

# Office of Inspector General

Efficiencies Realized  
Through Outsourcing

A-07-01

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Auditor-in-Charge



*May 20, 2008*

## Memorandum

Farm Credit Administration  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090

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May 20, 2008

The Honorable Nancy C. Pellett  
Chairman of the Board  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090

Dear Chairman Pellett:

The Office of the Inspector General completed an audit of Efficiencies Realized Through Outsourcing. The objective of this audit addressed whether the outsourcing of financial services to the Bureau of the Public Debt (BPD) improved Agency operations and reduced costs.

We found that FCA's decision to implement a shared financial services agreement with BPD has been positive in improving efficiencies and effectiveness in the Agency's financial management services. We recommended the finance team periodically complete an in-depth analysis to make sure the Agency is continuing to receive the best value.

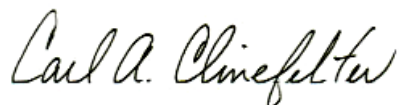
We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General for audits of Federal organizations, program, activities, and functions. We conducted fieldwork from September 2007 through April 2008. We provided a discussion draft report to management on March 12, 2008, and conducted an exit conference regarding the discussion draft report with the Director of Office of Management Services (OMS) on March 27, 2008. We then provided a final draft report to management on April 24, 2008.

On May 13, 2008, the Director of OMS provided me with a memorandum stating that as a result of the final draft report the finance team conducted a comprehensive evaluation of the BPD agreement to include all areas recommended in the final draft report. In addition, the Director of OMS has required the finance team to evaluate FCA's financial service agreement with BPD every three years or sooner.

Attached to the OMS Director's memorandum to me was the evaluation report regarding BPD's performance he provided to you. The report included an assessment of BPD's performance measures, efficiencies gained, cost trends, and benchmarking. The report concluded that BPD continues to be the best value for shared financial services. We have reviewed the evaluation report on BPD and find the information to be adequate to close out the recommendation.

We commend the OMS on their quick action to resolve the recommendation. If you have any questions about this audit, I would be pleased to meet with you at your convenience.

Respectfully,

A handwritten signature in cursive script that reads "Carl A. Clinefelter".

Carl A. Clinefelter  
Inspector General

# Table of Contents

<b>BACKGROUND</b> .....	<b>1</b>
<b>OBJECTIVE AND SCOPE</b> .....	<b>2</b>
<b>AUDIT RESULTS</b> .....	<b>2</b>
Conclusions .....	2
The Outsourcing Decision .....	3
Efficiencies Gained .....	4
Costs of Shared Financial Services.....	4
Monitoring BPD Performance .....	6
<b>RECOMMENDATION RESOLUTION</b> .....	<b>7</b>

## BACKGROUND

The Finance Team (FT) within the Farm Credit Administration's (FCA or Agency) Office of Management Services (OMS) provides financial services to FCA. For several years the Agency had an interagency agreement with a financial service provider for a financial management system. In 2003, the financial service provider notified FCA that the Agency must convert to an upgraded financial management system. Initially, FCA felt it was in its best interest to expend the additional resources necessary to upgrade its financial management system. However, due to considerable delays in FCA converting to an upgraded financial management system, in 2005 OMS decided to review the possibility of obtaining financial services elsewhere, notably, from a shared financial services provider.

A shared financial services provider is an organization established to provide financial services to other entities. The Office of Management and Budget (OMB) has embraced the concept of shared financial services for Federal financial management and has designated several such providers as Financial Management Centers of Excellence (FMCE). OMB requires that Executive Branch agencies planning any major transition in their financial management systems consider using one of the FMCEs. Research has shown that the benefits of using a shared financial services provider include: overall cost reductions, easier implementation of follow-on system changes, more time for in-house financial staff to focus on analysis and support, and more time for agency managers to focus on core mission achievements.

After analyzing the benefits of outsourcing for its financial services needs and evaluating proposals, the Agency entered into a reimbursable services agreement with the Department of the Treasury's Bureau of the Public Debt (BPD), an FMCE, for shared financial services, wherein BPD would provide a full range of services including accounting and financial reporting, travel management, and procurement. Below is a chronology outlining the development of the BPD agreement.

- November 2005 - The OMS Director issued a decision memo to the Chairman and Chief Executive Officer regarding the Agency's entering into an agreement with BPD for financial services.
- April 2006 - The Agency signed a six-month agreement with BPD to provide full service accounting and financial reporting, travel management, and procurement services.
- September 2006 - The Agency signed an agreement for financial services with BPD for fiscal year (FY) 2007.

- March 2007- Agency management decided to bring procurement services back in-house because it was felt for this particular financial service greater efficiencies and effectiveness could be achieved.
- August 2007- The Agency signed an agreement with BPD for FY 2008.

## OBJECTIVE AND SCOPE

The objective of this audit was to determine whether outsourcing financial services to BPD improved Agency operations and reduced overall financial management costs. Specifically, we evaluated the following:

- support for the outsourcing decision,
- efficiencies realized through outsourcing,
- cost of outsourcing, and
- monitoring of BPD performance.

The audit was performed at FCA headquarters in McLean, Virginia, from September 2007 through April 2008, in accordance with generally accepted auditing standards for Federal audits.

## AUDIT RESULTS

### Conclusions

We found that FCA's decision to implement a shared financial services agreement with BPD has been positive in improving efficiencies and effectiveness in the Agency's financial management services.

The decision to select BPD as a shared financial services provider resulted in an initial cost avoidance in FY 2006 of about \$875,000 when compared with the cost of remaining with the existing financial management service provider.

While FT staffing costs have been reduced, and while BPD's ongoing costs are probably less than those that would have been incurred with the prior financial management service provider, overall Agency costs after the outsourcing to BPD do not show a decline when one considers that several former FT staff members were reassigned to other positions within the Agency.

To maintain the success of shared financial services, the Agency must continue monitoring BPD's performance and ensure the cost of shared financial services with BPD remains the best value.

## The Outsourcing Decision

The Agency's decision to outsource several financial functions was supported by a workforce study and a well considered business case for shared financial services.

**Workforce Study** - In June 2005, an independent organization completed a workforce study of support offices at FCA including OMS. The resulting report noted issues that needed to be addressed with the Agency's financial management function. These included:

- the need to improve the delivery of complete and reliable, consistent, and timely financial management services, especially in the areas of travel and financial management, and reporting;
- the excessive staff time spent in preparing financial reports;
- the lack of strong program management regarding the movement to and use of new financial management systems; and
- the lack of competencies and technical skills important to the financial management function.

The study recommended the Agency outsource its financial management services under a shared service agreement.

**Business Case** - As previously mentioned, in 2005 OMS decided to consider obtaining a broader range of financial services than just a financial management system. The intent was to determine if a service provider could offer an array of financial services at a better value than using a vendor's financial management system and conducting financial services in-house. The FT gathered proposals on their costs for financial management systems, accounting and financial reporting services, credit card management, travel management and procurement. OMS concluded BPD would be the best value for shared financial services based on the following:

- cost,
- built-in performance measures,
- reduction in FT staffing costs,
- adequate security over sensitive data, and
- the ability to produce agency-specific reports.

## Efficiencies Gained

In November 2005, the OMS Director provided a memo to the Agency's Chairman and Chief Executive Officer in support of his decision to proceed with signing an agreement for comprehensive financial services from BPD. The Agency's goal was to improve financial management efficiency and financial services provided to the Agency's managers and staff, and reduce FT staff costs.

According to the OMS Director and the FT supervisor, there have been several benefits from the shared financial services from BPD including FT resources being better utilized. For example, the FT:

- now can focus on continuously improving the quality of data being inputted into the financial system and ensuring financial records reconcile,
- has more time to develop financial reports for Agency manager's, assisting them in making better business decisions, and
- no longer has to be the primary resources for travel system questions from Agency staff.

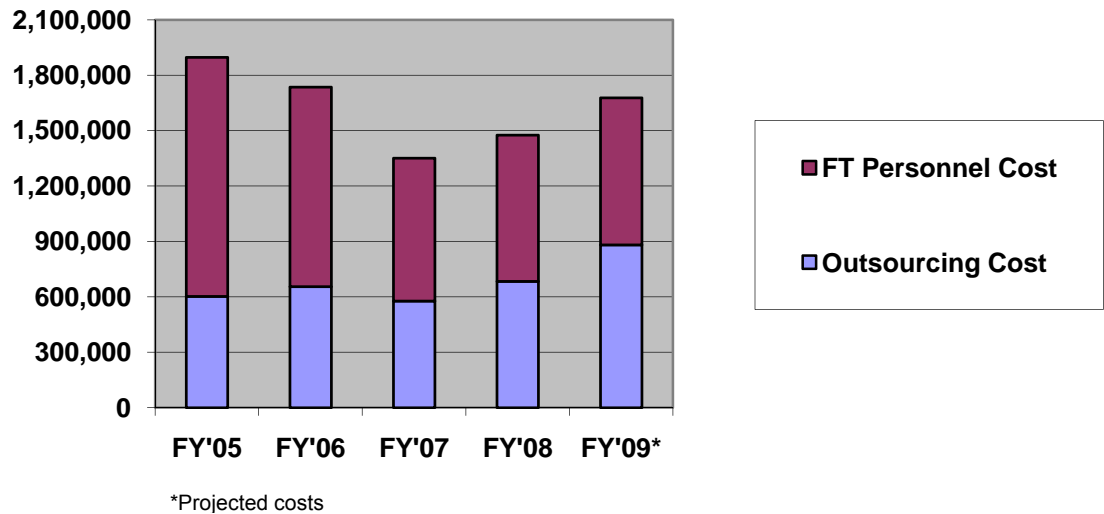
## Costs of Shared Financial Services

Another benefit the Agency wanted to achieve with shared financial services was lower financial management costs. Financial management costs have been reduced somewhat since FY 2005 (prior to outsourcing) with the decline in FT staff accounting for the reduction. However, because a significant portion of the FT staff reduction was accomplished through reassigning staff to other offices within the Agency, reduced financial management costs cannot be projected as overall Agency-wide savings.

**Financial Management Cost Savings** - The following chart shows that financial management cost savings has been achieved since the agreement with BPD. The chart also shows that the savings is attributable to FT staff reductions. Procurement service costs are not included in the chart.



### Financial Management Cost Comparison from FY 2005-2009



This chart's representation is further reflected in Table 1 below.

**Table 1: Financial Management Costs from FY 2005-2009**

	FY2005	FY2006	FY2007	FY2008	FY2009
<b>FT Personnel Cost</b>	\$1,294,210	\$1,080,196	\$774,177	\$792,362	\$795,870
<b>Outsourcing Cost</b>	\$603,234	\$655,613	\$577,084	\$683,533	\$881,438
<b>Total</b>	<b>\$1,897,444</b>	<b>\$1,735,809</b>	<b>\$1,351,261</b>	<b>\$1,475,895</b>	<b>\$1,677,308</b>

The following should be noted:

FY 2005 - Outsource cost only for a financial management system.

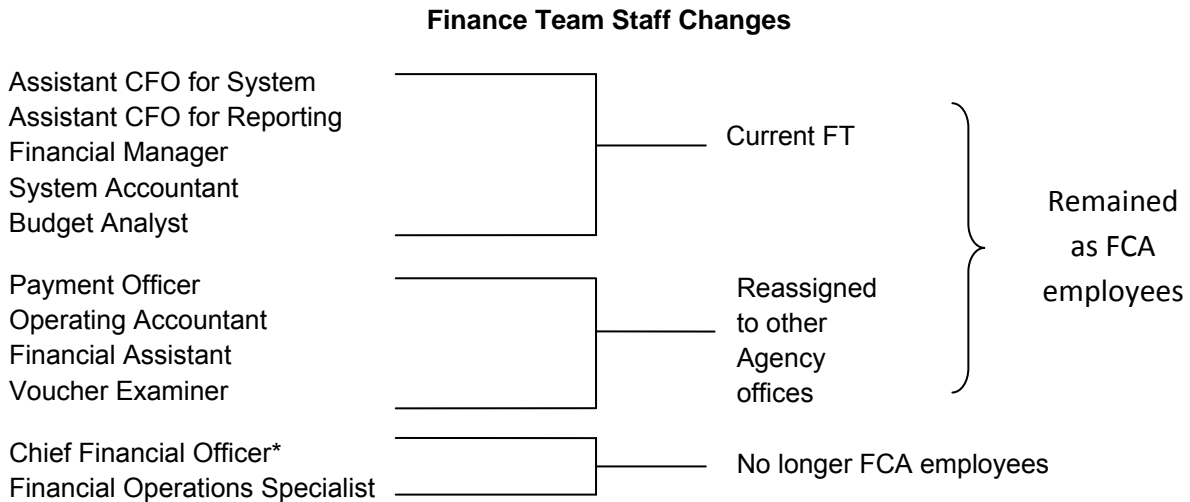
FY 2006 - In April 2006, BPD began providing comprehensive shared financial services for the remainder of FY 2006.

FY 2007 - Four FT employees were reassigned to other offices within the Agency.

FY 2009 - Outsourcing cost is a projection and FT personnel costs are budgeted amounts.

In FY 2005, prior to outsourcing to BPD, FT personnel costs and the cost for a financial service provider's financial management system were about \$1.90 million. Projections for FY 2009 show FT personnel costs and BPD costs at about \$1.68 million. While FY 2009 projected costs are less than in FY 2005, four former FT staff members were reassigned within the Agency. Therefore, overall Agency costs after outsourcing to BPD are somewhat higher when one considers the former FT staff that were reassigned.

**Staff Reassignment** - The chart below shows the FT staff changes since the formation of OMS and the inception of the BPD shared service agreement. Four FT staff members were reassigned elsewhere in the Agency as depicted in the middle segment below. The former Chief Financial Officer (CFO) retired subsequent to the formation of OMS. The Financial Operations Specialist also retired. The two employees who left the Agency represented approximately 22% of the FT personnel cost before the reorganization.



\*The Director of OMS serves as the Agency's CFO.

### Monitoring BPD Performance

**Monitoring Performance** - To ensure performance goals are being met, the FT monitors performance measures within the BPD agreement and has developed a "lessons learned report" outlining issues regarding BPD's performance.

Performance Measures - Performance measures are an effective mechanism to evaluate how well BPD is performing financial services and encourages efficient performance from BPD. Performance measures were established for the financial system, accounting, financial reporting, and travel services and are contained within the agreement. Overall, the performance measures established are adequate for the Agency to ensure performance under the agreement with BPD.

Lessons Learned Report - Another tool the FT uses to monitor BPD's performance is a "lessons learned report." This report is usually issued quarterly to BPD and is used to communicate issues that need to be addressed. The report is continuously updated as issues are closed and new ones surface. According to the FT, BPD has been very responsive to the "lessons learned report." The report has also been beneficial to BPD because they are able to use the report when working with other agencies on common issues.

**Monitoring Cost** - Table 2 below outlines the percentage change, actual and projected, in BPD agreement costs from FY 2007- FY 2009.

**Table 2: Percentage of Change in BPD Agreement Costs**

FISCAL YEAR	PERCENTAGE OF CHANGE
2007 to 2008	18% increase
2008 to 2009	29% potential increase

BPD costs rose significantly in FY 2008 and are projected to increase substantially in FY 2009. These cost increases are primarily attributed to changes in the BPD pricing module in FY 2007.

From FY 2006 - FY 2009, the Agency will have expended approximately \$3.14 million for shared procurement, travel, and financial management services. The OMS Director stated that after five years with the BPD the FT plans to do an in-depth analysis to make sure the Agency is continuing to receive the best value. Since this agreement with BPD represents one of the Agency's largest expenditures, a more frequent periodic comprehensive evaluation is appropriate.

## Recommendation Resolution

On May 13, 2008, the OMS Director provided a memo to the Inspector General addressing the draft report. The memo stated that as a result of the draft report the FT immediately conducted a comprehensive evaluation of the BPD agreement to include all areas stated in the draft report recommendation. In addition, the OMS Director created new direction to the FT to evaluate FCA's financial service agreement every three years or sooner.

Attached to the memo was the BPD evaluation report given to the Chief Executive Officer. The report included an assessment of BPD's performance measures, efficiencies gained, cost trends and benchmarking. The report concluded that BPD continues to be the best value for shared financial services.

We have reviewed the evaluation report on BPD and found the information provided adequately addressed the draft report recommendation which stated:

Prior to the FY 2010 BPD agreement and on a periodic basis thereafter, the OMS Director should provide the Chief Executive Officer with a comprehensive evaluation report including but not limited to:

- BPD's performance measures achievement,
- efficiencies being gained and any yet to be realized,
- an analysis of BPD cost trends, actual and projected, and
- benchmarking shared financial services costs with other Federal agencies that use shared financial service providers.

# R E P O R T

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