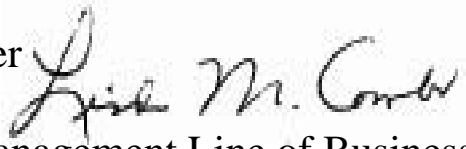




EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 16, 2005

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS

FROM: Linda M. Combs, Controller 

SUBJECT: Update on the Financial Management Line of Business
and the Financial Systems Integration Office

Achieving cost and quality improvements through the Financial Management Line of Business (FMLOB) is one of the President's top management priorities. To be successful, the Federal financial management community must have a clear set of objectives for the FMLOB initiative and an agreed upon roadmap for achieving them. The goal of this memorandum is to clarify: (i) the vision and goals of the FMLOB; (ii) the priority initiatives that will be undertaken in the near term to enable success in the FMLOB; and (iii) the governance structure that will be in place to ensure accountability for successful completion of priority initiatives, including the enhanced role of the Financial Systems Integration Office (FSIO).

The clarifications and decisions outlined below were developed in close consultation with key stakeholders in the financial management community. Specifically, the content of this memorandum is based on the recommendations of a working group made up of staff from OMB (OFFM and E-gov), FSIO, and the Financial Systems Integration Committee (FSIC) of the CFO Council. In developing these recommendations, the working group reviewed all relevant and historical materials on the FMLOB and JFMIP, held a series of forums with vendors, shared service providers, and GAO, and gathered information and feedback from the CFO and CIO communities on draft deliverables and other work products. These communications will continue on a regular basis so that the priority initiatives described below can be adjusted to reflect practical lessons learned as well as new insights into better solutions and approaches.

1. What is the overall vision of the FMLOB?

The overall vision of the FMLOB is to improve the cost, quality, and performance of financial management (FM) systems by leveraging shared service solutions and implementing other government-wide reforms that foster efficiencies in Federal financial operations.

2. What are the specific goals of the FMLOB?

The goals of the FMLOB are that Federal agencies are implementing financial systems that:

- Provide timely and accurate data available for decision-making;

- Facilitate stronger internal controls that ensure integrity in accounting and other stewardship activities;
- Reduce costs by providing a competitive alternative for agencies to acquire, develop, implement, and operate financial management systems through shared service solutions;
- Standardize systems, business processes and data elements; and
- Provide for seamless data exchange between and among Federal agencies by implementing a common language and structure for financial information and system interfaces.

3. What are the critical milestones that must be accomplished in order to achieve the vision and goals of the FMLOB?

Federal agencies have begun implementing the FMLOB initiative by actively migrating to shared service providers and initiating solutions to integrate financial data among and between agency business systems. Nothing in this memorandum changes the expectation that agencies will continue to take all the necessary steps (in the earliest possible timeframes) to meet FMLOB objectives. The milestones described below, therefore, are intended to facilitate, not delay, agency efforts.

As depicted in Attachment 1, the critical milestones of the FMLOB can be broken down into three stages – (i) transparency and standardization; (ii) competitive environment and seamless data integration; and (iii) results.

Stage 1: Transparency and Standardization. In order to enable a competitive environment where agencies have more options and leverage in choosing a financial system, and in order to facilitate seamless integration of financial data among agency business systems, additional transparency and standardization is required.

Transparency: In determining the best options available when modernizing financial systems, the Federal financial community must have clarity on how to evaluate the performance and cost of shared service alternatives (i.e., Centers of Excellence (COE)) as well as clarity on what steps Federal agencies are expected to undertake in order to migrate to a COE. As described in more detail below, a COE is a shared service solution where a single entity provides financial management services for multiple organizations. In order to achieve additional transparency, two specific projects (with associated milestones) will be undertaken:

- Establishment of Common Performance Measures – This project will result in standard quality and cost measures for agencies to benchmark and compare the performance of financial system alternatives.
- Development of Migration Planning Guidance – This project will result in comprehensive guidance that helps Federal agencies describe, prepare for, and manage an agency’s migration to a COE. This guidance will also include a definition of the full range of services to be provided by all COEs and a description of the “rules of

engagement,” including templates for service level agreements outlining provider and client responsibilities.

Note: OMB has been in the process of developing a “competition framework” that will assist agencies in conducting competitions and selecting a COE. This framework – expected to be issued in late December/early January – will be incorporated into the Migration Planning Guidance described above.

Standardization: In order to mitigate the cost and risk of migrations to a COE and to ensure that financial data can be shared across agency business systems, the Federal government must ensure greater standardization of business processes, interfaces, and data. To this end, two specific projects (with associated milestones) will be undertaken:

- Development of Standard Business Processes – This project will result in government-wide common business rules, data components, and policies for funds control, accounts payable, accounts receivable, and fixed assets.
- Creation of a Common Government-wide Accounting Code – This project will result in a uniform accounting code structure, layout, and definitions.

Once established, all agencies will be expected to adopt these common processes on a schedule agreed upon between the agency and OMB. See Attachment 2 for additional details on the priority projects related to the transparency and standardization initiatives described above.

Stage 2: Competitive Environment and Seamless Data Integration. In order to enable improved performance of financial systems, the FMLOB envisions more competitive alternatives for financial systems and an environment where financial data can be more easily compared and aggregated across agencies.

Competitive Environment: To enable improved cost, quality, and performance of financial systems, Federal agencies must have competitive options available for financial systems. The COE framework is intended to help achieve these results. A COE is a shared service solution where a single entity provides financial management services for multiple organizations. When the FMLOB is successful, there will be a limited number of stable and high performing COEs that provide competitive alternatives for agencies investing in financial system modernizations. The economies of scale and skill of a COE will allow it to provide Federal agencies with a lower risk, lower cost, and increased service quality alternative for financial system modernization efforts.

Notably, a competitive environment is sustainable if Federal agencies have the ability to migrate from one solution to a more competitive or better performing alternative that is offered. The transparency and standardization efforts described above will lay the foundation for facilitating better portability of agency systems from one solution to another.

Seamless Data Integration: The standardization efforts, associated with Stage 1 of the FMLOB initiative, will enable financial data to be easily compared and aggregated across agencies. For

example, the development of a common government-wide accounting code will assist in the intra-governmental reconciliation process by requiring that all common types of financial data be accounted for in a similar format. A common structure will also enable easier transmission of financial reports to OMB and Treasury and assist these central agencies with aggregating similar-type data on a government-wide basis. Seamless and standardized data exchange will enable the government to streamline operations through more efficient information management and increased data accuracy.

In addition, seamless data integration will reduce the costs and risks of establishing interfaces between agency business systems. By requiring standard core business processes, rules, data definitions, and a common government-wide accounting code, interfacing systems, such as travel, will not have to be specifically designed for each agency. This will save agencies money and enable them to migrate between different system solutions.

Stage 3: Results. When the FMLOB is fully realized, agencies' data will be more timely and accurate for decision-making and there will be improved government-wide stewardship and accounting. More timely and accurate data will result from the standardization and seamless data integration efforts, including the implementation of centralized interfaces between core financial systems and other systems. These efforts will focus on promoting strong internal controls and ensuring the integrity of accounting data. The easy exchange of data between federal agencies will increase federal managers' stewardship abilities.

There will also be a reduction of government-wide information technology costs and risks. These benefits will be the result of shared-service solutions, also assisted by the standardization and seamless data integration efforts. Shared-service solutions will enable economies of scale by centrally locating, or consolidating, solution assets and reusing Federal and commercial subject matter expertise through common acquisitions, interface development, and application management. The reduction in the number of agencies implementing their own systems will reduce the risks, and associated costs, of systems implementations.

4. What governance structure will be in place to ensure accountability for successful completion of priority FMLOB initiatives?

As depicted in Attachment 3, FSIO will have direct responsibility for completing priority projects under the FMLOB. OMB, in consultation with the Financial Systems Integration Committee (FSIC) of the CFO Council will provide oversight and guidance to FSIO on priorities and expected performance in meeting these priorities.

OMB will continue its role as Executive Sponsors of the FMLOB. The FSIC chair will be the lead agency sponsor for the FMLOB. A liaison from the CIO community and the Executive Director of FSIO will serve on the FSIC and support the FSIC chair in his/her responsibilities as they relate to the FMLOB. Going forward, FSIO will coordinate the collection and expenditure of FMLOB funds.

The FSIC will assist OMB in evaluating and monitoring FSIO's progress in completing FMLOB projects and provide feedback to OMB and FSIO. As appropriate, members of the FSIC will participate in working groups to assist FSIO with completing deliverables. The FSIC will evaluate its current subcommittee structure to assess whether changes are needed to best meet these objectives.

The updated governance structure ensures that the FSIO, FMLOB, and the FSIC do not operate in separate stovepipes. In addition, responsibility for work products will now rest with FSIO, where full time dedicated staff will be held accountable for achieving FMLOB milestones.

5. What is the status of the realignment of JFMIP to FSIO?

In December of 2004, the JFMIP Principals voted to modify the roles and responsibilities of the JFMIP Program Office, now FSIO. As a result, OMB and the FSIC were given an increased management and oversight role in the activities of FSIO. OMB and the FSIC have worked closely with FSIO staff to update FSIO's mission statement and define FSIO's scope of activities and priorities for FY 2006.

In terms of mission and scope, FSIO has three major areas of responsibilities: (a) continuing its primary role of core financial system requirements development, testing, and certification; (b) providing support to the Federal financial community by taking on special priority projects as determined by the OMB Controller, CFO Council, and the FSIO Executive Director, and (c) conducting outreach through the annual financial management conference and other related activities.

Most importantly, the projects that FSIO undertakes will directly reflect the priorities of the CFO Community and OMB. As noted above, the priority projects to be undertaken in the near term will relate to the transparency and standardization initiatives of the FMLOB. Other projects that were previously under FSIO's purview – acquisition, budget formulation, and property system requirements -- have been transitioned to the Chief Acquisition Council, the Budget Officers Advisory Council, and the Federal Real Property Council, respectively, for their consideration and completion.

Also, effective January 2006, the FSIO office will be transferred from the General Service Administration's (GSA) Office of the Chief Financial Officer to the Office of Government-wide Policy, Office of Technology Strategy (OTS). There are several significant benefits of this move:

- lower administrative cost through shared resources (rent, supplies, equipment, etc.)
- permanent SES in place to provide leadership to FSIO staff
- access to immediate resources and expertise on IT, administrative management, contract management, testing, etc.
- fits well with current mission and stakeholder focused model of OTS

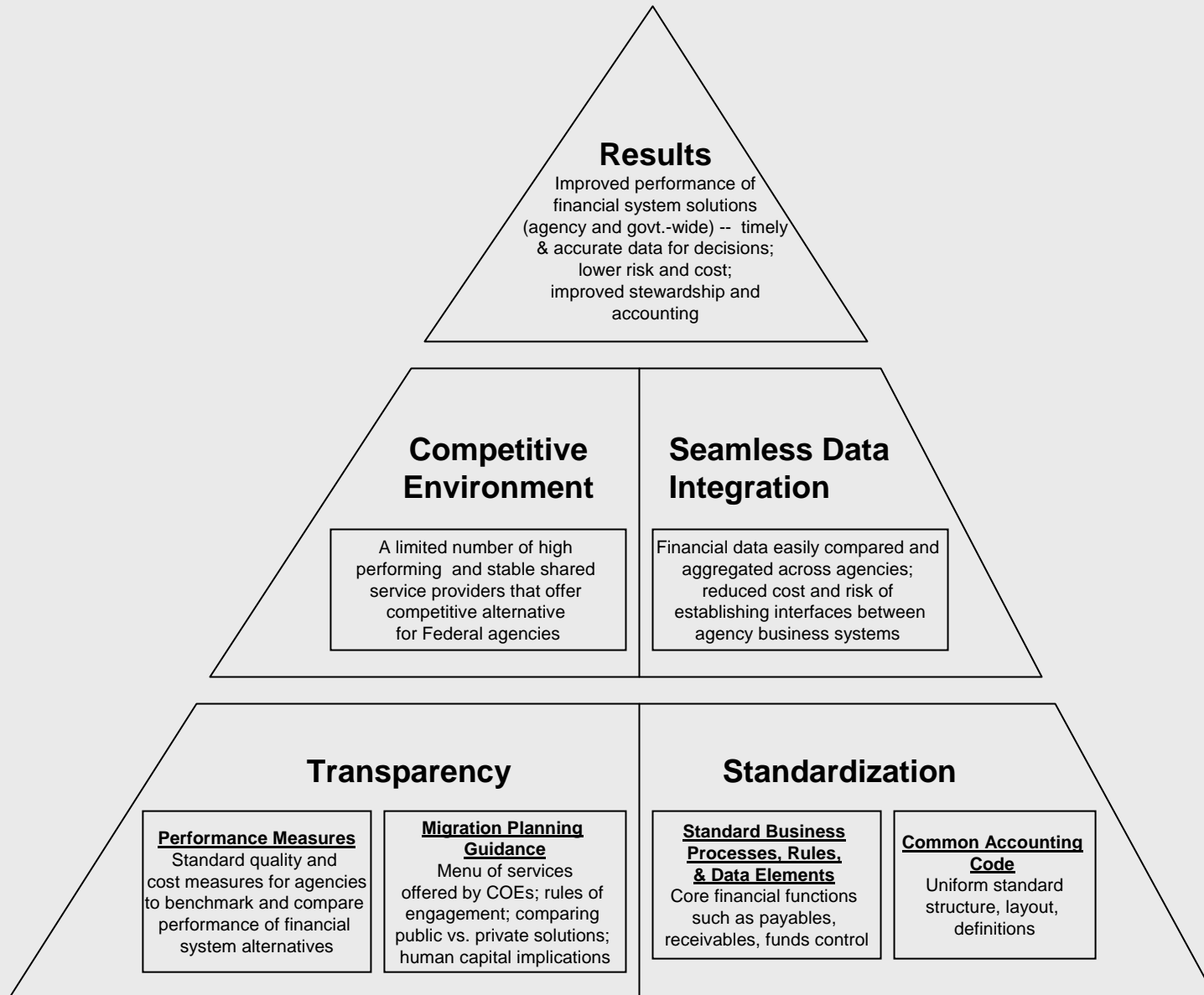
6. What specific actions are expected of Federal agencies?

As described above, a central goal of the FMLOB is that financial system investments will be at lower risk and lower cost as agencies leverage the economies offered by shared service solutions (i.e., COEs). To this end, OMB has instituted a policy that agencies seeking to modernize their financial system must either be designated a public COE or must migrate to a COE (public, private, or a combination of both). Although exceptions to this policy will be made in limited situations when an agency demonstrates compelling evidence of a best value and lower risk alternative, it is OMB's intent to avoid investments in "in-house" solutions wherever possible so that the shared service framework can fully achieve potential and anticipated returns.

To the extent we require any specific action on your part to carry out the priority initiatives and milestones outlined above, we will communicate such requests through subsequent memos from OMB or the FSIC.

Thank you for your ongoing commitment to the FMLOB initiative. I look forward to working with each of you to achieve specific and measurable results in the immediate future.

FMLOB Vision/Framework



FMLOB - Workstreams

Transparency

Performance Measures

Project Description: Develop a series of measures (i.e., cost, quality, timeliness) to assess the performance of those services.

- Measures will address the major service areas offered by a financial service organization (e.g., Center of Excellence),
- For each measure, identify corresponding benchmarks for equivalent services (either internal or outsourced) offered by public and private organizations.
- In order to compare performance across the Federal government, it must be possible to normalize the measures (e.g., cost per transaction, cycle-time).

Timeline for Project

Completion: 3/31/06

Responsible Office: FSIO

Migration Planning Guidance

Project Description: Develop guidance for shared service centers and agencies migrating to a shared service center. The guidance will address:

- menu of services offered by COEs;
- project plan templates;
- service level agreement templates;
- rules of engagement (i.e., relevant contractual and competitive criteria involved in migration)
- due diligence checklist (clarified and updated);
- comparison of approaches on public vs. private solutions;
- migration risk areas (interfaces, data conversion and clean up, testing, financial reporting, change to business processes); and
- human capital planning

Timeline for Project

Completion: 3/31/06

Responsible Office: OMB and CFO Council, Financial Systems Integration Committee

Standardization

Business Processes

Project Description: Develop a standard set of business practices for core financial management functions (funds, payments, receipts, fixed assets) to be adopted by all federal agencies. The document/model will include:

- sequenced activities for core business processes
- data objects participating in a business activity
- relationships among the objects as they exist in the actual business activities
- data elements and definitions stored about these objects
- business rules governing these objects

Timeline for Project

Completion: 9/30/06

Responsible Office: FSIO

Common Accounting Code

Project Description: Develop a common accounting code structure, including an applicable set of definitions, which all federal agencies' new financial management systems must adhere. The common accounting code structure will:

- accommodate both standard government-wide accounting-related functions and critical agency-mission-specific accounting functions (data);
- include standardization of such items as Treasury Account Symbol/Treasury Account Funds Symbol; Internal fund code; Budget fiscal year; Accounting quarter and month; Program; Organization; Project; Activity; Cost Center; Object Class; and Budget function (and sub function code)

Timeline for Project

Completion: 9/30/06

Responsible Office: FSIO

Governance Structure for Financial Management System Initiatives

