



## Cost transparency

Linking cost, budget, and performance management to your mission and strategy

**Federal CFOs face increasing scrutiny over financial and cost performance reporting, creating a need for greater granularity and transparency into program costs, systems, activities, and outcomes.**

Driving forces for more cost transparency stem from an increasing need to link strategic objectives to the budget, cost of programs and services, and performance measures. Underlying compliance with new and existing laws and regulations remain at the forefront of the CFO agenda [e.g., Office of Management and Budget (OMB) Circular A-136, Statement of Federal Financial Accounting Standards (SFFAS) No. 4 and No. 30, the Digital Accountability and Transparency Act (DATA Act), among others].

### Does cost, budget, and performance data support the agency's mission and strategy?

**Performance reporting:** Can management accurately measure agency or program level performance?

**Reporting integrity:** Is the management team confident that costs are accurately captured and reported?

**Regulatory compliance:** Do policies and procedures meet the multiple regulatory requirements?

**Cost assignment methods:** Are cost assignment methods aligned to accurately reflect the agency's mission?

**Consistency and transparency:** Are the performance and cost reporting methods consistent and transparent?

## The cost transparency and accounting challenge

**Many CFOs encounter challenges when establishing effective cost management and accounting practices because of complex issues rooted in data, systems, processes, and/or organizational structure.**

The strategic objectives and regulatory requirements often exceed the capacity of a federal agency's budgetary and cost accounting data and processes today.

Despite the desire to improve cost and budget systems, it can also be a challenge to find the resources needed to do so in the face of competing priorities. Resource limitations and perceived complexity and investment in system solutions are the top barriers to improving cost, budget, and performance information.

## Linking cost management and strategy

**Every roadmap has a final destination. Yet when it comes to cost and budget information, many agencies often do not think in terms of where they are trying to go.**

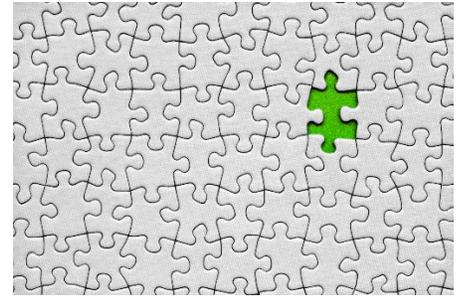
As a result, they may not spend sufficient time thinking about the kinds of questions cost and budget data needs to—or could—answer. Many agencies spend significant resources trying to fix their data or implement system solutions before understanding what they want to do with it or why it's not delivering the information they want.

The strategic objectives should reflect a solid understanding of the agency's strategic priorities and a sense of the major pain points that cost and budget data can help alleviate. Specifically, leadership should agree not only on the mission questions cost data needs to answer, but also on how they will leverage cost and budget insights to impact value. The answer to these questions can be used to drive the course of an agency's cost management capabilities and set the vision for the future.

## An incremental, low-risk, iterative approach

CFOs are looking to implement cost transparency initiatives that leverage a low-risk, incremental investment approach that deploys an efficient and effective cost management and accounting solution. Executive stakeholders are seeking more timely, accurate and granular cost and performance data to provide the following:

- A comprehensive view of budget, cost, and performance information
- Full cost of programs and services
- End-to-end financial data traceability and auditability



Implementation of a system solution may take one of several forms - on-premise or managed services. As the cost and complexity of supporting IT solutions on premise continues to rise, agencies are starting to realize the benefits of a managed services model. Leveraging managed services to bring IT “on-demand” allows for flexibility and speed in scaling, while taking advantage of built in security and IT governance.

There are cost/benefits and risks for each of these options that should be assessed for best fit with the operating model and risk profile of an agency. A managed services approach is optimal for a phased approach to cost transparency, which calls for rapid prototyping through iterations prior to implementation. CFOs considering a managed services model should consider the following:

- Department’s strategic objectives and future IT investment strategy
- Cost/benefit results of an Analysis of Alternatives
- Potential information management compliance and vulnerability risks
- Internal governance and service level agreement negotiations

Modernization efforts of software and hardware assets require long lead times that conflict with time-bounded leadership and Congressional inquiries for increased cost transparency, improved financial management, and making the workforce more efficient and effective. To achieve timely results and “quick-wins,” agencies are moving toward a managed services framework, one that allows large-scale data and cost models to run on a framework built for complex enterprises.

A cost-effective strategy is the use of third-party environments to host their data coupled with advisory and consulting services to manage data and implement capabilities. A managed services solution that integrates strategic objectives, budget, cost, and performance together can help optimize the cost management, accounting, and performance objectives. A phased approach builds on the priorities of regulatory and strategic objectives within the agency.

A managed services framework provides CFOs data-driven management insights into budget, cost, and financial performance of their agency. Using a managed services framework also enables finance leaders to recommend actions that may have the greatest positive impact on the budget and mission—such as adjusting staffing and reducing output costs.

## Implementing cost transparency and accounting solutions

**Agencies that are effective in this area have used the managed service model to prototype or pilot their cost management and accounting methods.**

A prototype or pilot generates valuable and actionable costing information that garners support for a broader initiative. To raise the visibility of a cost management and accounting initiative and involve a wider stakeholder group, some agencies tie their cost management and accounting initiative with other organization-wide efforts (e.g. budget prioritization, performance management, regulatory achievement programs, ERP implementations, or new product or service rollouts).

An effective cost, budget, and performance system solution allows agencies to answer a host of questions without the need for complex and manual data manipulation. Armed with better tools, through a managed services model, agencies will have the information to make better strategic decisions and generate more value from its cost, budget, and performance data.



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