Corporate Partner Advisory Group

Survey Series

Annual CIO Survey

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The Pursuit of Government Efficiency: Opportunities to Advance Federal Shared Services

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Survey Contributors

AGA

Ann Ebberts
Chief Executive Officer

Susan Fritzlen
Chief Operating Officer

Accenture Federal Services

Tom Greiner, Managing Director

Kevin Greer, Managing Director

Scott Quehl, Senior Principal

Mark Ahlman, Manager

Michael Alipui, Manager

Christopher Hass, Consultant

Tiffany Chan, Consultant

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AGA is *the* member organization for financial professionals in government. We lead and encourage change that benefits our field and all citizens. Our networking events, professional certification, publications and ongoing education help members build their skills and advance their careers.

AGA's Corporate Partner Advisory Group is a network of public accounting firms, major system integrators, IT companies, management consulting firms, financial services organizations and education & training companies. These organizations all have long-term commitments to supporting the financial management community and choose to partner with and help AGA in its mission of advancing government accountability.

AGA thanks its Corporate Partner, Accenture Federal Services, for its support in making this study and its contribution to the AGA Corporate Partner Advisory Group Survey possible.

Accenture Federal Services is a U.S. company, with offices in Arlington, Va., and is a wholly-owned subsidiary of Accenture LLP. Accenture's federal business has served every cabinet-level department and 30 of the largest federal organizations with clients at defense, intelligence, public safety and civilian agencies.

Executive Summary

The United States Department of the Treasury's Office of Financial Innovation and Transformation (FIT) and the Office of Management and Budget (OMB) are making important strides in establishing the federal shared services marketplace. In 2013, OMB issued guidance on implementing financial management shared services, followed by designating, in May 2014, four agencies as Federal Shared Services Providers (FSSPs).

In September 2014, FIT collaborated with the federal Chief Financial Officers Council in establishing terms for financial shared services governance, drawing on views of the FSSPs and customer agencies. FIT has since indicated it will issue a catalog listing the services that providers offer, annual servicing agreements and an indicative pricing range. This important step toward transparency will offer current and prospective federal agency customers and providers clearer insight and identify services that can be delivered with better performance effectiveness and price efficiency. As the market evolves, commercial providers will also be able to demonstrate how they can meet agency customer requirements at lower cost.

This survey provides significant insight into the current state of the shared services initiative and identifies several themes through discussions held with chief financial officers (CFOs), chief information officers (CIOs), and deputy CFOs and CIOs, and shared services directors at a cross-section of 10 provider, subscriber and line-of-business managing partner agencies.

Responses to binary survey questions posed to executive leadership at the 10 federal agencies confirm **there is strong support for the principle of shared services**:

- None of the executives interviewed agreed it is in the best interest of the taxpayer for each agency to build its own, one-off financial system rather than leverage a shared service solution.
- All agreed if shared services can work for functions such as procurement and payroll, it can work for finance.
- None agreed with the statement "there is no shared services provider (SSP) that can scale to support the size of their agencies' operations."
- All FSSPs interviewed believe they are ready to service multiple new government customers. However, from a customer perspective, there was concern regarding the amount of current capacity to accommodate all agency migrations.

"We think we can serve an unlimited number of agencies. We have the ability to scale as quickly as needed."

- For financial management, 80 percent agreed there are SSPs offering top-to-bottom solutions that provide federal agencies with both system and transaction support services.

Responses to open-ended interview questions obtained from the same group of executive leadership at the 10 federal agencies provided the following salient points:

Effective governance in the federal shared service marketplace is critical. In contrast to a governance approach to shared services emphasizing centralization as an end in itself, the preponderance of views shared during interviews is one of governance focused on an efficient marketplace between providers and customers. These views were characterized by a well-regulated framework extending to all shared services lines of business—not just financial management. Dimensions of effective governance include:

(a) **Assuring there is sufficient supply and demand** between customer agencies and providers;

(b) **Market transparency** with information on pricing, services and performance;

(c) **Market fluidity** such as reducing switching costs between providers, applying standards and resources for effective migration planning and implementation, and efficient, performance-oriented acquisition processes; and

(d) **Market regulation** with respect to customer agency input into requirements and validation of service results, provider accountability, security and dispute mediation.

Governance is advancing in financial management and should extend to all shared service lines of business. For most executives interviewed, using shared services did not necessarily mean losing control over mission-critical support services, but governance concerns need to be addressed to diminish barriers to adoption.

Most executives interviewed want choice in selecting SSPs, including options beyond those directly offered by federal providers. Both provider and subscriber agencies prefer a service delivery model based on a public-private partnership. Agencies see the need for industry flexibility and technical expertise, but also believe government oversight and management are critical to a successful federal shared service offering. Demand exists for innovative approaches to ease transition costs and to expand financial shared service offerings beyond simply hosting core accounting systems.

The effectiveness and efficiency benefits of shared services derived from competition among providers require steps to mitigate migration costs and being locked in by a provider relationship or technology platform. For federal shared service customers, complex integration with legacy feeder systems and the funding, human resource and management attention needed for migration can create "stickiness" to existing providers that diminish choice, fluidity, efficiency and competition in the shared services marketplace. As the shared services marketplace evolves, expanding choices among providers should reduce the risk that concentration in the number of software solutions offered will squeeze out other innovative options.

Accurately estimating, and ultimately realizing return on investment, calls for focus on process improvements, repurposing personnel resources and continuous improvement. Mission delivery demands continue to press upon federal agencies, as do the search for resources in a tough budget climate. In principle, shared services should yield lower costs—with savings repurposed to program delivery—once migrations are complete. Given that the up-front costs of migration can consume savings from better technology, downstream savings realization will depend upon readiness to streamline processes, repurpose personnel resources and dedicate to continuous improvement—buttressed by a shared services marketplace with governance, incentives and customer choice.

Further confidence should be built about the security and data integrity of shared services delivered via the cloud. Providers are more open to cloud computing and virtualization compared to agency customers, indicating the need for greater outreach and focus on demonstrating robust security.

Human factors are a key concern for both providers and subscribers. All agency respondents recognize that communication and change management are critical to successful migration. To some, achieving the greatest value from shared services and the talents of the federal workforce includes reshaping the size and skill mix of mission support personnel from such functions as data entry to roles that more directly support customer service, analytics-based decision-making and risk and program management.

These conclusions by the study team are supported by responses from agency leadership, as shown in the body of this study. Findings from the study shed greater light on the current state of the shared services initiative in pursuit of government efficiency and provide topics for further exploration by policymakers, agencies and industry alike. Although many areas for improvement exist, stakeholders across-the-board believe shared services is a viable strategy to maximize taxpayer value.

About the Survey

AGA sponsors and publishes various thought leadership publications, examining current topics and issues of interest to the government financial management community. Among these is the annual CIO Survey, which focuses on technology as an enabler of efficiency and innovation in government financial management.

AGA has partnered with Accenture Federal Services to prepare this study, which reflects a series of interviews with senior officials engaged in shared services. Discussion focused exclusively on the topic of shared services. The survey approached the subject matter from the perspective of shared services providers, customer agencies and managing partners. Some of the specific areas covered were barriers to adoption, success factors, governance, return on investment, availability of choice and integration with the information technology (IT) enterprise. Interviews shed light on the current state of the shared services initiative and expectations for the future, as well as potential improvements and lessons learned as commitment to shared services advances.

Objective

This study aims to present evidence gathered and lessons learned for the benefit of the federal management community—drawing perspectives from senior shared service customers, providers and policy officials regarding their experience with federal shared services, and outlining their expectations for the future.

Methodology

AGA and Accenture representatives met with senior government officials from 10 federal agencies. Four of these agencies are FSSPs, four are customer agencies and the remaining two are shared services managing partners. Respondents represented a diversity of views ranging from six cabinet departments, component agencies of larger departments, and smaller independent agencies. Officials interviewed included CIOs, CFOs, deputy CIOs and CFOs, and directors of offices that provide or oversee shared services. The study team applied three sets of open-ended questions and presented the most applicable set to interviewees depending on whether their agency is a provider, subscriber or policy maker.

Open-ended provider questions covered the following topics:

- Implementation of the initiative
- Return on investment made to scale service to other agencies
- Anticipated impact of upcoming political changes
- Goals for the coming five years
- Anticipated changes in technology and resourcing
- Differentiation and specialization relative to other FSSPs
- Optimal capacity to maintain high levels of service
- The competitive landscape across government and industry providers
- Service requirements being demanded by customers
- Potential lack of flexibility caused by technology vendor dependencies

Open-ended questions to shared services customers covered the following topics:

- Experiences and challenges with the shared-service model
- Return on investment and realization of cost efficiencies
- Anticipated impact of upcoming political changes
- Strategic plan for the next five years
- Human capital factors related to adoption
- The balance between cost benefit and loss of control
- Perceived differentiation between FSSPs
- The competitive landscape across government and industry providers
- Governance, provider responsiveness and service level agreements
- Integration of FSSP systems with other enterprise systems

In addition to open-ended questions, the study team asked interviewees nine binary (agree/disagree) polling questions on similar topics.

ANONYMITY: To encourage candid and open discussion, all responses, quotes and anecdotes are anonymous and are not associated with any specific government official interviewed.

A View from the Top on Federal Shared Services

Overall, there is support for the concept of shared services. None of the executives interviewed agreed it is in the best interest of the taxpayer for each agency to build its own, one-off financial system rather than leverage a shared service solution. All agreed that if shared services can work for functions such as procurement and payroll, it can work for finance. None agreed with the statement, "there is no SSP able to scale to support the size of their agencies' operations, assuming sufficient time, industry support and a robust implementation process." Relative to financial management, 80 percent agreed there are SSPs offering top-to-bottom solutions that can provide federal agencies with both system and transaction support services. The study team found even agencies experiencing difficulties with shared services implementation maintained a very positive attitude about the principle of shared services and its future.

Most executives interviewed see managing partner agencies considering agency input and requirements during the process of selecting shared service providers. Only 10 percent of interviewees agreed agencies will be forced into switching to a FSSP that will not meet their needs.

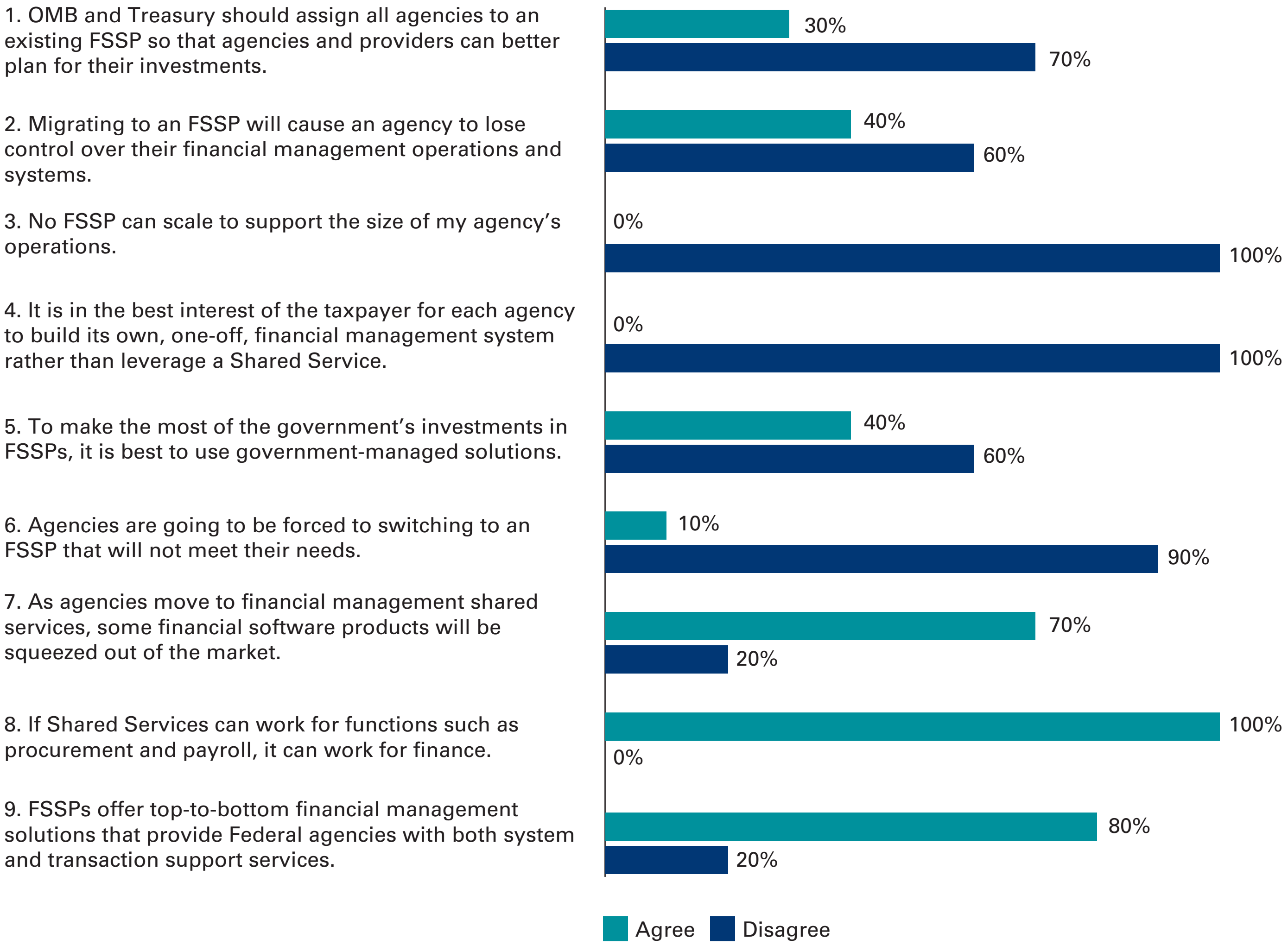
Mission cannot be accomplished without human resources, acquisitions, IT, financial systems and other "mission support" functions operating effectively. As such, assurance on an appropriate level of customer agency control is a concern, emphasizing the need for strong governance and incentives to respond to customer performance requirements. However, for most executives interviewed, using shared services need not necessarily preclude appropriate control. Less than half interviewed—40 percent—indicated migrating to a SSP will cause an agency to lose control over operations and systems.

When it comes to the practicalities of implementation, it is clear most executives interviewed want choice in selecting SSPs, including options beyond those directly provided by the government. Only 30 percent agreed OMB and Treasury should assign all agencies to an existing FSSP, so agencies and providers can better plan investments. And less than half—40 percent—agreed

80% Agree

FSSPs offer top-to-bottom financial management solutions that provide federal agencies with both system and transaction support services.

Summary of Respondent Perspectives (Interviews from 10 federal agencies yielded the perspectives summarized)



that to make the most of the government's investments in SSPs, it is best to use government-managed solutions.

Study results revealed 70 percent agreed that in moving to a limited number of FSSPs, some financial software products will be squeezed out of the market. There is an indication, however, that expanding choices among providers can address competitive and innovation risks associated with too much concentration.

In addition, the study team found that agencies value the ability to choose a system-as-a-service or to share a more robust spectrum of financial operations.

In short, while interviewed executives have differing views, there is agreement that shared services holds promise; while there are many hurdles to overcome, none are so daunting as not to advance in this direction. The issue remains: how best to advance.

100% Agree

If shared services can work for functions such as procurement and payroll, it can work for finance.

0% Agree

No SSP can scale to support the size of my agency's operations.

Governance and the Rules of Engagement

The topic of governance arises repeatedly throughout the findings and observations of this study. Governance defines how customers and providers define requirements and terms of performance, how providers are held accountable for delivery, and what customers can do if their reasonable needs are not satisfied.

Effective governance promotes a shared services marketplace that is more transparent, more efficiently priced, more competitive and innovative, and less prone to provider capture once customer migration occurs. Governance builds confidence in the stewardship and security of the shared services being delivered including, but not limited to, those offered through the cloud. Governance also ensures that proven approaches to complex migrations are followed, such as business case analysis, independent validation & verification, gap analysis, data migration, dealing with legacy systems, and the establishment of robust program management offices and employee engagement initiatives.

In contrast to a governance approach to shared services emphasizing centralization, the approach most in keeping with the preponderance of views shared during interviews is one of governance focused on an effective and efficient marketplace between providers and customers within a well-regulated framework. Dimensions of effective governance include:

- **Assuring there is sufficient supply and demand** between customer agencies and providers.
- **Market transparency** with information on pricing, services and performance.
- **Market fluidity** such as reducing the switching costs between providers through data portability, applying standards and resources for effective migration planning and implementation and efficient, performance-oriented acquisition processes.
- **Market regulation** with respect to customer agency input into requirements and validation of service results, provider accountability, security and dispute mediation.

"Clearly defining the policies and procedures up front is key to dealing with the different needs of large and small shared services customers."

Treasury's FIT and OMB are making important strides in establishing the federal shared services marketplace. In 2013, OMB issued guidance on implementing financial management shared services, followed by designating four agencies as FSSPs in May 2014.

In September 2014, FIT collaborated with the federal Chief Financial Officers Council in establishing terms for financial shared services governance, drawing on views of the FSSPs and customer agencies.

These are steps in the right direction for shared service customers, who harbor concerns about loss of control and unclear returns for demanding migrations. For 60 percent of the executives interviewed, using shared services did not necessarily mean a loss of control. But 40 percent perceive there would be a loss of control, underscoring the importance of governance issues to customer agencies to diminish barriers to adoption.

For financial management shared services, executives of customer agencies uniformly expressed concerns about an FSSP being able to handle a Cabinet department while meeting the needs of smaller agencies served by the same FSSP. According to one respondent, "Getting past the first large Cabinet agency will be the test."

With governance guidance for financial management shared services issued, other lines of business—such as human resources—could benefit from similar market rules for engagement.

Effective tools to instill customer confidence applied in commercial and public sectors include:

- Equitable and fair voting representation on governance boards
- Customer engagement and communication mechanisms
- Consequences for provider failure to meet commitments

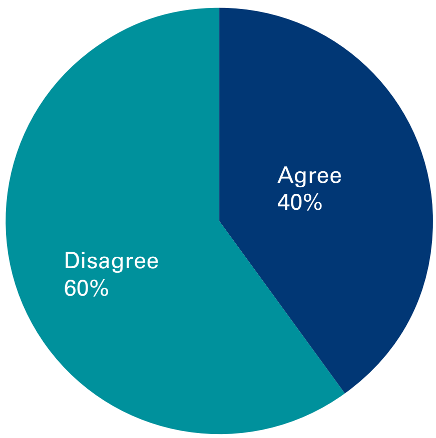
The last approach in particular is easier said than done. Other sections of this study speak to practical impediments to customer agencies' abilities to hold providers accountable: complex interfaces; heavy burden of migration; and limited visibility into more cost-effective alternatives. However, important progress is being made, particularly in financial management.

In November 2014, FIT shared its plans to issue a catalog listing the services providers offer, annual servicing agreements and an indicative range of pricing. Aligned with a broader initiative coordinated through OMB on benchmarking mission support services, this step toward transparency will offer federal agency customers and providers better insight into shared services supply, and identify services that can be delivered with better performance effectiveness and price efficiency. As the market evolves, commercial providers will also be able to demonstrate how they can meet agency customer requirements at lower cost.

Standardization in data and interfaces could be important next steps to make it easier for customer agencies to switch providers, or credibly assert their willingness to do so if performance from current providers does not improve. More performance-based fee structures may also be effective. Section 16 of the Federal Acquisitions Regulation speaks to the use of performance-based contracts. Cabinet departments have used fixed-price with incentive fee contracts internally for implementation and operational support for consolidating disparate energy commodity purchasing and debt collection monitoring systems. In each case, a portion of agreed-upon fixed fees were withheld by the customer agency until key milestones in implementation timing and operational performance were met. Another Cabinet department engaged a contractor to develop—at the contractor's expense—a more than $90 million consolidated loan origination and disbursement system, paying during implementation on the basis of validated savings, and then converting to a per-transaction structure once the system and operations moved to sustainment. If these approaches have been effectively applied for single agency enterprise-wide system implementations, could shared services customers and providers enter into similar agreements?

Assurance in the consistent use of effective practices in shared services migration stands among other important aspects of governance.

Migrating to a SSP will cause an agency to lose control over its financial management operations and systems.



Competition and Choices

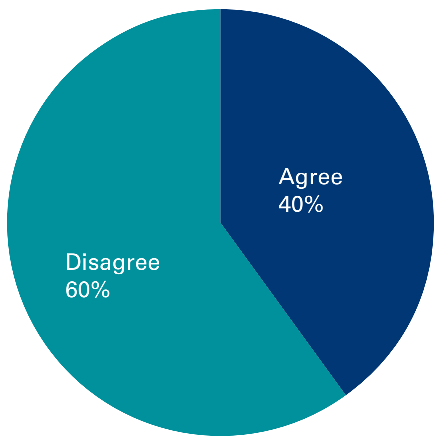
For financial management shared services, it was clear from the survey results that the commercial market should play a role, but it was equally clear that that the present role is one of support and not as a direct provider. The federal shared services marketplace remains collaborative as FSSPs work together and with policy makers to define service delivery models and the road to greater adoption.

Provider respondents were asked for their views of the competitive landscape amongst FSSPs. Respondents uniformly described the environment as one of cooperation and mutual support as the shared service delivery model matures in the federal space. According to one respondent, "There is a lot more cooperation than people are aware of through direct communication between FSSPs, FIT, the Partnership for Public Service, etc."

Another respondent offered, "There is 90 percent of the federal government that is still unserved. With the amount of potential business that is there to be gained we don't see ourselves as being in direct competition with other FSSPs. Rather, we are collaborating with them. Once that 90 percent untapped market is reduced, then there could be more competition."

Of the shared services providers interviewed, 40 percent offered services beyond core financial systems. Those non-core financials services included payroll and human resource actions processing, occupational health services, a transit subsidy card program, and employee wellness programs. These respondents are enthusiastic at the prospect of expanding the focus of the shared services mandate beyond financial management systems. Respondents from customer agencies were similarly open to the prospect of using offerings beyond financial management services. A common theme among them was that shared services makes sense and it is the "right thing to do" for the taxpayer. These findings indicate there is demand in the marketplace to see more diverse shared service offerings.

To make the most of the government's investments in FSSPs, it is best to use government-managed solutions.



Industry has long supported federal mission support in system development, implementation and operations. Mixed federal-contractor workforces are currently delivering legacy shared services in a wide range of mission support functions, such as financial management, payroll, human resource operations, IT support services and loan administration. However, federal agencies have not yet adopted the use of commercial shared service providers (CSSPs) as broadly as the private sector, governments overseas and a growing number of U.S. state and local governments.

In interviews, federal provider executives expressed the desire to have industry play a complementary, but not a leading role. Most acknowledged that they could not operate and deliver quality service without contractor support. A few believed that CSSPs alone would not be able to serve agencies adequately since they lack sufficient knowledge of government processes. Only 20 percent of provider respondents believed agencies should be able to choose a CSSP with the remainders thinking that CSSPs would not be able to meet their needs. According to one respondent, "There should be commercial options in the mix. If you exclude certain parties then you may limit service offerings, efficiency and industry's desire to develop better solutions. The point is that I think FSSPs can't be successful without industry, but CSSPs also can't do it without the knowledge of federal operations that government personnel bring."

Customer agency executives expressed desire for more choices among providers and technology platforms available for core financials. One customer expressed frustration that three out of the four FSSPs offering core financials were on the same vendor's technology platform and that they were unable to select an FSSP that ran a more current version of their legacy system. Despite these frustrations, they were not open to the prospect of choosing a CSSP as a direct provider. According to one customer agency executive, "We don't see commercial providers as being equipped to meet our needs. With the lack of clear requirements and direction, it's hard to see the commercial providers putting together solutions to meet what we need."

Another customer agency respondent offered, "If the goal strictly is to save money, then yes [CSSPs should be considered]. If your goal is to get the best information, then no. Competition will provide you with the low-cost provider, but we believe that is not in the best interest of the government."

Instead of a move to full privatization of shared services, results of these interviews indicate both provider and customer agency respondents prefer the public-private partnership service delivery model. Customers want greater choice in technology platforms and service features, while providers want industry expertise, staffing flexibility available through contracting and a partner to share the risks and costs necessary to build out an offering.

There may be opportunities to extend this partnership, blending federal oversight and performance incentives for meeting customer service and other requirements with the capabilities CSSPs are already offering to commercial and state and local government customers in such lines of business as payroll, benefits administration, and other aspects of human resource management, loan origination, servicing and disbursement, fixed assets and other financial management functions, supply chain and commodity acquisitions, records management and information technology and telecommunications support services.

CSSPS could work under a federal host agency—ideally one with a franchise fund or working capital fund with the authority to enter into multi-year service agreements—and apply one or more pilot projects. Under the right terms and conditions, commercial providers may be willing to put their own capital at risk to fund a large share of customer migration costs and charge fees contingent on measurable savings and performance. The government's ownership of data, and standardization of interfaces, would be clear in such pilots, easing customers' ability to "lift and shift" data from one provider to another in the case of chronic under-performance.

Such an approach to public-private partnership in shared services could meet customer and providers' desire for choice, expand competition, take advantage of commercial "gold standard" shared service offerings and maintain focus on performance.

Alternatively, the shared services marketplace may evolve toward expanding customer agency choice by offering more direct services by CSSPs—as is the direction with the Human Resources Line of Business where the U.S. Department of Veterans Affairs is migrating human resource functions to a CSSP. Concerns raised by a number of executives about this approach further reinforce the importance of the continued evolution of the shared services marketplace—particularly governance—as well as constructive government-industry engagement on effective practices. As pricing and service levels become more transparent, as approaches and tools to plan and manage migrations and hold providers accountable for results are strengthened, as barriers to customer movement from one provider to another are lowered, and as security and other stewardship standards are reinforced, customers and providers may benefit from the next surge of advancement toward the tremendous promise of shared services.

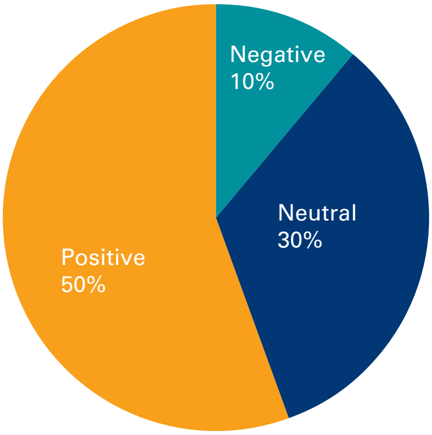
"With the lack of clear requirements and direction, it's hard to see the commercial providers putting together solutions to meet what we need."

Shared Services Return on Investment

All study respondents agreed that effective and efficient use of shared service can be in the best interest of the American taxpayer. Defining what "effective and efficient" mean specifically, through up-stream business case development and then through validation during implementation, is important. "We need clearly-defined requirements for success, or what success will look like in going to a shared service provider," explained one executive.

Many executives could describe benefits realized by their agency. However, our interviews revealed varying levels of confidence in realizing anticipated return on investment (ROI) of shared services. The Managing Partner for the human resource line of business (HRLOB) identified approximately $1 billion in savings from moving human resources/payroll to a shared-service model, stating, "We have quantified savings from shared services to be more than $1 billion in cost savings and avoidance in the first 10 years. We are looking at approximately $1.6 billion by 2015."

Percentage of respondents who think shared services provides a positive, negative or unknown ROI.



1 Accenture Federal Services "Shared Services Government Roundtable Government-Wide Cost and Savings Business Case: Realizing Cost Savings through Shared Services", November 2014.

2 Ibid.

3 United States Office of Personnel Management, "Human Resources Line of Business FY 2011 Cost Benefit Analysis (CBA) Report", May 2012, www.opm.gov/services-for-agencies/hr-line-of-business/cost-benefit-analysis/fy-2011-cost-benefit-analysis-report.pdf

Results of Federal Government-Wide Shared Services Cost Savings Study[1]

- Evaluated back-office activities: IT, Financial Management, Supply Chain, HR and Administrative processes
- Government-wide, 200 agencies spend approximately $125 billion per year
- Adoption of shared-services models could potentially provide up to $47 billion in cost savings and avoidance
- Primary source of savings: efficiency in transaction processing and operations
- Technology savings negated by high cost of transition and migration

Another agency had a different experience, being unable to achieve anticipated savings from migrating to an FSSP. Leadership from this agency shared, "There was a business case put together and a detailed ROI calculation done. However, this pre-implementation ROI did not take into account significant unanticipated costs. For example: costs related to data conversion and migration issues, and continued investment in legacy cuff systems assumed to be replaced as part of the implementation."

Other respondents found it difficult to quantify or identify what to measure when calculating ROI. According to one respondent, "We are still developing metrics related to desired outcomes of shared service implementation. Being such a new initiative [for core financial systems] makes it difficult to determine what to measure."

Several other respondents shared that uncommon data formats, lack of "by-transaction" cost information, and end-to-end processing costs all contribute to the difficulty in identifying and quantifying cost drivers. Even so, they all agreed cost savings will not be the only factor in the decision to move toward a shared-service model. Among survey respondents, all were planning on migrating to the FSSP technology platform, but only one was moving its people to take advantage of centralized transaction processing—a key factor in savings as noted from the Accenture Government-wide Cost and Savings Business Case (November 2014). Agencies should consider calculating short and long-term savings based on the model presented in the Cost and Savings Business case[2] as well as other models.

The realization of benefits from transformations in commercial and other levels of government typically range from 20 to 45 percent. With the federal government spending nearly an estimated $8 billion per year on financial management alone, even the low side of such results can yield significant savings. However, savings may only occur in the long-term after a near-term surge in costs due to migration, configuration and implementation decisions, and investments in system performance. One respondent who had migrated to shared services center described their agency's experience with transition costs, "Our business case did not take into account significant unanticipated costs. Specifically, these included costs related to data conversion and migration issues, and continued investment in legacy cuff systems assumed to be replaced as part of the implementation."

In developing the business case, the complexities of the agency should be considered. Many large agencies operate with more than one consolidated financial system that interfaces with multiple legacy systems, for example.

Several executives interviewed noted that financial shared services has not yet been attempted for large federal cabinet-level agencies. Cost savings may be more likely to occur as providers, subscribers and contract support gain more implementation experience, and the financial management line of business offering matures along the learning curve. In researching, the study team found that use of shared services is most mature in the HRLOB, mainly based on government mandate to use payroll shared services. As published by the HRLOB managing partners,[3] more than 70 percent of federal agencies have migrated to a shared services center for human resources and 99 percent are serviced by a payroll provider.

The benefits of a shared-service model extend beyond financial savings and include effectiveness. Shared services can enable data analytics by providing timely, reliable and accurate information. As described by one respondent, "The true benefit is more reliable and accurate information." By consolidating data in one place with advanced tools, CFOs will be given access to a broader set of financial and operational data. This will allow shared services organizations to begin providing valuable data analytics services not only to the agencies they serve, but also to the greater government. The Digital Accountability and Transparency Act (DATA Act) requires agencies to disclose performance and transactional-level detail. FSSPs are responsible for helping customers' reporting capabilities that are required for cost information that informs many management decisions. Data integrity, transparency and improved analytics capabilities can be accompanied by reduced cycle times, improved accuracy and repurposing of staff to higher-value customer service, program and risk management and problem solving—particularly if process improvements are applied with a move to a high-performance shared services environment.

"Another impact or benefit is the data reliability. The shared services model where all HR systems can talk would provide incredible amounts of transparency and accuracy of data."

Integration with the IT Enterprise and "Cloud First"

Shared service implementations are complex and frequently involve significant systems integration challenges. This is especially true as agencies navigate the shared services and "cloud first" mandates. Agencies often address these mandates in concert with each other as both seek to increase government efficiency by leveraging common IT infrastructure to reduce costs. As part of this study, respondents were asked questions to gather views and other data points regarding the adoption of cloud computing and the impact that migrating to a shared service provider had on customer agencies.

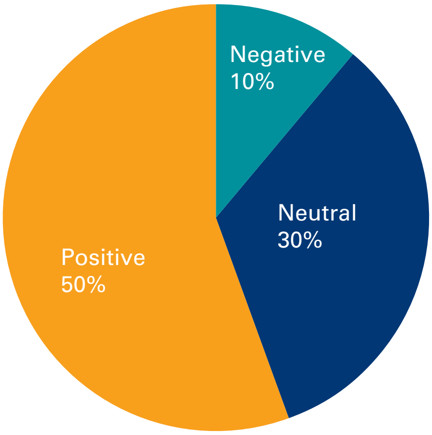
Customers and providers interviewed were familiar with the "cloud first" mandate. Customer respondents were less open to pursuing cloud-based solutions and expressed concerns regarding the security and feasibility in the federal space. When asked how they saw the "cloud first" directive impacting shared services adoption from technology and functional perspectives, one customer responded, "We are trying not to move too quickly. We are not sure 'the cloud' is ready and don't want to be the groundbreaker here. Cost-wise it seems beneficial, but we are still working on the security and integrity."

Providers seemed eager to adopt and integrate cloud into their service offerings, but had similar concerns as subscribers regarding security and confidentiality of data. One provider offered, "We would like to go from hardware to virtualization and are looking at moving to the cloud. We see a three- to five-year horizon for moving to the virtual cloud. However, we remain skeptical about a commercial solution due to concerns about security and protection of PII [Personally Identifiable Information] data. For now we are focused on a federal cloud solution." According to another provider respondent, "Government behaves like we have to own every piece of hardware. We need to figure out how we share that risk. I see my value as being able to deliver a business solution and not just own hardware. We are looking at moving to a cloud model and are soliciting industry's ideas."

Survey results indicate federal agencies continue to have reservations about the security and data integrity of cloud computing. Efforts to increase adoption must focus on addressing these concerns and changing perceptions. Compliance initiatives such as FEDRAMP and greater community outreach will be necessary to change perceptions.

One of the points in favor of migrating to a shared service provider for core financial systems is sun-setting legacy general ledger and feeder systems. As part of the survey, we sought to gather information on the impact of shared services migration on the subscriber IT enterprise as a whole and how agencies overcame system integration issues. One customer expressed concern about integration as they approached migration, "This [integration] is our biggest concern, especially without a roadmap laying out how it should be done not just that we have to do it. Can our current integration 'plug-and-play' with the provider solution? We have been using 'open source' technology in the integration of our enterprise systems. We fear we will be forced to enter in a shared services agreement with an agency that does not have the advanced 'open source' architecture that allows our systems to communicate, and we will be taking a step backward."

As agencies move to financial management shared services, some financial software products will be squeezed out of the market.



A respondent from another agency that migrated to shared services several years ago described challenges with system integration, "We've had a huge amount of data migration and system data conversion issues. We've experienced a tremendous amount of re-work due to integration and deployment issues. We brought in independent validation & verification (IV&V) teams and did comprehensive risk and issue identification. We continue to maintain many legacy systems we thought we would be able to sunset. We've also had to build new cuff systems for data analytics."

Based on information gathered for the study, system integration challenges remain a key concern of prospective and current shared services customers, suggesting that implementation requires robust identification of interfaces and data conversions between subscriber feeder systems and FSSP core financial systems.

Once a specific technology is selected and sunk costs are incurred, it is very difficult to go back. According to a respondent from a provider agency, "You are going to have at least one vendor dependency for software. Unplugging from a particular software platform leads to costs with a magnitude in the hundreds of millions. Therefore, there needs to be an honest partnership between the software platform vendor and government."

Another provider respondent expressed a similar thought, "It [vendor dependency] is a reasonable concern. It is inherent to government. We have a huge dependency on the software vendor behind our core financial system. If they decide to go off in a direction we don't agree with, what recourse do we have? What kind of clout do we have as the federal government to address that with the vendor? Even if another vendor comes along with something better, how can we move to another solution after making such big investments?"

Identifying and removing causes of this "stickiness" to a given provider remains a key next step to continue shared services' adoption.

"We have a huge dependency on the software vendor behind our core financial system."

What about the People?

Managing the human factor of shared services is a consistent priority among the agency leaders interviewed for this study. From ensuring a highly user-friendly interface for a system-as-a-service implementation to aggressively working to place the entire workforce displaced by the full implementation, both providers and subscribers see human capital as their most valuable resource and critical to the success of any implementation.

In March 2006, the Government Accountability Office (GAO) released the report, Financial Management Systems Additional Efforts Needed to Address Key Causes of Modernization Failures (GAO-06-184). "GAO's work has linked financial management system implementation failures to three recurring themes: (1) disciplined processes, (2) human capital management and (3) other information technology (IT) management practices." GAO's report went on to further define human capital management to include, "strategic workforce planning, human resources and change management." GAO has since released other reports and updates, including DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed (GAO-11-5), citing system implementation overruns that can also be linked to these issues.

Aligned with GAO's findings, agency executives interviewed are well aware of the importance of human capital management—whether personnel are involved in planning and executing migration, delivering shared services or are impacted by process and systems changes. Each agency with shared services migration experience has dedicated resources, budget and plans that address their human resource and management priorities at the start of their respective journey. An executive at one large agency that recently accepted the shared-service model described, "The SSPs have only done small agencies so far. Implementing large, more complex agencies will require significant staffing." Another agency executive emphasized change management in its shared services business process reengineering efforts by assigning its most-senior executives to lead an integration team, which regularly briefs progress to the rest of agency leadership.

A leader at another agency commented, "It is integral to the success of the transition for the workforce to constantly know what we are doing." This same agency added that its mantra is: "Communicate, Communicate, Communicate." This agency's leaders meet regularly with their project managers and union representatives. For employees affected by the move to full implementation of shared services, the agency is doing what it can to reduce impact—finding other roles for those affected and providing the tools, such as relocation assistance, if needed. An agency executive commented, "We tried to identify as many concerns as we could and developed 73 Q&As on the impact of the move to a SSP to support decision-making by the impacted workforce. We developed a web page dedicated to the move to the SSP with continual status updates and the 'people impact' of what we are doing." This use of multiple communication channels eases transition.

Another agency viewed its eventual transition to a SSP as a method to "shift our focus from transactional data entry to more of an analytical and beneficial focus." Understanding this will require a reshaping in the workforce's size and capability mix, the agency has been identifying opportunities for potentially affected employees to move to locations or positions where their skill sets remain needed, providing training to fill a more analytical or business diagnostic role, and offering targeted retirement incentives.

In short, communication and change management are critical to successful migration. Creating the most value out of shared services suggests reshaping the size and balance of workforce skills to roles that more directly support customer service, analytics-based decision-making, risk and program management, and otherwise make full use of the talents of federal personnel. No one part of an agency's C-suite can do this alone. Integrating participation by financial, human resource, IT, operations and acquisitions professionals into a comprehensive transition plan can translate this cross C-suite—CXO—vision into stronger mission support delivery through shared services.

> **"Skill sets, positions and roles will change across the organization as we move to the shared service."**

Participants' Observations and Conclusions

Through the course of discussions with agency leadership, the survey team gathered several anecdotes and "words of wisdom," including:

Pay attention to human resource and change management needs.

"It is integral to the success of the transition for the workforce to constantly know what we are doing."

In the final analysis, it is the people who will make shared services succeed or fail. With them, you can exceed your expected benefits; without them, it will be ongoing hardship and lost benefits. The importance of change management—and addressing and minimizing employees' uncertainty—cannot be emphasized enough.

There can be perceived tension between the need to rely on the workforce to plan and implement shared services, while at the same time basing a significant share of the ROI business case in personnel savings. But when a CXO approach is taken at department management and component bureau levels—engaging human resources, financial management, acquisitions and program, and policy leadership—federal agencies have many tools at hand to mitigate involuntary impacts on employees over the course of a migration, and turn change into an opportunity.

The time seems right for central market coordinators of shared services, such as OMB, Treasury, the U.S. Office of Personnel Management (OPM) and the U.S. General Services Administration (GSA) to assemble best practices, tools, and technical assistance for all of the dimensions of shared services planning and migration implementation. This could include establishing a suite of shared service migration resources and processes that shared service customers and providers apply, and central agencies certify.

Consider expanding the role of industry in shared services provision, coupled with performance incentives and safeguards to customer agencies.

"Competition is important in the marketplace. If you exclude certain parties, then you may limit service offerings, efficiency and industry's desire to develop better solutions."

Even with advances in shaping the federal shared-services marketplace for financial management, more can be done to expand competition and choice—in financial management and other operations. Public-private models for shared services delivery offer additional options for promoting choice and competition. Federal policy officials have been open to industry perspectives, through AGA and a number of other government-industry forums. Industry engagement can extend beyond dialogue. Contractors are providing a significant share of effort in mixed federal-contractor workforces delivering legacy shared services in financial management, payroll, benefits administration and other human resource operations, IT support services, loans, records management, supply chain, and other mission support functions.

There is a robust marketplace of U.S.-based CSSPs in each of these functions that—working through a host federal provider—could provide high-quality services to federal customers as supply dictates and federal policy allows, supported by progress in governance, price and service standard transparency. Under the right terms and conditions, commercial providers working for federal agency hosts—including those with franchise or enterprise funds with authorities to enter into multi-year service agreements—may also be willing to put their own capital at risk to fund a significant share of customer migration costs and basing payment on measurable savings and performance over a number of years. Individual departments and central shared services policy agencies may wish to engage industry in one or a number of pilots of such an approach, using existing authorities instead of requiring new legislation.

Add incentives into service level agreements (SLAs)/contracts and make it easy for agencies to change providers, if dissatisfied.

"Here is the conundrum: because this is mandated, FSSPs have no incentive to provide quality service. There are service level agreements in place, but they do not have any 'teeth' or any metrics defining minimum acceptable service levels…There is no recourse for missed service levels."

Even if SLAs currently have performance metrics, they often include the bare minimum and if not met, subscribers are unable to enforce and have no recourse. Participants agreed that clearly defining performance metrics and adding incentives for providers to meet or exceed those metrics would increase provider quality of service. A number of Cabinet departments have effectively applied firm fixed price with incentive fee structures with commercial firms to support their single-agency, enterprise-wide system consolidations for loan origination and disbursement, monitoring debt collection, and energy commodity purchasing. A portion of fees were withheld until measurable implementation and operational performance goals were met. Could shared services customers and providers enter into similar agreements?

"Costs to convert are prohibitive, not just for the initial buy-in, but once you have converted. If you are unhappy with any aspect of your SSP, it is difficult if not impossible to convert to another SSP due to the conversion costs. The level of accountability to meet the customer's needs is not high enough for the SSP."

High conversion costs impede shared services, not only during the initial migration but also with respect to the fluidity with which subscribers can move from one SSP to another if service or price requirements are not met. Standards for interfaces and data—including common data conversion and exchange formats—could lower migration costs while improving security, data quality and prospects of provider dependency once migration is complete.

These concerns also speak to the need for clearer rules on governance. Treasury's recent progress in establishing rules for financial management governance serve as a signpost for human resource management and other shared services functions.

Make sure FSSPs are prepared prior to migration.

"Can our current integration 'plug-and-play' with the provider solution? We fear we will be forced to enter into a shared services agreement with an agency that does not have the advanced 'open source' architecture that allows our systems to communicate, and we will be taking a step backward."

An FSSP's preparation and ability to build system integration between the provider and subscriber is a concern for customers who have not yet converted to shared services. Up-front establishment of a strong program management office to guide both sides of a shared service transaction is important, as is thorough validation, gap analyses and data migration plans. Effective practices in these areas exist from shared services migrations performed in the federal government, state and local governments, industry, and public agencies overseas. Affirmation by central, shared-services policy agencies that customer agencies and providers have access to—and are applying—these practices may prove beneficial.

2208 Mount Vernon Avenue
Alexandria, VA 22301

800.AGA.7211
703.684.6931

www.agacgfm.org
agamembers@agacgfm.org