CONSOLIDATION OF DOT ACCOUNTING FUNCTIONS

Office of the Secretary

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U.S. Department of Transportation

Office of the Secretary of Transportation

Office of Inspector General

Memorandum

Subject: ACTION: Report on Consolidation of DOT Accounting Functions
Office of the Secretary
FI-2005-064

Date: June 17, 2005

From: Theodore P. Alves
Assistant Inspector General for Financial and Information Technology Audits

Reply to Attn. of: JA-20

To: Assistant Secretary for Budget and Programs/ Chief Financial Officer

This report presents the results of our audit of the Department of Transportation's (DOT) efforts to consolidate, or transfer, routine accounting functions that are currently performed at 15 DOT accounting offices to the Enterprise Services Center (Services Center) at the Mike Monroney Aeronautical Center in Oklahoma City. Accounting functions that are most suitable for transfer to the Services Center involve the day-to-day processing of transactions, such as accounts payable (payments) and accounts receivable (collections). Processing those routine transactions is essentially the same in each accounting office. Accounting functions involving data analysis, decision-making, and policy-making are less suitable for transfer and may appropriately remain the responsibility of the Operating Administration.

The CFO Act of 1990 places agency authority for financial management with each Department's Chief Financial Officer (CFO). The CFO at DOT has implemented a single financial management system that is now used by all DOT Operating Administrations. Following the best practices outlined in the Government Accountability Office's (GAO) *Executive Guide: Creating Value Through World-class Financial Management*,[1] the DOT CFO is actively working with the Operating Administrations to consolidate routine accounting functions.

[1] GAO studied financial management practices at leading corporations before publishing this executive guide for Federal agencies. The Guide identifies best practices to achieve financial and operational benefits in accounting operations, including consolidating routine activities performed in multiple offices at a central location and eliminating or streamlining inefficient business processes to maximize the cost effectiveness and operational efficiency of the consolidated organization.

The objective of this audit was to determine the extent to which DOT would achieve financial (cost-effective) and operational (efficient) benefits by consolidating similar, routine accounting functions at one accounting office. We performed the audit in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts. We also evaluated the reliability of relevant computer-generated data from DOT's financial management system. Exhibit A further describes our audit scope and methodology.

BACKGROUND

DOT currently has 15 accounting offices spread throughout the Department. Nine of them are in the Federal Aviation Administration (FAA), including the FAA Services Center at the Mike Monroney Aeronautical Center in Oklahoma City, and six are in non-FAA Operating Administrations.

- FAA (9 accounting offices)
- Federal Highway Administration (FHWA)
- Federal Transit Administration (FTA)
- Federal Railroad Administration (FRA)
- Maritime Administration (MARAD)
- National Highway Traffic Safety Administration (NHTSA)
- Volpe National Transportation System (Volpe)

DOT has already fully consolidated payroll processing Department-wide and has begun consolidating travel payments. In addition, accounting functions in seven small DOT accounting offices have already been consolidated at the Services Center.

- Office of the Secretary of Transportation (OST)
- OST Working Capital Fund
- Research and Innovative Technology Administration
- Office of Inspector General
- Surface Transportation Board
- Pipeline and Hazardous Materials Safety Administration
- Federal Motor Carrier Safety Administration

In January 2004, FAA announced plans to consolidate its eight other accounting offices at its Services Center. In its *Accounting Operations Consolidation Plan*, FAA estimated that it would achieve cost savings of about $4.8 million a year by consolidating the nine accounting offices. DOT supports FAA's plan to consolidate its accounting offices at its Services Center over the next 2 years. DOT also requested the six non-FAA accounting offices to develop a plan by September 2005 to consolidate routine accounting functions at the Services Center. Five of the six offices submitted a plan, and one of the five offices, FHWA, began transferring its routine accounting functions during this audit.

During fiscal year (FY) 2004, DOT processed about $82 billion of routine accounting transactions (payments and collections), as shown in Table 1. Of the $82 billion in payments and collections processed by all DOT accounting offices, about $57 billion (70 percent) was processed by the six non-FAA accounting offices. FAA accounting offices processed the remaining 30 percent.[2] FAA and the six non-FAA offices spent about $46 million in FY 2004 to process payments and collections.

Table 1. Total Payments and Collections Processed by the Department in FY 2004, by Accounting Office

Accounting Office	Payments and Collections ($ in Thousands)	% of Total
FHWA	$31,491,956	39%
FAA	$24,347,923	30%
FTA	$21,723,209	27%
MARAD	$1,879,496	2%
FRA	$1,342,178	1%
Volpe	$423,742	1%
NHTSA	$367,273	0%
Total	**$81,575,777**	**100%**

RESULTS IN BRIEF

The Department has made progress toward achieving a cost-effective and efficient accounting operation. It has deployed, Department-wide, a new financial management system. Because the new system standardizes how accounting transactions are processed throughout the Department, it provides the opportunity to achieve additional benefits by transferring the accounting functions that are currently performed at multiple locations to a single location. Because the

[2] Total payments and collections for FY 2004 could exceed appropriations received for FY 2004 due to available funds carrying over from year to year.

Department has already made the capital investment to deploy an integrated accounting system, consolidating accounting functions should provide additional financial and operational benefits with little or no need to make additional capital investments. The system allows accounting functions to be consolidated by transferring to a single location the labor-intensive manual process of entering transactions into the accounting system. Essentially, new technology has made the existing structure for performing routine accounting functions—disbursed throughout the Department—obsolete. In fact, DOT has already made significant progress consolidating its accounting functions by transferring accounting operations for seven Operating Administrations to the Services Center and by supporting FAA's efforts to consolidate its accounting offices over the next 2 years.

We found that both financial and operational benefits would accrue to the Department by transferring the routine accounting functions performed at the remaining six non-FAA accounting offices to the Services Center. However, DOT should better document the expected financial and operational benefits so that it can maximize the benefits achieved and provide the information that oversight organizations, including the Office of Management and Budget and Congress, need to make decisions about the consolidation efforts. DOT has agreed to complete an analysis to estimate those financial and operational benefits.

Benefits will accrue from (1) fewer employees required to process accounting transactions at the consolidated organization, (2) reduced labor costs at the consolidated organization compared to the individual accounting offices, and (3) reduced overhead costs for employee training, travel, and equipment. We estimate that DOT can achieve savings of at least $2.3 million a year by consolidating accounting operations in the six non-FAA accounting offices and more than $7.1 million a year when FAA's planned consolidation is included. For the non-FAA accounting offices, DOT should save $1.4 million a year from reduced average labor costs and another $850,000 from fewer employees needed to process transactions, assuming that the six non-FAA offices save the same 10 percent proportion of staff that FAA expects to save. Additional savings can be expected from reduced overhead costs, but the data were not available to calculate the amount. DOT, however, needs to obtain a more reliable estimate of these savings.

We also found that the Services Center has not collected the information needed to measure its operational effectiveness. Such information is important to help the Services Center analyze its operations and make changes to operate in the most cost-effective manner. This is important because, as GAO reported, once operations have been consolidated, agencies need to eliminate or streamline inefficient business processes to maximize the cost effectiveness and operational efficiency of the consolidated organization. Services Center officials have begun collecting the needed information and plan to use it to improve their operations.

This report recommends that DOT better estimate the financial and operational benefits it expects to achieve from consolidating accounting operations at the six non-FAA accounting offices, collect financial and operational information to measure the operational effectiveness of Services Center activities, and establish goals to maximize the potential benefits by streamlining and improving operations. We provided a copy of our draft report to the Deputy CFO, who provided oral comments agreeing with our findings and recommendations. He agreed that additional information about the benefits of consolidation, the operational effectiveness of the Services Center, and measurable goals for operational improvements are needed and agreed to develop that information.

FINDINGS AND RECOMMENDATIONS

DOT Should Better Estimate Financial and Operational Benefits

Significant financial and operational benefits can be achieved by consolidating routine accounting functions, but DOT has not fully analyzed the extent of the benefits nor established goals to attain these benefits. Unless DOT does so, it may not achieve the full value of its efforts to consolidate accounting functions.

Financial Benefits

DOT has not performed a detailed analysis to estimate potential cost savings from consolidating routine accounting functions at the six non-FAA accounting offices that have not consolidated at the Services Center and, therefore, does not know the value of the financial benefits that would be achieved. Without establishing measurable goals for improvement, there is also a danger that the benefits will not be fully achieved. GAO's Executive Guide cited the increased opportunity to capitalize on economies of scale as a financial benefit that can be achieved by consolidating similar activities at a central location. GAO identified two related ways to measure the financial benefits from achieving economies of scale: reduced labor costs[3] and reduced unit cost of processing a transaction at the consolidated organization rather than at individual accounting offices.

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[3] The reduced labor costs result from (1) fewer employees required to process accounting transactions at the consolidated organization than at individual accounting offices; (2) reduced average labor costs at the location of the consolidated organization than at locations of individual accounting offices; and (3) reduced labor-related overhead costs for training, travel, and equipment.

FAA performed a detailed analysis of reduced labor costs for the eight FAA accounting offices it plans to consolidate at the Services Center. That analysis estimated a potential cost savings of about $4.8 million annually from consolidating entire accounting offices. FAA documented its analysis in its *Accounting Operations Consolidation Plan*. Although we did not audit FAA's estimate, its methodology was consistent with the GAO Executive Guide for measuring the impact of consolidating activities. FAA considered:

- An estimated 10 percent reduction in direct labor costs because fewer employees would be transferring to the Services Center than are now employed at the other eight accounting offices,

- Reduced average labor costs to hire employees at the Services Center in Oklahoma City than to hire employees at the locations of the other eight FAA accounting offices, and

- Reduced overhead costs from eliminating eight accounting offices.

Overall, we estimate that DOT can save at least $2.3 million a year by consolidating accounting functions of the six non-FAA accounting offices at the Services Center. Cost savings can be achieved from having fewer employees to process transactions and reduced labor costs from hiring employees in Oklahoma City. Our estimate does not include additional savings that could be achieved through reduced overhead costs. When combined with the $4.8 million that FAA expects to save through its consolidation, the Department can expect to save about $7.1 million a year.

Fewer Employees. Consolidating accounting functions should lead to cost savings by reducing the number of people required to process accounting transactions at a central location compared to multiple accounting offices. Although the Department had not estimated the amount that can be saved by consolidating the six non-FAA accounting offices, FAA estimated that it expects to reduce the number of people processing transactions by 10 percent when it consolidates its other eight accounting offices at the Services Center. Table 2 shows that if the six non-FAA accounting offices achieved a similar 10 percent reduction, the Department would save about $850,000 a year. The savings achieved from consolidating the non-FAA offices, however, may differ from the savings FAA will achieve, and the Department should estimate overall cost savings that will result from fewer employees required to process transactions at the Services Center. DOT should track the actual cost savings achieved.

Table 2. Cost Savings from a 10 Percent Reduction in Personnel in the Six Non-FAA Accounting Offices

DOT Accounting Office	Number of FTEs	10% Savings in FTEs	Weighted Average Labor Cost Per FTE	Annual Cost Savings
FHWA	68.31	6.831	$72,003	$491,852
MARAD	19.15	1.915	$94,162	$180,320
Volpe	10.15	1.015	$75,846	$76,984
FTA	8.00	0.800	$77,952	$62,362
NHTSA	1.75	0.175	$108,808	$19,041
FRA	2.00	0.200	$93,982	$18,796
Total Savings				**$849,355**

FTE: Full-time equivalent

Reduced Labor Costs. We also estimate that DOT could save about $1.4 million annually through lower average labor costs if it consolidates the six non-FAA accounting offices at the Services Center. We compared the weighted average labor costs of hiring Federal and contractor employees at the six non-FAA accounting offices (in Washington, DC), and estimated that DOT could save on labor costs by hiring employees to perform the routine accounting functions at the Services Center in Oklahoma City. The results of our comparison are shown in Table 3.

Table 3. Cost Savings from Reduced Labor Costs at the Services Center Compared to the Non-FAA Accounting Offices

DOT Accounting Office	Number of FTEs	Weighted Average Labor Cost Per FTE	Weighted Average Labor Cost Per FTE at the Services Center	Average Annual Cost Difference	Annual Cost Savings
MARAD	19.15	$94,162	$64,462	$29,700	$568,755
FHWA	68.31	$72,003	$64,462	$7,541	$515,126
Volpe	10.15	$75,846	$64,462	$11,384	$115,548
FTA	8.00	$77,952	$64,462	$13,490	$107,920
NHTSA	1.75	$108,808	$64,462	$44,346	$77,606
FRA	2.00	$93,982	$64,462	$29,520	$59,040
Total Savings					**$1,443,995**

FTE: full-time equivalent

Our methodology for computing average labor costs was consistent with FAA's analysis and the GAO Executive Guide. To compute weighted average labor costs, we asked accounting managers in the six non-FAA accounting offices to provide information on the percentage of full-time equivalent (FTE) employee time devoted to processing a payment and collection transaction. We obtained employee salaries and benefits from official pay records and multiplied total labor costs by FTEs to arrive at total labor costs devoted to processing transactions. To arrive at weighted average costs per FTE, we divided total FTE costs for Federal and contractor employees by total Federal and contractor FTEs,[4] respectively. Finally, we compared the weighted average costs per FTE for each of the six accounting offices to the Services Center weighted average costs.

Reduced Overhead Costs. Our analysis did not include additional potential savings from reducing overhead costs at the six non-FAA accounting offices. Although some additional overhead cost savings are likely, we did not have a basis to estimate the amount. Consolidating accounting functions at the six non-FAA

[4] FTEs used to perform financial reporting functions and accounting office managers were not included in the calculation.

accounting offices is unlikely to achieve as much savings in overhead costs as consolidating FAA accounting offices because the non-FAA offices would need to continue providing some accounting services, such as financial analysis and financial management services. DOT should estimate the amount of additional overhead savings that would be obtained from consolidating the six non-FAA accounting offices at the Services Center.

Reduced Unit Cost of Processing a Transaction. DOT should benefit from a lower unit cost of processing transactions if accounting functions are consolidated at the Services Center. The unit cost of processing a transaction should decline as the number of transactions processed increases. Therefore, it is likely that the unit cost of processing DOT payment and collection transactions would continually decline as more transactions are processed at the Services Center.

To compute the unit cost of processing a transaction requires information on direct labor costs (e.g., employee salaries and benefits), FTEs, overhead costs (or overhead rate), and the number of payment and collection transactions processed annually.

The formula for calculating unit cost of processing payments and collections is:

$$\frac{\textbf{FTEs x Direct Labor Costs + Overhead Costs}}{\textbf{Number of Transactions Processed}} = \textbf{Unit Cost per Transaction}$$

"**FTE**" represents the full-time equivalent number of employees performing accounting functions and is calculated by converting the percentage of each employee's time that was devoted to performing a particular accounting function into the total full-time equivalent positions required to perform all functions.

"**Direct Labor Costs**" includes salaries and benefits of non-supervisory Government employees who process payments and collections. Direct labor also includes both the cost of reimbursable agreements where the accounting office is the service recipient and the cost of contracts used to provide transaction-processing services.

"**Overhead Costs**" includes all costs (e.g., supervisory labor, space, training, travel, utilities, equipment, supplies) incurred in processing payments and collections other than direct labor costs. This is calculated as a percentage of direct labor or as actual overhead costs incurred.

"**Number of Transactions Processed**" is the total number of payments and collections processed during FY 2004 and recorded in Delphi, the Department's financial management system.

Each of the six non-FAA accounting offices gave us information on its direct labor costs and associated FTEs. We validated this information with official DOT human resource and payroll records. However, we were not able to calculate the unit costs of processing a transaction because DOT does not maintain reliable data on the number of payment and collection transactions processed annually or overhead costs. None of the six non-FAA accounting offices could provide reliable data on the number of payment and collection transactions processed in FY 2004 or on overhead costs.

We also found that data maintained in the financial management system were not reliable for determining the number of accounting transactions processed by accounting office. During FY 2004, accounting offices processed numerous accounting transactions outside of the system and processed others in the system but incorrectly. In addition, transactions processed correctly in the system were not consistently categorized as payment or collection transactions. DOT should obtain the data needed to measure the cost of processing a transaction and use transaction costs as a performance measure.

Operational Benefits

DOT could also achieve operational benefits. GAO and FAA cited several operational benefits that accrue to organizations that consolidate financial activities. These include:

- Fewer processing errors in individual accounting offices resulting from standard and consistent routine accounting processes at the central location.

- More consistent processing of transactions at the consolidated location due to consistent application of existing and new DOT and Government-wide accounting policies.

- Better ability to accommodate surges in workload requirements by locating accounting staff at one central location and reassigning staff as work requirements change.

- More high-level management analyses of accounting data being done by accounting managers in individual accounting offices after the more routine accounting functions are transferred to the consolidated office.

The Services Center Needs Better Data To Measure and Improve Its Operational Effectiveness

Because the Services Center provides accounting services to many DOT Operating Administrations and charges them for its services, it is important that it operate efficiently and effectively. However, the Services Center has not yet collected the financial information needed to measure its operational effectiveness and to guide efforts to eliminate or streamline inefficient processes. The Services Center has not tracked information on the number of transactions processed annually by customer or the unit cost to process a transaction but has begun efforts to do so. Good business practice dictates that organizations know their cost of doing business, especially when they are reimbursed for the services they provide.

As DOT consolidates additional accounting functions at the Services Center, it will need to make sure that the data collection system is fully developed and provides reliable financial information to both measure the efficiency of Services Center operations and provide a sound basis to identify inefficient processes and make improvements. Without reliable data on the number of transactions processed each year and the cost of processing each transaction, DOT will not have assurance that its accounting activities are operating in the most efficient manner. DOT also needs to ensure that the Services Center establishes operational goals and tracks progress in achieving those goals.

RECOMMENDATIONS

When we discussed these issues with Services Center and senior DOT officials, they agreed that it would be beneficial to estimate financial benefits and maximize operational benefits from consolidating accounting functions at the Services Center, and they have begun to do so. They also agreed to track the number of transactions processed for each accounting office serviced by the Services Center so they can measure the costs of processing transactions and use the data to improve operational effectiveness. The Services Center also immediately began to identify its information needs and to collect the appropriate data.

We recommend that the Assistant Secretary for Budget and Programs/Chief Financial Officer:

1. Estimate potential cost savings that would result from consolidating routine accounting functions at the Services Center.

2. Continue to work with the Operating Administrations and the Services Center to ensure that the consolidation of routine accounting functions is

completed in a timely manner in order to maximize the benefits to both the Department and the Operating Administrations.

3. Accumulate reliable data on the number of transactions the Services Center processes annually for each accounting office, compute the unit cost of processing a transaction, and use the data to improve the efficiency of Services Center operations.

4. Establish financial and operational goals to identify and track expected benefits.

MANAGEMENT COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The Deputy CFO provided informal comments to a draft of this report. He concurred with the report findings and recommendations. He stated that our estimate of potential cost savings that would result from consolidating routine accounting functions in all DOT accounting offices at the FAA Services Center was consistent with their preliminary estimate. He stated that OST planned to finalize its cost savings estimate in the second quarter of FY 2006. He also stated that the consolidation would be completed in early FY 2007. Given the FAA proposed date of July 2006 for transitioning its eight accounting offices to the Services Center, we believe OST's proposed target date of early FY 2007 is a reasonable time frame for completing the transition of accounting functions in the six non-FAA accounting offices to the Services Center. The Services Center will have had time to adjust to the additional workload after FAA transitions its accounting offices. Finally, he stated that OST would improve its data, develop goals, and track cost savings by the third quarter of FY 2006. We also believe OST's approach and target dates for accumulating reliable data, developing goals, and tracking cost savings achieved is reasonable.

ACTION REQUIRED

OST's actions are responsive to our findings and recommendations, and therefore no further action is required.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call Mr. Theodore P. Alves, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496 or Mary Smothers, the Project Manager, at (410) 962-3612.

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EXHIBIT A. SCOPE AND METHODOLOGY

FAA has started consolidating its eight accounting offices at its Services Center, and seven DOT accounting offices have already consolidated their routine accounting functions there. The audit focused on the efforts by the Department to consolidate routine accounting functions in the remaining six non-FAA accounting offices at the Services Center.

We reviewed the GAO *Executive Guide*, *Creating Value Through World-class Financial Management* and the FAA *Accounting Operations Consolidation Plan* to identify potential financial and operational benefits to the Department from consolidating accounting functions. We also interviewed officials in FAA Headquarters and the Mike Monroney Aeronautical Center on the proposed FAA consolidation. We toured the Services Center, reviewed Service Center floor plans, and interviewed finance officials on FAA's plan to consolidate its eight other accounting offices at the Services Center.

We obtained information from the six non-FAA accounting offices that had not consolidated to identify accounting functions, types of transactions processed, and type of staff (Federal and contractor). We compared similarities of functions and types of transactions among the six non-FAA accounting offices and the Services Center.

We surveyed officials of the seven DOT accounting offices that have already consolidated accounting functions at the Services Center. We also interviewed officials at other Government agencies that use the Services Center (i.e., the Transportation Security Administration, U.S. Coast Guard, and Department of Education) on the benefits of using the Services Center.

We performed the audit in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts. We also evaluated the reliability of computer-generated data from Delphi on the number of accounting transactions processed by accounting office. Our audit was conducted at DOT Headquarters in Washington, DC, and the Enterprise Services Center at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, from May 2004 to March 2005.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

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