

Highlights of [GAO-10-808](#), a report to the Chairman, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate.

Why GAO Did This Study

In 2004, the Office of Management and Budget (OMB) launched the financial management line of business (FMLOB) initiative, in part, to reduce the cost and improve the quality and performance of federal financial management systems by leveraging shared services available from external providers. In response to a request to study FMLOB-related issues, this report (1) identifies the steps agencies have taken, or planned to take, to modernizing their core financial systems and migrate to an external provider and (2) assesses the reported benefits and significant challenges associated with migrations, including any factors related to OMB's new financial systems modernization approach. GAO's methodology included surveying federal agencies to obtain the status of their financial management systems as of September 30, 2009 (prior to OMB's March 2010 announcement of a new approach), and interviewing officials with selected agencies, external providers, and OMB.

In oral comments on a draft of this report, OMB stated its position that it was too early for GAO to draw conclusions on its new approach because it is still a work in progress. For this reason, GAO is not making any new recommendations. However, GAO observes that the experience and challenges related to prior migration and modernization efforts offer important lessons learned as OMB continues to develop and implement its new approach.

[View GAO-10-808 or key components.](#)

For more information, contact Kay L. Daly at (202) 512-9095 or Naba Barkakati at (202) 512-2700.

FINANCIAL MANAGEMENT SYSTEMS

Experience with Prior Migration and Modernization Efforts Provides Lessons Learned for New Approach

What GAO Found

In an effort to capitalize on new technologies to help address serious weaknesses in financial management and help meet their future financial management needs, federal agencies continued to modernize their core financial systems, which often has led to large-scale, multiyear financial system implementation efforts. For the last 6 years, OMB has promoted the use of shared services as a means to more efficiently and effectively meet agency core financial system needs. Overall, 14 of 23 civilian Chief Financial Officer (CFO) Act agencies are planning to complete their efforts to deploy 14 new core financial systems at various times through fiscal year 2018, and in connection with their modernization efforts, 10 of the 14 agencies are migrating, or planning to migrate, hosting and application management support services to external providers. GAO also found that the CFO Act agencies were not using a limited number of external providers, a critical element of OMB's original approach. Five of the 10 agencies planned to rely on five different commercial providers, while 2 of the 10 planned to rely on the same federal provider and 3 had not determined the provider. In contrast, smaller agencies were more frequently relying on the four federal shared service providers to provide core financial system support services to leverage the benefits of using external providers.

The most common benefits of migrating cited by CFO Act agencies were external providers' expertise, the potential for cost savings, and the agencies' ability to focus more on mission-related responsibilities. However, CFO Act agencies and external providers cited various challenges affecting modernization and migration efforts, such as reengineering business processes and the ability of external providers to provide specific solutions that meet complex agency needs. In March 2010, OMB announced a new financial systems modernization approach that focuses on the use of common automated solutions for transaction processing, such as invoicing and intergovernmental transactions. OMB issued a memorandum in June 2010 that included guidance for key elements of its new approach, such as agencies splitting financial system modernization projects into smaller segments. This new guidance also requires CFO Act agencies to halt certain modernization projects, pending OMB review and approval of revised project plans. Important aspects of the new approach have not yet been developed or articulated and OMB has stated that it plans to develop additional guidance. In GAO's view, it is critical that OMB's new guidance elaborate on the new approach and address key issues such as goals and performance plans clearly linked to strategies for achieving them, a governance structure, and specific criteria for evaluating projects. GAO believes these issues need to be addressed to reduce risks and help ensure successful outcomes as OMB moves forward with its new approach. GAO will continue to work with OMB to monitor the implementation of its new approach.