

## The U.S. Line of Business Consolidation Initiatives

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The U.S. Line of Business Consolidation Initiatives is part of Phase II of the USA e-Government Strategy.

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### Introduction

We are in an age of transformation of historical dimension driven by technology. Much of the federal government has organizationally remained the same since the Cold War with the exception of the recent reorganization creating the Department of Homeland Security (DHS). With the explosion of the use of the Internet, the pressure on governments to adopt its use and provide a much higher level of citizen response is exponentially increasing. Through President Bush's Management Agenda, improving federal agencies operations by implementing EGovernment, the U.S. response has been a top down, sustained focus in driving change across the federal community. We are transforming government through clicks not bricks, essentially changing how the government provides services and products. We are moving from vertical stovepipes to a more horizontal form of government operationally. This is a logical consequence of the opportunities created by the advancement of information technology. The EGov initiatives and the Line of Business (LOB) effort are spearheading this change. But it is not an overstatement to say that this effort is very difficult and complex given the size of the federal bureaucracy. It requires a long-term senior level commitment to successfully make it happen.

### The Line of Business Effort and Its Relationship to other EGov Initiatives

The U.S. Line of Business (LOB) initiatives (financial management (FM), human resources (HR) management, grant management (GM), case management, and health IT; systems security is pending) is an opportunity whose time has come. While information technology (IT) is a powerful tool for change, the objective of the LOB effort and the 24 EGov initiatives that began in 2001 – is business transformation. The LOB initiatives beginning in late 2003 are a logical extension of the original 24 EGov initiatives but there are several differences as well as key similarities that help define them.

The LOB initiatives generally cut across the organizational boundaries of most, and in some cases, all of the federal agencies. In the U.S. EGov parlance, it is the activity area referred to as the "Internal Effectiveness and Efficiency Portfolio." In essence, it is the infrastructure and the business of government within and across agencies, e.g., financial management and human resources management common to all agencies. The 24 EGov

initiatives that are presently maturing ([www.egov.gov](http://www.egov.gov)) were more point or specific functional solutions, e.g., [Govbenefits.gov](http://Govbenefits.gov), that cut across organizational boundaries but not to the same degree as the LOB effort. Both efforts seek to simplify business processes, eliminate redundancies, accelerate services, and save taxpayer money.

Specifically, the LOB initiatives seek to consolidate common business processes that have spawned since the 1950s in every federal agency. In the past, focused on their proprietary needs, agencies have been developing, modernizing, and enhancing their business systems that have served them well. However in recent years, agencies have made technological improvements by each agency buying solutions for their common and core business system requirements – over and over again - often from the same commercial vendors.

The extent that this is still occurring is evident by the efforts driven by the creation and evolution of the Federal Enterprise Architecture (FEA) which began in 2002 in the Office of Management and Budget (OMB). In simple terms, the FEA provides a series of related reference models that identifies macro-to- micro levels of business systems and related investments from business lines, e.g. environmental protection, to performance metrics, to shared service components, and down to data transactions. As a result of federal agencies' annual budget submissions to OMB, the FEA Program Management Office identified prospective investments for development, modernization, and enhancement of systems totalling \$11 billion and \$12 billion for fiscal years 04 and 05 respectively. Nearly \$1 billion was for financial management and human resource management. These investments are highly duplicative and no longer acceptable in a time of fiscal constraint and competing priorities.

### **Changing the Course**

The LOB initiatives seek to prudently reverse this course by creating a shared service environment and establishing Centers of Excellence (COE) for each LOB that focus on the “80 percent solution” – specializing in meeting the common core business requirements of customer agencies. These COEs will meet performance standards reflected in procurement requirements, interface with other developing EGov initiatives such as eTravel, Acquisition, etc. (see notional diagram at the end of the essay), and funded through transactions that reflect transparent pricing decisions. Customer agencies are provided the flexibility to migrate to a COE for cross-servicing at the end of their lifecycle of IT investments. So an agency that has recently made a major investment in a new financial management system will not be required to migrate to COE until they are ready to replace or substantially enhance their system at the close of the investment lifecycle.

COEs will likely be government-owned, contractor operated though in financial management there may be an opportunity for a private sector COE since standards for financial management in IT software have been established and met by commercial vendors for years. In the HR LOB, work is underway to develop similar software standards. There will be multiple COEs for each line of business ensuring the value of competition and providing a hedge against performance problems. Agencies that opt to migrate to a shared service provider (COE) will conduct a competition compliant with Federal Acquisition

Regulations by which multiple COEs will compete for their business. Migration cost will be borne by the migrating agency.

### **Giving LOBs Life**

So how did the LOB initiatives get established and how does an agency become a Center of Excellence? As reflected above, it is now well known that the core functions of the day-to-day administrative operations from agency to agency are very similar. The analyses generated by the FEA effort and recent task forces have confirmed this and the level of related IT investments are not insignificant. As a result, the timeframe for LOB initiative begins in February with the release of the President's Budget. The Management Plan within the President's Budget reflects a targeted area for consideration and through the Deputy Director for Management in OMB, establishes an interagency taskforce. Simply stated, the task force is to conduct a disciplined analysis and make recommendations also known as proposed common solutions to identified problems.

Specifically, the taskforce is composed of IT professionals, subject matter experts, and business process owners from across the federal agencies. While they represent their agency and must have access to the senior levels of their agency (keeping them apprised of the effort), taskforce members are requested to put their "big hats" on. This means they are to develop proposed common solutions of the federal government from a corporate or enterprise perspective – not from the traditional parochial perspective of a particular agency – no easy task. The summary below identifies the current process (occurring between February through early September) of developing and establishing an LOB for follow-up implementation efforts:

- Establish an interagency taskforce of 75 to 100 interagency representatives.
- Develop and attain consensus on the vision, goals and objectives of the effort.
- Develop and issue a request for information (RFI) to the private sector, government agencies, and non-profit organizations for their best practices in addressing the goals and objectives of the specific LOB. This provides transparency to the process and facilitates partnership with the commercial sector.
- Concurrently with the preceding step, taskforce members conduct analyses using agency data, and perform other data gathering efforts including external reports from Commissions, Inspectors General, General Accountability Office, etc.
- Interagency Councils such as the CIO Council, CFO Council, Human Capital Council, are briefed and enlisted in specific aspects of the effort.
- From the preceding steps, the task force develops common solutions, performance metrics, and artefacts of the proposed architecture that must reflect consistency with the established Federal Enterprise Architecture.
- The common solutions and possible alternatives are analyzed for cost and benefits as well as other requirements mandated by OMB in a business case. The business case is required for all major IT investments as part of the budget submission each fiscal year.
- A draft business case is distributed to the agencies for their comment and suggestions that may result in the adjustment of the business case.

- The business case is finalized and re-distributed to the agencies for their investment planning process. Additional guidance to agencies who may desire to be a COE and/or a migrating agency is also provided. In response, it is at this point that an agency may prepare a business case that reflects their merit to become a COE and/or a migrating customer agency.
- All business cases are submitted to OMB for review in early September with budget decisions by OMB transmitted back to agencies in late November.

As part of the business case/budget review process by OMB, a list of due diligence criteria ([www.omb.gov](http://www.omb.gov)) is developed in partnership with the private sector trade associations. Agencies desiring to become COEs must meet this criteria to be a designated a COE. The due diligence process will continue to be refined as more LOBs and COEs are proposed and established.

### **How Far Has the U.S. Come**

Currently, the U.S. is working through the issues of governance. Governance is critical not only to the LOBs but to all EGov initiatives to ensure integration or become the “routine” way of doing the business of government. To the extent possible, the strategy is to leverage existing Executive oversight and planning bodies that will address the multitude of issues related to LOB implementation and operations including conflict resolution.

So what is the status of the LOB effort today? Four COEs have been established in financial management including Department of Interior, General Services Administration, Department of Transportation, and Department of Treasury. Five COEs have been established for the human resources management. Agencies migration is already begun in human resources and additional migrations are expected later this year once the competitive process is finalized. In addition, the Office of Personnel Management working with OMB and other agencies are applying the principles of consolidation and creating a shared service environment for payroll servicing. Currently, 80 percent of federal employees previously receiving payroll services from 22 major payroll systems across the federal government are now receiving their paychecks form 2 partnerships (four agencies). In addition, information systems security is being reviewed and a draft business case has been developed for potential consolidation and savings resulting from common cyber security functions through increasing centralization thereby reducing redundancy, increasing performance, consistency and compliance with current laws and security standards.

### **The Issues from Now to Then**

The long-run future is bright for the LOB effort. There are many more opportunities ahead that must be addressed as good stewards of the taxpayer resources. The potential benefits from increased efficiency are too great to ignore. But there are significant challenges now. Greater knowledge and acceptance of a shared service environment will lead to an effective governance structure and processes ensuring smoother funding mechanisms. Stakeholders and customer agencies need to understand that services provided by another agency in lieu of their own performance is no longer “passing the hat” but instead, paying for services they receive and is authorized by the Budget and Economy Act of 1932. COE's, for their

part, must provide service levels (through established agreements) required by their customers with good metrics that accurately reflect a COE's performance.

While there are pockets of strong supporters in Congress for the EGov effort and the LOB initiatives, we do not have a consensus that believes agencies should be accountable for mission results only and not worry about how the infrastructure support is effectively provided. This accountability and control issue has not been resolved to Congressional satisfaction. Further, there is still some resistance within federal community that have not fully understood that freeing resources from "overhead activities" and paying less to a service provider provides more resources for their mission critical activities. This issue of trust – getting the performance needed at a cost that is less than today - may only be resolved through actual experience. In addition, some have not realized that while they are authorized to carry-out their mission by Congress, the administrative processes like human resource management are not justified in their authorizing language.

However, one cannot underestimate the size of the task confronting agencies. There is an estimated 6,000 IT systems across the federal government, many of which serve very specific and often outdated uses that have grown over time. It's a Herculean effort to balance the demands of a new shared services environment while aligning and terminating outdated business systems and effectively managing to "keep the lights on."

So as it often should, change occurs incrementally. However, when we look back in a decade from now, we will see the tremendous progress the U.S. and many other governments have made through implementing EGov efforts. History will record, and we will know that we were part of the transformation of government in the 21<sup>st</sup> century.

**Proposed Common Solutions for Financial Management and Human Resources**



**Financial Management Common Solution**  
 ■ Centers of Excellence providing IT support for core JFMIP (Joint Financial Management Improvement Program) functions: General Ledger, Funds Management, Payment Management, Receipt Management, Cost Management, and Reporting)

**Human Resources Common Solution**

- Core functions provided through shared service centers
- Leverage of existing E-Gov Initiatives
- Solution will evolve over time to include more functions in service centers

