

Financial Innovation and Transformation (FIT): An Overview of FIT Initiatives

San Francisco Regional Financial Center
Customer Advisory Board

San Francisco, CA

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Agenda

- FIT Mission and Background
- Overview of Key Initiatives
 - Electronic Invoicing
 - Intra-governmental Transformation Project
 - Centralized Receivables Service
 - Benchmarking
 - Data Standardization
 - Financial Systems Guidance Revision

Presentation Goals

- **Explain** the change initiatives that FIT is championing
- **Persuade** as to the need for and desirability of the changes

Current State of Gov't Financial Operations

- Financial management operations are reasonably effective
- But they are expensive - \$8 billion per year and 32,000 FTEs
- 46 separate instances of 3 major commercial ERPs as well as numerous legacy systems
- Financial management is agency-centric
- Clean audit opinions, but a lack of transparency in other areas (e.g., payments)

FIT Mission

To be a catalyst in the transformation of federal financial management,

in coordination with the CFO Council,

by facilitating the development and deployment of innovative, common, cost effective solutions,

that improve data quality and create efficiencies.

FIT Methods

- Convene stakeholders from across government
- Identify government-wide opportunities for improved efficiency and data quality
- Develop plans and business cases to launch projects
- Accelerate the development and deployment of common solutions

Three Recurring Themes

- Deliver services at scale
- Strengthen the hub
- Facilitate transaction linkages

FIT Background

- Founded in 2010 in cooperation with OMB
- In first 18 months, FIT convened over 75 federal financial managers
 - Identified a wide range of potential areas for cost savings and transparency improvements across federal financial management operations
 - Narrowed list down to 12 high-impact initiatives
- FIT has launched five initiatives as of now
 - Plan to launch two additional initiatives in 2012

A New Approach

- Resolving persistent inefficiencies in federal financial management requires a new approach
- Requires a change in agency thinking of how business processes and IT systems are envisioned, sourced, procured and deployed
 - Services delivered at scale
 - A hub-and-spoke model
 - Transaction linkages

Three Pronged Approach

- Promote common technology solutions
 - Expand shared transactional services
 - Launch enablers
- From **agency-centric** to **government-wide** financial management

Current FIT Initiatives: Electronic Invoicing

- Accounts payable process for commercial suppliers generally works but is inefficient
 - Manual processing of invoices is error-prone and costly
 - Process provides little transparency to supplier or agency
- Solution: move to electronic invoicing
 - Put the work on the supplier (i.e., the party with the most motivation to get it right the first time)

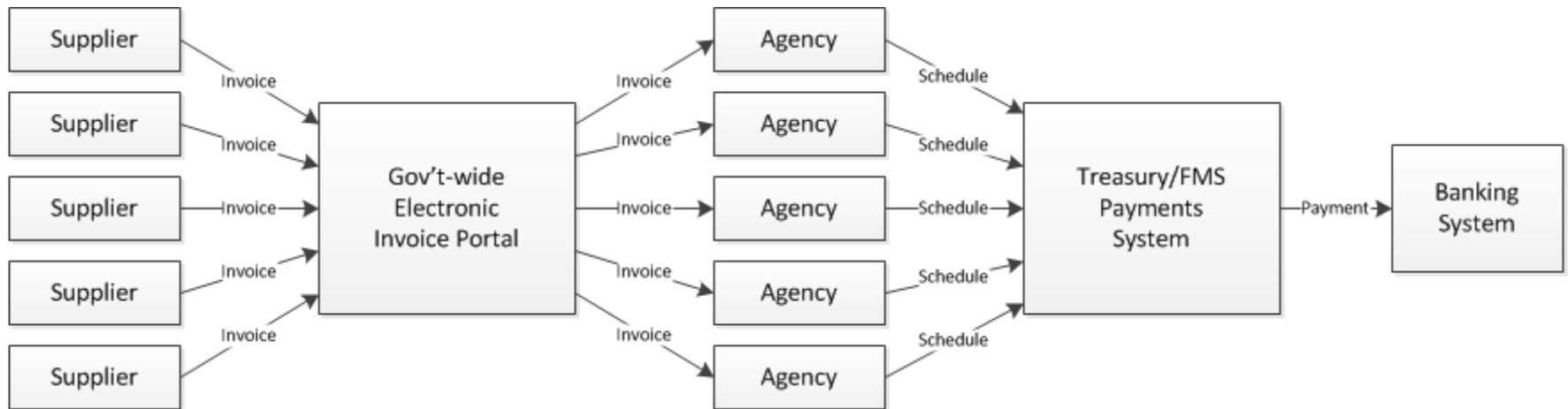
Current FIT Initiatives: Electronic Invoicing

- What is an electronic invoice?
 - Structured data transmitted by the supplier that can be easily exchanged, be subjected to automated edit checks, and directly transmitted to an agency financial system
 - Online “PO Flip”
 - Direct entry into blank web form
 - Electronic upload of structured data through a system-to-system connection (direct or through a VAN)
 - Email, facsimile and scanned documents are not considered electronic invoices

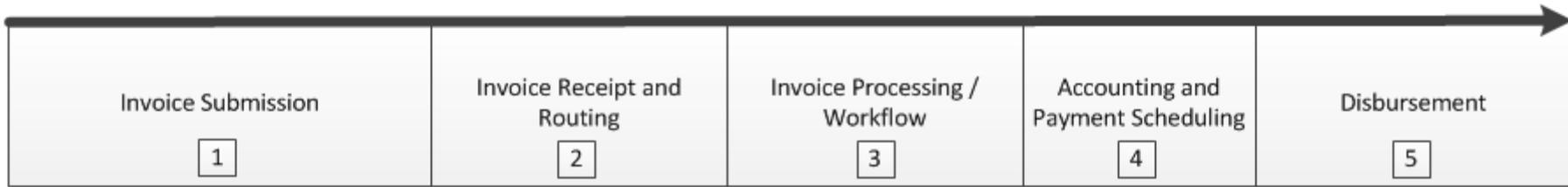
Current FIT Initiatives: Electronic Invoicing

- Three principles to doing government-wide electronic invoicing right
 - Provide a single point of entry for suppliers
 - Get rid of the paper (make the supplier do the work) to enable straight-through processing
 - Leverage existing investments to the greatest extent possible
- Several agencies already pursuing electronic invoicing (Treasury, Interior, SSA, DoD, Energy, GSA, among others)

Single Point of Entry for Invoicing

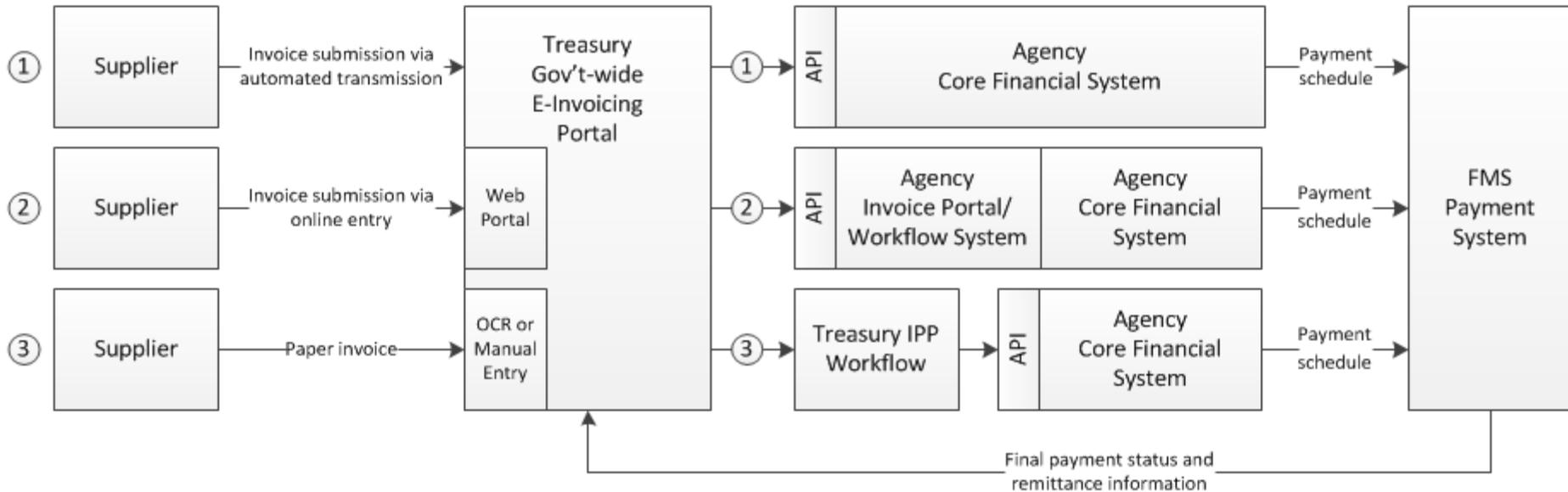


Treasury's E-Invoicing Vision



Supplier Options

Agency Options



Current FIT Initiatives: Electronic Invoicing

- Avoid duplicative investments in supplier portals and networks by leveraging what already exists
- Shared responsibility for supplier enrollment and management benefits both agencies and their suppliers
 - “enroll once, transact with many”
- Flexibility in leveraging agencies’ existing investments in workflow and accounting systems

Current FIT Initiatives: Intra-governmental Transformation

- The problem: government's ability to account for intra-agency activity and balances between federal agencies
- Everyone is affected by problem but no single agency (or Treasury) can solve it unilaterally

Current FIT Initiatives:

Intra-governmental Transformation

- \$41B in unreconciled differences in FY 2011
- Persistent (15 years+) material weakness on the consolidated financial statements of the US government
- Lack of process controls and communication between trading partners, not trading partner imbalances

Current FIT Initiatives: Intra-governmental Transformation

- FIT's approach: a federal community solution
 - Comprehensive update of policy guidance and business rules for intra-governmental activity
 - Agree on authoritative sources of data
 - Strengthen relationship with audit community
 - Common set of performance measures
 - Build exchanges for inter-agency transactions (future)

Current FIT Initiatives: Intra-governmental Transformation

- Resolving the IGT challenge will require a paradigm shift
 - Implementation of authoritative source model means that agencies book what central agencies say to book
 - Use of standard processes and central reference points
 - Emphasis on enhanced communication with trading partners
 - Leverage dispute resolution process earlier
 - Measurement and publishing of differences

Current FIT Initiatives: Centralized Receivables

- Transform end-to-end receivables management
 - Increase collections
 - Reduce agency costs
- Stand up a new center of excellence (the CRS) focused on pre-delinquent debt to complement Treasury's Debt Management Service's existing focus on delinquent debt

Current FIT Initiatives: Centralized Receivables

- AR collections efforts are decentralized and fragmented across government
 - Manual/paper-based processes
 - Lack of basic AR processing (i.e., invoicing)
 - Customized implementations with little automation
 - Infrequent use of best practices
 - Lack of data standards and poor data quality

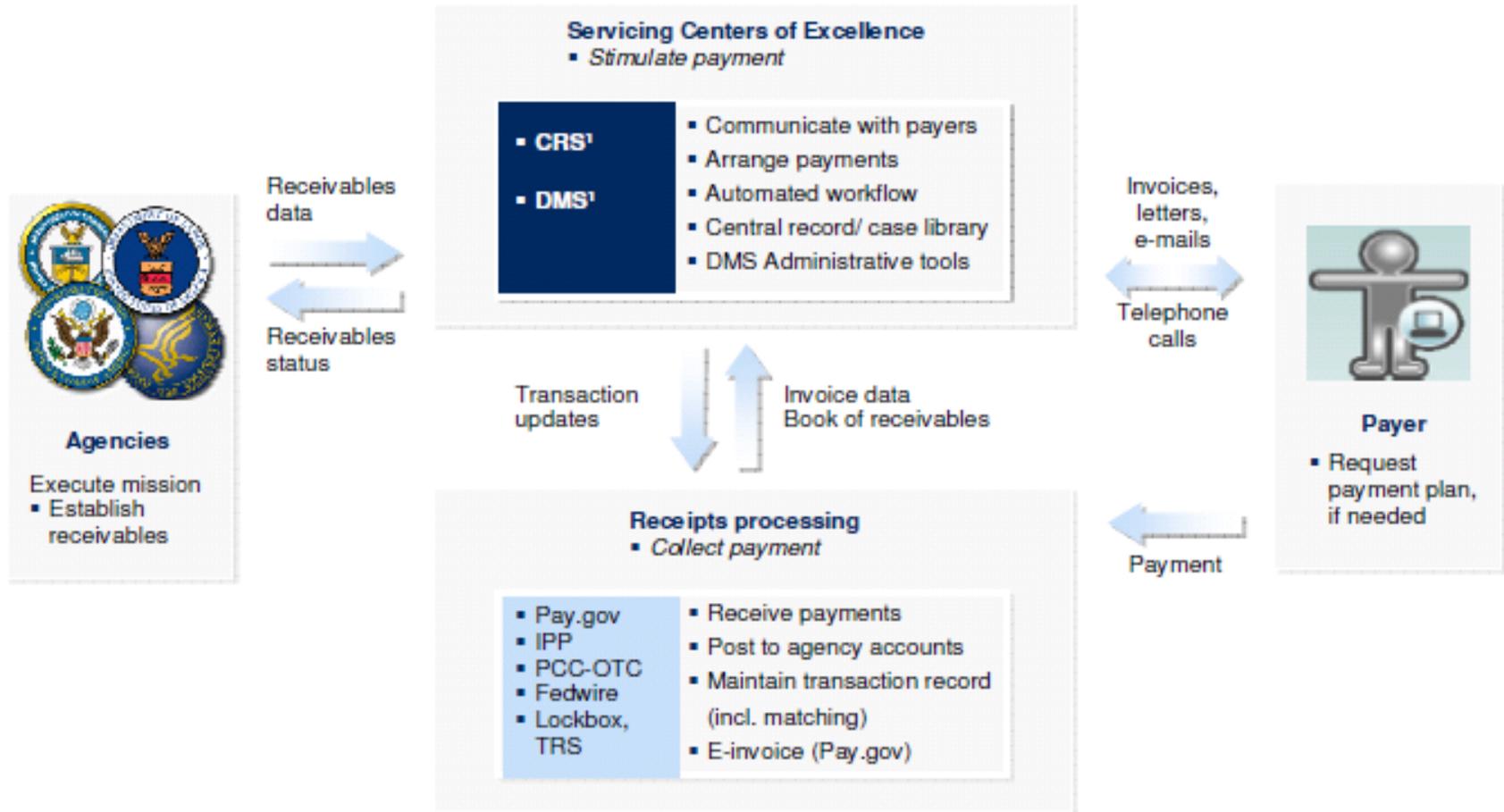
Current FIT Initiatives: Centralized Receivables

- Expected benefits
 - Deliver \$350-400M annually in increased collections and cost reductions
 - Increase collection on current receivables and delinquent debts
 - Reduce the number of debts that become seriously delinquent
 - Decrease redundant expenditures on collection systems infrastructure
 - Improve data quality and visibility into monies due to the government

Current FIT Initiatives: Centralized Receivables

- Treasury is piloting a new center of excellence to centralize the collection of receivables
 - FMS to lead pilot in partnership with FIT
 - Identify and select financial agent/outsourcer to provide commercial-like service level for agencies
 - Launch pilot within 6 months of servicer being identified
 - Enlist up to five agencies to pilot AR servicer

Proposed CRS Architecture



¹ Currently DMS handles debt that is >180 days past due. CRS will handle debt between 1-180 days past due.
SOURCE: Government and external expert interviews; team analysis

Current FIT Initiatives: Benchmarking

- FIT is pursuing several enablers of financial management change
 - Benchmarking across financial management
 - Data standardization
- Benchmarking across financial management organizations will promote cost savings and improve quality and performance of financial management activities

Current FIT Initiatives: Benchmarking

- Measure and compare efficiency and effectiveness
- Establish standard for process-level activities
- Identify best practices
- Enable comparison of disparate entities with distinct missions
- Assist with resource allocation
- Provide meaningful and actionable data for management decision-making

Current FIT Initiatives: Data Standardization

- Current Situation
 - Numerous departments, agencies and bureaus with separate financial systems
 - Hundreds of financial data elements with different definitions and uses
 - Aggregating financial data across agencies requires huge effort
 - Our ability to give citizens a comprehensive view of federal programs is limited
- Desired Situation
 - Financial data that can be easily assembled from across multiple agencies and systems to create a comprehensive picture of government performance
 - Data are accurate and authoritative with commonly-understood definitions
 - Data can be presented at various levels of granularity in a way that can be reconciled

Current FIT Initiatives: Data Standardization

- Historical parallels
 - “Paper Crisis” in American financial market, 1962
 - Led to establishment of a unique 9-digit identifying number assigned to all securities – the CUSIP number
 - Centralized database of standardized information on all securities and issuers
- Can CUSIP architecture be applied to federal financial data?
 - Standardized award identifier
 - Award description database
 - Government-wide governance body

Three Recurring Themes

- Deliver services at scale
 - Electronic Invoicing
 - Centralized receivables service
 - Benchmarking
- Strengthen the hub
 - Electronic invoicing
 - Centralized receivables service
 - Intra-governmental transformation
- Facilitate transaction linkages
 - Electronic invoicing
 - Intra-governmental transformation
 - Data standardization

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FIT Website
Coming Soon to www.treasury.gov