Recent GAO studies on Information Technology (IT) and Information Security found that the Federal Government’s aging information technology infrastructure is becoming increasingly obsolete, costly to maintain, and vulnerable to data breaches. Many agencies use archaic software languages and hardware that are no longer supported, with some system components dating back to the 1950’s. The number of cyber security incidents involving the government’s aging systems has grown by 1,120% since FY 2006, leading Inspectors General at 23 of the 24 CFO Act agencies to cite information security as a major management challenge for their organizations. In addition to the risk of security incidents, aging systems require high operations and maintenance (O&M) costs to remain relevant and offer limited functionality and poor interoperability with more modern systems.

IT modernization can seem overwhelming, bringing with it significant costs, level of effort, and risk of failure. Complicating these challenges is the fact that government funding is often “one-year” money, hindering long-term investments in IT upgrades. A 2016 GAO report demonstrated the impact that these effects have across the Government. Of $80 billion reportedly spent on IT in Fiscal Year (FY) FY15, the Government spent more than 75% on Operations and Maintenance (O&M) of existing systems. This trend has grown worse over time - O&M spend has increased from 68% in FY10 to 79% budgeted for FY18.

Making the Most Out of the Modernizing Government Technology Act
The Modernizing Government Technology Act

In December 2017, the President signed the Modernizing Government Technology (MGT) Act into law as part of the FY18 National Defense Authorization Act. To help address the challenges described above, the MGT Act provides blanket authorization to CFO Act Agencies to establish a Working Capital Fund (WCF) for IT modernization and information security.

The Act also establishes a centralized Technology Modernization Fund to be administered by the General Services Administration, in consultation with the Federal CIO Council for IT Modernization and Information Security. The Act provides the foundation for the governance structure and financing mechanisms, to be further developed in implementation, and authorizes the appropriation of $250M per year in FY18 and FY19 for the centralized fund. Utilizing the central fund or establishing a WCF at the agency level need not be mutually exclusive, though each path comes with its own considerations.

An Agency-level Working Capital Fund Increases IT Budget Flexibility and Transparency

An agency-level WCF is an opportunity to manage and execute important IT modernization efforts. A WCF is a full-cost recovery operating model where program expenses are recovered through funds collected from supported customers, both internal and external to the organization. WCFs operate more like a business than a traditional government service, offering and scaling services in response to customer demand, and funded through customer payments for those services. Through this business-like relationship, service providers are motivated to demonstrate customer value and control the costs of delivery to customers. Customers also bear a greater responsibility for resource management by aligning orders with demand.

In compliance with applicable reprogramming law, an agency’s existing transfer authority, and Appropriations Committee guidelines, the MGT Act specifies that agencies may reprogram and transfer funds to the WCF, including but not limited to identified cost savings achieved through IT upgrades and funds originally designated for the O&M of existing systems.

Such funds are available for obligation within three (3) years of the end of that fiscal year, serving to further mitigate the “spend it or lose it” culture of the government budget cycle, and encouraging agency leadership to identify and utilize this funding to invest in multi-year IT and cybersecurity improvements. The transparency of resource management, accountability for results, and flexibility in funding that the MGT Act endeavors to create for WCFs will assist agency leadership to responsibly plan, capitalize, and take a longer-term view to IT modernization.

This article - the first in a Federal CFO Insights series on the MGT Act - focuses on leading practices and considerations for agency-level WCFs. Deloitte will produce additional technical briefs over the coming months, following the release of OMB Memorandum M-18-12, Implementation of the Modernizing Government Technology Act.
Key Considerations for Establishing an Agency-level Working Capital Fund

Establishing an agency-level WCF as authorized by the MGT Act is an excellent avenue to help enable IT modernization and information security improvements. To achieve these potential benefits, there are several operational and environmental readiness factors for Government leaders (including Deputy Secretaries, CFOs, CIOs, COOs, and CHCOs) to consider as they begin this journey:

Governance
OMB Memorandum M-18-12 instructs all CFO Act agencies to notify OMB of their intent to establish an agency-level WCF in FY18 by March 27, 2018, or at least 30 days prior to establishment. A critical first step in the decision to establish such an agency-level WCF is to determine the guiding principles, leadership, and governance structure for the organization. These factors will be unique to each agency; the organization’s Deputy Secretary and C-suite should work proactively to establish WCF governance and ownership, considering such factors as the current appropriation structure, the existence of WCFs and shared services within the agency, and cultural norms on budgeting and funding control. Establishing ownership for decision-making and responsibility for operations in the WCF directs the scope of the fund, how customers will interact with it, and how investments are prioritized and approved. A commitment to transparency in the governance process can serve the WCF well as it grows in materiality, complexity, and importance.

Data Collection and Reporting
In compliance with applicable reprogramming law, an agency’s existing transfer authority, and Appropriations Committee guidelines, agency-level WCFs under the MGT Act may reprogram or transfer appropriated funds, including but not limited to those designated for O&M or legacy IT infrastructure and systems. Additionally, the MGT Act allows agencies to transfer identified IT savings into the WCF.

The opportunity to use funds to invest in new capabilities and expanded capacities is a key benefit of a WCF established under the MGT Act. To effectively prioritize and govern these investments, a WCF should consider establishing an integrated investment review process with customers and create empowered governance councils to oversee implementation. The MGT Act highlights key initial factors to include as part of Agencies’ investment review considerations, including a strong business case, technical design, consideration of commercial off-the-shelf products and services, migration to managed services and consumption-based buying, procurement strategy (including adequate use of rapid, iterative software development practices), and program management. Guidance provided in OMB Memorandum M-18-12 on the evaluation criteria for agencies applying for the centralized Technology Modernization Fund provides complementary factors that agency leaders should consider integrating into the investment review processes for agency-level WCFs. These evaluation factors include impact on agency mission, feasibility, opportunity enablement, and common solutions.

To make informed decisions, investment reviews should also include representatives with an appropriate technology understanding of the challenges and proposed solutions as well as mission users who understand the impact on the mission, customers, and stakeholders. Agencies should consider how to structure operational governance and customer councils in such a way that gives their WCF the ability to manage its operations, while actively engaging stakeholders to gauge customer demand for the size and scope of services offered and customer satisfaction with those services. Agency-level WCF governance councils should be formally recognized within the organization, with the proper authority to manage operations. When practical, the council should consider forming subcommittees with specialized expertise and appropriate stakeholder representation to address specific operational and process issues and to provide recommendations to the broader governance council and investment review boards.
In order to take full advantage of these potential benefits, agencies should be prepared to perform analytics to identify funds to reprogram and develop investment qualification criteria. Once projects are identified and funding is transferred, agencies must have strong data collection and reporting processes in place to track and obligate WCF collections within three (3) years of the end of the fiscal year in which funds are transferred.

Data collection and reporting capabilities will also be critical to meet OMB reporting requirements. OMB Memorandum M-18-12 instructs agency-level WCFs to report quarterly to OMB: 1) all planned transfers and reprogramming actions; 2) all investments or projects funded by the agency WCF; and 3) a fiscal year summary of actual obligations, expenditures, and unused balances. Implemented effectively, WCFs have the opportunity to leverage exponential benefits from the MGT Act; funding provided by IT savings will be reinvested in improvements that in turn yield further savings for the agency.

**Capital Spending**

The additional spending flexibility achieved via the WCF model enables leaders to take a longer-term investment view of critical IT upgrades as part of their financial management strategy. As part of recurring planning, agency WCFs should consider creating and maintain a spending strategy in coordination with the agency’s IT strategy, enterprise architecture, and overall organizational strategic plans. This can enable the WCF to most effectively finance critical upgrades to IT infrastructure, improve information security, and facilitate movement to the Cloud and other “IT-as-a-Service” technology offerings in order to improve delivery of mission-related activities.

**Service Delivery Readiness**

An agency should have certain foundational capabilities in place to enable service delivery via a WCF model. For agencies that establish their IT WCF as a shared service provider, the WCF should be prepared to receive and process customer requests, manage service level agreements (SLAs), perform cost accounting, track billing and invoicing, and report on and analyze financial statements. Implemented effectively, these processes can balance the trade-off of satisfying mission needs while typically minimizing administrative burden and can provide reporting capabilities necessary to meet customer, managerial, and oversight requirements.

**Organizational Change Management**

Establishing a WCF under the MGT Act is an opportunity to generate buy-in across the senior leadership team of an agency. Not only can WCFs be a valuable asset to CFOs and CIOs, but through the MGT Act they also present unique opportunities to the Deputy Secretary and the rest of the C-suite, as well as other stakeholders.

Commitment from the C-suite is critical to the success of a WCF because the establishment of a full-cost recovery model can be challenging for an organization to manage. The WCF model differs in many ways from traditional financial management processes, from planning and budgeting to execution and analysis. Therefore, WCF champions not only face the challenge of customers not fully understanding the organizational benefits derived from these changes; they also face the challenge of ushering in new norms for doing business. To gain buy-in for the WCF, organizational and programmatic leadership should recognize that listening to concerns and demonstrating responsiveness is just as important as communicating strong support throughout all levels of the organization.
Making a Working Capital Fund Work for Your Agency

Now signed into law, the MGT Act gives CFO Act agencies additional financial means and flexibility to accelerate much-needed IT modernization efforts, leverage new technologies and leading practices, and adapt to new buying approaches for technology solutions via a WCF model. Agency leaders should be prepared to build effective foundational capabilities, human capital, and stakeholder buy-in to help realize these benefits. The reward for working through these challenges is a sustainable and effective WCF that can leverage this much-anticipated legislation to its fullest.

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03. Information Technology: Federal Agencies Need to Address Aging Legacy Systems. GAO-16-696T
04. Ibid. GAO footnotes in this report that $80 billion represents what 26 agencies reported to OMB on planned IT spending, detailing that this figure is understated as it does not include spending for Defense classified IT systems; and 58 independent executive branch agencies, including the intelligence community.
05. ITDashboard.gov
06. H.R.2810 - National Defense Authorization Act for Fiscal Year 2018
07. The MGT Act provides guidance on the intended scope of IT Modernization in Sec. 1077 (b)(3) Use of Funds
08. The Information Security Act of 2014 provides a definition for information security as used in this document
10. Ibid.
11. Ibid.
12. Ibid.

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