Description of document:	Department of the Treasury Bureau of the Public Debt (BPD) contract TPDARCBPA100006 re 'Transformation of the Department of the Treasury,' 2010
Requested date:	26-September-2011
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Title of document	Performance Work Statement for the Office of Financial Innovation and Transformation of the Department of the Treasury
Source of document:	Disclosure Services FOIA Request Department of the Treasury Washington, DC 20220 Fax: 202-622-3895

DEPARTMENT OF THE TREASURY
WASHINGTON, DC 20220

OCT 25 2012

Re: 2011-10-075
SJ:TR:DB

This is the Office of the Fiscal Assistant Secretary's (FAS) final response to your Freedom of Information Act (FOIA) request dated September 26, 2011, seeking records related to Bureau of the Public Debt (BPD) contract TPDARCBPA100006.

FAS located 227 pages that are responsive to your request. After carefully considering these records, I am releasing 165 pages in full, 16 pages in part, and I am withholding 46 pages in full. The information that has been withheld is protected from disclosure under the FOIA pursuant to 5 U.S.C. §§ 552 (b)(4) and (b)(6). Exemption 4 pertains to trade secrets and commercial or financial information obtained from a person and is privileged and/or confidential. Exemption 6 pertains to records and information the disclosure of which would constitute a clearly unwarranted invasion of personal privacy.

If you are dissatisfied with my action on your request, you may appeal within thirty-five (35) days from the date of this letter. Your appeal must be in writing, signed by you or your representative, and should contain the rationale for the appeal. Your appeal should be addressed to: Freedom of Information Appeal, Disclosure Services, DO, Department of the Treasury, Washington, DC 20220.

Sincerely,

Sonya Johnson
Acting FOIA Manager
Office of the Fiscal Assistant Secretary

Enclosures

Performance Work Statement for the Office of Financial Innovation and Transformation of the Department of the Treasury

McKinsey & Company, Inc. Washington D.C.

Submitted to:

Cheryl Simpson
Bureau of the Public Debt
Division Of Procurement Services, Avery 5F
200 Third street,
Parkesburg, West Virginia 26106-5312

Office: (304) 480-7139

October 21, 2010

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1. Outline of Call #1 Deliverables

A. GUIDING PRINCIPLES

The guiding principles deliverables consist of a syndicated list of principles for the future of finance within the federal government. This list of principles would provide directional "must-haves" and will consist of 1-2 pages (as illustrated in Exhibit 1). The guiding principles will include supporting materials including:

- Underlying principles currently in place within the US government (e.g., centralization of common processes such as vendor payments processing) based on interviews and workshop with Advisory Group
- Criteria used to identify and prioritize practices that are most relevant for the US Government. Example prioritization criteria: do the practices (1) address the current Federal Government situation (e.g., silo-ed view of financial management, lack of technology standards) and (2) match the objectives (e.g., promote a universal understanding of standard government financial business processes)
- Principles matching the FIT objectives (e.g., universal understanding of standard government financial business processes)
- Principles followed by other leading finance management departments in the private sector, state and/or foreign governments

Exhibit 1 – Illustrative guiding principles

	Principles
Processes	1 Standardize and share processes if >80% of customer needs overlap 2 Eliminate paper, rework, and errors through automation, first-time-right mindset and lean principles 3 Define and agree on the future state for 8-10 major financial management processes that truly matter 4 Minimize the interfaces between end-to-end processes; but if they exist, manage them with specific metrics, ownership, and targets
Configuration	5 Share standardized process and supporting technology (>80% overlap) across agencies 6 Agencies agree to a shared process / service if the cost and service levels are better than their existing baseline 7 Exemptions to sharing will based on an agreed upon criteria and will carry a "tax" for non compliance 8 Shared services deliver year-over-year 3% reduction in costs in order to retain Agencies as consumers 9 Operate the shared service as a business with its on Board; members include the shared service lead, Agency liaisons, and FIT
Technology	10 Adopt standard ERP "modules" for each financial management process; implement vanilla packages and customize only when necessary 11 Move towards delivering 3-5 "modules" as a service across all of Federal government 12 Reuse best practice technology at the government across agencies 13 Reduce complexity by rationalizing overlapping platforms, eliminate interfaces, consolidating data centers 14 Self-fund 50% of the modernization
People	15 Adopt a commercial mindset (value for investment, customer focus, price for service, etc.) 16 Promote "enterprise" behaviors via recognition, incentives, and access to opportunity 17 Match talent to opportunity regardless of current agency affiliation 18 Invest in capability building and communication
Location and ownership	19 Establish "natural owners" of shared processes based on expertise, capacity, risk 20 Agencies agree to outsource to 3rd parties (including to other government agencies) where viability of external execution is significant 21 Match footprint to location based on cost and availability of talent
Value proposition	22 Establish consumer-supplier relationships between processes and functions only when a clear value proposition is articulated to the consumer 23 Adopt two-way, win-win agreements on financial and non-financial measures to drive partnership 24 Manage using 10-20 metrics that demonstrate progress against the objectives of efficiency, effectiveness, improved data quality, and transparency

B. VISION, OBJECTIVES AND STRATEGY DELIVERABLES

The vision for the future state needs to accomplish two complementary objectives: a) describe the future state of the organization so all parties understand the long term objectives; and b) guide decision making and planning efforts for more immediate phases of work along the journey

The vision, objectives and strategy deliverables consist of three main parts:

- **Set of compelling vision statements** to describe the aspiration of the future state. These statements, consisting of 1-2 pages (example shown in Exhibit 2) will capture the essence of the future state and what the transformation means to the constituents and enable actions and decision making
- **Set of "From – To" statements** that will reflect the significant changes needed to achieve the vision, developed and captured in 1-2 pages. These statements form the objectives that FIT and agencies can use as a guidepost for making transformation decisions and test whether the vision is meaningful enough to be converted into actions

- **A high-level strategy (e.g., optimal path)** for the US Government to migrate from the current state to the future state vision. This deliverable, consisting of 1-2 pages, will include a recommendation based on the analysis of 3-4 options considered, and a high-level prioritization based on sequence, timing, and value delivered by the major components of the transformation. (Example shown in Exhibit 3)

Exhibit 2 – Sample vision statement

Vision statement: Client sample — **Illustrative**

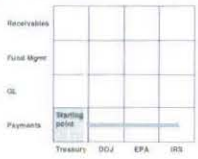
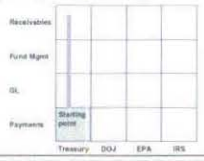
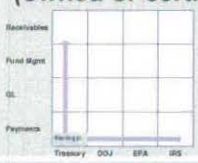
Our vision		What it means to us
Customer mission	To deliver	• We produce results–products, services, and solutions that meet and exceed our customers' expectations
	reliable,	• We deliver what we promise–on-time, on-schedule, and of consistently high quality
	innovative	• We drive change by rethinking the way we do things today and by pioneering the company's next generation of products and services
	solutions	• We are dedicated to customer service–from our technology thought leadership to the systems and infrastructure that run the business, we are focused on meeting customer's needs
	to our clients	• We recognize that our responsibility is to a range of stakeholders–internal and external customers and end-users
People mission	by attracting,	• We foster a great working environment, one that celebrates a diversity of backgrounds, ideas, and skills to encourage creativity and innovation
	developing,	• We offer the best opportunity to grow and learn through mentorship, constant exposure to new challenges, and opportunities for advancement
	connecting,	• We bring the right people together in the right way to solve problems, by building strong global teams and sharing what we've learned
	and inspiring	• We recognize and reward achievement and risk-taking, and provide role models that embody our values
	exceptional team members	• We are one team, made up of individuals with unique talents. Pulling together, we can do great things

Exhibit 3 – Sample high-level strategy (e.g., optimal path) options

Confidential and proprietary

ILLUSTRATIVE

Optimal path options and strategy

Optimal path options	Example	Strategy Alignment	Economic Impact	Bus/Imp Risk	Timing of Impact	Stakeholder Impact
1 **By business process** 	Transformation of the Payments process for Treasury; rollout of Payments across other agencies (potentially leveraging Treasury as a service provider)	◕	◑	◑	◔	◑
2 **By agency** 	Transformation of all fin mgmt processes at Treasury starting with Payments, followed by GL, Funds Mgmt, etc.	◔	◔	◔	◑	◔
3 **By shared utilities *(owned or certified)*** 	Establish standard offerings (utilities) for infrastructure, data management, or common applications (e.g., ERP-AP); the shared utilities are either owned by FIT or recommended by FIT for use by other agencies	◕	◑	◑	◕	◕

○ Unfavorable ◐ Favorable ☐ Incoming hypothesis

McKinsey & Company

Project 2: Performance Work Statement for the Office of Financial Innovation and Transformation of the Department of the Treasury

McKinsey & Company, Inc. Washington D.C.

Submitted to:

Cheryl Simpson
Bureau of the Public Debt
Division Of Procurement Services, Avery 5F
200 Third Street,
Parkesburg, West Virginia 26106-5312

Office: (304) 480-7139
November 29, 2010

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A. Outline of Project 2 deliverables

The objective of this engagement is to develop a strategy for financial management to enable the vision developed in Project 1 (contractually Call #1): "Transform financial management to reduce costs, increase transparency, and improve delivery of agencies' mission." We will develop five major deliverables to develop the strategy:

1. Business model and conceptual design for government-wide financial management
2. Short-list of financial management initiatives to be launched in the near term
3. Transformation roadmap for government-wide financial management, including identification of potential pilots for select initiatives
4. Refined "value at stake" based on opportunities/initiatives identified and a high-level business case for the next three to five years of this transformation
5. Critical enablers required to support the transformation

1. BUSINESS MODEL AND CONCEPTUAL DESIGN

The business model and conceptual design framework will lay out the components of the future state financial management in the Federal government. (b) (4)

(b) (4)

We will develop potential answer(s) to the critical questions in each component of the conceptual design and business model framework that will form a set of options for the core team to evaluate by applying objective criteria.

The deliverables for the business model and conceptual design will consist of two to three pages that articulate the following:

(b) (4)

(b) (4)

2. SHORT-LIST OF INITIATIVES TO LAUNCH IN THE NEAR-TERM

We will develop a short-list of financial management initiatives (potentially eight to ten) to be launched in the near term and meant to rapidly capture value. The deliverable will consist of one to two pages per initiative that includes the description and scope, main objectives and benefits of these initiatives and will also include timeline and a high-level estimate of economic impact including investments required, run-rate savings/benefits. See an illustration of the short list provided in the Exhibit 5.

(b) (4)

3. TRANSFORMATION ROADMAP

Based on our analysis, interviews and workshops conducted during projects 1 and 2, the team will develop a three to five-year transformation roadmap to enable the government to:

- Sequence the initiatives appropriately
- Understand the preparation required to kickoff the various initiatives
- Identify pilots for each initiative

(b) (4)

(b) (4)

4. UPDATED VALUE AT STAKE AND HIGH-LEVEL BUSINESS CASE

We will update the value at stake initially developed in Project 1 based on the opportunities/ initiatives identified during the Project 2.

In addition, we will size the overall economic impact from all financial management initiatives in the three to five-year transformation plan, including a high-level estimate of investments required to achieve these benefits.

(b) (4)

(b) (4)

[redacted]

5. CRITICAL ENABLERS

We will identify and detail the critical enablers to ensure successful execution of the financial management strategy.(b) (4)

(b) (4)

[redacted]

B. Method, Scope and Approach

PROJECT 2 APPROACH

McKinsey's technical approach is based on our understanding of the US government's strategy related to financial management, our understanding of the objectives and deliverables as stated in the Request For Quote (RFQ), our Project 1 engagement and our experience with financial systems transformations in the private and public sector.

The Statement of Objectives (SOO) specifies five key objectives of the BPA:

- Defining the future state of Federal financial transactions and reports, systems, and operations
- Developing, as needed, more iterations; preparing a transformation strategy, including a sequencing plan
- Recommending alternatives on how to finance government-wide financial management modernizations
- Recommending alternatives on how agencies could pay for any shared services; and
- Evaluate the strategic direction and performance of FAS organizations and recommend improvements

(b) (4)

(b) (4)

[redacted]

PHASE 1: "PREPARATION AND PLANNING"

Major deliverable(s)	■ 1.1 – Final Performance Work Statement (PWS) (end of week 2) ■ 1.2 – Project plan (end of week 2) ■ Status meetings – weekly

(b) (4)

[redacted]

Prior to creating the draft business model and conceptual design, we will engage in the planning and preparatory phase of work. This phase will allow the team and FIT organization to get ready for the three-month effort and would last approximately two weeks. We will refine our detailed approach and work plan, calendar interviews with key stakeholders, schedule workshops and debriefing sessions, and kick off data collection processes. (b) (4)

(b) (4)

[redacted]

(b) (4)

PHASE 2: "BUSINESS MODEL AND CONCEPTUAL FRAMEWORK AND OPTIONS"

Major deliverable(s)	■ 2.1 – Draft business model and conceptual design describing and illustrating potential future-state operating model for government-wide financial management (week 5) ■ 2.2 – Draft list of short-term initiatives (week 5) ■ 2.3 – Executive briefing on the draft business model and conceptual design describing and draft short term initiatives (week 6)

(b) (4)

[redacted]

PHASE 3: "BUSINESS MODEL AND CONCEPTUAL DESIGN (COMPLETION)"

Major deliverable(s)	■ 3.1 – Final business model and conceptual design (week 9) ■ 3.2 - Second draft of short term initiatives and draft transformation roadmap (week 9) ■ 3.3 – Executive briefing on final business model and conceptual design and draft transformation roadmap (week 10) ■ Status meetings – weekly

(b) (4)

[redacted]

(b) (4)

[redacted]

PHASE 4: "TRANSFORMATION ROADMAP"

Major deliverable(s)	■ 4.1 – Final transformation roadmap and business case (week 11) ■ 4.2 – Draft governance model and role of key enablers (week 11) ■ 4.3 – Executive briefing on transformation roadmap, governance model and critical enablers (week 12) ■ Status meetings – weekly

(b) (4)

[redacted]

D. Team structure

(b) (4)

Project 2: Summary of deliverables for the Office of Financial Innovation and Transformation of the Department of the Treasury

McKinsey & Company, Inc. Washington D.C.

Submitted to:

Cheryl Simpson
Bureau of the Public Debt
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Office: (304) 480-7139
February 18, 2011

McKinsey&Company

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A. Background and objectives

1. BACKGROUND

The government of the United States spends over $12 billion dollar on financial management, $8 billion of which are spent on core accounting and budget execution.

Exhibit 1: In scope budget breakdown

Payments Management (AP) Activities that lead up to disbursing payments due to the public *Total $ 804 million*	**Receivables Management (AR)** Activities associated with establishing and collecting amounts due from the public *Total $ 383 million*	**Cash Management (Disbursement)** Activities associated with making, recording and transmitting payments *Total $ 287 million*	**General ledger** Activities related to performing analysis, reconciling transactions posted, and recording adjustments to the general ledger *Total $ 275 million*
Intra-government transfers Activities associated with identifying and posting entries that resulted from transactions between Federal entities *Total $ 113 million*	**Budget Execution** Activities pertaining to the use of budgetary resources to comply with the enacted budget *Total $ 1,788 million*	**Financial Reporting** Activities associated with generating internal and external reports *Total $ 285 million*	**Travel** Activities associated with travel obligations, advances, and payments *Total $ 301 million*
Financial Systems Support Activities associated with the financial systems maintained by OCFO (including both costs of the systems and salaries)[2] *Total $ 1.524 million*	**Shared Service Providers (SSPs)** Payments made to federal financial management SSPs (e.g., FMS, BPD) *Total $ 1,960 million*[5]	**Audit Support** Activities associated with supporting the annual financial statement audit[1] *Total $ 380 million*	**Internal Control** Activities associated with monitoring, improving and reporting internal controls (as required by FMFIA)[4] *Total $ 395 million*
Grants management Activities, directly under the CFO, relating to grants management functions[3] *Total $ 215 million*	**Accounting Policy** Activities associated with drafting and issuing financial management policies *Total $ 100 million*	**Budget Formulation** Activities associated with developing forecasts of future funding and expenditures *Total $ 882 million*	**Other** All other activities directly under the CFO (e.g., Procurement) *Total $ 707 million*
Shadow finance spend Finance organization function residing within program structure *Total Unknown*	**Mis-categorized spend** Financial management spend mis-categorized under program or IT spend *Total Unknown*	**$ 8 billion** of total cost from included areas of financial management spend **Observations/emerging questions:** • Should scope include other areas in CFO perview (e.g., Grants, Travel)? • Size of spend is one dimension for prioritization (e.g., Intra-governmental, collectively, accounting activities add up to $1.3 billion (G/L, FR, Audit, Control)	

1 Includes activities associated with the annual financial statement audit by Inspector General staff and contractors (regardless of the source of funding by OCFO or OIG, for example)
2 Only items that are under the purview of the OCFO does not include costs beyond the OCFO
3 Grants management activities outside the OCFO not included
4 Includes cost accounting (activities associated with accumulating, recognizing, and distributing organization and program costs for management information purposes)
5 Does not include $1,913 million in EPA payments to Federal financial management SSP for support
SOURCE: Team analysis; OMB circular A-11- Exhibit 52 - 2009

Exhibit 2: Breakdown of CFO agency resources

- Currently there are **~32,000 transactional employees** (FTEs + contractors)
  - ~22% of federal financial management employees are projected to retire within the next 5 years (~4.3% per year), equivalent to **~1,400 of the 32,000 employees projected to retire each year**
  - Of the ~32K employees, **~5,300 (16%) are contractors**

1 Include Grants, Loans, Personnel, Procurement, Audit policy, OIG, etc.

SOURCE: Team analysis, OMB Exhibit 52 - Year 2009, OPM retirement projections FY '10-19

Financial management in the government is inefficient due to lack of standardized processes, technology, and limited sharing

- **Structurally**, the model is decentralized with many agencies having separate financial management functions for each bureau, and 25-35% of transaction processing is conducted at sub-scale operations
- **Processes** are not standardized across agencies, paper heavy, and highly manual, which leads agencies to lengthen cycle time for transaction processing
- **On technology front,** the landscape is fragmented with:
  - Over 46 core financial systems with multiple instances of at least 3 major vendor systems (Oracle, SAP and CGI) and homegrown systems
  - Highly customized implementations for transactional financial management (e.g., Payables Management, Receivables Management, General Ledger)
  - Lack of coordination in vendor activity to control system integrator and software costs
- **Financial data** is inconsistent across government in terms of accuracy, timeliness with unavailability of financial information at the federal level until quarterly submissions of FACTS reports by agencies, and inconsistent adoption of data standards

Given looming budget cuts in the federal government, there is pressure to identify/accelerate initiatives to launch in the short term to dramatically increase efficiency and effectiveness of financial management.

There is also a need to identify a long term end-state that enables federal government to leap-frog the natural evolution of financial management.

In order to gain agency buy-in, these initiatives need to demonstrate bottom line impact as well as help achieve some current goals (e.g., improve transparency)

2. OBJECTIVES

The objective of this project was to develop a strategy for financial management to enable the vision developed in Project 1 (contractually Call #1): "Transform financial management to reduce costs, increase transparency, and improve delivery of agencies' mission." We are enclosing five major deliverables that outlines the details behind the financial management strategy:

1. Business model and conceptual design for government-wide financial management
2. Short-list of financial management initiatives to be launched in the near term
3. Transformation roadmap for government-wide financial management, including identification of potential pilots for select initiatives
4. Refined "value at stake" based on opportunities/initiatives identified and a high-level business case for the next three to five years of this transformation
5. Critical enablers required to support the transformation

The rest of this document is structured around the deliverables outlined above.

B. Methodology and technical approach

1. OVERALL APPROACH

Exhibit 3: High-level engagement approach

(b) (4) [redacted]

(b) (4) [redacted] In addition, our work was quite iterative in nature and included:

- Weekly problem solving sessions with the OFIT team
- Over 75 interviews (including site visits to US Federal shared services providers and select agencies) with US government financial management leaders, other governments financial management leaders, and financial management experts from private sector
- Three progress updates with senior project sponsors
- Three workshops with OFIT advisory group
- Three progress reviews with OFIT' Steering committee
- Syndication meetings with agency leadership

2. INTERVIEWS

As part of this process, we conducted over 75 interviews in order to:

- Get an understanding of financial management in government and in-flight initiatives
- Gather quantitative and qualitative information on government financial management
- Validate our hypotheses on business model and conceptual design
- Prioritize short-term initiatives
- Develop pragmatic transformation approach based on lessons learned

Our interview list:

- Financial management leaders from US government:
  - FMS-DMS: Scott Johnson, Brett Smith, Alyssa Riedl
  - FMS- Financial and Budget Reports Directorate: Dave Rebich, Jeff Hoge, Julie Edwards
  - FMS-Collections: Corvelli McDaniel, Michael Mackay, Marshall Henry, Jeff Schramek
  - DOT-ESC: Marshal Gimpel, Angie Lee, Janet Shell, Bo Peeler, James Davis, Jim Thompson, Mike Upton, Nina Boyle, Rodney Sloan, Steve Aube
  - Education: Hugh Hurwitz, Jay Hurt, Gary Wood, Connie Davis, Tom Skelly, Sarah Mahdavi, Nancy Hoglund
  - DOJ: Melinda Morgan, Melinda Miller, Paul Jacobs, Bill Berglie, Letitia Bing, Valeria Dungee, Valerie Grant, David Bethea, Holley O'Brien, Christopher Alvarez
  - BPD-ARC: Cindy Springer, Kevin Duley, Jackie Petit, Lance Gainer
  - DOI-NBC: Mary Pletcher, Barbara Walters, Michelle Jones
  - DOC: Lisa Casias, Theresa Coppolino, Scott Quehl
  - OMB: Debra Bond, Andrew Schoenbach, Mark Dronfield
  - DOD-US Marine Corp: Col. Karl Hackbarth
  - USDA – NFC: John White, Randy Speed, Gary Millet, Joe Vitale

- USDA – COD: Chuck Wallace, Alva Chase, Dennis Jack, Peggy Javery, Ella Robertson, Charles Kyser
- USDA - Rural development: Tom Hannah, Tom Morris, Mike Keller
- USDA – OCFO: Jon Holladay, John Brewer, Kevin Close
- HUD: Doug Criscitello, David Sidari, Tom Kelly

- Financial management leaders from other governments
  - Ohio Shared Services: Anne Saunier, Kevin Milstead
  - Canada Treasury: Kim Croucher, Johanne Truchon
  - California FISCAL: Titus Toyama
- Financial management leaders from private sector:

3. WORKSHOPS

We also conducted three workshops with the FIT Advisory Group to refine our hypotheses on business model and make our roadmap more practical. Members of our advisory groups included:

- Mark Reger from Treasury's OFAS
- Debra Bond from OMB
- Angela Smith from GSA

- Mark Easton from DOD
- Doug Criscitello from HUD
- Wanda Rogers from FMS
- Dave Fisher from BTA
- Chris Smith from OCIO at USDA
- David Rivait from DOT
- Cindy Springer from BPD-Arc
- Amy Haseltine from HHS
- Anton Porter from FERC
- Lisa Casias from DOC

4. SYNDICATION SESSIONS

In order to validate our hypotheses, refine our final deliverables and gather momentum and excitement for pilots, we conducted several syndication sessions with the following people with

- DOD: Mark Easton, Rodney Gregory
- DOT: Marshal Gimpel, Janet Shell, Angie Lee
- TRE-BPD-ARC: Cindy Springer
- TRE-FMS: Scott Johnson, Brett Smith, Alyssa Riedl
- HUD: Jerry Williams, Doug Criscitello, David Sidari

These syndication sessions enabled us to put together a list of potential pilots for short term initiatives.

5. ALIGNMENT WITH QUESTIONS FROM BPA

There were multiple questions in the BPA and below is a guide to the answers to the various questions:

Questions from BPA	Answer and guide to document
What are the primary functions, systems needed to satisfy financial management in government?	Exhibit 13 in "Business model and Conceptual design" section outlines the primary functions and the technology landscape architecture required to satisfy financial management in government
What strategies, tactics, policies and constraints needed to be taken in consideration for each function?	Exhibit 31 outlines the strategy for the transformation for each function and concept We have also identified four cross-cutting enablers for the transformation and they include (a) completing the financial management benchmarking launched by the CFO Council, (b) Operationalizing consistency in core financial data definitions, (c) adopting risk-based audit policies, and (d) scaling up model for lean financial management Additional details are outlined in "Business model and conceptual design" and "Transformation Roadmap" sections
What are the inter-relationships between functions, systems and data stores and primary sources of information flowing?	Exhibit 13 outlines our vision for the future technology landscape and the various inter-relationships between systems. "Business model and conceptual design" section covers this question in more detail
What opportunities exist to change central functions and lessen agency's burden?	As part of our recommendations, we included two initiatives to scale up function-specific shared services: intra-governmentals, and collections In addition, there exists an opportunity to scale up federal shared services providers, which provides end-to-end financial management operations services. Nearly 25-35% of transactional financial management is in sub-scale operations, and can be migrated to shared services providers. Additional detail is included under initiative "Shared services for financial transaction processing" which outlines the concept and the strategy to enable it
Which of these functions,	Exhibit 64 provides a recommendation of initiative owners,

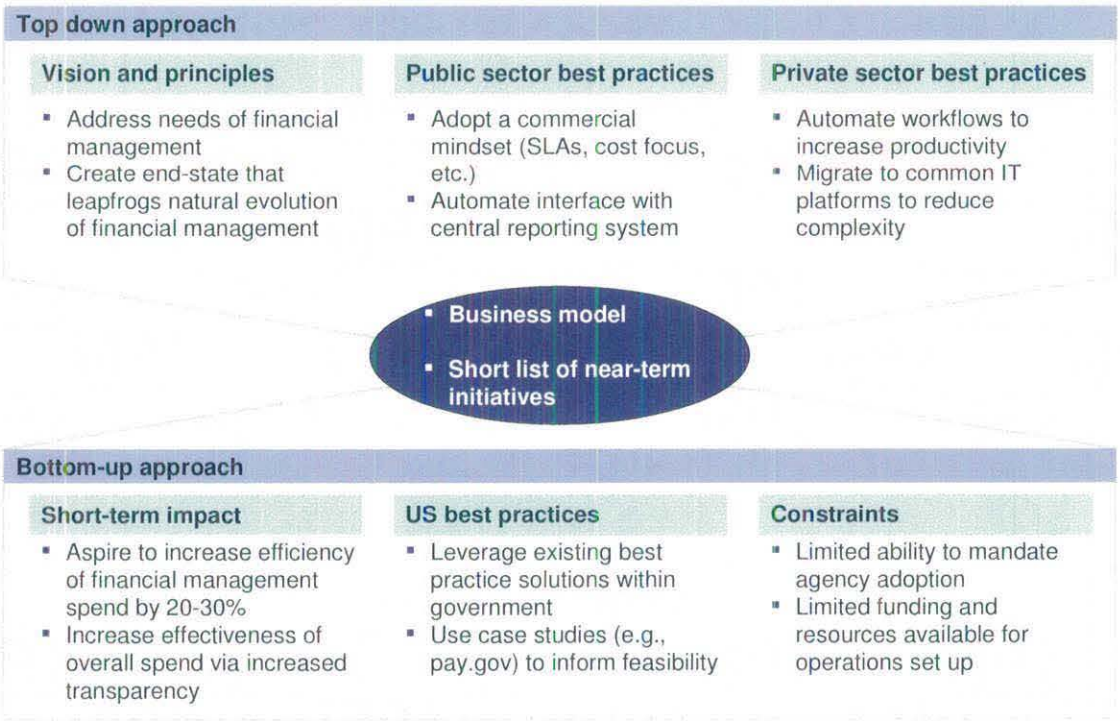
systems and data stores may be optimally performed by Treasury?	of which six are recommended to be owned by Treasury
What elements of existing functions should be modernized, which elements automated?	Exhibit 13 outlines the changes in technology landscape and the modernization recommend for the government to undertake
What is optimal scope of selected functions and systems?	The optimal scope of selected functions and systems are defined in the recommended initiatives ("Short-list of initiatives" Section). We have provided recommendations in the following functional areas: Core financial systems, Payables Management, Receivables management, Intra-governmentals, Shared Services Providers, General Ledger and reporting, Cash management. We also discuss ancillary areas to financial management such as loans and grants
What service model best support each of these functions?	We recommend shared technology solutions for invoicing, general ledger, Loan and collateral information management, grant payments as well as core financial management systems We recommend both a technology and service solution for collections, intra-governmentals. We also believe that some agencies would benefit from outsourcing their financial management to federal shared services providers
What oversight/support structure needs to be implemented to accommodate stakeholders?	Exhibit 63 outlines a governance structure to govern the implementation of these initiatives. This governance is inspired by our experience in the private sector and on payroll consolidation effort in government
What is the appropriate sequence and timing for major phases of program and what are quick wins?	Exhibit 32 outlines a prioritized sequence of initiatives based on ease of implementation and value capture

C. Business model and conceptual design

1. METHODOLOGY

We used a combined top-down, bottom-up approach to develop the business model in order to align the business model to the vision of federal financial management, while ensuring the business model was grounded in data collected from interviews, research, and best practices. We assessed in-flight initiatives at Treasury and agencies in order to set the context for the current state and potential future state. Exhibit 4 illustrates our approach.

Exhibit 4: Approach to developing business model and conceptual design



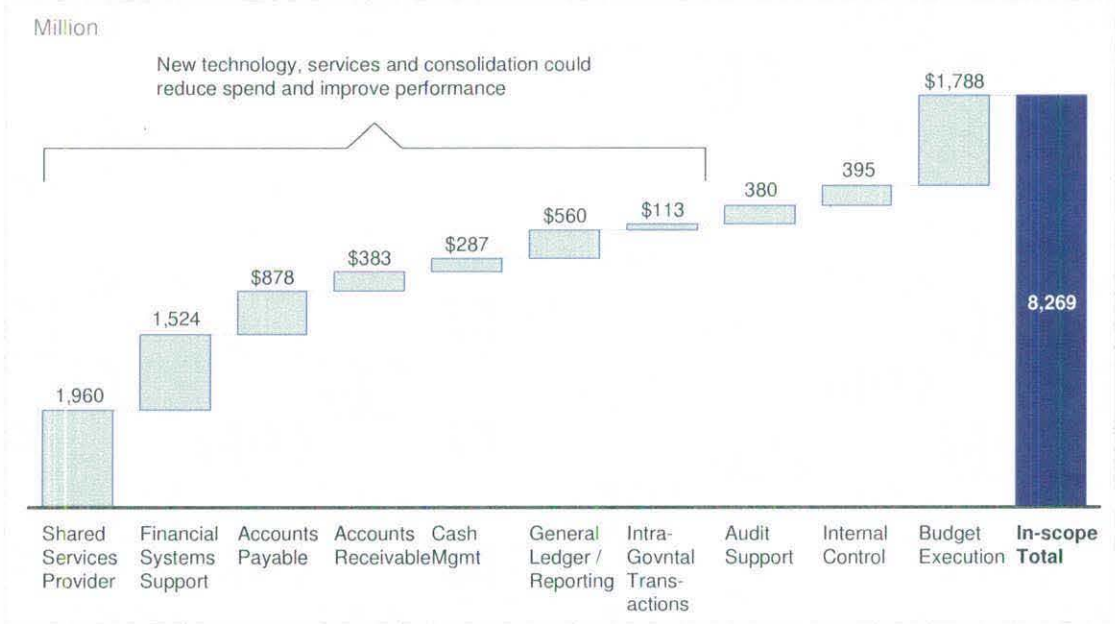
Subsequently, we compiled data from 1-on-1 interviews and site visits and identified a set of design levers under the following categories: Process, Technology, Configuration/Delivery, and Ownership/Location. See Exhibit 5 for a summary of design levers.

Exhibit 5: Design levers considered for development of business model

1 E.g., standard reporting
2 Shared database; shared data elements

2. CURRENT STATE

Exhibit 6: Summary of financial management functions in scope



1 Include audit support, cost accounting, OIG, Internal control
2 Include Grants, Loans, Personnel, Procurement, Audit policy, Others

As illustrated in Exhibit 6, there are seven key functions in financial management that are within the purview of OFIT's modernization efforts. These functional areas comprise roughly $6 billion of the total $8.2 billion spend annually on financial management in the government, and are the primary opportunities for improvement due to their transactional nature addressable by OFIT.

A. Shared Services Providers

B. Financial Systems Support

C. Payables Management

D. Receivables Management

E. Cash Management

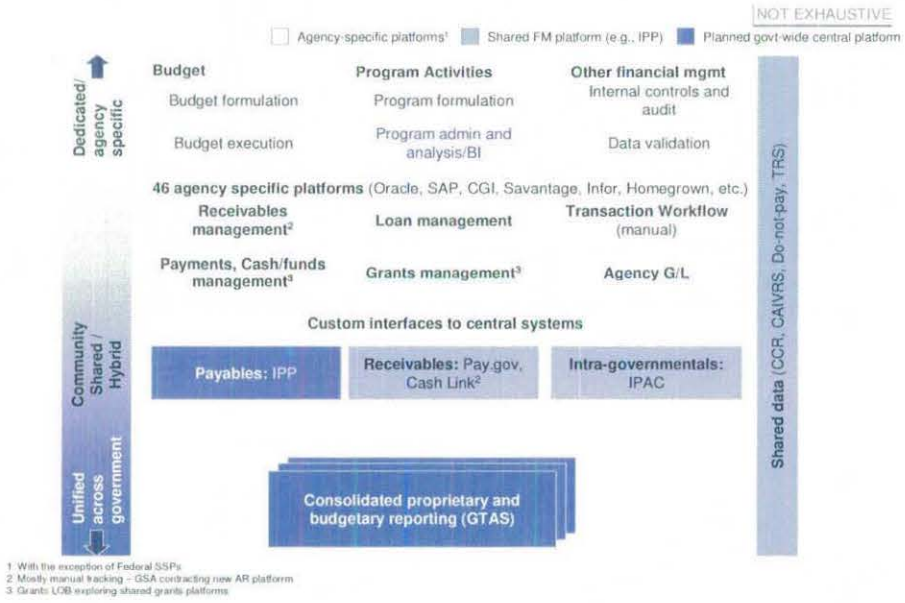
F. General Ledger/Reporting

G. Intra-governmental Transactions

We have also included short sections on H. Grants and I. Loans as they relate to financial management (though, we anticipate these efforts to be driven by the LOB).

Currently, these functions are addressed by various systems and processes across government. Exhibit 7 illustrates the current business model of financial management in government with respect to these functions.

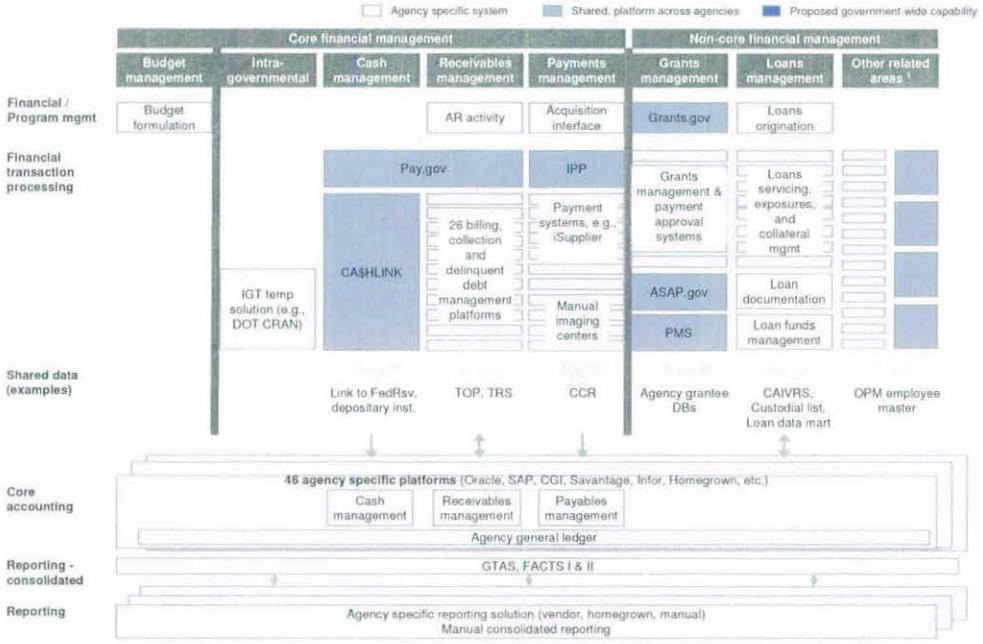
Exhibit 7: Current State Business Model



We found the current business model to lean more towards an agency-driven approach to financial management where many of the core functions are handled individually by agencies on their own platforms. There is currently some movement to community/shared systems and processes, and initiatives in place to unify activities across government (e.g., GTAS). We believe this is a step in the right direction and set out to identify additional opportunities to rebalance the business model in favor of more coordinated, shared systems and processes to drive the vision of federal financial management.

Furthermore, we assessed the current technology landscape of financial management in government as illustrated in Exhibit 8.

Exhibit 8: Current State Technology Landscape



Similar to the current business model, the current technology landscape is scattered, disparate systems across agencies with significant opportunity for consolidation and increase efficiency. Further, data is inconsistent and manual reconciliation is required across interrelated systems.

When analyzing the current business model and technology landscape, we identified four thematic areas guiding financial management in the government: structure, process, technology and data. Our findings relating to these areas are summarized in Exhibit 9.

Exhibit 9: Thematic areas of current state of financial management

Structure	▪ Decentralized model with many agencies with separate financial management functions for each bureau ▪ 25-35% of transaction processing is conducted at sub-scale operations
Process	▪ Paper heavy, highly manual process that lengthens cycle time for transaction processing ▪ Processes are not standardized across agencies
Technology	▪ 46 core financial systems with multiple instances of 3 major vendor systems (Oracle, SAP and CGI) and homegrown systems ▪ Highly customized implementations for transactional financial management (e.g., Accounts Payable, Accounts Receivable, General Ledger) ▪ Lack of coordination in vendor activity to control system integrator and software costs
Data	▪ Inconsistent adoption of data standards ▪ Unavailability of financial information at the federal level until quarterly submissions of FACTS reports by agencies

We considered the current business model, technology landscape, and thematic areas as part of the strategy, tactics, policies and constraints for each function when developing the future business model and conceptual design.

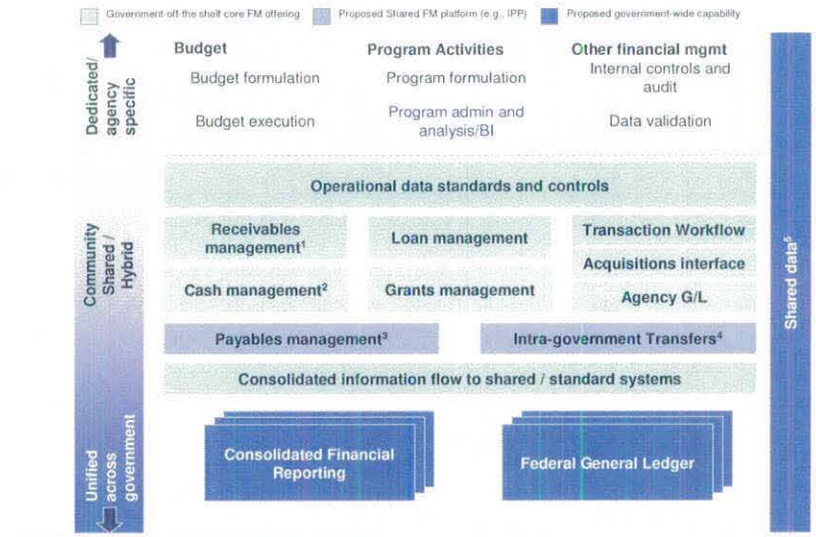
3. PROPOSED BUSINESS MODEL & FUTURE TECHNOLOGY LANDSCAPE

When considering the current state and main functional areas, we developed our hypothesis for a solution using a three-pronged approach to improve financial management spend in the government (Exhibit 10)

Exhibit 10: Three-pronged approach for financial management

Through analysis of information guided by our methodology, we defined the future of financial management across two dimensions: a) along a continuum of ownership layers and b) technology landscape. With these dimensions in mind, we are enclosing below our recommendations

Exhibit 11: Draft business model and conceptual design

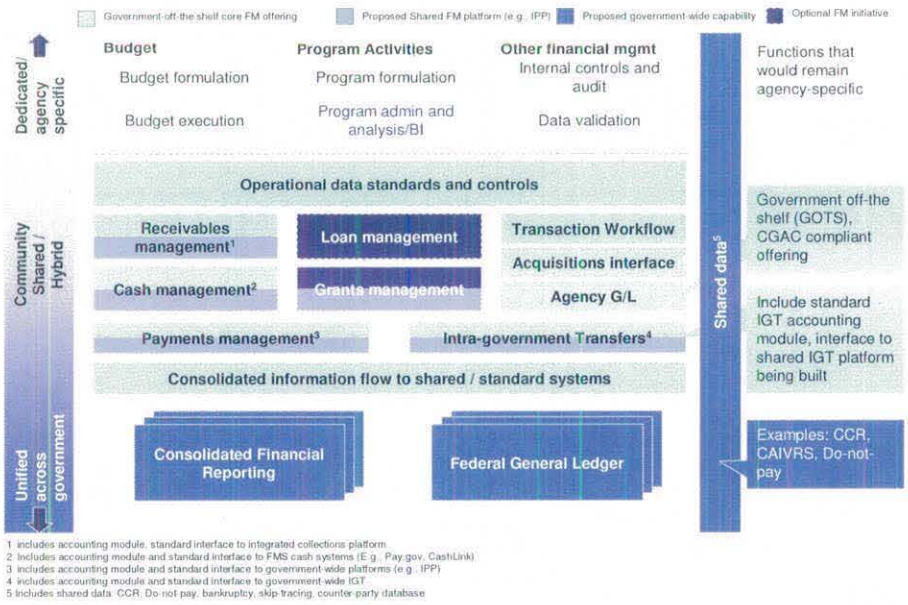


1 Includes accounting module, standard interface to integrated collections platform
2 Includes accounting module and standard interface to FMS cash systems (E.g., Pay.gov, CashLink)
3 Includes accounting module and standard interface to government-wide platforms (e.g., IPP)
4 Includes accounting module and standard interface to government-wide IGT
5 Includes shared data: CCR, Do-not-pay, bankruptcy, skip-tracing, counter-party database

The first layer begins with program and budget-specific functions, which are considered agency-specific components that are largely to be retained within the agency. The next layer consists of offerings that are community shared/hybrid, deriving most value from economies of scale and specialization. Finally, we identified a layer of components that are best unified across government. These components are inherently linked centrally and assist in delivering on the government's vision of reducing costs and increasing transparency in financial management. Accurate, timely information flow among these systems is critical to linking the layers, and is thus illustrated across all components of the conceptual design.

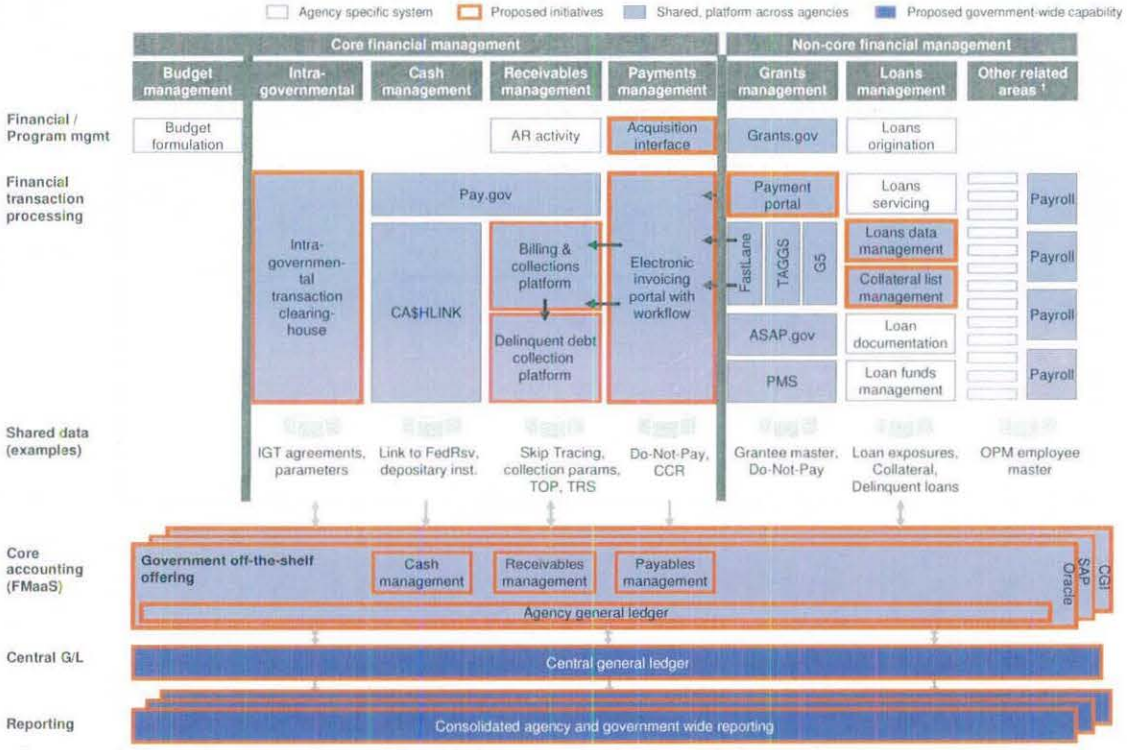
With this initial hypothesis, the team conducted a series of syndication sessions with leaders across government to validate, improve and refine the proposed business model and conceptual design. The recommended business model and conceptual design is shown in Exhibit 12.

Exhibit 12: Recommended Business Model and Conceptual Design



Once developed, we applied the business model to the current technology landscape (Exhibit 12 above) to develop a perspective on the future of technology in federal financial management. Elements of the business model and conceptual design are reflected in the future technology landscape as illustrated in Exhibit 13.

Exhibit 13: Future Technology Landscape



1 Represents other non-core processes such as acquisitions, travel, government beneficiary payments (e.g., payroll)

The proposed conceptual design and technology landscape highlights (in red) the key areas of change from the current state. The systems and interrelationships illustrated are a representation of many of the recommended initiatives described in the Short list of financial management initiatives sections in this document. At a high level, the future landscape will include:

- Primary systems to satisfy financial management in government
  - Central intragovernmental clearinghouse platform
  - Shared billing and receivables platform, complemented by collections toolkit (e.g., skip-tracing)
  - Central electronic invoicing portal
  - Central loans and collateral data management
  - Centralized general ledger
  - Shared Grants payment request platform
- Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Common data definitions in systems to facilitate seamless flow of data
- Agency general ledgers linking directly to central general ledger
- Link between acquisition, invoicing, payment and billing systems
- Sharing of data in central repositories and data warehouses

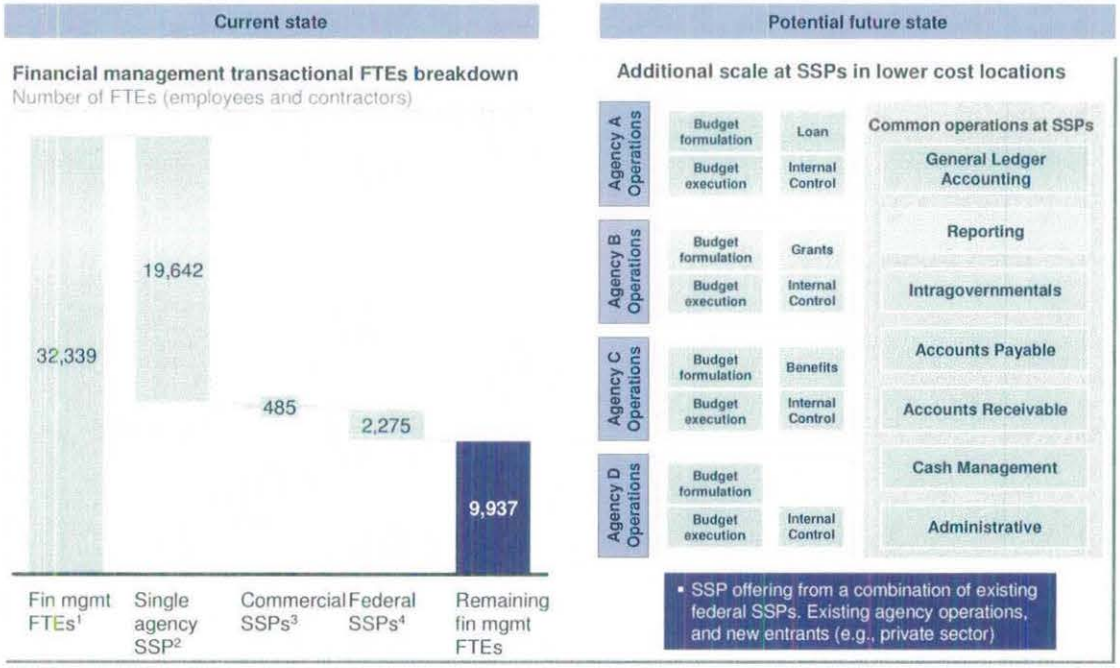
Note: diagrams are not meant to be exhaustive

The following section, Functional-specific strategies, describes in further detail our recommended future state for each of the seven key functional areas.

4. FUNCTIONAL-SPECIFIC STRATEGIES

A. Shared services providers

Exhibit 14: Conceptual Diagram for Shared Service Providers



1. Included AP, AR, Disbursement, General ledger, Intra-governmental, and travel, financial reporting, internal control, audit support FTEs + contractors from Exhibit 52
2. Single agency SSPs: DOD, USDA, HHS, NASA (assumes SSP potential for this agency is reached)
3. Commercial SSPs: EPA, DOL (assumes SSP potential for this agency is reached)
4. Federal SSPs: DOT, Treasury, DOI, GSA (assumes SSP potential for this agency is reached)

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Strategies specific to shared services providers:

Primary functions, systems to satisfy financial management in government:

- Payables Management processing
- Receivables Management processing
- General ledger accounting and reporting
- Intragovernmental transactions

Strategies, tactics, policies and constraints needed to be taken in consideration for each function:

- Leverage CFO Council benchmarking to establish service parameters for SSPs
- Develop standardized offerings with expected SLAs based on benchmarks

- Identify SSPs to support for scale-up under "new model" (transparent pricing, consistent SLAs)
- Refine mission/governance of SSPs to align with primary activities

Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Link SSPs to federal financial systems seamlessly (e.g., central trial balance platform, central general ledger)
- Provide interfaces for agency feeder systems (e.g., grants and loans platforms)
- Support common data definitions (e.g., CGAC elements)
- Provide interfaces to shared government financial management platforms (e.g., IPP)

Opportunities to change central functions and lessen agency's burden:

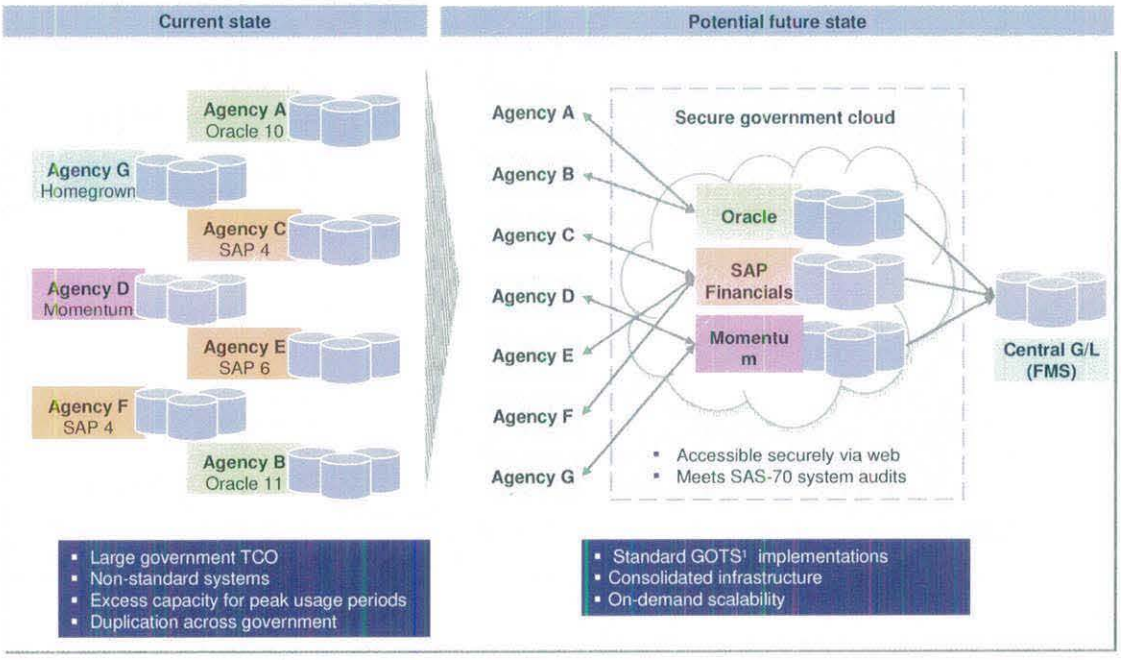
- Payables Management processing should be moved to shared service providers where possible
- Receivables Management processing should be moved to shared service providers where possible
- General ledger accounting and reporting for agencies and departments that do not currently have at-scale, internal centralized functions should leverage shared services and systems

Elements of existing functions that should be modernized and/or automated:

- Core financial systems used by SSPs should be modernized to an on-demand, scalable financial system

B. Financial systems support

Exhibit 15: Conceptual Diagram for Financial Systems Support



1 Government off-the-shelf defined as a base COTS product with a Federal configuration

Primary functions, systems to satisfy financial management in government:

- Core financial systems (e.g., Oracle, SAP, Momentum)
- Interfaces connecting core systems with feeder and reporting systems
- Ancillary financial management modules (e.g., iSupplier, Procurement)

Strategies, tactics, policies and constraints needed to be taken in consideration for each function:

- Work with CCB and vendors to define standard core financial systems offerings that can be delivered via a cloud
- Negotiate pricing with vendors for SaaS solutions
- Identify/enhance core financial data elements to be included in solution
- Issue guidance to designate Standard CFS as the default option for future upgrades

Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Link shared, on-demand systems into agency feeder systems through common interfaces (e.g., link to grants and loan systems)
- Support common data definitions (e.g., CGAC elements)

Opportunities to change central functions and lessen agency's burden:

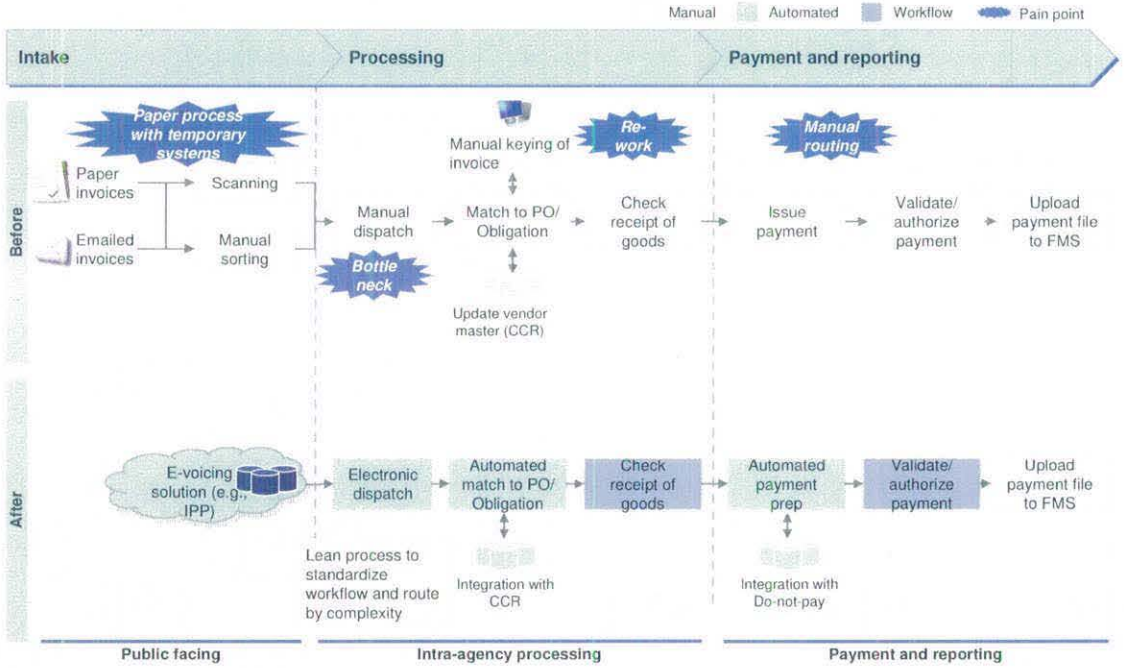
- System hosting and IT infrastructure to be moved to the cloud (via centralized or vendor infrastructure)
- Systems operations & management to be handled by cloud provider

Elements of existing functions that should be modernized and/or automated:

- Modernize core financial systems to current versions with vendor support
- Move agencies to standardized, shared, on-demand, scalable systems over time
- Reduce the number of instances within government

C. Payables Management

Exhibit 16: Conceptual Diagram for Payables Management



Function-specific strategies

Primary functions, systems to satisfy financial management in government:

- Purchase request/Purchase order
- Vendor maintenance
- Receipt/approval of goods/services
- Invoice receipt, approval, and payment
- Returned payments management
- Payables analysis
- Payment platform - Internet Payment Platform (IPP)
- Payee database (CCR, Do not pay)

Strategies, tactics, policies and constraints needed to be taken in consideration for each function:

- Conduct gap analysis of potential IPP solutions, select solution

- Launch pilot with select vendors and early adopter agencies
- Socialize new vendor invoicing requirements to vendor community and establish migration date
- Pilot agencies to mandate 80% vendor adoption by 2013
- Conduct outreach to enroll additional agencies for next migrations

Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Validation against government vendor databases (e.g., CCR)
- Portal must be adaptable to agency and SSP workflow systems
- Support common data definitions (e.g., CGAC elements)
- Coordinate with central collections (e.g., Treasury Offset Program)

Recommended functions, systems, and data stores owned by Treasury:

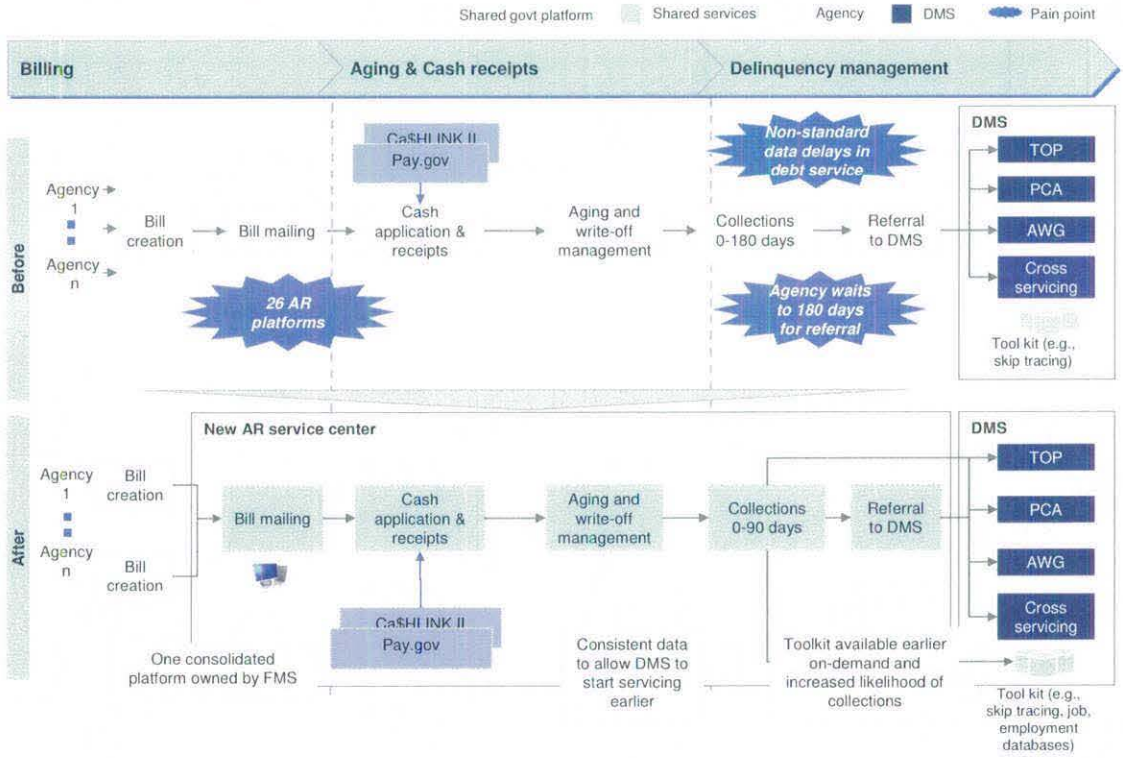
- Treasury (FMS) owns e-invoicing portal used by vendors requesting payment
- GSA owns central data warehouses (e.g., CCR)

Elements of existing functions that should be modernized and/or automated:

- Automate payments workflow though use of technology and standard processes
- Develop and increase adoption of vendor e-invoicing channels to reduce manual, paper processes

D. Receivables Management

Exhibit 17: Conceptual Diagram for Receivables Management



Function-specific strategies

Primary functions, systems to satisfy financial management in government

- Collection and application of receipts
- Billing and invoicing
- Debt Collection, aging
- Delinquency management
- Write off management
- Receivables analysis

Strategies, tactics, policies and constraints needed to be taken in consideration for each function:

- Evaluate and deploy integrated billing & receivables platform (e.g., GSA)

- Confirm pilot agencies and create pilot migration plan
- Create scale up plan for collections shared service
- Draft collections guidance/exec. order to change policy on delinquent debt (e.g., debt referral from 180 days to 90 days)
- Complement billing offering with collections toolkit: e.g., skip tracing, feeds to job, death, bankruptcy databases

Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Integrate with agency bill creation functions
- Link with Treasury receipt information and Treasury offset program to automate reconciliation and collections
- Validation against central databases (e.g., bankruptcy)
- Support common data definitions (e.g., CGAC elements)

Opportunities to change central functions and lessen agency's burden:

- Move to centralized collections service for transactions taking place after bill presentment

Recommended functions, systems, and data stores owned by Treasury

- Treasury owns central collections service (e.g., FMS)
- Treasury owns central data warehouses relating to AR (e.g., do-not-pay list, TRS)

Elements of existing functions that should be modernized and/or automated:

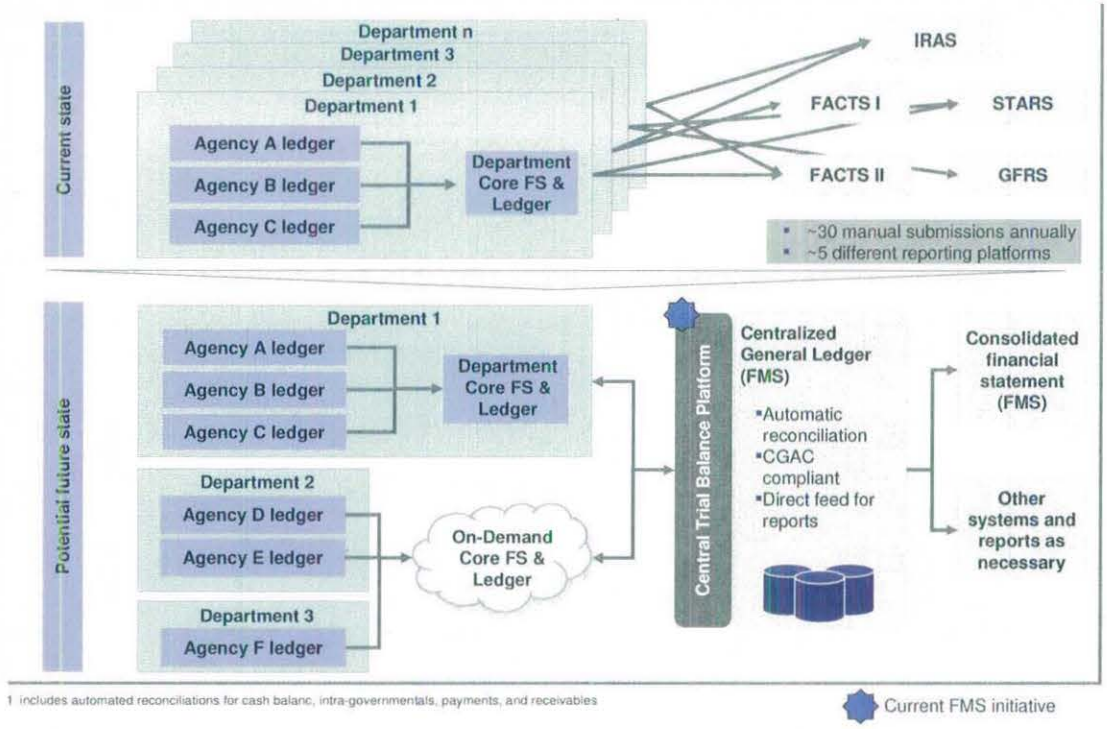
- Billing and receivables (including workflow) should employ COTS platforms and cross-reference government data warehouses
- Leverage delinquency management tools within receivables function (e.g., skip-tracing)

E. Cash management

Cash management modernization is being addressed by a separate FMS/Federal Reserve initiative.

F. General ledger/reporting

Exhibit 18: Conceptual Diagram for General Ledger/Reporting



Function-specific strategies

Primary functions, systems to satisfy financial management in government

- General ledger accounting (e.g., central general ledger platform)
- General ledger maintenance and reconciliation (e.g., central general ledger platform, central trial balance platform for reconciliation)
- Cost and revenue allocation
- Consolidation and close
- Internal control

Strategies, tactics, policies and constraints needed to be taken in consideration for each function:

- Accelerate GTAS deployment
- Form core data elements working group to define core attributes for central general ledger
- Identify pilot agencies for GTAS and initial migration
- Migrate remaining agencies to GTAS
- Select and deploy off-the-shelf solution for central ledger
- Enforce adoption of common data definitions
- Leverage shared systems to drive common data
- Use existing initiatives as building block
- Issue mandate for government-wide adoption by 2016

Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Enable automated data flow from agency ledger to central ledger through common standards and interfaces
- Support daily Treasury funds data feed to central ledger for reconciliation
- Central ledger feeds into central financial data repository and reporting systems (e.g., GFRS)

Opportunities to change central functions and lessen agency's burden:

- Agencies report data to one trial balance platform (GTAS) rather than multiple systems (e.g., IFCS, IRAS, FACTS I, FACTS II)
- Central general ledger owned and operated by Treasury

Recommended functions, systems, and data stores owned by Treasury:

- Treasury owns central general ledger platform
- Treasury responsible for central reporting (consolidated financial statements)

- Treasury reconciles with agency sub-ledger accounts and provided feedback based on payment/receipt data

Elements of existing functions that should be modernized and/or automated:

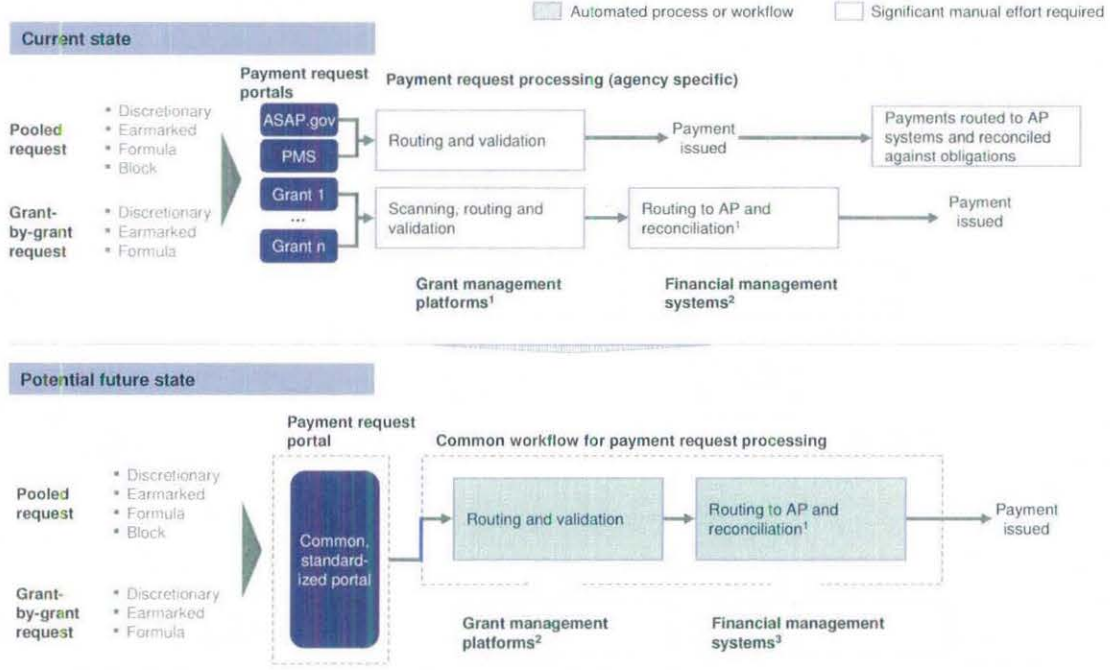
- Automate internal controls by increasing edit checks during reconciliation in GTAS and central general ledger
- Modernize central trial balance reporting through use of GTAS platform
- Automate preparation of consolidated statements from central general ledger using reporting tools (e.g., Hyperion)

G. Intragovernmental Transactions

Please refer to FIT IGT Business Case Analysis report for further discussion on Intragovernmental Transactions

H. Grant payments management

Exhibit 19: Conceptual diagram for grants payments management



1 For pooled requests this involves allocation of total amount to the individual grant accounts
2 Includes department/agency/program specific grant platforms (GMS) and shared platforms (e.g., G5, HSS-ACF, NSF)
3 Includes automated posting of transactions to general ledger and standardized payments data for streamlined reporting

Function-specific strategies

Primary functions and systems:

- Payment request intake
- Payment request routing and validation
- Interface with AP systems
- Payment accounting (including allocation to grant accounts)
- Payables analysis
- Grants platforms and systems (e.g., ASAP.gov, PMS, Grants.gov, central grants platform)

Strategies, tactics, policies and constraints need to be considered:

- Conduct gap analysis of potential payment request portals (ASAP.gov, PMS, grant program-specific), select solution
- Design integration with IPP to leverage existing payables capabilities
- Launch pilot with select grant programs and early adopter agencies
- Socialize new grantee payment request requirements to grantee community and establish migration date
- Pilot agencies to mandate 80% grantee adoption by 2014

Inter-relationships between functions, systems and data stores and primary sources of information flowing

- Validation against grant obligations to prevent over/under payments
- Portal must be adaptable to grant management systems (e.g., G5, GATES)
- Portal must be adaptable to AP financial systems and support common data definitions (e.g., CGAC)
- Integration with payables platforms (e.g., Accounts Payable module)

Areas of central functions

- Grant payment request portal to be a single, central source for federal grants payment requests

- Grant payment routing, validation and accounting workflow to be centralized in a system and link into agency program systems

Recommended functions, systems, and data stores owned by Treasury

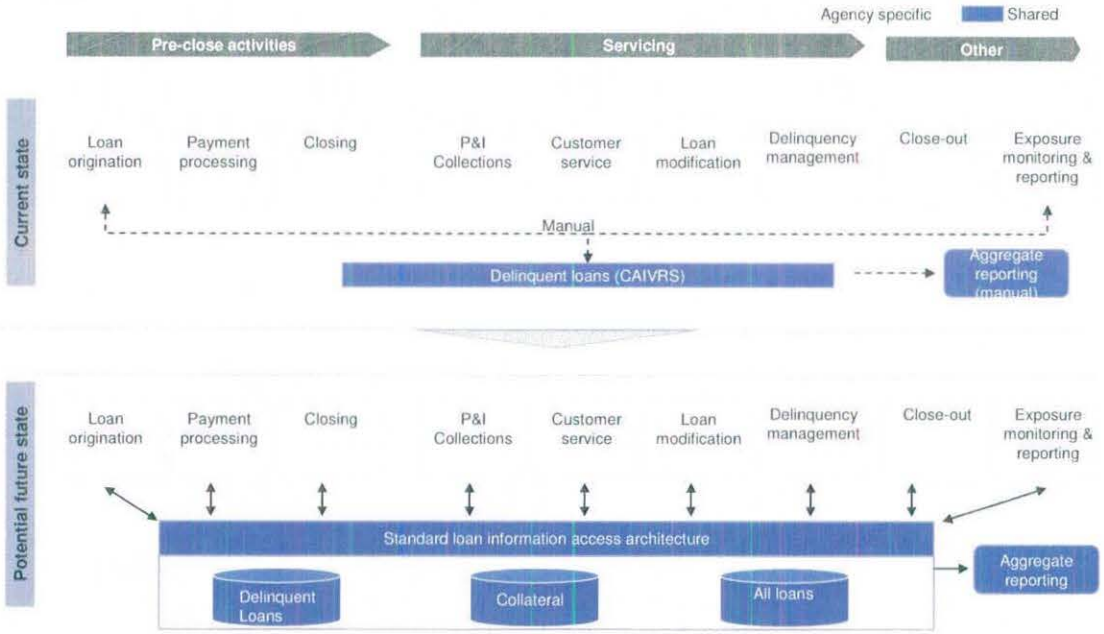
- Treasury (FMS) owns e-invoicing portal used by grantees requesting payment and the supporting workflows

Functional elements to be modernized and/or automated

- Payment request portal
- Payments request workflow systems
- Grants.gov linked with grants management portal to provide automated workflow

I. Loan information management

Exhibit 20: Conceptual diagram for loan and collateral information management



1 Agency specific collateral and loan repositories are not represented

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Function-specific strategies

Primary functions and systems:

- Loan application and origination data (e.g., loan docs)
- Loan payment data
- Loan reporting data
- Loan collateral data
- Loan custody tracking
- Loan delinquency and collections tracking
- Loan exposure management
- Loan management systems (CAIVRS, NSLDS, CLP, LAS)

Strategies, tactics, policies and constraints need to be considered:

- Conduct gap analysis of current systems and solutions (e.g., CAIVRS, NSLDS, CLP) and loan data model, select solution and future-state data model
- Assess information sharing roadblocks including legal restrictions (e.g., The Computer Matching and Privacy Protection Act) and agency objections
- Design integration with CAIVRS and loan management systems
- Launch pilot with select loan programs and early adopter agencies to conduct controlled experiment
- Evaluate impact of pilot agencies relative to control, develop business case
- Socialize business case and impact with credit community
- Pilot agencies to mandate 50% grantee adoption by 2014

Inter-relationships between functions, systems and data stores and primary sources of information flowing:

- Validation against government wide delinquency records, loan management, collateral, and custody records
- Adaptability to all loan management systems (e.g., LAS)
- Portal must be adaptable to AP financial systems and support common data definitions (e.g., CGAC)
- Interface with 3rd party servicers and their hosted systems

Areas of central functions

- Loan reporting can be performed centrally or by shared services
- Loan delinquency tracking and management through central portal
- Loan collateral and custody tracking through central systems

Functional elements to be modernized and/or automated

- Centralized loan information data warehouse
- Central loan collateral and custody list management

D. Short-list of financial management initiatives

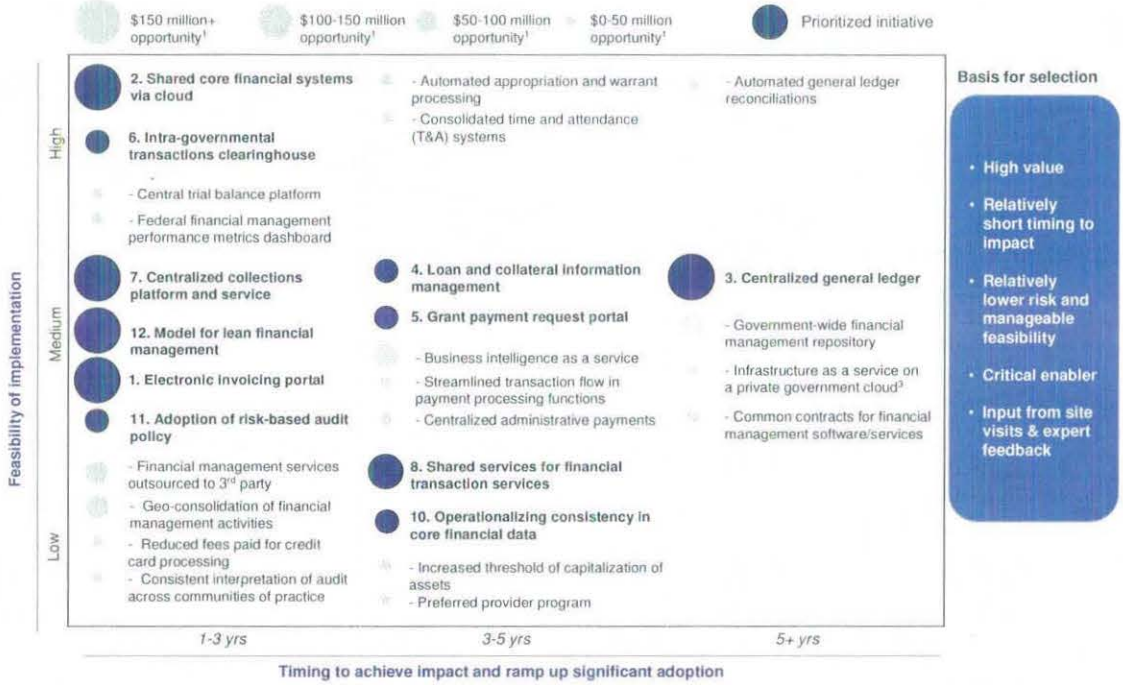
1. METHODOLOGY AND APPROACH

In total, we identified and considered 28 initiatives based on their potential alignment with the end-state vision for government financial management. Each initiative was then assessed, at a high-level, based on total potential impact, feasibility and timing. Using these factors we prioritized the initiatives and developed a short-list of high potential initiatives and consolidated into 3 core groups.

2. LONG LIST OF INITIATIVES

The initial list of 28 initiatives established was created by pulling together observations from within government, best practices from the private sector, and ideas crafted by the working teams during interviews and workshops. Once a comprehensive list was amassed each initiative was assessed at a high level, based on total potential impact, feasibility, and timing. Exhibit 20 contains the mapping of initiatives along these dimensions.

Exhibit 21: Proposed portfolio initiatives



1 Sizing of initiatives does not include required investments
2 Additional benefits to come from enhancing credit processes within government, and outside financial management spend
3 Majority of opportunity for infrastructure as a service comes from financial spend outside of scope of financial management

3. INITIATIVE PRIORITIZATION

We considered four key factors when down selecting to the short-list of initiatives:

- Large opportunity (>$50M)
- Rapid impact or foundational with minimal investment
- Relative risk and feasibility

To further validate the list, several areas of input were extracted from the advisory group, client interviews, firm experts and working teams:

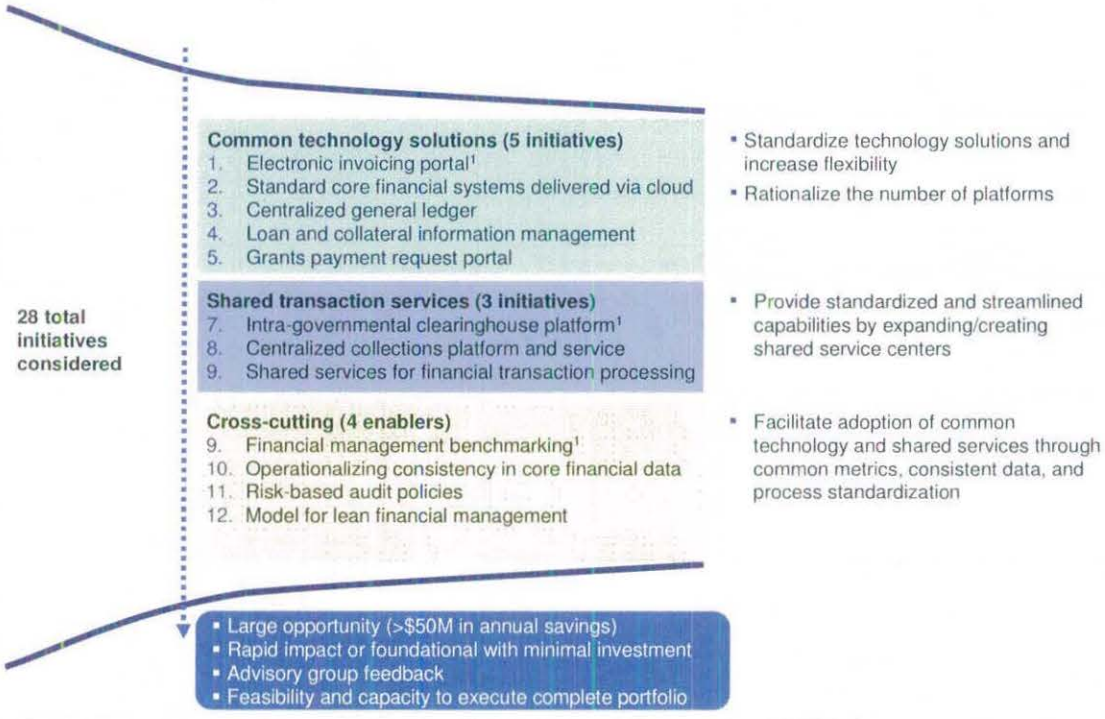
- Validation on the opportunity sizing and improvement levers
- Sharpening of the opportunity concepts and value propositions for agencies
- Suggestions to make the implementation strategy more pragmatic and tangible, including:

- Soliciting volunteers for piloting initiatives at your agency or department
- Validation of the impact timing

- Suggestions on probable critical enablers for each initiative, including:
  - **Governance**: Who should own and oversee?
  - **Mandate**: Is a mandate required? What type?
  - **Funding**: What will be the source of funding? Is a special funding vehicle required?

In addition, key enablers were identified as efforts that would be required to be performed in conjunction with the short-list to deliver timely impact.

Exhibit 22: Filtering to a short list of initiatives



1 Not part of today's discussion: Electronic invoicing portal and IGT clearinghouse platform are addressed in FIT business cases engagement; Financial management benchmarking is a current CFO-Council effort

The following section describes in further detail each of the short-listed initiatives we recommend for achieving financial management transformation in the government.

4. INITIATIVE DETAILS

4.1 STANDARD CORE FINANCIAL SYSTEMS DELIVERED VIA CLOUD

Current situation

- The Government conservatively spends ~$1.5B annually on financial systems supported by ~7K FTEs
  - There are at least 46 core financial management systems in production today with 20 deployed over 10 years ago (mix of SAP, Oracle, CGI, and numerous homegrown systems)
  - Significant cost incurred from customized enhancements, custom interfaces, and changing requirements; average implementation takes ~4 years

Concept

- Build a marketplace for standardized core financial management systems that allows agencies to migrate to a cloud-based solution rapidly
  - Work with 3 key financial management providers (Oracle, CGI, SAP) to stand up standardized financial management offerings (provide requirements, negotiate pricing and service levels, etc.)
  - Require solution to comply with financial reporting data standards
  - Deliver the solutions over a secure government cloud (shared infrastructure)
  - Identify target agencies (based on size, financial system refresh stage, and interest) and migrate agencies

Business benefits

- Savings of $170-190M annually driven by elimination of up-front investment costs, reduced operations and maintenance costs, and consolidation of operations
  - Cost avoidance by migrating to a standard cloud-based system
  - Reduced agency cost of operating core financial systems via system retirement
  - Standardized platforms built to meet needs across government for core accounting processes
  - Enhanced support for program missions by reducing implementation time from 4 years to 6-12 months

– Facilitated adoption of consistent data standards, reconciliations, and reporting

Please reference **Business model and conceptual design section** for the current and future state model for cloud offering of government core financial systems.

Exhibit 23: What is cloud computing?

Cloud is a new computing paradigm in which dynamically scalable and multi-tenant resources are provided as a service

5 core characteristics

- **On-demand self-service** (dynamic provisioning)
- **Resource pooling** (hardware abstraction)
- **Broad network access** (available anytime, anywhere)
- **Rapid elasticity** (easily scaled up or down)
- **Measured service** (opex-or usage-based billing)

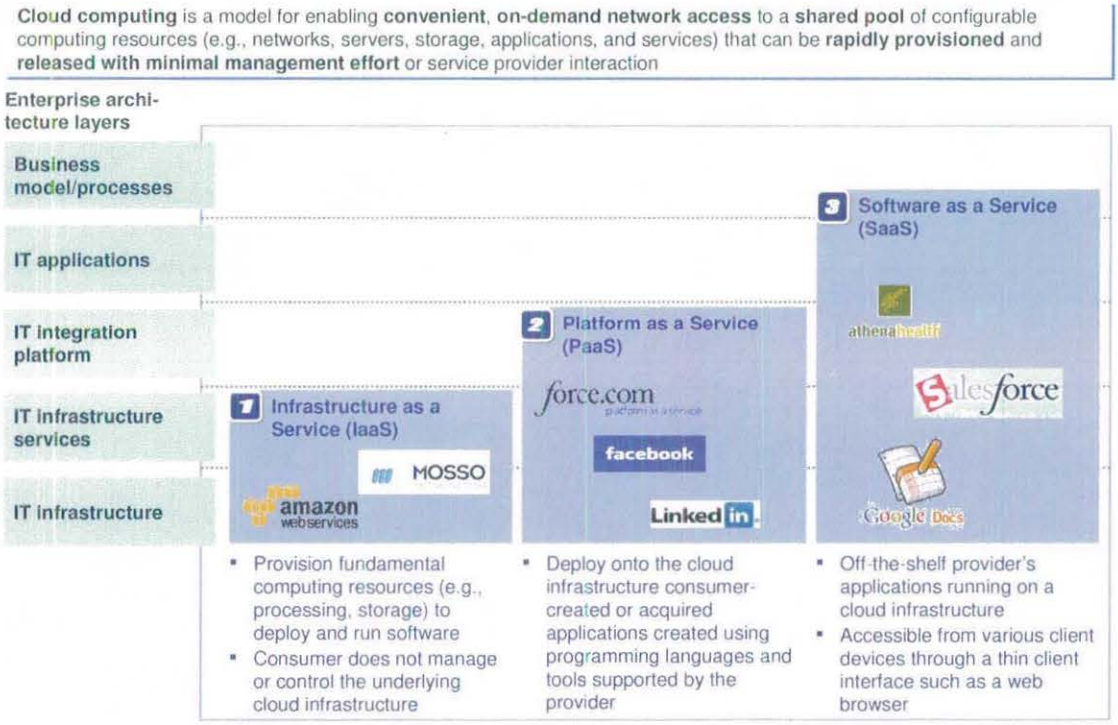
3 "as a service" models

- **IaaS** (Infrastructure as a service)
- **PaaS** (Platform as a service)
- **SaaS** (Software as a service)

4 deployment models

- **"Private"** (on premise or dedicated hosted)
- **"Public"** (off premise, multi-tenant)
- **"Hybrid"** (part Public/part Private)
- **"Community"** (restricted Public)

Exhibit 24: Cloud computing definition



4.2 CENTRALIZED GENERAL LEDGER

Current situation

- The Government spends ~$1B in general ledger accounting, reconciliations, reporting and internal control
- The government currently does not have an authoritative source of accounting information for agency and consolidated financial statement production
  - Manual quarterly submissions of budgetary trial balance data to Treasury
  - Manual annual submissions of financial trial balance data to Treasury
  - Data submitted to multiple systems 30+ times annually (FACTS I, FACTS II, IRAS, IFCS, GFRS)
  - Infrequent reconciliations between agencies and Treasury (monthly, quarterly or annually)
  - Consistency of core data elements required for reporting
  - Current plans for central trial balance (GTAS) will accept monthly trial balance submissions from agencies

Concept

- Deploy a government-wide general ledger that receives daily trial balance data from agencies and serves as authoritative source for consolidated financial statements after adoption of data standards for financial reporting
  - Build on GTAS efforts to consolidate submissions to one central platform
  - Increase number edit checks against agency trial balance data based on USSGL standards
  - Receive intra-governmental transactions daily
  - Perform daily reconciliations and trial balance feedback from Treasury to agencies
  - Adopt consistent interpretation of core data elements required for reporting

Business benefits

- Savings of ~$180-220M annually and improved accuracy in government-wide reporting (inclusive of planned GTAS implementation)
  - Reduced burden on agencies for manual reconciliations
  - Reduction of ~ 4 reporting systems (e.g., FACTS I, FACTS II, etc.)
  - Reduced burden on agencies to support consolidated reconciliations
  - Enable drilling-down of financial information to improve reconciliation and increase transparency

4.3 LOAN AND COLLATERAL INFORMATION MANAGEMENT

Current situation

- The Government has $3.1T in direct loans/guarantees across agencies (e.g., HUD, USDA, SBA, VA, ED, Treasury, DOE, SBA, DOT, DOC, DOI, USAID)
- The Government currently does not capture and share loan related information that would improve transparency into exposures, better manage risk, and reduce fraud
  - Inadequate capture and sharing of delinquent loan information (e.g., CAIVRS stood up by HUD but accessed manually) creating opportunity for loan-related improper payments

- Cumbersome and inconsistent approach for of tracking collateral related to similar loan types (e.g., housing loans across programs)
- Manual aggregation of loan related exposures for government-wide reporting

Concept

- Deploy shared source of loan information to improve management of loans throughout the lifecycle
  - Deploy a central database of delinquent loans and provide automated access to agencies during origination and servicing
  - Deploy a shared loan information repository for government-wide reporting
  - Deploy a central collateral database that is accessible by agencies

Business benefits

- Improve risk management and reduce improper payments to delinquent borrowers
  - Reduction of improper payments and improved underwriting and selected programs
  - Transparency into loan related exposures
  - Improved collateral tracking and management

4.4 GRANTS PAYMENT REQUEST PORTAL

Current situation

- Government spends ~$215M on financial management related to Grants
- Significant manual processing of Grants payments and lack of integration between Program and Payables Management systems
  - Manual intake of Grant payment requests and matching against obligations
  - Manual or email routing of payment request to agency's AP department
  - Lack of integration with Grants management platforms (e.g., G5, HHS-ACF, NSF)

Concept

- Create a standard portal for automating grant payments and workflow

- Deploy a standard portal for requesting Grant payments (potentially extending IPP capabilities)
- Automate workflow between Grant platforms (e.g., G5) and Payables Management

Business benefits

- Savings of $20-25M in improper payments and ~$50-55M of savings annually via automated intake and workflow
  - Reduced burden on grantees
  - Reduced manual effort for agency routing, validation, and accounting
  - Standardized grant payments data for agency reporting

4.5 CENTRALIZED COLLECTIONS PLATFORM AND SERVICE

Current situation

- The Government-wide Receivables Management balance is over $600B out of which ~18% (~$110B) becomes delinquent (past due) annually. The Government spends ~$380M annually on Receivables Management
  - At least 26 separate systems and processes for managing Receivables Management on debts, from generating bills, to following up on delinquencies, to processing payments
  - Many of these agencies miss opportunities to maximize collections (e.g., by referring early stage delinquencies sooner)
  - There are significant opportunities to share resources and capabilities across these agencies

Concept

- Build an end-to-end billing and collections capability that supports agencies and leverages a state-of-the-art platform and analytical tools
  - Create a centralized collections service center that executes accounts-receivable on behalf of agencies, from bill generation through payment
  - Create a centralized collections platform that agencies can use to support their own business processes related to Receivables Management, from bill generation through payment

- Build a collections toolkit that can be used by all government collections operations. Capabilities to include databases (e.g., on debtor employment, bankruptcy, and death) as analytics (e.g., skip tracing and asset research)
- Change collections policies to (a) require delinquent debt referral to DMS after 90 instead of 180 days, (b) reduce exceptions of debt referred to TOP, (c) standardize debt settlement policies, and (d) provide agencies with incentives to refer delinquent debt to DMS

Business benefits

- Deliver $350-400M in cash annually ($310-340M from improved collections and $40-60M from reduced costs)
  - Increased collection on all delinquent debts
  - Fewer debts becoming seriously delinquent
  - Decreased infrastructure spend on collections systems
  - Greater focus by agencies on their core mission, rather than being distracted by collections

4.6 SHARED SERVICES FOR FINANCIAL TRANSACTION PROCESSING

Current situation

- 20-30% of transactional financial management FTEs are in sub-scale operations (<150 FTEs)
  - Significant redundancy as agencies retain transactional activities (AP, AR, disbursement, general ledger, intra-governmental, travel, financial reporting, internal control, audit support functions)
  - ~8-12K FTEs are not affiliated with agency SSPs or with Federal SSPs
  - Agency preference for controlling resources and current quality/cost issues with existing SSPs are key barriers for further SSP growth

Concept

- Encourage consolidation, creation of new, or migration to existing shared service providers
  - Conduct benchmarking of agencies to compare performance on key cost/service dimensions

- Identify outliers from benchmark performance and require subscale agencies to migrate to improve of migrate to shared services over a period of time (2-3 years)
- Require departments (e.g., Treasury) which are not consolidated but have SSPs to move sub-scale operations into their SSP
- Require SSP (if necessary) to modify governance to ensure equitable treatment of competing demands

Business benefits

- Savings of $90-110M annually from consolidation, process standardization, demand management, and greater efficiency
  - Reduced agency burden / cost for financial transaction processing
  - Consolidation of transactional activities in lower cost locations
  - Standardization of common transactional processes

4.7 OPERATIONALIZING CONSISTENCY IN CORE FINANCIAL DATA

Current situation

- Data required for financial reporting is inconsistently implemented across agencies
  - Vendors and agencies have inconsistently translated business requirements to technical requirements (e.g., different formats for common elements such as internal fund code, period of availability, etc.)
  - Lack of clarity on core data elements required to support common financial reporting (16 core elements require specific definition)

Concept

- Accelerate and operationalize efforts to drive consistency in data and improve efficiency and accuracy of financial reporting
  - Form a "Financial Data Consistency" working group comprised to agree on the core elements required for reporting and to propose technical requirements (OFIT, BPD/ARC, DOT/ESC, FMS, selected agencies)
  - Select in-flight system implementations to field-test the proposed technical requirements

- Confirm adoption schedule of field-tested requirements by service providers (e.g., SSPs, FMS)
- Mandate implementation of technical data requirements in future systems releases

Business benefits

- Improved accuracy, consistency, efficiency in financial transactions
  - Reduced manual reconciliations and improved timeliness
  - Reduced spend on custom interfaces
  - Consistent accounting and reporting of financial data

A key component of the foundation for data standardization will be the Common Government-wide Accounting Classification (CGAC) structure published by the U.S. Financial Management Line of Business (FMLoB). The CGAC structure establishes a standard method for classifying and capturing financial effects related to government business activities. These standards seek to address the fragmented and heterogeneous landscape of classification structures in place today. Per the FSIO initial publication (www.cio.gov/documents/CGAC_Structure_Report_07-31-07.doc):

The CGAC structure increases standardization in the following ways:

- *Identifies the elements to be used for classification*
- *Establishes standard names, definitions, and formats for the elements*
- *Aligns the values of similar codes used by OMB and Treasury.*

CGAC addresses 3 reporting areas: cash reporting, financial statements, and budgetary reporting. Across these areas there are over 60 core CGAC elements that drive reporting requirements. Of these, 30 are essential to operationalizing data consistency and enabling government-wide central reporting as required by OMB. Exhibits 25 and 6 detail the landscape of CGAC components and highlight the essential elements.

Exhibit 25: Current and future state for operationalizing consistency in core financial data

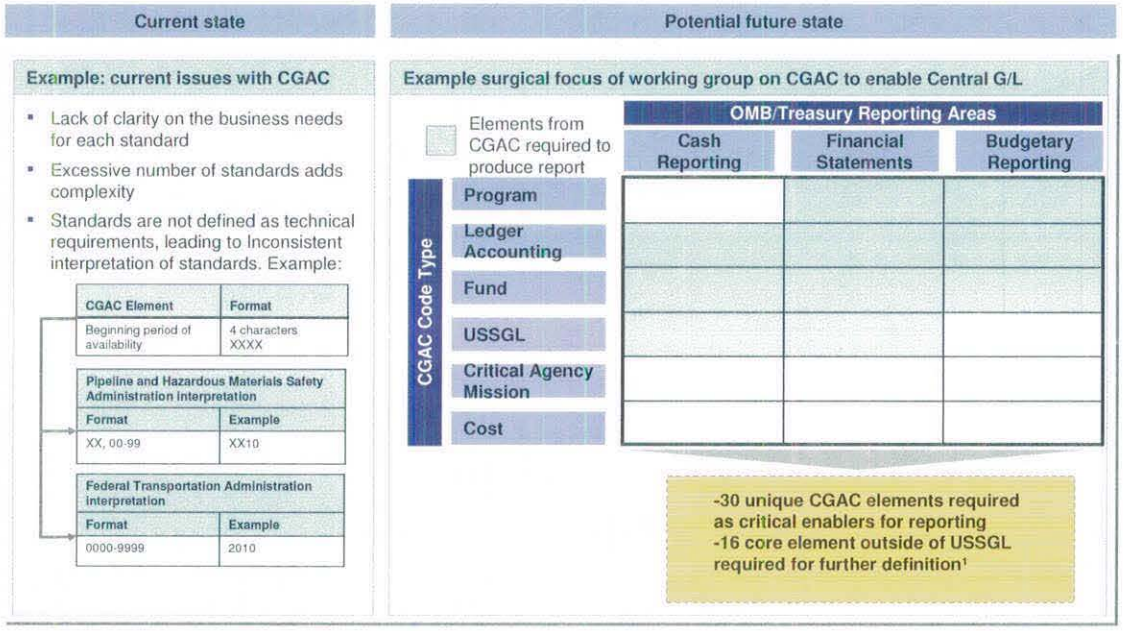


Exhibit 26: Dimensions of CGAC data standards

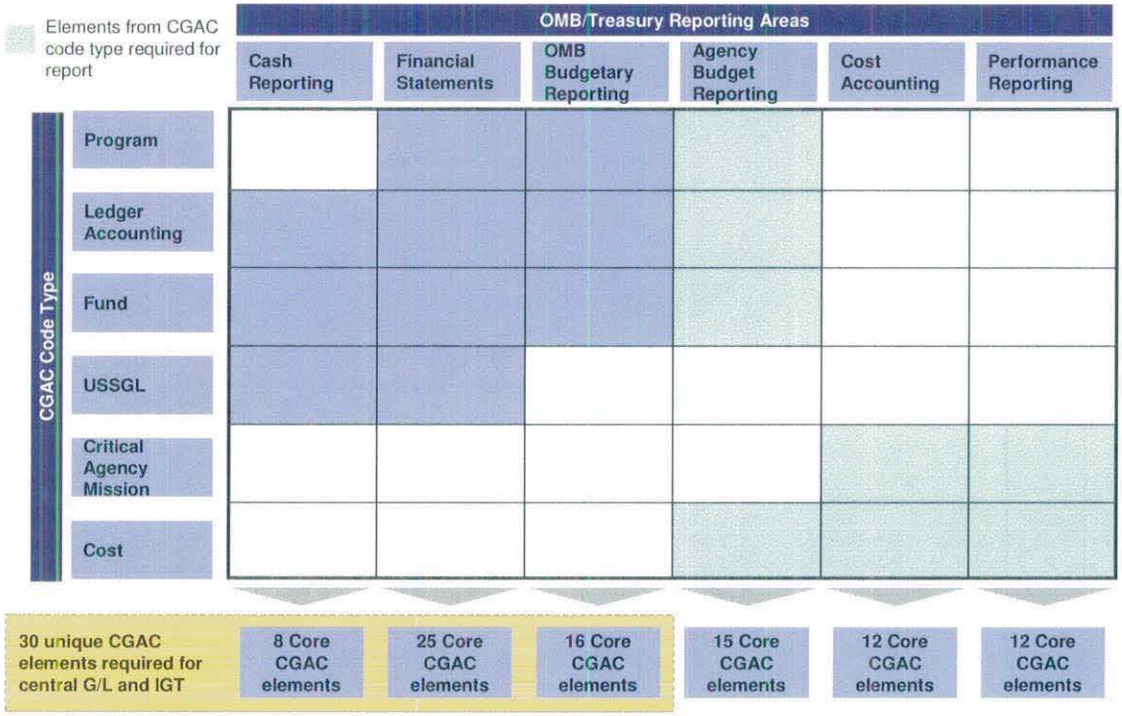


Exhibit 27: Example – Inconsistent implementation of data elements within an agency

Category	Element	Definition	Format
Fund / Treasury Account Symbol	Beginning period of availability	In annual and multiyear accounts, identifies the first year of availability under law that an account may incur new obligations.	4 characters XXXX

Pipeline and Hazardous Materials Safety Administration interpretation	
Format	**Example**
XX, 00-99	XX10

Federal Transportation Administration interpretation	
Format	**Example**
0000-9999	2010

Implications

- Difficulty in producing consolidated accounts due to inconsistent data elements across agencies
- Non-standard CFS implementations within an agency with multiple data interfaces is required
- Embedded logic in agency-defined codes causes reliance on individual's knowledge to decipher codes

4.8 RISK-BASED AUDIT POLICIES

Current situation

- Government spends ~$380M in internal and external audit
- Audit practices do not reflect improvements in financial management over last 20+ years as 20/24 agencies now have a clean audit opinion
  - Full audits conducted annually at each agency (vs. cyclical or risk-based audits)
  - High share of transaction testing and sampling (e.g., 50-100 pct in certain situations)
  - Agencies procure audit services separately

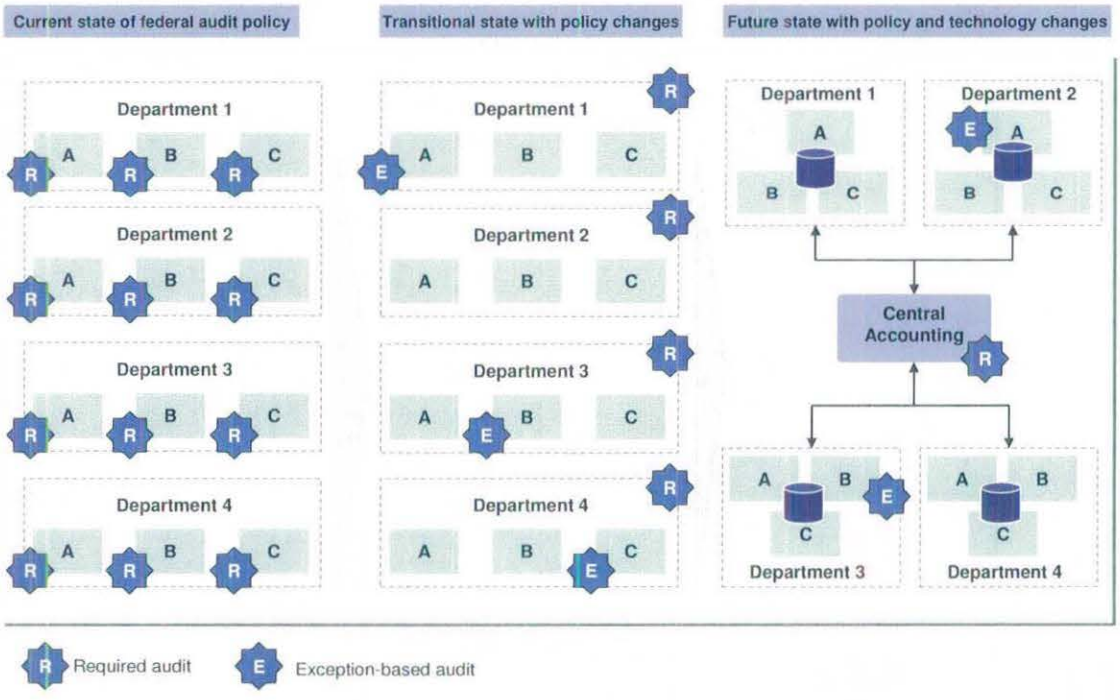
Concept

- Optimize scope of internal and external financial statement audits guided by a risk-based assessment and appropriate sized sampling
  - Conduct an Audit Policy Review to evaluate feasibility of reducing mandatory internal audits at the department level (e.g. develop exception and risk based guidelines based on different maturity in financial management, optimize frequency of audits, rationalize sampling, etc.)
  - Strategically source audit services by pooling contracts of external auditors by communities of practice (e.g., loans-based agencies use same auditors)

Business benefits

- Investment in audit would be focused on addressing high risk issues which would increase value and allow for savings up to $70-90M annually
  - Increased value delivered by current audit processes
  - Consistent interpretation of audit guidelines across agencies

Exhibit 28: Current and future state of risk based audit policies



4.9 MODEL FOR LEAN FINANCIAL MANAGEMENT

Current situation

- Inefficient process for transaction financial management with significant variability in performance across functions
  - Lack of standard operating procedures for common activities (e.g., invoice processing)
  - Rework and redundancies (e.g., trial balance information entered manually 5 times: FACTS I, FACTS II, IRAS, STARS, GFRS)
  - Inconsistent performance management (e.g., lack of common metrics for similar activities)
  - Inefficient utilization of transactional workforce (e.g., bills routed and prioritized by customer rather than by complexity)
  - Preliminary benchmarking indicates variability of 2-3x of costs in certain functions

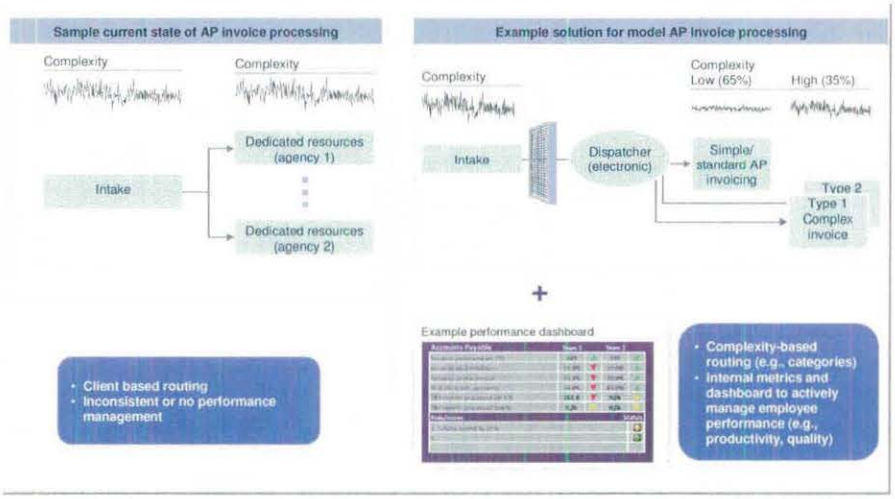
Concept

- Conduct a demonstration project with an interested agency to create a model for lean financial management to set the standard for the rest of government
  - In conjunction with the implementation of a technology solution (e.g., IPP, IGT, Core Financial System); or on an agency's end-to-end financial processes
  - Codify best practices as a model and propagate on an agency-by-agency basis

Business benefits

- Lean programs deliver on average 15-30% savings through
  - Elimination of non value added activities
  - Improved demand management
  - Improved productivity via performance management
  - Standardization of transactional processes

Exhibit 29: Example – lean program within AP invoice processing



E. Transformation roadmap

1. METHODOLOGY AND APPROACH

The proposed list of initiatives will have a large impact on the financial management landscape. There are three main objectives for this transformation:

- Reduce financial management costs by ~ $1B in three years
- Deploy shared technology solutions to address gaps in financial transaction processing and accounting
- Lay foundation for central accounting

Exhibit 29: Proposed initiatives will transform financial management

	From	To
Intra-governmentals	▪ $80 billion in un-reconciled intra-governmental transactions	▪ Automated reconciliation through a central clearinghouse
Receivables	▪ Decentralized billing and collections model with 26 platforms ▪ Delinquent debt referred to DMS in 180 days	▪ Centralized billing and collections platform as basis for consolidating ~10 platforms ▪ Delinquent debt referred to DMS in 90 days
Payments	▪ Paper-heavy, decentralized, custom invoice processing with manual paper flow	▪ Electronic, centralized, standardized invoice processing with automatic workflow
General Ledger	▪ 46 core financial management systems ▪ Consolidations relying on FACTS submission (data "pushed" by agencies)	▪ 15-30 core financial management systems ▪ Central general ledger driven reporting (data "pulled" by Treasury)
Reporting	▪ Agency-level auditable financial report ▪ Manual financial statement consolidation	▪ Federal-level auditable financial report ▪ Automated financial statement consolidation
Loans	▪ Fragmented or missing information on loan exposures, collateral, and delinquent loans	▪ Easily accessible, centralized store of exposure, collateral, and delinquent loans
Grants	▪ Fragmented, grant-specific payment interfaces and workflows	▪ Standard payment request portal with a single automated workflow to route, pay and record

2. GUIDELINES FOR INITIATIVE PLANNING

We propose a three-phase guideline of build, demonstrate, and deploy for each initiative to build an implementation plan which to quickly capture value and drive rapid adoption. Exhibit 30 demonstrates the set of activities that occurs in each implementation phase.

Exhibit 30: Basic implementation approach

Phase	Activities
Build	▪ Gather business requirements ▪ Assess existing capabilities to determine if they are adequate ▪ If new solutions are required, design with preference for COTS and cloud ▪ Identify solution owners ▪ Deploy rapidly and capture value – Leverage existing capabilities and operations – Deploy standard off-the-shelf solutions where feasible – Ensure appropriate vendor and 3rd party involvement from the beginning
Demonstrate	▪ Identify agencies eager to adopt initiative ▪ Launch demonstration with selected vendors and early adopter agencies ▪ Gather feedback from demonstration and adjust deployment with vendors and solution team accordingly
Deploy	▪ Classify agencies by logical timeline (waves) for migration to the target state ▪ Deploy "Solution SWAT Team" consisting of system integrator specialists to assist agencies with migration ▪ Drive agency adoption based on needs and in-flight initiatives – Data consistency via existing and planned implementations without retrofitting – Financial systems migration leveraging upcoming refresh cycles

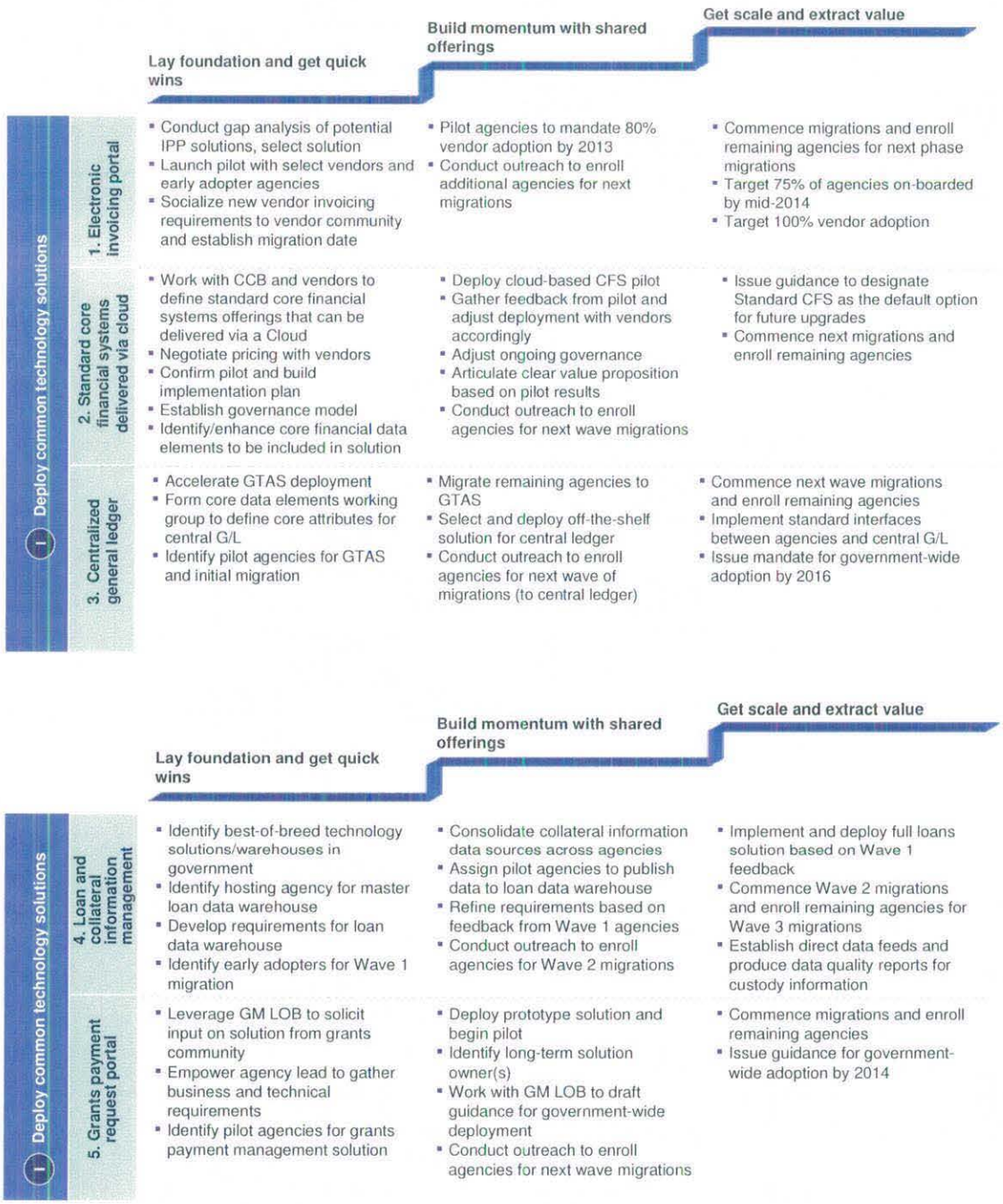
3. TRANSFORMATION ROADMAP

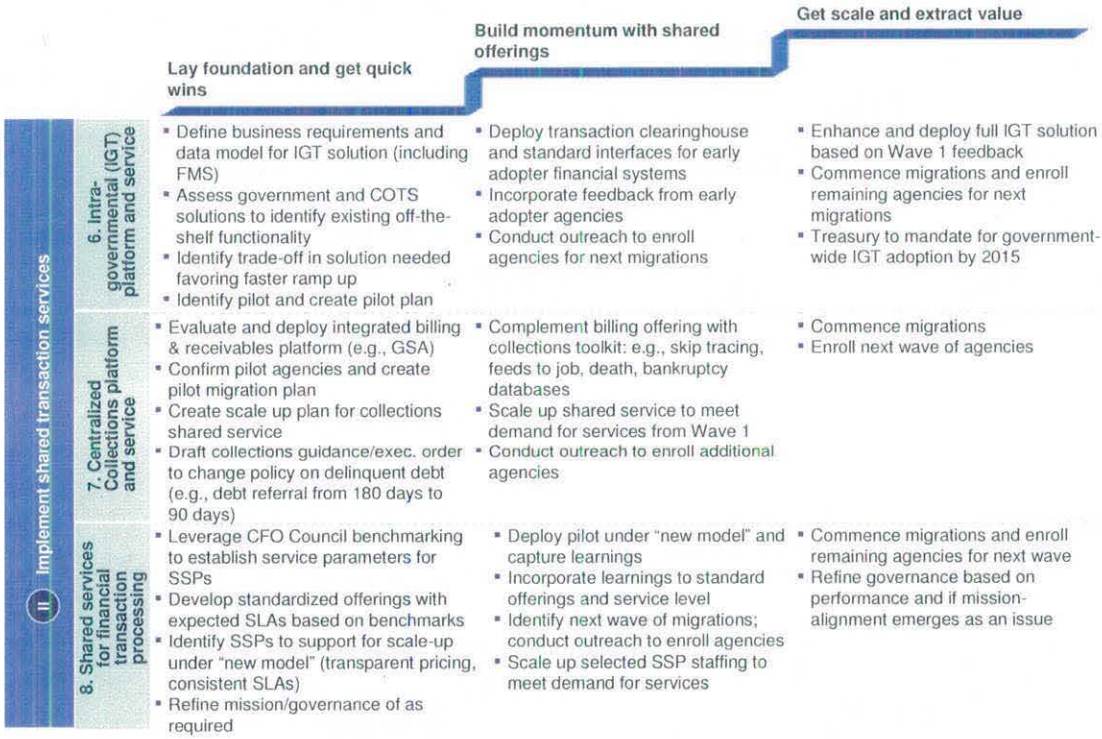
The implementation efforts for the proposed initiatives were divided into three horizons to form the basis of a multi-year transformation effort:

- Horizon 1: Lay foundation and capture quick wins
- Horizon 2: Build momentum with shared offerings
- Horizon 3: Get scale and extract value

We propose the following high level implementation plan in Exhibit 31.

Exhibit 31: Proposed transformation roadmap





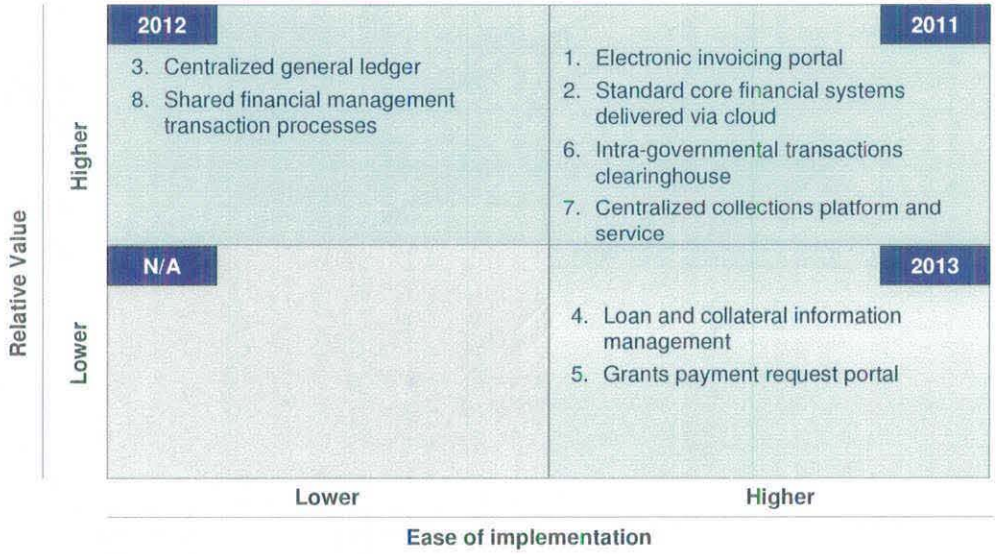
4. SEQUENCING AND TIMING

We have grouped the short list of initiatives into three logical groups based on relative value and ease of implementation. We believe that four initiatives should be the focus in 2011:

- Electronic invoicing portal and Intra-governmental transactions clearinghouse are currently in-flight
- Standard core financial systems delivered via cloud and Centralized collections platform and services should be kicked off in 2011 due to value of impact

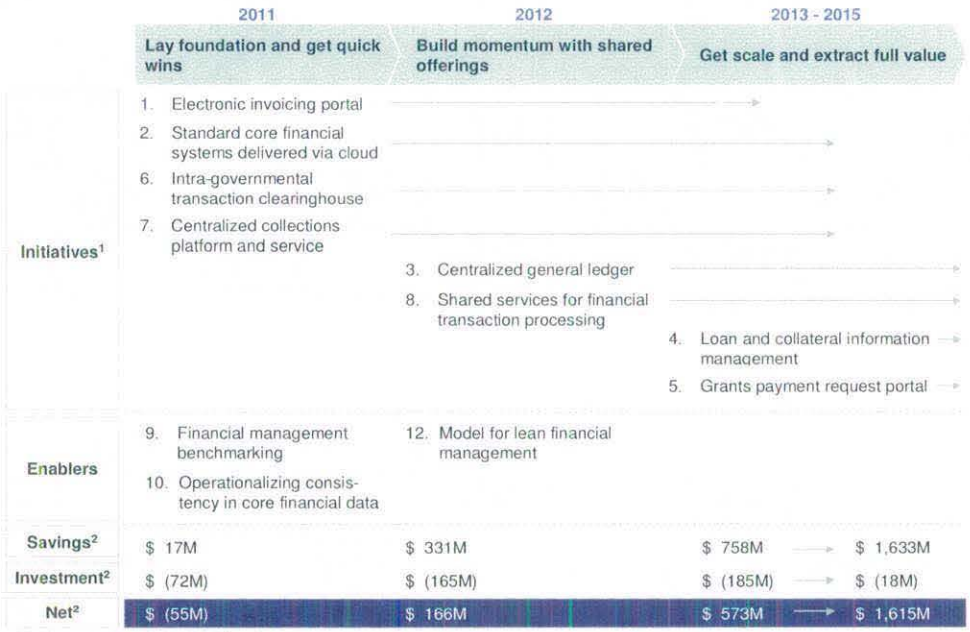
In addition, we believe financial management benchmarking and operationalizing consistency in core financial data are core enablers critical to the implementation of these initiatives

Exhibit 32: Structure and logical sequence



Enablers	Timing	Rationale
▪ Financial management benchmarking	2011	▪ CFOC has already initiated
▪ Operationalizing consistency in core financial data	2011	▪ Current pain point and dependency for other initiatives
▪ Adoption of risk-based audit policy	TBD	▪ Lower audit support and auditor contracting costs
▪ Model for lean financial management	2012	▪ Demonstrate on the back of a technology implementation (e.g., IPP)

Exhibit 33: Timing (high-level Gantt) for initiative deployment and economics



1 Risk-based audit not included (still under consideration)
2 Savings and investments are full year figures

5. POTENTIAL PILOTS

We have identified potential agencies for demonstration of each initiative after an initial round of syndication meetings. Agencies shown below have expressed interest in adopting or piloting one of the future-state solutions.

Exhibit 34: Potential agencies identified for demonstration of each initiative

AS OF 02/16/2011

		Initiative	Advisory Group DOC	DOD	DOT	GSA	HHS	✓ Pilot HUD	TREA
I	Deploy common technology solutions	1. Electronic invoicing portal	✓	✓		TBD	TBD		✓BPD
		2. Standard core financial systems delivered via cloud	✓		✓	TBD	TBD		✓BPD
		3. Centralized general ledger				TBD	TBD		✓FMS
		4. Loan and collateral information management				TBD	TBD	✓	
		5. Grants payment request portal				TBD	TBD		
II	Implement shared transaction services	6. Intra-governmental transaction clearinghouse		✓	✓	TBD	TBD	✓	✓FMS
		7. Centralized collections platform and service				TBD	TBD	✓	✓FMS
		8. Shared services for financial transaction processing			✓	TBD	TBD		✓BPD
III	Launch enablers	9. Financial management benchmarking	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		10. Operationalizing consistency in core financial data	✓	✓	✓	TBD	TBD		✓BPD
		11. Risk-based audit policies	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		12. Model for lean financial management				TBD	TBD		

Note: Discussion with remaining agencies recommended including DOE, VA, DHS, DOL, State, EPA, NASA, NSF, NRC, OPM, SBA, SSA, USAID, USDA, DOJ, DOI
SOURCE: Team interviews

F. Refined "value at stake"

Federal financial management spend is conservatively estimated to be $8 billion. Of this, the recommended initiatives address $6B and deliver savings to the government of approximately $1B in 3 years and $1.7B in 5 years. The total one-time investment for these initiatives is approximately $500M over the 5 planned years of implementation. All figures below, as with those above, are approximate and have been ranged in all final assessments.

For each of the short-list of initiatives detailed in herein, a detailed assessment was conducted to gauge the potential impact or savings that would result if the solution were to be implemented in accordance with the established roadmap (**Transformation roadmap** section). The nature of these savings was evaluated along two dimensions:

- Efficiency: Bottom-line savings resulting from the direct reduction of operations & maintenance (O&M) costs such as transaction labor, maintenance labor, system fixes/upgrades/enhancements, and etc. These costs will be realized as net reductions in operating costs (relative to the estimated 2010 baseline) once the solution has been fully implemented.
- Effectiveness: Savings not reflected in operating budgets that derive from such activities as increased collections and avoidance of improper payments.

In addition, each short-listed initiative was assessed according to the investments and resources that would be required to stand up the solution. These specific outlays were estimated based on the source of the costs (e.g., spend on internal resources, spend on external resources) according to the following definitions:

- Internal costs: Internally expensed costs related to the time and effort of government resources and systems (e.g., systems, servers, storage, etc) and allocation of external expenses for fixed bid contractors that do not result in additional fees.
- External costs: All expenses resulting from external resources that require direct outlay of funds by the government.
- *Note: We did not include the cost of minor lost productivity, for example for current employees taking a day to attend a training session. Instead, our focus was primarily on sizing the costs of tuition for these employees to attend the training session*

The economics for the aggregate program and each initiative are laid out in the following sub-sections, organized accordingly to the following structure:

1. Overall business case: Overview of timing for aggregate savings and investment across all short-listed initiatives and enablers
2. Initiative summary: Inventory of each initiative savings (3 year and 5 year), total investment required, and key economic assumptions
3. Savings and investment detail – by initiative: Core assumptions, fact base, and economic model that was employed to establish the savings and investment estimates

It's important to note that the numbers below are approximated and not exact.

1. OVERALL BUSINESS CASE

Exhibit 35: Annualized program savings and total one-time investment
($ million)

	Run-rate	2011	2012	2013	2014	2015	Annualized rate (After full implementation)
Benefits	$ 1,721	$ 17	$ 331	$ 760	$ 1,283	$ 1,619	$ 1,721
Efficiency	$ 1,379	$ 17	$ 239	$ 496	$ 973	$ 1,297	$ 1,379
Effectiveness	$ 342	$ -	$ 92	$ 264	$ 320	$ 341	$ 342
	Total	**$ 2,011**	**$ 2,012**	**$ 2,013**	**$ 2,014**	**$ 2,015**	
Investments	$ (513)	$ (72)	$ (188)	$ (186)	$ (73)	$ (16)	$ -
Build	$ (79)	$ (46)	$ (20)	$ (2)	$ (12)	$ -	$ -
Demonstrate	$ (13)	$ (2)	$ (3)	$ (6)	$ (2)	$ (1)	$ -
Deploy	$ (420)	$ (24)	$ (142)	$ (178)	$ (59)	$ (17)	$ -
Net cash flows		$ (55)	$ 167	$ 574	$ 1,220	$ 1,619	
Cumulative savings		$ (55)	$ 112	$ 686	$ 1,907	$ 3,526	

Exhibit 36: Initiative timing

Timing assumptions								Rationale
Electronic invoicing portal								
Timing of savings	**Total**		**2011**	**2012**	**2013**	**2014**	**2015**	
Efficiency	$	447		37%	58%	84%	100%	Deployed in 3 1/2 year waves beginning in 2012;
Effectiveness	$	-		37%	58%	84%	100%	savings realized rapidly following implementation
	$	447						
Timing of costs								
Build	$	(9)	100%					Planning is underway, system build to be complete
Demonstrate	$	-						by EOY 2011 and deployment
Deploy	$	(73)		52%	43%	5%		
Intra-governmental transaction clearinghouse								
Timing of savings	**Total**		**2011**	**2012**	**2013**	**2014**	**2015**	
Efficiency	$	61			20%	60%	100%	Deployed in 2012; fist wave of savings realized in
Effectiveness	$	-			20%	60%	100%	2013 following system implementation
	$	61						
Timing of costs								
Build	$	(10)	100%					Planning is underway, system build to be complete
Demonstrate	$	-						by EOY 2011; full deployment will continue into
Deploy	$	(83)		31%	31%	26%	12%	2015
Standard core financial systems delivered via cloud								
Timing of savings	**Total**		**2011**	**2012**	**2013**	**2014**	**2015**	
Efficiency	$	188		6%	38%	85%	100%	Deployed in 2012; Process efficiencies first
Effectiveness	$	-		6%	38%	85%	100%	realized in 2013 following system implementation
	$	188						
Timing of costs								
Build	$	(4)		100%				Planning to begin immediately, demonstration and
Demonstrate	$	-	0%	17%	66%	17%		deployment following negotiation via customer
Deploy	$	(73)	0%	17%	66%	17%		control boards (CCBs)
Centralized general ledger (GL)								
Timing of savings			**2011**	**2012**	**2013**	**2014**	**2015**	
Efficiency	$	217				21%	73%	Planning to begin immediately
Effectiveness	$	-				21%	73%	
	$	217						
Timing of costs								
Build	$	(12)				100%		Planning to begin immediately, deployment
Demonstrate	$	(2)	10%	23%	22%	28%	17%	following implementation of data standards, GTAS,
Deploy	$	(36)	10%	23%	22%	28%	17%	etc.
Grants payment request portal								
Timing of savings			**2011**	**2012**	**2013**	**2014**	**2015**	
Efficiency	$	56				41%	96%	Savings first realized in 2014 following initial
Effectiveness	$	22				41%	96%	deployment
	$	78						
Timing of costs								
Build	$	(2)			100%			Planning, demonstration, and deployment to
Demonstrate	$	(4)			54%	31%	15%	being in 2013 (following IPP implementation)
Deploy	$	(4)			54%	31%	15%	

Centralized collections platform and service

Timing of savings			2011	2012	2013	2014	2015	
	Efficiency	$ 51		29%	83%	97%	100%	Savings first realized in 2012 after AR platform
	Effectiveness	$ 320		29%	83%	97%	100%	setup and parallel processing of services complete
		$ 371						
Timing of costs								
	Build	$ (27)	100%					Planning and negotiation for COTS receivables
	Demonstrate	$ (3)	35%	26%	36%	2%		solution to begin immediately
	Deploy	$ (48)	35%	26%	36%	2%		

Shared services for financial transaction processing

Timing of savings			2011	2012	2013	2014	2015	
	Efficiency	$ 102		6%	38%	85%	100%	Significant savings following planning, scaling, and
	Effectiveness	$ -		6%	38%	85%	100%	demonstration (Q4 2012)
		$ 102						
Timing of costs								
	Build	$ (16)		100%				Planning and demonstration to begin in early 2012
	Demonstrate	$ -		42%	43%	13%	2%	
	Deploy	$ (63)		42%	43%	13%	2%	

Risk-based audit policies

Timing of savings			2011	2012	2013	2014	2015	
	Efficiency	$ 87			13%	36%	75%	Policies to be established to take effect in early
	Effectiveness	$ -			13%	36%	75%	2013
		$ 87						
Timing of costs								
	Build	$ -						No incremental costs expected
	Demonstrate	$ -						
	Deploy	$ -						

Model for lean financial management

Timing of savings			2011	2012	2013	2014	2015	
	Efficiency	$ 170	10%	25%	38%	96%	100%	Very rapid savings expected following pilot
	Effectiveness	$ -	10%	25%	38%	96%	100%	program of 3 months
		$ 170						
Timing of costs								
	Build	$ -	100%	47%	44%	0%		Planning to begin immediately, pilot program can
	Demonstrate	$ (4)	8%	47%	44%	0%		start within 3-4 months
	Deploy	$ (39)	8%	47%	44%	0%		

2. INITIATIVE SUMMARY

Exhibit 37: Annualized savings and total one-time investment by initiative

		Initiative	Description	Annualized savings Yr 3 ($M)	Annualized savings Yr 5 ($M)	One-time investment
I	Deploy common technology solutions	1. Electronic invoicing portal[1]	▪ A centralized web portal for vendors to submit invoices and request payments	330-360	400-450	75-85
		2. Standard core financial systems delivered via cloud	▪ Core financial management systems hosted on a cloud allowing agencies to adopt lower cost solutions	100-130	170-190	70-80
		3. Centralized general ledger (GL)	▪ Federal-level GL that pulls trial balances from agency systems and serves as an authoritative source for financial statements	10-20	180-220	40-55
		4. Loan and collateral information management	▪ Shared data repository for loan data, loan collateral, and delinquent loans	-	-	-
		5. Grants payment request portal	▪ A common portal for automating grants payments and workflow	5-10	70-80[2]	10-20
II	Implement shared transaction services	6. Intra-governmental transaction clearinghouse[1]	▪ A central exchange for agencies to agree to trade terms and reconcile the AP/AR accounting	30-40	60-70	85-100
		7. Centralized collections platform and service	▪ A shared service that manages billing and collection (debt collection) using an integrated platform	300-350	350-400[3]	70-85
		8. Shared services for financial transaction processing	▪ Consolidation, creation of new, or scaling of up existing shared service providers	50-75	90-110	75-85
III	Launch enablers	9. Financial management benchmarking	▪ Benchmarking financial management cost and performance to identify best practices and opportunities for improvement	-	-	-
		10. Operationalizing consistency in core financial data	▪ Standardized definitions of data across government to ensure compatibility of data across agencies	-	-	-
		11. Risk-based audit policies	▪ Increased focus of auditing effort on areas with the highest risk of generating a qualified opinion	15-25	70-90	-
		12. Model for lean financial management	▪ Model of streamlined financial management processing that can be leveraged across agencies	140-160	150-175	40-50
				980-1,170	1,540-1,785	465-560[4]

1 Savings for Electronic invoicing portal and IGT clearinghouse platform are addressed in FIT business cases engagement
2 Includes reduction of $20-25M in improper grant payments at year 5
3 Includes annual incremental collections of $310-340M at year 5
4 Represents internal costs of $110-150M and external costs of $355-410M

Exhibit 38: Annualized savings (5 year) and key assumptions by initiative

$ Million

	Initiative	Yr 5 Savings	Major levers and key assumptions
Deploy common technology solutions	1. Electronic invoicing portal[1]	400-450	▪ Significant reduction in AP invoicing effort across 70% of cost base (e.g., excluding DOD and 4 typical size agencies)
	2. Standard core financial systems delivered via cloud	170-190	▪ $82M savings achievable by migrating infrastructure to the cloud ▪ 10 current CFS can be migrated to cloud
	3. Centralized general ledger	180-220	▪ $34M savings from GTAS (IT rationalization, streamlined data) ▪ $121M savings from automated controls, streamlined reporting, and automated reconciliation
	5. Grants payment request portal	70-80	▪ $42M from automation (~40%) of grant payment request effort grant programs adopting the new solution (~50%)
Implement shared transaction services	6. Intra-governmental transaction clearinghouse[1]	60-70	▪ Significant automation (~50%) of $120M in intra-governmental transaction processing effort within financial management
	7. Centralized collections platform and service	350-400	▪ Consolidation of collections related platforms and AR activities ▪ Increased collection rate on delinquent debt due to faster referral to DMS
	8. Shared services for financial transaction processing	90-110	▪ $80M savings from pooling of operations (economy of scale) ▪ $10M savings from geo-consolidation (location difference in government general schedule wage)
Launch enablers	11. Risk-based audit policies	70-90	▪ $76M savings from moving default audit to federal level ▪ $11M savings from strategic sourcing of ▪ CFO-act agencies with clean opinion can move to biennial audits
	12. Model for lean financial management	150-175	▪ 23% savings from streamlining of transactional financial management activities (incl. reporting, AR, AP, etc.)

1 Economics behind electronic invoicing portal (alternative #4) and IGT clearinghouse platform (alternative #3) are addressed in FIT business cases engagement
NOTE Savings and costs for initiative are tbd (#4), not applicable (#9) or have been embedded with other initiatives (#10)

Exhibit 39: Investment summary and key assumptions by initiative

$ Million

	Initiative	One-time investment: Internal	One-time investment: External	Key assumptions
I Deploy common technology solutions	1. Electronic invoicing portal[1]	10-15	65-70	▪ Build central invoicing portal for vendor access ▪ Interface portal with various accepted agency workflow options
	2. Standard core financial systems delivered via cloud	30-35	40-45	▪ 21 platforms to migrate at cost of $3M per platform ▪ Vendor to absorb development of GOTS (government off-the-shelf) solution
	3. Centralized general ledger	10-15	30-40	▪ $8M to deploy central G/L platform ▪ Migrate CFO act agencies at cost ~$1.5M per agency
	5. Grants payment request portal	5-7	5-8	▪ Deploy payment request portal as extension of IPP ($2.8M) ▪ Migrate agencies on 6 months timeframes
II Implement shared transaction services	6. Intra-governmental transaction clearinghouse[1]	10-15	75-85	▪ Implement clearinghouse platform ▪ Scale-up central utility shared services
	7. Centralized collections platform and service	15-20	55-65	▪ $20 M to set up billing and receivables platform ▪ Scale up service center (1,500 FTEs) at $21K per FTE
	8. Shared services for financial transaction processing	30-35	45-50	▪ Scale up of 3,000 FTEs at $20K per FTE ▪ Launch performance improvement program at SSPs
III Launch enablers	11. Risk-based audit policies	-	-	▪ GAO, IG to develop new audit policy with little to no implementation costs
	12. Model for lean financial management	0-5	30-35	▪ Implement lean at 9 agencies covering 8,500 FTEs at a cost of $4M per agency

1 Economics behind electronic invoicing portal (alternative #4) and IGT clearinghouse platform (alternative #3) are addressed in FIT business cases engagement
NOTE Savings and costs for initiative are tbd (#4), not applicable (#9) or have been embedded with other initiatives (#10)

3. SAVINGS AND INVESTMENT DETAIL

3.1 STANDARD CORE FINANCIAL SYSTEMS DELIVERED VIA CLOUD

Exhibit 40: Standard core financial systems delivered via cloud - Savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	**1. Cost reduction of migrating to cloud from existing systems**		**$98 M**
	# systems migrated to on-demand platform	21	Team analysis on GAO report (Appendix page)
	# FTEs associated with retired platforms	11,354	OMB Exhibit 52
	# of user licenses (# fin. Mgmt FTEs x user license factor)	79,478	Assumed number of licenses based on GAO report case studies citing 7-10x factor between total # of licenses and Fin. Mgmt FTEs
	Cost of financial management systems ($ per year per seat)	$3,252	Analysis enclosed
	Cost of on-demand platform ($ per year per seat)	$2,014	Analysis enclosed (represents 34% reduction)
c	**2. Cost avoidance of implementing new systems**		**$44 M**
	Cost of deployment for core financial management system	$ 10.00	spending ranges from $3-30M dollars based on size of agency Source: USASpending.gov
	Number of systems planned for deployment	20	GAO report on shared services
	Number of system deployments to be avoided	10	Team analysis (balance of systems would be kept as archive)
	Avg length of deployment	4	USA spending, counting all 20 planned systems
	Number of systems in deployment each year	4	10 systems * 4 years per system / (2018 - 2009)
c	**3. Consolidate operations**		**$45 M**
	Fin system FTEs for systems in scope for FMaaS adoption	1,794	OMB Exhibit 52, O&M FTEs based on systems which could move to FMaaS
	% of FTEs working on core CFS	50%	assumption
	Fully loaded cost per FTE ($K)	$ 100	blended assumption contractor + FTE on IT systems
	Number of systems which could move to FMaaS	20.00	Closed file review of USASpending systems
	Number of systems to be retired	10.00	
	Total		**$188 M**

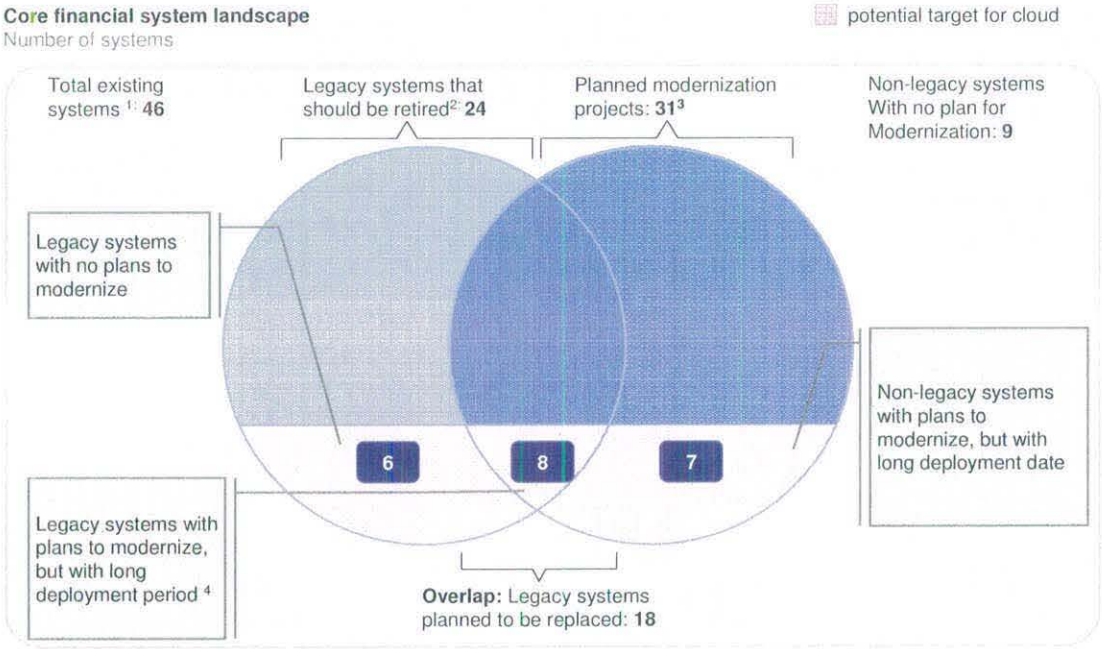
*NOTE: the letter "**c**" in the left hand column indicates an efficiency savings; the letter "**v**" an effectiveness savings*

Exhibit 41: Standard core financial systems delivered via cloud - Investments detail

	Investments ($ million)		
	Key assumption	Value	Source
	1. Build: FMaaS solution		**$4 M**
i	Cost of requirement gathering, RFP issue, vendor evaluation and pricing negotiation ($ million)	$3.5	1 PM, and 3 government teams of 3 FTEs working with each vendor (e.g., CGI, Oracle, SAP), supported by contractor (5 FTEs) to evaluate vendor responses, assist in security assessment, etc. Split between 6 months for requirements and RFP gathering, 6 months for negotiation and solution setup
x	Infrastructure scale-up	$0	Vendor to absorb cost
x	Platform implementation	$0	Vendor to absorb cost
	2. Deploy		**$73 M**
	FTE cost per migration (contractor resources)	$1.5	15 FTEs for 1 year (Example: DOT GAO migration 15 FTEs for 16 months) - 5 contractor at $300K - 5 agency FTEs at $140K - 5 platform providers at $140K
	FTE cost per migration (agency resources)	$1.4	15 FTEs for 1 year (Example: DOT GAO migration 15 FTEs for 16 months) - 5 contractor at $300K - 5 agency FTEs at $140K - 5 platform providers at $140K
	Number of migrations (# of systems)	21.0	Team analysis on systems which could move to FMaaS
x	migration cost (external cost)	$32	<calculation>
i	migration cost (internal cost)	$29	<calculation>
x	Training cost total	$ 11	- 10867 fin mgmt FTEs Source: OMB exhibit 52, CFR of agencies potential to move to FMaaS - Cost per training $988 Source: Oracle University, public sector financial application training - Assume agencies absorb loss of productivity Additional training required for remaining users absorbed by current financial management FTEs
x	PMO cost	$ 1	- 2 PMs (team experience) - 3 years (project life cycle) - $200K rate of gov't official
	Total		**$77 M**

*NOTE: the letter "**i**" in the left hand column indicates an internal cost; the letter "**x**" an external cost*

Exhibit 42: 21 systems eligible for migration strategy for core financial systems to cloud



1 Entire DOD is considered as one existing system in GAO report, consist of hundreds of agency systems.
2 Systems deployed in 2000 or earlier
3 20 planned initiatives replacing 31 systems
4 Deployment date in 2014 or later (e.g., agency has not chosen vendor to implement).
Projects that have deployment date <2014 typically are well underway or close to complete deployment and may not be good candidates for cloud migration.

Source: GAO report on financial management modernization

Exhibit 43: Financial management systems proposed for migration to cloud offering

Summary	
Number of total systems	46
Potential systems for CFS adoption	21
Legacy systems with no plans to modernize	6
Legacy systems with plans to modernize, but with long deployment period	8
Non-legacy systems with plans to modernize, but with long deployment date	7

Department	Legacy systems	Deployment dat	Legacy systems with no plans to modernize	Legacy systems with plans to modernize, but with long deployment period	Non-legacy systems with plans to modernize, but with long deployment date
Agency for International Development	Phoenix - Financial Systems Integration	1998	yes	no	no
Department of Commerce	National Technical Information Service	1990	yes	no	no
	Commerce Business System	1999	yes	no	no
	Momentum	2003	no	yes	no
Department of Education	Financial Management Support System	2002	no	no	yes
Department of Homeland Security	Integrated Financial Management Information System	1996	no	yes	no
	Federal Financial Management System	1998	no	yes	no
	Momentum Financials	2000	no	yes	no
	Core Accounting System	2003	no	no	yes
	Enterprise Financial Management System	2005	no	no	yes
	SAP	2005	no	no	yes
Department of Housing and Urban Development	HUDCAPS/FFS	1995	no	yes	no
	FHA Subsidiary Ledger	2003	no	no	yes
	Ginnie Mae Financial and Accounting System	2006	no	no	yes
Department of the Treasury	BEP Management Information System	1985	yes	no	no
Department of Transportation	DELPHI	2000	yes	no	no
General Services Administration	Pegasys	2000	yes	no	no
National Science Foundation	Financial Accounting System	1980	no	yes	no
Small Business Administration	Loan Accounting System	1982	no	yes	no
	Financial Reporting Information System/Consolidated Gener	2000	no	yes	no
	OCFO Oracle Administrative Accounting System	2001	no	no	yes

Exhibit 44: Estimated cost (per seat) for cloud based core financial system licenses

Key assumptions	Value	Source
Hosting ($ per year per annum)	$2,200	Oracle on demand hosting costs for 2,200 users
Oracle License per user (total)	$1,940	GSA schedule prior discount
License depreciation (yrs)	7	Average length of license or could be as one time
Oracle maintenance & helpdesk ($ per year per user)	$400.0	GSA schedule
Subtotal	$ 2,877	
Assumed discount rate (%)	30%	
Ending costs (per seat per year)	$ 2,014	

Triangulation for Oracle license cost -- SSA example

SSA		
Oracle on-demand (infra, maintenance, devel) $M for SSA	$1.1	USA Spending for SSA Oracle on demand at embassy system (Oracle
# of financial management FTEs at SSA	555	OMB Exhibit 52
Total users (assuming factor of 6)	3,330.0	Assumed ratio factor
Total users (assuming factor of 2)	1,110.0	
Assumed maintenance costs for Oracle at Embassy	$330.3	Represents over 50-90% discount off list price

On Demand Deployment Models			
Description	**@Oracle**	**@Customer**	**@Embassy**
Software License	Customer	Customer	Customer
Software Mgmt	Oracle	Oracle	Oracle
Infrastructure Mgmt	Oracle	Oracle/Customer	Oracle
Server Platform(s)	Oracle	Customer	Oracle
Datacenter	Oracle	Customer	Customer
Expense	Operating	CAPEX	Operating
Estimated Cost	440k	230k	325k
Assumptions: Estimated pricing only. Based on a standard 200 user E-Business Suite implementation. No customizations. Software License(s) not included in base pricing. Software implementation not included.			
Avg cost per user/year (calculated)	**2.2**	**1.2**	**1.6**

Source: Oracle

Exhibit 45: Inventory of core financial systems and candidates for cloud offering

Department/agency	FTE count	Users count (from GAO report)	Ratio (based on GAO Report)	Fin system FTE + contractor count	Fin system spend	Candidate for Cloud CFS (1 = yes)	Number of systems
Homeland Security	2,735			397	360	1	6
Commerce	1,347			346	221	1	3
Defense	40,267			2,990	5,723		
Energy	1,343			109	173		
Interior	2,060			177	286		
Justice	4,618	35000	7.58	386	539		
Labor	721			95	99		
Transportation	2,338			249	366	1	1
Education	497			139	86	1	1
Environmental Protection Agency	596			121	82		
General Services Administration	1,220			424	256	1	1
Health & Human Services	2,827			366	573		
Housing & Urban Development	988			175	190	1	3
NASA	2,063			338	314		
Nuclear Regulatory Commission	125			21	34		
National Science Foundation	208			9	36	1	1
Office of Personnel Management	210	1500	7.14	79	39		
Small Business Adminsistration	133			12	23	1	3
Social Secuirty Administration	547			59	71		
State	554			0	56		
Treasury	824			89	102	1	1
USAID	1,063			94	90	1	1
Agriculture	3,304	35000	10.59	529	399		
Veterans Affairs	4,007			44	287		
Total	**74,596**			**7,248**	**10,404**	**10**	**21**

3.3 CENTRALIZED GENERAL LEDGER

Exhibit 46: Centralized general ledger - savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	**1. Reduced spend on manual reporting and reconciliation of trial balance d**		$25 M
	Total spend related to financial reporting	$ 285.04	OMB Exhibit 52
	% of FR spend related to trial balance reporting	35%	Assumption - financial reporting spend broken into 3 main areas: financial statements, trial balance reporting, and ad-hoc reporting
	% savings related to automating and centralizing TB platform	25%	US Marines Corps as case study - achieved 47% savings from moving to central GL
c	**2. Consolidation of existing trial balance reporting systems**		$9 M
	O&M costs for existing systems (per system)	$ 3	Assumption based off DOD system ISAS O&M Spend of $3M (from it.usaspending.gov
	Number of existing systems to be replaced by GTAS	4	FACTS I, FACTS II, IRAS, IFCS
	Total current O&M costs for existing systems	$ 12	Derived (3 x 4)
	Cost of O&M for new system	$ 3	Assumption based off DOD system ISAS
c	**3. Reduced cost from improved controls**		$44 M
	Total spend related to internal controls	$ 244.42	OMB Exhibit 52
	% of internal controls that can be improved through streamlining and automation	30%	Protiviti Study on automated controls
	% savings related to streamlining manual controls	60%	Protiviti Study on automated controls - http://www.protiviti.com/en-US/Insights/Browse-by-Content/POV/Documents/POV-Automated-Controls-Protiviti.pdf
c	**4. Reduction of duplicated financial accounting and reporting efforts**		$52 M
	Total spend on financial reporting	$ 285.04	Financial reporting defined as activities associated with general internal and external reports such as financial statements, trial balance, 133, 224, 1219/1220, fund status, transaction history and ad hoc queries
	% of financial reporting directly relating to GL (e.g. statutory reporting)	25%	Assumption - financial reporting spend broken into 3 main areas: financial statements, TB reporting, and ad-hoc reporting
	% savings related to streamlined reporting through central general ledger	35%	US Marine Corps as proxy - achieved 47% savings from moving to central GL
	Total spend on budget execution	$ 1,788.21	OMB Exhibit 52
	% of budget execution relating to budgetary accounting	10%	Assumption
	% savings related to streamlined budget accounting through central general ledger	15%	Assumption
c	**5. Reduced manual reconciliations of ledger postings**		$29 M
	Total spend related to general ledger	$ 275	OMB Exhibit 52
	% of GL spend on manual reconciliations of ledger postings	30%	Assumption - financial reporting spend broken into 3 main areas: analysis, reconciliation, and posting to GL
	% savings related to streamlining ledger	35%	US Marine Corps as proxy - achieved 47% savings from moving to central GL
c	**6. Increased ability to investigate through standards and identifiers**		$13 M
	Total spend on areas where data standardization is applicat	$ 285	OMB Exhibit 52
	Amount of reporting that is ad-hoc	15%	Assumption based - site visit number quoted ranging between 30-45% of reporting
	Reduction in manual and reconciliation activities to generate ad-hoc reporting	30%	-McKinsey Finance 360 -US Marines Corps reduced FM spend with SSPs by 40% through implementing automation and process redesign
c	**7. Cost avoidance in creating customized interfaces**		$46 M
	Total spend on areas where data standardization is applicat	$ 1,524	OMB Exhibit 52
	Amount of reporting that is ad-hoc	10%	Assumption
	Reduction in manual and reconciliation activities to generate ad-hoc reporting	30%	-McKinsey Finance 360 -US Marines Corps reduced FM spend with SSPs by 40% through implementing automation and process redesign
	Total		**$217 M**

NOTE: the letter "c" in the left hand column indicates an efficiency savings; the letter "v" an effectiveness savings

Exhibit 47: Centralized general ledger - Investment detail

	Investments ($ million)		
	Key assumption	Value	Source
	Reference data		
	Cost to deploy GTAS	$ 7.5	Includes project planning, dev, test, implementation and follow-on software release
	Cost to deploy interface and crosswalk data	$ 1.4	Analog: FMS spend on creating interface from SID to GTAS and crosswalking Source: IT.USASpending.gov, MS-15316
	Deployment team consists of 2 developers, 1 req&test, and 1 team lead	N.A	Typical project management guideline - McKinsey experience
	1. Build: IT		**$8 M**
x	Infrastructure/Hardware	$ 4.0	Education has budgeted $4.3M for acquisition and implementation of hardware, COTS software and licenses and initial implementations of Enterprise Data Warehouse based on plans not yet fully developed. Source: IT.USASpending.gov
x	Software	$ 4.0	Cost of STARS general ledger FMS was $3.8M in 2007 Source: IT.USASpending.gov
	2. Build design		**$4 M**
i	Requirements gathering	$ 0.3	2 systems x 2 FTEs@$140k x 0.5 year Source: McKinsey Experience
i	Solution design	$ 0.3	2 systems x 4 FTEs@$140k x 0.5 year Source: McKinsey Experience
x	Contractors - solution design	$ 3.0	1 agency (PMO) x 12 FTEs@$300k x 1 year 3 deployment teams of 4 to cover build, test, deploy of: general ledger and 2 financial systems pilot integrations Source: McKinsey Experience
	2. Demonstrate		**$2 M**
i	Pilot data interfaces	$ 1.1	2 pilot systems x 4 FTEs@$140k x 1 year Source: McKinsey Experience
i	Pilot run (test, redesign)	$ 1.1	2 pilot systems x 4 FTEs@$140k x 1 year Source: McKinsey Experience
	3. Deploy		**$36 M**
	Number of interfaces (assume 1 interface per FM system)	22	4 for FMaaS covering 20 FM systems, remaining 24 FM systems will consolidate to 18 systems by 2013. Total of 22. Note: does not include DoD Source: GAO Report on Financial Systems
i	PMO - leadership	$ 0.8	1 agency (PMO) x 1 FTEs@$200k x 4 years Source: McKinsey Experience
i	PMO - manager	$ 0.6	1 agency (PMO) x 1 FTEs@$140k x 4 years Source: McKinsey experience
x	Contractors - deploy	$ 4.8	1 agency (PMO) x 16 FTEs@$300k x 1 years 4 deployment teams of 4 to cover design,built,test,deploy of: Treasury systems, reporting, payroll, and general ledger Source: McKinsey experience
i	Wave 1 deployments (interfaces & migration) - internal	$ 1.7	6 early adopter systems x 4 government SME FTEs x 0.5 years Source: McKinsey Experience
i	Wave 2 deployments (interfaces & migration) - internal	$ 4.5	8 wave 2 systems x 4 government SME FTEs x 1 years Source: McKinsey Experience
i	Wave 3 deployments (interfaces & migration) - internal	$ 3.4	6 wave 3 systems x 4 government SME FTEs x 1 years Source: McKinsey Experience
x	Wave 1 deployments (interfaces & migration) - external	$ 3.6	6 early adopter systems x 4 Contractor FTEs x 0.5 years Source: McKinsey Experience
i	Wave 2 deployments (interfaces & migration) - external	$ 9.6	8 wave 2 systems x 4 Contractor FTEs x 1 years Source: McKinsey Experience
i	Wave 3 deployments (interfaces & migration) - external	$ 7.2	6 wave 3 systems x 4 Contractor FTEs x 1 years Source: McKinsey Experience
x	Training	$ 0.1	$1000 fee per person for 2-day training session x 4 people per system x 22 systems Source: Oracle University
	Total		**$50 M**

*NOTE: the letter "**i**" in the left hand column indicates an internal cost; the letter "**x**" an external cost*

3.4 GRANTS PAYMENT REQUEST PORTAL

Exhibit 48: Grants payment request portal - Savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	**1. Reduction in system costs for payment processing**		**$13 M**
	Grants system spend	$196	USA Spend.gov
	% systems spend related to managing payment requests	17%	17% of grant system costs directly involve payments (USA IT spend - exhibit 300 - e.g., ASAP, PMS, etc.)
	% reduction in system/maintenance cost for systems managing payments requests	40%	Directly proportional efficiency savings from automated solution
c	**2. Automated payment request processing operations**		**$43 M**
	Total financial management spend on grants	$215	OMB Exhibit 52
	Efficiency savings from automated solution	40%	50% assumed in IPP business case
	Adoption	50%	Assumption, percent of grant programs to adopt
v	**3. Reduction in improper grant payments***		**$22 M**
	Improper payments grants dollars	$881	Data.gov improper payments database
	Percent of grant payments not recollected	5%	Assumption - assume most grants overpayments gets recollected from large institutions)
	% duplicate payments to be avoided	50%	Assumption
	Total		**$78 M**

NOTE: the letter "c" in the left hand column indicates an efficiency savings; the letter "v" an effectiveness savings

Exhibit 49: Grants payment request portal - Investment detail

	Investments ($ million)		
	Key assumption	Value	Source
	• Unit of deployment: 16 agency clusters each supported by one of 16 financial management systems (46 total x (19/24) proportion of grant agencies - 10 systems to be retired via "Standard core financial systems delivered via cloud" initiative		
	1. Build		$2 M
i	Solution design	0	Absorbed by Grants LOB
x	System	2	Interface cost for IPP ($2.8M) scaled by grant program interfaces (26/46 = 57%) Source: IPP business case
	2. Demonstrate		$4 M
i	Pilot run - test, redesign (agency resources)	1	5 agency clusters x 2 government FTE x 1/2 year
x	Pilot run - test, redesign (contractor resources)	4	5 agency clusters x 5 contractor FTEs x 1/2 year
	3. Deploy		$4 M
i	PMO	1	3 GMLoBs x 1 FTEs x 1.5 years
i	Deployment - 3 waves (agency resources)	3	11 agency clusters x 2 gov't FTEs x .5 years
x	Deployment - 3 waves (contractor resource)	1	11 agency clusters x 1 contractor FTEs x .5 year Assumes re-use of interfaces
	Total		$11 M

*NOTE: the letter "**i**" in the left hand column indicates an internal cost; the letter "**x**" an external cost*

Exhibit 50: 2009 Improper grant payments

AGETL	PROGRAM_NAME	RPT_FISCAL_YE	AMT_IP
Department of Education	Pell Grants	2009	570
Department of Education	Title I - Grants to States	2009	29
National Science Foundation	Research and Education Grants	2009	0
Department of Transportation	FTA Formula Grants Program	2009	3.6
Department of Transportation	FTA Capital Investment Grants Program	2009	17.4
Department of Homeland Security	Homeland Security Grant Program	2009	261
Total			881.0

Source: http://www.whitehouse.gov/omb/financial_fia_improper/

3.5 CENTRALIZED COLLECTIONS PLATFORM AND SERVICE

Exhibit 51: Centralized collections platform and service - Savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	**1. Consolidate AR systems**		**$20 M**
	Number of collection platform	26	USAspending.gov on collection platforms
	Annual spend per system	3	USAspending.gov on collection platforms
	Number of systems to be retired	8	Assumption (50% adoption with mix of platforms in use and low-tech solutions from agencies) Potential candidates USDA, VA, DOD, DHS, DOT, HUD, DOC, DOI (based on de-centralized ops, high proportion of AR FTEs, and lack of integrated platform)
c	**2. Consolidate AR operations**		**$31 M**
	Total financial management spend on AR	$383	OMB Exhibit 52
	Workforce in scope	80%	Site visits
	Anticipated adoption rate	50%	Expected adoption
	% savings from consolidating operations	10%	McKinsey Finance 360
	% savings from reduced cost locations	10%	Differential of salaries between locations like DC and lower costs locations such as OK city for similar level (e.g., GS-7)
v	**3. Faster referrals to DMS***		**$277 M**
	Average annual debt flow into delinquency every year (1 day past due)	113,616	18% of annual non-tax AR of ~625 Bn (based on historical analyses of TROR) DMS portfolio 2011 indicates $131 Bn of AR debt gone delinquent
	Assume % of debt collected at agency b/t 0-6 months of delinquency	50%	Private sector collection in credit card industry: 72% within 6 months past due (considered best practice) Delinquent debt referred to DMS in 2010 is $112/146 Bn (with $45Bn excluded from Cross Servicing) equivalent to 25% collected
	Agency referral rate	65%	Current leakage assumed: 40% debt referred-(debt ineligible for cross servicing + debt not referred) in FY2010 $112-($45+$5) 10% improvement on actual leakage based on decrease in cross servicing exceptions, and cleaner data through consolidated platform
	Improvement in collection rate (180 --> 90)	0.5%	See backup #1
	Improvement in collection rate (90 --> 0)	0.5%	See backup #1
	Adoption to 90 --> 0)	50.0%	Recommended policy change
v	**4. Decrease in funding costs***		**$43 M**
	Current delinquent debt annually recouped by DMS	5,000	http://www.fms.treas.gov/news/factsheets/delinquent_debtcollection_2009.html
	% annual floating rate	3%	Treasury.gov 10-yr bond rate
	Days referred earlier (180 --> 90)	90	Recommended policy change
	Total		**$371 M**

*NOTE: the letter "**c**" in the left hand column indicates an efficiency savings; the letter "**v**" an effectiveness savings*

Exhibit 52: Centralized collections platform and service - Investment detail

	Investments ($ million)		
	Key assumption	Value	Source
	• Unit of deployment: target agencies have 20 financial management systems		
	1. Build		**$27 M**
i	Solution design - requirements, RFP, negotiation, setup ($ million)	$2	2 agencies x 5 Government FTEs ($140K) x 1 year
x	Enhance current collections system ($ million)	$25	Estimated cost of AR billing and platform Proxy implementation of prism at $20 M (source: USASpending.gov
	2. Demonstrate		**$3 M**
i	Pilot run (test, redesign)	$3	2 agencies/platforms x 10 FTEs x 1 year For each demonstration: 2 teams of 5 FTEs (1PM, 1BA,1dev, 1DBA,1 tester) - 1 on solution owner side and one on agency side
	3. Deploy		**$48 M**
i	PMO	$2	1 agency system group x 5 FTEs x 3 year
x	Scale	$11	4,800 AR FTEs (Exhibit 52) * 80% non-bill entry work (site visit) * 50% adoption * (1 - 20% consolidation) = 1536 FTEs to migrate 1536 x 7k facility ramp-up cost (incl. Laptops, Desktops, Phones, Desk, Modems, Broadband, Remote Access, Printers, Copiers, Rent, Software License Review, 2 months rental space on 150 sqr/ft) -- see backup #2
x	Hiring and training	$10	Hiring: $1K per hire, 1 months of training at $66K per yr
i	Migration - 3 waves (agency resources)	$9	18 agency system groups x 5 gov't FTEs ($100) x 1 year
x	Migration - 3 waves (contractor resources)	$16	18 agency system groups x 3 Contractors ($300) x 1 year
	Total		**$78 M**

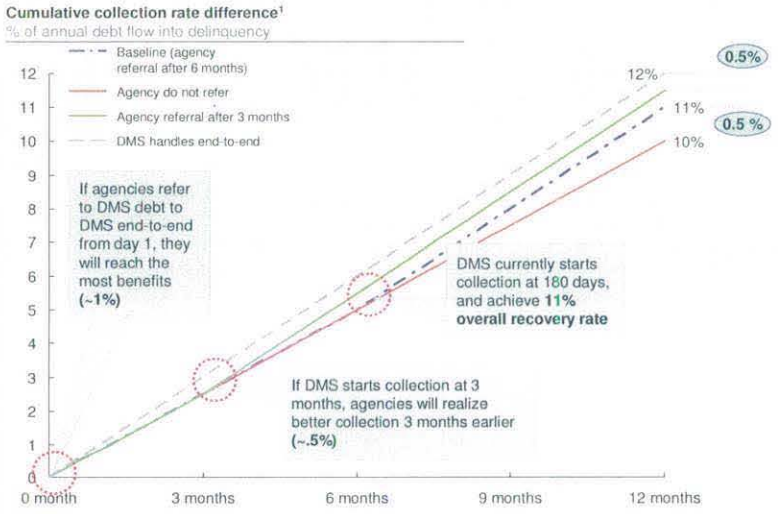
*NOTE: the letter "**i**" in the left hand column indicates an internal cost; the letter "**x**" an external cost*

Exhibit 53: Facility ramp up costs for transactional FTEs

Facility setup cost area	Low	High
Laptops, Desktops, Phones	1,000	4,000
Desk	100	200
Modems, Broadband, Remote Access	250	500
Printers, Copiers	100	400
Rent (based on $12 rental cost per sqr/ft per FTE x 3/12 months)	450	450
Software License Review	750	1,500
Total	**2,650**	**7,050**

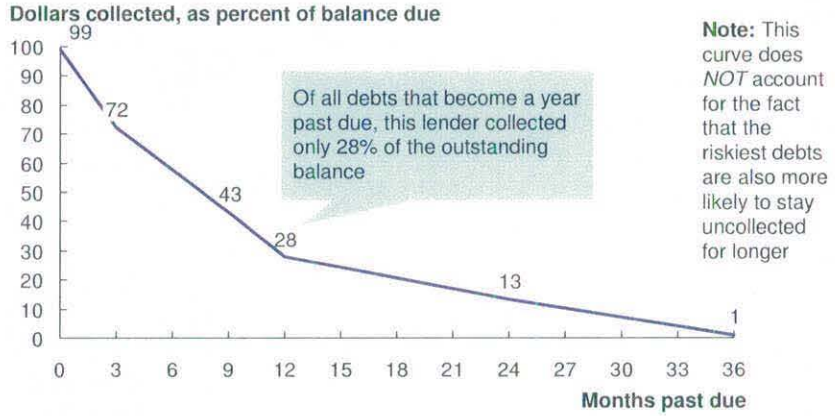
Source: McKinsey benchmarks, team research

Exhibit 54: Improvement in delinquent collectability based on referral patterns



1. Assume DMS collects debt 20% better than the agencies due to access to better collections tools, standardized processes
SOURCE: Team analysis, McKinsey collections practice expert

Exhibit 55: Delinquent debt becomes harder to collect (private sector example)



SOURCE: McKinsey & Company experience with top-5 U.S. retail commercial lender

3.2 SHARED SERVICES FOR FINANCIAL TRANSACTION PROCESSING

Exhibit 56: Shared services for financial transaction processing - Savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	**1. Savings from pooling**		**$70 M**
	Transaction processing FTEs to be moved into SSPs	4,000	Based on waterfall analysis of transaction processing FTEs in existing shared services locations
	% savings	22%	Site visit (e.g., FAA migration to DOT, inclusive of process standardization, performance management, re-org, exclude wage consolidation because in similar location)
	Labor cost ($K)	$ 80.00	Fedscope analysis
c	**2. Savings from geo-consolidation**		**$32 M**
	Number of FTEs to be moved into SSPs	4,000	$10K FTEs in 14 agencies
	% savings	10%	Conservative assumption based on GS-7 comparison between high-cost location (e.g., DC) and lower cost location
	Labor cost	$ 0.08	Exhibit 52
	Total		**$102 M**

*NOTE: the letter "**c**" in the left hand column indicates an efficiency savings; the letter "**v**" an effectiveness savings*

Exhibit 57: Shared services for financial transaction processing - Investment detail

	Investments ($ million)		
	Key assumption	**Value**	**Source**
	Migration cost		**$6 M**
	Agency migration team cost	0.56	8 FTEs (DOT walkthrough) x 6 months (DOT walkthrough) x $140K
	Number of agencies	10	14 candidate agencies: DHS, DOC, DOE, DOJ, ED, HUD, NRC, NSF, OPM, SBA, SSA, State, USAID, VA; Moving the smallest 10 will yield >4000
i	Migration cost subtotal	$ 5.60	# of agencies * cost per agency
	Labor savings	$ -	Labor savings to come from retirement and contractors
	Cost of improving operations at SSP		**$16 M**
	Cost of improving operations at each SSP	4.00	Team experience (cost analogous to lean program)
	SSP to improve	4	4 federal SSPs: GSA, BPD, NBC, ESC
x	Total	$ 16.00	Creates additional capacity needed in first year to ramp up)
	Scale up shared services		**$57 M**
	Capacity required	3,000.00	4000 FTE (in-scope for moving to shared services) x 20% consolidation efficiency gain)
	Hiring / training cost ($K)	$ 12.00	Assumption: 2 months at 66K + cost of hiring ($1K)
	Facilities preparation ($K)	$7	7k facility ramp-up cost (incl. Laptops, Desktops, Phones, Desk, Modems, Broadband, Remote Access, Printers, Copiers, Rent, Software License Review, 3 months rental space on 150 sqr/ft) -- see backup #2
	Total		**$79 M**

*NOTE: the letter "**i**" in the left hand column indicates an internal cost; the letter "**x**" an external cost*

3.6 OPERATIONALIZING CONSISTENCY IN CORE FINANCIAL DATA

Included as part of the Centralized General Ledger (GL) initiative

3.7 RISK-BASED AUDIT POLICIES

Exhibit 58: Risk-based audit policies - Savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	1. Deploy: shift responsibility of audit to federal level, with exceptions at agency level		$76 M
	Adjusted spend on OIG	$ 163.75	OMB Exhibit 52 spend on OIG (all spend excluding DOD, State, HHS, NASA because of lack of clean audit opinion)
	Reduction in activity associated with OIG audit as agencies move to every other year audit	50%	Half the number of agencies undergoing OIG audit when moving to a biennial model Canada performs cyclical (every regular interval) and exception audits (depending on sampling)
	Incremental cost of performing top-level federal audit	$ 20	Wal-Mart spent $7M in consolidated audit - Scaling up for size of government
	Adjusted spend on audit support	$72 M	OMB Exhibit 52 (all spend excluding DOD, State, HHS, NASA because of qualified audit opinions)
	Reduction in activity associated with supporting auditors (e.g., pulling samples, testing controls, etc.)	20%	Based on reduction of sample size by 20% (currently at 50-100% of all transactions per site visit)
c	2. Deploy: manage auditors more closely and through pooled contract		$11 M
	Total spend on external financial statement audit support (contractors only)	$ 109.67	OMB Exhibit 52 on OIG Financial statement audit
	% reduction in fees paid to auditors based on communities of practice and streamlined interpretation of audit policies (e.g., Preferred auditor(s) for loan-related agencies)	10%	Assumption
	Total		$87 M

NOTE: the letter "c" in the left hand column indicates an efficiency savings; the letter "v" an effectiveness savings

No investments required for this initiative.

3.8 MODEL FOR LEAN FINANCIAL MANAGEMENT

Exhibit 59: Model for lean financial management - Savings detail

	Savings ($ million)		
	Key assumption	Value	Source
c	1. Streamline financial management operations		$170 M
	Financial operations spend in scope (e.g., AR, AP, disbursement, reporting, internal controls, auditing, financial systems, accounting policy)	8,500	9 potential programs within mid-large agencies with large footprint, and room for improvement (e.g., DHS, DOE, DOJ, HHS, HUD, NASA, USAID, USDA)
	FTE costs ($K per year)	$80	Exhibit 52
	Lean process efficiencies (e.g., demand management, process re-design, organization streamlining,	25%	Government McKinsey Lean Practice

NOTE: the letter "c" in the left hand column indicates an efficiency savings; the letter "v" an effectiveness savings

Exhibit 60: Model for lean financial management - Investment detail

	Investments ($ million)		
	Key assumption	Value	Source
	• Unit of deployment: 8 agencies covering ~1,000 FTEs each		
	1. Build		**$0 M**
	2. Demonstrate		**$4 M**
x	Pilot program	4	1 agency x $4M typical cost for 3 month lean program (team experience - 3 teams of 5 contractors covering each 300 FTEs)
	3. Deploy		**$39 M**
i	Treasury PMO (document scalable processes)	2	5 FTEs x 3 year
x	Implementation management (contractor resources)	36	9 agencies x $4M typical cost for 3 month lean program (team experience)
i	Implementation support (agency reources)	1	9 agencies x 3 FTEs x 1 year (does not include part time support from line)
	Total		**$43 M**

*NOTE: the letter "**i**" in the left hand column indicates an internal cost; the letter "**x**" an external cost*

Exhibit 61: Process efficiency form subsequent implementation of IPP and model for lean financial management initiatives

Example implementation of IPP and model for lean financial management initiatives

Hypothetical State	# FTEs	Productivity (# of invoices per FTE)	Source
0. Current AP shop	1,000	4,090	FMS: 41 million invoices government wide for 10,025 AP FTEs (Exhibit 52)
1. After IPP	700	5,843	- Assumed 60% of AP is invoice processing (McKinsey Experience) - 50% automation of invoice processing (from IPP business case)
3. After Lean	541	7,555	Productivity benchmark: McKinsey median private sector practice from Finance 360

Productivity impact	
IPP total AP productivity	30.0%
Lean after IPP	22.7%

G. Critical enablers to support the transformation

We have identified three government-wide critical enablers to support the transformation of the financial management landscape:

- Governance model
- Communication and buy-in
- Funding approaches

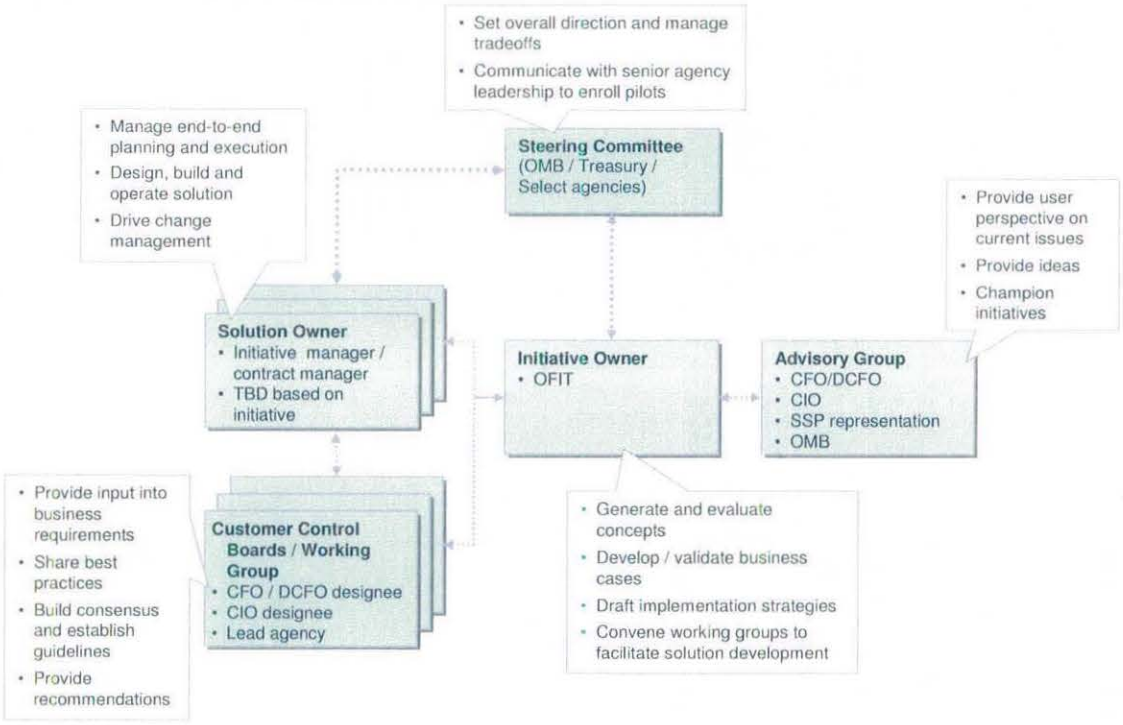
1. GOVERNANCE

We have identified 5 key groups of stakeholders to govern a coordinated transformation approach:

- Steering committee (Office of Management and Budget, Treasury, and/or select agencies)
- Treasury Office of Financial Innovation and Transformation (OFIT)
- Solution owner
- Solution working group
- Advisory group

Exhibit below outlines roles of the various stakeholders in governance process

Exhibit 62: Proposed governance model



We have proposed a preliminary list of initiative and solution owner based on program mission, capability, and an initial round of syndication meetings (Exhibit 63)

Exhibit 63: Potential ownership of initiatives

		Initiative	Initiative Owner	Solution Owner
I	Deploy common technology solutions	1. Electronic invoicing portal	• OFIT	• FMS
		2. Standard core financial systems delivered via cloud	• OFAS	• GSA, BPD
		3. Centralized general ledger	• OFAS	• FMS
		4. Loan and collateral information management	• Line of Business	• TBD
		5. Grants payment request portal	• OFIT	• Line of Business
II	Implement shared transaction services	6. Intra-governmental transaction clearinghouse	• OFIT	• FMS
		7. Centralized collections platform and service	• OFIT	• FMS / GSA
		8. Shared services for financial transaction processing	• OMB	• SSPs
III	Launch enablers	9. Financial management benchmarking	• OMB / CFO Council	• OMB / CFO Council
		10. Operationalizing consistency in core financial data	• OFAS	• Treasury / FMS Data Registry
		11. Risk-based audit policies	• OMB / OIG	• GAO
		12. Model for lean financial management	• OFIT	• TBD

2. COMMUNICATION AND BUY-IN

Communication and buy-in from a range of stakeholder groups are critical to the successful adoption of these initiatives. We recommend the following activities below to gather momentum on this strategy

- Prepare and execute a road show with key decision makers and influencers (e.g., senior agency leadership) to build support for launching recommended initiatives (Detailed activities provided in Exhibit 62)
- Conduct outreach for broader financial management community to build excitement and ensure readiness for change management

Exhibit 64: Communicating and outreach strategy

Stakeholder group	Communication and outreach strategy
D/CFO Council OCIO, PMC	▪ Get input and build support for launching recommended initiatives – 1:1 meetings initially followed by group presentation – Focus on government-wide impact and agency value proposition
LOB Leaders	▪ Meet with selected LOB Leaders to get input and build support; e.g., Financial Management, Grants, Loans / Credit ▪ Focus on government-wide impact and value proposition for LOB
Shared Services Leaders, Customer Control Board	▪ Meet with Shared Services Roundtable and Customer Control Board to communicate strategy and obtain their support / input ▪ Focus on value proposition to CCB and shared services providers

In addition, in order to ensure that government-wide solutions are being developed (i.e., solutions that meet the needs of multiple agencies), we believe working groups are essential in solution development. Below is a proposal for solution working groups.

Exhibit 65: Suggested working group and objectives

Suggested working groups for select initiatives

PRELIMINARY

Group	Related initiatives	Suggested members[1]	Committee Objectives
Common data definitions Working Group	• Central G/L • Core data elements	• **BPD** • **DOT** • **DOD** • USDA • DOJ • Treasury • OMB	• Identify core financial management standards as a subset of existing, agreed-upon standards for financial management • Develop and manage technical requirements to implement core standards • Field-test requirements in ongoing implementations • Develop strategy to drive adoption via shared technology solutions • Establish 5-year standards review process to add/modify standards
Standard CFS Working Group	• Standard CFS delivered via cloud • Core data elements	• **BPD** • **DOT** • USDA, DOC • Customer control board • NSF, HUD • OMB	• Syndicate initiative to target agencies and gather input from broader CFO community • Work with vendors to implement core standards requirements and stand up offerings and identify infrastructure provider • Develop detailed business case compared to traditional offering • Negotiate with vendor on standard seat-license pricing for government • Establish governing policy and customer change board
SSP Working Group	• Shared transaction financial management • Model Finance Program	• BPD-ARC • DOI-NBC • DOT-ESC • GSA • FERC, DOC • OMB	• Partner with CFO-Council to gather and publish benchmarks across SSPs and agencies • Establish common performance metrics and definitions • Document and share best practices across SSPs • Engage with private and third-party SSPs as necessary • Develop standard pricing structure with incentive/disincentive scheme
Collections Working Group	• Central Collections Service • Shared services	• **FMS** • **GSA** • **SBA** • **DOT** • USDA • DOI • OMB	• Partner with CFO-Council, FMS to define collections performance dashboard comprising agency and external benchmarks • Gather stakeholder input and draft new collections policy changes (e.g., referral, TOP exceptions) • Enact policy changes by executive order, or OMB guidance and create communication outreach program • Stand up platform and toolkit offering • Scale up shared service

1. Members in bold are suggested pilot agencies
2. Agencies with significant collections operations

3. FUNDING OPTIONS

Our preliminary business case indicate that $500 million in investment may be required to implement and scale the initiatives, with approximately 60-75% of the investments dedicated to contractor and the purchase of solutions. We have identified three major cost areas where initiative may require investment:

- Platform – cost to build or purchase any technology solution
- Infrastructure – cost to build or acquire any technological (e.g., data center) or physical (e.g., facilities) infrastructure
- Migration – cost to migrate technology, operations, and or people onto the new solution

For each cost area, we have proposed one of four primary funding sources (Exhibit 65 shows the proposed funding option for each initiative):

- **Vendor support / partnership** where the vendor will help absorb the cost to stand up the solution (e.g., cloud solutions)
- **Federal appropriation** from Congress, specifically for a solution – for example, to stand up platform or infrastructure which previously does not exist in the government

- **Agency operating fund** to migrate to new solution and recover the investment via reduced future operating expenses
- **Government revolving fund** where reserves could be used to scale up solutions for shared services and platform providers, and where investments would be recovered from increased future revenue (relevant only for those agencies who already have such an existing funding structure – e.g., SSPs)

Exhibit 66: Proposed funding model

			Funding options				
	Initiative	Component	Vendor[1]	Direct App[2]	Op fund[3]	Revolving fund[4]	Rationale
1	E-invoicing	▪ Platform		✓			▪ FMS to absorb investments to enhance solution
		▪ Agency migration			✓		▪ Agencies migration cost are offset by reduced future operation costs.
2	CFS via Cloud	▪ Platform	✓				▪ Customer control board to mandate vendors to provide solution
		▪ Infrastructure	✓			✓	▪ Hosting provider to absorb cost of infrastructure build up
		▪ Agency migration			✓		▪ Agencies migration cost are offset by reduced future operation costs.
3	Central G/L	▪ Platform		✓			▪ Treasury to request funding from OMB to stand up solution;
		▪ Infrastructure		✓			
		▪ Agency adoption		✓			▪ Agencies require incentives to adopt solution
4	Loans	▪ Platform agency			✓		▪ Loans program agency to self-fund the project collaboratively
		▪ Agency migration			✓		
5	Grants	▪ Platform			✓		▪ Grants LOB agency to self-fund the project collaboratively.
		▪ Agency migration			✓		
6	IGT clearinghouse	▪ Platform		✓			▪ Appropriation fund required to develop solution.
		▪ Infrastructure		✓			
		▪ Agency migration			✓		▪ Agencies migration cost are offset by reduced future operation costs.
7	Collections	▪ Platform and tools				✓	▪ Collection provider to absorb cost of solution and service scale
		▪ Infrastructure				✓	
		▪ Service scale up				✓	
		▪ Agency migration			✓		▪ Agencies migration cost are offset by reduced future operation costs.
8	Shared services	▪ SSP scale up				✓	▪ Cost of growth is offset by increased future demand
		▪ Agency migration			✓		▪ Agencies migration cost are offset by reduced future operation costs.
10	Data consistency	▪ Solution design / pilot		✓			▪ Treasury to fund working group to develop solution
		▪ Agency adoption			✓		▪ Adoption cost will be absorbed in the next system refresh
12	Model lean finance	▪ Agency pilots			✓		▪ Cost to be offset by future savings

Note:
9 Financial management benchmarking is already in-progress
11 Audit policy initiative requires minimal investment and is out of scope.

- Standing up the solutions requires appropriation or funding from lead agency
- Agency to self-fund migrations and are incentivized by future savings

H. Summary and next steps

In this document, we have outlined our recommendations to transform financial management. For next steps, we would recommend the following to continue gathering momentum behind our recommendations:

- Launch communication strategy by conducting syndication sessions with senior agency leadership
- Complement e-voicing and intra-governmental plans with detailed business requirements and alternatives analysis for Centralized Collections service and Standard CFS
- Implement quick wins to gather momentum, such as convincing shared services providers to join forces, or agencies undergoing refreshing their platforms to move to a cloud based solution

Appendix

CASE STUDIES

Case example: Pay.gov

PRELIMINARY

Background

Objective:
- The U.S. Department of Treasury Financial Management Services (FMS) envisioned a centralized, web-driven collections portal that all agencies could utilize for non-tax collections

Prior to Pay.gov:
- Very few transactions were significantly automated or processed electronically
- Many redundant collections systems designed specifically for agency requirements existed
- Agencies were constrained by outside constituents (e.g., public payers) who preferred various methods for transferring funds

Key obstacles:
- Agencies were not responsible for transaction processing costs and thus did not actively seek low cost channels
- Many agencies did not have sufficient staff or funding to build integration into a new system
- Significant lead time was required for any system/application change (e.g., 3-year budget cycles, iterative requirements definition, etc.)

Approach

Roll-out approach:
- Pay.gov was implemented in phases where functionality, services and agency migrations were accomplished sequentially

Adoption approach:
- FMS fully financed, developed and maintained the initial proof of concept system (Dept. of Veteran Affairs)
- Subsequent agencies were brought on board based on their demand or the conversion of a targeted collection system (e.g., PreAuthorized Debit, e-lockbox) over to Pay.gov
- An Agency Liaison was deployed to educate agencies and assist them with requirements generation and integration

Technical approach:
- Pay.gov was built on the centralized Treasury Web Applications Infrastructure (TWAI)

Timing
- Pay.gov addressed 18 agency cash flows (ACF) after one year and hit significant scale (137 ACFs) after 4 years

Impact

Today:
- ~50M transactions covering $70B in collections are significantly automated via Pay.gov
- 673 ACFs are covered leaving only ~240 lockbox installments uncovered
- Coverage is expected to continue to expand
- The collections infrastructure has been vastly modernized and simplified

Key lessons learned
- Initial offering must be designed to maximize adoption (e.g., low cost, desirable capabilities, clear implementation roadmap, etc.)
- Functional incentives must be aligned to drive full adoption (e.g., processing cost charge-backs to agencies)
- Significant lead time must be provided to enable agencies to obtain proper funding and prioritization
- A robust method of customer tracking must be established (e.g., CRM system) to manage lengthy transitions
- Significant due-diligence is required to find the right contact/partner within an agency
- Standardization is valuable but requires significant upfront effort

SOURCE: FMS collections interviews, https://pay.gov/paygov/press.html?nc=1291229649364

Case example: BFELoB

PRELIMINARY

Background

Vision:
- To create modern, interoperable, flexible, cost effective, and optimized solutions supporting all phases of the formulation and execution of the Federal Budget and linking budget formulation, execution, planning, performance, and financial information.

Prior to BFELoB:
- Very few agencies using automated and integrated systems for budgeting purposes (e.g., only one agency submitted data to MAX electronically)
- Great deal of time and effort spent on entering and reconciling data
- Several unsuccessful attempts to implement expensive systems

Key obstacles:
- Significant variation in processes and workflows across agencies
- Many agencies choose to pursue automated solutions unilaterally
- Primary agency tools for budgeting are Excel and Word

Approach

Guiding principals
- Improve Federal budgeting without compromising essential budgeting functions.
- Based on a value proposition - agencies voluntarily participate in the LoB and pay a flat funding (or in-kind) contribution to gain the benefits and government-wide services the LoB provides.
- Agencies optionally implement LoB sponsored tools and services that they either procure and deploy themselves or obtain via fee-for-service.
- Governed by the contributing agencies under the auspices of the Budget Officers Advisory Council (BOAC) and the Small Agency Council.

Roll-out approach:
- Engaged agencies in open forum collaboration from the beginning of the program
- Allow agencies to optionally implemented LoB sponsored tools and services that they either procured and deployed themselves or obtained via fee-for-service

Impact

Today:
- 26,000 members on MAX wiki site
- Six CFO act agencies (USDA, DOE, HHS, DHS, DOJ, DOS, Treasury) have adopted BFEM tools that allow users to automate the definition, collection, and reporting of performance measures.
- Max Collect facilitates increased data collection capabilities, reduced errors, and reduced time spent manually consolidating and publishing data

Technical solution
- Focused the solution on core functional capabilities (e.g., numbers manipulation, word processing and document publishing, database/data warehousing, analysis and modeling etc.)
- Applications are flexible integrations of modules that connect via open data exchange technologies and can be reused (SOA focus)

Key lessons learned
- Inflexible process-based approaches and complex software development projects should be avoided
- Voluntary agency adoption is not sufficient to reach significant scale within an expedited time frame

SOURCE: Budget Formulation and Execution Line of Business (BFE LoB)

Case example: Marine Corps

Background

Background:
- Marine Corps started the Financial Improvement Initiative (FII) to comply with The Chief Financial Officer Act (CFO) to process financial information accurately, timely, and ready for reports
- Marine Corps was previously on SABRS accounting system platform
- Marine Corp was leaking more than $20M each year via reverted balance from expired funds

Context:
- Prior efforts to achieve financial management improvements within DOD had not been successful
- Marine Corps however is a successful example of financial transformation

Approach

Approach:
- USMC contracted Logistical Management Institute (LMI) to evaluate SABRS
  - SABRS passed evaluation with minor corrects
- Focus was shifted to other stakeholders (contracting, facilities, supply, personnel) and other DOD-wide systems
- USMC evaluated five strategic areas, resulting in 13 initiatives to explore

Findings:
- Found 700+ practices for processing source documents, and consolidated to 57 (92% reduction)
- Found 3000+ accounting codes used differently for each command, consolidated to 310 (90% reduction) and mapped to budget line items to reduce miscoding
- Standardized codes for 37 business processes to identify internal organizations

Impact

Accomplishments:
- Established central ledger system though linking several legacy systems, resulting in minimal investment to achieve improved consolidated reporting (USSGL, FSIO compliant)
- Recently realized approximately $3 for every $1 it invested in improvements to its rudimentary financial operations.
- Significant reduction in penalties paid for late payments ($1.5M)
- Achieved highest electronic processing rate among DoD agencies
- Improved reporting while reducing labor costs

Key Lessons Learned:
- Standardizing business processes and practices is a critical foundation for financial management transformation
- A system is never a "silver bullet" solution
- Data should be maintained at the source to ensure integrity

SOURCE: Marine Corps interviews, www.marines.mil

Case example: Canada central accounting and reporting

Background

Background:
- Prior to 2000, the Canadian government generated consolidated financial statements based on summary-level data received from agencies on a monthly basis
- Prior to the modernization effort, departments and agencies were on various financial management systems that did not have standard coding and processes

Context:
- Canada's pre-transformation state was very similar to the current state of the US government
- Canada successfully improved process, technology and policies resulting in more streamlined, accurate, and transparent government-wide financial reporting

Approach

Approach:
- Receiver General implemented a central general ledger system to serve as a central repository of financial information and the basis for an annual consolidated financial statement
- Canada implemented a clustering approach to segment departments and agencies in logical groups for shared technology and services
- Auditor General established a risk-based audit policy to require independent audits of agencies on a cyclical basis with exception provisions

Findings:
- Central general ledger provides daily edit checks and trial balance feedback to agencies based on payment and collection information received from Treasury
- Government underwent a three year migration effort to move agencies from legacy financial systems to designated cluster systems
- Agencies were better positioned to agree upon technical requirements when working in clusters rather than trying to agree government-wide

Impact

Accomplishments:
- Automated daily reconciliation of Treasury and agency control data
- Streamlined creation of annual government-wide financial statement from Receiver General's general ledger
- 12 years of clean audit opinion of government-wide consolidated financial statement
- Central accounting and Treasury systems have adopted data standards
- Shared services are now offered, with over 15 agencies participating
- Public Works and General Services Canada now has higher quality, more accurate financial data

Key Lessons Learned:
- A central repository is effective in maintaining a "single source" of actuals financial data (e.g., assets, liabilities, revenues and expenditures)
- Standardization of data and processes helps avoid the need for costly system customizations
- Government-wide comptroller function is effective in enforcing standards and policy

SOURCE: Public Works & Government Services Canada interviews, Treasury Board of Canada Secretariat website

DIFFERENCE BETWEEN CENTRAL TRIAL BALANCE AND CENTRAL G/L

Centralized general ledger

Central trial balance platform and a central G/L builds on GTAS plans

	Central Trial Balance Platform (e.g., GTAS)	Central general ledger
Description	• Central, web-accessible platform where agencies upload monthly trial balance data • **Replaces need to report to FACTS I, FACTS II, IFCS, IRAS, and GFRS separately**	• Fully-functional ledger platform owned by FMS where agencies post daily summary trial balances from their general ledger • **Eliminates need for quarterly submission** to central trial balance platform
Data	• Required reporting **data is pushed from agencies** to single platform on quarterly basis • Data is validated quarterly at time of mandatory submission	• Central ledger links directly to agency general ledgers and **automatically pulls data** • Data is validated monthly
Reconciliations	• Reconciliation with Treasury trial balance data is performed **monthly or ad-hoc as requested by agencies**	• Reconciliation with Treasury trial balance data is performed **daily** with edits returned to agencies against Treasury cash/payment data • Daily reconciliation **eliminates need for *statement of differences* reconciliation**
Reporting	• Reporting systems (e.g., GFRS) required to generated consolidated statement • Agencies produce statements separately from FMS's consolidated statement	• Consolidated financial statement generated automatically from central general ledger • Monthly/quarterly reports generated for agencies as necessary • Elimination of manual closing package requirements reduced burden on agencies
Audit	• Central trial balance platform **does not impact audit procedures** • Data is more complete due to consistent reporting, resulting in fewer audit findings	• Audit of consolidated statement **may occur at federal level with exceptions at agency level** • Agency financial statement data will be consistent with consolidated data

11

Performance Work Statement for Centralized Receivables Service to Department of Treasury

Submitted by:
McKinsey & Company, Inc. Washington D.C.
GSA MOBIS Schedule Contract Number: GS-10F-0118S
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August 31, 2011

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A. OUTLINE OF PROJECT DELIVERABLES

As part of Treasury's Office of Financial Innovation and Transformation (FIT) efforts to "transform financial management to reduce costs, increase transparency, and improve delivery of agencies' missions," FIT identified a Centralized Receivables Service as one of 12 opportunities to reduce costs and transform financial management.

The objective of this call is to recommend an optimal operating model for a Centralized Receivables Service. A Centralized Receivables Service will improve collections across government by providing a best-in-class collection platform and complementary toolkit, standardizing collections efforts, and reducing the collections burden on agencies. We will develop several key deliverables for this call:

1. At least three alternatives for standing up a Centralized Receivables Service
2. For each alternative, defined scope, capacity, funding model, technical platforms, and support options along with a high level opportunity analysis including qualitative benefits, rough order of magnitude costs and savings
3. Recommended operating model – including proposed governance and performance measures – and the migration path with steps to develop the service, including standing-up one to two potential candidates for pilots

1. Alternatives for Centralized Receivables Service

McKinsey will use its (b) (4) to document the operating model alternatives for the Central Receivables Service. (b) (4)

(b) (4)

McKinsey will follow a structured hypothesis-driven approach to generate the options. The approach includes the following steps:

(b) (4)

(b) (4)

Our proposed methodology is designed to produce all of FIT's required deliverables in full detail and meet the stated period of performance. (b) (4)

(b) (4)

2. Scope and High-Level Opportunity Analysis for Alternatives

(b) (4)

Centralized Receivables Service (CRS) Final Report for the Office of Financial Innovation and Transformation

McKinsey & Company, Inc. Washington D.C.

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McKinsey&Company

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Supporting Exhibits

A. CRS vision

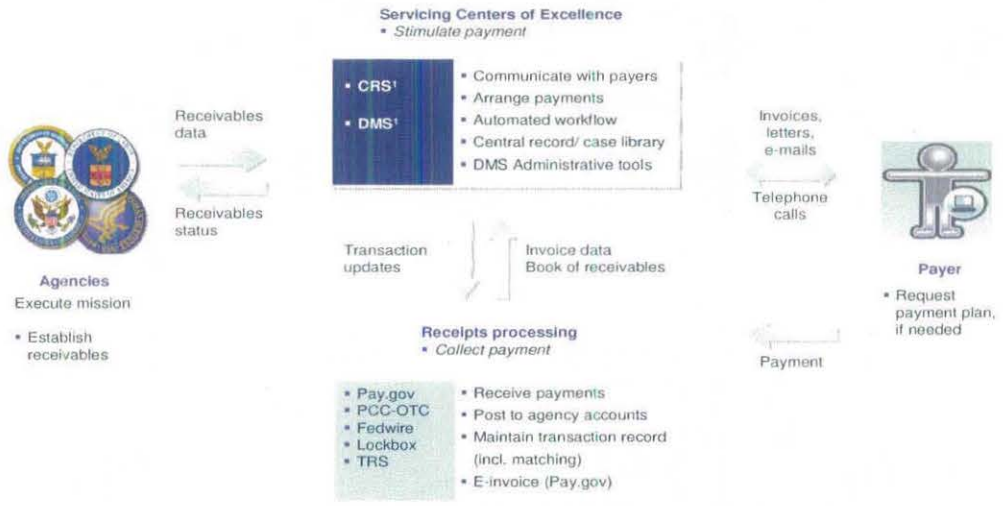
1. VISION FOR INTEGRATED RECEIVABLES MANAGEMENT

Treasury's Office of Financial Innovation and Transformation (FIT) has developed a strategy to "transform financial management across government to reduce costs, increase transparency, and improve delivery of agencies' mission." One of 12 key initiatives is to create a Centralized Receivables Service (CRS).

A centralized receivables service presents a significant opportunity to improve pre-delinquent servicing and collections. In FY2010, an estimated $73 billion in new, non-tax / loan / Treasury / Postal receivables were generated among the CFO agencies, and an additional $50 billion to $100 billion of receivables were processed among the independent and non-CFO agencies. These receivables included fees, fines, and other simple public receivables due to the government. The CFO agencies reported $380 million in FY2010 expenses for managing receivables, reflecting the fragmented and subscale structure of this activity (at least 26 separate systems are employed for receivables management by the 23 CFO agencies). In spite of substantial expenditure, those agencies reported a year-end receivables balance of $48 billion, including $10 billion in delinquency.

CRS furthers Treasury's vision by transforming end-to-end receivables management through more effective and efficient servicing centers of excellence (see Exhibit 1). By tightly integrating CRS with DMS' existing centralized delinquent debt service – as well as FMS' receipts processing capabilities – Treasury enables agencies to offload their end-to-end receivables management and increase their focus on core missions.

Exhibit 1: End state collections vision, including servicing centers of excellence



1 Currently DMS handles debt >180 days past due. CRS will handle debt from issuance of invoice until transferred to DMS, which could occur earlier than 180 DPD
SOURCE: Government and external expert interviews; team analysis

2. CRS CONCEPT

In establishing a pre-delinquent center of excellence, CRS will deliver a number of benefits government-wide and to participating agencies:

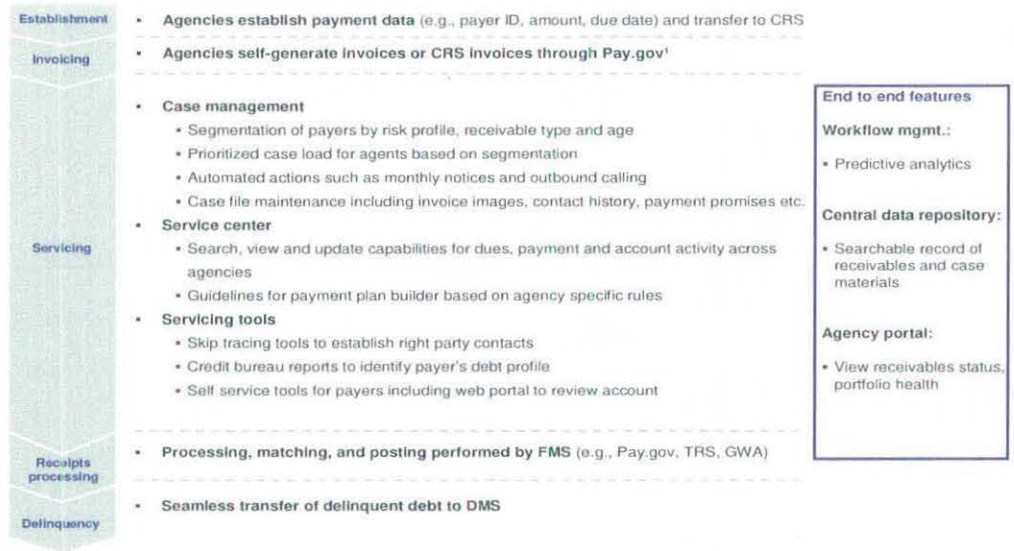
- Increase pre-delinquent collections from 10% to a median 2% with active servicing, best practice tools, and improved business intelligence that reduce delinquency rates.
- Reduce costs from an average of $15-20 per receivable to $8-12 per receivable by consolidating operations in a low-cost, at-scale center of excellence
- Allow agencies to focus on their core mission by offloading AR management
- Improve data quality and visibility into money due to government, including cross-agency view of payers

CRS will manage the receivable once agencies have established the receivable data (i.e., amount owed) and transferred it to CRS (see Exhibit 2). CRS will deliver the benefits through a number of features along the receivables process:

- Standard data formats and flexible interface for agencies to transfer receivables

- Automated workflows to manage cases and segment payers by risk for tailored contact strategies
- Active servicing, leveraging best practice tools (e.g., skip tracing, credit check)
- Full service call center for in/outbound calling
- Central data repository with case files and account information across government via agency internet portal
- Seamless, prioritized transfer of delinquent receivables to DMS with full case history

Exhibit 2: CRS manages receivables from establishment onwards



1 Outsourcer can also generate invoice via direct mail as needed
SOURCE: Interviews with government stakeholders, industry experts, team analysis

B. Recommended CRS design

1. OVERVIEW

An assessment of existing government capabilities against the CRS concept identified a number of gaps (see Appendix for capabilities required for CRS). Most notably, these gaps were the servicing platform, workflow automation system, receivables data repository, and call center. Three primary design alternatives of equipment and personnel (i.e., combine either existing or new equipment with either insourced or outsourced personnel) were identified to fill the gaps. The three alternatives evaluated were (see Appendix, "CRS Operating Model," "Alternatives considered" for more detail):

1. Enhance and integrate existing government assets into a dedicated pre-delinquent collections platform operated by government personnel.
2. Acquire a comprehensive commercial, off-the-shelf (COTS) platform for pre-delinquent collections and install it at an existing government service center, to be operated by government personnel.
3. Acquire pre-delinquent collections services from an at-scale commercial AR service provider (i.e., outsourcer) and integrate these services with existing, complementary operations in FMS (e.g., Pay.gov, TRS).

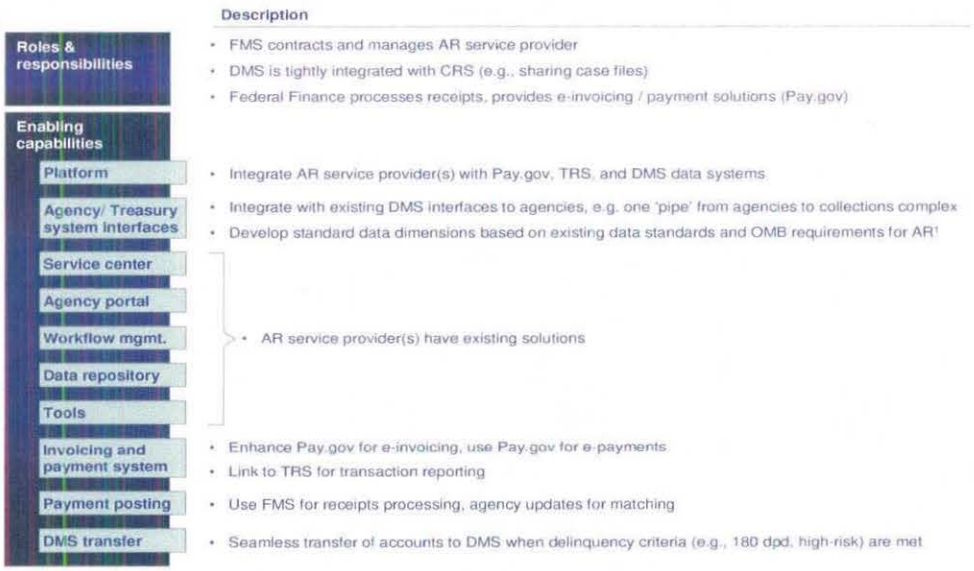
OFIT selected the third alternative – managing an outsourced AR service provider integrated with Treasury capabilities (see Exhibit 3) – because of four pre-determined criteria:

- Lowest cost: Initial cost of ~$5-8M to stand up CRS and annual run-rate cost of ~$5-7M for 2 year pilot (see Exhibit 4), which is ~2-3X lower than other alternatives
- Fastest to market: Leveraging at scale AR outsourcer enables accelerated rollout of pilot in ~9-18 months, significantly faster than other alternatives
- Proven ability to improve collections and focus on continuous improvement (e.g., innovation in new payment technologies like mobile payments)
- Scalability and flexibility of solution

The outsourcer model has an at-scale service center, a technology platform, and a fully integrated set of tools including: workflow, data storage, client agency portal, document management, credit reporting, skip tracing, and auto-dialing. The government will use existing capabilities at FMS, including existing or enhanced applications for reporting,

transaction recording (e.g., TRS), and payment processing (e.g., Pay.gov). The initial stand up work will require integrating the collection partner's systems with existing DMS systems and solutions. CRS will expand on existing FMS/DMS interfaces (e.g., "IAI") to develop an integrated technology connection to agencies' financial systems for two-way data transfer.

Exhibit 3: CRS will integrate outsourcer with existing Treasury capabilities



1 ~10 required dimensions, including account name, account contact details (bi-directional), receivables details, payments receipts, payment posting, account maintenance, etc.

Exhibit 4: Estimated costs for CRS

Does not reflect costs required for mobilize phase (i.e., next ~6 months)

	Contract, Integrate & Demonstrate[1] (~3 years)	Deploy (years 4 & 5)	Assumptions / drivers
Scale			
# of agencies	5	25	5 bureaus in 2 yr. demonstrate phase (i.e., pilot); additional 20 bureaus in deploy phase
# of receivables	0.5M	1M	Annual receivables case load – doubles between demonstrate and deploy phases
# of service agents	40 – 60	80 – 120	Case load of 8 – 13K receivables/year per FTE[2]
One-time cost			
Provider selection	~ $ 1 – 2 M	N/A	Outsourcer evaluation, selection & procurement process[3]
Platform integration	~ $ 0.5 – 1 M	N/A	Integration of outsourcer platform with Pay.gov, DMS and TRS[4]
Custom development	~ $ 1 – 2 M	N/A	Cost to enhance Pay.gov billing module
Agency on-boarding	~ $ 2 – 3 M	~ $ 3 – 5 M	Data integration, software configuration, training costs for agency on-boarding[5]
Total one-time cost	**~ $ 5 – 8 M**	**~ $ 3 – 5 M**	**One-time cost for each phase**
Run rate cost			
Service center	~ $ 3 – 5 M	~ $ 6 – 10 M	Cost for outsourcer service center based on ~$32-35/hr per FTE[6]
CRS office	~ $ 1 M	~ $ 2 M	Fully loaded cost for CRS program office with 6-12 resources[7]
Platform support	~ $ 0.5 M	~ $ 1 M	15% of initial data interface development and software configuration cost
Total run rate cost	**~ $ 5 – 7 M / yr**	**~ $ 9 – 13 M / yr**	**Annual run rate cost for each phase**
Total cost			
Total cost	~ $ 15 – 22M	~ $ 21 – 31M	Total cost (one-time & run rate) for integrate/demonstrate and deploy phases
Cost / receivable	~ $ 15 – 22	~ $ 10 – 16	Total cost / volume of receivables for each phase[8]

1 Approx. 1 year for contract & integration, followed by ~2 year pilot demonstration
2 Based on vendor interviews and current govt. SSP performance
3 Based on prior govt. experience
4 Assumes 5 engineers for 6-9 months at $80K/month
5 Assumes 4-6 weeks/data interface with 8 interfaces/agency at $8K/wk
6 Based on vendor quote of ~$26-28/hr/FTE plus 25% cost buffer
7 Based on average cost of GS-13
8 Note: marginal cost per receivable of ~$8-12 across both phases

2. OUTSOURCER MARKET

FIT identified a mature, competitive market of AR outsourcers, suggesting that an RFP will elicit competitive bids (see Exhibit 5). Of the 16 outsourcers analyzed during this project, four leading candidates (i.e., NCO, iQor, Firstsource, and Accenture) provided the best match against pre-determined criteria.

All 16 outsourcers operate service centers within the United States. They were evaluated through interviews and external market research for scale, expert rating, government experience, business maturity, and expertise in pre-delinquent, non-lending receivables.

Exhibit 5: Mature market of AR outsourcers

INITIAL LIST

Service provider	BPO rev.	BPO FTE's	Head quarters	Years exp.	Expert rating [1]	Govt. exp.	Focus/specialization
NCO	1.5b	24,000	Horsham, PA	80	High	Ed., HHS, Army	A/R
faor	520m	8,000	New York, NY	>15	High	Ed., VA	A/R
firstsource	400m	2,000	Mumbai, India	10	High	Ed.	A/R
accenture	-	10,800	Dublin, Ireland	20	High	IRS	Finance & Accounting
[illegible]	390m	9,100	Houston, TX	50	High	Ed.	A/R
GENPACT	1.1b	12,800	Hamilton, Bermuda	14	High	Limited	Finance & Accounting
ACS	6.5b	5,500	Norwalk, CT	15	High	Limited	Finance & Accounting
Capgemini	-	6,000	Paris, France	15	High	Limited	Sourcing, Supply Chain, Finance & Accounting
Wipro BPO	-	6,000	Bangalore, India	6	Med	Limited	Finance & Accounting
Infosys	-	6,000	Bangalore, India	7	High	None	Finance & Accounting
TATA	-	7,500	Mumbai, India	5	Med	Limited	Some A/R, mainly Finance & Accounting
IBM	-	13,000	Armonk, NY	16	High	Limited	Some A/R, mainly Finance & Accounting
EXL	-	2,300	New York, NY	10	Med	Limited	Finance & Accounting
HCL	-	2,000	Noida, India	7	Low	None	Finance & Accounting
Cognizant	-	3,000	Teaneck, NJ	5	Low	None	Finance & Accounting
WNS	-	7,000	Mumbai, India	15	Med	Limited	Finance & Accounting

Fit for CRS

Leading candidates

Screening criteria include:

- Scale of operation
- AR expertise
- Expert rating
- Government experience
- Onshore operations
- Business maturity
- Pre-delinquent, non-lending receivables experience

1 Rating based on Gartner Magic Quadrant placement and AR expert interviews
SOURCE: Team analysis, expert interviews; websites; trade reviews

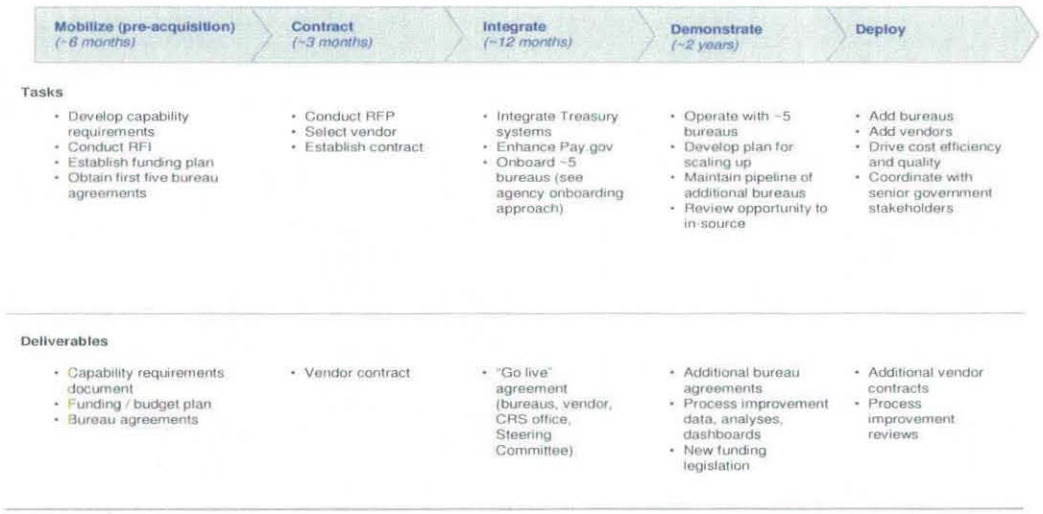
C. Implementation plan

1. OVERVIEW

Phases of implementation

Implementation occurs in five phases: Mobilize, Contract, Integrate, Demonstrate, and Deploy (see Exhibit 6).

Exhibit 6: High-level implementation plan



SOURCE: McKinsey & Company; internal, external expert interviews; team analysis

- **Mobilize:**

The Mobilize phase lasts approximately six months and encompasses pre-acquisition activity, including capability requirements development and related market research, the RFI process, establishment of funding, and obtaining written agreements with the first five bureaus participating in CRS.

- **Contract:**

The Contract phase lasts approximately three months and includes the RFP and contracting processes.

- **Integrate:**

The Integrate phase lasts approximately twelve months and includes establishing and testing the interfaces among the first 5 participating bureaus, the outsource vendor, and other Treasury systems such as TRS and Pay.gov.

The duration of this phase is dependent on the resources dedicated to completion and the compatibility of the bureaus' financial systems with the outsourcer's platform. This duration can be accelerated by strategically choosing bureaus that have high compatibility or readiness for integration, and by dedicating more resources to completion.

Additionally, it may be possible to integrate the first five bureaus in tandem, rather than all at once. This would allow the first bureau to 'go live' before the last bureau is fully integrated.

- **Demonstrate:**

The Demonstrate phase lasts approximately two years and consists of piloting CRS with the first five bureaus. Also during this phase, the CRS team solicits additional bureaus to participate in subsequent phases of CRS expansion. CRS operators show the first results from continuous improvement and risk reduction programs during the Demonstrate phase.

- **Deploy:**

The Deploy phase begins after the Demonstrate phase is complete and continues indefinitely, during which CRS grows to include additional bureaus and vendors.

Groups, offices participating in implementation

Three groups have responsibilities for Implementation: a Steering Committee, OFIT, the CRS office. Additionally, a Customer Advisory Group provides advice to the CRS office.

- **Steering Committee:**

The Steering Committee provides strategic guidance and support and includes the Commissioner of the Financial Management Service; Deputy Commissioner of the Financial Management Service; Assistant Commissioner of the Financial Management Service, Debt Management Services; Assistant Commissioner of the Financial Management Service, Federal Finance; Deputy Assistant Secretary of the Treasury for Accounting Policy; and the head of OFIT.

- **OFIT:**

OFIT is the pre-acquisition lead, the office primarily responsible for the Mobilize phase. After CRS enters acquisition, OFIT transitions to a supporting role focused on

maintaining the long-range plan for bureau on-boarding (including the pipeline of additional bureaus) and presenting the CRS business case to senior government stakeholders.

- **CRS office:**

The CRS office is the lead for all other phases (Contract, Integrate, Demonstrate, and Deploy). The CRS office will be the acquisition lead and overall vendor and agency relationship manager. The CRS office includes a program head, a business financial manager, a technology advisor, a vendor relationship manager, a bureau / customer relationship manager, and one administrative support person.

- **Customer Advisory Group:**

The Customer Advisory Group (CAG) provides the CRS office with user perspectives regarding improvements to daily operations and system upgrades. The CAG is composed of one senior representative from each participating bureau and a representative of the CRS office (e.g., the program head).

2. DETAILED TASKS & RESPONSIBILITIES

More detail on specific tasks and responsibilities for each group participating in implementation follow (see Exhibit 7).

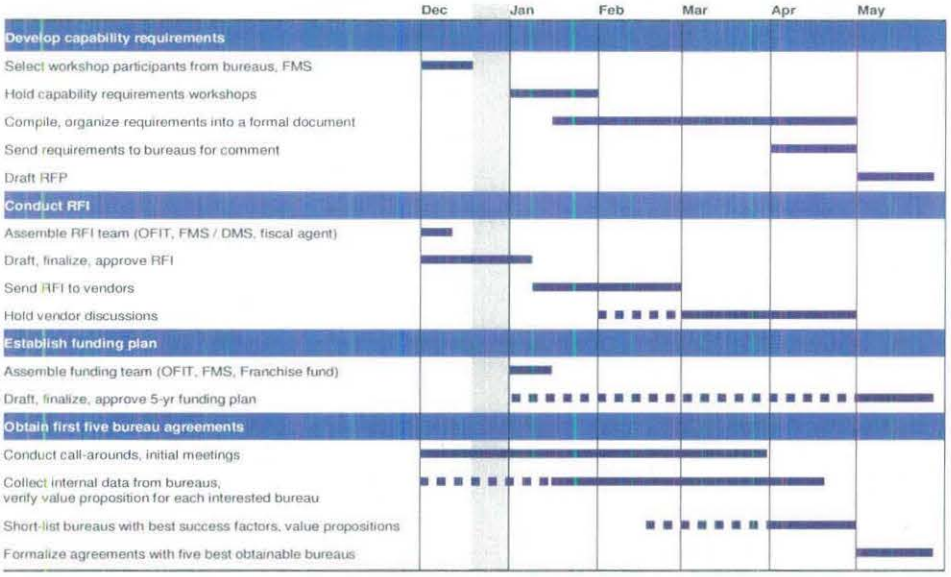
Exhibit 7: Implementation responsibilities

	Mobilize (pre-acquisition) *(~6 months)*	Contract *(~3 months)*	Integrate *(~12 months)*	Demonstrate *(~2 years)*	Deploy
Steering committee	• Review, approve development and program funding • Solicit bureaus	• Approve program initiation	• Approve "Go live" agreement	• Review, approve pilot performance • Authorize Deploy phase • Review insourcing opportunity when pilot objectives met	• Provide strategic guidance • Review ongoing performance
OFIT	***OFIT is the pre-acquisition lead***				
	• Develop capability requirements • Conduct RFI • Establish funding plan • Obtain first five bureau agreements	• Maintain long-range plan for bureau on-boarding • Maintain pipeline of additional bureaus • Maintain and present CRS business case to senior government stakeholders			
CRS		***CRS office is the acquisition / sustainment lead***			
	• Assemble CRS team	• Stand up CRS • Conduct RFP • Select vendor • Establish contract	• Establish interfaces • Coordinate with Fed Finance for Pay.gov enhancement • Onboard ~5 bureaus	• Operate with ~5 bureaus • Develop plan for scaling up	• Add bureaus • Add vendors • Drive cost efficiency and quality

SOURCE: McKinsey & Company; internal, external expert interviews; team analysis

Mobilize:
During the Mobilize phase, OFIT leads the following activities over approximately six months (see Exhibit 8).

Exhibit 8: OFIT office actions for Mobilize phase



SOURCE: McKinsey & Company; internal, external expert interviews; team analysis

- **Develop capability requirements:**
  OFIT leads a series of workshops with subject matter experts from FMS and potential bureau participants to further develop CRS capability requirements. OFIT will compile and organize requirements in a formal document. OFIT will improve the capability requirements based on insights from vendor discussions during the RFI process, as well as bureau feedback. The capability requirements document serves as the basis for a draft RFP. The 'Develop capability requirements' task is complete when OFIT produces a draft RFP.

- **Conduct RFI:**
  OFIT leads the RFI team, consisting of OFIT, FMS (including DMS) and the fiscal agent. The RFI team will develop a brief Request for Information and send it to vendors. The RFI team will then host discussions with vendors. The objectives of the RFI process, including vendor discussions, are as follows.

  – Refine the government's understanding of market / shared service center offerings related to CRS

- Establish relationships with vendors to enable market research, capability requirements workshops, and a robust RFP process

- **Establish funding plan:**
  OFIT leads the funding team, consisting of OFIT, FMS, and the Treasury Franchise Fund (if used) to develop a five-year funding strategy for CRS. The objectives of the funding plan are as follows.
  - Maximize funding for CRS
  - Identify and prescribe mitigations for funding risks
  - Identify needed legislation to secure additional funding sources (e.g., changes to DCIA)

- **Obtain first five bureau agreements (for pilot):**
  OFIT leads interactions with bureaus to identify the first five bureaus participating in CRS and to obtain their formal, written agreement to participate in the Integrate and Demonstrate phases. Among other activities required to achieve the agreements, OFIT performs the following:
  - Conduct call-arounds and initial meetings with bureaus. The Steering Committee assists OFIT in these interactions.
  - Collect internal data from bureaus to verify the value proposition of CRS.
  - Create a short list of bureaus with the highest success factors for participation in CRS, e.g., highest value proposition, highest willingness, highest resource headroom, highest management capacity, most compatible existing financial systems
  - Establish formal, written agreements with the five best obtainable bureaus on the short list. Among other items, the agreements assign responsibilities between OFIT and participating bureaus for the actions required to successfully complete the Integrate and Demonstrate phases.

- **Set up governance and organization structure**

  During the Mobilize phase, the Steering Committee provides oversight and support, including the following actions.
  - Review and approve funding
  - Support OFIT in communicating with bureaus in order to obtain written agreements with those bureaus

During the Mobilize phase, the CRS office is established with at least the program head, vendor liaison and technology advisor. Other members of the program office can be added in later phases.

Contract:
OFIT transitions from primary responsibility for CRS to a support role. During the Contract phase and all subsequent phases, OFIT performs the following actions as requested by the CRS office.

- Maintain long-range plan for bureau on-boarding
- Maintain the pipeline of additional bureaus
- Maintain and present the CRS business case to senior government stakeholders

The Steering Committee continues to provide oversight and support, including the following actions specific to the Contract phase.

- Approve initiation of the acquisition program
- Approve a written charter for the CRS office
- Approve a written program plan that details the responsibilities of the CRS office and OFIT in detail

The CRS office is the acquisition lead, the office with primary responsibility for the Contract phase and all subsequent phases. CRS office completes the following actions in approximately three months

- Stand up the CRS office as program lead
- Conduct the RFP
- Select the outsource vendor
- Award and complete the outsourcer contract

Integrate:
OFIT continues to perform its actions as requested by the CRS office.

The Steering Committee continues to provide oversight and support, including the following actions specific to the Integrate phase.

- Approve the "Go live" agreement among participating bureaus, the vendor, and the CRS office

The CRS office continues as lead office for CRS, including the following actions specific to the Integrate phase.

- Supervise establishment of interfaces

- Supervise bureau on-boarding with vendor (see section D., below, "Agency on-boarding approach.")
- Coordinate with Fed Finance for enhancements to Pay.gov

The Customer Advisory Group provides user perspectives and priorities regarding improvements to daily operations and upgrades.

Demonstrate:
OFIT continues to perform its actions as requested by the CRS office.

The Steering Committee continues to provide oversight and support, including the following actions specific to the Demonstrate phase.

- Review and approve program performance
- Review the business case for in-sourcing receivables servicing
- Certify completion of the Demonstrate phase and authorize commencement of the Deploy phase
- Engage Treasury and other agency senior leadership to foster support for additional legislation related to funding, e.g., DCIA improvements

The CRS office continues as lead office for CRS. In addition to driving cost efficiency and quality in daily operations, the CRS office performs the following.

- Engage bureau and vendor leadership to resolve major problems, incidents
- Manage delivery of SLA items
- Review performance against metrics and award vendor credits / penalties per contract
- Approve technology and process upgrades
- Execute risk reduction program

The Customer Advisory Group continues to provide user input on improvement opportunities.

Deploy:
OFIT continues to perform its actions as requested by the CRS office.

The Steering Committee continues to provide strategic oversight and support.

The CRS office continues as lead office for CRS, managing daily operations while adding up to 20 bureaus to CRS. Actions for the Deploy phase include the following.

- Scale up CRS to ~25 bureaus in total by the end of the fifth year of operation
- Conduct RFP process for additional vendors, if desired

- Establish a multi-vendor outsource operation that drives value for the government through competition among vendors for receivables volume

The CRS office continues to drive operational excellence with the following actions.

- Engage bureau and vendor leadership to resolve major problems, incidents
- Manage delivery of SLA items
- Review performance against metrics and award vendor credits / penalties per contract
- Approve technology and process upgrades
- Execute risk reduction program

The Customer Advisory Group continues to provide user input on improvement opportunities.

3. KEY RISKS TO MANAGE

There are five key risks to manage (see Exhibit 9).

Exhibit 9: Five key risks to manage

	Description of risk	Mitigation measures

Adoption	• Agencies adoption is too low to serve as "proof point," sustain CRS	• Adopt a sales approach:
		  - Focus on agency value proposition
		  - Prioritize most likely adopters
		• Minimize agency costs
		• Engender leadership support at higher levels (e.g., department secretaries, CFO Council, OMB)

Cost	• Actual costs are higher than estimated	• Develop and manage against detailed demonstration plan • Tie release of funds to achievement of milestone
Funding	• Funding source or appropriate funding unavailable when needed to maintain schedule	• Strategically draw upon multiple founding sources • Keep costs low, especially during demonstration phase • Pursue legislation to develop additional funding sources
Schedule	• Early momentum lost • Smaller implementation delays allowed to accumulate • Long period of time required to integrate first 5 bureaus	• Conduct RFI immediately • Use fiscal agent to accelerate procurement • Establish governance & CRS office quickly (e.g., project lead) • Strategically choose bureaus that are relatively easier to integrate • Enter Demonstrate phase with <5 bureaus if optimal
Vendor	• Vendor performance and capabilities do no satisfy agencies	• Apply best contracting practices (e.g., conduct reference checks, specify vendor staffing in contract) • Include vendor in project management team • Adopt strong performance management system (e.g., establish KPI's that serve as "early warning system")

SOURCE: Stakeholder, expert interviews; team analysis

- **Agency adoption:**
  Risk that initial agency adoption is too low to serve as "proof point" and that CRS

fails to sustain momentum in broader rollout (i.e., deploy phase). To mitigate, adopt a sales approach with agencies that prioritizes most likely adopters and focuses on the agency value proposition (see section D., below, "Agency on-boarding approach."). Moreover, it is important to minimize agency costs and foster broad leadership support of CRS government-wide (e.g., among department secretaries, CFO Council, OMB).

- **Costs:**
  To mitigate risk that actual costs run than estimated, CRS should develop and be held accountable to a detailed demonstration plan (to be developed at the outset of the contract phase). Release of funds should be contingent on achievement of relevant milestones.

- **Funding:**
  Risk that funding source or appropriate funding is unavailable when needed to maintain implementation schedule. To mitigate, draw upon multiple funding sources, keep costs low (especially during demonstration phase), and pursue legislation to develop additional funding sources (e.g., DCIA improvements).

- **Schedule:**
  Risk that small implementation delays accumulate and early momentum is lost. To mitigate, conduct RFI immediately, use fiscal agent to accelerate procurement, and quickly establish CRS governance and program office (e.g., program lead). If a long period of time is required to integrate first 5 bureaus for demonstration phase, prioritize bureaus for pilot that are relatively easier to integrate and consider launching demonstration phase with less than 5 bureaus at the outset.

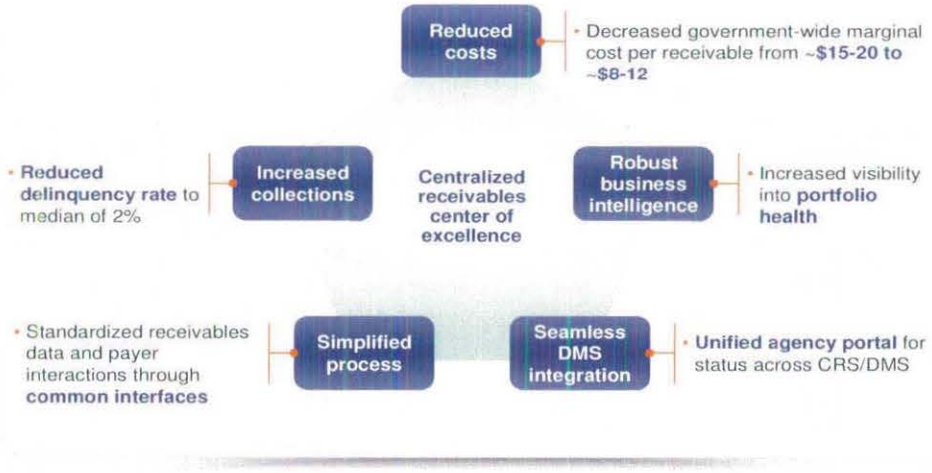
- **Vendor:**
  Risk that vendor performance and capabilities do not satisfy agencies. To mitigate, apply best contracting practices (e.g., conduct reference checks, specify vendor staffing in contract) and include vendor in project management team. Moreover, adopt strong performance management system, including key performance indicators (KPIs) that serve as "early warning system" for under-performance.

D. Agency on-boarding approach

1. AGENCY VALUE PROPOSITION

Agencies benefit from CRS in five ways (see Exhibit 10).

Exhibit 10: Agencies benefit from CRS in five ways



- **Reduced costs:**
  Agencies reduce their financial management costs by transferring receivables servicing to CRS. Agencies repurpose any saved resources to their core mission. Additionally, by centralizing receivables in a center of excellence such as CRS, the government realizes lower costs per receivable (i.e., ~$8-12/receivable for CRS versus ~$15-20/receivable in agencies currently) and therefore lower costs for receivables management overall.

- **Increased collections:**

  CRS and DMS comprise a receivables center of excellence, so that participating agencies receive the best service available on their receivables and debt. Specifically, CRS performs proactive servicing, applying risk-based payer contact strategies and other tools to maximize payments. For underperforming agencies, delinquency rates will improve (i.e., from ~10% to median of ~2%).

- **Simplified processes:**

  CRS uses one set of continuously-improving best practices for all receivables and payers, regardless of agency origin. This approach improves outcomes for participating agencies and reduces business risk. It also enables standardization of receivables data upstream of CRS—i.e., common interfaces among participating agencies.

- **Seamless DMS integration:**

  When agencies transfer receivables to CRS, they do not need to transfer them again to DMS if the receivables become delinquent—CRS will integrate directly with DMS. This feature also enables early handoff to DMS of high-risk receivables. A unified CRS-DMS agency portal provides agencies with simplified processes for accessing information about receivables, both pre- and post-delinquent.

- **Robust business intelligence:**

  A central receivables data repository offers participating agencies a body of information that yields management insights such as high risk receivable types, under-performing payer geographies, receivable portfolio health, and others.

2. CRITERIA FOR AGENCY SELECTION

At least initially, CRS will focus on handling public receivables that have a higher collection impact versus intergovernmental receivables as they represent collection inflow to the government (see Appendix section on "Receivable types"). Moreover, CRS will focus on low value, high volume receivables as compared to "high touch" receivables such as corporate and income taxes, or loans. Thus, some agencies or bureaus are de-prioritized initially (e.g., predominately lending bureaus including SBA, Rural Development).

Agencies with in focus receivable types are prioritized for solicitation to participate in CRS according to three cascading criteria.

- **Expressed interest:**

  Agencies that express interest in participating have the highest priority, regardless of other factors.

- **Value to agency:**

  Absent an expression of interest, agencies that get higher value from CRS are prioritized over those that get lower value. Here, value is defined as reduced costs, the most important part of the Agency Value Proposition described above (see Exhibit 9). An agency's potential cost reduction is the amount of money it spends

on receivables management each year, divided by its total annual budget authority. An agency with high potential cost reduction spends a relatively large amount of its budget authority (i.e., over ten basis points) on receivables management.

- **Value to government:**

  For agencies with similar value propositions, those with higher potential to raise government revenues by participating in CRS are prioritized over those with lower revenue potential. Revenue potential is the increase in annual pre-delinquent collections realized by raising an agency's pre-delinquent performance to the median. Agencies with more than $1M of additional pre-delinquent collections potential are high-priority.

3. AGENCY ON-BOARDING APPROACH

Launching and scaling CRS efficiently requires standard procedures and templates to facilitate on-boarding with minimal burden on the participating agencies. There are three core elements of the approach:

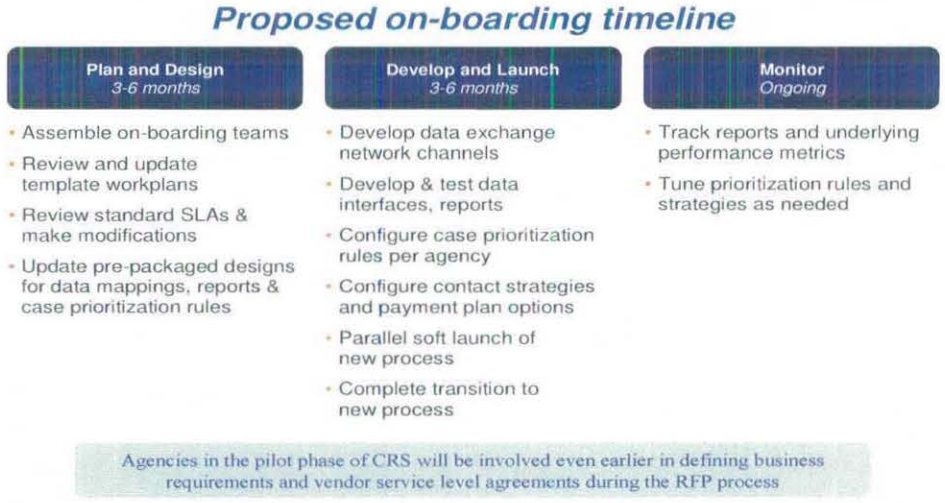
- **Migration plan:**
  The migration plan outlines the workplan and key activities for on-boarding an agency. The workplan follows three basic phases with specific deliverables and timelines: (i) Planning & Design, (ii) Develop & Launch and (iii) Monitor.
- **Resource plan:**
  The resource plan highlights the resources that CRS, the outsourcer, and the agencies will assemble across the migration phases.
- **On-boarding templates:**

  To accelerate the on-boarding process for agencies, CRS will pre-define standard guides for various migration activities, to be reviewed with and modified for each participating agency. Once executed for pilot agencies, technical tasks – such as data interface design and network channel configuration – will be reused for additional agencies to further accelerate their on-boarding process.

MIGRATION PLAN

The migration plan for an agency will follow three basic phases (see Exhibit 11).

Exhibit 11: Approach to on-boarding agencies



1. Planning and design:

CRS, the outsourcer, and the agency will assemble joint working teams and define the scope of CRS support to that agency (e.g., program or bureau level, receivable types, etc.).

Template workplans designed by CRS and outsourcer will be reviewed and modified per the agency's requirements. Key design aspects to be discussed in this phase include:

- Business rules (e.g., delinquency gates)
- Data definitions & transfer schedules
- Payment plans (e.g., CRS permissions to develop)
- Reports (e.g., TROR data, set aside amounts)
- Case prioritization & contact strategies
- Standard service level agreement elements (e.g., hours of operation, productivity KPIs)

This phase is complete once the design is well-established, and technology teams can begin to configure and set up data interfaces and workflow management rules.

2. Develop and launch:

This phase will involve technical development and testing of the solution, including network setup, data interfaces, and reports. Technical personnel from the outsourcer are the primary task owners, with agency counterparts providing specific expert advice as needed. Ramp-up of service center personnel and process change training for agency personnel will also happen in this phase. CRS will make a soft-launch in parallel with existing agency activities to allow for stabilization of new process and close-out of receivables already being serviced by the agency. A full transfer will follow once all migration related issues are resolved.

3. Monitoring:

The monitoring phase represents a steady state of operation with scheduled reviews between CRS, the outsourcer, and agency stakeholders.

See below for a more detailed version of the migration plan.

Exhibit 12: Detailed agency migration plan

Process Step	Description	Timeframe
Assemble on-boarding teams	• CRS on-boarding liaison with template work plans to coordinate agency & outsourcer teams • Outsourcer working team: – Project Manager, 1+ data interface engineer, 1+ process change agent, 1+ network engineer • Agency working team: – Finance expert to provide business expertise/ guidance – Project manager to oversee on-boarding effort – 1+ IT systems expert [1] 1+ network engineer	2-4 weeks
Plan	• Review template work plans for transitioning to CRS and tune per agency needs • Review standard SLAs with agencies and make modifications • Work through operations and system changes checklist and determine relevancy for agency • Provide updates to rollout timeframe, success criteria based on changes to template plans	4-8 weeks
Design	• Leverage standard outsourcer network architecture to design data exchange channels • Modify template functional requirements per agency needs including: – Data mappings, frequency of data transfer, eligible receivable types, age (e.g., new receivables only) – Reports and performance metrics • Review and configure pre-defined business rules for – Time and risk gates for referral to DMS – Automated call/letter campaign, case prioritization process – Payment plan options, Optional use of CRS invoicing capabilities	8-12 weeks
Develop	• Network set-up for data exchange channels • Modify packaged data interface mappings to transfer data between bureau and CRS IT systems[2] • Configure business rules within CRS system per agency design directives • Develop any agency specific reports and configure agency portal access	8- 12 weeks
Test & Train	• Technical testing of data interfaces and data scrubbing • Service center personnel training in agency specific rules and payment plans • Change management training for agency and CRS liaisons	4-6 weeks
Launch	• Parallel launch of new process for a subset of receivables • Monitoring and stabilization of technical integration and business processes • Transition to new process for full scope of receivable	2-4 weeks

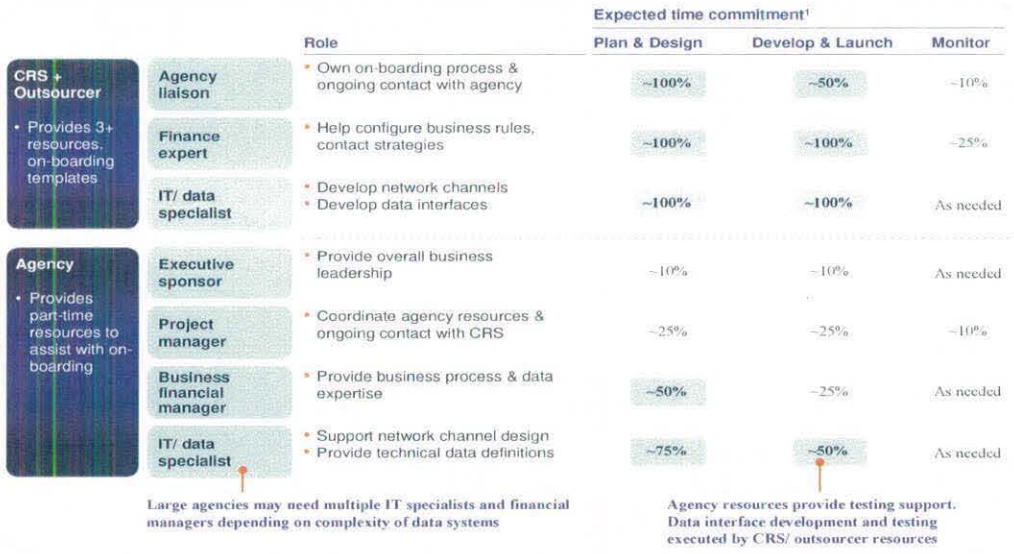
1 Large agencies/bureaus may need multiple IT and finance team members
2 Data interfaces include Account, Account contact details, Receivable info, Payment history, Account maintenance etc.

RESOURCE PLAN

The on-boarding process will be a joint effort between CRS, the outsourcer, and the agency. CRS and the outsourcer will minimize the burden on the agency by providing

the bulk of the personnel and will ensure that the time commitment required of agency personnel declines as the on-boarding process progresses (see Exhibit 13).

Exhibit 13: Combined project team required to on-board agency



1 Expected percent of daily time dedicated to CRS on-boarding process over the project lifespan

CRS resources

- **Agency Liaison:** The primary point of contact for the agency throughout the on-boarding process and beyond. This expert will be knowledge regarding the template workplans and will facilitate interactions between the agency and the outsourcer.

AR outsourcer resources

- **Project Manager:** An overall coordinator who will manage the provider's resources while working closely with CRS agency liaison and agency project manager.
- **Finance Expert:** A receivables management expert knowledgeable in capabilities and configurability of provider's technology tools. This individual will be closely involved in configuring business rules, reports, etc., based on agency requirements.
- **IT/Data Specialist:** These will include network and data engineers responsible for creating interfaces between agency and outsourcer IT systems.

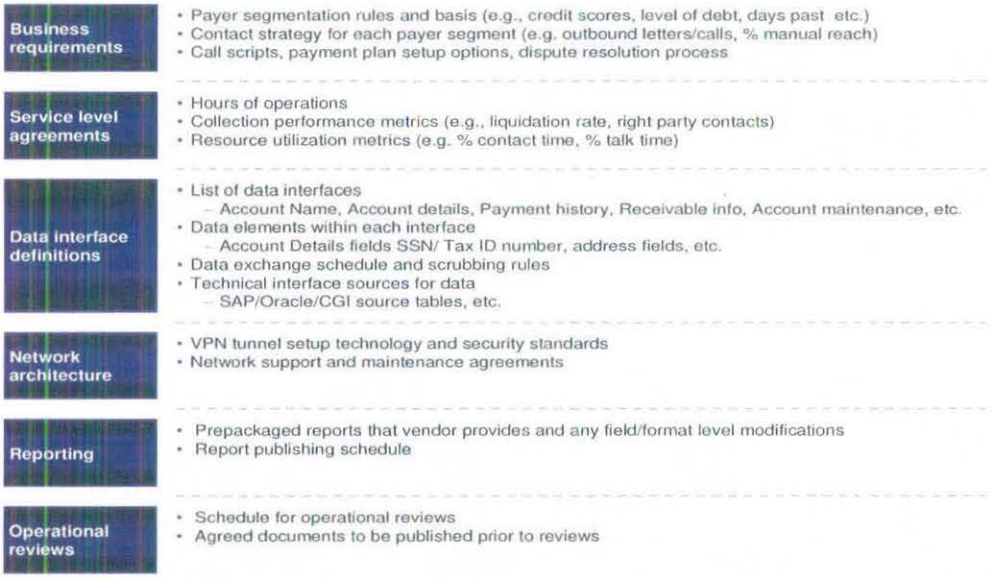
Agency

- **Executive Sponsor:** A senior manager that will provide overall business direction and serve as an escalation point during on-boarding process.
- **Project Manager:** A coordinator who will manage internal agency resources during the on-boarding process. This individual will also serve as the ongoing agency point of contact for CRS reviewing reports, delegating data completeness issues and participating in negotiations with payer on an as-needed basis.
- **Business financial manager:** An expert that is knowledgeable on the agency's receivable types and can provide guidance on business definition of data residing in IT systems.
- **IT/Data Specialist:** These will include agency network experts who can provide details on setting up data exchange channels as well as IT data experts who can provide detail on technology aspects of data systems and technical data definitions.

ON-BOARDING DOCUMENT TEMPLATES

Prior to on-boarding, CRS and the outsourcer will develop process and technology templates. See exhibit 14 for a list of these templates and a brief description of what they would cover.

Exhibit 14: Agency on-boarding templates



APPENDIX

E. OFIT's approach to CRS design

1. KEY QUESTIONS ADDRESSED

OFIT followed a disciplined approach to designing CRS to ensure it addressed a series of fundamental questions:

1. What is the optimal scope of CRS?
2. What capabilities does CRS require?
3. What design alternatives exist for standing up CRS?
4. What is the optimal design alternative?
5. What is the value proposition of CRS to agencies, government?
6. How should CRS be organized and governed?
7. What is the high-level implementation plan, including for agency on-boarding?

2. APPROACH TO GENERATING INSIGHTS

OFIT approach emphasized collaboration with government-wide stakeholders in addition to leveraging expert best practices and expertise in AR management.

In addition to three Steering Committee meetings and three Advisory Group workshops, OFIT conducted extensive interviews (50+) including:

1. One-on-one conversations with ~10 Advisory Group members
2. Recurring interviews with ~15 groups of government stakeholders (e.g., DHS-USCG, BPD-ARC, DMS, etc.)
3. Recurring interviews with ~10 AR software and service providers (e.g., NCO outsourcer, CR software)
4. Recurring interviews with ~15 external experts on both AR management and IT enablement

Qualitative insights from interviews were blended with fact-based data analysis and modeling to answer the key questions. Sample analyses include:

1. Current state of receivables (e.g., volume, delinquency rates by agency)
2. Estimated costs and time to market for CRS under each alternative

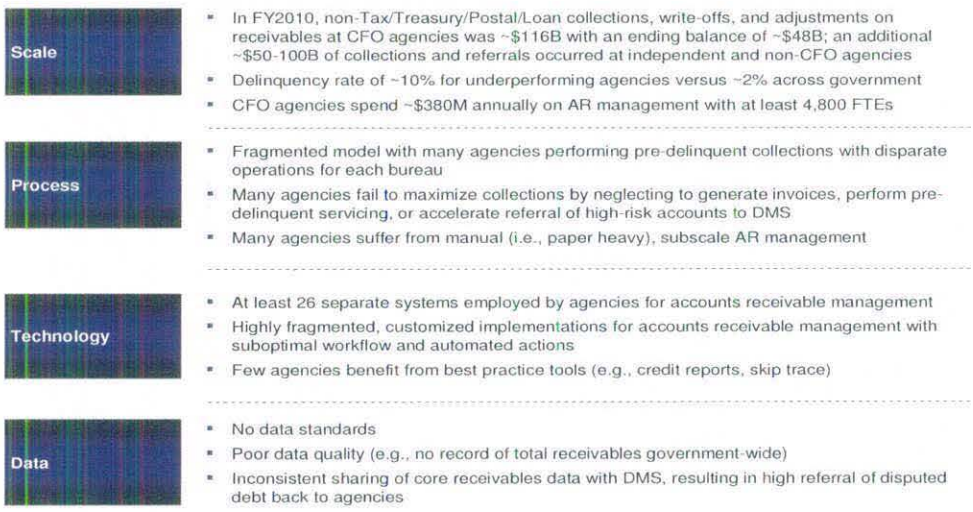
3. Estimated impact of CRS – both cost savings and increased collections
4. Potential pilot bureaus for CRS given expressed interest and potential for cost savings, increased collections

F. CRS concept

1. CURRENT STATE OF PRE-DELINQUENT COLLECTIONS

There is a substantial opportunity to improve pre-delinquent collections as the current process is inefficient due to lack of standardized processes, fragmented and subscale AR operations, suboptimal technology, and poor data (see Exhibit 15).

Exhibit 15: Pre-delinquent collections is inefficient today

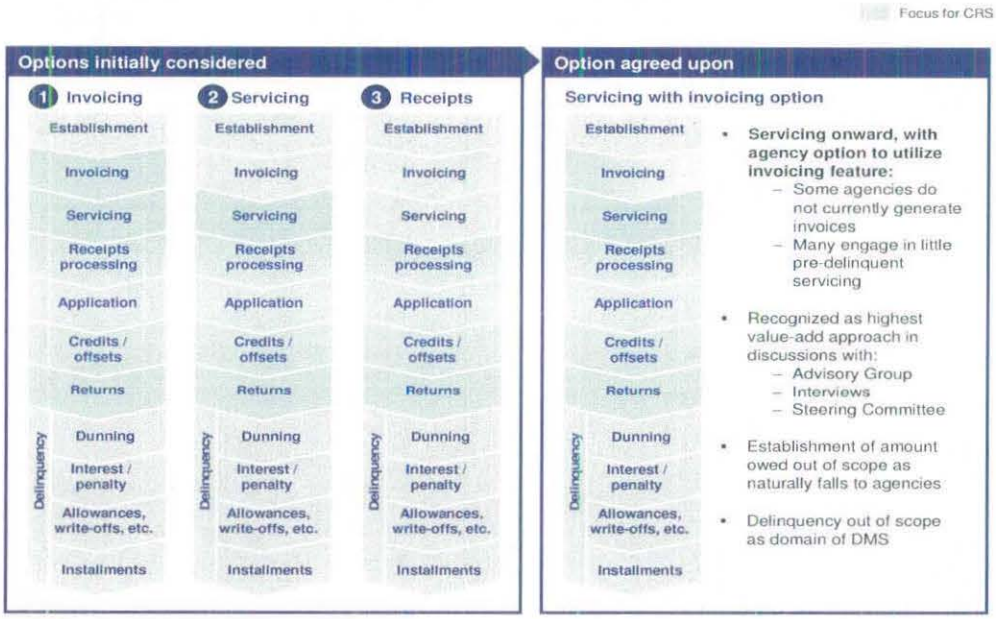


2. SCOPE

The potential scope of CRS includes all elements of the value chain from establishment to delinquency. Three options arose from interviews and workshops: (1) invoicing to delinquency, (2) servicing to delinquency, and (3) receipts processing to delinquency.

OFIT selected the second option (servicing through delinquency), with an optional invoicing feature made available to agencies (see Exhibit 16). This approach delivers the highest value to agencies that sometimes fail to generate invoices or conduct pre-delinquent servicing. Establishment and delinquency were excluded, as they naturally fall to agencies and DMS, respectively.

Exhibit 16: Scope of CRS pre-delinquent collections activities



SOURCE: Interviews with government stakeholders, industry experts, team analysis

3. RECEIVABLES TYPES

CRS will focus initially on handling public, low-value receivables (see Exhibit 17). Public receivables have a higher collection impact versus intergovernmental receivables as they represent collection inflow to the government. Low value, high volume receivables will benefit the most from standardized scale processes as compared to "high touch" receivables such as corporate and income taxes, or loans.

Exhibit 17: Focus on receivables due from outside government

Public receivables in focus

Focus receivables:
- Bring money into the government from outside (e.g., licenses)
- Excludes corporate & income taxes, loan revenue
- Receipts: $154B (12% of total)
- AR balance: $15B (17% of total)

Account type [1]	Accounts receivable [2] Closing ($M)	Share of total (%)	Receipts [3] Total ($M)	Share of total (%)
Trust Fund accounts	62,144	70.0	891,820	69.1
Intergovernmental accounts	10,295	11.6	-	-
General Expenditure	8,800	9.9	-	-
Public Enterprise accounts	2,396	2.7	-	-
Royalties	1,820	2.1	3,939	0.3
Gains from Government participation	616	0.7	-	-
Rent, including bonuses	448	0.5	81	0.0
Customs duties	442	0.5	15,656	1.2
Special Fund accounts [4]	350	0.4	81,441	6.3
Interest	324	0.4	36,367	2.8
Restitutions, reparations, etc. under military occupation	225	0.3	0	0.0
Clearing accounts	202	0.2	1,092	0.1
Fees for regulatory and judicial services	127	0.1	984	0.1
Receipts from monetary power	121	0.1	75,845	5.9
Gifts and contributions	88	0.1	3	0.0
Fines, penalties, and forfeitures	84	0.1	1,665	0.1
Dividends and other earnings	83	0.1	21	0.0
Sale of products	75	0.1	443	0.0
Realization upon loans and investments	66	0.1	12,194	0.9
Recoveries and refunds	27	0.0	4,956	0.4
Fees and other charges for services and special benefits	1	0.0	1,259	0.1
Management and Consolidated working Funds accounts	0	0.0	-	-
Collections from cancelled accounts	0	0.0	1,719	0.1
Sale of government property	-	0.0	0	0.0
Negative subsidies/ downward reestimates (Credit Reform)	-	0.0	160,812	12.5
Transfer of excess receipts to general fund	-	0.0	7	0.0
Grand Total	**88,735**	**100.0**	**1,290,305**	**100.0**

1 Includes receipt and expenditure accounts
2 Closing balance, as stated in FY2010 FMS Current Report, Part III
3 FY2010 volume of receipts (net by account type), as stated in FY2010 FMS Current Report, Part II
4 Special fund accounts are credited with receipts from specific sources which are earmarked by law for a specific purpose but which are not generated from a cycle of operations – e.g., rents and royalties under the Mineral Leasing Act, revenue from visitors to Yellowstone National Park
SOURCE: Treasury/FMS FY2010 Current Report

4. CAPABILITIES REQUIRED

CRS will collect receivables from agencies and perform pre-delinquent servicing, including invoicing if desired, and coordinate receipt processing with FMS. Receivables will be eligible for transfer to CRS once the agency has determined amount certain and terms of payment. CRS will be authorized by agencies to negotiate payment plans with payers and CRS will keep receivables data in a central repository, providing updates back to agency accounting systems. Data storage will include document images for account case files. When receivables reach delinquency (i.e., an age or 'gate' specified by each agency for their own receivables), CRS will transfer the accounts directly to DMS on the agencies' behalf – i.e., a seamless transfer to delinquent servicing by DMS.

Specific capability requirements are outlined in the paragraphs that follow.

Agency interface and internet portal. Agencies and payers will communicate with CRS system via an interface (primarily for agencies to send / receive data) and an internet portal.

Agencies will use the interface to upload account data to CRS. During upload, the interface system will validate data, rejecting files that are corrupted or do not match with publicly-available addresses, etc. Inbound account data will be routed to the receivables

data repository for servicing, receipt matching, etc. Agencies will also be able to recall receivables (e.g., erroneous or disputed receivables) through this interface.

Automatically and periodically, the interface will send updates on receivables status back to the agencies so that they can keep their records current.

An internet portal will enable external users such as agencies and payers to log in and conduct business with CRS. For example, agencies can upload receivables data outside of the normal batch routine, view standard reports, create ad-hoc reports, set their level of service, configure invoicing, and select criteria for sending late notices and referring cases to DMS. Similarly, payers can use the portal to perform activities including viewing all of their payables and any case documentation, enter payments, and correct or update their contact information. More detail on services is provided below in, "Servicing."

Invoicing. Invoicing is defined as the process of sending a letter and/or email to a payer to inform them of the amount owed, due date, and other conditions of payment. It does not include calculation of the amount owed—i.e., it does not include cost accounting at the program level or further allocations within the agency. Agencies that use CRS are required to provide CRS with an amount certain and due date, among other required data elements, when they transfer receivables to CRS. Invoices will not be sent for receivables that do not include the minimum required data.

Invoicing service will be an option that subscribing agencies may decline. Agencies that do not subscribe to invoicing will still have to send CRS a copy of all relevant invoices for case files.

CRS will be able to send invoices to payers directly, or to their financial institutions if one is specified in the payer's CRS profile. CRS will also be integrated with Pay.gov so that invoices can be posted on that site. Invoices sent by CRS or posted on Pay.gov will include any additional forms that agencies desire—e.g., instruction forms for submitting payment. CRS will be responsible to ensure that all OMB required elements of invoices are included, and will establish standard data requirements that participating agencies must meet.

Although a guiding principle for CRS is to leverage electronic invoicing, there may be some programs or payers that require direct mail invoices.

In addition to sending invoices, CRS will send reminder notices at intervals configured by each agency.

Servicing. Servicing encompasses all of the activities between invoicing and receipt that stimulate or otherwise arrange for the payer to pay—e.g., communicating with the

payer, and updating the receivable if there are changes negotiated. Case files are built for each receivable, starting with the original invoice. Receivables are serviced by account representatives who are employees / contractors of CRS, using tools such as the following:

- Case search, view, edit. Allows representatives to search for receivables based on payer information, agency information, etc. and make authorized changes.
- Document manager. Allows representatives to view case documentation and add documents to case files. A flexible document servicing application will allow representatives to create a case file from the originating invoice and add records of all contacts with payers to meet the minimum requirements for case documentation.
- Payer profile build, view. Allows representatives to view a payer's history for government receivables in the system, and make entries to the profile or link relevant case documents.
- Call scripts and decision aids. Guidance for interactions with payers, including decision aids and help topics to guide phone calls and servicing actions. Also flags cases for missing documentation to be requested during payer contact. Other features include a smart autodialer (e.g., predicts the best time of day to reach a payer), a post-call memo builder application, and recording capability.
- Integrated collection tools. Enables representatives to enter a payment directly from a payer over the phone – i.e., taking the payer's credit card or bank account information and submitting the payment via Pay.gov or another Federal Finance collection channel.
- Payment plan builder. Enables representatives to build a payment plan while communicating with the payer over the phone or email. Payment plans would be limited by business rules set by the agency concerned.
- Credit / offset view, edit. Enables representatives to view credit or offset information for payers, determine net government-wide debt, and distribute payments / overpayments to payer's other receivables owed, or return payment.
- Report generator. Enables representatives to create standard reports (e.g., TROR data, set aside amounts) for agencies and payers, or for internal use.
- The service team will include relationship managers assigned to one or more agencies. Their tools will include report builders that allow them to communicate with agencies via individual receivables updates, aggregate reports, and performance reports.

Receipt processing. CRS will integrate with existing systems at FMS Federal Finance to process receipts (i.e., pre-delinquent collections), thereby leveraging the government's substantial resources for collecting receipts via internet, telephone, and mail. Receipts will be matched against the list of receivables in the data repository so that agencies can be updated promptly on the status of their receivables.

Agency tools. CRS may provide tools that help agencies manage their receivables on a self-service basis. Example tools that agencies may find useful:

- Skiptracing. Assist agencies in locating payers when contact information is incomplete or incorrect. For example, searchable databases (CRS receivables data repository being one of these), and 3rd party services for deeper searching.
- Debt check. Agencies would use the CRS receivables data repository to determine if a loan applicant or other prospective customer is already in debt to another part of the government. This information helps agencies identify high risk applicants / customers.

Workflow automation. Automation of receivables business processes will enable CRS to increase receipts with fewer FTEs. CRS will employ a workflow application that monitors cases to prompt automated and manual actions by account representatives. Example actions include sending additional notices, reviewing a case that has accumulated abnormal risk, or reviewing actions taken by the payer or agency.

Workflow will enable timely response to payers and agencies by distributing case work among available account representatives. Case age and completeness will be factored into daily prioritization of tasks.

Workflow tools for managers include status summaries that link directly to cases so they can access case details and perform a visual audit. Tools such as these enable management to quickly identify workflow anomalies and resolve problems.

Performance management. A suite of performance management tools will enable CRS managers to understand the risk on each receivable in an agency's portfolio, calculate the expected loss on the portfolio, and recommend set-asides to cover the expected loss. Related tools will track workflow performance with best-practice metrics and identify trends in case composition, disposition, etc.

Central receivables data repository. CRS will maintain a record of all receivables uploaded by participating agencies to enable matching with incoming receipts. This record would be updated continuously as actions are taken on receivables – e.g., when the amount owed or due date is changed, or when payments are received. It will leverage FMS TRS as a central record of transactions.

It will also include a central repository of case information, including document images, to enable case work and servicing. Case files would be built from the original invoice and include any notes made by account representatives during servicing, as well as links to any document images relevant to the case.

The data store will be searchable using configurable business intelligence parameters such as payer identifier, case characteristics, agency / bureau / program, time periods, payment status, etc. This feature will be accessible to account representatives for servicing receivables, as well as participating agencies to create ad-hoc reports on their own receivables.

Referral to DMS. CRS will manage the referral of cases to DMS when they reach the delinquency gate as specified by each agency for each type of its receivables. Some receivables might be referred to DMS immediately. Additional applications in the interface, servicing, and workflow modules will automate these referrals. DMS users will have fully integrated access to CRS records so that they can perform research on cases referred to DMS.

System support. System technical features will be adequate to support deployment and sustainment of the above capabilities for all participating agencies.

Call center. CRS will employ a call center to support inbound and outbound service calls with payers, agencies, financial institutions, etc.; and outbound contact calls to payers. To do this, the call center will have outbound / inbound calling systems and it will have personnel to operate the call center. Both of these capabilities (systems and personnel) will be varied in scale to meet the demand for CRS services.

G. CRS operating model

1. ALTERNATIVES CONSIDERED

OFIT considered three alternatives to address the gaps with respect to the capabilities required for CRS, with the largest gaps being the servicing platform, workflow automation system, receivables data repository, and call center. Each alternative represents a unique combination of equipment and personnel (i.e., combine either existing or new equipment with either insourced or outsourced personnel) to fill all of the gaps comprehensively and create a seamless CRS/DMS collections complex (see Exhibit 17).

1)) Leverage and enhance existing government assets into a dedicated pre-delinquent collections platform operated by government personnel. This alternative envisions a combination of FMS's receipts processing capability with an existing servicing operation within government (e.g., ARC). Under the ARC example, its Oracle platform and integrated Siebel functionality provide the core technology platform. Oracle provides central data storage and Siebel is a customer relationship management tool that provides servicing and workflow automation solutions. ARC's call centers would be scaled up and enhanced with additional technology.

2) Acquire a comprehensive COTS platform for pre-delinquent collections and install it at an existing government service center, to be operated by government personnel (e.g., setup a new CRS platform within the ARC service center). Candidate COTS products integrate workflow automation, servicing, and data repository functions. Example best in class COTS solutions include Columbia Ultimate, CR Software, and CollectOne.

3) Acquire pre-delinquent collections services from an at-scale vendor and integrate these services with existing, complementary operations in FMS/DMS (e.g., Pay.gov). This alternative relies on an established, private-sector AR service provider (i.e., outsourcer) to deploy its technology infrastructure and personnel. The outsourcer provides a holistic solution built upon technology that it owns and continuously-improved capabilities in stimulating payment. Example best in class outsourcers include NCO, GC Services, and Firstsource.

Note: A fourth permutation of equipment and personnel would involve hiring outsourced labor to operate a new (COTS) government AR platform. However, this is not a real alternative because outside AR vendors have their own, existing platforms which they prefer to operate.

2. ANALYSIS OF ALTERNATIVES

Each alternative presents a solution for filling the gaps to CRS. However, the alternatives differ substantially in terms of the cost and type of work required to reach minimum capability (see Exhibits 18, 19).

Exhibit 18: Alternative design options

1 AR dedicated FTEs (including contractors) in current Govt. shared services includes: ~12 for ARC, ~24 for NBC, ~70 for ESC
2 Systems for alt 1 include Document Management (Invoices), Credit Bureaus, Skip tracing, Central data repository, Dialing system, Reporting, TRS, Pay.gov, Agency portal,
3 Alt 2 provides a more integrated prepackaged system that requires integrating only with Pay.gov TRS, Reporting and dialing. Alt 3 is similar but includes integrated dialing system
4 Account Names, Account contact details (bi-directional), Receivables details, Payments receipts, Payment posting, Account maintenance etc.

Exhibit 19: Analysis of alternatives

Recommended model

	Alternative designs		
	1. Leverage govt. resources and existing platforms	**2. Deploy govt. resources, new COTS platform**	**3. Manage outsourced AR service**
One time cost	• **~$21 – 32M** *~$12 - 21M for demonstrate* *~$9 - 11M for deploy* • *Platform selection and integration* • *Software license and configuration, hardware, training* • *Develop agency portal and data interfaces[1]*	• **~$19 – 27M** *~$10 - 17M for demonstrate* *~$9 - 10M for deploy* • *Procurement process* • *COTS platform integration* • *Software license and configuration, hardware, training* • *Develop agency data interfaces[1]*	• **~$8 – 13M** *~$5 - 8M for demonstrate* *~$3 - 5M for deploy* • *Procurement process* • *Outsourcer platform integration* • *Develop agency data interfaces[1]*
Run rate cost	• **~$22 – 32 / receivable** *$21 - 28M/yr @ year 5* • *Govt. personnel costs (~120K)[2]* • *FTE productivity (~6K – 8K cases handled per year / FTE)[3]* • *Ongoing development, support*	• **~$20 – 30 / receivable** *$19 - 25M/yr @ year 5* • *Govt. personnel costs (~120K)[2]* • *FTE productivity (~8K – 10K cases handled per year / FTE)[3]* • *Ongoing development, support*	• **~$8 – 12 / receivable** *$9 - 13M/yr @ year 5* • *Outsourcer charges by FTE per hour (~$26 - 28/hr.)[3]* • *FTE productivity (~8K – 13K cases handled per year / FTE)[3]*
Time to launch	• **~18 – 36 months** • *Platform selection (3-9 mo.)* • *Agency on-boarding, platform integration, custom development (12-21 mo.)* • *Service center setup, hiring, training of servicers. (3-6 mo.)*	• **~12 – 24 months** • *Procurement process (3-9 mo.)* • *Agency on-boarding, COTS platform integration (6-9 mo.)* • *Service center setup hiring, training of servicers (3-6 mo.)*	• **~9 – 18 months** • *Procurement process (3-9 mo.)* • *Agency on-boarding, integration with Treasury (6-9 mo.)*

1 Assumptions: 5 bureaus participating in years 2-3 (total annual AR case load of 500K), additional 20 bureaus in years 4-5 (total annual AR case load of 1M at year 5)
2 Govt. data, team analysis
3 Vendor and McKinsey expert interviews, team analysis

There are some cost drivers that all of the alternatives have in common. For example, each alternative would require establishing interfaces to participating agencies. Each of these interfaces would handle about ten different types of data (account name, account contact information, receivable amount, etc.).

Similarly, each alternative would leverage FMS for payment processing and matching, including an enhanced version of Pay.gov for e-invoicing and e-payment, and a link to TRS for transaction recording. Finally, all three alternatives would transfer receivables to DMS at delinquency.

Alternative 1: Leverage and enhance existing government assets into a dedicated pre-delinquent collections platform operated by government personnel.

A number of existing government assets could be enhanced and further integrated to establish a pre-delinquent collections platform (e.g., leveraging ARC).

- A service center in Parkersburg, WV would be scaled up substantially with additional personnel dedicated to AR servicing. Specifically, the first 25 bureaus subscribing to CRS might require as many as 170 personnel at ARC, a scale-up factor of ~15X.
- While this option would avoid the cost of creating new systems, it also presents limited functionality, fragmented architecture, and higher costs for system

customization and application support. While Oracle/Siebel is an active player in the AR management space, it is not best in class. Additional development and configuration work would be focused on an agency portal developed and installed at ARC; workflow management enhancements to ARC's Siebel system; a data repository built from a scaled-up version of ARC's Oracle platform; and other tools such as skiptracing service acquired through third-party arrangements

- A relatively high level of integration work would bring together existing or newly-acquired applications in document management, credit scoring, skip tracing, central data storage, auto-dialing, reporting, transaction recording (e.g., TRS), payment processing (e.g., Pay.gov), and internet-based access

The one-time costs for the demonstrate phase of this alternative (i.e., the first five bureaus in the pilot) would be ~$12-21 million. An additional ~$9-11 million would be required to add the next cohort of about 20 bureaus in the deploy phase. These costs are driven primarily by platform selection and integration, software licenses and configuration, hardware, and training for service center personnel, and development of the agency portal and interfaces.

The run-rate costs for this alternative would be ~$22-32 per receivable, or about ~$21-28 million per year once the number of subscribing bureaus reached 25, prospectively around the fifth year of operation. The main drivers of run-rate costs are personnel and productivity at the service center, as well as ongoing application development and support.

This alternative would require ~18-36 months to go live. Platform selection would encompass ~3-9 months; agency on-boarding and integration would require ~12-21 months; and the setup, staffing, and training of the service center would require ~3-6 months, at a minimum. Some of these steps could be performed in parallel.

Alternative 2: Acquire a comprehensive COTS platform for pre-delinquent collections and install it at an existing government service center, to be operated by government personnel.

Under this alternative, almost all of the gaps would be filled by acquiring and integrating a COTS platform; however, the platform would be operated by a scaled-up version of an existing service center (e.g., leveraging ARC).

- This alternative presents superior functionality to Oracle/ Siebel and a single, integrated solution. However, it requires acquisition, configuration, and integration with existing systems. It also resources the call center internally when more cost-efficient options may be available from outsourcing.

- The service center at ARC (Parkersburg, WV) would be scaled up nearly as substantially as in Alternative 1; the difference being that the new COTS system would be slightly less personnel-intensive to operate. The first 25 bureaus subscribing to CRS under this alternative might require as many as 150 personnel at ARC, a scale-up factor of ~12X
- A modest level of integration work would bring together existing or newly-acquired applications for reporting, auto-dialing, transaction recording (e.g., TRS), and payment processing (e.g., Pay.gov). Functions such as document management, credit scoring, skip tracing, data storage, and internet-based access would be embedded in the COTS platform

The one-time costs for the demonstrate phase of this alternative (i.e., the first five bureaus in the pilot) would be ~$10-17 million. An additional ~$9-10 million would be required to add the next cohort of about 20 bureaus in the deploy phase. These costs reflect the time and expense of procuring and integrating a COTS platform, developing agency interfaces, and acquiring licenses, hardware, and training.

The run-rate costs for this alternative would be ~$20-30 per receivable, or about ~$19-25 million per year once the number of subscribing bureaus reached 25, prospectively around the fifth year of operation. These costs are slightly lower than similar costs for Alternative 1, reflecting the higher productivity of each FTE when using a newer COTS platform.

This alternative would require ~12-24 months to go live, including ~3-9 months for procurement, ~6-9 months for agency onboarding and COTS platform integration, and ~3-6 months for setup, staffing, and training of the service center. Some of these steps could be performed in parallel.

Alternative 3: Acquire pre-delinquent collections services from an at-scale vendor and integrate these services with existing, complementary operations in FMS.

Under this alternative, an outside vendor would provide AR servicing and integrate with FMS. Since the vendor would own and operate its own service center, there would be no need to scale up ARC. At the same time, some integration would be required to connect the vendor with complementary capabilities at FMS and DMS, including existing or enhanced applications for reporting, transaction recording (e.g., TRS), and payment processing (e.g., Pay.gov). Functions such as document management, credit scoring, skip tracing, data storage, auto-dialing, and internet-based access would be part of the vendor's offering.

The one-time costs for the demonstrate phase of this alternative (i.e., the first five bureaus in the pilot) would be ~$5-8 million. An additional ~$3-5 million would be

required to add the next cohort of about 20 bureaus in the deploy phase. These costs reflect the time and expense of procuring and integrating an outsourced service provider, and developing agency interfaces to that provider.

The run-rate costs for this alternative would be ~$8-12 per receivable, or about ~$9-13 million per year once the number of subscribing bureaus reached 25, prospectively around the fifth year of operation. These costs are substantially lower than similar costs for Alternatives 1 and 2 because outsourcers leverage extensive scale to keep per-unit operating costs low.

Finally, this alternative holds potential to drive quality and cost-efficiency in future by contracting multiple service vendors and having them bid competitively every quarter for shares of the available AR volume.

This alternative would require ~9-18 months to go live, including ~3-9 months for procurement, and ~6-9 months for agency on-boarding and integration of the vendor with complementary capabilities within FMS (e.g., Pay.gov).

See exhibit 20 below for estimated costs for demonstrate and deploy phases under each of the alternatives.

Exhibit 20: Estimated costs by alternative

	1. Leverage govt. resources & existing platforms	2. Deploy govt. resources, new COTS platform	3. Manage outsourced AR service	Assumptions / drivers
Scale				
# of service center agents	125 – 170	110 – 150	80 – 125	Case load of 6-8K, 7-9K, 8-13K receivables/year per FTE respectively[1]
One-time Cost				
Platform/ Vendor selection	~ $ 1 – 2 M	~ $ 1 – 2 M	~ $ 1 – 2 M	Evaluation, selection & procurement process for 6-9 months[2]
Hardware & software license	~ $ 0.5 – 1 M	~ $ 0.5 – 1 M	N/A	License cost for COTS software or extend licensing for existing tools such as Oracle/CGI
Platform integration	~ $ 1 – 2 M	~ $ 0.5 – 1 M	~ $ 0.5 – 1 M	Integration of platform with Pay.gov, DMS and TRS[3]. Alternative 1 has additional costs of integrating Credit bureaus, Skip tracing etc.
Custom development	~ $ 2 – 4 M	~ $ 1 – 2 M	~ 1 – 2 M	Cost to enhance Pay.gov billing module. Alternative one has additional cost of developing an agency portal
Agency on-boarding	~ $ 16 – 23 M	~ $ 15 – 21 M	~ $ 5 – 8 M	Data integration, software configuration, training costs associated with on-boarding agencies[4]
Total one-time cost	**~ $ 21 – 32 M**	**~ $ 19 – 27 M**	**~ $ 8 – 13 M**	**One-time cost for each alternative**
Run rate cost				
Service center agents	~ $ 17 – 22 M	~ $ 15 – 20 M	~ $ 6 – 10 M	Fully loaded cost of $120k/FTE for alternatives 1 and 2. Outsourcer service center costs based on ~$32-35/hr per FTE (with 25% buffer)
CRS office	~ $ 2 - 3 M	~ $ 2 - 3 M	~ $ 1 - 2 M	Fully loaded cost for CRS program office with 6-12 resources[5]
Platform support	~ $ 2 - 3 M	~ $ 2 - 3 M	~ $ 1 M	15% of initial data interface development and software configuration cost
Marginal cost / receivable	~ $ 22 – 32	~ $ 20 - 30	~ $ 8 - 12	Run rate cost / volume of receivables for the 5 year duration
Total run rate cost	**~ $ 21 – 28 M / yr**	**~ $ 19 – 25 M / yr**	**~ $ 9 – 13 M / yr**	**Annual run rate cost**

1 Based on vendor interviews and current govt. SSP performance
2 Based on prior govt. experience
3 Assumes 5 engineers for 6-9 months. at $80K/mo. 12-21 mo. for alt. 1
4 Assumes 4-6 weeks/data interface with 8 interfaces/agency at $8K/wk
5 Based on average cost of GS-13

H. Learnings for CRS rollout

1. CASE STUDY LEARNINGS ON SUCCESS REQUIREMENTS

Six valuable principles for success in centralizing receivables management emerged from a review of cases from the public and private sector (see Exhibit 21).

Exhibit 21: Case studies reveal successful criteria for receivables centralization

SOURCE: Vendor interviews (VA, Educ, NYC – iQor; Iowa, Maine, Oklahoma, LA – NCO Group; Mississippi – CR Software); McKinsey & Company

Focus on the most collectable receivables. The most collectable receivables are simple in their administration, such as fines or fees for service due from the public.

By contrast, loan repayments for education, property, or business are more complex to administer and require in-depth knowledge of each individual case. Centralizing such receivables gains little because the expertise to service them is inherent in their origination and setting up a separate operation to service them is duplicative, at best.

The most successful centralization efforts make a regular analysis of the most profitable receivable types and prioritize them for collection.

Maximize internal efficiency of new systems. An important source of value in many centralization efforts is the simplification of processes. In designing a centralized receivables service, successful programs design the new system to minimize handoffs

and interfaces. There is also an opportunity to apply automated workflow tools that continuously monitor and improve processes.

Establish a receivables center of excellence. Centralization presents an opportunity for deep specialization and many centralization efforts show the benefits of turning their new receivables shop into a center of excellence. In these cases, excellence is driven by rigorous accountability and performance measurement. The organization, training, and incentives are designed to foster continuous development and implementation of better methods.

Reduce issuing / data errors. A centralized operation can also spur improvements upstream of its own processes. In many cases, metrics for the quality of incoming receivables were used to help the originating agencies or business units improve the rigor and accuracy of their customer interactions.

Adopt a sales-like approach. Centralization presents an opportunity to replace old methods of interacting with payers. In lieu of legacy methods that may have originated in a bureaucracy, the receivables team can adopt customer interaction techniques from successful sales operations. Using multiple channels (e.g., email and telephone), taking the initiative to contact payers, and adopting a service attitude can substantially improve success rates.

Manage service providers proactively. Many centralized receivables operations use one or more outsourced service providers to contact payers, arrange payment, and track the status of workflow and account tolerances. While outsourcers offer some of the best opportunities for efficiency and effectiveness, these benefits are better captured when actively managed by the contracting government or business. More detail on vendor management is provided in a subsequent section.

2. VENDOR MANAGEMENT APPROACH

Vendor management consists of practices, organization, and contract features. As described in more detail below, CRS will need substantial structure and resources dedicated to managing its vendors.

Vendor management practices. There are four practice areas that will be important for CRS's management of vendors: measuring performance, improving capabilities, reducing risks, and supporting competition (see Exhibits 22, 23).

Measuring performance. Keeping vendors accountable for their performance in detail not only reduces the overall performance risk for CRS, it also maintains a high level of vendor responsiveness to the government's requirements. Key metrics to monitor

include output quantity and quality, which can be measured both in terms of the rate at which receivables are resolved on the first attempt as well as the satisfaction of bureaus as customers.

A necessary component of measurement is setting performance tripwires, or levels of performance which are not deficient but which indicate a trend that, if not addressed, may lead to deficiencies. These can be established on an adaptive basis—i.e., in reference to the prior quarter's performance, and in some cases with continuous improvement included.

Benchmarks are popular tools because they are effective. In addition to benchmarks from other private-sector operations, it can be useful to set internal benchmarks in the first six months of operation and establish a program of continuous improvement from these.

Metrics receive more attention from vendors when their compensation is determined by their performance against the metrics. However, it is important to audit performance trends regularly with the vendor so that the final compensation computation is clearly understood by the vendor and the rationale for any penalties or bonuses is agreed by both the government and the vendor.

Improving capabilities. Regular, steady improvement should be an expectation in any high-volume process and centralized receivables management is a candidate for establishing a formal improvement program with a vendor. At contract inception, the government and vendor should agree to improvement priorities and a regular schedule of both system and process improvements (e.g., 6 or 12 month periodicity, it is not recommended to go longer than 18 months between improvement cycles.)

As discussed further in the following section on the CRS upgrade model, an improvement program with the vendor should coordinate all upgrades across the vendor / CRS complex and participating bureaus, as well as Federal Finance and DMS. Vendors should be responsive in RFI / RFP correspondence to fully integrate and contribute to CRS's change request processes.

Reducing risks. Risk reduction is both a daily activity and a strategic priority, and vendor management is integrated with risk reduction activities extensively. At contract inception, the government and vendor should approve an initial list of risk categories and mitigation measures. There should also be a regular, aggressive schedule of reviews to update, add, or demote risks and their associated mitigation tactics.

An important element of a healthy risk reduction program is formal escalation and resolution mechanisms. These should be included in the vendor contract and modified per experience through a formal approval process.

Vendors should be required to submit to regular as well as ad hoc audits or inspections by properly-trained and formally identified representatives of the government (e.g., the COTR or equivalent.) No less frequently than annually, the vendor's business continuity measures should undergo a thorough audit conducted jointly by the government and a senior member of the vendor's team assigned to the government contract.

Exhibit 22: Vendor management draws on capacity in core skill areas

Source: McKinsey & Company

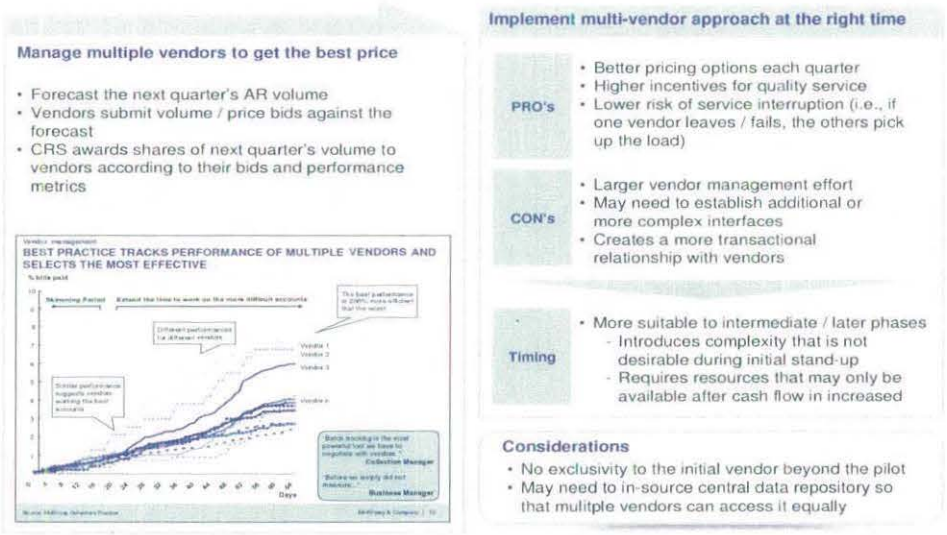
Supporting competition. Once CRS is established and demonstrated (approximately three years into program operation), it may be able to manage multiple outsourced service vendors simultaneously. Using multiple vendors allows CRS to leverage competition to drive quality and value.

Competition is executed as follows. Prior to each quarter, the volume of receivables is forecasted and vendors submit volume-price bids against the forecast. CRS awards shares of the volume to vendors according to the value of their bids to the government, but also taking into account their current and past performance against metrics.

A multi-vendor approach can be in the government's interests to the extent that it delivers improved pricing, adds incentives for vendors to control quality, and lowers the risk of a service interruption overall (i.e., if one vendor fails, others are on contract to cover the dropped volume.)

However, a multi-vendor approach can also present challenges to the government, including the additional effort required to manage vendors and the quarterly competition. It may also be necessary to establish additional or more complex vendor interfaces. Similarly, it may be necessary to in-source those system components that all vendors would need to access but that the government would need to control in order to hold a fair auction—e.g., the government would hold the common database of all receivables and each vendor could access it at equal cost.

Exhibit 23: After initial phases, CRS may use multiple vendors



Source: McKinsey & Company

Organization. CRS will engage vendors on multiple levels of management in order to maximize transparency, flexibility, and responsiveness in the vendor relationship. Three levels of engagement are: strategic, supervisory, and technical (see Exhibit 24).

Exhibit 24: Engage vendors on all management levels

	Description	Key personnel	
		Government	Vendor
Strategic	• Set long-term goals, strategic direction • Manage relationship with vendor's top management • Perform consequence management of serious issues (e.g., contract termination)	• CRS program head	• CEO
Supervisory	• Agree on SLAs and changes as appropriate • Review monthly service/cost performance • Approve vendor invoices, apply service credit/debits • Resolve escalated items, review corrective actions • Drive continuous improvement • Perform audits, reviews, risk assessments • Approve, prioritize change requests	• CRS vendor relationship manager	• Account manager
Technical	• Implement, measure service delivery day-to-day • Implement continuous improvement • Resolve smaller issues, deviations from procedure • Generate change requests • Propose SLA modifications	• CRS, bureau program specialists	• Receiving manager

Source: McKinsey & Company

Strategic. At the strategic level, the vendor CEO and the CRS program head meet periodically to set long-term goals and agree on the strategic direction of both CRS and their relationship. This includes any consequence management for serious issues, such as contract termination.

Supervisory. At the supervisory level, a senior member of the vendor's team on the CRS contract would meet weekly or more frequently as required with the government's vendor manager. Subjects would include current or upcoming Service Level Agreements (SLAs), a monthly review of cost and service performance, application of credits or debits to the vendor's compensation based on performance, resolution or escalation of issues, and prioritization of change requests. The Supervisory level would also be an appropriate venue for managing continuous improvement and approving schedules of audits or other reviews as well as their results. Periodic evaluations of program risks and mitigation measures would take place in preparation for formal reviews at the Strategic level.

Technical. At the technical level, program specialists in both the vendor organization and the government would work together on a day-to-day basis to implement and measure service delivery as well as any active continuous improvement measures. Because of their close connection to the day-to-day work, personnel at the Technical level are expected to generate a majority of change requests and propose SLA

modifications. They are also expected to resolve any issues of appropriate size and deviations from procedure with isolated consequences.

Contract features. Reflecting some of the best practices mentioned in the preceding sections, outsource contracts have shown improvements in five areas that CRS will leverage in its own vendor management approach: performance management, pricing, personnel, volume flexibility, and termination (see Exhibit 25).

Exhibit 25: Outsource contracts are improving in 5 areas

	From (in some cases) ...	... to
Performance management	• Metric targets established after deployment	• Metric baseline measured before deployment, metrics keyed to baseline
	• No financial incentives / penalties for good / bad performance	• Financial incentives for performance directly related to tangible value
	• No incentives for innovation	• Gain-sharing mechanism defined for innovation
Pricing	• FTE-based pricing	• Output-based pricing
	• Charges for use of bench resources	• All bench-related cost carried by the vendor (e.g., included in per-unit pricing)
	• Straight-line pricing over time	• Ongoing productivity improvement embedded in pricing
	• Opaque transition costs	• Itemized / negotiated transition costs
Personnel / bench	• Limited transparency into vendor FTE mix	• Quarterly monitoring of attrition among 'hot skills'
	• All aspects of personnel competency left to vendor	• Standards for independent technical testing of FTE skills, as well as background checks, drug screening
Volume flexibility	• Set-level volumes and premiums for high-volume periods	• Provision of three-month rolling forecast to the vendor so it can proactively manage capacity
	• Commitment to a minimum number of FTEs	• Ability to reduce / increase FTEs by 25% below / above forecast without price changes
Termination	• Termination periods up to 18 months	• Maximum termination period of six months • Set termination 'tripwires' to prompt transition before situation becomes critical

Source: McKinsey & Company

Performance management. Up to the present, many contracts have established metrics after deployment of systems and processes. They have also failed to incentivize innovation or improvement, and they have used few or weak incentives / penalties for good / bad performance.

The emerging best practice is to establish a metric baseline before deployment, and adjust performance requirements from the baseline over time. Financial incentives linked to metrics thereby reward improvement. An additional incentive to innovate is created through formal gain-sharing mechanisms.

Pricing. In the past, most outsource vendor contracts have been priced based on the number of FTE's required to produce the desired output. The use of 'bench' or surge resources is charged through to the buyer, and the price per FTE is fixed over the period

of the contract. Many legacy contracts also were unclear in how the start-up or transition costs were being covered—i.e., if the buyer was in fact covering these costs.

The emerging best practice is to pay for output, not for FTEs. In this case, all bench costs are borne by the vendor and any start-up or transition costs are itemized in the contract. Another feature of new contracts is that the price per unit of output is reduced over time to account for expected productivity improvements.

Personnel. Older contracts provided little or no transparency into the FTE mix that vendors applied to their solutions. All aspects of personnel competency were left up to the vendor.

The emerging best practice is to exert some influence over the vendor in this area and one way to do so is to monitor attrition of personnel at the vendor on a quarterly basis, especially in 'hot' skills—i.e., in the case of CRS, in the skill areas critical to managing receivables. Newer contract formats also require vendors to report on the standards they use in technical testing of personnel, as well as background checks and drug screening for public-trust positions such as CRS.

Volume flexibility. Many legacy contracts would manage volume by setting a standard level and then adding a premium for high-volume periods. This allowed the vendor to commit to a minimum number of FTEs. However, it also led to overpayments and reduced incentives for the vendor to maximize efficiency.

The emerging best practice in volume management is the three-month rolling forecast. In this model, the government provides the vendor with a volume forecast for each of the coming three months—the forecast is most refined for the coming month and least refined for the third month out. This forecast allows the vendor to plan FTE schedules in advance. Under this model, there is no change to price as long as actual volume is within 25% of the forecast.

Termination. In the past, many contracts included 18-month termination periods and no tripwires—early indicators of emerging problems—for termination. As a result, terminations were invariably crisis events, and transitions to a new vendor were carried out under emergency conditions, which led to suboptimal contracting.

The emerging best practice in managing terminations is to identify metrics that should prompt termination before the situation becomes critical. Once a decision to terminate is made, an orderly transition should be carried out in no more than six months.

3. MODEL FOR UPGRADES

Upgrade and improvement practices for information systems and the organizations that manage them are developing as rapidly as the underlying technology. Nevertheless, there are six features at the core of most successful upgrade programs (see Exhibit 26).

Exhibit 26: Recommended model for managing upgrades

Feature	Description
Upgrade team	▪ Supervises ongoing enhancements, upgrades ▪ CRS, bureau, vendor participation ▪ Approves changes, upgrades to be included in next release ▪ Communicates change plans within CRS, participating bureaus
Customer (bureau) integration	▪ Bureau relationship managers solicit, generate change requests based on bureau needs ▪ Upgrades taking place at bureaus are tracked so that CRS can stay compatible ▪ Opportunities for collaborative upgrades (CRS and bureau together) are prioritized
Change request management	▪ Bureaus, CRS, vendor personnel submit change requests for unmet needs ▪ Next release is designed around complete, prioritized list of outstanding change requests ▪ Changes are designed to be reversible, terminated without further changes / design work
Resourcing	▪ Consider working capital fund to ensure funding available when needed ▪ Establish multi-year upgrade procurement plan aligned with budget cycle ▪ Include business financial manager (BFM) in upgrade team ▪ Include one dedicated upgrade team member for change management and communication ▪ Budget for travel, inspections, management materials
Requirement controls	▪ Rigorously minimize customization (modifying existing source code or writing new source code) ▪ Any customization must be formally reviewed and approved by the CRS program head ▪ Lock down requirements on schedule for each release; unresolved issues go to the next release
Market research	▪ Conduct pro-active market research continuously ▪ Spend ~50% of research time with small businesses (value leaders, key innovators in IT)

SOURCE: McKinsey BTO practice; U.S. CIO 15 Point Plant; OFPP memo dtd 7/13/2011; Team analysis

Upgrade team. At any given time, one upgrade is in planning, another is under construction, and a third is being executed. Therefore, it is important to have a standing upgrade team that supervises ongoing upgrade efforts, coordinates with customers and suppliers, enforces a formal process of approving changes, and is responsible for communicating change plans within CRS as well as with customer bureaus.

Customer (bureau) integration. Changes to the CRS platform will affect its interaction with bureaus' systems; and *vice versa*. To make these changes complementary, rather than a source of constant frustration and malfunction, close coordination of upgrades between CRS and its customer bureaus is vital. Bureau relationship managers will be responsible for soliciting or generating change requests that reflect their bureaus' needs. All upgrades taking place within bureaus will be tracked by CRS to maintain configuration control and ensure compatibility. Most importantly, opportunities for collaborative upgrades should be prioritized in each new release both at CRS and the affected bureaus.

Change request management. The number of potential improvements to any system is large is relation to the resources available to implement those changes. Therefore, a formal process for logging and prioritizing changes is a key feature of many successful upgrade programs. Knowledgeable personnel from the bureaus, CRS, and the vendor will submit change requests for unmet needs on a rolling basis. These will be logged as they are received and any open change requests will be considered as candidates for the next CRS system release. During the planning for the next release, as many changes as can be included will be, starting with the highest-priority changes, and including as many as can be supported by the approved resource plan.

Another important feature of rigorous upgrade programs is that all changes are reversible. This means that changes that are only partially successful can be terminated or frozen without further changes or design work. This is a particularly high standard of design work and places certain additional requirements on the system architecture, such as a high degree of configurability.

Resourcing. A rigorous upgrade program requires a resource plan that includes multi-year procurement aligned with any overarching budget cycles. Some programs have access to a working capital fund that reduces funding risks. In either case, the upgrade team should have (or have access to) a business financial manager. For larger upgrade programs, there should be a budget for travel, inspections, and management materials as well.

Requirements controls. At the heart of many upgrade programs is the control of system requirements, including business and functional requirements as well as system or infrastructure requirements. Particularly successful programs rigorously minimize customization, which consists of modifying existing source code or writing new source code. Rather, they leverage commercially-available off-the-shelf solutions. Again, this approach is enabled by careful design work and highly configurable architecture. A formal process for approving any customization should escalate the question to a high level within the organization, such as the program head.

Another feature of requirements control is keeping to a regular schedule for certifying the capabilities of the next release. It is important that this certification take place on schedule, and any unresolved issues should be rolled to the next release. Keeping to a regular schedule maintains discipline in both the design and business aspects of system development, which in turn help to limit cost and performance risks to the program.

Market research. One feature that many successful upgrade programs have in common is a productive, ongoing market research effort. Market research should be conducted continuously and it should include direct interactions with vendors to share information on suppliers' latest developments as well as the government's emerging needs. Such

discussions are authorized as pre-acquisition activities under federal procurement regulations because they are clearly in the government's interests and position the government to be a well-educated consumer of commercially available solutions.

Consistent with both the best practice in the private sector and the government's long-standing procurement policy, at least 50% of market research time should be spent with small businesses. Particularly in the field of information systems, small businesses are drivers of value because of their high levels of innovation and responsiveness to customer needs.

I. Additional topics for FIT consideration

Over the course of this work, several learnings surfaced that FIT will continue to think about moving forward with respect to CRS and other Treasury initiatives:

Policy disincentives – misaligned incentives and nonstandard regulations impede centralization of collections efforts:

- Lack of standard regulations across agencies hinders centralization of trust fund receivables
- Limited policy incentive for agencies to collect receivables today – i.e., collections do not add to agency top-line appropriations in current fiscal year
- Agencies avoid writing off uncollected debt to avoid booking against current appropriations

Agency interface design – two emerging perspectives on approach to designing interface to CRS complex:

- Minimally invasive agency interface to support CRS (i.e., relatively little burden on agencies) and DMS (e.g., using DMS latest "IAI" interface) to ensure seamless connectivity across the CRS/DMS complex
- Robust interface for agencies that is multi-purpose and can support other in-flight initiatives Treasury/FIT are developing for agencies (e.g., "bus" interface design)

Real trade-offs are inherent in this technical decision. Minimal interfaces are lower cost and require less effort, thereby driving agency adoption of CRS. Robust interfaces involve higher up-front cost, however, they facilitate agency adoption of additional Treasury functions in the future.

Accounting support – opportunity to create even greater value for agencies if CRS provides accounting support in future phases of CRS rollout:

- To further allow agencies to focus on their core mission, CRS could ultimately perform more accounting support for agencies (e.g., 224 reporting).
- May require CRS to partner with existing government shared service provider (e.g., ARC) to provide accounting support, leveraging data in CRS data repository.

While this could provide more value for agencies, it was not described by agencies as a "must have." To ensure the CRS pilot is launched quickly, accounting support should not be provided. However, it could be included in the broader Deploy phase subject to a cost-benefit analysis (e.g., ease of implementation, attractiveness to agencies).