A Guide for Federal Users*

**AGA CPAG Research Series:
Report No. 2**

July 2005

ACKNOWLEDGEMENTS

About the Author

Irwin T. (Ted) David, CGFM, CPA, performed the research for this study and prepared this research report. He is a retired partner with Deloitte and Touche (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]

Sponsor: AGA is Proud to Recognize the Firm Supporting this Effort:



Business Consulting Services

IBM is a registered trademark of the International Business Machines Corporation

Corporate Partner Advisory Group Leadership

Chairman

Hank Steininger, CGFM, CPA

Managing Partner, Global Public Sector,
Grant Thornton LLP

Vice Chairman

John Cherbini, CGFM, CPA

Partner, KPMG LLP

CPAG Research Liaison

Dennis J. Fischer, CGFM

Grant Thornton LLP

AGA Professional Staff

Relmond Van Daniker, DBA, CPA

Executive Director

Anna D. Gowans Miller, MBA, CPA

Director of Research

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 creating 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 Relmond Van Daniker, 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 partnership 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

<i>Figure 1: Definitions Used in Research</i>	6
A Bit of History	6
The Current Landscape for Shared Services	8

Part III—Guidance for Users of Financial Management Shared Services 8

You Are Responsible for Your Information	8
It's All About Management Support—No, It's About Management Leadership	9
<i>Figure 2: Required Characteristics for Project Managers</i>	10
Formally Justify the Shared Service Decision—the Business Case	10
<i>Figure 3: Typical Business Case Topics</i>	11
Know and Specify Your Requirements	12
<i>Figure 4: Decision Criteria Expressed by Interviewees</i>	13
Focus on Results	13
Know What You Are Getting and Get It In Writing	14
<i>Figure 5: Contents of Typical Service Level Agreement</i>	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 Contractors	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—Suggestion for a Financial Performance Indicator 20

Part V—Conclusion: 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 using or considering the use of shared services. While many agencies have made use of the shared services concept in the past, all agencies are now 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 competitors.

The objective of this project is to provide guidance to federal users of financial management operations shared services in 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 in-house (captive) 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.

Interviewees and the literature indicate that sharing of financial management services can be a very positive strategy to achieve “economies of scale and of skill.” 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, worse 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 interviewee 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 to 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 champion, 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 300, requires a business case for all capital improvements and for IT projects, including shared service financial systems. Agencies should leverage the Exhibit 300 requirements and use the business case process to enable management to make informed decisions on adapting a shared service strategy. The research highlights 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 services are 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 interviewees (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 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 In Writing**—The literature and interviewees 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 related to the resource 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 failures due, in large measure, to inadequate planning. Three specific planning areas that 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 interviewee also described an innovative approach, using contractors to free up 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 “protect 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 voices heard 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 discretionary reengineering or redesign initiatives. Factors for consideration in making the timing decisions are described.
- **Form a Partnership with Your Provider**—One interviewee 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—one feature 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 resolved to ensure success of the concepts 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 “heroic efforts”); resolve reportable conditions and material weaknesses in internal controls; achieve “green” on the President’s Management Agenda scorecard;¹ 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 agencies²) 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 Leiss, “economies of skills.” OMB has embraced the concept of shared services in financial management through its Financial Management Line of Business (FMLOB), one of six “Lines of Business,”³ 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.

FINANCIAL MANAGEMENT SHARED SERVICES:

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

Figure 1: Definitions 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 other services) to other entities efficiently and effectively, either within the confines of a single federal agency or across agencies. Providers may be:

- **In-House (Captive) Providers**—Provide services only to agencies and entities within their own department or bureau. In-house providers usually result from consolidation of financial activities in the organization.
- **External Federal Providers**—Organizations (Centers of Excellence) that provide services to federal organizations outside of their own “home or host” agency, as well as to some or all mission/program 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 customer or client. Users are typically the CFO and the mission/program organizations 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.⁴ Thus, this is the first research solely devoted to federal users of shared financial management operations, melding best practices of the private sector with federal experiences to provide guidance and best practices for users.

A Bit of History

Shared services for federal 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 internal shared services for financial operations since the early 1990s.⁵ 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.⁶ (The federal government does not “offshore” services.) Private sector use of financial operations shared services has resulted in significant cost reductions and productivity improvements.⁷

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 338 offices (now down to 26 offices)⁸ 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 mission effectiveness.”

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.⁹

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 upgrade) seriously consider using one of the COEs or a private sector provider, in lieu of retaining 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/files/fshome.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/cfo

A GUIDE FOR FEDERAL USERS

Each COE has completed OMB's due diligence checklist for COEs.¹⁰ 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 COE 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 noncabinet CFO Act agency and a bureau of another CFO Act agency are served by the COEs. The other nonhost agency clients of the COEs are small executive and legislative branches agencies.¹¹

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 costs of building the infrastructure for each new client; 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 internal controls. This, in turn, helps the customers 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 authorization. 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 fees. This difference may make for an uneven playing field for the COEs as they compete for business. OMB is examining the legislative authorizations 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).¹² One 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 system-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 JFMIP and the Office of Federal Financial Management, including general ledger, receivables, payment, cost and funds management and financial reporting. (A 2005 draft revision also includes “Funds Balance With Treasury” management.)¹⁵

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 feeder systems, to OMB mandated e-payroll and e-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 the hardware and for financial systems software (the infrastructure platform). In this scenario, the provider is responsible for the hardware capacity and capability, maintenance, specified levels of “up-time,” systems software, operation of the financial software, security, configuration management, disaster recovery and all related activities. However, the user executes the system (typically remotely), including 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 someplace 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 they reach a point of diminishing returns in their 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 300 staff.¹⁴ Thus, issues could arise when the COEs are handling the volume, complexity and the workload of major agencies. OMB and the agencies should very 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 anticipate significant benefits from use of both internal and external providers. Many agencies we talked to reported impressive operating and/or transition cost savings—for 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 \$5 billion over the next 10 years through consolidation of financial management and human resources management.)¹⁵

Other benefits cited by interviewees included:

- Financial staffs were better able to focus on financial analysis and on providing decision support and performance measure information for agency management. The focus of financial staff to agency management issues, rather than nitty-gritty financial operations, assisted the CFOs in those agencies “get a seat at the (management) table.”¹⁶
- 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 agencies used different coding schemes. These differences were highlighted and resolved by the consolidation effort. This in turn results 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, trend analyses and 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 “food 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.¹⁷

You Are Responsible for Your Information

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

provider is processing the information, or providing a platform for you to process the information, does not in any way allow you as the user to abdicate responsibility for it. Even if the shared service provider performs all financial operations for a user, the user remains responsible 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 bureau 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 service operation. 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 organization 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 merge operational excellence with the analytical capability necessary to support a federal entity.

This example highlights the mandate that the user must be responsible for the true management aspects of financial management, including policy-setting, strategic planning, data and financial analysis, audit, decision support and reporting to 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.”¹⁸

One key capability of the CFO and the financial organization is to employ one or more individual(s) 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 closes the books, prepares reports, deals with over- or 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 intricacy 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, divert resources—at least 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 improved financial management, using the competitive market as one vehicle for such improvement. The administration’s emphasis must be imbued in political and career leadership of federal entities. Top management must internalize the need for improved financial management and demonstrate that commitment throughout the organization. Because the tenure of political appointees are relatively short, this and future administrations must continue a strong emphasis on top-notch financial management.

Top management, starting 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.

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 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; ensure that “stars” are assigned to the implementation, including top staff from the program 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, irrespective 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 under-funded 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 progress 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 the 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 CFO is the “eyes and ears” of the secretary and provides guidance and counsel to the secretary so he or she can accomplish the tasks described above. Project champions come from 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.¹⁹ 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 Institute²⁰ 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 Managers

- 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 from one subject to another, getting into the detail of various parts of the action when necessary).
- Flexible, Determined, Enthusiastic, Personable, Good Cheerleader
- Knows the organization and know how to maneuver through it.

Source: Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S., *Shared Services: Adding Value to The Business Units*, 1999, pp. 217-218.

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 Service 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 case²¹ 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.²²

A GUIDE FOR FEDERAL USERS

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

Figure 3: Typical Business Case Topics

- Current situation and business issues—motivation to change; the “burning platform”
- Baseline of current operations
- Benchmarks against comparable organizations
- Vision for financial systems and processes, including the role of shared services; conformity to OMB Circular A-127
- Life cycle costs/budget*
- Security and privacy issues and disaster recovery*
- Performance goals/metrics*
- Acquisition strategy*
- Program management*
- Enterprise architecture,* conformity to OMB Circular 130
- Performance-based management system*
- Support for the President’s Management Agenda*
- Alternatives analysis*
- Risk management*
- Anticipated benefits, recommendations and action plan
- Relation to overall capital/ IT plan
- Anticipated staff issues
- People/skill set requirements
- Implementation approach and timetable

* Topics evaluated by OMB in review of the business case portion of Exhibit 300.

Sources: Circular A-11, Part 7, Planning, Budgeting, Acquisition and Management of Capital Assets, Executive Office of the President, Office of Management and Budget, July, 2004; Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S. *Shared Services: Adding Value to The Business Units*, 1999; and interviews.

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. While 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? Interviewees shared a number of reasons for embarking on shared services, most revolving around the themes of cost reduction and modernizing financial systems.
- Involve all stakeholders, including the CIO and the mission/program bureaus 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 receptive 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 of the agency’s decision.
- 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 often 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 outsiders are experienced 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.

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 success 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; several 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 user. All entities require the basic (core) financial services and capabilities—a system that complies with the requirements of JFMIP (and its successor), is SGL-compliant at the transaction level, provides monthly and quarterly Treasury and OMB reports, provides information for quarterly and annual financial statements, and 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. capabilities? To what extent will the provider support the user’s budget execution and funds control processes? How about budget formulation? The user should specify which e-payroll and e-travel system it is using; the provider may have to build an interface.
- How does the user want the services delivered—hosting only, full accounting operations or another alternative? Many small agencies use the complete accounting services. As more larger agencies use the COEs, there may be more of a tendency to move toward the “hosting” capabilities.
- 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 tentatively determines the preferred provider. Prior to final contracting, such potential modification 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 abide by this principle. However research indicates that it is possible to be a bit more sanguine about changing software. If a thorough cost/benefit of software modifications versus process changes is performed and if the provider has good configuration management, then there should be no objection to changes in the underlying software. It should be kept in mind that most systems 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*.

Figure 4: Decision Criteria Expressed by Interviewees

- CIO input on technical matters
- Customer service (see below)
- An integrated procurement package
- Ease of data conversion
- Desired performance indicators/metrics
- A commitment to “continuous improvement”
- Ability to handle unique transactions (most frequently mentioned grants, credit reform, trust funds, revolving funds) or unique legislation
- System functionality—provide all accounting functions; posting models for agency transactions; availability of commitment accounting; support for cost accounting
- User friendliness and ease of configuration
- Participation of customer in COE governance; how customer gets changes made
- Unqualified opinion on financial statements
- Superior security and disaster recovery plan; current SAS 70 report
- Assist in improving internal controls
- Expertise of provider staff; call center strategy
- Ease of interfaces to agency feeders
- Support for transition, training and implementation; able to support a small agency; support to large agency
- Experience of other customers

Many interviewees emphasized the need for customer service (or comparable term) 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, organizational relationships, help desk processes, performance management, ongoing training, implementation support, expertise of provider staff, ability to handle complex transactions, visits and communications with the provider, a provider newsletter, a partnership orientation and consistent treatment, among other characteristics.

One internal provider told us his view of customer service is, “When the customer has a problem the customer can depend on the provider to help resolve. If not the provider is ‘toast.’” 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 community to define its level of customer service and 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 meeting its program goals and performance measures,²³ meeting aspects of the President’s Management Agenda other than financial objectives (budget/performance integration) nor the ability of the COE to help the agency meet any future Sarbanes-Oxley 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 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 clearances. Similarly, the user need not be concerned about the number and type of computers, nor where the user facility(ies) is located. Telecommunications makes the location irrelevant (except as it might affect operating cost).

While the employers 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 practices, consistently applied by all employees. As an example, the author is familiar with one multi-location 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 to be sought is assurance 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 Proctor & Gamble Co., when he said, “We discovered that women don’t care about our technology and they couldn’t care less what machine a product is made on.”²⁴ In other words, the women (buyers of more than 80 percent of P&G’s products²⁵) 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

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 99.99 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,” promises made 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.²⁶ (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 great 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*.

Figure 5: Contents of Typical Service Level Agreement

- Services to be provided by the provider
- Roles and responsibilities of the user and the provider
- Cost of the services and the basis for determining the costs (pricing models)
- Costs for additional services
- Transition date and contract duration
- Methods for initiating changes
- Performance requirements (metrics) for the provider
- Performance requirements (metrics) of the user
- Billing methods and timing
- Communication between user and provider
- Customer involvement in governance
- Dispute resolution between the parties²⁷
- Security processes and procedures for data and for facilities. Some agencies have prepared and signed a separate agreement with their provider covering data and facility security.
- Disaster recovery processes and procedures for both the user and the provider.
- Audit requirements

Source: Adapted from Bergeron, Bryan, *Essentials of Shared Services*, 2003; Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S., *Shared Services: Adding Value to The Business Units*, 1999; and interviews.

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 legislation and guidance over and over in the federal environment. The best 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—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 we reviewed varied greatly. Therefore, OMB and the current COEs are 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:

- Include performance metrics for the users as well as the providers. 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 by the third of each month” if there is no metric for when input data is required from the user.
- Recognize that performance metrics define the accountability relationship between the customer and the provider.
- 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 billings accurately and timely” might be better worded as “process 95 percent of billings without error within three days of receipt, with the remaining 5 percent processed within seven days of receipt.”
- 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 charge a premium for processing erroneous input data. Similarly, the user should expect reduction 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. Their 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 adapted by shared service providers.
- 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 base) “up-time,” late 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.
- 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.

- Include agreements on investments for specific users in performance metrics.
- Identify the source of performance information and how often and how performance will be evaluated. Also, ensure that the cost to develop or gather the metrics are not excessive.
- 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.
- 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, as necessary, the provider and the user should establish specific measures for specific users.
- 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, often 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.²⁸

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 provider 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—is 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 COEs base 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 costs for unanticipated events (such as the impact of “dirty” data or conversion efforts) can be negotiated when they occur. Currently no COE is charging a

FINANCIAL MANAGEMENT SHARED SERVICES:

“buy-in” fee for past investments. In addition, host agencies of several COEs have recently funded, are currently funding 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, particularly for internal providers, operating costs are appropriated from Congress; program/mission bureaus are not charged for the services. This sounds ideal for the user of services and satisfactory for the provider. However, in a “free 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-cutters. 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 volume of transactions.
- Other billing systems 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 can be a bit of a mixed 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 accumulation of services provided. In addition, the pricing algorithm must be one that 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 the 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 must cover its costs and users 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 customers 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 significant time meeting with user 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 the internal control and compliance letters.

You Can’t Plan Too Much For Transition/Implementation

The transition to a shared service environment is 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 endorsed 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.

One common reason for failure is the desire by management 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 over-optimism. Several interviewees told us they are looking at COEs to avoid prior systems failures.

Some predict that the experience and the generic implementation 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 communications.

Training—Training is the most important investment in agency personnel who determine if the implementation is successful. A shared service arrangement represents a significant change in the way in which financial and program

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 "too early," 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 retrain 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 told us 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 shared service arrangement. Data cleanup 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. Agency management 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. 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 a new system. The worst of all worlds 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 ongoing, effective, relevant communications with the staff are the most important factors in dealing with culture change.²⁹ Each agency's communication strategy must carve out a role for top management as the leaders of the systems changes. One respondent said, "Agencies need 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" with top management, written memos and bulletins, e-mail, 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 union 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 often deal 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 contractors leave.

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. While

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 rewards 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” in the shared service environment is 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 its 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 execu-

tive 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.
- Often providers sponsor periodic meetings (semi-annual seems to be most frequent) with users to describe 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 lines 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/mission organization or the key process 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 mission/program organization. As with COEs, the internal providers may assign client executives and program managers to deal with day-to-day issues. Since internal shared service organizations are just that—internal to a 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 bureaus 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. OMB 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 organized to ensure clear internal roles and responsibilities and clear communication lines with the provider?

Within the user organization, the CFO (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 proper and that security is well thought-out and in place. However, the “system owner” must be the CFO, who is responsible for the financial integrity of the agency. As one CFO 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 CFO, or designee, should serve as Contracting Officer’s Technical Representation (COTR) for the contract with an outside provider or a 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 CFO owns the system and has the budget, the CFO should be the principal line of communication with the provider. Of course, a well functioning CFO/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 CFO will identify a limited number of individuals to speak on behalf of the user, recognizing when issues must be “bumped up” to another level of management.

The user organization must also identify how needs and issues of the mission or program organizations within the user are dealt with. A formal mechanism should be established (perhaps the agency CFO 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 CFO and the mission/program entities directly.

Process Reengineering and Process Redesign— What is the Right Time?

Often 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 specific software being used by the provider requires changes in the user business practices. 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 arrangement. 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. Delaying the process change or reengineering may delay the benefits to be achieved from the changes; or the changes may be forgotten as 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 in 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 confidential 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 another contract, subject to bidding and acquisition rules and processes. However, the shared service provider can provide value to a user by creating a partnership-like environment. The key is a provider that exhibits “situational 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 cadre of staff looking to 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 technology.
- 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.³⁰

Establishing a partnership between a customer and a provider of financial management operations services requires thought and effort on both sides. That is not 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 contracted. The relationships mature 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 volumes, 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 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 reimbursables). In some senses the specific definitions do not matter, so 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 COE concept and the requirements that agencies reduce budgets 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:

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 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 providers
- 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 circumstance 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 operation, achieving the same benefits as the COEs

This research highlights and provides guidance to shared service providers of 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:

Circular A-11, Part 7, Planning, Budgeting, Acquisition and Management of Capital Assets, Executive Office of the President, Office of Management and Budget, July, 2004. (See www.whitehouse.gov/omb)

Analytical Perspectives, Budget of the United States of America, Fiscal Year 2006, U.S. Government Printing Office, 2005. (See www.whitehouse.gov/omb)

Core Financial Systems Requirements, Joint Financial Management Improvement Program, Nov. 16, 2001 (See www.jfmip.gov)

Core Financial Systems Requirement Exposure Draft, Office of Federal Financial Management, 2005. (See www.jfmip.gov) (Comments were due on the Exposure Draft on May 6, 2005.)

Bangemann, Tom Olavi, *Shared Services in Finance and Accounting*. Gower Publishing Limited, 2005.

Bergeron, Bryan, *Essentials of Shared Services*, John Wiley and Sons, 2003.

Quinn, Barbara , Cooke, Robert & Andrew, Kris, *Shared Services: Mining for Corporate Gold*, Financial Times Prentice Hall, 2000.

Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S. *Shared Services: Adding Value to The Business Units*, John Wiley & Sons, Inc., 1999.

Focus on Value: The Case for Shared Services in the Public Sector, Accenture, 2003

Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services, Accenture, Jan, 2005.

Outsourcing and the CFO, The Balanced Delivery Model for Finance and Accounting, Booz, Allen, Hamilton. 2005.

Next Generation Outsourcing and Offshoring, Booz-Allen-Hamilton., 2005

Achieving Department and Line of Business Success, CGI-AMS Business Forum, Spring, 2005.

Shared Services in a Global Economy; 2005 survey results. Deloitte Research, March 16, 2005.

The Future of Shared Services: Realizing and Sustaining the Benefits, Deloitte Research, 2003.

Shared Services; Learning for Success, Deloitte Consulting, 1999.

Shaping the Future, How outsourcing is being used to change the structure of financial services, EDS Research

Moving Federal EA To The Next Level: OMB's Karen Evans To Push Cross-Agency Line-Of-Business Efforts, Forrester Research Report (2004).

Shared Services Offer Promise for Government, Gartner Research Report Number DF-21-8951 (2004).

Implementing Successful Shared Services in Government, Gartner Research Report Number AV-21-8953 (2004).

The Growing Dimensions of Government Shared Services, Gartner Research Report Number TU-21-3996 (2004).

Effective Governance of Government Shared Services, Gartner Research Report Number DF-21-3995 (2004).

The CFO Act and Federal Financial Management: The End of the Beginning, IBM Business Consulting, April, 2005.

Finance shared services and outsourcing- magic, mythical or mundane? IBM Business Consulting, 2005.

Best Practice Findings, Trends in the Finance Function, IBM Business Consulting, 2003.

Implementing Alternative Sourcing Strategies: Four Case Studies, IBM Center for the Business of Government, October, 2004.

Shared Services Study, PWC Consulting, 2002.

“Special Report: Information Technology,” *The Federal Times*, April 4, 2005.

FINANCIAL MANAGEMENT SHARED SERVICES:

“A Seat at the Table—Summary Results of the Financial Information Needs of Government Policy, Program and Operating Officials Survey,” David, Irwin T., *Journal of Government Financial Management*, Winter 2002.

“Financial Information for Policy, Program and Operating Officials,” David, Irwin T., *Journal of Government Financial Management*, Spring 2002.

“The True Financial Managers in the Federal Government,” David, Irwin T., *Journal of Government Financial Management*, Winter 1997.

Change Management: A Key Challenge to Shared Services, Delane, Mark, *Shared Services News*, Sept., 2003.

“Program and Change Management Models for Implementing Shared Services: Integrating Change Initiatives at the Food and Drug Administration,” Weber, Jeffrey and Kurtz, Thomas, *Shared Services News*, Sept. 2003.

“Shared services: a strategy for reinventing government,” Wilson, David., *The Government Finance Review*, 2004.

Supporting the U.S. Department of Defense Through Shared Services, Leavitt, Paige., *American Productivity & Quality Center*.

“Lessons Learned from federal HR outsourcing,” *HR Magazine*, 2004.

National State Governments Join Companies in Outsourcing HR and Other Functions Reports New Conference Board Study. The Conference Board Report (2004).

Report to the Chairman, Subcommittee on the District of Columbia, Committee on Appropriations, House of Representatives: DC Courts Disciplined Processes Critical to Successful System Acquisition (GAO/T-AIMD-99-238) (1999).

Report to Congressional Requesters, Financial Management Systems: Lack of Disciplined Processes Puts Implementation of HHS' Financial System at Risk (GAO-04-1008) (2004.)

Presentations

Financial Management Line of Business, Leiss, W., *DC Society of CPAs*, March 24, 2005

Transforming Financial Management through Shared Services, Fischer, D. and Vigotsky, T., IIBT 11th Annual Government CFO-CIO Program Managers Conference, March 14, 2005.

Joint Accounting and Administrative Management System (JAAMS) and Applications on Demand, Dumaresq, T., 2005 JFMIP Conference, March 10, 2005.

Bureau of Public Debt, Administrative Resource Center, Yanok, M., 2005 JFMIP Conference, March 10, 2005.

GSA Financial Management Center of Excellence, Smith, C., 2005 JFMIP Conference, March 10, 2005.

Choosing a Financial Services Center of Excellence, Park, T., 2005 JFMIP Conference, March 10, 2005.

Choosing a Financial Services Center of Excellence, Leiss, W., 2005 JFMIP Conference, March 10, 2005.

Choosing a Financial Services Center of Excellence, Bourgeois, D., 2005 JFMIP Conference, March 10, 2005.

Continuing the Journey to Optimized Performances—Shared Services, Danto, S., Nov. 8, 2004.

Becoming An Information-Driven Enterprise, Henley, J., Oracle Government Executive Forum, April 21, 2005.

Financial Management Line of Business, Leiss, W., Oracle Government Executive Forum, April 21, 2005.

Overview of the National Business Center, Bourgeois, D., Oracle Government Executive Forum, April 21, 2005.

U.S. Department of Transportation, Enterprise Services Center, Neff, L., Oracle Government Executive Forum, April 21, 2005.

Bureau of Public Debt, Administrative Resource Center, Miller, M., Oracle Government Executive Forum, April 21, 2005.

Enterprise Services Center, DOTs Financial Management Center of Excellence, Stevens, B. And Rogers, C., IIBT 11th Annual Government CFO-CIO Program Managers Conference, March 14, 2005

Future Trends in Technology, Accenture, NASACT 2002 Annual Conference, 2002.

Websites

Chief Financial Officers Council—www.cfoc.gov

Office of Management and Budget—www.whitehouse.gov/omb

E-gov website—www.whitehouse.gov/omb/egov/

Joint Financial Management Improvement Program (now Financial Systems Integration Office)—www.jfmip.gov

Performance Management Institute—www.pmi.org

Department of Treasury, Bureau of Public Debt, Administrative Resource Center (ARC)—<http://arc.publicdebt.treas.gov/files/ffshome.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/cfo

A GUIDE FOR FEDERAL USERS

End Notes

1. See OMB website at www.whitehouse.gov/omb.
2. "The True Financial Managers in the Federal Government," David, Irwin T., *Journal of Government Financial Management*, Winter 1997.
3. The other Lines of Business are Case Management (CM), Grants Management (GM), Human Resources Management (HR), Federal Health Architecture (FHA) and IT Security (ITS).
4. "See for example: Shared services: a strategy for reinventing government," *The Government Finance Review* (2004); *Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services*, Accenture; *The CFO Act and Federal Financial Management: The End of the Beginning*, IBM Business Consulting, April, 2005; *Shared Services Study*, PWC Consulting, 2002; *Focus on Value: The Case for Shared Services in the Public Sector*, Accenture, 2003; *Achieving Department and Line of Business Success*, CGI-AMS Business Forum, Spring, 2005.
5. See for example: Bergeron, Bryan, *Essentials of Shared Services*, 2003; Quinn, Barbara & Cooke, Robert & Andrew, Kris, *Shared Services: Mining for Corporate Gold*; Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S., *Shared Services: Adding Value to The Business Units*, 1999.
6. *Next Generation Outsourcing and Offshoring*, Booz-Allen-Hamilton, 2005.
7. *The CFO Act and Federal Financial Management: The End of the Beginning*, IBM Business Consulting, April, 2005, pp. 34-36.
8. *Supporting the U.S. Department of Defense Through Shared Services*, Leavitt, P., American Productivity & Quality Center.
9. *Presentation on Financial Management Line of Business*, Leiss, W., Office of Management and Budget, March 24, 2005.
10. See www.whitehouse.gov/omb/egov/documents/FM_LOB_Due_Diligence_Checklist_V1.pdf for the "due diligence" checklist.
11. "Special Report: Information Technology," *Federal Times*, April 4, 2005 or www.cfoc.gov.
12. Currently approved financial system are:
 - SAP Public Services Inc, mySAP ERP 2004 Edition, Version 2004
 - CGI-AMS, Momentum Financials, Version 6.0
 - Digital Systems Group, Inc, Integrated Financial Management Information Systems (IFMIS), Version 6.0
 - Oracle Corporation, Oracle E-Business Suite 11i, Version 11i10
 - PeopleSoft, Inc., PeopleSoft Financial Management Solutions (FMS), Version 8.8
 - Savantage Solutions, Inc., Altimate, Version 3.0
 - Digital Systems Group, Inc., Icore, Version 2.0
- Source:** Joint Financial Management Improvement Program at www.jfmip.gov.
13. *Core Financial Systems Requirements*, JFMIP, Nov. 16, 2001, p.11 and *Core Financial Systems Requirement Exposure Draft*, Office of Federal Financial Management, 2005, p. 8. (Comments were due on the Exposure Draft on May 6, 2005.)
14. Bangemann, Tom Olavi, *Shared Services in Finance and Accounting*, 2005.
15. *Analytical Perspectives, Budget of the United States of America, Fiscal Year 2006*, U.S. Government Printing Office, 2005. (See www.whitehouse.gov/omb)
16. "A Seat at the Table—Summary Results of the Financial Information Needs of Government Policy, Program and Operating Officials Survey," David, Irwin T., *Journal of Government Financial Management*, Winter, 2002.
17. For discussion of disciplined systems development and systems acquisition processes, see, for example, the following reports issued by the Government Accountability Office (GAO):

Report to the Chairman, Subcommittee on the District of Columbia, Committee on Appropriations, House of Representatives: DC Courts Disciplined Processes Critical to Successful System Acquisition (GAO/T-AIMD-99-238) (1999).

Report to Congressional Requesters, Financial Management Systems: Lack of Disciplined Processes Puts Implementation of HHS' Financial System at Risk (GAO-04-1008) (2004.)
18. To understand the difference between "quality control" and "quality assurance" envision an auto assembly line. In the "quality control" scenario, the auto quality is checked when the car comes off the assembly line. If a major defect is identified at that time, major rework is likely required. In the "quality assurance" scenario, quality is checked at points in the assembly process, so a defect can be identified and corrected where it occurred, thus saving major rework.
19. *Shared Services; Learning for Success*, Deloitte Consulting, 1999.
20. See www.pmi.org.
21. See, for example, Bangemann, Tom Olavi, *Shared Services in Finance and Accounting*, 2005; Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S., *Shared Services: Adding Value to The Business Units*, 1999; *Shared Services; Learning for Success*, Deloitte Consulting, 1999.
22. *Circular A-11, Part 7, Planning, Budgeting, Acquisition and Management of Capital Assets*, Executive Office of the President, Office of Management and Budget, July, 2004.
23. For example, a shared service provider can develop the cost information for a program performance measure related to reducing the costs per inoculation. Or, the shared service provider can accumulate program statistics for the customer agency.
24. As quoted in the *Wall Street Journal*, page 1, June 1, 2005.
25. *Wall Street Journal*, page 1, June 1, 2005.
26. See, for example, Bergeron, Bryan, *Essentials of Shared Services*, 2003; Quinn, Barbara , Cooke, Robert & Andrew, Kris, *Shared Services: Mining for Corporate Gold*, 2000; *Next Generation Outsourcing and Offshoring*, Booz-Allen-Hamilton., 2005; Schulman, Donniel S., Dunleavy, John R., Harmer, Martin, J., Lusk, James, S., *Shared Services: Adding Value to The Business Units*, 1999; *The Future of Shared Services: Realizing and Sustaining the Benefits*, Deloitte Research.
27. One area not well covered in SLAs relates to dispute resolution and the "escalation" mechanism for disputes that cannot be resolved at lower organizational levels. Such procedures are important in the private sector but have not yet been a major issue for the federal sector. (One agency agreement, however, provides for outside mediation if a dispute cannot be resolved.) With external shared services, dispute resolution procedures may become more important. The Economy Act does not include a dispute resolution mechanism, so it is important to include in an SLA.
28. *The Future of Shared Services: Realizing and Sustaining the Benefits*, Deloitte Research.
29. *Change Management: A Key Challenge to Shared Services*, Delane, Mark, *Shared Services News*, Sept., 2003.
30. *Shared Services in a global economy; 2005 survey results*, Deloitte Research (2005).



*Advancing
Government
Accountability*

Association
of Government
Accountants

2208 Mount Vernon Avenue
Alexandria, VA 22301

PH703.684.6931
TF800.AGA.7211
FX703.548.9367

www.agacgfm.org
agamembers@agacgfm.org