CHAPTER VI. MODERNIZING BUSINESS PRACTICES AND PAYMENTS

Background

The rapid changes occurring in the modernization of business practices and payment processes, coupled with our goal to provide competitive and cost-effective services in a declining resource environment, make it essential for the Department to keep pace with such changes. As a result, the Department has multiple initiatives underway and is committed to a continuous process of improving and streamlining by eliminating outmoded approaches, maintaining only essential elements and services, and using state-of-the-art technology to yield maximum benefits to the American taxpayer.

The essential elements of the program to modernize business practices and payments are:

- Developing Departmental policy and guidance;
- Identifying high payoff areas for streamlining processes and upgrading technology;
- Providing assistance to bureaus in developing requirements;
- Measuring performance; and
- Working with central agencies to develop long term strategies for process and systems modernization.

Updating Benchmark Study of DOI Financial Organizations

In 1993, the Department conducted a best practices study of the financial components of its administrative activities. This systematic and unprecedented initiative looked at 102 accounting processes in 19 functional areas and was structured to identify those processes which should be standardized, improved or eliminated to improve efficiency and achieve cost savings. The objective of the study was to obtain cost and FTE savings of at least 25 percent in each of the DOI Finance Offices. More than 60 recommendations were identified and prioritized, and led to 15 Finance Officers' Partnership Projects for immediate implementation. In fact, measuring central office functions using the best practices methodology, by FY 1996, the Department had reduced the central finance office function's FTE by over 28 percent and the dollars by over 13 percent.

In 1996, the Department updated the best practices study by participating in a benchmarking study sponsored by the American Institute of Certified Public Accountants (AICPA). This update was intended to confirm that, in fact, the Department had achieved the planned FTE savings and to assist the Department in determining areas with great potential for improvement and cost savings. The AICPA study used The Hackett Group, an Ohio corporation that specializes in business re-engineering, to provide technical expertise and a database application with detailed process definitions that had been developed specifically for this study. The Hackett Group Benchmark program is the largest, most comprehensive finance study of its kind, with more than 650 companies participating worldwide. The Interior benchmarking study used 1996 data and covered over 60 finance processes. Although the Hackett Group program is geared toward the private sector, it provided valuable information concerning the Department's financial functions. The study was completed in 1997. The following summarizes some of the more significant statistics from the study:

- The Department spends over $70 million annually on finance functions;
- The cost of finance functions represent 1.3 percent of Department revenue;
- The Department employs 949 staff involved in finance and related functions; and
- The Department processes over 3.6 million routine finance transactions per year.

The Department was compared to companies in the "large service company" database, and results showed overall that the Department's financial operations are better than the average of all companies in the data base (i.e., in the second quartile when cost and FTEs are based on revenues). Some of the more significant results were:

- Finance staffs are highly educated and highly experienced with relatively low turnover.
- The Department has additional opportunities for leveraging best practices.
- Transaction processing and system operations were identified as priority areas for productivity improvement across DOI financial activities.
- The Department should continue to follow the approach of reducing and simplifying finance costs, maintain its "cross functional perspective", leverage best practices; and develop common information systems and structures.

Planned Actions for 1998

- Update the Hackett Benchmark Methodology based on FY 1997 data.

Planned Actions for 1999 and Beyond

- Use the data collected as a result of the Benchmark Study to target best practices and identify candidate processes for re-engineering in future periods.
- Update the Hackett Benchmark data periodically as required.

Improving Cash Management and Cost Avoidance

Due to the Department's substantial revenue-producing activities, efforts have focused on cash receipts. A key emphasis of the Department's cash management program has been on accelerating cash receipts by requiring payments via wire transfer. In addition to using wire transfers, the Department worked cooperatively with Treasury to establish several lockbox systems to collect timber fees, abandoned mine land fees, water sale receipts, construction cost repayments, and state and local government reimbursements.

Recent Accomplishments

- In FY 1996, the Department collected approximately $6.4 billion, of which approximately $5.2 billion was collected using accelerated cash management methods.

- Cash management savings of $80 million have accumulated from FY 1983 through the end of FY 1997 (projected) by using new cash management techniques.

- The Department's efforts to control unemployment compensation costs continues to pay substantial dividends. Since January 1, 1986, the Department has used a contractor to: (1) verify employment, (2) process protests and appeals, (3) verify State data, and (4) produce management reports. Projected cumulative net program savings as of September 30, 1997, are expected to be approximately $12.3 million.

Planned Actions for 1998

- The Department will conduct a detailed review of its imprest fund operations, in order to eliminate, consolidate and substantially reduce the number of funds. Emphasis will be placed on finding cost effective solutions which eliminate the need for manual cash payments.

Planned Actions for 1999 and Beyond

- Eliminate imprest funds by January 1, 1999.

- Continue the Departmental effort to control unemployment compensation costs though the use of a contractor as long as the process is cost beneficial.

Improving Payment Processes

In carrying out its basic missions, the Department of the Interior annually processes over 2 million (non-payroll related) payments, which account for expenditures in excess of $2 billion each year. Collectively, these payments cover a broad range of payment categories (i.e., payments to vendors, payments to other Federal agencies, reimbursements, grants, contracts, purchase orders, etc.), and involve an equally broad and growing array of available payment mechanisms -- which include convenience checks, third party drafts, debit cards, charge cards, electronic funds transfers, wire transfers and so forth.

In recent years, the payments process has been impacted heavily by technological developments, as well as new legislative requirements. Since 1994, the Department has been an active participant in the Governmentwide Electronic Commerce Pilot Program, and has developed demonstrated capabilities which will allow the Department to fully capitalize on this promising technology once governmentwide standards are in place.

Recent Accomplishments

As a result of the rapidly growing small purchase (VISA) card program, approximately $200 million in purchases will be made using this vehicle in FY 1997. Recent accomplishment include:

- Worked with BLM to establish a pilot program for VISA Checks for use under emergency situations.

- Modified purchase card policies to allow the use of the purchase card under certain conditions to pay for group travel related expenses as a substitute for a purchase order.

- Assisted the Office of the Secretary in implementing mandatory use of ATM for travel advances which will also help with the effort to reduce the number of imprest funds.

In addition, the Department began reporting electronic funds transfer data to Treasury to measure progress in increasing the number of payments being made by EFT as required by the Debt Collection Improvement Act of 1996 (DCIA). Bureaus prepared individual plans on how they will comply with DCIA EFT requirements. As of March 31, 1997, 60 percent of all FY 1997 DOI payments were made via EFT.

Planned Actions for 1998

The Department expects substantial additional future growth in credit card use, which will further reduce the number of payments to be made. This additional growth is expected as early as 1998 when GSA completes the award of a new Master Contract for Charge Cards Services.

To capitalize on these opportunities, the Department will take steps in FY 1998 to standardize and streamline existing payment processes; to improve the levels of service provided to customers of the payments process (i.e., program managers, vendors, etc.); to reduce the direct and indirect costs of making the payments; and to substantially improve the Department's performance on Government-wide indicators relating to the payments process.

A high level team comprised of bureau representatives will be organized under the leadership of the Office of Financial Management to develop stategies aimed at standardizing and streamlining existing payment processes and bring the Department into compliance with the Electronic Payment requirement included in the Debt Collection Act of 1996.

Planned Actions for 1999 and Beyond

- The Debt Collection Improvement Act of 1996 (DCIA) requires that all Federal payments be made electronically after January, 1999. This will require the elimination of the estimated 1,800 imprest funds which are currently in operation, and the development and implementation of efficient, technology-driven payment mechanisms to support the Department's decentralized operations.

- Reduce the cost of payment transactions to the mid-point of the 2nd quartile of the Hackett Benchmark Study.

Improving Prompt Payment Performance

In January 1997, a Department-wide team was formed to address prompt payment performance issues within the Department. Our bureaus prepared a management plan (1) identifying the problems that had an unfavorable impact on their prompt payment performance; (2) listing planned corrective actions to solve the problems; and (3) providing a timeta ble for reaching the Department's goal. To measure the progress of the bureaus, the bureaus are submitting monthly prompt payment reports to the Department's Office of Financial Management for review.

Recent Accomplishments

- Four subgroups gathered and analyzed the data and are proposing recommendations for improvement. The subgroups were formed to solve common problems among the bureaus in the following areas:

  1. Reporting, Consistent Application Among Bureaus; Prompt Pay Data Analysis; Quality Control Checking/Reporting.

  2. Guidelines and Training.

  3. Identify Specific Large Dollar Volume Vendors; Vendors With Recurring Payments, and/or Opportunities for Fast Pay.

  4. Process Improvement (includes front-end procurement processing, communication between Procurement and Finance, and remote data entry.

- In FY 1997, bureaus with significant late payment problems established internal teams to identify and minimize the causes of late payments.

- As a result of efforts to improve prompt payment performance for the Department, the percentage of payments requiring interest penalties decreased from 12.7 percent for the first half of FY 1996 to 11.0 percent during the first half of FY 1997. Since the establishment of the work group in January and monthly reporting in April, bureau late payment rates have declined considerably.

Planned Actions for 1998

- The Department will review the subgroup recommendations and where appropriate, implement the recommendations.

- By the end of FY 1998, the Department's overall rate of late payments requiring interest should be 3 percent or less.

Planned Actions for 1999 and Beyond

- Monthly progress reporting by the bureaus instituted in 1997 will continue until the number and dollar amount of interest penalties are reduced to an acceptable level.

- By the end of FY 2001, late payments requiring interest payments should be 2 percent or less for the Department overall.

Streamlining Travel Processes

In February 1996, the Department's CFO chartered a Department-wide Travel Re-engineering Lab to streamline the Department's travel processes; to improve the levels of service provided to travelers; to reduce the direct and indirect costs of the Department's travel program; to substantially reduce the number of Travel Management Centers used by the Department; and to improve accountability.

The Travel Lab used a systematic approach to focus on the five major components of the travel process: authorization, obligation/funds control, arrangement of travel services, voucher preparation, and payment/reconciliation. In reviewing each of the 5 components of the travel process, the Travel Lab members considered: **why** the steps were being performed; whether they **added value;** whether the steps could be **streamlined** or **eliminated**; and whether **someone else** could perform the functions more efficiently. The team reviewed the travel reinvention efforts of other Federal agencies; examined the "Best in Class" practices" of three industry leaders in the private sector; conducted a DOI customer survey (which included over 5,000 responses from DOI employees); and considered a range of alternatives in preparing recommendations. The DOI Travel Lab completed its Report Findings and Recommendations in September 1996, and implementation began in FY 1997.

Recent Accomplishments

- Reduced the amount of delinquencies for both centrally billed and individually billed travel card accounts to at least the government wide average. One day seminars were held in Washington, D.C. and Denver, CO between AMEX Officials and Agency Program Coordinators to address delinquency reduction and best practices. AMEX plans to have a feature article on the seminars in the Fall 1997 issue of *Focus*.

- Published the draft Report of Travel Lab Findings and Recommendations in November, 1996.

- Obtained travel recommendations from the DOI Management Council, CFO Council, and FOP, and completed and distributed the Final Travel Lab Report in January, 1997.

- Finalized the guidelines to assist bureaus in implementing the Travel Lab recommendations in February, 1997, and began national/local union consultations. Began FOP monitoring of Departmentwide implementation of recommendations.

- Travel Management Center Request For Information was issued in March, 1997.

- FOP completed the assessment of Travel System and recommended using the Elite Form Solution to test on a pilot basis.

Planned Actions for 1998

As noted above, Travel Lab recommendations commenced implementaion during FY 1997. During 1998, the focus will be on the following three initiatives:

- ***1. Reporting and Monitoring of Travel Process Improvements*** - The Finance Officers' Partnership will continue to report and monitor progress in implementing travel process recommendations in all bureaus. (See Appendix "B" PAT #22 Travel Lab Recommendations.)

- ***2. Consolidated Travel Management Center (TMC) Initiative*** -The Department plans to award a contract to consolidate the seven largest Travel Management Centers (TMCs) into one contract administered by the Department. The Department expects substantial improvements in the services provided to travelers and administrative savings through standardized billing and reconciliation procedures.

- ***3. Travel System Improvement Efforts*** - Modify and pilot the existing Department of Justice automated travel system and make a recommendation regarding department wide use and implementation. (See Appendix "B" PAT #18 - Automated Travel System.)

Planned Actions for 1999 and Beyond

- Implement a Department-wide travel system that maximizes electronic transmission of data to employees and between systems.

Improving Debt Management

The Department continues to make progress in its collection and debt management activities. Over 80 percent of the Department's debt originates from the enforcement of laws and regulations and audits (not from loans or the sale of goods and services). Consequently, traditional safeguards, such as credit worthiness checks, are often not applicable. However, it is important to note that approximately one-third of the Department's delinquent debt is covered by letter of credit, bond, or other surety. With the advent of the DCIA of 1996, the Department will work closely with the U.S. Treasury to transfer its delinquent debt over 180 days past due in accordance with the DCIA and utilize current and new debt offset mechanisms to further improve collections. All bureaus and offices will be referring delinquent debt that is over 180 days old to the Department of the Treasury for cross-service collection. In addition, more aggressive action is being taken on employees who are in debt to the Department.

Planned Actions for 1998

- Refer bureau delinquent debts over 180 days old to the Department of the Treasury for collection via cross-servicing.

- Refer bureau delinquent debt to the Treasury Offset Program.

Planned Actions for 1999 and Beyond

- Complete the implementation of all electronic payment initiatives required by the Debt Collection Act of 1996.

Implementing Managerial Cost Accounting Standards

In 1995, FASAB issued the Managerial Cost Accounting Concepts and Standards for the Federal Government (SFFAS No. 4), which was aimed at providing reliable and timely information on the full cost of federal programs, their activities, and outputs. This standard will become effective for FY 1998.

The Department performs a significant number of activities and services on a reimbursable basis (including interagency agreements and agreements with State and local jurisdictions), Franchise Fund, Working Capital Funds and user charge activities. Coupled with the advent of the GPRA, full program cost accounting will be a major focus for the Department. With implementation requirement of the SFFAS No. 4 and other during

FY 1998 and other cost management needs, the Department will focus efforts on developing and implementing improved cost accounting practices over the next several years.

Planned Actions For 1998

- Establish an intra-departmental work group to implement SFFAS No. 4.

Planned Actions for 1999 and Beyond

- Implement managerial cost accounting incorporating full-cost principles.

- Establish reporting an internal reporting structure to produce cost and productivity measurement reports.

Evaluating User Fee and Cost Recovery Activities

The Department operates a substantial user charge program. Annually, the Department collects fees of approximately $350 million from over 100 cost recovery activities and approximately $5 billion from other fee activities including royalties, rents, and bonuses mostly related to minerals, timber, and other uses of Federal lands. The Department maintains a data base of all user charge activities (both receipts and offsetting collections) for some 250 identified activities (includes cost recovery activities). The data base includes descriptions of the activities, estimated annual collections, pricing structure, legal authority, contact personnel, and other pertinent information.

The Department will be conducting its third biennial review of all user charge activities in accordance with the CFO Act and making appropriate recommendations on revising those charges to reflect actual costs incurred in providing services and things of value to identified recipient(s) beyond those received by the general public. In this climate of shrinking budgets, it is imperative that the Department undertake a careful analysis of all user fee activities and pursue the most cost-effective means of providing goods and services.

It should be noted that the National Park Service, the Fish and Wildlife Service, and the Bureau of Land Management under the Omnibus Consolidated Rescissions and Appropriations Act of 1996 were authorized to develop new and expanded fee collection sites as part of a three-year recreation fee demonstration program. The purpose of the demonstration program is to explore the feasibility of collecting additional user fees to offset the costs to administer recreation on Federal public lands. The new fees will be used primarily to address the repair and maintenance backlogs in the participating parks and sites.

Planned Actions for 1998

- The Department will review user charge activities and recommend action, as appropriate, to recover full cost for such activities where practical.

Planned Actions for 1999 and Beyond

- The Department will continue collaborative efforts, both inter- and intra-departmental to address user charges. These activities include coordinating issues and solutions with the CFO Council, the DOI Administrative Services Advisory Board, and the Franchise Fund Board.

- Restructure user charge cost structures as necessary based on the implementation of SFFAS No. 4 requirements.

Improving Property Management and Accounting

The Department has developed a strategic plan to strengthen the management and oversight of real, museum, and personal property. Generally, the plan provides the framework for enhancing the Department's accountability and controls over these assets so that we can better support our diverse missions and meet customer needs. The plan promotes the sharing of information, the seeking of common solutions, and coordination with finance, acquisition, information technology and other related program partnerships. During FY 1997, a Property Management Partnership was established to provide an ongoing forum to help us accomplish the plan objectives. Also, the Office of Acquisition and Property Management in FY 1997 completed development of performance goals and measures for property.

Planned Actions for 1998

- An immediate goal is to improve the reconciliation between personal and real property records and the general ledger recorded amounts for these items and establish consistent property accountability and capitalization thresholds..

Planned Actions for 1999 and Beyond

- Long term goals include developing core requirements for a property system, integrating the accounting, property, and procurement systems, and improving the skills of those responsible for property management.

Improving Electronic Communication

PFM has embraced the Internet as an efficient and cost-effective means to electronically publish and disseminate critical financial management information to customers. In 1997, PFM began to electronically access the Federal Register and other authoritative documents rather than subscribing to these items in paper form.

In March, 1996, PFM introduced a World Wide Web Home Page on the Internet. The development of the Home Page and use of the Internet represents one of PFM's efforts to use information technology to streamline financial services. The following information is available to internal and external customers:

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- PFM Organization and Directory
- Departmental Accounting Manual
- Financial Administration Memoranda
- Financial Management Training Courses and Events
- Reinvention Labs
- Statutorily Required Reports, and
- Links to Other Financial Management Web Sites

Planned Actions for 1998

- Post additional financial management information to the PFM Home Page including:

  - DOI 1996 Accountability Report (Prototype)
  - DOI 1997 Five-Year Financial Management Status Report
  - Bureau FY 1996 Annual Reports
  - Finance Officers' Partnership Information

- Enhance the Web site by using advanced Hypertext Markup Language (HTML) elements and standards to facilitate communication with customers. This will include posting comment and survey forms to allow customers to provide electronic feedback to PFM. Moreover, PFM plans to work closely with FinanceNet to improve the delivery of government services by reducing sales and information distribution costs. As a member of FinanceNet's Technical Working Group, PFM plans to build partnerships with other Federal financial management offices to facilitate access to government information.

- Expand the use of advanced technology to reduce/eliminate paper driven inputs/outputs for communications, policy issuances, and reports. This effort includes the development of an Executive Information System (EIS) to extract data from bureau systems to produce accurate and timely Department-wide financial and program performance reports.

Planned Actions for 1999 and Beyond

- Continue to use electronic communication technology to the maximum extent possible.