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Federal Financial Management, Government
Information, Federal Services, and International
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Governmental Affairs, U.S. Senate

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FINANCIAL MANAGEMENT SYSTEMS

OMB's Financial Management Line of Business Initiative Continues but Future Success Remains Uncertain





Highlights of [GAO-09-328](#), a report to the Chairman, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

In March 2004, the Office of Management and Budget (OMB) launched the financial management line of business (FMLOB) initiative, in part, to reduce the cost and improve the quality and performance of federal financial management systems by leveraging shared service solutions and implementing other reforms. In March 2006, GAO reported that OMB’s approach did not fully integrate certain fundamental system implementation-related concepts and recommended OMB take specific actions.

This report discusses (1) OMB’s progress in addressing GAO’s prior FMLOB recommendations and implementation challenges and (2) the effectiveness of OMB’s monitoring of financial management system modernization projects and their costs. GAO’s methodology included reviewing OMB’s FMLOB-related guidance and reports and interviewing OMB and Financial Systems Integration Office (FSIO) staff.

What GAO Recommends

GAO recommends that the Director of OMB take action to facilitate complete and accurate reporting of agency spending on financial management system modernization projects. GAO reaffirms its prior recommendations and emphasizes the need to address those that have not yet been completed. OMB generally agreed with GAO’s recommendation, described actions being taken, but expressed concern with part of the recommendation.

[View GAO-09-328 or key components.](#) For more information, contact Kay Daly at (202) 512-9095 or Naba Barkakati at (202) 512-2700.

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What GAO Found

OMB has made progress toward implementing the FMLOB initiative. In March 2006, GAO recommended that OMB place a high priority on fully integrating four key concepts into its approach. As shown in the table, OMB has completed actions to fully address 5 of GAO’s 18 recommendations. Although OMB has made progress toward completing the remaining 13 recommendations, extensive work remains before the goals of the FMLOB initiative are achieved. For example, OMB has yet to finalize a financial management system concept of operations, the first and foremost critical building block on which the remaining three concepts will be built. In addition, development of a migration timeline reflecting agencies’ commitment for migrating to shared service providers has not yet been completed. Further, agencies are not required to consider migrating until the next major release of their core financial system and much work remains before the software used by shared service providers will incorporate the standard business processes currently under development. Accordingly, FSIO officials stated it could take 15 years or more before software that incorporates these standard business processes is in use governmentwide. We recognize that the FMLOB initiative represents a long-term effort; however, expediting efforts to address our prior recommendations could help achieve more effective and timely benefits. Until OMB fully integrates the four key concepts into its approach, the extent to which FMLOB goals will be achieved is uncertain.

Progress toward Addressing GAO’s Recommendations

Key concepts	Number of GAO recommendations	Status of recommendations	
		Completed	Not completed
Concept of operations	4	0	4
Standard business processes	5	2	3
Migration strategy	5	2	3
Disciplined processes	4	1	3
Total	18	5	13

Sources: GAO analysis, OMB and FSIO data.

The Chief Financial Officers Act of 1990 and other information technology (IT) reform legislation contain requirements related to OMB’s oversight of agency financial management systems modernization and other IT projects. Achieving FMLOB goals requires effective OMB oversight of agency modernization projects, but OMB has yet to fully address GAO’s previously reported oversight-related recommendations such as taking actions to define and ensure that agencies effectively implement disciplined processes and develop a more structured review of agency efforts. In addition, OMB does not obtain and report complete and accurate data concerning agencies’ spending on financial management system modernization projects. The lack of sufficient information and processes to effectively monitor agency modernization efforts and their costs limits OMB’s ability to evaluate and help reduce the risks associated with financial management system implementations as well as achieve FMLOB goals.

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Abbreviations

CFO	Chief Financial Officer
CIO	Chief Information Officer
ConOps	concept of operations
DHS	Department of Homeland Security
DOD	Department of Defense
ERP	enterprise resource planning
FEA	Federal Enterprise Architecture
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FMLOB	financial management line of business
FSIO	Financial Systems Integration Office
IG	inspector general
IT	information technology
JFMIP	Joint Financial Management Improvement Program
LMP	Logistics Modernization Program
OFFM	Office of Federal Financial Management
OMB	Office of Management and Budget
PMA	President's Management Agenda
SFFBP	Standard Federal Financial Business Processes

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United States Government Accountability Office
Washington, DC 20548

May 7, 2009

The Honorable Thomas R. Carper
Chairman
Subcommittee on Federal Financial Management,
Government Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Mr. Chairman:

The federal government's ability to efficiently and effectively manage and oversee its day-to-day operations and programs relies heavily on the ability of agency financial management systems¹ to produce complete, reliable, timely, and consistent financial information for use by executive branch agencies and Congress. Agencies continue to spend billions of dollars on maintaining, developing, and implementing financial management systems throughout the federal government. Although modernization of these systems is expensive, these efforts represent a critical element in facilitating agencies' ability to institute strong financial management as called for by the Chief Financial Officers (CFO) Act of 1990,² Federal Financial Management Improvement Act of 1996 (FFMIA),³ and other financial management reform legislation.

Over a number of years, we have reported that modernizing federal financial management systems has been a challenge at many federal agencies⁴ due, in part, to the past practices of each federal agency attempting to implement its own systems which have all too often resulted in failure, have been delayed, and cost too much. Recognizing the seriousness of this problem, in March 2004, the Office of Management and Budget (OMB) launched the financial management line of business

¹The term financial management systems includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

²Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

³Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

⁴See the list of Related GAO Products at the end of this report.

(FMLOB) initiative, in part, to improve the outcome of governmentwide financial management system modernization efforts and provide timely and accurate data for decision making through the use of more cost-effective shared service solutions. Under this approach, agencies are to consider the use of certain shared service providers for meeting common support services, such as information technology (IT) hosting and application management, rather than investing in costly and redundant agency-specific solutions.

In March 2006, we made 18 recommendations to help reduce the risks associated with financial management system implementation efforts and facilitate the implementation of the FMLOB initiative across the government.⁵ Specifically, we recommended that OMB place a high priority on fully integrating into its approach four key concepts: (1) developing a concept of operations that articulates the interrelationships among financial management systems and how the shared service provider concept fits into the overall federal financial management framework, (2) defining standard business processes to promote consistency within and across agencies, (3) developing a strategy for ensuring that agencies' financial management systems are migrated to a limited number of service providers, and (4) defining and effectively implementing applicable disciplined processes necessary to properly manage financial management system implementation projects.⁶

Because of your continuing interest in transforming the federal government's financial management systems and the broad-reaching impact of the FMLOB initiative, you asked us to study a range of issues related to the FMLOB initiative as well as efforts at shared service providers and agencies involved in migrating to those providers. As agreed to with your office, this report provides the results of the first phase of our work, including our efforts to determine (1) OMB's progress toward addressing our prior recommendations related to the FMLOB initiative and other challenges that impede its implementation and (2) the effectiveness of OMB's monitoring of FMLOB and financial management system

⁵GAO, *Financial Management Systems: Additional Efforts Needed to Address Key Causes of Modernization Failures*, [GAO-06-184](#) (Washington, D.C.: Mar. 15, 2006).

⁶Disciplined processes represent best practices in systems development and implementation efforts that have been shown to reduce the risks associated with software development and acquisition efforts to acceptable levels and are fundamental to successful system implementations. Examples of disciplined processes include requirements management, testing, risk management, data conversion, and project management.

modernization projects, including their costs. We will address the remaining aspects of your request primarily related to FMLOB-related efforts at shared service providers and agencies involved in migration activities during the next phase of our work.

We reviewed and analyzed FMLOB-related policies, guidance, reports, and memoranda obtained from OMB and the Financial Systems Integration Office (FSIO)⁷ related to their respective efforts to address our prior recommendations as well as efforts to monitor, and measure the costs of, financial management system modernization projects. In addition, we conducted interviews with key OMB and FSIO officials as well as officials with other selected organizations knowledgeable about large financial management transformation initiatives to obtain views on FMLOB efforts and related challenges. We also interviewed knowledgeable officials of two agencies from among those agencies spending the most on financial management modernization projects to obtain information on agency reporting of such costs. We conducted this performance audit from February 2008 through May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Details on our scope and methodology are included in appendix I.

Background

Modernization of agency financial management systems has been an ongoing challenge due, in part, to federal agency attempts to develop and implement their own stovepiped systems that all too often have resulted in failure, been delayed, or cost too much. Recognizing the need for a more holistic approach to address the seriousness of these problems, OMB

⁷In December 2004, the Joint Financial Management Improvement Program (JFMIP) Principals voted to modify the roles and responsibilities of the JFMIP, resulting in the creation of FSIO. FSIO assumed responsibility for coordinating the work related to federal financial management systems requirements and is serving as the Program Manager for the FMLOB Initiative. OMB's Office of Federal Financial Management (OFFM) is responsible for issuing the new or revised federal financial management system requirements. See OMB, Memorandum, *Update on the Financial Management Line of Business and the Financial Systems Integration Office* (Washington, D.C.: Dec. 16, 2005).

launched the FMLOB initiative in March 2004, in connection with the 2001 President's Management Agenda (PMA).⁸

In part, the FMLOB initiative is intended to reduce the cost and upgrade the quality and performance of federal financial management systems by leveraging shared service solutions and implementing other governmentwide reforms that foster efficiencies in federal financial operations. According to OMB, the goals of the FMLOB initiative are to (1) provide timely and accurate data for decision making; (2) facilitate stronger internal controls that ensure integrity in accounting and other stewardship activities; (3) reduce costs by providing a competitive alternative for agencies to acquire, develop, implement, and operate financial management systems through shared service solutions; (4) standardize systems, business processes, and data elements; and (5) provide for seamless data exchange between and among federal agencies by implementing a common language and structure for financial information and system interfaces.

In connection with this initiative, OMB developed an approach for agencies to migrate financial management systems to a limited number of application service providers, such as OMB-designated shared service providers or private sector entities, which is intended to avoid costly and redundant agency investments in "in-house" financial management systems. These providers are third-party entities that manage and distribute software-based services and solutions to customers across a wide area network from a central data center. This concept has commonly been used in the private sector and in other foreign governments where application service providers provide services such as payroll, sales force automation, and human resource applications to many clients. OMB is the executive sponsor for the FMLOB initiative and in conjunction with FSIO, provides oversight and guidance for the initiative. In addition to serving as the program manager for the FMLOB initiative, FSIO is responsible for core financial systems requirements development, testing and product certification, supporting the federal financial management community on priority projects, and other activities.

⁸The PMA was created to address the need for citizen-centered, results-oriented, and market-based federal government initiatives. Pursuant to the PMA, OMB created Lines of Business initiatives which address redundant information technology (IT) investments and business processes across the federal government including case management, grants management, human resources management, federal health architecture, information systems security, budget formulation and execution, geospatial, and IT infrastructure.

Although the FMLOB initiative was launched in 2004, modernizing federal financial management systems so they can produce reliable, useful, and timely financial data needed to efficiently and effectively manage the day-to-day operations of the federal government has been a high priority for Congress for many years. In recognition of this need, and in an effort to improve overall federal financial management, Congress passed a series of financial management reform legislation dating back to the early 1980s. Some of the notable legislation included in this series are the (1) Federal Managers' Financial Integrity Act of 1982 (FMFIA),⁹ (2) CFO Act of 1990, (3) Government Performance and Results Act of 1993,¹⁰ (4) Government Management Reform Act of 1994,¹¹ (5) FFMIA, (6) Clinger-Cohen Act of 1996,¹² and (7) Accountability of Tax Dollars Act of 2002.¹³ FFMIA, in particular, requires the departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level. In addition to the specific requirements related to financial management systems contained in FFMIA, the Clinger-Cohen Act of 1996 requires the head of each executive agency to establish policies and procedures to ensure that, among other things, the agency's financial systems are designed, developed, maintained, and used effectively to provide financial or program performance data.

OMB plays a central role in governmentwide efforts to meet the requirements included in these reforms including the establishment of federal financial management policy and guidance, as well as overseeing the implementation and management of federal financial management systems and other IT investments. Specifically, the CFO Act of 1990 established OMB's Office of Federal Financial Management (OFFM) to carry out various financial management functions, including (1) providing overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and

⁹Pub. L. No. 97-255, 96 Stat. 814 (Sept. 8, 1982) (*codified at* 31 U. S. C. § 3512(c), (d)).

¹⁰Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

¹¹Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994).

¹²40 U.S.C. §§ 11101-11704.

¹³Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002).

requirements, and by monitoring the establishment and operation of federal government financial management systems; (2) reviewing agency budget requests for financial management systems and operations; and (3) monitoring the financial execution of the budget in relation to actual expenditures, including timely performance reports.

The Clinger-Cohen Act of 1996 expanded OMB responsibilities further to include establishing processes to analyze, track, and evaluate the risks and results of major capital investments in information systems made by executive agencies. In addition, in implementing the E-Government Act of 2002¹⁴ OMB's Office of Electronic Government and Information Technology is responsible for, among other matters, providing overall leadership and direction to the executive branch on electronic government; overseeing the development of enterprise architectures within and across agencies; and overseeing implementation of IT throughout the federal government, including monitoring and consulting on agency technology efforts, as well as identifying opportunities for joint agency and governmentwide IT projects.

OMB's IT Investment Oversight Efforts

In connection with these responsibilities, OMB reviews and evaluates IT spending and other information submitted by the agencies during the budget formulation process. Specifically, in accordance with OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, agencies are required to provide information related to their IT investment projects. As part of this process, agencies submit Capital Asset Plans and Business Cases (exhibit 300s) and Agency IT Investment Portfolios (exhibit 53s) that provide information useful for evaluating agency financial management system projects. Agency exhibit 300s are intended to describe the business case for each investment and serve as the primary means of justifying IT investment proposals as well as monitoring IT investments once they are funded. Further, as a reporting tool, exhibit 300s are intended to help demonstrate to agencies' management, as well as to OMB, that major projects have strong business cases for the investment and meet other administration priorities in defining the proposed cost, schedule, and performance goals.

¹⁴Pub.L. No. 107-347 § 101(a), 116 Stat. 2899, 2902-05 (Dec. 17, 2002) (*codified, in relevant part, at 44 U.S.C. § 3602(a), (f)*).

Similarly, information included on agency exhibit 53s is designed, in part, to help OMB better understand the amounts agencies are spending on IT investments as well as provide information in support of cost analyses prescribed by the Clinger-Cohen Act of 1996. For example, agencies are required to classify investment projects into one of six categories¹⁵ as well as specify how much of these amounts are for development and modernization¹⁶ of IT versus operating and maintaining the status quo for IT. In addition, agencies are required to report amounts being spent on each investment over a 3-year period including the current and prior fiscal years as well as the amount included in the agencies' budget request for the next fiscal year. As part of the *Budget of the United States Government*, OMB publishes a *Report on IT Spending for the Federal Government* representing a governmentwide compilation of exhibit 53 data submitted by agencies across the federal government.

As part of its efforts to oversee federal IT investments during the last few years, OMB has taken steps to identify IT projects that warrant additional attention by including them on either its Management Watch List and High Risk List, or both. OMB places major IT projects it considers to be poorly planned on the Management Watch List based, in part, on its detailed review of agency exhibit 300s¹⁷ and agencies are to submit remediation plans addressing the weaknesses identified. OMB updates the Management Watch List quarterly and projects are removed from the list

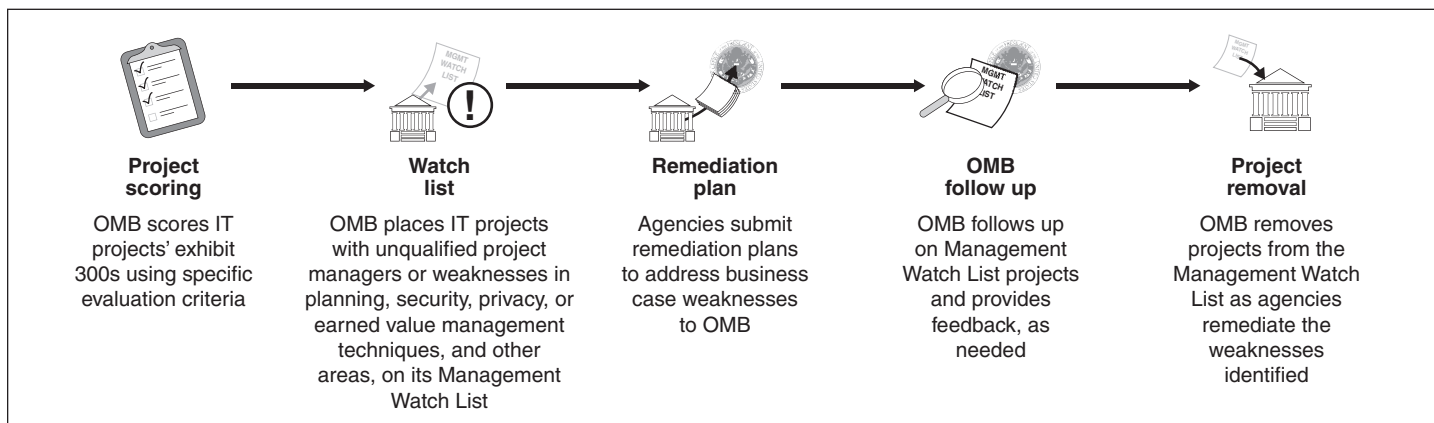
¹⁵Pursuant to OMB Circular No. A-11, Section 53, agencies are required to specify IT investments related to (1) Mission Area Support, (2) Infrastructure, Office Automation, and Telecommunications, (3) Enterprise Architecture and Planning, (4) Grants Management Systems, (5) Grants to State and Local IT Investments, and (6) National Security Systems.

¹⁶According to OMB Circular No. A-11, Section 53, spending on modernization projects consists of program costs for new investments, changes, or modifications to existing systems to improve capability or performance, changes mandated by Congress or agency leadership, personnel costs for investment management, and direct support.

¹⁷According to OMB, major investments are placed on the Management Watch List based on its review of agency project business cases for the following reasons: weak security section; weak nonsecurity section; project manager rating mismatched between agency's exhibit 53 & exhibit 300; the project manager identified for the investment has not been validated as qualified for the investment per the agency's exhibit 53; agency failed to receive a "satisfactory" or better evaluation by the agency's inspector general (IG) as reported in its annual Federal Information Security Management Act reports for the quality of its certification and accreditation process and for the quality of its privacy impact assessment process; agency is rated red for the cost/schedule performance element of the PMA E-Gov Scorecard; and general overall consistency issues with the content within the submitted exhibit 300. In addition, projects with a low composite score related to all the reasons previously described are placed on the Management Watch List.

as agencies remediate the weaknesses identified with these projects' business cases. Figure 1 shows OMB's process for developing the Management Watch List.

Figure 1: Overview of OMB Management Watch List Process



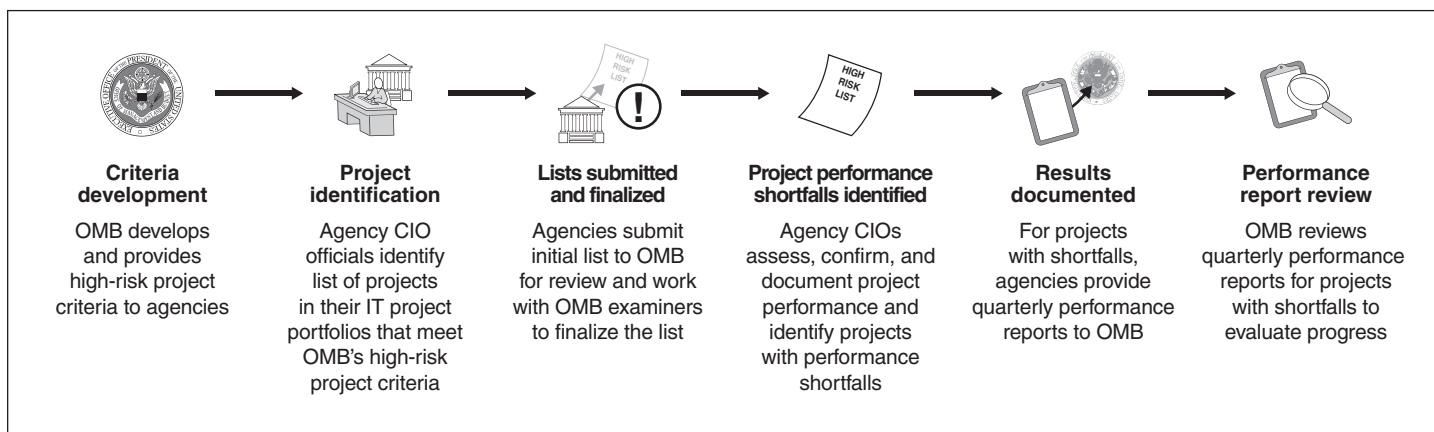
Sources: GAO analysis, OMB information.

In addition to the Management Watch List, OMB requires agencies to identify high-risk projects that require special attention from oversight authorities and the highest levels of agency management and OMB places them on its High Risk List. These projects are not necessarily at risk of failure, but may be on the list because they meet criteria¹⁸ specified by OMB for inclusion. Further, agency Chief Information Officers (CIO) are to assess, confirm, and document each of these projects' performance based on whether the project was meeting one or more of four performance

¹⁸According to the materials supplementing the President's budget for fiscal year 2009, OMB listed the following criteria for identifying high-risk projects: complex projects, projects with a high degree of political or citizen interest, projects with cross-organizational or agency impact or interdependencies with other systems efforts, major systems on the Management Watch List at the conclusion of the prior fiscal year that continue to warrant heightened attention during project execution, major systems formally designated as an E-Government or Line of Business shared service provider, E-Government initiative migration projects that are planned or under way, existing or legacy agency systems retiring once their functionality has been migrated to a common solution, and program or program management office activities supporting governmentwide common solutions.

evaluation criteria¹⁹ and identify those with performance shortfalls. Figure 2 shows OMB’s process for developing the High Risk List.

Figure 2: Overview of OMB High Risk List Process



Sources: GAO analysis, OMB information.

Progress Continues but Achieving FMLOB Goals Requires Much More Work and Time

OMB and FSIO efforts to implement the FMLOB initiative continue to show progress and have effectively addressed 5 of the 18 recommendations and made progress toward addressing the remaining 13 recommendations we made²⁰ related to four areas considered key building blocks for governmentwide financial management systems—a concept of operations, standard business processes, migration strategy, and disciplined processes. Table 1 summarizes the status of efforts to address our prior recommendations in each of these four areas. Additional information on the progress and remaining actions we believe are needed to address each recommendation can be found in appendix II. For example, OMB and FSIO have developed guidance to assist agencies’ efforts in selecting shared service providers and preparing for migration,

¹⁹According to OMB guidance, agencies are to determine, for each of their high-risk projects, whether the project was meeting the following performance evaluation criteria: (1) establishing baselines with clear cost, schedule, and performance goals; (2) maintaining the project’s cost and schedule variances within 10 percent; (3) assigning a qualified project manager; and (4) avoiding duplication by leveraging interagency and governmentwide investments.

²⁰[GAO-06-184](#).

and have taken steps to encourage agencies to embrace standard business processes that will help provide consistency as they are adopted across federal agencies.

Table 1: Progress toward Addressing GAO’s Recommendations

Key concepts	Number of GAO recommendations	Status of recommendations	
		Completed	Not completed
Concept of operations	4	0	4
Standard business processes	5	2	3
Migration strategy	5	2	3
Disciplined processes	4	1	3
Total	18	5	13

Sources: GAO analysis, OMB and FSIO data.

While guidance and communication-related efforts are important, OMB and FSIO efforts have not yet fully integrated any of the four key building blocks into the FMLOB implementation approach. Further, the recommendations not yet completed, in particular, involve critical elements integral to success and will require much more extensive work before the promised benefits of the FMLOB initiative can be fully realized. OMB has not completed development of a concept of operations representing the first and foremost building block on which all system planning processes as well as the remaining building blocks are built. This critical tool is essential for providing an overall road map for FMLOB efforts by describing the interrelationships among financial management systems and how information is to flow from and through them, within and across agencies, and ensuring the validity of each agency’s implementation approach. Even if FMLOB-related activities proceed as planned, efforts to address our recommendations related to this and other key concepts involve a variety of challenges which, in some cases, could take years to fully resolve. For example, according to FSIO officials, it may take as many as 15 years or more before software that incorporates the standard business processes currently under development is in use governmentwide. In addition, development of a migration timeline reflecting agencies’ commitment to migrating to shared service providers has not yet been completed. OMB officials stated that a draft migration timeline as well as a draft concept of operations have been developed and are under internal review. Until OMB finalizes these critical tools, the

extent to which its efforts to date address our recommendations remains unclear.

As previously reported,²¹ we believe OMB has correctly recognized that enhancing federal financial management systems needs to be addressed as a governmentwide solution, rather than individual agency stovepiped efforts designed to meet a given entity's needs. However, given the implications of this initiative and the extended time frames involved, we emphasize the need to expedite efforts to address our remaining recommendations. Such efforts are essential to help facilitate FMLOB implementation and achieve a more effective and timely realization of benefits. Achieving the goals of the FMLOB initiative and reducing the risks associated with continuing individual agency stovepiped efforts will depend, in part, on continued strong executive leadership and commitment and the effectiveness of efforts to address our recommendations and other challenges facing this initiative.

Efforts Remain to Finalize a Concept of Operations

Given the far-reaching impact of the FMLOB initiative on governmentwide financial management systems, an effective governmentwide concept of operations that identifies the nature of and interrelationships among federal financial management systems is an essential tool to ensure that both system implementation and other FMLOB-related efforts achieve intended results. Although this initiative began in 2004, and we reported that efforts were under way to develop a concept of operations in our 2006 report,²² as shown in table 2, none of our four prior recommendations related to this area have been completely addressed. Further, developing a concept of operations was not included as a priority in OMB's January 2008 memorandum to agency CFOs²³ that summarized FMLOB priorities through December 2009. OMB officials stated that a draft concept of operations is in internal review; however, they did not provide us an estimated date for its completion. OMB officials stated that finalizing a concept of operations has been a challenge due to limited resources

²¹GAO-06-184.

²²GAO-06-184.

²³OMB, Memorandum, *Update on the Financial Management Line of Business* (Washington, D.C.: Jan. 28, 2008). With regard to FMLOB priorities, the memorandum stated that the FMLOB initiative will continue with transparency and standardization projects related to incorporating FMLOB business standards and enhancing tools to assist agencies in evaluating and migrating to shared service solutions.

available to devote to this effort, as well as the need to ensure that the various elements of a concept of operations are appropriately linked to relevant guidance, policy documents, and requirements such as the core financial system requirements. We agree with OMB's recognition of this need and believe it helps to illustrate the importance of finalizing this critical tool. Given the importance of articulating how the shared service provider concept fits into the overall federal financial management system framework and how systems operated at the agency and governmentwide level should be integrated, we believe efforts should be taken to expedite the completion of a clear concept of operations.

Table 2: GAO Recommendations—Concept of Operations

Recommendation	Status	
	Completed	Not completed
Develop a concept of operations.		✓
Identify the interrelationships among federal financial systems and how the application service provider concept fits into this framework.		✓
Prescribe which financial management systems should be operated at an agency level and which should be operated at a governmentwide level and how those would integrate.		✓
Define financial management systems in the Federal Enterprise Architecture (FEA) to be more consistent with the similar definitions used in FFMA and OMB Circulars No. A-11 and No. A-127.		✓
Total	0	4

Sources: GAO analysis, OMB and FSIO data.

OMB and FSIO officials, as well as knowledgeable officials from other selected organizations, and our recent work related to financial management system implementations, confirm the need for an effective governmentwide concept of operations to guide FMLOB efforts. For example, identifying the interrelationships among financial management systems within and across agencies would help to identify and avoid additional stovepiped efforts designed to meet their unique needs when common solutions to address their common needs are more effective. A clear understanding of the flow of information from and through these systems is also needed to ensure that the FMLOB initiative goal of providing accurate and timely data for decision making is achieved.

The federal government is one of the largest and most complex organizations in the world and its agencies use a variety of financial management systems and other systems that interrelate with them to meet their needs. As a result, defining the nature and scope of the systems involved in transformation initiatives, such as FMLOB, is an important aspect for ensuring that efforts are properly aligned and focused toward meeting clearly articulated goals. Officials at the Department of Defense's (DOD) Business Transformation Agency considered this a critical element of the lessons they learned in achieving progress toward developing a framework for DOD efforts to transform a multitude of business systems²⁴ to better meet its financial management needs. We concur with this assessment and, as we testified in February 2008,²⁵ we believe DOD is making progress toward establishing a framework to guide its business transformation efforts.

While we are in broad agreement with the goals of OMB's FMLOB initiative, it appears that OMB is not looking broadly enough as it frames its efforts. According to OMB and FSIO officials, FMLOB-related efforts are initially focused on addressing agency core financial systems needs and therefore may not currently fully address the existing interrelationships between core financial systems and the financial portion of mixed systems.²⁶ Recent revisions to OMB's Circular No. A-127 issued in January 2009 confirm our concerns that the importance of these interrelationships is not adequately incorporated into OMB's approach. Specifically, OMB's revised guidance states that federal financial management system requirements for determining substantial compliance with FFMA include computer security requirements and internal controls as well as FSIO core financial system requirements but explicitly do not

²⁴Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1854 (Oct. 28, 2004 (*codified at* 10 U.S.C. § 2222(j)(2))), defines a defense business system as an information system, other than a national security system, operated by, for, or on behalf of the department that is used to support business activities, such as acquisition, financial management, logistics, strategic planning and budgeting, installations and environment, and human resources management. The act states that such systems are to include financial systems, mixed systems, financial data feeder systems, and IT and information assurance infrastructure.

²⁵GAO, *Defense Business Transformation: Sustaining Progress Requires Continuity of Leadership and an Integrated Approach*, [GAO-08-462T](#) (Washington, D.C.: Feb. 7, 2008).

²⁶The term mixed system means an information system that supports both financial and nonfinancial functions of the federal government or components thereof.

include the existing financial management systems requirements related to mixed systems.²⁷

Due to the magnitude of efforts and challenges associated with modernizing financial management systems across government, knowledgeable officials at other selected organizations we spoke with stated that focusing on addressing agency core financial system needs first may be appropriate. Nonetheless, an essential part of developing an effective, comprehensive concept of operations includes identifying the interrelationships between core financial systems and other systems, such as payroll or inventory systems, which perform financial functions. In addition, agencies are increasingly considering the use of large, complex, and costly enterprise resource planning (ERP) programs to provide an integrated solution for addressing both financial and mission-related business needs. DOD, in particular, has been making significant investments in a number of ERPs to take advantage of the enterprisewide features that address various financial management and other business needs. We have reported²⁸ that, as envisioned, DOD's Navy ERP program is expected to cost approximately \$2.4 billion over its 20-year life cycle and to be fully operational in fiscal year 2013. As we previously reported, a concept of operations should have a clear definition and scope of the financial management activities to be included and identify the interrelationships of core financial and other systems such as ERPs.

The ability to properly align governmentwide and agency efforts also depends, in part, upon the availability of effective concepts of operations at the governmentwide level as well as the agency level. We have

²⁷OMB Circular No. A-127 (revised), *Financial Management Systems* (Washington, D.C.: Jan. 9, 2009).

²⁸GAO, *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, [GAO-08-896](#) (Washington, D.C.: Sept. 8, 2008). According to DOD, Navy ERP is to address the Navy's long-standing problems related to financial transparency and asset visibility. Specifically, the program is intended to standardize the Navy's acquisition, financial, program management, maintenance, plant and wholesale supply, and workforce management business processes across its dispersed organizational components. When the program is fully implemented, it is to support over 86,000 users.

reported²⁹ the lack of adequate concepts of operations associated with agency financial management system projects, including selected projects at the Army, the Department of Homeland Security (DHS), and the Department of the Treasury. For example, in connection with the Army's efforts to achieve total asset visibility, we reported³⁰ that, without a concept of operations, the Army is hindered in its ability to apply an enterprise view in (1) making decisions as to how certain systems will individually and collectively enhance the Army's asset accountability and (2) determining what changes are needed in its related business processes. As a result, we also reported that the Army failed to take advantage of business process reengineering opportunities, perpetuating the use of some of its cumbersome and ineffective business processes used in existing legacy systems.

Finally, participants at a Comptroller General's forum³¹ held in December 2007 on improving federal financial management systems confirmed our concerns regarding the need for a concept of operations, pointing out that OMB's various lines of business initiatives³² are serving to preserve existing stovepipes. For example, participants said it is unclear why separate lines of business are needed for budget and financial management. OMB officials stated that FSIO has been working with OMB

²⁹GAO, *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, [GAO-07-860](#) (Washington, D.C.: July 27, 2007); *Homeland Security: Departmentwide Integrated Financial Management Systems Remain a Challenge*, [GAO-07-536](#) (Washington, D.C.: June 21, 2007); and *Financial Management Systems: Lack of Disciplined Processes Puts Effective Implementation of Treasury's Governmentwide Financial Report System at Risk*, [GAO-06-413](#) (Washington, D.C.: Apr. 21, 2006).

³⁰[GAO-07-860](#).

³¹GAO, *Highlights of a Forum Convened by the Comptroller General of the United States: Improving the Federal Government's Financial Management Systems*, [GAO-08-447SP](#) (Washington, D.C.: Apr. 16, 2008).

³²In March 2004, OMB initiated a governmentwide analysis of five lines of business—financial management, human resources management, grants management, federal health architecture, and case management—and in March 2005 started a task force to address a sixth line of business on IT security. Three additional lines of business were initiated in March 2006 on budget formulation and execution, geospatial, and IT infrastructure optimization.

staff knowledgeable of the federal enterprise architecture (FEA)³³ to better understand and document the relationships between mixed and core financial systems as well as communicate with the various lines of business initiatives and help ensure they are effectively coordinated.

OMB's Current Priorities Focus on Standardization and Transparency

Adopting standardized processes is a fundamental step needed for all financial management system implementations. Recognizing the importance of this step in connection with implementing the FMLOB initiative, we made five recommendations,³⁴ as shown in table 3, related to identifying, defining, and implementing standard business processes to help facilitate greater efficiency and consistency, lower the cost, and improve the quality and performance of financial management operations across government. OMB and FSIO efforts have effectively addressed two of our five recommendations by encouraging agencies to embrace, and requiring shared service providers to adopt, standard business processes in support of the FMLOB initiative. For example, in a July 2008 memorandum,³⁵ OMB encouraged the federal financial management community to begin preparations for adopting standard business processes by taking several actions, including using such processes as a framework for system implementation projects.

Much work remains before the standard business processes needed to realize the goal of optimizing financial management practices across government become operational. According to FSIO officials, the process of developing the first set of standard business processes and incorporating them into software products certified as meeting FSIO core financial system requirements may take up to 3 years to complete under existing plans. We also recognize that incorporating standard business processes into operational systems will be a much longer-term effort since

³³The FEA commenced in 2002 and is a business-based framework for governmentwide improvement intended to identify opportunities to simplify processes and unify work across the agencies and within the lines of business of the federal government that maximizes technology investments to better achieve mission outcomes. The FEA includes the Business Reference Model, which provides a framework for facilitating a functional view of the government's lines of business such as the support functions necessary to conduct government operations and the resource management functions that support all areas of the government's business, including financial management.

³⁴[GAO-06-184](#).

³⁵OMB, Memorandum, *Federal Financial Management Standard Business Document* (Washington, D.C.: July 18, 2008).

OMB is not requiring agencies to consider migrating to a shared service provider until upgrading to the next major release of their core financial systems, and adoption of these standards is not required until migration occurs. Accordingly, FSIO officials stated it may take up to 15 years to incorporate the standards currently under development into software, subsequently test and certify the software, and implement the certified software governmentwide. According to OMB officials, this approach reflects OMB’s recognition of the long-term nature of agency modernization efforts and the need to provide agencies time to adequately assess FMLOB migration risks.

Table 3: GAO Recommendations—Standard Business Processes

Recommendation	Status	
	Completed	Not completed
Define standard business processes.		✓
Describe the standard business processes that are needed to meet federal agencies’ needs.		✓
Develop a process to identify those business processes that are needed to meet unique agency needs.		✓
Require application service providers to adopt standard business processes to provide consistency.	✓	
Encourage agencies to embrace new processes.	✓	
Total	2	3

Sources: GAO analysis, OMB and FSIO data.

Due to the wide array of current business processes in use across agencies to address common and agency-specific needs, OMB and FSIO officials acknowledge that developing standard business processes that can be used across all federal agencies is a significant challenge. Thus far, their efforts to increase standardization have resulted in the development and issuance of three standard business processes, and OMB expects two

more to be finalized by September 2009.³⁶ In a January 2008 memorandum to agency CFOs,³⁷ OMB acknowledged that efforts during the transparency and standardization stage of the FMLOB initiative have taken longer than expected. However, OMB added that the additional time has allowed for the preparation of more comprehensive material and greater buy-in and support for the initiative. Nonetheless, expediting efforts to address our prior recommendations related to standard business processes is essential since the ability to operationalize these standards, and begin realizing their benefits, depends on their completion.

The extended time frame for implementing the FMLOB initiative involves other challenges, such as responding to changes in stakeholder needs or new financial reporting requirements. For example, FSIO officials stated that financial management systems currently used to compile and report financial information on a governmentwide level will face unique transition-related challenges as agencies begin to use systems that incorporate the recently developed common governmentwide accounting classification structure and FMLOB-compliant standard business processes. Specifically, modernization efforts under way at Treasury will need to ensure that certain centralized systems will receive, process, report, and transmit financial data to and from these agencies' systems. In addition, these centralized Treasury systems will need to continue to interface with and convert information received from agency legacy systems to ensure the overall consistency of consolidated information used for government financial reporting and other purposes. To ensure that these issues are properly identified and managed during the transition period, FSIO officials stated that they are working with Treasury data architects to facilitate the data standardization effort and develop a joint plan that includes Treasury system update milestones. However, these challenges and the risks associated with agency legacy systems that produce financial management information using inconsistent business

³⁶FSIO, *Financial Management Systems Standard Business Processes for U.S. Government Agencies* (Washington, D.C.: July 18, 2008). This document presents governmentwide common processes and activities, standard business rules, and data exchanges for core financial business processes. It contains detailed descriptions of the funds, payment, and receivables management processes. OMB, in conjunction with FSIO, released exposure drafts for review and comment for the Reports Management and Reimbursables Management standard business processes in February and March 2009, respectively.

³⁷OMB, Memorandum, *Update on the Financial Management Line of Business* (Washington, D.C.: Jan. 28, 2008).

processes will continue until the standardization envisioned by the FMLOB initiative is actually implemented across the federal government.

Migration Strategy Developed, but Timetable for Migration Is Unclear

Recognizing the historical tendency for agencies to view their needs as unique and resist standardization, we made five recommendations,³⁸ as shown in table 4, related to developing a strategy for ensuring that agencies are migrated to a limited number of shared service providers. OMB has effectively addressed two of these recommendations, including developing guidance to assist agencies in their migration efforts. In addition, OMB has taken steps toward addressing the remaining three recommendations in this area related to developing a migration strategy, articulating a clear goal and criteria for ensuring that agencies are migrated, and developing a timeline, or migration path, for when agencies should migrate to a shared service provider. However, efforts to develop such a timeline are taking longer than expected and this important tool has not yet been finalized. Until a reliable, detailed timetable for migrations across the federal government is developed, the ability to assess when governmentwide migrations will be completed remains limited.

³⁸ [GAO-06-184](#).

Table 4: GAO Recommendations—FMLOB Migration Strategy

Recommendation	Status	
	Completed	Not completed
Develop a strategy for ensuring that agencies are migrated to a limited number of application service providers in accordance with OMB’s stated approach.		✓ ^a
Articulate a clear goal and criteria for ensuring agencies are subject to the application service provider concept and cannot continue developing and implementing their own stovepiped systems.		✓ ^a
Establish a migration path or timetable for when agencies should migrate to an application service provider.		✓
Provide the necessary information for an agency to select an application service provider.	✓	
Develop guidance to assist agencies in adopting a change management strategy for moving to application service providers.	✓	
Total	2	3

Sources: GAO analysis, OMB and FSIO data.

^aAlthough OMB has developed a migration strategy and articulated its goal that agencies are subject to the application service provider concept, we are deferring our final assessment of these recommendations until we complete a more in-depth analysis as part of our planned follow-on work.

As previously noted, we plan to address key issues related to OMB’s migration strategy in the second phase of our work and therefore are deferring an assessment of OMB’s efforts in this area. Specifically, we plan to review the implementation of OMB’s strategy at shared service providers and agencies involved in migration activities during the next phase of our work. OMB’s *Competition Framework for FMLOB Migrations* (Competition Framework) and *Migration Planning Guidance*, provided important guidance to agencies to support and facilitate shared service provider migration activities. This guidance includes principles agencies must use when acquiring new financial management systems and best practices for managing organizational changes and developing effective change management strategies to ensure that migrations achieve intended results. Agencies are required to comply with OMB’s stated migration strategy and OMB relies, in part, on information agencies provide with their budget submissions to ensure they are planning their migration activities accordingly. In addition, OMB officials stated that they hold meetings with agencies to discuss this and other information regarding FMLOB-related activities such as the life cycle

of existing agency financial management systems, IT investment plans, and ongoing migration activities.

While we plan to perform an in-depth analysis of OMB's strategy as part of our follow-on work, we found that additional efforts are needed to develop a timeline for agency migrations, as well as efforts to continue refining and developing additional tools to facilitate the effectiveness of agency efforts. A migration timeline reflecting agencies' IT investment plans that are aligned with existing financial management system life cycles and their commitment toward migrating their financial management systems to shared service providers would help to ensure that agencies do not continue developing and implementing their own stovepiped systems. Such a timeline would provide greater assurance that the migrations will actually occur as planned and help guide and assess governmentwide progress. OMB officials told us they are working with agencies to develop an overall migration timeline and expected to have it in place by the end of 2008. However, this important tool has not yet been finalized and OMB could not provide an estimated completion date. As a result, the reliability of targets reported by OMB³⁹ for migrating agencies, including its February 2008 estimate⁴⁰ that many migrations are expected through 2015, is unclear. In addition to a migration timeline, FSIO and OMB officials acknowledged that agencies need additional migration guidance and tools in more specific areas that will further improve the efficiency and effectiveness of agency migration activities—such as tools for navigating the acquisition process for shared financial services, providing templates for developing agency service-level agreements, and providing agencies with change management support and training.

Additional Actions Needed in Defining and Implementing Disciplined Processes

To help reduce the risks associated with financial management system implementations, we highlighted the importance of incorporating disciplined processes into implementation efforts and made four recommendations,⁴¹ as shown in table 5, to ensure that they are more effectively used to properly manage and oversee specific projects. OMB has issued guidance, such as the *Competition Framework* and the

³⁹OMB, *Federal Financial Management Report 2007* (Washington, D.C.: Jan. 31, 2007).

⁴⁰OMB, *Budget of the United States Government Fiscal Year 2009, Analytical Perspectives, Supplemental Materials, Table 9-9* (Washington, D.C.: Feb. 4, 2008).

⁴¹[GAO-06-184](#).

Migration Planning Guidance, which effectively addresses our recommendation to provide a standard set of practices to guide migrations from legacy systems to new systems and shared service providers. Additional efforts are needed to fully address the remaining three recommendations in this area.

Table 5: GAO Recommendations—Disciplined Processes

Recommendation	Status	
	Completed	Not completed
Define and ensure agencies effectively implement disciplined processes necessary to properly manage the specific projects.		✓
Provide specific guidance to agencies on disciplined processes for financial system implementations.		✓
Provide a standard set of practices to guide the migrations from legacy systems to new systems and application service providers.	✓	
Develop processes to facilitate oversight and review that allow for a more structured review and follow-up of agencies' financial system implementation projects.		✓
Total	1	3

Sources: GAO analysis, OMB and FSIO data.

OMB officials expressed the belief that existing guidance provides sufficient descriptions and requirements to agencies involved in federal IT capital investment projects and system implementations regarding the use of disciplined processes. Further, they stated that additional guidance is not needed since agencies will be migrating to an established shared service provider with a proven track record and would therefore incorporate the disciplined processes used by the provider, which would reduce or eliminate the traditional project management tasks associated with system implementations. Although the use of such providers may help reduce risks related to core financial system migrations, this position does not address the need for more effective guidance to clearly communicate the extent to which agencies are required to ensure that disciplined processes are incorporated into all financial management system implementations. Our review of OMB guidance indicates that its existing guidance does not adequately define specific disciplined processes nor adequately specify agency requirements concerning their use in connection with financial management system implementations. For example, our analysis of OMB guidance related to requirements

management, risk management, data conversion, and testing activities that agencies should follow during system implementations shows that the guidance describes the purpose and high-level descriptions of these activities, but does not adequately describe and provide sufficient guidance regarding the methods agencies could use to incorporate certain critical disciplined processes into their implementation efforts.

For example, sound requirements management processes, in part, should ensure that requirements⁴² are stated in clear terms that allow for quantitative evaluation and traceability among various requirements documents. With regard to traceability, OMB guidance⁴³ states that “a complete set of requirements that maintain traceability throughout the Design, Development and Testing phases will contribute to the system’s success.” However, this and other OMB guidance does not provide detailed guidance on how agencies are to ensure traceability is to be attained (e.g., through the use of a requirements traceability matrix) nor does it include specific guidance requiring test plans to include links to the specific requirements they address.

For data conversions, OMB guidance does not address the need to consider specific issues that apply uniquely to converting data as part of the replacement of a financial system, such as identifying specific open transactions and balances to be established through automated or manual processes, as well as using different conversion options⁴⁴ for different categories of data. Data conversion issues can also result in problems beyond financial reporting such as those we previously reported in June 2005⁴⁵ in connection with the Army’s implementation of its Logistics Modernization Program (LMP) involving excess items being ordered and shipped to one of its depots. Specifically, we noted that three truckloads

⁴²Requirements are the specifications that system developers and program managers use to design, develop, or acquire a system.

⁴³OMB, *Migration Planning Guidance (version 1), Section 4.1 Project Schedule Overview* (Washington, D.C.: September 2006).

⁴⁴Options such as not converting data, processing new transactions and activity only, establishing transaction balances in the new system for reporting purposes, converting open transactions from the legacy system, and recording new activity on closed prior-year transactions should be considered when determining the scope and timelines associated with financial system data conversion.

⁴⁵GAO, *Army Depot Maintenance: Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts*, [GAO-05-441](#) (Washington, D.C.: June 30, 2005).

of locking washers (for bolts) were mistakenly ordered and received, and subsequently returned, because of data conversion problems.

Further, the guidance does not specifically address or require agencies to incorporate characteristics typically found in successful disciplined testing efforts, such as processes that ensure test results are thoroughly inspected and test cases that include exposing the system to invalid and unexpected conditions. Without specific guidance on the use of these and other disciplined processes during financial management system implementations, agency projects may not achieve their intended results within established resources (costs) and on schedule.

In addition to guidance, officials at OMB, FSIO, and other organizations cited challenges associated with the lack of appropriate resources to ensure disciplined processes are implemented in connection with financial management system projects. For example, officials at FSIO and DOD's Business Transformation Agency told us that agencies do not always maintain or involve internal staff with appropriate system implementation and business process expertise needed to ensure successful implementations. Further, according to OMB officials, OMB's ability to perform detailed implementation oversight reviews on all financial management system projects continues to be hampered due to the limited staff available to perform them. Although we recognize this challenge, we continue to believe that proper oversight should entail verification that disciplined processes are, in fact, incorporated into these projects in order to maximize their likelihood of success.

As we previously reported,⁴⁶ requiring agencies to have their financial management system projects undergo independent verification and validation reviews could provide an alternative means for ensuring agencies are incorporating disciplined processes into these projects. According to OMB officials, they do not need to require agencies to use independent verification and validation as a tool because most large agencies are already using independent verification and validation contractors to monitor large system implementations. In addition, OMB officials said they do not believe it would be appropriate to require all system implementations to use independent verification and validation contractors since they may not be cost-justified on smaller, less complex projects. OMB officials stated that they rely, in part, on activities OMB

⁴⁶ [GAO-06-184](#).

performs in connection with assessing projects for inclusion on its Management Watch List and High Risk List to identify projects having implementation risks needing further attention.

As described in more detail in the next section of this report, while Management Watch List and High Risk List related activities are designed to identify planning and performance deficiencies and provide useful information to assist OMB in monitoring IT modernization projects, they do not provide for an adequate assessment of the extent to which agencies are incorporating disciplined processes to better manage financial management system modernization projects. Further, we continue to believe that verifying that projects adequately incorporate disciplined processes, whether performed by an independent verification and validation contractor or otherwise, is an essential aspect of effectively overseeing financial management system implementation projects to ensure the risks associated with these projects are managed to acceptable levels.

Other Challenges and Risks Highlight Importance of Continued Strong Commitment

FMLOB implementation efforts are affected by other broad and crosscutting issues related to the overall federal financial management environment such as ensuring the availability of sufficient resources and federal financial management human capital strategies, and addressing the myriad of weaknesses in existing systems across federal agencies. Given the potential far-reaching impact of the FMLOB initiative on governmentwide financial management systems, continued strong commitment and leadership is essential to ensure that progress continues and the FMLOB goals are achieved.

As we recently reported,⁴⁷ the federal government is taking unprecedented actions to restore stability to the financial markets that will likely have a significant effect on the federal government's financial condition. As our nation works through these and other fiscal challenges, difficult choices and trade-offs involving the use of significant resources will be unavoidable. The knowledgeable officials at OMB, FSIO, and other organizations we spoke with generally agree that securing the resources needed to achieve FMLOB initiative goals will be an ongoing challenge.

⁴⁷See our audit report on our audit of the federal government's 2008 and 2007 consolidated financial statements that was incorporated in the *2008 Financial Report of the United States Government* published by the Department of the Treasury (Dec. 15, 2008).

Similarly, the officials we spoke with generally agreed that agencies face challenges associated with skills, knowledge, and experience imbalances in their workforce which, without corrective action, are expected to worsen in light of anticipated retirements of federal civilian workers in coming years. In this respect, our work at Treasury, DOD, DHS, and other agencies has confirmed that problems associated with strategic workforce planning, human resources, and change management have hampered financial management operations and system implementations and help to illustrate that the federal financial management workforce supporting the business needs of today is not well positioned to meet the needs of tomorrow. Participants at a Comptroller General's forum⁴⁸ suggested that federal financial management human capital strategies could be better focused on attracting and retaining a new technology-savvy generation of financial professionals. However, FSIO officials noted that they believe the FMLOB-related efforts to standardize business processes, operate financial management systems through shared service solutions, and provide training materials and change management support will help mitigate the growing shortage of federal financial management human capital. As we previously reported,⁴⁹ effective human capital management is critical to the success of systems implementations and the extent to which these and other efforts will lead to having staff with the appropriate skills is key to achieving financial management improvements.

In addition, in connection with our efforts to report annually on the implementation status of FFMIA, we continue to report⁵⁰ that assessments for the 24 CFO Act agencies illustrate that agencies still do not have effective financial management systems, including processes, procedures, and controls in place that can routinely produce reliable, useful, and timely financial information that federal managers can use for day-to-day decision-making. Further, problems at some agencies, such as DOD and DHS, are so severe and deep-rooted that we have designated their transformation efforts as high risk due to financial management and business practices that adversely affect their ability to control costs, ensure basic accountability, measure performance, and meet other financial management needs. Against the backdrop of our nation's long-

⁴⁸[GAO-08-447SP](#).

⁴⁹[GAO-06-184](#).

⁵⁰GAO, *Financial Management: Persistent Financial Management Systems Issues Remain for Many CFO Act Agencies*, [GAO-08-1018](#) (Washington, D.C.: Sept. 30, 2008).

term fiscal imbalance, addressing these issues represents key challenges to fully realizing the world-class financial management anticipated by Congress through the enactment of federal financial management reform legislation as well as FMLOB initiative goals.

Given the broad spectrum of challenges associated with modernizing federal financial management systems, strong leadership and commitment of OMB, FSIO, and other key FMLOB stakeholders are especially important to ensure that needed improvements are achieved. Knowledgeable officials from the other selected organizations we interviewed generally agreed that the success of the FMLOB initiative will depend, in part, on OMB's ability to lead the multifaceted efforts of many stakeholders toward achieving effective, common, financial management system solutions over a long period of time. We concur with this position and believe additional attention and efforts toward addressing our prior recommendations, as well as continuing careful consideration of the significant challenges, will serve to facilitate the implementation of this important initiative.

Previously Identified Weaknesses Continue to Hamper OMB Oversight of Financial Management System Modernization Projects

Since 2005, we have made various recommendations⁵¹ to OMB aimed at improving its oversight of agency financial management system modernization and other IT projects. OMB has yet to take sufficient actions to fully address these recommendations, despite the critical role of OMB oversight, established in various statutes,⁵² in helping to ensure the success of agency modernization efforts. In addition, OMB has yet to resolve challenges we previously reported on the need to capture the costs of all financial management system investments in order to better evaluate agency modernization efforts. Achieving FMLOB goals requires effective OMB oversight of agency modernization projects. Until the weaknesses we previously reported are fully addressed, the FMLOB initiative and agency financial management system modernization efforts remain at increased risk of not meeting their intended goals.

⁵¹GAO, *Information Technology: OMB Can Make More Effective Use of Its Investment Reviews*, [GAO-05-276](#) (Washington, D.C.: Apr. 15, 2005); *Information Technology: Agencies and OMB Should Strengthen Processes for Identifying and Overseeing High Risk Projects*, [GAO-06-647](#) (Washington, D.C.: June 15, 2006); and [GAO-06-184](#).

⁵²The CFO Act of 1990, Clinger-Cohen Act of 1996, and E-Government Act of 2002 contain various requirements related to OMB's evaluation and oversight of agency financial management systems modernization and other IT projects.

Actions Still Needed to Address Prior Recommendations Related to Oversight of Financial Management System Modernization and Other IT Projects

Although OMB has taken steps to address some of the oversight-related recommendations we have made since 2005, it has yet to fully address them. For example, OMB has updated the criteria used to identify high-risk projects and issued various guidance such as the Migration Planning Guidance issued in September 2006 that provides useful instruction to agencies on managing system modernization projects as well as the risks associated with migrating to shared service providers. However, OMB has not yet fully addressed our prior recommendations aimed at maximizing the use of the Management Watch List and High Risk List as tools that facilitate its oversight and review of IT projects including financial management system modernization efforts. Further, as indicated in the previous section of this report, OMB has not yet fully addressed our prior recommendations related to disciplined processes⁵³ including defining and providing specific guidance to agencies on disciplined processes, developing processes to facilitate oversight and review of agencies' financial system implementation projects, and ensuring that agencies effectively implement disciplined processes.⁵⁴

OMB oversight efforts include assessing financial management system and other IT investments using specific criteria to evaluate business cases and determine whether they represent high-risk projects. OMB includes agency projects warranting additional oversight and management attention based on these assessments in its quarterly Management Watch List and High Risk List. While OMB has taken steps to more effectively use the Management Watch List and High Risk List as oversight tools, additional actions are needed to fully address our prior recommendations and further improve its oversight of agency IT projects.⁵⁵ For example, although OMB

⁵³ [GAO-06-184](#).

⁵⁴ Disciplined processes represent best practices in systems development and implementation efforts that have been shown to reduce the risks associated with software development and acquisition efforts to acceptable levels and are fundamental to successful system implementations. Examples of disciplined processes include requirements management, testing, risk management, data conversion, and project management.

⁵⁵ GAO, *Information Technology: OMB and Agencies Need to Improve Planning, Management, and Oversight of Projects Totaling Billions of Dollars*, [GAO-08-1051T](#) (Washington, D.C.: July 31, 2008) and *Information Technology: Management and Oversight of Projects Totaling Billions of Dollars Need Attention*, [GAO-09-624T](#) (Washington, D.C.: Apr. 28, 2009). On April 28, 2009, we testified that the future of the Management Watch List and High Risk List is uncertain because OMB officials stated that they have not decided if the agency plans to continue to use these lists. In addition, we testified that OMB needs to decide if it is going to continue to use these lists and, if not, OMB should promptly implement other appropriate mechanisms to help oversee IT investments.

performed governmentwide and agency-specific analyses of Management Watch List projects' deficiencies in 2008, it needs to continue to use this list to prioritize projects needing follow-up and to report to Congress on management areas needing attention. In addition, OMB has yet to publicly disclose the deficiencies, if any, associated with projects included in the High Risk List. Disclosing these deficiencies would allow OMB and others to better analyze the reasons projects are poorly performing, identify management issues and other root causes that transcend individual agencies, and evaluate corrective actions. Further, OMB's criteria for assessing projects and determining which are to be included on these quarterly lists does not adequately address the need to assess whether agencies have, in fact, implemented the necessary disciplined processes to help ensure their success.

As previously discussed, OMB officials stated that their reviews of agency financial management system modernization projects do not generally focus on the extent to which agencies are following disciplined processes and that OMB does not have sufficient resources to conduct such reviews. According to OMB officials, its reviews of financial management systems and related modernization efforts focus primarily on agencies' compliance with the requirements of FFMIA and ensuring that effective remediation plans are developed and implemented to address identified FFMIA deficiencies. Reviewing these projects to monitor whether FFMIA deficiencies are addressed is important; however, such efforts do not provide adequate assurance that agencies are using disciplined processes to manage their projects. Such assurance is critical since our work and that of others has shown that agency modernization failures have often been due, in part, to not adhering to disciplined processes during system implementation efforts. Until the weaknesses we previously reported are fully addressed, the FMLOB initiative and agency financial management system modernization efforts remain at increased risk of not meeting their intended goals.

OMB Oversight Efforts Do Not Adequately Capture and Consider Spending on Financial Management System Modernization Projects

In 2006, we reported⁵⁶ that one of the key challenges OMB faces when evaluating financial management system modernization efforts is capturing all financial management system investments and their related costs. Capturing and reporting useful spending information continues to be a challenge due, in part, to the way in which agencies categorize projects according to existing OMB guidance. As a result, the ability to fully consider the risks associated with financial management system modernization projects and more effectively focus oversight activities is adversely affected.

In April 2008, OMB reported⁵⁷ that agencies planned to spend \$925 million on financial management systems modernizations for fiscal year 2009. However, the methodology OMB used to report this overall governmentwide estimate did not provide a complete and accurate measure of spending on these projects. Specifically, agencies are required to indicate certain FEA categories that each project relates to in connection with their exhibit 53 submissions. While OMB's estimate of agencies' planned spending includes amounts related to five of these categories, it does not take into account certain types of mixed systems that support financial management activities, such as those related to supply chain management.⁵⁸ For example, even though DOD's Navy ERP project is a business system with many integrated financial management functions, OMB's estimate did not include any of the \$112 million planned to be spent on this project in fiscal year 2009 because it was identified as a supply chain management project.

For projects involving mixed systems such as the Navy ERP, OMB guidance requires agencies to provide the percentage of planned spending on projects associated with the financial portion of these systems related

⁵⁶GAO-06-184.

⁵⁷OMB, *Fiscal Year 2009 Information Technology Budget* (Apr. 15, 2008). This estimate includes planned spending related to investments mapped to specific FEA Reference Model categories including financial management (management of resources and back office services), asset/materials management, planning and budgeting, and revenue collection.

⁵⁸OMB's *FEA Reference Model Mapping Quick Guide (FY09 Budget Preparation)*, July 2007, is a guide to help agencies map their investments to FEA reference models in connection with completing the exhibit 53 and exhibit 300. Supply chain management investments include financial management system-related projects that, according to this guide, consist of investments related to goods and services acquisition, inventory control, and logistics management.

to their budget request for the next fiscal year.⁵⁹ However, such percentages were not incorporated in the methodology for estimating planned agency spending on financial management systems for fiscal year 2009. In addition, OMB guidance does not require agencies to specify the amount that was actually spent on the financial portion of mixed system projects in prior and current years. Further, on the basis of our review of spending data for two selected agencies, the reliability of information reported by agencies is unclear. Specifically, these two agencies interpreted OMB's guidance differently and, as a result, used inconsistent methodologies for determining the percentages they reported. OMB officials informed us that they are reviewing the guidance related to estimating financial management system percentages to determine whether additional data or clarifications are needed. OMB officials also stated that they were uncertain as to whether focusing significant efforts in this area would provide useful information or be an appropriate use of resources that should be focused on potentially more important priorities.

We agree that managing and evaluating mixed system projects in many cases may not involve focusing on the financial portion of mixed systems on a stand-alone basis. However, OMB's current processes for obtaining and reporting agency spending on financial management system modernization efforts does not provide sufficient information to facilitate an adequate evaluation of their financial risks. An effectively designed risk-based approach for focusing limited financial management oversight resources should take into consideration the relative risks associated with all modernization projects that support financial management functions. Further, focusing efforts on helping to ensure the success of large mixed system projects that involve significant financial management-related portions versus other less costly financial management system modernization projects may be a prudent course of action and may help justify the need for additional resources to address the risks they represent.

⁵⁹According to OMB Circular No. A-11, the total investment for financial management systems is equal to the aggregated total of budget execution, budget formulation, and financial systems, and agencies are required to provide the estimated percentages of each investment's total budget authority associated with each of these three areas. Further, this guidance specifies that agencies are to only identify the financial percentage applicable to the financial portion of mixed systems related to their budget request for the next fiscal year.

Spending data highlighting the investments being made on different types of financial management system modernization projects, including core financial systems and mixed systems with significant financial management components, would help efforts to evaluate the relative magnitude of—and risks associated with—agency efforts in these areas. Until OMB efforts to obtain and report spending on financial management system modernization projects and related guidance take into account the need for information to better evaluate the relative risks associated with these investments, the ability to effectively align oversight activities based on these risks will be adversely affected.

Conclusions

OMB's FMLOB initiative represents an important step toward improving the outcome of financial management system modernization efforts so that agencies have systems that generate reliable, useful, and timely information for decision-making purposes. Although OMB continues to make progress in addressing our prior recommendations to help ensure the success of this initiative, much work remains. Specifically, 13 of the 18 recommendations we made on integrating four key building blocks into FMLOB implementation efforts have yet to be fully addressed. Without an effective concept of operations providing the foundation to guide FMLOB-related activities, efforts to modernize federal financial management systems are at an increased risk of not fully achieving their goals. Further, addressing many of our recommendations will require extensive work to complete remaining development activities and, more importantly, actually place them into operation to achieve the federal financial management framework envisioned. In addition, despite its critical role in overseeing agency financial management systems modernization efforts, OMB has not yet fully addressed our oversight-related recommendations, including assessing whether agencies have incorporated disciplined processes into their modernization efforts, fully using its Management Watch List and High Risk List to more effectively oversee projects, and reporting to Congress. Across the federal government, agencies have financial management system modernization efforts under way and the success of these efforts will depend on OMB's and agencies' efforts to ensure that disciplined processes are effectively used to help reduce the risk of system implementation failures. Therefore, we reaffirm the need for OMB to expedite its efforts to fully address the recommendations we have made in prior reports, including those dealing with specific oversight procedures to minimize their associated risk. OMB efforts to obtain and report information on how much agencies spend on modernizing federal financial management systems do not enable it or Congress to adequately understand and evaluate the risks associated with such projects.

Consistent and diligent OMB commitment toward oversight, including efforts to incorporate appropriate spending data, will be critical to the overall success of efforts to modernize federal financial management systems.

Recommendation for Executive Action

To assist oversight efforts specifically related to federal financial management systems, we recommend that the Director of OMB take actions to facilitate complete and accurate reporting of actual and planned spending related to financial management system modernization projects, including the financial portion of mixed systems that significantly support financial management functions, and make necessary changes in existing guidance to meet these needs.

Agency Comments and Our Evaluation

We received written comments from the Deputy Controller of OMB on a draft of this report (these comments are reprinted in their entirety in app. III). In its comments, OMB generally agreed with our recommendation to facilitate complete and accurate reporting of actual and planned spending related to financial management system modernization projects and described actions being taken to address this recommendation. OMB also provided technical comments on a draft of this report that we incorporated as appropriate.

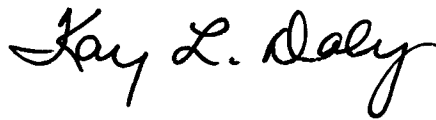
In its comments, OMB expressed concern with part of our recommendation directed at better capturing cost information specifically related to the financial portion of mixed systems and stated that it is evaluating the need for such information. According to OMB, its preliminary analysis shows that breakouts of this cost data would have limited value for decision making because such a distinction is highly subjective and would not likely change agencies' investment decisions. OMB did not provide the preliminary analysis for our review. OMB believes it would be more cost-effective to focus its resources on other, higher risk areas, such as finalizing the concept of operations. However, as discussed in our report, the resources devoted to the financial portion of mixed systems are significant and, although determining the amount of such resources may be subjective, we believe more effective OMB guidance and oversight could further improve the accuracy, consistency, and usefulness of such information. The implementation of mixed system projects is critical because these systems provide input to the core financial system and in some cases are the sole source of data needed by management to make informed decisions. OMB needs such cost information to effectively evaluate the risks associated with financial

management system modernization projects, including mixed systems, thus ensuring that its oversight efforts are properly aligned to focus on those projects needing increased attention.

We are sending copies of this report to the Ranking Member, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Senate Committee on Homeland Security and Governmental Affairs, and the Chairman and Ranking Member, Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform. We are also sending copies to the Director of OMB and Director of FSIO. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Kay Daly, Director, Financial Management and Assurance, who may be reached at (202) 512-9095 or dalykl@gao.gov, or Naba Barkakati, Chief Technologist, Applied Research and Methods, who may be reached at (202) 512-2700 or barkakatin@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Sincerely yours,



Kay L. Daly
Director, Financial Management and Assurance



Naba Barkakati
Chief Technologist
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Appendix I: Scope and Methodology

To determine the Office of Management and Budget's (OMB) progress toward addressing our prior recommendations related to the financial management line of business (FMLOB) initiative, we reviewed relevant OMB and Financial Systems Integration Office (FSIO) policies, guidance, reports, and memorandums related to actions taken and actions remaining and interviewed key OMB and FSIO officials, including senior officials in OMB's Office of Federal Financial Management (OFFM) and Office of Electronic Government and Information Technology (E-Gov and IT). We also reviewed laws and regulations related to the FMLOB initiative and relevant prior GAO reports to identify and assess the risks and challenges associated with implementing the FMLOB initiative. (See the Related GAO Products list at the end of this report.) In addition, to obtain views on challenges related to implementing the FMLOB initiative, we interviewed OMB and FSIO officials as well as other officials from organizations involved in large business transformation initiatives and knowledgeable of federal financial management system improvement efforts and reviewed relevant reports from these organizations including the Financial Standards and Processes Division within the Department of Defense Business Transformation Agency, the Association of Government Accountants, and the National Academy of Public Administration.

To determine how effective OMB monitors FMLOB and financial management system modernization projects, including those reported on its Management Watch List and High Risk List, we reviewed our prior reports specifically related to OMB efforts to improve the identification and oversight of projects on these lists and interviewed senior OMB OFFM and Office of E-Gov and IT officials on the nature and extent of efforts to monitor financial management system and other IT projects. To assess OMB's efforts to monitor agency spending on FMLOB and financial management system modernization projects, we reviewed and analyzed reports and data provided by OMB and selected agencies related to agency spending on IT projects. In assessing the reliability of spending amounts reported by agencies, we (1) reviewed relevant OMB policies, guidance, reports, and memorandums, (2) reviewed spending data submitted by agencies to OMB on their Agency IT Investment Portfolio (exhibit 53) as required by OMB Circular No. A-11, Section 53, and (3) interviewed senior OMB OFFM officials to gain an understanding of their efforts to collect, analyze, and report agency spending on financial management system projects. In addition, we identified six agencies that reported the largest amounts of fiscal year 2007 spending for financial management-related modernization projects and interviewed officials from two of these agencies knowledgeable of efforts related to preparing and submitting agency exhibit 53s to OMB and whose reported fiscal year 2007 spending

for financial management-related modernization projects represented 22 percent of total federal agency spending on such IT projects.¹ We believe that the results of our analysis of data provided by the two agencies selected, combined with our analysis of guidance and data obtained from OMB, provide a sufficient basis for our conclusion that spending data submitted by agencies on the exhibit 53 are not reliable for purposes of accurately measuring agency spending on financial management system modernization projects.

We conducted this performance audit from February 2008 through May 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We requested comments on a draft of this report from the Director, Office of Management and Budget, or his designee. Written comments from OMB are discussed in the Agency Comments and Our Evaluation section and reprinted in appendix III. We also received technical comments from OMB, which we incorporated as appropriate.

¹The percentage of total federal agency spending on IT projects attributable to financial management-related modernization projects is based on agency-provided spending data contained in OMB's *Report on IT Spending for the Federal Government For Fiscal Years 2007, 2008, and 2009* (Washington, D.C.: April 2009). Financial management-related modernization projects consist of those that agencies considered to predominately support financial functions and represent new investments, changes, or modifications to existing systems to improve capability or performance, changes mandated by Congress or agency leadership, personnel costs for investment management, and direct support.

Appendix II: Status of Prior GAO Recommendations

This appendix provides a summary of the progress made by OMB, in conjunction with FSIO, in addressing prior GAO recommendations¹ related to the FMLOB initiative. In addition, this appendix provides our overall assessment and status of whether this progress fully addressed each recommendation and a summary of the remaining actions we believe are necessary to fully address those that have not yet been completed.

GAO recommendation	Status	Progress and remaining actions
Concept of operations		
1. Develop a concept of operations.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> According to OMB officials, a draft FMLOB concept of operations (ConOps) has been developed; however, it has not yet been finalized and officials would not provide an estimate for when it will be completed. According to OMB officials, the FMLOB ConOps will initially focus primarily on core financial systems at the individual agency level. While this focus is important, the development of a ConOps describing the activities, needs, and interrelationships of core and noncore governmentwide financial management systems would assist in providing a valuable foundation for future financial management modernization efforts. Until this critical tool is finalized, the extent to which OMB efforts to date address this recommendation remains unclear. <p>Remaining actions:</p> <ul style="list-style-type: none"> Finalize and issue a concept of operations document that includes the following components: <ul style="list-style-type: none"> describes the operations that must be performed, who must perform them, and where and how the operations will be carried out; clearly defines and describes the scope of financial management activities; describes how the various elements of federal financial systems and mixed systems interrelate; describes how information flows from and through these systems; and explains how financial management systems at the agency and governmentwide levels are designed to operate cohesively.
2. Identify the interrelationships among federal financial systems and how the application service provider concept fits into this framework.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> Refer to recommendation 1 describing progress related to developing a ConOps that would describe the interrelationships among federal financial management systems and how financial management operations, including those performed by shared service providers, will be carried out. In addition, OMB Circular No. A-127, revised in January 2009, contains guidance on the use, selection, and monitoring of shared service providers. However, this revised guidance does not adequately reflect the critical interrelationships between core and noncore financial systems. Specifically, it states that noncore financial system requirements are not part of the requirements to be used for determining substantial compliance with the Federal Financial Management Improvement Act

¹GAO, *Financial Management Systems: Additional Efforts Needed to Address Key Causes of Modernization Failures*, [GAO-06-184](#) (Washington, D.C.: Mar. 15, 2006).

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GAO recommendation	Status	Progress and remaining actions
		<p>(FFMIA). This represents a significant change from prior guidance that implemented FFMIA Sections 803(a)^a and 806^b provisions requiring that all financial management systems be evaluated to determine compliance with applicable requirements. Excluding noncore financial management systems from the scope of these provisions raises significant questions on how these systems will be evaluated in the future and the level of assurance that noncore systems provide reliable, timely, and useful financial information.</p> <p>Remaining actions:</p> <ul style="list-style-type: none"> Refer to recommendation 1 describing remaining actions related to developing a ConOps which, among other things, describes the interrelationships among federal financial management systems and how financial management operations, including those performed by shared service providers, should be carried out.
<p>3. Prescribe which financial management systems should be operated at an agency level and which should be operated at a governmentwide level and how those would integrate.</p>	<p>Not completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> Refer to recommendation 1 describing progress related to developing a ConOps that would describe the interrelationships among federal financial management systems, including how systems operated at the agency and governmentwide levels should operate cohesively. According to an OMB January 2008 memorandum,^c in connection with financial management modernization efforts, federal agencies will only be permitted to acquire, and shared service providers allowed to implement, software products that are certified as meeting FSIO core financial systems requirements. Migration Planning Guidance issued in September 2006 provides additional guidance on the services and systems offered by shared service providers on behalf of agencies. According to OMB officials, an FMLOB Segment Architecture^d is being developed to align with the Federal Enterprise Architecture (FEA) Reference Model^e and will provide additional clarification on the integration of financial management systems. <p>Remaining actions:</p> <ul style="list-style-type: none"> Refer to recommendation 1 describing remaining actions related to developing a ConOps which, among other things, would describe the interrelationships among federal financial management systems, including how systems operated at the agency and governmentwide levels can operate cohesively. Ensure that efforts to develop and issue an FMLOB Segment Architecture are appropriately aligned with a comprehensive financial management system ConOps.
<p>4. Define financial management systems in the Federal Enterprise Architecture (FEA) to be more consistent with the similar definitions used in FFMIA and OMB Circulars No. A-11 and No. A-127.</p>	<p>Not completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> Refer to recommendation 1 describing progress related to developing a ConOps that would clearly define and describe the scope of financial management activities and describe how the various elements of federal financial systems and mixed systems interrelate. In addition, refer to recommendation 2 describing revised OMB Circular No. A-127 guidance on financial management systems. According to OMB officials, the FMLOB Segment Architecture is being developed to align with the FEA Reference Model and proposed changes to increase FEA alignment with OMB Circular Nos. A-11 and A-127 will be submitted to the Federal CIO Council Architecture and Infrastructure Committee.

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GAO recommendation	Status	Progress and remaining actions
		<p>Remaining actions:</p> <ul style="list-style-type: none"> • Ensure that collective efforts to define financial management systems, including the development and issuance of the FMLOB Segment Architecture and future revisions to OMB Circular Nos. A-11 and A-127, effectively resolve inconsistencies in how they are defined in the FEA and FFMA.
Standard business processes		
5. Define standard business processes.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> • OMB, in conjunction with FSIO, has made progress towards developing standard business processes, including the issuance of the following guidance: <ul style="list-style-type: none"> • the common governmentwide accounting classification structure (July 2007); • charge card data elements specification, which standardizes governmentwide requirements for data elements (December 2007); • payment and funds management standard business processes (July 2008); and • receivable management standard business process (November 2008). • In addition, according to OMB's January 2008 memorandum¹ to agency chief financial officers (CFO), OMB projected that efforts to provide certain additional guidance on common governmentwide business standards, processes, data, and rules would be accomplished by December 2009 including: <ul style="list-style-type: none"> • finalizing the reimbursables and reporting standard business processes; • updating the Core Financial Systems requirements to incorporate the business standards; and • identifying and beginning the development of additional standards, such as interface data elements, to assist in lowering the risk and cost of implementing financial systems. <p>Remaining actions:</p> <ul style="list-style-type: none"> • Finalize and issue the business standards for reimbursables and reporting processes. • Update the Core Financial Systems and noncore systems requirements to incorporate the business standards. • Identify and develop additional common governmentwide business standards, processes, data, and rules, such as interface data elements, to assist in lowering the risk and cost of implementing financial systems.
6. Describe the standard business processes that are needed to meet federal agencies' needs.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> • Refer to recommendation 5 describing progress toward defining and developing standard business processes. • OMB, in conjunction with FSIO, issued <i>Financial Management Systems Standard Business Processes for U.S. Government Agencies</i>⁹ in July 2008, which describes the Standard Federal Financial Business Processes (SFFBP) intended to provide guidance for implementing efficient core financial business processes that are consistent across government. The SFFBPs include: <ul style="list-style-type: none"> • sequenced activities for core business processes; • business rules for governing the process steps; • data elements and definitions related to these business processes (e.g., information contained on an obligation such as document source and

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GAO recommendation	Status	Progress and remaining actions
		<p>number, item number, price per item); and</p> <ul style="list-style-type: none"> • relationships among the data elements as they exist in the actual business activities. • While the SFFBP currently provides detailed descriptions, process steps, flowcharts, and other guidance for the payment, funds, and receivables management processes, descriptions of other standard business processes identified so far (i.e., reimbursables and reporting), as well as data objects and elements, have not yet been described. In addition, since the SFFBP focuses on core financial business processes, standard business processes associated with noncore financial business processes have not yet been described. <p>Remaining actions:</p> <ul style="list-style-type: none"> • Refer to recommendation 5 describing remaining action needed to identify and define standard business processes. • Develop, finalize, and issue descriptions of the business standards for reimbursables and reporting processes. • Identify, develop, and describe additional common governmentwide business standards, processes, data, and rules, such as interface data elements, including those needed to meet agencies' needs associated with noncore financial business processes.
<p>7. Develop a process to identify those business processes that are needed to meet unique agency needs.</p>	<p>Not completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> • OMB Circular No. A-127, revised in January 2009, requires agencies to register approved exceptions to the standard configuration to meet their needs. <p>Remaining action:</p> <ul style="list-style-type: none"> • According to OMB officials, OMB's priority is to focus on governmentwide standard business processes that generally affect all agencies. Although OMB has not yet focused on developing standard business processes that meet unique agency needs, OMB must further develop its process to identify agencies' unique requirements and proceed to define standard business processes designed to meet them.
<p>8. Require application service providers to adopt standard business processes to provide consistency.</p>	<p>Completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> • According to a January 2008 OMB memorandum,^h once business standards have been completed, incorporated into core financial system requirements, and tested during the FSIO software qualification and certification process, agencies will only be permitted to acquire, and shared service providers allowed to implement, certified products as configured with the standards. Limiting the products that shared service providers can use to those that are configured to meet standard business processes effectively addresses this recommendation.
<p>9. Encourage agencies to embrace new processes.</p>	<p>Completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> • See recommendation 8 describing progress related to incorporating standard business processes into core financial system requirements and requiring shared service providers to only use certified products configured with the standard. In addition, this memorandum requires agencies to adopt these standards when they move to a shared service provider. • In a July 2008 memorandumⁱ announcing the issuance of certain standard business processes described in recommendation 5, OMB encouraged the financial management community, including federal agencies, to begin preparations for adopting standard business processes by (1) analyzing existing business practices and processes, (2) gaining an understanding of the standard federal financial business processes, (3) analyzing the gap between existing and

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GAO recommendation	Status	Progress and remaining actions
		<p>future processes, and (4) using standard business processes as a framework for system implementation projects.</p> <ul style="list-style-type: none"> In addition, OMB's and FSIO's ongoing work with focus and working groups consisting of agency and other federal financial management community stakeholders to develop SFFBPs provides effective opportunities to help encourage agencies to develop and embrace standard business processes and performance measures.
Migration strategy		
10. Develop a strategy for ensuring that agencies are migrated to a limited number of application service providers in accordance with OMB's stated approach.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> See recommendation 2 describing revised OMB Circular No. A-127 on the use of shared service providers. In a January 2008 memorandum,¹ OMB reiterated guidance contained in the Competition Framework for Financial Management Lines of Business Migrations (Competition Framework) issued in May 2006 requiring, with limited exception, an agency seeking to upgrade to the next major release of its current core financial management system or modernize to a different core financial management system to either migrate to a shared service provider or qualified private sector provider, or be designated as a shared service provider. An agency may rely on its in-house core financial management system operations without being designated as a shared service provider only if the agency demonstrates that its own operations represent a best value and lower risk alternative over the life of the investment. OMB also issued Migration Planning Guidance in September 2006 to help agencies prepare for and manage a migration of their financial management system operations to a shared service provider. According to the Migration Planning Guidance, all agencies are expected to decide whether to migrate their technology hosting administration and application management to a shared service provider or to become a provider themselves within 10 years. To help ensure that agencies are migrating in accordance with its stated approach, according to OMB officials, OMB uses information obtained from agencies, such as the life cycles of agencies' existing financial management systems and exhibit 300s, and through discussions specifically related to financial management systems which occur at least annually, or more frequently during active migration planning or transition activities. <p>Remaining actions:</p> <ul style="list-style-type: none"> Although OMB has developed a migration strategy, we defer our final assessment of these actions toward addressing this recommendation until we complete a more in-depth analysis as part of our planned follow-on work.
11. Articulate a clear goal and criteria for ensuring agencies are subject to the application service provider concept and cannot continue developing and implementing their own stovepiped systems.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> See recommendation 10 describing OMB's progress to clearly articulate the applicability of the shared service provider concept to agencies. <p>Remaining actions:</p> <ul style="list-style-type: none"> Although OMB has taken steps to articulate a clear goal and criteria for ensuring agencies are subject to the shared service provider concept, we defer our final assessment of these actions toward addressing this recommendation until we complete a more in-depth analysis as part of our planned follow-on work.
12. Establish a migration path or timetable for when agencies should	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> See recommendation 10 describing progress related to establishing a migration path or timetable.

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GAO recommendation	Status	Progress and remaining actions
migrate to an application service provider.		<ul style="list-style-type: none"> Although these efforts articulate the applicability of the shared services concept to federal agencies and represent important elements of an overall migration strategy, additional efforts are needed for an effective strategy including the establishment of clear migration timelines and processes to effectively monitor progress toward meeting them. OMB's recent estimates for when agencies will be migrated to shared service providers are unclear, indicating that many have been scheduled through fiscal year 2015 while some have not yet been scheduled. According to OMB officials, although OMB has been working to develop a detailed migration timeline it has not yet been finalized. Until this tool is finalized, the extent to which OMB efforts to date address this recommendation remains unclear. <p>Remaining actions:</p> <ul style="list-style-type: none"> Develop clear and measurable goals, including specific timelines for migrating to shared service providers based, in part, on the life cycle of existing financial management systems.
13. Provide the necessary information for an agency to select an application service provider.	Completed	<p>Progress:</p> <ul style="list-style-type: none"> The Competition Framework issued by OMB in May 2006 provides additional guidance to help agencies select a shared service provider and requires agencies undertaking steps to acquire new financial management systems to comply with four guiding principles, including considering providers with a demonstrated capability, using a competitive process, implementing an accountability structure, and tracking results. In September 2006 OMB issued its Migration Planning Guidance designed to help agencies prepare for and manage a migration of their financial management system operations to a shared service provider. In January 2009, OMB revised Circular No. A-127 providing additional guidance on the use of shared service providers.
14. Develop guidance to assist agencies in adopting a change management strategy for moving to application service providers.	Completed	<p>Progress:</p> <p>Migration Planning Guidance issued in September 2006 includes a section on Change Management Best Practices, which provides considerations for managing the organizational changes to facilitate the transition from an agency's existing financial systems or operations to a shared service provider. This section includes in-depth descriptions of best practices in a variety of areas that can assist agencies in developing and adopting an effective change management strategy including the role of leadership, governance, organizational structure, migration team composition, human capital management, and stakeholder and communications management.</p>
Disciplined processes		
15. Define and ensure agencies effectively implement disciplined processes necessary to properly manage the specific projects.	Not completed	<p>Progress:</p> <ul style="list-style-type: none"> OMB issued guidance related to disciplined processes in its Migration Planning Guidance issued in September 2006 which provides agencies with high-level guidance to manage their systems modernization projects and manage risks of migrating to shared service providers. See recommendations 8 and 10 describing progress related to requiring agencies to migrate to shared service providers and only permitting them to use the certified products as configured to meet required standard business processes. According to OMB officials, using shared service providers with proven track records will help to reduce or eliminate traditional project management tasks commonly associated with system implementations. However, additional efforts are needed to adequately define the critical elements of disciplined processes needed and steps to be taken to ensure they are

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GAO recommendation	Status	Progress and remaining actions
		<p>adequately implemented. In our review of OMB guidance on selected disciplined processes, we noted that OMB guidance does not provide in-depth information on each of the selected disciplined processes. For example, OMB guidance does not adequately address how agencies are to ensure the traceability of requirements as well as the need to consider specific issues that apply uniquely to converting data as part of the replacement of a financial system, incorporate test cases that expose the system to invalid and unexpected outcomes, and ensure thorough inspection of test results. In addition, OMB reviews of agencies' financial management systems implementations generally do not focus on implementation of the disciplined processes.</p> <p>Remaining actions:</p> <ul style="list-style-type: none"> • Thoroughly define the disciplined processes (i.e., requirements management, testing, data conversion and system interfaces, configuration, risk and project management, quality assurance) necessary to properly manage projects. • Map each of the disciplined processes to OMB guidance that contains clear and specific instructions requiring their use and how each disciplined process should be performed. • Issue guidance specifically related to disciplined processes necessary to properly manage specific projects. • Provide oversight and more structured reviews specifically related to financial management projects to ensure that disciplined processes are effectively implemented.
<p>16. Provide specific guidance to agencies on disciplined processes for financial system implementations.</p>	<p>Not completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> • See recommendation 15 describing progress related to specific guidance provided to agencies on disciplined processes including the issuance of Migration Planning Guidance, OMB Circular No. A-11, Part 7, and a May 25, 2007, memorandum.^k Of these, the Migration Planning Guidance provides the most specific guidance related to financial management system implementations. However, as described in recommendation 15, additional efforts are needed to provide guidance to address the use of disciplined processes in connection with financial management system implementations. <p>Remaining actions:</p> <ul style="list-style-type: none"> • See recommendation 15 describing remaining actions needed to address the use of disciplined processes necessary to properly manage specific financial management system implementation projects.
<p>17. Provide a standard set of practices to guide the migrations from legacy systems to new systems and application service providers.</p>	<p>Completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> • See recommendations 8, 13, and 14 describing progress related to issuing the Competition Framework, Migration Planning Guidance including Change Management Best Practices, and OMB's January 2008 memorandum providing guidance for agencies planning to migrate their agency's financial management systems and services to new systems and shared service providers.
<p>18. Develop processes to facilitate oversight and review that allow for a more structured review and follow-up of agencies' financial system implementation projects.</p>	<p>Not completed</p>	<p>Progress:</p> <ul style="list-style-type: none"> • OMB issued a variety of guidance on financial management system requirements and the implementation of IT projects that facilitates the oversight and review of financial system implementation projects. • OMB uses information obtained from agencies such as the life cycles of agencies' existing financial management systems, exhibit 300s, and through discussions specifically related to financial management systems implementation projects which occur at least annually, or more frequently during active migration

Appendix II: Status of Prior GAO Recommendations

GAO recommendation	Status	Progress and remaining actions
		<p>planning or transition activities.</p> <ul style="list-style-type: none"> During the budget formulation process, OMB analyzes information related to agency financial management system and other IT projects and identifies those warranting additional attention on its Management Watch List and High Risk List. <p>These efforts represent important aspects of OMB's oversight of financial management system implementation projects. However, OMB has not developed a structured process to facilitate its overall oversight efforts related to these projects. In addition, OMB does not adequately capture spending specifically related to financial management system modernization projects, which limits its ability to fully consider the financial risks associated with these efforts. Also, we recently testified⁴ that although OMB has taken steps to improve the identification of poorly planned and poorly performing projects, additional efforts are needed to address prior recommendations to improve the planning, management, and oversight of these projects. Finally, the extent of problems related to financial management system implementation projects that continue to be reported indicate the need for additional oversight efforts designed to further identify and prevent failures in the future.</p> <p>Remaining actions:</p> <ul style="list-style-type: none"> Enhance existing oversight efforts to improve financial management system implementations by <ul style="list-style-type: none"> developing a structured process to identify and evaluate specific and systemic implementation weaknesses and risks specifically related to financial management system modernizations, including those associated with projects on the Management Watch List and High Risk List and others identified through reviews of agency provided information, as well as their costs, and discussions with agency officials; implementing processes to ensure that agencies more effectively and consistently comply with guidance related to implementing financial management system modernization projects, including the use of disciplined processes to reduce the risk of implementation failures; and clarifying guidance so that agencies consistently report planned and actual spending related to financial management system modernization projects including the financial portion of mixed systems.

Sources: GAO analysis, OMB and FSIO data.

⁴According to FFMA Section 803(a), agencies are required to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *United States Government Standard General Ledger* at the transaction level.

⁵Pursuant to FFMA Section 806 (4), (5), and (6), "financial management systems" includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions; "financial system" includes an information system, comprised of one or more applications, which is used for—(a) collecting, processing, maintaining, transmitting, or reporting data about financial events; (b) supporting financial planning or budgeting activities; (c) accumulating and reporting cost information; or (d) supporting the preparation of financial statements; and "mixed system" means an information system that supports both financial and nonfinancial functions of the federal government or components thereof.

**Appendix II: Status of Prior GAO
Recommendations**

^eOMB, Memorandum, *Update on the Financial Management Line of Business* (Washington, D.C.: Jan. 28, 2008).

^fAccording to OMB, segment architecture defines a simple road map for a core mission area, business service, or enterprise service that is driven by business management and delivers products that improve the delivery of services to citizens and agency staff. From an investment perspective, segment architecture drives decisions for a business case or group of business cases supporting a core mission area or common or shared service.

^gAccording to OMB, the FEA consists of a set of interrelated “reference models” designed to facilitate cross-agency analysis and the identification of duplicative investments, gaps, and opportunities for collaboration within and across agencies. Collectively, the reference models comprise a framework for describing important elements of the FEA in a common and consistent way.

^hOMB, Memorandum, *Update on the Financial Management Line of Business* (Washington, D.C.: Jan. 28, 2008).

ⁱFSIO, *Financial Management Systems Standard Business Processes for U.S. Government Agencies* (Washington, D.C.: July 18, 2008).

^jOMB, Memorandum, *Update on the Financial Management Line of Business* (Washington, D.C.: Jan. 28, 2008).

^kOMB, Memorandum, *Federal Financial Management Standard Business Document* (Washington, D.C.: July 18, 2008).

^lOMB, Memorandum, *Update on the Financial Management Line of Business* (Washington, D.C.: Jan. 28, 2008).

^mOMB Memorandum, *Use of Performance-Based Management Systems for Major Acquisition Programs* (Washington, D.C.: May 25, 2007).

ⁿGAO, *Information Technology: OMB and Agencies Need to Improve Planning, Management, and Oversight of Projects Totaling Billions of Dollars*, [GAO-08-1051T](#) (Washington, D.C.: July 31, 2008).

Appendix III: Comments from the Office of Management and Budget



THE CONTROLLER

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

April 20, 2009

Ms. Kay Daly
Director, Financial Management and Assurance
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Daly:

Thank you for the opportunity to comment on the Government Accountability Office (GAO) draft report entitled "*Financial Management Systems: OMB's Financial Management Line of Business Initiative Continues but Future Success Remains Uncertain* (GAO-09-328)." We appreciate GAO's continued efforts to evaluate agencies' progress in modernizing their financial management systems and its valuable insights into improving this critical area.

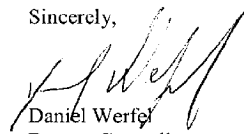
Under the FMLoB, the Office of Management and Budget (OMB), the Financial Systems Integration Office (FSIO), and Federal agencies are working collaboratively to strengthen financial management practices across the government by developing common business standards, developing common data standards, and moving financial systems to shared services. Specifically, FSIO issued government-wide financial business process standards for the following: Funds Management and Payment Management, Receivables Management, Reports, and Reimbursable Management. To support the standardization efforts, OMB updated Circular No. A-127, Financial Management Systems, on January 9, 2009.

In general, OMB agrees with the first part of GAO's recommendation to facilitate complete and accurate reporting of actual and planned spending related to financial management system modernization projects. We are currently reviewing agency reported spending data to determine whether any refinement to OMB guidance is needed as well as exploring opportunities to make cost data on agency financial system implementation and support activities available publicly. With respect to the second part of GAO's recommendation, OMB is evaluating whether it is necessary to better capture cost information with respect to the financial portion of mixed systems. Our preliminary analysis shows that breakouts of this data in this manner would have limited value for decision making because such a distinction is highly subjective and would not likely change an agencies investment decisions. Further, we believe there will be greater benefit to dedicating resources to other higher risk areas such as finalizing the Concept of Operations.

**Appendix III: Comments from the Office of
Management and Budget**

We appreciate the opportunity to comment on the draft report, including a series of technical suggestions that were provided separately by OMB staff. We look forward to working with GAO in improving Federal financial management systems. If you have any questions please feel free to contact Adam Goldberg, Chief, Financial Analysis and Systems Branch, at 202-395-7583.

Sincerely,



Daniel Werfel
Deputy Controller

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

Individuals making major contributions to this report were Chris Martin, Senior-Level Technologist; Michael LaForge, Assistant Director; Sabine Paul, Assistant Director; Latasha Brown; Francine DelVecchio; Jim Kernen; Patrick Tobo; and Leonard Zapata.

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