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Financial Management System Improvements

An agency financial management improvement plan is the vehicle by which an agency displays its financial improvement initiatives. It brings together all of an agency's improvement initiatives that support the agency's financial management strategy and, at a higher level, those strategies defined in the information technology and business plans supporting an agency mission.

A financial management plan informs the budget process by linking new system initiatives to an agency's overall improvement strategy and by responding to statutory requirements, policies and other requirements impacting financial management system planning and implementation.

Two clear drivers for Federal agency financial management plans are the Chief Financial Officers (CFO) Act of 1990 and the Federal Financial Manager's Improvement Act (FFMIA) of 1996. These laws require agencies to annually update their financial management plans and, for those agencies that are not in substantial compliance with FFMIA, to prepare a remediation plan for bringing systems into compliance with the provisions of Section 803(a) of the Act.

These, however, are not the only statutory requirements by which agencies must abide. Other laws and policies require agencies to apply sound investment practices in constructing their financial management plans

- Financial systems are a subset of information technology (IT) systems, and, as such, agencies must adhere to the requirements of the Clinger-Cohen Act (also know as "Information Technology Management Reform Act of 1996") that requires establishing a capital planning and investment control (CPIC) process to manage IT investments.
- The Government Performance and Results Act of 1993 requires agencies to link budget decision-making with the achievement of agency

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Implementing SFFAS 10

Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software,* was finalized in 1998 and is effective for FY 2001. SFFAS 10 provides accounting standards for internal use software. It classifies internal use software as "general property, plant, and equipment" as defined in SFFAS 6, *Accounting for Property, Plant, and Equipment,* and requires software costs meeting certain criteria to be capitalized whether purchased as "commercial off-the-shelf" (COTS), or developed by a contractor or internally developed. SFFAS 10 provides guidance regarding the types of cost elements to capitalize, the timing and thresholds of capitalization, amortization periods, accounting for impairment, and other issues.

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This article was written by Bert T. Edwards and Richard Fontenrose.

Bert T. Edwards , CPA, CGFM, is the Chief Financial Officer of the U.S. Department of State. He was an audit partner in the Washington, DC office of Arthur Anderson for 24 years, prior to his retirement in 1994, and is the chairman of the Chief Financial Officers Council Standards Committee.

Richard Fontenrose, CPA, CGFM, is a member of the Federal Accounting Standards Advisory Board staff. He was the project director for the internal use software accounting standard and was a member of the CFOC Standards Committee ad hoc task group regarding implementation guidance for SFFAS 10.

A Joint Perspective

Should All Federal Agencies Use the Same Core Accounting Application?

One of the issues frequently discussed around town is whether the Federal government should have a single financial management system. In other words, should all Federal agencies use the same core accountin g application? Since this issue may well surface again, with the upcoming change in the Administration, I thought I would share my research findings.

Karen Cleary Alderman
Executive Director, JFMIP

Confidence in government relies upon accountability. Accountability relies on good information. Federal agencies must produce timely, accurate, reliable, complete, and consistent financial information to support internal and external agency reporting, agency and governmentwide policy decisions, and preparation and execution of agency budgets. To produce that information, each agency needs a robust core accounting system. Should all agencies use the same application? To answer that question, we must first understand the financial management system environment in which Federal agencies are operating. Because Federal agencies are starting to replace their legacy systems with commercially developed software, we must also understand the commercial environment—in particular, the dramatic changes in both the technology and market arrangements now available. We must then consider the policy and business cases for adopting the same core accounting system application in all Federal agencies. The policy case deals with the legislative authority and accountability for systems, and the business case deals with the costs, benefits, feasibility, and risks of using a single Federal accounting system application.

Federal Financial Management System Environment

The Federal financial management system environment is characterized by large-scale and complex operations, large numbers of legacy systems that reflect practices of a past era, resource constraints, and a changing strategic focus.

Scale of Federal Operations

Revenue from governmental activities in the 24 CFO agencies is more than 10 times larger than that of General Motors—the largest of the Fortune 100 companies. In 1999, Federal nonexchange revenue was $1,822.4 billion and exchange revenue was $192.6 billion; the net cost of government operations was $1,756.0 billion.[1] In contrast, General Motors reported revenues of $189 billion in 2000.[2] Not only does the financial scale of the Federal government dwarf that of private-sector entities, Federal operations are substantially more complex. Much of that complexity can be attributed to differences, from agency to agency, in missions, organizational arrangements, and budgetary and financing arrangements.

Legacy Systems

In 1999, the 24 CFO agencies reported using 640 financial management systems and about 1,000 different financial system applications. The overwhelming majority, 71 percent, of the financial system applications was developed and is maintained by the individual agencies. The remainder are commercial off-the-shelf (COTS) products, most of which were customized during and after implementation.[3]

Both the agency-developed and COTS financial management system applications are narrowly focused, are highly decentralized, and rely on obsolete technology. In addition, these systems/applications have been criticized for, among other things, lack of integration, inadequate reconciliation procedures, and weak security. Most important, because most of the systems were planned and implemented before the Chief Financial Officers (CFO) Act of 1990 was passed, they are not designed to meet current information requirements for Federal financial systems. Specifically, few comply with the standards or requirements of the Federal Accounting Standards Advisory Board (FASAB), the U.S. Standard General Ledger (SGL), and the Joint Financial Management Improvement Program (JFMIP).

Resource Constraints

The need to provide better financial management information and keep up with rapidly changing technology poses formidable challenges to Federal agencies. Moreover, agencies are in a position of having to catch up because they deferred purchases of new systems in favor of ensuring that they were Y2K compliant.

Now that they are over the Y2K hurdle, agencies are taking aggressive action to upgrade systems so that they comply with statutory financial management requirements. In FY 2000, 13 of the 24 CFO agencies reported to JFMIP their intent to replace core financial systems in the next 5 years, and 17 indicated their intent to replace feeder systems.[4] These plans are being executed under policy that places management responsibilities with the agencies but requires that they acquire systems tested and qualified by JFMIP. Available options include eight vendors and ten software applications. The agencies spent an estimated $2.5 billion to operate, maintain, and replace their financial systems in 1999.

Agencies will continue to be faced with the issue of rapid system obsolescence. They report that almost two thirds of financial system applications have a useful life of 5 or fewer years.[5] At the same time, system implementations in large U.S. Federal agencies take 5 to 7 years, compared with an average of about 2 years in private-sector companies. Many factors drive longer Federal time lines. Customizing software to address real or perceived gaps in functionality increases time, cost, and risk and makes it difficult to upgrade versions over time. Other factors that limit the pace include the need for business process reengineering, need for data cleanup and conversion, inadequate staff (both commercial vendor and government team), inadequate budgets, and inadequate commitment of senior leadership and the user community.

Strategic Focus

In recent years, the Federal financial system strategy has focused on bringing "back-room" administrative systems into compliance with standards and requirements. A key goal is achieving *system* integration facilitated by electronic transfer of data entered once at the source transaction. A major component of the strategy was reliance on commercial sources

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Nominations for the 2000 Scantlebury Awards

Since 1971, the JFMIP has sponsored an annual awards program to recognize excellence in financial management. Known as the Donald L. Scantlebury Memorial Awards, this program acknowledges and honors the efforts of individuals from the state, local, and Federal government, who have achieved notable improvements in financial management through distinguished and sustained leadership. The awards commemorate Mr. Donald Scantlebury, a leader whose ideas and actions brought significant advances to financial management within the public and private sectors. At the time of his death in 1981, Mr. Scantlebury was the Chief Accountant and Director of the Accounting and Financial Management Division, U.S. General Accounting Office. He served on the JFMIP Steering Committee for many years and periodically served as its Chairman.

JFMIP is currently seeking nominations of senior executives who have demonstrated outstanding and continuous leadership in improving financial management. Eligibility requirements, selection criteria, and nomination procedures are outlined in the Scantlebury Awards Brochure. An electronic copy is available from the JFMIP website at www.JFMIP.gov. Printed copies of the brochure are available from JFMIP at 1990 K Street, NW, Suite 430, Washington, DC 20006.

All nominations must be received by January 5, 2001. Presentation of the awards will be made during the JFMIP Annual Financial Management Conference that will be held on March 13, 2001, in Washington, DC. ◻

New JFMIP Web-Site Includes Financial Systems Road Map.

On October 1, 2000, the JFMIP Knowledgebase will include major new capabilities including a JFMIP Home page, search capabilities, and the addition of a new resource library called the "Financial Systems Road Map". The JFMIP Knowledgebase, which provides complete information on Core Requirements Qualification Testing, will now be accessible from the new JFMIP Home page. In addition, the Financial Systems Road Map will now provide Federal agency project managers, CFO organizations, and private sector partners with a source for comprehensive financial references, guidance, tools, and information related to financial systems planning, selection and implementation.

The "Road Map" project is being accomplished in partnership with The CFO Council's Financial Systems Committee, GAO, CFO agencies, vendors, and the CIO Council. This project was initiated in response to strong needs expressed by agencies for more help with costly and complex system implementations. In general, Federal agencies agree that:

- better tools and information are needed to manage difficult financial system implementations;
- the financial systems implementation process is complex and agencies can benefit from experience, knowledge, and tools developed in other agencies;
- there should be more commonality in implementation processes;
- a single source of information to support financial systems implementation is needed;
- more outreach is needed and JFMIP should assist agencies.

The Road Map will contain information on such topics as system selection, emerging requirements and software development, inventory information on systems software and technical environments, software and vendor performance, best practices/lessons learned, project planning and human resource issues, etc. For more information, contact JFMIP's Bruce Turner at 202-219-0533 or bruce.turner@gsa.gov. ◻

FINANCIAL MANAGEMENT

PROFILE

Robert F. Hale became the Assistant Secretary of the Air Force for Financial Management and Comptroller in March 1994. Mr. Hale is responsible for oversight of all Air Force financial activities. Those responsibilities include management of an annual budget that now exceeds $70 billion, ensuring the exercise of fiduciary responsibility with respect to Air Force financial activities, providing high-quality financial services to Air Force employees, and making appropriate financial information available to everyone from military commanders to members of Congress. He is also the career field manager for 10,000 Air Force financial managers serving worldwide.

Mr. Hale was well prepared for a career in financial management with over 28 years of distinguished public service. His graduation with distinction in Mathematical Statistics from Stanford University in 1968 was followed the next year by the award of a Master of Science degree in Operations Research from Stanford as well. In 1976, while working as the Deputy Assistant Director at the Congressional Budget Office, he received his MBA from George Washington University. Prior to his appointment as the Air Force comptroller, Mr. Hale served as Assistant Director for National Security at the Congressional Budget Office for thirteen years. Other assignments included a stint as an analyst at the Congressional Budget Office, time as an analyst and study director at the Center for Naval Analyses, and service as a naval officer.

Mr. Hale is the longest serving Assistant Secretary of the Air Force for Financial Management and Comptroller, and his tenure has been marked by challenge and change. During the past six years he:

- Successfully formulated and executed six budgets to provide the resources needed both in times of peace and during the Kosovo crisis.
- Implemented an extensive professional development program for Air Force financial managers.
- Significantly improved the quality and auditability of financial information.
- Successfully streamlined operations by changing business practices and automating processes.

Since the mid 1990s, the Air Force financial management community has declined in size by about 10 percent. Further reductions are planned as the service tries to funnel money toward buying new equipment and keeping its forces ready. To help accommodate these reductions, Mr. Hale has focused on streamlining financial operations. For example, he has automated the financial processing of IMPAC credit card operations and developed the most efficient business practices in the Department of Defense. He has also encouraged use of a program that permits personnel to make changes in routine pay data over the internet and has begun deployment of a system to automate processing of travel requests. In addition to cutting costs, these and other streamlining initiatives have reduced demands for personnel, thereby helping the Air Force recruit and retain enough high-quality personnel to meets its worldwide needs for financial management.

Mr. Hale identified two of his most rewarding accomplishments — striving to achieve an unqualified audit opinion on the Air Force financial statements and working to enhance the professional credentials of his financial staff. It is a testament to his capable leadership that major strides were made in both areas even as he emphasizes that the hard work on these initiatives was accomplished by the thousands of dedicated persons within the Air Force financial community.

A "clean" financial opinion for the Air Force is still several years away in his opinion, but significant progress is being made. His approach involves three steps. The first step seeks an auditable budgetary statement for general funds through an aggressive program to clean up financial records, particularly older records. The Air Force is close to realizing this goal. The second step employs selected implementation strategies to achieve an auditable balance sheet at a reasonable cost. The third and key step is to improve financial systems so that auditable statements can be produced without extraordinary efforts. Today all of the Air Force accounting systems, plus the many systems that feed information to those accounting systems, are being modified to produce better quality, auditable financial information.

Mr. Hale has also instituted an aggressive program aimed at enhancing professional development in the Air Force financial community. In May 1999, he established guidelines for the professional development of all Air Force financial managers. These guidelines address experience and also education, including both general and technical education. The guidelines require regular continuing professional education, and Mr. Hale has sought to make continuing education available to all financial management professionals, including those in remote locations. He accomplished this utilizing various training channels such as distance learning, videotaping professional workshops, and magazine articles with a self-test option.

Test-based certification is another aspect of the Air Force's program for professional development. As the National President of the American Society of Military Comptrollers (ASMC), Mr. Hale spearheaded the rapid and successful implementation of the Certified Defense Financial Manager (CDFM) certification program. The CDFM is a valuable tool that can be used to identify those individuals who demonstrate proficiency in all aspects of defense financial management. There are twelve areas of concentration that are tested in three separate modules. Upon completion of the examination, adherence to the ASMC Pledge of Professionalism, and certification of

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FINANCIAL MANAGEMENT

PROFILE

Unlike many senior executives who have spent their entire careers with one or two agencies, Mrs. Chris Sale epitomizes the Senior Executive Service ideal of broad based policy leadership. Over a span of 29 years, she has held positions at 10 Federal and State agencies with increasingly higher levels of responsibility. Her private sector experience includes a stint as the Vice-President, Finance and Administration, and Treasurer of National Public Radio in Washington, D.C. She is also a community leader, serving on the Boards of several not for profit organizations. Presently, she is the Deputy to the Chair and Chief Financial Officer at the Federal Deposit Insurance Corporation (FDIC).

Fundamental to Mrs. Sale's success over the years has been the artful application of listening skills, keen insight, and the courage to lead change. She seeks to enhance an organization's efficiency by quickly familiarizing herself with its customers, its mission and its product(s). This process is beneficial to her understanding of the organization and provides an opportunity for the organization to undergo a high-level review. Such a review encourages and enhances integration of processes and identifies others that can be replaced or discarded. It enables persons within the organization to work under a common vision and shared objectives. Mrs. Sale has demonstrated a mastery of this process on many past occasions.

Over the years Mrs. Sale has moved from one influential position to another. In part, this comes from working with many leaders throughout government who respect her ability as an observer and change-agent. On two occasions, Mrs. Sale's job changes came about as she responded to colleagues' requests to assist them in identifying mid-level talent. Most of her job changes, however, were the result of Mrs. Sale's reputation for quality work and outstanding leadership.

One occasion that Mrs. Sale quickly points to as a career highpoint was working for the State of Ohio. In 1982, Mrs. Sale became the state's director of Office of Budget and Management. At the time, the state had a projected shortfall in its budget of about $500 million. In characteristic fashion, Mrs. Sale defined the size and scope of the problem and proposed a burden-sharing plan that received the approval of the State legislature within six months. Within a year the Plan produced a surplus of $80 million for Ohio taxpayers.

In the mid 1980's Mrs. Sale led the Department of Veterans Administration in its first attempt at preparing consolidated financial statements and implementing electronic B to B payments for goods and services. She laughs when she says that was before government credit cards and the Internet! At the Justice Department Mrs. Sale progressed from CFO and Director of Management to Deputy Commissioner for the Immigration Naturalization Services (INS). During that period Mrs. Sale oversaw the day to day operations of the agency including the agency's unprecedented growth – from 18,000 to 26,000 employees and commensurate growth in performance.

Mrs. Sale joined the FDIC in 1999. In her current position, Mrs. Sale directs activities that include about one-fourth of the FDIC's 6,800 employees. These include finance & budget, bank resolution and receivership, administration (including personnel, contracts and procurement), internal control, and investment of the FDIC's $40 billion in insurance funds.

The FDIC plays a unique role in the Federal structure. It is an independent agency of the Federal government with its own Board of Directors. As such, it is somewhat of a hybrid between a traditional Federal agency and a private-sector corporation. Today, it is continuing to downsize from its heyday of over 15,000 employees in the 1990s when the payroll swelled due to the workload associated with the banking and savings and loan crisis.

Since 1995 the FDIC employee base has been reduced by 55%. This requires the organization to develop its highly professional workforce in order to be prepared to meet projected contingencies with fewer people. This, in turn, is causing a shift in training toward more generalists in the workforce and an increased emphasis on career development and succession planning. While the FDIC now has a somewhat younger workforce (about 43 years old on average) than most Federal agencies, it, along with most Federal agencies, anticipates a large exodus of top talent because over 40% of its senior executive workforce with be eligible for retirement within the next five years.

FDIC's downsizing has also increased demand for integrated financial systems in order to maintain functional efficiency. In 1999 the FDIC implemented a financial data warehouse, which was recognized for its excellence by CIO Magazine. Recently, FDIC completed the development of a paperless Travel System. Although it is not required to follow Joint Financial Management Improvement Program guidelines, the FDIC closely follows these guidelines when specifying its personnel and systems requirements.

All of the above issues are on Mrs. Sale's plate at the FDIC. Having been in her current position since 1999, she is already on her way to understanding the needs of the organization. With the assistance of others on her team, plans are being formulated that promise to serve the taxpayers well for the years ahead. Oh yes, the book that Mrs. Sale has been reading recently, which was on the top of her desk, is titled: *FIRST, Break All The Rules, What the World's Greatest Managers Do Differently*, 1999, by Buckingham & Coffman from the Gallup Organization. In one respect, it was an indication that the Gallup Organization had finally caught up with Chris Sale. More important, however, it revealed a sense of the humility of a person who feels that, after 29 years of exemplary practice, there can still be something gleaned from a book on management theory. ◻

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During the fall and winter 1999-2000, an ad hoc task group of over 25 Federal accountants, financial and information technology managers, and others from 18 Federal agencies met under the auspices of the Chief Financial Officers Council's (CFOC) Standards Committee to develop implementation guidance for SFFAS 10. The group developed guidance under 10 topical areas using the "frequently asked question" (FAQ) format. Ultimately, the group developed 22 FAQs.

The group submitted the FAQs to the CFOC for its consideration and submission to the Federal Accounting Standards Advisory Board (FASAB) and/or FASAB's Accounting and Auditing Policy Committee (AAPC). The AAPC develops implementation guidance for FASAB standards regarding certain issues. The CFOC asked the AAPC to consider issuing the FAQs as AAPC guidance. After considering all 22 FAQs, the AAPC decided to develop six of the FAQs as an AAPC technical release for publication in the near future.[1]

The following article discusses the 16 FAQs that were not taken up by the AAPC. The AAPC referred two of the FAQs to the FASAB. These two FAQs essentially dealt with the permissibility of capitalizing, after the implementation date for SFFAS 10 had passed, costs incurred and expensed before the implementation date. For example, the entity may have been expensing costs for software in process at the implementation date, but would be capitalizing such costs after the implementation date. Could the entity capitalize all costs incurred for that project?

The task group concluded that SFFAS 10 was sufficiently flexible to allow such capitalization. In essence it interpreted SFFAS 10, paragraphs 7 and 36, and the discussion in the basis for conclusions as allowing, after the implementation date of SFFAS 10, the voluntary retroactive capitalization of costs incurred for ongoing software projects before the implementation date.

The AAPC disagreed with that conclusion. It decided that once the implementation date had passed, i. e., the standard was effective, SFFAS 10 precluded the entity from retroactively capitalizing costs previously expensed. The AAPC decided that such retroactive capitalization would require an amendment or official interpretation of SFFAS 10, which was beyond the AAPC's scope. The AAPC forwarded the issue to the FASAB for its consideration.

The FASAB discussed the issues in early June 2000. The FASAB agreed with the AAPC that SFFAS 10 not did allow such retroactive capitalization and that an amendment of SFFAS 10 would have been required. The FASAB decided not to amend SFFAS 10. The FAQ immediately below summarizes the effect of these actions.

The AAPC decided not to address the other 14 FAQs discussed in this article in a technical release. The AAPC members considered them either beyond the AAPC's scope (e.g., budgetary guidance) or insufficiently critical to warrant AAPC action.

Pre-Implementation Costs[2]

SFFAS 10 is effective for reporting periods that begin after September 30, 2000. Early implementation is encouraged.[3] Whether implementing on October 1, 2000 or at an earlier date, costs may have been incurred and expensed for software under development at the entity's implementation effective date. For some applications the pre-implementation costs may be the majority of such costs in total. For example, an entity implements SFFAS 10 on October 1, 2000. As of that date the entity has incurred $900,000 of costs on a software project. An additional $100,000 is incurred in October to complete the project. The question is whether the entity can capitalize, after October 1, 2000, the entire $1,000,000; that is, retroactively capitalize the $900,000 so that all costs of the system in progress as of the implementation date are captured and capitalized.

Regarding retroactive capitalization, SFFAS 10, paragraph 36, provides that "cost incurred prior to the initial application of this statement, whether capitalized or not, should not be adjusted to the amounts that would have been capitalized, had this statement been in effect when those costs were incurred."[4] Thus, costs incurred and expensed (i.e., not capitalized) before the implementation date of SFFAS 10—which would be October 1, 2000, unless the entity implemented early—cannot be capitalized after the implementation date.

Enhancements to Preimplementation Systems[5]

How will software improvements be capitalized if they are enhancements to (1) software fully capitalized or (2) software that need not be capitalized?

The costs of improvements would be capitalized only if (1) they meet the entity's capitalization threshold and (2) the improvements extend the functionality of the software.[6] If the improvements are above the threshold but only extend the useful life of the software, the costs would be expensed.[7]

Project Budgets[8]

Capital projects authorized prior to the effective date of SFFAS 10 generally will have been estimated and budgeted according to previous entity practices. Thus, some software development activities, which would now be capitalized under the provisions of SFFAS 10, are currently not included in the total estimated capital cost of the project. Should project budgets be "rebaselined"?

Implementation of SFFAS 10 would not change existing budgetary practice. Therefore, existing budgets or line items would not be re-baselined solely for the purpose of implementing SFFAS 10. Costs for software development activities under the provisions of SFFAS 10 would be collected, regardless of their funding source, and included in the full cost of the software asset.

Trigger Point:[9] *Systems Readiness*[10]

How should an entity accumulate the capitalizable software development costs? Are estimates acceptable vs. a project cost accounting system? How are indirect costs determined and applied to direct costs?

All concerns about indirect/direct costs and how to apply them would be implemented consistent with SFFAS 4, paragraphs 117-143. Estimated costs would seem to be acceptable under certain conditions, e.g., when direct determination is not possible, and should be well documented. Additionally, an entity may want to consider developing these procedures in consultation with its independent auditor.

Expenditures Which Extend the Life of a System/Application[11]

When is it appropriate to capitalize new development costs that extend the life of software beyond its original life? SFFAS 10 requires such costs to be expensed[12] while, for regular fixed assets, they would normally be capitalized and depreciated over the newly

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extended life (together with any previously undepreciated costs).

When enhancements to a system increase its functionality the costs would be capitalized (assuming they meet the capitalization threshold). The cost of enhancements that may extend the useful life of the software *without* adding functionality would be expensed. The FASAB concluded that costs to extend the life of software could easily be confused with the normally expected maintenance costs, and thus concluded such costs were period costs rather than capitalizable costs.

Capitalization Threshold[13]

SFFAS 10 does not prescribe capitalization dollar thresholds. Federal agencies intend to use thresholds ranging from $25,000 to $1,000,000. Should the threshold be the same as the fixed asset threshold in the applicable entity? Should the threshold be the same for all entities?

Since SFFAS 10 does not prescribe a dollar threshold or state that there should be symmetry between PP&E and software capitalization thresholds, an entity is free to establish any software threshold it deems appropriate and can justify on the basis of materiality. Additionally, the capitalization threshold will not necessarily be the same across agencies because each entity is unique and has different functions and objectives. Due to the diversity among the entities, it is important for each entity to retain flexibility in establishing capitalization thresholds.

If the capitalization threshold for internal use software is not the same for all entities, or is not the same as other general PP&E within an entity, an entity's policies may be questioned by outside parties. How can concerns of auditors, Congress, OMB or other parties in this regard be minimized?

To minimize objections to management's capitalization thresholds, the entity would adhere to Federal accounting guidance. SFFAS 6, *Accounting for Property, Plant, and Equipment*, states that, because entities are diverse in size and uses of PP&E, agencies must consider their own financial and operational conditions in establishing capitalization thresholds.[14] Fixed capitalization thresholds are not required in generally accepted accounting principles (GAAP) pronouncements by Financial Accounting Standards Board, Governmental Accounting Standards Board, or FASAB. Consistent with SFFAS 6,[15] SFFAS 10 states that the entity should consider whether period costs would be distorted or asset values misstated by expensing certain purchases or software project components.[16] Additional FASAB guidance on materiality is found in SFFAS 3, *Accounting for Inventory and Related Property*.[17]

Offsetting Credits[18]

How should an entity that receives license fees for transferring software to another entity or an outside party treat such fees and unexpected fees arising from unplanned licensing? This could happen from so-called Government Off-the-Shelf Software (GOTS) sales or license fees.

Receiving license fees for transferring software to another entity or outside party would be treated as exchange revenue.[19] The receipt of such fees does not alter the normal capitalization amounts or process for such software. If an entity were in the "business" of developing software, usually in a Working Capital Fund environment, revenue from sales or licensing would normally be recorded in the Working Capital Fund. In the rare instance that an entity engages to develop software for another entity, guidance in FASB Statement 86 would apply.[20]

Full/Indirect Costs[21]

How can an entity capture the full cost of a software project/task that is performed for a support organization at the time the asset is capitalized? What overhead rate should be used?

SFFAS 10 is consistent with SFFAS 4.[22] The capitalized cost of internally developed software includes the full costs incurred during the developmental stage, within the meaning of SFFAS 4.[23] SFFAS 4 requires entities to account for the "full cost" of their products and services in general purpose financial reports.[24] In most circumstances, the full costs of intermediate cost objects, including software projects, must also be measured in order to derive the full costs of an entity's outputs.[25]

However, not all costs are assignable to goods and services. Some costs would be recognized as period expenses rather than the costs of goods and services (output costs); for example, other postemployment benefits, reorganization costs, and acquisition costs of "heritage assets."[26] These costs would be reported as unassigned costs on the Statement of Net Costs.

The entity would choose the cost accounting methodology to employ to meet the requirement. SFFAS 4 discusses activity-based costing, process costing, job order costing, and standard costing.[27] Any of these methodologies or a combination of them would capture the developmental costs of internal use software as work-in-process (WIP). Any WIP account balance at the end of the period would be reported as an asset on the balance sheet. The WIP account balance would be closed and a software asset account opened after the users accept the software, i.e., after successful testing.[28] Amortization would begin thereafter.

In instances where the software is developed in a general and administrative (G&A) function, two scenarios are possible — either the G&A function is an individual responsibility center or it is part of a larger responsibility center. In either case, the entity would determine the direct and indirect costs of developing the software. The amortized costs of the software asset in the G&A function would be charged to other activities, as part of the overhead rate.

Overhead Rates[29]

Is it important that all entities use the same overhead method or that functions within an entity use the same overhead method? What can be done to minimize concerns of auditors and other parties?

All entities do not necessarily use the same overhead method. SFFAS 4 discusses several methods for tracing, assigning, or allocating costs to objects.[30] SFFAS 4 and other accounting principles require individual reporting agencies to apply consistent cost methodologies and other accounting principles.[31] Thus, an entity would apply consistent overhead methodologies to its own operations where feasible and appropriate to the operating environment.

With respect to auditing concerns, agencies would consult SFFAS 4 and OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," or successor bulletins. Bulletin No. 98-08 describes the process auditors are expected to follow when making a determination as to whether the entity is following the Federal Financial Management Improvement Act of 1996 (FFMIA) requirement to employ FASAB standards, Federal systems requirements, and the Standard General Ledger at the transactions level.[32] Bulletin No. 98-08 refers the auditor to

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completion of applicable experience in defense-related financial management, the CDFM designation is awarded.

Mr. Hale has placed particular emphasis on professional development in part because of trends in the Air Force financial workforce, which is composed of about 55% civilian and 45% military personnel. The civilian portion of that workforce is "graying," as is the case in many Federal agencies, and there will be many new faces over the next decade. An aggressive program of professional development is key to meeting the financial needs of the Air Force. By introducing this program in the military, Mr. Hale has set an example for others to follow. Hopefully the high visibility and deserved success of this program will inspire similar efforts in the civilian sector.

Future challenges in Federal financial management include everything from technological change to downsizing, and Mr. Hale identifies the low level of public confidence in government as a key concern. Many factors contribute to this low level of confidence: a system of checks and balances that appears unwieldy to the public; a lack of incentives to achieve efficiencies; and unrelentingly negative press coverage. The financial community certainly cannot resolve this far-reaching issue by itself, but he feels they can help. For example, achieving auditable financial statements will contribute to improving public confidence in government, which is one reason he has emphasized this important initiative.

Since Mr. Hale serves in a position that is filled through a political appointment, he serves at the pleasure of the President. Regardless of the outcome of the elections in November, he will probably be relocating after January 2001. Among other changes, this shift will offer him the opportunity to replenish the reserve of intellectual capital that has been tapped by years of high-level public service. In view of his predisposition for excellence and his demonstrated capacity for learning, this will certainly be a welcome opportunity to pause and recharge before progressing to the next professional challenge. ❑

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defined strategic goals in order to meet agency mission objectives.

- The Federal Acquisition Streamlining Act of 1994, Title V, requires agencies to establish and meet meeting performance goals for major acquisition programs, a category that could include many of the major financial management system initiatives.

That's a lot of requirements! The good news is that if your agency already has an effective CPIC process in place as required by Clinger-Cohen you are probably already developing plans that meet these requirements and probably have most of the information you need already in hand.

What are OMB's requirements for financial management system plans?

OMB provides detailed guidance for financial management system plans in Circular A-11. Since financial systems are a subset of IT systems, there are three requirements in A-11 that must be addressed in an integrated and consistent manner. Specifically, here's what A-11 requires:

1. *Your "Financial Management Plan"*

"Budget justifications for financial management operations and improvement initiatives," described in Section 52 of Circular A-11, is more commonly known as your financial management plan. This plan must provide:

- agency goals for implementing the government wide improvements outlined in the annual CFO plan submitted to Congress,
- a discussion of impediments to unqualified and timely financial statement audits,
- an overview of your financial management system plans, and
- a discussion on improving the consistency of the grant management programs across the agency.

In addition, financial management systems plans must present specific information on your financial management systems such as:

- an overview of your current and target financial management systems structure and strategy and plans for moving to your targeted structure,
- an assessment of major system problems, and
- a synopsis of critical projects you are undertaking to achieve your target architecture and resolve FFMIA compliance problems

You must also consider if you need to prepare an FFMIA remediation plan. If the Head of an agency determines that the agency's financial management systems do not comply with the requirements of the FFMIA, the head of the agency, in consultation with the OMB, must establish a remediation plan that should include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance. OMB's A-11 Budget guidance requires any remediation plan to be submitted as part of the annual budget submission process. Agency remediation plans should be tied to agency financial management plans and other IT related agency submissions.

A stand-alone document titled "Remediation Plan" is not required. Nor must each of the remediation plan elements required by FFMIA be covered in detail in this financial management plan. The requirements for a remediation plan are satisfied as long as a reference is given within this financial management plan on where to find the information and provided that the referenced document has been submitted to OMB. For example, you may prefer to identify resource requirements in the IT portfolio and reference it in this document rather than provide a duplicate list of resources in the financial management plan. Also, agencies that are in compliance with FFMIA should continue to address system problems in their financial management plans even though a remediation plan is not required.

2. IT Portfolio.

Section 53 of Circular A-11 defines the criteria for submitting the Agency's IT Investment Portfolio, Exhibit 53. Any financial management system or portion of a system supporting financial management with budget authority in excess of $500,000 must be included in this portfolio exhibit. Budget authority means the authority provided by law to incur financial obligations that will result in outlays.

The portfolio collects information on budget authority for steady state systems (those undergoing operation and maintenance at current capability and performance level) as

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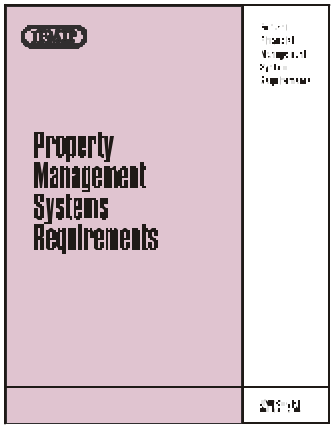
The Property Management Systems Requirements Document Enters Final Phase

The Property Management Systems Requirements are poised to take effect. This document has gone through two separate exposure draft and comment periods. The first Exposure Draft was issued on March 29, 2000, and the initial comment period closed on May 31, 2000. Over 40 agencies and private sector organizations submitted comments representing the viewpoints of the financial management, property management, oversight, and systems development communities. Major issues emerging from the initial exposure were capturing information on deferred maintenance, environmental clean-up, capital improvements, and the need for a skeletal property record for newly acquired assets in transit from the manufacturer or seller. The second Exposure Draft was issued on July 28, 2000, and had an abbreviated comment period, which ended August 25, 2000. Even though there were over ninety comments from fifteen agencies submitted during this second comment period, there were no major issues or fatal flaws uncovered during this final Exposure Draft review.



After incorporating the editorial comments and other suggestions for improving clarity, the Property Management Systems Requirements were presented to the JFMIP Steering Committee with a request for permission to publish the document. Baring any unforeseen circumstances, the publication of this document in October 2000 is anticipated, and the requirements will be effective upon issuance.

An open house to rollout the published document is currently being planned for December 2000. Details regarding the open house will be posted on JFMIP's website, www.JFMIP.gov. Of course, the final property requirements document will also be posted to our website. If you need more information, contact Carla Kohler at (202) 219-0532 or kohlerc@jfmip.gov. ◻

Incremental Testing of Qualified Software Launched

JFMIP recently completed the first round of testing for the FY 2000 incremental test of COTS Financial Management System software packages. In order to maintain a certificate of compliance, those vendors with qualified software packages must successfully complete any incremental test that may be required by JFMIP. The purpose of incremental testing is to ensure that vendor software offerings are aligned with Federal financial management requirements.

Even though other new requirements were included, this initial incremental test was primarily focused on ensuring that the qualified software packages—those that have already been certified by JFMIP—are capable of satisfying reporting requirements required by the Federal Agency Centralized Trial Balance System II (FACTS II). Another first was also associated with this incremental testing. For the first time, JFMIP and the Department of Treasury worked collaboratively to execute a test that verifies the capability of software to produce an electronic file in the format required by Treasury. All of the software packages that passed the incremental test demonstrated the following capabilities during the test:

- The ability to capture all of the data elements required for FACTS II submissions (SGL and related attributes, etc.) at the transaction level.
- The ability to perform data validation edits that mirror the edits in Treasury's FACTS II system and produce a report on the results of the validation edits.
- An automated process for producing a bulk file and required footnotes.
- The ability to produce an electronic output that conforms to the Treasury bulk file layout and is accepted and processed in Treasury's test environment.

The following software packages have successfully completed the FY 2000 incremental test that emphasized compliance with FACTS II reporting:

- Oracle Public Sector Financials, Release 11 version 3.3-August 17, 2000
- SAP, R3 version ISPS US2-September 5, 2000
- Peoplesoft, Financial Management for Education & Government, version 7.5-September 12, 2000
- AMS Momentum version 3.5.2-September 13, 2000
- AMS FFS version 5.6- September 14, 2000
- ICF Consulting, FINASST version 3.01-September 18, 2000
- Reltek CFS version 2-October 6, 2000
- DSG IFMIS version 5.1.6-October 16, 2000
- Orion GLOWS version. 5.0.1-October 18, 2000

Additional information on each of the packages listed above can be found on the JFMIP Knowledgebase at http://www.jfmip.gov/jfmip/kb.htm. The final FY 2000 incremental test plan, test script, and example files and reports have also been posted. ◻

SFFAS 10
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OMB Circular A-127, "Financial Management Systems," and, thus, to the Joint Financial Management Improvement Program (JFMIP) systems requirements, including *Managerial Cost Accounting System Requirements*, FFMSR-8 (February 1998). Chapter III of FFMSR-8 provides the functional requirements for systems supporting managerial cost accounting, including system administration, data capture, cost assignment, cost classification, and cost monitoring.

Procedural Revisions[33]

Implementation of SFFAS 10 impacts numerous functions (accounting, procurement, information technology, property management, etc.) and may require extensive procedural revisions (procurement, accounting, information technology, property management).

Each entity would develop a comprehensive plan for modifying its procedures for all functions impacted by the implementation of SFFAS 10. The coordination of changes to the impacted systems and processes and the subsequent realization of procedural revisions would be well documented.

Systems Workarounds[34]

Implementation of SFFAS 10 may also require accounting system "workarounds" to capture project costs until permanent changes are made.

As an implementation strategy, system workarounds, including accounting and others, would be acceptable as long as they are well documented and are limited in scope. Permanent changes to systems so that project costs are properly and timely captured, tracked, and amortized should be in place as soon as possible in order to not adversely impact the long-term implementation and results derived from SFFAS 10.

User-Developed Applications[35]

Will SFFAS 10 apply to user-developed applications? For example, when does a spreadsheet become a capitalizable software application? How about a web page, or a database? An issue arises with respect to identifying these grassroots efforts at their inception in order to capture all costs.

SFFAS 10 would apply to user-developed applications, including web pages and spreadsheets. It would be prudent to review and assess projects from both financial and technical perspectives to determine whether the resulting product is a capital asset. The assessment would consider the type of software, the related life cycle phase, and the intended function of the software product.

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Capturing Costs[36]

At the point an entity recognizes that user-developed project has grown to a capitalizable size, how does an entity you go back and capture those costs?

An estimate of direct and indirect costs is acceptable. All estimates should be well documented.

Circular A-11[37]

Circular A-11, Section 53, "Information Technology," requires certain reporting for information technology costs. Most agencies have developed informal or formal systems to track their budget authority for information technology. Capitalized internal use software will be a component of the total values reported and may be large enough to report as aseparate line item. Reporting is required in exhibit 53, "Report on Information Technology," which was developed jointly by OMB and the Chief Information Officers' Council. Exhibit 53 provides separate line items for "development/modernization/enhancement" and "steady state," as well as for funding sources (e.g., appropriations).

Circular A-11, Part 3,"Planning, Budgeting, and Acquisition of Fixed Assets," establishes another reporting requirement for major information technology acquisitions, using exhibit 300B, "Capital Asset Plan and Justification," and other vehicles. The illustrative exhibit 300B in Circular A-11 provides for reporting:

- a narrative discussing, among other things, the linkage of the acquisition to the entity's mission,
- past and current year's budget authority,
- a projection of the next five future years' costs individually,
- a projection of total future costs beyond the next five years, and
  original and revised baseline budgets.

Any information technology system reported as a major system in exhibit 53 must also be reported on exhibit 300B.

The Circular A-11 requirements raise two issues.

A. *Consistency in Reporting.* Federal agencies would make sure that they are able to categorize internal use software into one of three categories consistent with OMB reporting: (1) major; (2) significant, non-major; and (3) other. For the first two categories, total system costs (including the capitalizable portion) should be consistent with, and never greater than, values reported in other OMB submissions (e.g., exhibits 53 and 300B). Ideally, they would draw from the same data source.

B. Reporting Subcategories. For major systems, as defined in Circular A-11, Federal agencies are required to report development/modernization/enhancement and steady state via exhibit 53. Regarding the developmental cycle, the criteria for starting capitalization—management's commitment and completion of the preliminary design phase—falls inside the development cycle, and agencies would keep track of noncapitalizable and capitalizable costs. The criteria for ending the capitalization of software work in process and beginning amortization, (i.e., user acceptance), would be captured as a subset of total costs as well. A reasonable approach would be to treat this second point as coincident with identifying costs as "steady state" or "maintenance." ❑

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to deliver the systems and services to the Federal government. Related efforts focused on improving the chances for success through better tools to plan systems, better quality assurance of commercial sources, and more shared information.[6] The JFMIP Knowledgebase and testing process are examples of governmentwide tools to improve performance. There have been efforts to facilitate cross servicing for selected functional areas such as payroll and debt collection, but this is the exception rather than the rule. The predominant Federal strategy for core financial systems has been on achieving systems that meet standards rather than achieving a standard system.

The emergence of e-government as a strategic initiative may further shift the focus of information technology collaboration from back-room operations to front-line service to the public. The findings of a 1999 KPMG survey of 98 government leaders from 9 countries suggest there is a significant commitment to expand delivery of government services through e-government. The current internal focus of information technology approaches will shift more to an external customer-centric focus using web-enabled interaction and transactions. The study noted that delivery of integrated services requires collaboration. While senior leaders recognize the potential benefits of collaboration, political support is viewed as essential to success; collaboration will not work unless the budget allocation process supports the initiative. Information technology and e-commerce are making it easier to collaborate, but collaboration is seen as a future opportunity rather than a current reality.[7]

Commercial Environment

The commercial environment is characterized by rapid changes in functionality, information technology, and communication architectures. In the last decade, for example, the dominant commercial administrative system product offerings have changed from mainframe products to client-server systems to web-based systems. Not only has the technology changed dramatically over time but also the market arrangements.

Three examples of commercial products or services that have emerged recently and are now available to Federal agencies are Enterprise Resource Planning (ERP) systems, Application Service Providers (ASPs), and Extensible Business Reporting Language (XBRL).

Enterprise Resource Planning Systems

A decade ago, the government organized the Federal market for administrative system software to reflect a "best of breed" approach in which the government acquired and integrated single applications. The Financial Management Systems Software schedule favored vertical integration of software, services, and maintenance in a single company. Acquisitions were primarily mainframe. One company, American Management Systems, captured 80 percent of the Federal core financial system COTS business with its Federal Financial System.

In this decade, commercial applications available to Federal agencies include ERP systems. Typically, an ERP system is an integrated suite of administrative applications from one vendor—it enables both vertical and horizontal integration to support the entire enterprise. ERP vendors are software application builders. They partner with integrator companies to provide the implementation services, reflecting an important change in business arrangements.

On the surface, at least, the ERP approach has an intuitive appeal. Among other things, the number of vendors with which an agency would need to work would be reduced, technical support activities on disparate systems would be minimized, the number of interfaces would be reduced, business processes could potentially be automated across stovepipes, and multifunctional data could be captured once and shared across the enterprise.

Because some agencies consider integrated processes as a key outcome of system acquisitions, they may no longer consider the dominant software application and approach of a decade ago to be the best choice today. ERP products represent new choices for Federal agencies.

Application Service Providers

Another important new option that is becoming available to Federal agencies is virtual administrative system functionality delivered by a third party—an Application Service Provider—via Internet technology. Typically, under this arrangement, the client owns or leases the packaged software, while the ASP provides the platform and a range of services, such as a commercial communications source with an on-line channel to users. For instance, in 1999 Arthur Andersen teamed with Oracle, ADP, and the North Central Texas Council of Governments to provide core financial system, asset management, and other financial services to cities in Texas through a shared service center that operates in a remote location.[8] It is a matter of time before such arrangements are offered to Federal agencies. Such options may become increasingly appealing as large numbers of Federal financial and information technology workers retire.

Extensible Business Reporting Language

The development of XBRL, its adoption as a standard data tag for financial information, and its incorporation into commercial financial management software applications likely will have a significant effect on financial systems investment. The use by all systems of the same business reporting language will standardize data and facilitate the capture and use of data, even from incompatible accounting systems.[9]

Policy Case Considerations

No legislative authority, policy directive, or precedent supports OMB mandating Federal agency use of a single financial system software application for core financial system functionality.

The CFO Act vests responsibility for financial systems with Federal agencies and gives OMB the authority to establish requirements, provide oversight, and advise on funding of systems. Title II, Section 503 (2) and (3), of the CFO Act gives OMB's Deputy Director for Management responsibility to provide overall direction and leadership to the executive branch on financial management matters by

- establishing financial management policies and requirements,
- monitoring the establishment and operation of Federal government financial management systems,
- reviewing agency budget requests for financial management systems and operations, and

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FASAB *Update*

FASAB Initiates New Process for Appointing Non-Federal Members

As a result of the American Institute of Certified Public Accountants conferring its Rule 203 status on the FASAB, new procedures were established to select three non-Federal members to serve on the FASAB. An Appointments Panel was created to advise the FASAB Principals on appointments and re-appointments for these three positions. In addition, the procedures provide for the creation of a registry of interested candidates that will ensure that FASAB is able to fill any vacancies among the non-Federal members quickly and that the public interest is well represented. The registry is open to non-Federal professionals, and candidates may be added at any time. More detailed information is available at www.financenet.gov/fed/fasab/pdf/responsib.pdf, the FASAB website. Interested parties may submit resumes to Ms. Wendy M. Comes, Executive Director, Federal Accounting Standards Advisory Board, 441 G Street NW, Mailstop 6K17V, Washington, DC 20548.

FASAB Discussion on Assurance Related Issues Regarding RSSI

The FASAB confirmed its July decision to prepare a "preliminary views" document to solicit comments regarding the role of Required Supplementary Stewardship Information (RSSI) in the Federal financial reporting model. As part of the related deliberations, FASAB held a "roundtable" on August 30, 2000, to discuss assurance-related issues regarding RSSI. Key points of discussion include:

- There is a need for clear criteria in accounting standards and consideration should be given to developing audit guidance for nontraditional information.
- There may be questions about how to assess materiality for some of the nontraditional items included in RSSI.
- Based on recent experiences at GASB and FASAB, the view once held by AICPA—that "the standard setter sets the reporting standards and the auditor will figure out how to deal with it"—may not always be true now.
- Given the requirements for fund reporting and the possibility of reporting service efforts and accomplishments (SEA) and financial condition indicators in the future, the meaning of "financial statements taken as a whole" in the governmental environment becomes less clear.

FASAB Votes to Issue Exposure Draft to Delete Tax Receivable Disclosures

The Internal Revenue Service (IRS) requested that paragraph (par.) 65.2 of Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources, be deleted. This paragraph requires entities that collect taxes and duties to disclose certain material revenue-related transactions affecting accounts receivable, accounts payable for refunds, and the allowance for uncollectibles. At the request of IRS, SFFAS 13, Deferral of Paragraph 65.2 – Material Revenue-related Transactions, was issued and defers the effective date of par. 65.2 until FY 2001.

The IRS is now requesting the deletion of this paragraph because the agency has found that the information can be irrelevant and misleading. The IRS also asserted that some or all of the information required by par. 65.2 pertains to the compliance process rather than tax receivables and objected to reporting such information in its financial statements.

The rationale for paragraph 65.2 is that disclosures are important for accountability. Disclosure of the dollar amounts of the transactions in the "modified cash basis" revenue stream, from initial recognition by the established assessment process through cash collection and refunds, is important for oversight and performance evaluation. Providing as much accurate and detailed information as possible about the annual flow of taxpayer funds is important because the administration of the collection function is to some degree discretionary.

After considerable discussion, the Board voted to develop and issue an exposure draft proposing deletion of paragraph 65.2. In addition, the Board will consider authorizing a project to analyze what meaningful information could be produced.

AAPC Update

Status of Ongoing AAPC Projects

Liabilities Covered and Not Covered by Budgetary Resources: AAPC has continued working with the OMB to more clearly define "liabilities covered and not covered by budgetary resources." OMB will address this area in its forthcoming version of its Bulletin on Form & Content of agency financial statements, which will be applicable for fiscal years beginning in 2001.

Supplemental Guidance to SFFAS 10 Accounting for Internal Use Software: The Chief Financial Officers Council had requested that the AAPC consider issuing an implementation guide to SFFAS 10 (see FASAB News Issue 61). The AAPC has reviewed six areas for issue under a Technical Release. The Committee plans to post the draft Technical Release on the AAPC website for a short comment period by October 2000.

Request for guidance on Grant Accounting: The AAPC task force will meet with the CFO Council's Grant Accounting Committee to gather information on how agencies account for expenses incurred by a grantee after a letter of intent has been issued but before the grant agreement is executed. This request for guidance was submitted by the Federal Aviation Administration.

New AAPC Project

The Railroad Retirement Board (RRB) has asked the AAPC to provide guidance on the accounting and reporting of the RRB's Financial Interchange with the Social Security system. Based on SFFAS 7, the AAPC said that the financial interchange should be recognized using accrual accounting; cash-based accounting was not an option. Several auditors on the AAPC said that net results of operations is not routinely the best benchmark for materiality determinations in the Federal arena. Further, the Committee said that if the estimated accrual is the best estimate available, then the issue is a matter of audit judgment. Finally, the Committee gave some suggestions on how to resolve a related audit issue. ❑

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- advising the Director of OMB on resources required to develop and effectively operate and maintain Federal government financial management systems and to correct major deficiencies in such systems.[10]

OMB Circular A-127 requires establishing governmentwide financial systems and compatible agency systems, with standardized information and electronic data exchange between central management agency and individual operating agency systems, but it does not specify the use of the same system by all agencies. Instead, it vests responsibility for agency financial systems with agency heads, stating that each agency shall establish and maintain a single, integrated financial management system that complies with

- applicable accounting principles, standards, and related requirements as defined by OMB and the Department of the Treasury;
- internal control standards as defined in Circular A-123 and successor documents;
- information resource management policy as defined in Circular A-130 and successor documents; and
- operating policies and related requirements prescribed by OMB, the Department of the Treasury, and the agency.

The Information Technology Management Reform Act (ITMRA) establishes information technology capital planning and investment control responsibilities in OMB. Section 5122 (a) (4) provides for identifying information system investments that result in shared benefits or costs with other Federal agencies, state or local governments. Section 5202 provisions support breaking IT projects into manageable parts that can be delivered within 18 months after the date of the contract solicitation.[11] The law mandates an IT acquisition process, including financial management IT investment, that maximizes value and assesses and minimizes risk. The law provides for *consideration* of shared investment where multiple agencies use an IT investment as part of the capital planning process.

In sum, current laws and policies require only that financial management systems are integrated, but that does not mean the agency systems must be the same. Instead, it simply means that the systems must be designed to provide effective and efficient interrelationships among software, hardware, personnel, procedures, controls, and data contained within the systems, including common data elements, common transaction processing, consistent internal controls, and efficient transaction entry. To ensure that core financial management software meets Federal requirements, policy also mandates that agencies use commercial software that has been tested and qualified by JFMIP.[12]

Business Case Considerations

Under ITMRA, direction for Federal agencies to use a single financial management system software application would have to be justified by a business case analysis that considered net risk-adjusted return on investment. However, no detailed cost accounting information for financial management systems is readily available to analyze the costs and benefits of specific system replacement options. Nor do any benchmarks identify the break-even point where economies of scale turn into diseconomies; definitive information on how big is too big is not available. The cost information that is available is general. For example, the 1999 META Group study identified the average total cost of ownership ($15 million), implementation cost ($10.6 million), and time to implement (23 months) and break even (5 years). The study also showed that implementations in larger companies cost more and took longer than average, but resulted in the lowest cost of ownership as a percentage of revenue.

Rigorous cost data is lacking primarily because the need to reduce costs through consolidation of disparate systems is not what drives most businesses to replace their systems. Instead, studies of private-sector implementations suggest that the business needs of the corporation drive system decisions. The 1999 META Group analysis of enterprise system implementations in 63 companies concluded that a business and strategic focus drive the most successful system implementations. In other words, private-sector companies justify major system replacements, especially using integrated packages, on the basis of strategic considerations rather than return on investment. Those considerations include the need to modernize aging applications that are economically beyond salvage, to address new business requirements not supported by the existing system, and to achieve a desired level of competitive advantage.[13]

Not only would it be difficult to justify mandating the use of a single system based on the return on investment, as required by ITMRA, such an implementation would be at considerable risk of failure. The 1995 Standish Group analysis of 8,380 applications implemented in 365 entities found low success rates. Overall, only 16 percent of projects were completed on time, were within budget, and had all features and functions initially specified; 52 percent of projects were completed and became operational, but they took longer to implement than estimated, were over budget, and offered fewer features and functions than originally specified; 31 percent of projects were cancelled. Larger companies had a lower success rate than the total sample: only 9 percent of projects were completed on time and within budget with target functionality; 62 percent took longer to implement than estimated, were over budget, and had less-than-target functionality; and 30 percent were cancelled. Specific project management characteristics were associated with successful projects. IT executive managers indicated that the most critical factors were user involvement, executive management support, and a clear statement of requirements. There are other success criteria, but without these three, chances of failure increase dramatically.[14]

Although it would be difficult to build a business case justifying the use of a single core accounting system in the Federal government, a case *can* be made for *reducing* the number of systems. Benchmarking studies indicate that first-quartile companies have three financial systems per $1 billion in revenue and the systems are an average of 3 years old. In contrast, Federal agencies average 17 systems per $1 billion in revenue and the systems are 5.9 years old.[15] The case for reducing the number of systems is intuitive, especially when legacy systems within each agency do not support basic functionality requirements.

Case Studies

A look at the experience of three entities—Department of Defense (DoD),

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state of California, and Canadian government—that took steps to reduce the number of core accounting systems in use is instructive.

Department of Defense

DoD is the largest U.S. Federal agency. Over the last decade, it significantly restructured its financial management systems. In 1991, DoD had some 324 financial systems including 127 finance systems and 197 accounting systems. Most were "home grown"—designed to meet only the unique requirements of their users—and incompatible with each other. As the missions undertaken by the Department became more complicated, DoD organizations needed to interact, which was problematic because of a lack of DoD-wide standards for data and procedures, among other things. To cope with more demanding operating requirements, while attempting to preserve the autonomy of individual organizations, the Department developed ever-more complicated business practices.

The establishment of the Defense Finance and Accounting Service (DFAS) in 1991 provided the organizational framework, authority, and budgetary control necessary for streamlining DoD's financial systems. A major DoD streamlining milestone was consolidation of DFAS operations from 330 sites to 5 DFAS centers and 20 operating locations. The complementary strategy was reduction of the number of legacy finance and accounting systems. As of October 1999, 98 finance and accounting systems (15 finance and 83 accounting) were operating—down from 324 in 1991. DFAS's goal is to reduce the number of finance systems to 9 and the number of accounting systems to 22 or fewer by FY 2003.[16]

DFAS's strategy was to select the best legacy system for each function and adopt it as the "migration" system—making it the standard system for use throughout DoD. The system migration strategy accepted as a constraint that each military service had in place business practices and a financial management coding structure to capture, manage, and report financial information that could not be readily accommodated in a single system. Service-unique business structures permeate the services' financial management architecture from programming to budget, logistics, personnel, and other management systems.[17] The systems reduction for the most part did not result in transition to COTS products.

The FY 2000 DoD financial management systems strategy calls for achieving an "Objective CFO-compliant Environment (OCE)." The OCE focuses on establishing a single standard application for each mission support area or unique business area. Processes required to support business areas and customer-unique financial management requirements that cannot be standardized will be incorporated as separate procedures or applications. Applications, both standard and unique, will use a shared data environment to update and retrieve data required by other applications.[18]

DoD's strategy recognizes that current systems, while consolidated and reduced in number, are not well integrated and that data are not standardized. Data management at the DoD enterprise level does not exist, precluding data sharing. Feeder systems outside of DFAS's control provide most data required to produce financial statements as well as other business requirements. Changing systems managed by other communities requires collaboration and consensus. DoD is kicking off a new effort titled the "Financial and Feeder Systems Compliance Process." The process will employ a Y2K-like approach to bring the DoD's systems—both financial and nonfinancial—into compliance with various Federal Financial Management Improvement Act requirements—JFMIP system requiements, FASAB standards, and U. S. SGL. The effort will be chaired by the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The Chief Information Officer will be one of its key players as will the DoD Inspector General. However, the power behind the Y2K strategy was that military leadership understood that failure to remediate posed catastrophic risk to military capability. Military leadership supported use of resources to avoid that risk. It is difficult to generate the same urgency and support when the perceived result of inaction is an adverse audit report for "noncompliance with laws and regulations."

California

The state of California represents a large complex governmental entity that successfully converted to a standard accounting system. The annual budget, including Federal funds, is about $100 billion. Government Code Section 13300 establishes responsibility for the state accounting system under the California State Department of Finance. Under that authority, the California State Accounting and Reporting System (CALSTARS) was developed to provide all state agencies with an automated organization and program cost accounting system to accurately and systematically account for all revenue, expenditures, receipts, disbursements, and property of the state. The system was planned in 1980-81 and implemented on July 1, 1981, in 27 state agencies using KPMG software. Today, approximately 101 accounting offices throughout the state use CALSTARS to perform the accounting function for approximately 210 of the state's 225 departments, institutions, boards, and commissions. In 1999, the system processed 27.7 million transactions and had over 2,500 on-line users.

CALSTARS was specifically designed to improve the timeliness and accuracy of financial information, standardize the accounting and reporting functions within and across the state agencies, and expand each agency's accounting and reporting capabilities. CALSTARS is also part of larger statewide goals of providing program cost information and achieving uniformity between the state's budgeting and accounting processes. CALSTARS was designed to conform to Generally Accepted Accounting Principles (GAAP), as needed, and to satisfy Government Code, State Administrative Manual (SAM), and other state accounting requirements. The system design also incorporated the state's *Uniform Code Manual* (UCM) to provide for consistency and uniformity between the budgeting and accounting processes of the state and between the state agencies.[19]

While the system originated with a COTS product, it has been customized over time and is now entirely supported by staff of the Department of Finance. For example, the Department of Finance converted the database from COBOL to Adabase in response to Y2K remediation needs. The cost of operating and maintaining the system is

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billed to the supported agencies that are required to budget and pay those costs. The Department of Finance is committed to retaining the design, maintenance, and operation of CALSTARS. Transition to an alternative approach is considered cost prohibitive.[20]

The California case demonstrates that a common system can be deployed in a large complex government organization when there is legislative mandate, executive support, centralized resources to fund the project, and user commitment. This has been a 20-year process and is still evolving to incorporate current technology into what has become a customized government-operated system.

Canadian Government

The Canadian government, whose total annual revenue in the 2000 FY was $172 billion, undertook major reforms in the last decade. Its Financial Information Strategy (FIS) reflects an initiative that began in 1989, with full implementation targeted for 2001. FIS was developed in recognition that the government's legacy financial systems could not provide the management information necessary to decision-makers, both in central agencies and individual departments. The FIS mandate was also to move the government's basis of accounting closer to that of the private sector and to allow streamlining of the government's consolidated financial statements. Desired FIS outcomes are as follows:

- Change the basis of accounting from the current modified accrual basis to full accrual accounting, including the capitalization of fixed assets
- Implement a new chart of accounts for governmentwide reporting
- Decentralize accounting to departments, with the Receiver General continuing to undertake the government's treasury function and produce the consolidated governmentwide financial statements
- Allocate the responsibility for payment scheduling to departments
- Modernize the central accounting system by developing the Central Financial Management Reporting System
- Improve departmental systems to include integrated financial and materiel processes and to take advantage of new technology
- Foster a learning environment in which managers steadily improve their ability to use quality financial information for strategic purposes.

The systems strategy supporting this financial management strategy is called the Shared Systems Initiative (SSI). A major SSI objective is to reduce the number of information systems used for a specific function or domain in government, thereby reducing the total cost of acquiring, maintaining, and enhancing those systems. The more than 60 existing systems were reviewed for functionality and six—two government-developed and four COTS—were approved for use. In addition, an open competition was held to see whether another world-class system should be added. A COTS system—SAP—won that competition. Ministers then directed that all departments migrate to one of the seven approved financial systems. The decision was based on the SSI philosophy that it is more cost-effective to use fewer systems.[21] The requirement to be Y2K compliant and the shift to accrual accounting by 2001 resulted in rapid movement from legacy systems to systems that were on the approved list.[22]

Summary

The track record of system implementations demonstrates that clear business purpose, engagement of users who understand the purpose, clearly defined requirements, and active executive management support are prerequisites to successful project implementation. Chances for success go down as the size and complexity of implementation goes up. Strong executive leadership backed up by statutory authority, organizational authority, and budgetary authorities for the strategies are key. The process is lengthy. Changing installed systems requires incentives and forcing factors, such as the need to have Y2K-compliant systems or the ability to support full accrual accounting by a specific year.

The Answer

Should all Federal agencies use the same core accounting system application? The answer is *no*:

- *Existing law and policy do not support it.* Authority for OMB to direct such action is limited. The responsibility for operations and the systems that support them is vested in agency heads with OMB oversight. Under ITMRA, the business case would have to be compelling before agency heads would accept a single governmentwide application; the current facts do not support such a case. In addition, ITMRA and the "Raines' Rules require modular implementations that can be implemented in 18 months; implementing a single application would take 10 to 15 years. Finally, the political framework and will is lacking. The case studies suggest that successfully reducing the number of systems to a few authorized for use enterprisewide requires strong organizational control of systems, a strong business case, and strong management, and it takes years. Mechanisms such as Y2K and compliance with new requirements by a certain date can be used to force action. System changes that rely on consensus and cooperation must be viewed in the best interest of the organizations that must make the changes.
- *The business case is questionable.* Software represents less than 5 percent of the total cost of ownership for a financial system. The major costs are services, business process reengineering, and so forth. A forced fit would conflict with success factors for system implementations. Key factors for successful system replacement are to support strategic business goals, involve users, and have senior executive support, and have clear requirements. While Federal laws mandate many common system requirements, the Federal agencies have varying business needs. So "one size fits all" would not result in the best solution for every Federal agency.
- *The risk is high.* The larger the project, the longer it takes, and the higher the risk of failure. The system supplier (in house or commercial) must have the capacity to manage the volume of

Continued on page 22.

A Blueprint for Success at Justice

In April 1998, the Office of Justice Programs (OJP) within the U.S. Department of Justice was facing an increasingly familiar choice: repair an old financial management system or replace it with a newer, integrated system. This decision was precipitated by the likelihood that OJP would receive another disclaimer of opinion on its next financial audit if business continued as usual. August 1998 was a critical crossover timeframe for the agency. If a new system was to be purchased, OJP would have to choose a software package and install it within the next 8 months. This would be no small undertaking because the agency operated in a business environment where it is not uncommon to take up to several years to complete such a process.

OJP has the second largest budget in the Justice Department with an annual appropriation of about $4 billion, a payroll of approximately 1000 people, and a portfolio of 40,000 grants with a value close to $20 billion. The office of the Chief Financial Officer (CFO) staff has 200 employees/contractors, serves as the controller for 11 program offices and provides cross-service accounting for other areas within the Department. If OJP could not resolve this issue within the 1998 calendar year, it is probable that the Department of Justice would receive a disclaimer of opinion on its annual audit, as well. These thoughts were definitely on the mind of OJP's new comptroller and CFO, Cynthia Schwimer.

OJP was seeking a financial system solution that would not only meet its present needs but would also accommodate its future requirements. Like the old family automobile that has reached its half-life, the existing accounting system was beginning to show signs of wear as it tried to keep pace with the growing needs of the agency. Some on the staff were reluctant to ditch the old family car, the jalopy that it was. The pain of making the repair or replace decision, because of inherent biases and emotional attachments, was greatly salved by retaining an outside consultant early in the process. In addition to the consultant's technical expertise, the decision to bring a professional outsider on board created a level playing field as everyone was encouraged to openly discuss the options. It was this setting that made it possible to develop and adopt a shared vision for the success of the project that became the group's focus. This helped save precious time and money later on.

Another secret of OJP's success in bringing up its new system in a short timeframe was the selection of a software package that met most of its needs, which enabled the agency to avoid customizing the commercial-off-the-shelf (COTS) product whenever possible. By doing so, the agency increased the chances of meeting its short-term goal of getting the system up and running quickly. Customization could be addressed later, if needed.

Working with its consultant, Grant Thornton, the agency invited five vendors to demonstrate their software in the OJP environment. Two could not run their systems in this environment and OJP performed technical evaluations for the remaining three. The agency selected a JFMIP-certified package offered by Digital System Group (DSG), Integrated Financial Management Information System (IFMIS). Five modules were used: fund accounting, cost posting, general ledger, disbursements and accounts receivable. Purchase and standup cost of the system turned out to be under $1 million, and DSG was able to configure and install the software in 90 days. Within that same period, DSG also converted OJP's legacy data into IFMIS.

OJP did not wait for a selection decision to begin a critical task – cleaning up and converting the old financial data. Any new system implementation will have to resolve issues associated with the conversion of some historical data. OJP chose to begin the data cleanup while the software selection and purchase was ongoing. The cleanup was completed before testing began, and, as a result, OJP was able to use "real" data during the testing process. The evaluation of test results was easier and quicker because users knew what they were looking for.

The integrated system project was endorsed and wholeheartedly supported by the Attorney General of the United States, Janet Reno. Without this crucial support, Schwinner doubts that OJP "could have had such a successful story to tell."

Weekly project meetings were another key component. These meetings were co-chaired by the Chief Information Officer and the Chief Financial Officer. This "executive committee" was vested with the authority to speak on behalf of all stakeholders in the project, resulting in timely decisions for broad ranging issues. Formal agendas were developed and minutes of meetings were used to track progress from week to week. By this approach, outside parties knew where the project was at any point in time and team members were always aware of their specific deliverables. The integrated project team consisted of contractor personnel and 10-12 government employees — mostly systems accountants who had been recruited from the private sector for this project. The project manager, Rick Marks, had a Big 5 accounting firm background and previous project management and implementation experience with another agency. In terms of hardware, two new servers were purchased: one for production and the other for simulation/testing and training.

Success was to be measured by the ability to bring up four of the five modules online simultaneously. The new system ran parallel with the legacy system for 2 ½ months, and on December 15, 1998, the system was inaugurated with a payment to a vendor. OJP has not looked back since that day.

Shortly after the system cutover, Cynthia Schwimer prepared a formal evaluation of why this project was so successful. The above narrative includes some of the ten factors that she identifies as contributing to the success. These are:

- Establish an executive committee
- Have an agenda for every meeting
- Define and communicate roles and responsibilities
- Select an aggressive project director

Continued on page 22.

VA Continues Implementation of New Human Resources and Payroll Delivery System!

In 1995, the Department of Veterans Affairs (VA) embarked on a human resources and payroll initiative to:

Replace VA's 30-year-old paper and labor intensive human resources (HR) and payroll system – called PAID – with state-of-the-art automated systems;

- Streamline service delivery by reengineering existing HR and payroll service delivery practices;
- Fully leverage technology to be able to push transaction processing down to the lowest appropriate level; and
- Provide cost competitive HR/payroll services.

Over the past five years, VA has reengineered most of its HR and payroll processes. VA also purchased the PeopleSoft Federal Human Resources Management System, acquired the Coho and Casting expert classification and staffing systems, and custom-built an employee and manager self service application to automate many of the current labor and paper intensive HR and payroll functions. The result is HR LINK$ – the Department's Human Resources and Payroll System for the 21st Century.

Implementation began in March 1998 with the inauguration of the first phase of HR LINK$ – Employee Self Service (ESS) and the opening of the Shared Service Center (SSC) located in Topeka, KS. With ESS, employees can initiate, change, or obtain information on over 20 personal and benefits transactions.

VA-wide ESS implementation was completed in February 2000. Now, all 229,000 VA employees can use ESS to review and change their personal and benefits information. Employees use their Social Security number and a four-digit personal identification number (PIN) to access HR LINK$ in one of three ways:

- Via VA's intranet web-based Self Service desktop application;
- Via a touch tone telephone, calling a 1-800 number, and using an Interactive Voice Response (IVR) system ; or
- Via a touch tone telephone, calling a 1-800 number, and connecting to a Customer Service Representative (CSR) located at the SSC to process a transaction on the employee's behalf.

Between October 1,1999, and June 30, 2000, the SSC processed 312,545 ESS transactions. Employees can complete such transactions from 7:30 am to midnight, Eastern Time, seven days a week. The top five transactions, besides PIN changes, were the following:

- Thrift Savings Plan – 30,226 transactions
- Health Insurance – 27,106 transactions
- Direct Deposit/Savings Allotments – 25,291 transactions
- Address Change – 21,701 transactions
- Federal Tax W-4 – 18,461 transactions

The second phase of HR LINK$– Position Classification – was also implemented this year. Since May 1, VA managers have had access to Coho, an expert classification system. Using a computer, managers access Coho and select the specific job duties for the position they want to create. The application then automatically determines the series and grade for the position. Because of this expert system and its database of the OPM classification standards, managers can now classify positions. Currently, more than 11,000 managers have been delegated the authority to classify Title 5 positions. Approximately 97 percent of VA's Title 5 positions can be classified using Coho.

The Manager Self Service phase will begin prototype in the fall of 2000. During this phase, PeopleSoft will be implemented for personnel action processing and managers will be able to initiate personnel actions online through the Self Service desktop application. Once initiated, personnel actions will move through the PeopleSoft Workflow functionality and will be routed automatically through local management approval levels. After approval, the actions will flow directly to the SSC, where final HR processing and updating will take place. No longer will HR staff at each of VA's 200+ HR shops have to see, approve and/or process these transactions. Online help and programmed warnings and messages also make this process much easier for managers to perform.

The Recruitment phase will begin prototype in the fall of 2000. Employees will be able to review and apply for VA jobs online, via the Internet, using the expert recruitment software called Casting. VA's original intent was to license Casting from Avue Technologies and maintain it internally. However, Avue has moved its software licensing/use strategy to an Application Software Provider (ASP), so VA will acquire its services via Avue's Extranet service. As an ASP, Avue will maintain all the necessary software and hardware to support Casting at its data center, and VA's employees will be able to access the Casting application via the Internet from work or home.

The final phase of HR LINK$ is Payroll. Employees will use the Self Service desktop application to submit electronic leave requests. In essence, employees will maintain their own timecards. Managers will use the same system to approve time and leave requests online. The payroll prototype is scheduled to begin in early 2001.

VA plans to have all HR LINK$ applications and functions deployed VA-wide by the end of 2001. Implementation of a project of this magnitude is not easy, especially considering VA's size (200,000 employees, 25,000 supervisors/managers) and the requirements to integrate the many commercial and custom products into a seamless system. HR LINK$ touches every VA employee – from the cemetery groundskeeper to the veterans claims examiner to the physician and nurse practitioner. There is general consensus on the benefits of HR LINK$ – significant time and staff savings and improved HR/payroll and support services to end users. Thus, all staff – both project and field site – involved with HR LINK$ work daily to address the following challenges and issues:

- Overcome customer apprehension to change;
- Enlist the support, buy-in, and advocacy of senior executive and field leadership;

Continued on page 21.

Share in Savings at Education

The Ultimate in Performance Based Contracting

Greg Woods and the rest of Education's Student Financial Assistance (SFA), the Federal government's first performance based organization, should be applauded for their courage and innovation in awarding the first information technology related Share in Savings (SIS) contract. The first question asked by many is "Why aren't other agencies doing the same thing?" While SIS is a concept that makes sense intuitively, to many of us in government, who have been trained to wait for specific authorization before obligating funds, it is somewhat counter intuitive.

What is Share in Savings?

Simply put, SIS is a concept where the government and the contractor enter into a contractual arrangement for a supply or service. What makes SIS unique is that there is little or no upfront funding, which means the contractor is paid at some future date from the savings or revenue that is generated. It is the ultimate in performance based contracting since, if the performance targets are not reached, the contractor doesn't get paid. The attraction to a contractor is that because of the "extra" ordinary risk, the profits have the potential to also be "extra" ordinary.

Moreover, it truly requires that the government and industry work as "real" partners. The traditional role of government as overseer of the contractor is no longer applicable since the contractor is maximally incentivized to perform and doesn't need to be monitored or motivated. Instead of being the overseer, the government's primary role should be to remove every barrier to ensure mutual success.

Will it work in the Federal sector?

The answer is a resounding "yes" even though there are some caveats. SIS is a concept that cannot be applied to every contracting scenario. The Council for Excellence in Government is in the final stages of a study that has analyzed successful applications of the SIS concept at the state and local levels. The final study is due to be released in the Fall of 2000, and preliminary findings indicate that there are four important characteristics, which are inherent in successful SIS contracts. It is no coincidence that the Education Department's program possesses each of the key characteristics. These are:

1. Strong Business Case

Making a strong business case is the most important element because the case will serve as the document that industry, Congress, and OMB will use to test the validity of the assumptions made by the agency. The key issues in the business case include a well-defined baseline against which to measure success, a high return on investment (ROI), and market research to ensure that the right industry partners exist. Education's business case was sound, and this made for smooth sailing through OMB and the Hill. Because the elements were clearly defined, they were able to award a SIS order within nine months.

2. Enlightened Leadership

Strong leadership is another very key element. Greg Woods epitomizes the type of leader that is needed to make a SIS program work. An enlightened leader is defined as someone who "gets it" in terms of understanding the technical aspects of the program, who can set realistic targets, who has developed a entrepreuneral culture that is not afraid of taking manageable risks, who rewards based on performance, and who has the clout within the organization and the respect of the larger community to produce results. Some of the internal issues such as turf and reduction in headcount are controversial. Under Mr. Woods' leadership, some tough decisions were made regarding consolidation of long standing legacy systems. Without such a leader at the helm to weather the stormy times, the program and the concept could fail.

3. Statutory Authority

All of the successful state and local examples had specific statutory authority. There has been debate among many at the Federal sector that the lack of such "specific" authority at the Federal level is a major obstacle. Others have argued that the authority to do SIS is inherent so specific authority is not necessary. While the debate is noteworthy, it is not the best use of time.

Specific authority to do SIS contracting—that is obligate the government without up front funding and pay the contractor based on future savings—does exist in the Clinger-Cohen Act. Ironically, Education chose not to use this authority since it already had upfront funding available. They used a "hybrid" SIS acquisition strategy that is a good example of reasoned creativity. Even though Education had enough funding to award year one of the contract, they chose instead not to obligate those funds upfront.

Using a hybrid approach, they awarded a zero dollar GSA Schedule contract and tied all payments to future performance. In essence, they used the provision in the Schedules that allows for award of Schedule orders with performance incentives. Their partner, Andersen Consulting, will not get one penny unless certain performance targets are met. Based on agreements with OMB and their Appropriations committee, Education can funnel the unspent appropriation back into the program instead of paying the contractor from that pot of money. By using this acquisition strategy, Education sidestepped the Anti-Deficiency Act issues in a creative and legal way.

4. The Right Partner

The right industry partner is another key element of a successful share in savings application. The right partner must have the financial resources to work at risk for several months, must possess the technical expertise to deliver a quality solution, and should have experience in working within a share in savings environment. This is clearly a much riskier environment than traditional fee for service contracts, and it is not an area in which most companies can afford to work.

In the information technology arena, Andersen Consulting is clearly one of the worldwide leaders. Other large firms with experience in this area are: SAIC, IBM and SRA.

For more information on how the share in savings concept can be applied within government and how GSA is postured to support such efforts, visit www.fts.gsa.gov. ❑

JFMIP: An Ivory Tower or the Land of Oz

By Bill Foster

It seems as though William C. (Bill) Foster just joined us, and now he is already on his way back home. For the past 90 days, Bill has been working at JFMIP in connection with a development detail as part of the Executive Potential Program. Officially, he belongs to the Department of Education, Office of Student Financial Assistance, where he is a Senior Financial Analyst on the Denver Team. This team is responsible for evaluating the financial responsibility of schools in Region VIII that participate in the Title IV Programs.

Prior to joining the U.S. Department of Education in July 1991, Bill held a variety of exciting positions including commercial banking and over 15 years in the Wall Street community where he managed the country's sixth largest pension fund. Before entering the world of capital markets, he spent several years as an officer in the U.S. Army.

Mr. Foster was awarded a B.S. degree in Political Science from the University of Missouri at Columbia (1963), has completed two years of Law School at the University of Missouri School of Law, and received a MBA in Investment Management from Pace University in New York City (1973).

Working at JFMIP for the last three months has been a memorable highlight of nine years in public service. It was an opportunity to focus on an urgent problem in the Federal workplace — how the government will hire, retain and train enough qualified people to implement the financial systems planned for installation over the next five years. (For more on this topic, see the article in this newsletter regarding the Human Resources Project.)

I came to JFMIP by way of a developmental assignment as a participant in the USDA Graduate School's Executive Potential Program. This is a one-year program offered to Federal employees at the GS-13 through GS-15 levels to enhance their leadership skills while providing exposure to senior-level managers. One hundred and fifty persons representing a cross-section of Federal Agencies participate in this program. My own sponsor is the Department of Education where I am a Senior Financial Analyst in the Office of Student Financial Assistance.

I grew up in Missouri and received an undergraduate degree from the University of Missouri, at Columbia — a school widely known for its excellence in journalism. Because of the emphasis placed on writing at JFMIP, I somehow feel closer to the Journalism school today than anytime since my undergraduate days long ago, where the closest I came at that time was passing the school on the way to and from the campus. A part of the JFMIP writing experience has been preceded by interviews of persons who had either successfully implemented financial systems or who would be the subject of a feature article for the JFMIP Newsletter. Another part involved technical writing in preparation for the issuance of JFMIP documents. The subtle message learned from these exercises is that pride of authorship can be a double-edged sword. Put another way, be appreciative of the insight of editors.

The opportunity to work beside a select few unassuming yet capable people who have such a significant impact on the Federal financial environment will not be easily forgotten. Being at the epicenter of events at JFMIP compares to memories from my former life, such as walking past the New York Stock Exchange on a daily basis when working on Wall Street and, later, having the opportunity to shape the course of change as the treasurer of a $2 billion regional bank.

Some might believe that the work performed by JFMIP is highly theoretical and unrelated to actual practice. Perhaps the modest size of the organization (nine full-time employees) might be a reason for this impression, or the fact that it lacks a production environment where daily output can be quantitatively measured. My observation is that the comparison stops there. This is an organization that returns far more to the Federal government than is proportionate to its size. By developing tests and examining the offerings of various software vendors, the JFMIP staff limits the options in the Federal workplace to the financial systems that pass its tests. This alone saves countless repetition of testing among various agencies and saves additional millions of dollars that might otherwise be spent trying to implement flawed systems. JFMIP also establishes a structural framework with standards for financial systems and core competencies that are cited as authoritative references throughout the government.

JFMIP's interchange at a practical level involves the input of many agencies in the development of guidelines. In the Human Resource Project, for example, the observations and opinions of those who had implemented financial systems were actively solicited in order to make the recommendations creditable and timely. Similarly, JFMIP is positioned to tap into personnel issues on a global basis and can seek to influence change here, as well.

The last 90 days has enabled me to view this organization from the inside. It is not the Ivory Tower as some would suggest, nor is it completely the Land of Oz with a Wizard, who inspires the faint of heart to achieve great things by believing in oneself. JFMIP is a combination of the best of both realms. On one hand I have observed ideas being nurtured in this fertile environment that takes the distant view, absent the distractions of daily production. On the other hand, I have witnessed the interplay of strategic ideas among those at the top level of the government's financial community as they seek to identify, reaffirm, and move the workplace toward that long term vision.

And now that the 90 days is over? I intend to stay engaged with the Human Resources Project on a volunteer basis and assist JFMIP until this important issue is resolved. Hopefully, the results of this endeavor will provide the direction to achieve the government's systems implementation goals over the next five years and beyond. ❑

JFMIP Human Resource Project

Within the next five years, there will be a significant number of financial systems installed by the Federal government. This is based on the projected replacement of about two-thirds of the 619 applications currently in use as well as the scheduled addition of about 59 applications within the 24 largest agencies. Additions and replacement of other systems within smaller agencies and bureaus are not included in the above numbers. The large number of systems needed to continue the Government's work comes at a time when persons to fill the positions necessary to bring about this change are in short supply. JFMIP has been working with the Human Resource and Financial Systems Committees of the CFO Council to develop ideas for addressing this issue.

In May of this year, a Human Resource Project Team of 11 persons from 9 Federal agencies was assembled. Over the summer, the team interviewed 13 Federal organizations that had recently installed new financial systems or had replaced existing systems. These interviews were a way of examining and documenting the first-hand experiences and lessons learned to gather information to assist other organizations who will be implementing financial systems in the near future. The team sought interviews with sponsors that represented a broad range of projects. Some of the financial systems projects were completed in little over a year, and others took more than six years to complete. Costs ranged from several million dollars to over $40 million. The size of the project teams ranged from several persons to over 110. Two of the most often heard front-step suggestions: (1) When assembling the project team and looking for members, there is no substitute for prior project management experience, and (2) When planning the project give careful consideration to its scope (measured in terms of time and/or money). Quite often these efforts are underestimated.

Presently, JFMIP is processing the information from the above interviews and combining it with suggested hiring, retaining and training strategies to support the efforts of Federal agencies in achieving systems implementation goals. JFMIP anticipates that the draft recommendations will be distributed to the Federal community shortly to seek comments. Final documents will be completed shortly after the comment period. A special thanks to the organizations and individuals that contributed to this important effort. ◻

Treasury Announces PAY.GOV

On July 25, Treasury Deputy Secretary Stuart E. Eizenstat announced Pay.gov, an initiative from the Financial Management Service (FMS) to assist agencies in conducting Internet transactions with the public. Pay.gov is a new governmentwide collection service that will be made available along side FMS's existing central collection systems, such as the Lockbox Network, the Plastic Card Network, the Fedwire Deposit System, and the system of TGA commercial bank depositaries.

PAY.GOV will function as both a Web portal and a processing infrastructure and will offer four basic services:

- *Collections.* Citizens, businesses, and other entities will be able to authorize ACH debit entries in payment to the Government.
- *Forms and Bills.* PAY.GOV will process forms and other data that accompany collections. This includes HTML representations of standard Federal forms as well as XML transmissions of forms and data. In addition, Federal agencies may use Pay.gov to electronically present bills and invoices.
- *Authentication.* Pay.gov will offer a suite of services to authenticate agency trading partners and to obtain authorizations over the Internet.
- *Reporting.* Agencies will receive improved transaction reporting feeds and rich information from Pay.gov.

PAY.GOV

PAY.GOV was designed to meet Federal agency needs. It was conceived in response to several dozen requests from agencies for a variety of Internet collection services and is designed to make available to every Federal agency a standardized, centralized Internet collections platform. In fact, Pay.gov is a natural evolution of the paper lockbox services that FMS has long offered to Federal agencies. Pay.gov will also help implement the Government Paperwork Elimination Act, which requires Federal agencies to accept forms electronically by October 2003.

Pay.gov will begin processing transactions with a limited number of agencies and forms in October 2000. It will then grow by means of "spiraling builds," adding additional agencies and functionality. The services of Pay.gov will be free to the public and generally will be free to agencies. An agency will pay only for the Internet-enablement of forms that do not involve collections and, if requested by the agency, for long-term data retention. Even then, the agency will charged only an "at-cost" amount for those services.

If you have any questions regarding Pay.gov or want more information, contact FMS' Brett Smith at (202) 874-1251 or at brett.smith@fms.treas.gov. ◻

Notice of Correction

In the Summer 2000 issue of the JFMIP News, the article on the 2000 Federal Financial Management Report incorrectly stated that this report had been issued. This report has been drafted and was in the OMB clearance process when this issue of the JFMIP News went to press.

Travel Reimbursement – Within 24 Hours!

Reinventing the travel process to provide customers with excellent customer service is one of the U.S. Department of Energy's (DOE) priorities. Since 1993 and through a department-wide effort, the DOE has been overhauling its travel processes and implementing innovative enterprise solutions, including use of the latest information technology, to streamline and enhance the Department's travel systems and processes. This reengineering eliminated ineffective steps, paper documents, hand-written signatures, and redundant data entry. Unlike the Department's earlier travel processes, the new software application automatically calculates travel estimates and reimbursable amounts. These positive changes have resulted in accurate preparation of travel authorizations and reimbursement vouchers; increased efficiency in auditing travel claims; elevated productivity; and produced higher morale within the workforce. Most importantly, the system and processes as described have enhanced customer satisfaction by reducing the travel reimbursement period from 10 days to 24 hours.

DOE utilizes a commercial off-the-shelf (COTS) application to prepare, edit, and manage travel documents in a totally paperless environment. These documents include travel authorizations, travel vouchers, and local travel vouchers. As a prelude for a trip, a travel authorization is prepared in the COTS application that also sends an e-mail notification to the approving officials. Simultaneously, the COTS application routes the electronic authorization to these officials who review and approve the travel via electronic signatures. The travel authorization is then audited electronically to ensure the appropriateness of the electronic signatures and that the travel dates do not duplicate other earlier trips.

After the travel is completed, a travel reimbursement voucher is prepared in the COTS application, signed electronically by the traveler, and routed through an automated validation process that compares amounts claimed on the voucher to corresponding amounts that had been authorized earlier by the approving officials. If the total reimbursement claim is within an acceptable range of the authorization, the system continues to perform additional edits to ensure certain travel claims are within the limits set by regulations (i.e., per diem rates). If amounts claimed exceed authorized levels, the system preempts the processing of the voucher and will not proceed until each discrepancy is resolved.

On a daily basis, travel authorizations and edited travel vouchers are electronically transmitted from the travel system to the DOE's accounting system that generates the appropriate accounting and payment transactions. When the payment transactions are certified and transmitted to the U.S. Department of Treasury for payment, DOE's accounting system automatically sends each traveler an e-mail notification that a "next-day" electronic funds transfer (EFT) has been executed. The traveler or traveler's administrative office retains the supporting documentation in accordance with records management requirements and for post-payment audit purposes.

To validate that the system's effectiveness and efficiency are well balanced with DOE's management and internal control concerns, statistical samples of the universe of all vouchers processed are performed in accordance with General Accounting Office Title 7 requirements. This testing process ensures the system works as intended and claims are valid and adequately supported.

As a complement to the automated enhancements, DOE implemented other travel policies and procedures. Initiatives such as the use of Automated Teller Machines (ATMs) for travel advances, use of government charge cards for travel expenses, and EFT for voucher reimbursement were implemented.

The combination of the enhanced information technology, changes to the travel policies and procedures, and support from the DOE's management and employees enabled DOE to improve, re-engineer, and automate the DOE'S new paperless travel processes. The transformation that DOE experienced showed that the Government can work better, cost less, and get better results. Some future plans include a web-based travel application, imaging of receipts to eliminate the retention by employees or administrative personnel, and reimbursing the credit card company in behalf of the travelers after travel vouchers have been processed. ❑

Systems.,
Continued from page 8.

well as new and operational systems undergoing development, maintenance, or enhancement. Resources for the budget year, current year, and the prior year must be provided for each system.

3. Capital Asset Plans.

Section 300 of Circular A-11 states that a capital asset plan and justification is to be provided for each major information technology acquisition. This includes major IT systems or projects, as defined in Section 53, and those projects that require special management attention because of (1) their importance to the agency's mission, (2) high cost, (3) high risk, (4) high return, or (5) their significant role at the agency. The capital asset plan includes a summary of spending for project stages; justification and other information; and cost, schedule, and performance goals.

If you need further information on financial management plans, IT portfolios, or capital asset plans, you may refer to OMB's policies on financial management, acquisition, and information technology contained in Circulars A-11, A-127, and A-130 as well as the Capital Programming Guide. Also, a number of publications related to improving CPIC are available at: http://cio.gov/docs/Documents.htm#itinvest. ❑

VA HR & Payroll,
continued from page17.

- Conduct on-going dialogue with all stakeholders with an official interest in the project;
- Ensure that information filters down to all levels of employees; and
- Maintain smooth implementation of new phases as they are rolled out VA-wide.

Recently, the National Academy of Public Administration (NAPA) conducted an assessment of the "Return on Investment for HR LINK$." Overall, NAPA found that VA has made great strides in this pioneering effort and is positioned to achieve its objectives in the next several years. NAPA also stated that no other Federal or private sector agency is doing what VA is with HR LINK$. It is a model for the public and private sector on HR/payroll transformations.

For more information on the HR LINK$ project, please contact Brenda Monroe, HR LINK$ Communications Manager, at brenda.monroe@mail.va.gov. ❑

Blueprint, Continued from page 16.

- Understand where you are and articulate where you want to be
- Map the entire process – macro to micro
- Develop a plan of attack and stay focused
- Clearly define needs
- Draw pictures
- Select a contractor committed to his/her product and to providing quality customer service.

While steps 3 through 8 can be supported and communicated through the use of project management tools — and OJP used a COTS project management product for this purpose — steps 9 and 10 are somewhat unique. Step 9, draw pictures, highlights one of the means by which OJP encouraged the flow of creativity in a team setting. Including this as one of ten steps reflects the team's sense of enthusiasm for the project and the team's eagerness to accept each individual's contribution to its success. While the selection of a contractor will vary from firm to firm, and sometimes even teams within the same firm, this is chemistry that will often play a significant role in a project's overall success.

Now that the short-term goal has been accomplished, automation of the manual processes is the next step to be taken to enable responsibilities to shift to more value-added activities. Longer range, the goal is to develop interfaces with the Department of Treasury's ASAP payment system and OJP's automated Grants Management System.

Best Practices and Lessons Learned

The evaluation report prepared by Ms. Schwimer definitely identifies several factors that contributed to the success at OJP. There are others in the story that she tells. These may be second-nature at OJP or just instinctive. We have expanded the scope of the lessons learned by Ms. Schwimer and her staff to present the impact on the project.

- Support and involvement at the highest level of the organization is a critical success factor.
- Make sure the project leader has strong project management skills. These are essential for meeting deadlines and controlling costs. In fact, most of the success factors identified in Schwimer's evaluation are project management activities.
- Establish an "executive committee" and vest the committee with full decision-making authority. This saves precious time and promotes ownership of the project.
- Clearly articulate the need as well as the goal. If people don't understand the "why," it may be hard for them to do the "what."
- Communicate clearly. Drawing pictures can add great clarity and reduce barriers to effective communication. Open communications foster greater participation and creative thinking among team members.
- Select a contractor committed to the product and to quality customer service. This decision can have a big impact on your outcome.
- Use an outside expert for verification and validation. This can bring objectivity to the project and help overcome internal resistance to change.
- Postpone customization decisions. This can save lots of time up front. It may also save lots of money in the end because system users may learn that some of the custom modifications aren't really needed.
- Team with the CIO. The CIO brings extremely valuable knowledge and skills to the project.
- Use COTS software. It can save lots of time.
- Make sure the project team has people with the right skills. Hire them, if necessary.
- Start cleaning up the data early and use the data for system testing. This makes testing and evaluation easier. It can also reduce user anxiety that "the new system won't produce the information that I need."

Congratulations to all on the OJP team for a job well done! ❑

Joint Perspective, continued from page 15.

implementations necessary to migrate all Federal agencies within a reasonable time frame. There is no example of a single company or application installed in an entity as large as the U.S. government. Even if a single accounting system could be installed in all Federal agencies, no single vendor could support that level of Federal work in the short term. The resulting "winner" would become the de facto monopoly for government systems. No new vendor could absorb the transition in a short period even if rebid after a period of time. Also, even if there were an obvious "best in class" vendor today, "best in class" in the next decade is not obvious in an industry that is remaking itself in 3-year cycles.

- *Industry is likely to oppose Federal use of a single system under current acquisition legislation.* The legislative direction of the 1990s was to eliminate procurement structures that favored monopoly providers and government "specs." The direction has been to open competition. Law also supports maximum reliance on small businesses. Organizing a "winner take all" competition for providing Federal financial system software to Federal agencies in a market where qualified products from multiple vendors already exist would likely result in endless grievances, protests, and political action.

Although the analysis does not support the case for having a single system for all agencies, it does suggest that each agency should consolidate and standardize its systems and processes to meet the goal of good financial management and take advantage of e-government opportunities. The case for striving for a single integrated system in each agency is bolstered by the best commercial practice of using fewer and newer systems per entity and recent implementations by some corporations of single systems, demonstrating the value of effective timely management enterprise information at the corporate entity level. ❑

End Notes for Implementing SSFAS 10

1 The AAPC has agreed to take up the following FAQs, in order by "Topic," the alpha-numeric numbering scheme used by the task group:

- Topic B1 — How can management determine the point in time when it is more likely than not that a proposed software project will be implemented, and thus when the capitalization period starts?
- Topic C2 — Should the "capability" and "functionality" be defined in the standard?
- Topic C3 — To what extent should the useful life of software be based on the hardware on which it runs?
- Topic D1 — When should software license fees be capitalized?
- Topic D2 — How should a Federal agency capitalize a license agreement that may contain executory costs (i. e., maintenance and technical support), as well as software upgrades?
- Topic D3 — How should bulk purchases of individual software packages that cover the entire site or enterprise as a whole be accounted for?

2 Topics A1 & A2—The task group listed their FAQs under 10 "topics" coded alphabetically A-J, with one or more subject under each.

3 SFFAS 10, paragraph 7.

4 SFFAS 10, paragraph 36.

5 Topic A3.

6 SFFAS 10, paragraph 25 (capitalizing improvements that add capabilities).

7 SFFAS 10, paragraph 27 (expensing improvements that extend only the life of software).

8 Topic A4.

9 See SFFAS 10, paragraph 16a.

10 Topic B2.

11 Topic C1.

12 See SFFAS 10, paragraph 27.

13 Topic E1 & E2.

14 See SFFAS 6, paragraph 13. Also see the SFFAS 6, Basis for Conclusions, paragraphs 148-9.

15 See SFFAS 6, paragraphs 10 & 11.

16 See SFFAS 10, paragraph 24.

17 See SFFAS 3, paragraphs 7-15.

18 Topic F1.

19 See SFFAS 7, paragraph 33.

20 SFFAS 10, paragraph 65.

21 Topic G1.

22 SFFAS 10, paragraph. 16, refers to SFFAS 4, paragraphs 90-92, for a full discussion of direct and indirect costs.

23 See SFFAS 4, paragraphs 89-104.

24 SFFAS 4, paragraph 89.

25 SFFAS 4, paragraph 200.

26 SFFAS 4, paragraph 104 & 214.

27 SFFAS 4, paragraphs 148-162.

28 SFFAS 10, paragraph 33.

29 Topic G2.

30 SFFAS 4, paragraphs 120-162.

31 SFFAS 4, paragraph 146 & 255.

32 OMB circulated a draft update for Bulletin 98-08 in August 1999 but the final updated Bulletin had not been published as of mid-August 2000. However, the updated Bulletin, which is expected by October 2000, is not expected to contain FFMIA guidance because separate guidance is being developed for that process.

33 Topic H1.

34 Topic H2.

35 Topic I1.

36 Topic I2.

37 Topic J1.

End Notes for Joint Pespective

1 Office of Management and Budget, *Financial Report of the United States Government*, 1999, p. 8.

2 "Fortune 1000 List," *Fortune*, http://www.fortune.com/fortune/fortune500/index.html.

3 OMB/OFFM and CFO Council Systems Committee, *Status Report on Federal Financial Management Systems.* 1999 (draft)

4 Based on procurement plan data provided by the agencies to JFMIP.

5 OMB/OFFM and CFO Systems Committee, *Status Report on Federal Financial Management Systems.* 1999 (draft)

6 Office of Management and Budget, *Federal Financial Management Status Report and Five Year Plan*, June 1999.

7 KPMG, *Managing the Public Sector: Global Challenges*, 2000.

8 Arthur Andersen, "Shared Services, Shared Solutions, Shared Success," Briefing by Wayne Usry, Senior Manager, Arthur Andersen LLP, July 6, 2000.

9 Stanley Zarowin and Wayne E. Harding, "Finally, Business Talks the Same Language," *AICPA Journal of Accountancy*, August 2000. Available on-line from www.aicpa.org/pubs/jofa/august2000/zarowin.htm.

10 See the Chief Financial Officers Act of 1990, PL 101-576, Title II, Section 503 (a) (2) and (3), for functions of the Deputy Director for Management. See Section 902 (a) (3) for agency CFO financial system responsibilities.

11 Information Technology Management Reform Act of 1996 (ITMRA), Division E of Public Law 104-106, Section 5112, and Title LII, Section 5202.

12 OMB Circular A-127, "Financial Management Systems," July 1993, amended in 1999.

13 META Group, Inc., *ERM Solutions and Their Value*, 1999.

14 The Standish Group International, Inc., *CHAOS*, 1995.

15 The Hackett Group Study, 1999.

16 Department of Defense, 1995 Annual Defense Report, Financial Management Reform (http://www.dtic.mil/execsec/adr95/fm_.html) and Department of Defense, 2000 Annual Defense Report (http://www.dtic.mil/execsec/adr2000/toc.html).

17 *DFAS Financial Systems Strategic Plan: Foundation for the Future*, January 2000, p. 4-1.

18 Ibid., p. 3-1.

19 See http://www.dof.ca.gov/html/calstars/backgrnd.htm.

20 Conversation with Mike Shamrock, Assistant Program Budget Manager responsible for the California State Department of Finance, CALSTARS program, August 9, 2000.

21 Treasury Board of Canada, Secretariat, *Financial Information Strategy (FIS) Book*, May 1999. Available from http://www.tbs-sct.gc.ca/fin/FIS/sigs/fis_overview/FISBOOK_May1999.htm.

22 Jim Libbey, Senior Director, Treasury Board of Canada, Secretariat, Financial Information Strategy Project Office, telephone conversation, July 31, 2000, with Karen Cleary Alderman.

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