DUPLICATION, OVERLAP AND FRAGMENTATION:

Three Adversaries to Establishing Long-Term Fiscal Sustainability

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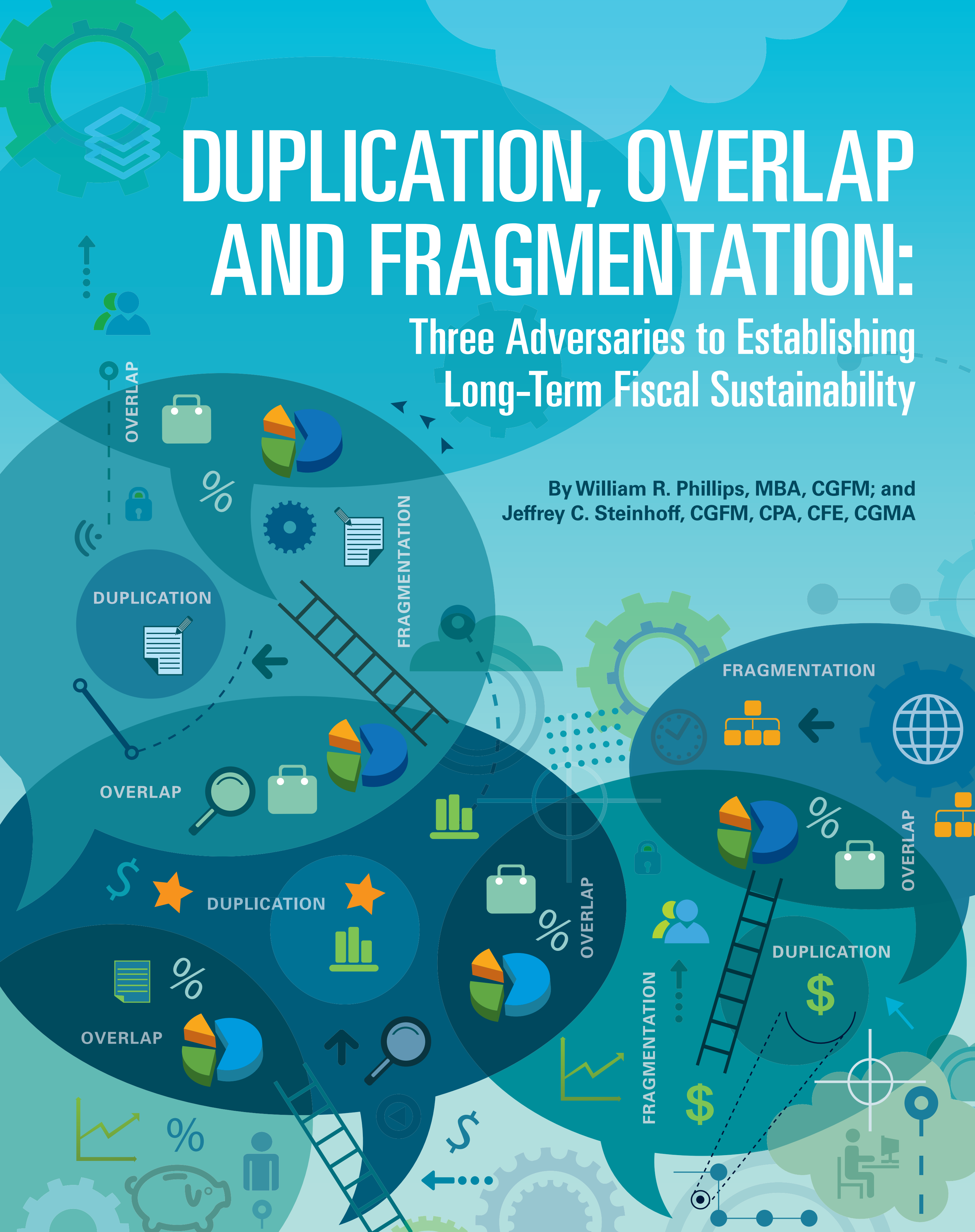


Under current law, by 2040, interest on the burgeoning debt will be the largest component of federal spending, and together with Social Security will consume almost all federal revenue.[1] To quote Illinois Senator Everett Dirksen, much-admired in both parties and for whom a Senate office building was renamed in his honor, *"[F]rom day-to-day, we are living with a structure of government that must be made to function properly. It must be kept within fiscal bounds in the hope that not only our own generation but the taxpayers who come after — the children, the grandchildren, the great-grandchildren — will not regard what we did in this time and generation with a baleful and cynical eye."*[2] Dirksen said that in 1961; he could well have made a similar observation today.

So long as debt trajectories continue unabated, federal agencies will continue to feel the pinch of ever-tightening budgets. The longer there is an impasse on spending and revenue reform, the more difficult it will become to absorb continuing budget reductions. Expect to see 2012 to 2014, which have been tough budget years, referred to 'as the good old days.'

But, there is a silver-lining. By requiring agencies to become more efficient to simply survive, they will be forced to address realities of duplication, overlap and fragmentation in programs and operations — three long-standing adversaries to establishing efficient, effective government. Shared services will become a way of life, missions will be recalibrated and partnerships will be formed — not because agencies necessarily want to, but because they will have to change.

This article explores this issue from the lens of three case studies covering shared services, consolidation and public-private partnerships (PPP). We conclude with thoughts on the way forward.

WHAT ARE DUPLICATION, OVERLAP AND FRAGMENTATION?

No stranger to the public policy debate, 2010 legislation[3] requires the Government Accountability Office (GAO) to report annually on federal programs, agencies, offices and initiatives having duplicative goals or activities. GAO's annual reports address not only areas of duplication, but overlap, fragmentation, cost-saving and revenue enhancement opportunities. In four years, GAO identified 173 such areas, suggesting 399 actions to the executive branch and Congress.[4]

Let's look at how GAO defines these terms:

- *Duplication:* "When two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries." For example, GAO found the Department of Defense (DoD) increasingly deployed dedicated satellite control operation networks as opposed to shared services. At one base, GAO identified eight separate satellite control centers.

- *Overlap:* "Multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries." For example, GAO suggested Congress consider legislation preventing individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits at the same time.

- *Fragmentation:* "More than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and opportunities exist to improve service delivery." GAO suggested collaboration between the Departments of Justice, Homeland Security and the Treasury in modernizing wireless communications systems to provide interoperability, while reducing cost.

ONE SIZE CAN FIT ALL!

High-performing finance organizations effectively reduce time spent on transaction processing and other routine operations to focus on activities representing higher value, such as data analytics and decision support.[5] Where agencies may not be inclined to make the leap of faith required to move to a shared service provider, the Office of Management and Budget (OMB) is leaving them little choice through its edict on shared information technology (IT) services — SharedFirst[6] — and requirement to use shared services for core accounting and feeder-system modernization.[7]

Shared services are certainly not new in the finance community, which has long embraced shared payroll and travel services, with some agencies using service providers for basic accounting. For over four decades, there have been federal payroll providers, starting with the Department of Agriculture's National Finance Center in 1973.[8] In 1991, the Defense Finance and Accounting Service consolidated over 300 installation-level finance and payment activities into what are now nine centers.[9] Today, the stars are aligning to broader use of shared services — both from a technological standpoint and a need to reduce spending on basic operations and systems.[10]

Let's look at two case studies demonstrating opportunities to address duplication, overlap and fragmentation.

Federal Credit Program Shared Services

Today, federal agencies lend and/or guarantee $3.2 trillion in credit for a wide range of programs.[11] Essentially, individual agencies develop their own lending practices and systems for approving and servicing credit. Is this the best way to do things in a technology age? All must budget and account on an accrual basis under the Federal Credit Reform Act of 1990.[12] All must interact with the public in extending credit. All must service the credit. All must follow the Debt Collection Improvement Act.[13] In short, there is nothing unique about federal credit programs justifying different systems and processes.[14]

The concept behind shared services is that service providers support common activities. They do not make program and oversight decisions. They leverage economies of scale to reduce cost and increase service delivery through single, modern systems that adopt leading practices. Now for credit programs, what would service providers be doing versus their customers and how would the public view the process? This is not difficult technology-wise but represents cultural transformation, which is challenging. In a nutshell:

- Customers would register on a central website, using common information regardless of the credit program.
- They would then select a credit program from a drop down menu and complete whatever is unique with respect to eligibility and administration of that program. Program managers would determine what is needed — the program rules and regulations — with support from the shared service provider in designing the online application.
- Credit applications would be available on the desk top of the credit-making agency for approval/disapproval or to request more information. Advanced data analytics could be built into the system, so the approver would have a portfolio of tools to aid decision-making and help prevent credit-worthy questionable and fraudulent credit from being approved. There could be capability to look across lending programs for questionable patterns.
- Approval by the program agency would trigger release of funds and subsequent credit servicing by the shared service provider. Again, similar to the program rules, program officials make the decision. The service provider just administratively executes it.
- Program agency officials would have real-time, on-line access to the status of an individual account and the agency's overall portfolio. Any subsequent decision on modifying credit terms or taking adverse collection action would be made by the program staff, not the credit servicer, unless ground rules were already specified and the credit servicer was just routinely executing the rules.

While relatively easy technology-wise to accomplish, transformation of this magnitude will be challenging given the wide range of agencies and congressional committees with cognizance over credit programs. But, cost could be reduced, while improving control and service delivery, and the public would have one place to go for credit programs.

Data Center Consolidation through Enhanced Use Leasing

DoD has a major initiative to consolidate data centers to save cost, reduce its environmental footprint and modernize (for instance, taking greater advantage of cloud computing technology).[15] One challenge is having investment dollars to modernize existing data centers or to construct new centers as replacements to serve as cloud providers.

Let's talk about entering into enhanced use leases (EUL) to facilitate construction and operation of a new data center by a private sector entity to consolidate existing data centers and modernize. Under law, DoD has authority to lease nonexcess real property under its control in exchange for cash or in-kind consideration (such as receiving services valued at prevailing market rates).[16]

The new data center would provide IT services to DoD and other customers, including other federal agencies, state and local governments and private companies. The data center would be constructed and fully financed by the private sector entity, which would totally occupy and maintain the building and operate the data center. The facility would be a general purpose data center, and not built to unique DoD specifications. Risks incident-to-asset ownership essentially remain with the private contractor. The EUL contract would stipulate in-kind lease payments to DoD at fair market value of the land through services provided by the private sector entity.

Neither of the criteria for capitalizing data center construction costs in OMB Circular No. A-11, Appendix B[17] — 75 percent of the useful life or 90 percent of the cost of the building — would apply as DoD would not be leasing or occupying the building. It would instead be purchasing services from a private sector entity under a services contract and leasing land to that entity under a separate section EUL contract for which the entity would pay DoD fair market value through in-kind services. Also, there would be no budget scoring of the EUL under Appendix B, since DoD is receiving fair market value in-kind rent payments.

The separate contract with the private sector entity for data services could guarantee DoD would purchase a certain percentage of the operating service capacity of the data center — let's say 50 percent, with a ceiling of 70 percent. The remainder of the capacity would have to be sold to outside parties. DoD would pay the same rates for service as other customers in similar situations. It would, though, receive in-kind services at market rates in lieu of cash for lease payments under the EUL. DoD would also receive in-kind services in lieu of cash for any operating services rendered to the private sector entity, such as utilities, base security and any other DoD costs directly attributable to the data center.

Would this work for your organization? Do you own land or other assets that could be used in this manner? Would you be interested in receiving services from such a consolidated data center as a means of reducing costs, while increasing capability through a cloud solution? Could you partner with another government agency to consolidate data center operations? Ask yourself these questions and explore fully how you could benefit from consolidation.

There are many other examples, such as initiatives to reconfigure and consolidate DoD medical commands, which stemmed from a Defense Business Board study.[18]

USING PUBLIC-PRIVATE PARTNERSHIPS TO REDUCE COSTS AND ENHANCE SERVICE

Related to attacking duplication and overlap is how government uses the public sector to accomplish objectives, while reducing costs and enhancing service. A centuries' old concept, dating back to 1785 in the United States with the establishment by President George Washington of the Potomac Canal Company to provide better transportation and link commerce,[19] there is growing global recognition of the value of PPPs and their role in financing public infrastructure investment and providing vital public services.

PPPs are contractual relationships whereby resources, risks and rewards of both government and a private company are shared to provide a product or service more quickly, on budget and at enhanced public value. The private sector invests in infrastructure or services, in full partnership with government. Government, in turn, relinquishes some control and provides a revenue stream. Competitively priced PPPs, with strong project rationale, such as a toll road or bridge or military family housing where rents are charged, are particularly attractive to institutional investors seeking both yield and payment stability and to governments seeking to address infrastructure funding gaps and reduce project risks. This is where we primarily see PPPs today, but the options are unlimited. Let's look at a case study:

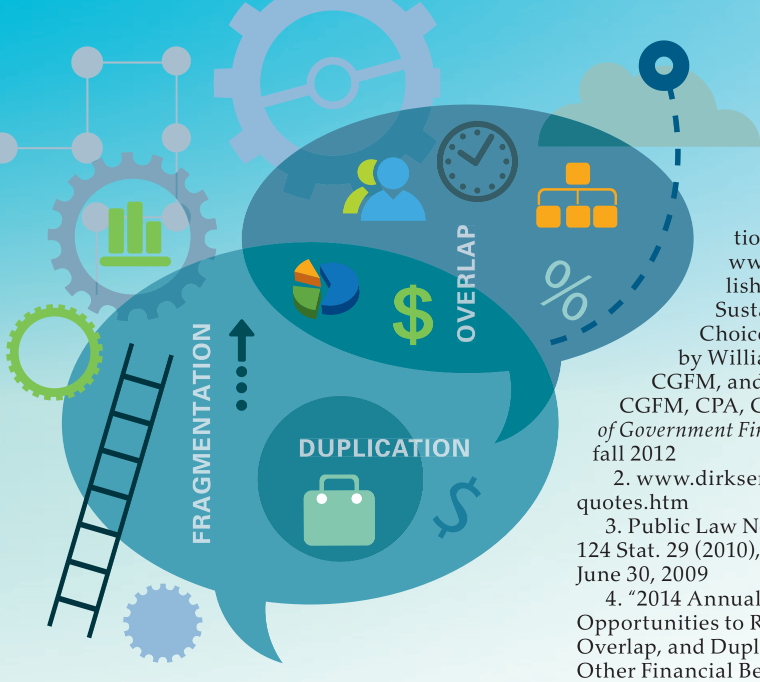
The Military Housing Privatization Initiative (MHPI)[20] was established to improve DoD family housing conditions by attracting private sector financing, expertise and innovation to provide necessary housing faster and more efficiently than traditional military construction processes. DoD entered into agreements with private developers to own, maintain and operate family housing through 50-year leases. Military service members receive a basic housing allowance, providing a steady revenue stream to the private developer.[21] This program has been very successful in addressing a serious problem impacting the morale and welfare of military members and their families and doing so faster and cheaper.

Properly structured and managed, the benefits can be significant. In benchmarking outcomes for 21 PPP projects against 33 traditional procurements, Australia (a global leader in PPPs) reported savings ranging from 30.8 percent when measured from project inception to 11.4 percent when measured from contractual commitment to final outcome.[22]

TEN ACTIONS ITEMS ON THE WAY FORWARD

Government faces transformation, born from necessity given fiscal realities, and facilitated by technology. But, there remains fervent support for the status quo, with just minimal change at the edges. We all know this is a losing hand for government and the public. The Obama Administration recognized the need to avoid duplication, overlap and fragmentation with its shared services mandates, and Congress focused attention through oversight and work of GAO. To be successful, everyone will need to:

1. Accept that fiscal realities present an urgent need and duty, as well as an opportunity, to reevaluate current programs and operations, with an eye to eliminating duplication, overlap and fragmentation and fully exploring shared services and PPPs in certain situations
2. Step out of their comfort zone to embrace change and innovation
3. Be an advocate (not a naysayer) with regard to shared services and PPPs — for finance operations, look to move from basic transaction processing and finance functions to greater strategic support at program and enterprise levels
4. Make transformation an integral part of strategic planning
5. Clearly communicate to staff and stakeholders, including cognizant congressional committees, why the status quo is no longer viable in making the case for transformation
6. View this as a marathon and not a sprint, since done properly transformation takes time, while moving forward with a sense of urgency



7. Develop rigorous business cases to make fact-based decisions based on cost and performance
8. Establish outcome-based contract terms that are part of clearly articulated partnership agreements, for both shared services and PPPs
9. Adopt governance processes, including meaningful, reliable and timely performance metrics to effectively and efficiently manage transformation from the outset, while not stifling innovation and appropriate risk-taking
10. Establish accountability for results commensurate with empowerment and resources and be willing to change management horses in the middle of the stream — applaud successes and meaningfully hold staff accountable for shortfalls

FINAL THOUGHTS

In challenging times, the financial management community must lead in addressing duplication, overlap and fragmentation to reduce spending, while increasing program effectiveness. We must work closely to support program and enterprise leadership in moving to shared services, consolidation and PPPs and be a role model for these concepts in our organizations. In the words of a noted financial management leader and academician, "If not us, who? If not now, when?"[23]

Endnotes

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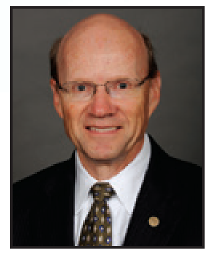

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