



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

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Controller

SUBJECT: Improving Financial Systems Through Shared Services

The traditional approach to agency-specific, large-scale financial systems modernization projects in the Federal Government has often led to poor results in terms of cost, quality, performance, and reporting. In many cases, these projects—designed to meet agency-specific business processes and system requirements—have resulted in substantial cost overruns, systems that are so large and complex that they cannot be easily updated and lengthy delays in planned deployments or needed improvements. In addition, the highly fragmented nature of financial management systems across Federal agencies has contributed to inconsistencies in financial data, making it challenging to provide transparency into Federal finances.

Building on existing policies including OMB's Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*, the Shared Services Strategy of May 2, 2012 ("Shared First"), and Circular A-130, *Management of Federal Information Resources*, this memorandum:

- directs all executive agencies to use, with limited exceptions, a shared service solution for future modernizations of core accounting or mixed systems;
- describes the process through which OMB and the Department of the Treasury will conduct an assessment of the capabilities and gaps of the existing Federal Shared Service Providers ("FSSPs");
- initiates the process under which the Treasury Department's Office of Financial Innovation and Transformation ("FIT") will evaluate new agency proposals for alignment with this guidance and provide feedback to agencies and recommendations to OMB; and
- outlines the manner in which FIT will work with OMB, FSSPs, and the broader Federal financial management community to design and implement improvements to the current FSSP framework, including expansion of FSSPs' capabilities and an enhanced governance model to ensure FSSP accountability.

A Shared Services Approach

Traditional approaches to financial systems implementations have left agencies exposed to significant risks in cost, quality and performance. Large-scale modernization efforts have frequently resulted in cost over-runs, poor return on investment, underperforming systems, and required upgrades that add little value. These system weaknesses can also lead to broader challenges in the overall financial operations at agencies. New approaches are needed that will allow the government to lower the costs of new systems and realize more value from each implementation.

The cost, quality, and performance of Federal financial systems can be improved by focusing government resources on fewer, more standardized solutions that are implemented and operated by more experienced staff. This can be achieved through the Federal Government making wider use of shared services for common system and transaction processing needs. Use of shared services, with standardized financial systems, will:

- better enable the Government to strategically source software providers, hosting, and (potentially) transaction processing,
- reduce system implementation risks and timelines, and
- improve data quality and provide greater transparency into Federal finances, including through the production of auditable financial statements at the government-wide level.

Finally, use of shared services will also allow agencies to focus on their core missions.¹ Therefore, to leverage existing investments and infrastructure at FSSPs, agencies must consider, as part of their alternatives analysis, the use of a FSSP with respect to all new agency proposals² for core accounting³ and mixed system⁴ upgrades. Analysis should not be limited only to an evaluation of commercial SSPs. Instead, the preferred approach is for an agency to evaluate solutions offered by both FSSPs and commercial SSPs as part of a robust market research process. As part of their market research, agencies may find that FSSPs have a good track record

¹ GAO-10-808: Experience with Prior Migration and Modernization Efforts Provides Lessons Learned for New Approach, September 8, 2010.

² Proposals that began implementation in FY12 or earlier, or were specifically approved by the Financial System Advisory Board (FSAB) as part of the M-10-26 process, should continue with their current plans but ensure that their solution can be transitioned to an SSP in the future. OMB will work with agencies to provide oversight and review of these on-going projects to ensure that these systems continue to provide the best value for the Government.

³ "Core accounting" includes the basic functions needed to account for, track, and control budgetary funds in the Federal Government. It includes the business processes related to the general ledger, funds management, cost management, accounts payable, and accounts receivable.

⁴ A mixed system is an information system that can support both the financial and non-financial functions of the Federal government or components thereof. The following are examples of mixed systems: payment and invoice systems, procurement systems, receivable systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, property management systems, travel systems, or other mission operational systems that impact a financial system.

of successfully servicing Federal agencies and can provide many of the advantages of commercial SSPs through their existing partnerships with private vendors. To determine the best value source, each agency is expected to develop an appropriately detailed alternatives analysis of SSP solutions based on their needs, risk performance and cost.

OMB's guiding principle will be to support plans that offer the best value for the Federal Government. OMB will consider funding the use of commercial SSPs as an appropriate solution if, after reviewing the available Federal SSP and commercial SSP solutions and using standard requirements, the agency's business case demonstrates that a commercial SSP can provide a better value for the Federal Government. In addition, agency-specific approaches are discouraged and will be considered for funding only in the rare situation in which an agency demonstrates, through its alternatives analysis, that exceptional circumstances exist (e.g., legitimately unique agency requirements or adequate scale within the organization) that make the agency-specific approach clearly preferable to an SSP solution with respect to what is the best value for the Federal Government. Agencies approved for agency-specific solutions must still participate in government-wide benchmarking and governance.

OMB will work with agency Chief Financial Officers (CFOs), Chief Information Officers (CIOs) and FSSPs to ensure use of common standards and requirements, to the maximum extent practicable, so that agencies retain the flexibility to migrate to another SSP in the future. In order to leverage the Government's buying power, reduce administrative burden, and achieve the best value for the Federal Government, OMB's Office of Federal Financial Management and Office of Federal Procurement Policy will also work with agencies to ensure that management and acquisition strategies promote the Federal Government's "Cloud First" policy⁵ and the strategic sourcing principles outlined in OMB Memorandum M-13-02, *Improving Acquisition through Strategic Sourcing*.

Laying the Groundwork for Successful Shared Services

Ensuring that the FSSPs are capable of meeting the needs of all agency customers will take several years. OMB and Treasury will help ensure each agency's future financial system needs are met by supporting the expansion of FSSP offerings and capabilities. We recognize that, to be able to meet agency needs, the FSSPs will need to enhance service offerings, expand technology and transaction processing capabilities, and have a strong governance structure. Furthermore, in order to fully realize the benefits of using a FSSP, it will be necessary for agencies to adjust and adopt standardized processes. To promote those changes, OMB and Treasury will:

- Analyze the landscape of existing SSPs to identify capability gaps;
- Evaluate agencies' current financial and related mixed system needs;
- Identify the need and interest in additional FSSPs; and
- Develop a blueprint for a strategy to address gaps and identify a limited number of approved FSSPs that are capable of meeting agency needs.

⁵ See the *25 Point Implementation Plan to Reform Federal Information Technology Management* (December 9, 2010).

Each designated FSSP will offer at least one core financial management system that will fully interface with subsidiary systems—such as payroll, travel, and procurement systems—as well as Treasury’s payment, collection, and central reporting systems. The FSSP will offer these subsidiary systems either directly or through a sub-contract with other SSPs or agency systems. In certain limited cases, if a common solution is not available, FSSPs may propose to create new interfaces with existing agency solutions. FSSPs must also have the ability to provide reporting capabilities on core accounting data that is sufficient for each agency to manage its funds. As FSSPs begin to support the needs of larger Federal agencies, it is essential to have a strong governance mechanism in place to ensure that agency interests are reflected in key decisions affecting FSSPs services and operations. OMB and Treasury will work with agencies in the coming months to develop a new FSSP governance model.

Treasury’s Office of Financial Innovation and Transformation (FIT)

In Spring 2010, OMB announced the closure of the Financial Systems Integration Office (FSIO)⁶ and the creation of Treasury’s Office of Financial Innovation and Transformation (“FIT”) to help set a new course for federal financial management. FIT supports that mission by incubating new automated solutions, reducing duplicate work at multiple agencies, and assisting OMB in ensuring consistency with a long-term financial management systems strategy. FIT will provide oversight in four key areas:

1. Evaluating any new agency systems modernization plans and requirements, in conjunction with OMB, to ensure that each agency is positioned to adopt a shared service approach;
2. Establishing a strategy and framework for agency migrations to a shared service model for financial systems across the Federal Government;
3. Maintaining core government-wide financial management requirements while limiting expansion and impact on financial system requirements; and
4. Identifying and facilitating the implementation of government-wide operational capabilities (e.g., invoice processing and centralized receivables management) that help reduce cost and improve performance.

FIT will play a significant role in evaluating agency financial system modernization investments when they are proposed and will provide recommendations to OMB on whether agency systems strategies and modernization requests align with the government-wide shared service approach. These recommendations will help guide OMB’s funding determinations.

Planning for Agency Financial System Modernizations

It remains in the Government’s best interest to sustain existing functions and operations until it is necessary for an agency to replace its existing financial system or when a significant upgrade is required. Accordingly, OMB will continue to support limited investments in existing

⁶ OMB Memorandum of March 16, 2010, *Update on the Financial Systems Integration Office*.

financial management systems within an agency when the agency provides an adequate business justification and the proposal costs less than a shared services alternative. The requested investments must be a targeted enhancement or modular improvement that resolves critical issues and extends the life of an agency's existing financial system. OMB and FIT will evaluate these requests based on their individual merits, as well as the broader framework for financial system modernization investments outlined in prior memoranda and clarified in this memorandum.

In addition to funding some small-scale, modular enhancements going forward, OMB will work with agencies to prioritize funding for modernization proposals that are consistent with a shared services approach. New investments will be needed for both FSSPs to improve their ability to support new and more complex agencies and for agencies planning migrations to SSPs.

Next Steps

In the coming months, OMB will issue new guidance on both technology and business requirements for financial systems currently contained in OMB Circular No. A-127 that is consistent with this memo. FIT will work with OMB to review and evaluate proposals for new systems projects. In addition, agencies with near-term financial systems modernization needs should begin planning to adopt a shared-services approach, consistent with this guidance, that will provide the agency with future financial systems infrastructure, application, or transactional processing services. OMB and Treasury will begin working with these agencies immediately to develop plans consistent with this guidance.

If you have any questions regarding this memorandum, please contact Mike Wetklow, Chief Accountability, Performance, and Reporting Branch within OMB's Office of Federal Financial Management (mwetklow@omb.eop.gov).