



Accounting and Information
Management Division

B-256388

February 18, 1994

The Honorable Richard J. Durbin
Chairman
The Honorable Joe Skeen
Ranking Minority Member
Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
House of Representatives

This letter responds to your request for information about the Department of Agriculture's National Finance Center (NFC). On the basis of discussions with your respective staffs, we identified the (1) reasons for Agriculture's moratorium on accepting additional agencies as customers for NFC and (2) savings the Departments of the Treasury and Justice estimate they will realize by switching to Agriculture's payroll/personnel system.

To identify reasons for the moratorium, we interviewed Agriculture headquarters officials, current and former NFC managers, and Office of Management and Budget officials. In addition, we obtained and analyzed documents related to the moratorium and obtained the estimated costs and savings associated with the Treasury and Justice conversions of their payroll/personnel processing to NFC. We also interviewed Treasury and Justice officials to discuss the costs and savings associated with the conversions. We did not independently verify the reported costs and savings. We performed our work between June 1993 and December 1993.

BACKGROUND

NFC was established in the early 1970s to provide administrative computer processing for Agriculture's various bureaus. In the mid-1980s, at the request of the Office of Management and Budget and after approval by the Secretary of Agriculture, NFC began establishing cross-servicing agreements to provide administrative computer processing for other federal agencies. Generally, agencies were accepted for cross-servicing under terms and

conditions documented in a memorandum of understanding signed by Agriculture's Assistant Secretary for Administration and an appropriate agency official. Under cross-servicing agreements, agencies reimburse NFC for costs the center incurs to (1) adapt its systems to process agencies' data and (2) operate its systems on an ongoing basis. Although the center provides a range of services, including central accounting, administrative payments, property management, and accounts receivable, the most popular service is Agriculture's payroll/personnel system. The system, which is operated and maintained by Agriculture's Office of Finance and Management, handles processing for 37 agencies (including GAO) with about 500,000 federal employees. The Director of the Office of Finance and Management is responsible for NFC's management and operation.

CROSS-SERVICING MORATORIUM

In early 1990, Agriculture imposed a cross-servicing moratorium that was intended to suspend new cross-servicing. While Agriculture officials were unable to provide documents establishing the moratorium, they did provide other documents stating that the moratorium was established because Agriculture wanted NFC to concentrate its resources on redesigning its software rather than servicing additional agencies. Also, Agriculture officials told us that the moratorium was established as a means for headquarters to direct NFC management to support headquarters' general efforts to modernize Agriculture's systems rather than promote continued expansion.

During our review, Agriculture officials provided the following reasons why the moratorium should continue. First, the user community has identified system changes that it wants NFC to implement. Agriculture officials said that system enhancements for existing clients would require about the same staff resources as modifications to accommodate new customers. They also said that enhancements for existing clients and modifications to accommodate new customers often involve the same program modules that cannot be worked on simultaneously. Therefore, the Office of Finance and Management has tried to limit new customers so NFC can focus on making user-requested system changes. Second, a security audit conducted in 1992 identified security concerns and control weaknesses that Agriculture wants to correct before new clients are added.

Agriculture's Office of Personnel and the Office of Finance and Management have initiated several efforts to address these concerns. For instance, they have chartered

user groups and established a process for prioritizing and addressing the user community's system change requests. Also, two recently completed studies recommended management improvements and a third study is underway to address the security concerns. Both the Director of the Office of Finance and Management and NFC's Director told us they expect these efforts to result in an end to the moratorium within the next 18 to 24 months.

Agriculture has allowed exceptions to the cross-servicing moratorium in situations where conversions were already started or potential clients had already approached NFC about cross-servicing. Two primary examples are the Departments of the Treasury and Justice, which began converting their payroll/personnel systems in the late 1980s and early 1990s, respectively, after the Office of Management and Budget encouraged NFC to accept them. Treasury's conversion was already underway, and Justice was discussing possible conversion when the moratorium was established. Treasury and Justice collectively nearly doubled NFC's payroll/personnel processing work load.

TREASURY AND JUSTICE
COSTS AND SAVINGS

NFC charged Treasury about \$7.8 million to convert its payroll/personnel system. The project took nearly 4 years to complete and covered about 164,400 employees. Treasury estimated that it will spend \$33.9 million less on payroll/personnel processing in fiscal years 1993 through 1995 by switching to NFC. However, Treasury officials stressed that cost was not the primary reason they selected NFC. Rather, they needed a timely replacement for their older systems, which were labor-intensive, outdated, and inefficient.

NFC charged Justice about \$2.6 million to convert its payroll/personnel system. A Justice official told us that, including the amount paid to NFC, it spent approximately \$10 million to convert. This conversion took place over almost 2 years and covered about 72,600 employees. Justice officials told us they estimated that the cost to develop a new payroll/personnel system would have been about \$30 million. In selecting NFC, Justice considered factors other than cost, such as the capability of NFC's system to quickly meet Justice's payroll/personnel processing needs rather than developing its own system.

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GAO supports the concept of cross-servicing as a means of reducing costs and increasing efficiency. However, differences in agencies and their existing systems make it difficult to generalize expected conversion costs and resulting savings. NFC officials told us several factors, such as the uniqueness of an agency's requirements, differences in training needs, and characteristics of the agency's existing system(s), affect the cost of converting agencies to their payroll/personnel system.

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We discussed the contents of this letter with the Director of the Office of Finance and Management, Department of Agriculture, and with appropriate officials at Justice and Treasury and incorporated their views where appropriate. Overall, they agreed with the contents.

We are sending copies of this letter to the Secretary of Agriculture; the Director, Office of Management and Budget; and interested agency officials. Copies will also be made available to others upon request. If you have any questions about this letter, please contact me or Nancy Simmons, Assistant Director, at (202) 512-6406.



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