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# Government-wide Working Capital Fund Symposium

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Department of Commerce  
WCF Assessment Briefing

April 12<sup>th</sup>, 2018





# Briefing Outline

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- I. Assessment Overview
- II. The Good News: What DOC is Doing Well
- III. Opportunities for Improvement
  - Philosophy of Use
  - Limitations of the Allocation Model
  - Reserve Sizing
  - Other Considerations



# WCF Assessment Overview

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- **Joint NAPA-GT team, overseen by an Expert Advisory Group of three NAPA Fellows, conducted a 14-week assessment of the U.S. Department of Commerce ( DOC) Working Capital Fund (WCF) to understand, assess, and identify good practices and opportunities for improvement based on:**
  - Interviews with leadership and program staff
  - Interviews with WCF service providers and customers
  - Administration of an online survey
  - Document review (internal and external)
  - Subject matter expert (SME) feedback
  - Comparisons to other WCFs
- **Reviewing the following areas:**
  - Legislative authority
  - Philosophy of use
  - Governance model
  - Miscellaneous fund management
  - Budget formulation
  - Offset planning
  - Recovery basis/rate setting
  - Order management
  - Cash management
  - Funds control and budget execution
  - Cost and performance management



# WCF Assessment Overview

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## Project Deliverables

- **Final Presentation** – highlighting the good practices, high-level opportunities for improvement, and proposed recommendations.
- **Assessment Matrix** – comprehensive assessment of the management, operational, and financial elements of operating the DOC WCF. Documents the assessment criteria, as-is environment, opportunities for improvement, and recommendations for each of the eleven assessment areas.
- **WCF Comparison Matrix** – comparison of the service offerings and recovery methods for the DOL, DOE, NASA, and Treasury WCFs.
- **WCF Performance Measures White Paper** – presents a WCF performance measurement framework based on the Balanced Scorecard Methodology. Proposes and discusses numerous performance measures for the customer, financial, learning & growth, and internal business processes dimensions.



# The Good News: What DOC is Doing Well

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- Conservative WCF operating model is effectively providing services and recovering the full cost of operation
- Well-established, participatory governance approach provides transparency into decision making and overall WCF operation
- Disciplined budget execution process that uses budget as template for funds control
- Very strong WCF management team
- Excellent documentation of WCF processes, services, and recovery methods
- Good coverage of Management & Administration (M&A) functions that typically benefit from a WCF
- Clear definition of WCF obligations in enterprise financial management system
- Exceptional use of intra-fund reconciliation technique
- Excellent budget formulation and execution reports

**Opportunities for Improvement:**  
**Philosophy of Use**



# Philosophy of Use

## DOC WCF Legislative Authority (15 USC § 1521)

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- Legislative intent of the DOC WCF is to encourage consolidation of common management and administrative (M&A) functions across the department to improve efficiency and reduce costs:

*That such central services shall, to the fullest extent practicable, be used to make unnecessary the maintenance of separate like services in the bureaus, offices, and agencies of the Department*

- Provides the Secretary with authority to add new services to the fund:

*...such other services as the Secretary, with the approval of the Director of the Office of Management and Budget, determines may be performed more advantageously as central services*

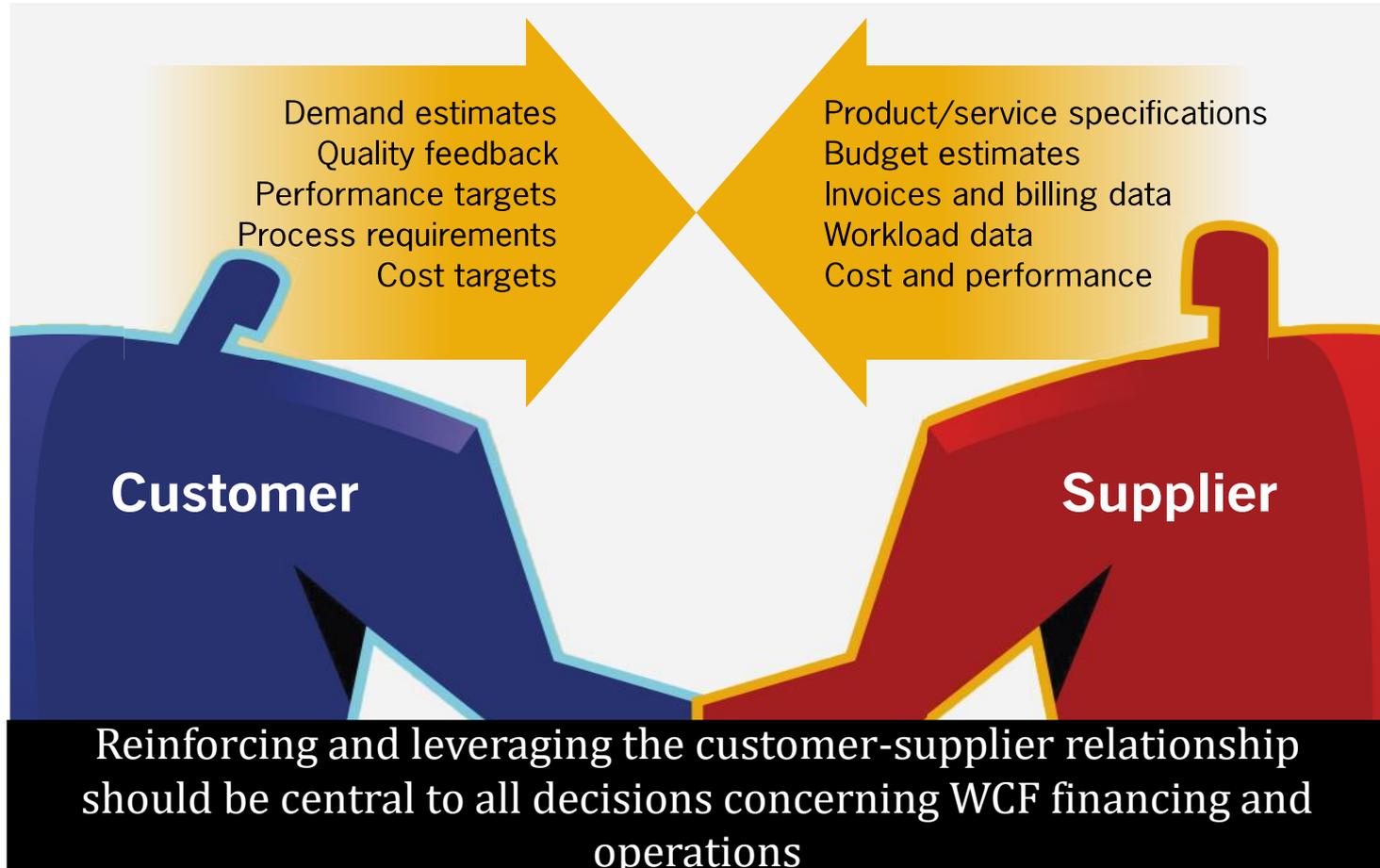
Ultimately, the DOC WCF was established to provide the Secretary with a tool to finance and deliver common M&A functions in a centralized manner to promote efficiency and cost effectiveness



# Philosophy of Use

## The WCF Customer-Supplier Relationship

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# Philosophy of Use

## Takeaways for DOC

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- DOC should consider all funding options (including direct funding) for functions currently in the WCF to ensure:
  - Alignment with legislative intent
  - Appropriate priority of M&A funding against mission requirements
  - Maximum payback for cost of running the the WCF
- Adopt a more-flexible funding approach for transaction-based services in the WCF (and franchise fund) to maximize utilization of the tools
- Re-baseline resource requirements for transaction-based services on a regular basis to ensure alignment with customer requirements and that each is provided in a manner that promotes efficiency and eliminates duplication of effort across DOC

**Opportunities for Improvement:**  
**Limitations of the**  
**Allocation Model**



# Limitations of the Allocation Model

## Variations in Application Produce Different Results

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- Many WCFs employ a fixed (or stabilized) rate that locks the price based on the budget and bills based on actual use
- The stabilized rate approach provides customers with predictability in pricing while also allowing customers to vary demand—and associated billing—based on in-year changes in mission requirements
- Any profit or loss is generally addressed by the WCF corpus



# Limitations of the Allocation Model

## Takeaways for DOC

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- For transaction-based services, adopt use of stabilized rates during execution to provide predictability in billing and allow in-year variation in customer demand levels
- Avoid use of “ability to pay” as a validation of the allocation of services (especially for Departmental policy and program management functions)
- Seek to accumulate an operating reserve to absorb short-term drops in demand against planned levels

# Opportunities for Improvement: Reserve Sizing



# Reserve Sizing

## Using Cash to Mitigate Financial Risk

Financial risk in a WCF comes from fluctuations in demand, cash flow problems, system issues, and changes in the cost of production



Forecast Errors



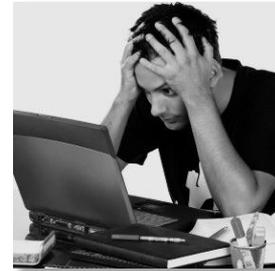
Late Customer Payments



Unforeseen Expenses



Sequestration and Mandated Budget Cuts



System Issues



Transaction Posting Issues

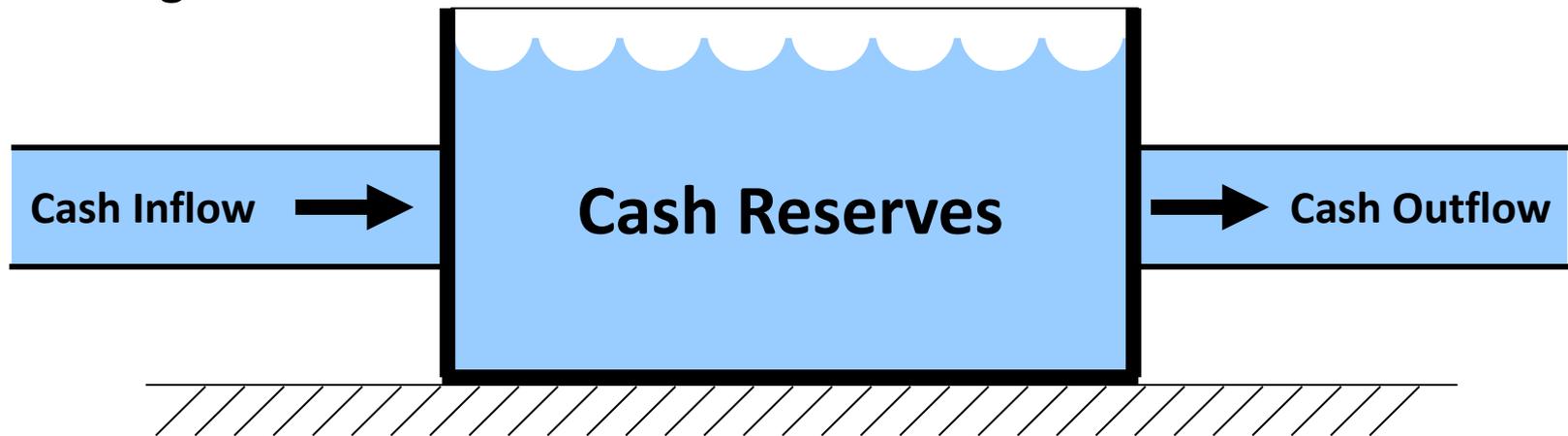
Cash reserves are one of several tools used to mitigate these risks



# Reserve Sizing

## Cash Management Mathematical Model

The math for quantifying cash requirements is the same for all revolving funds. However, the factors influencing cash inflow and outflow will vary from fund to fund and must be identified, quantified, and mitigated.



As a rule, to stay cash positive, at any given time:

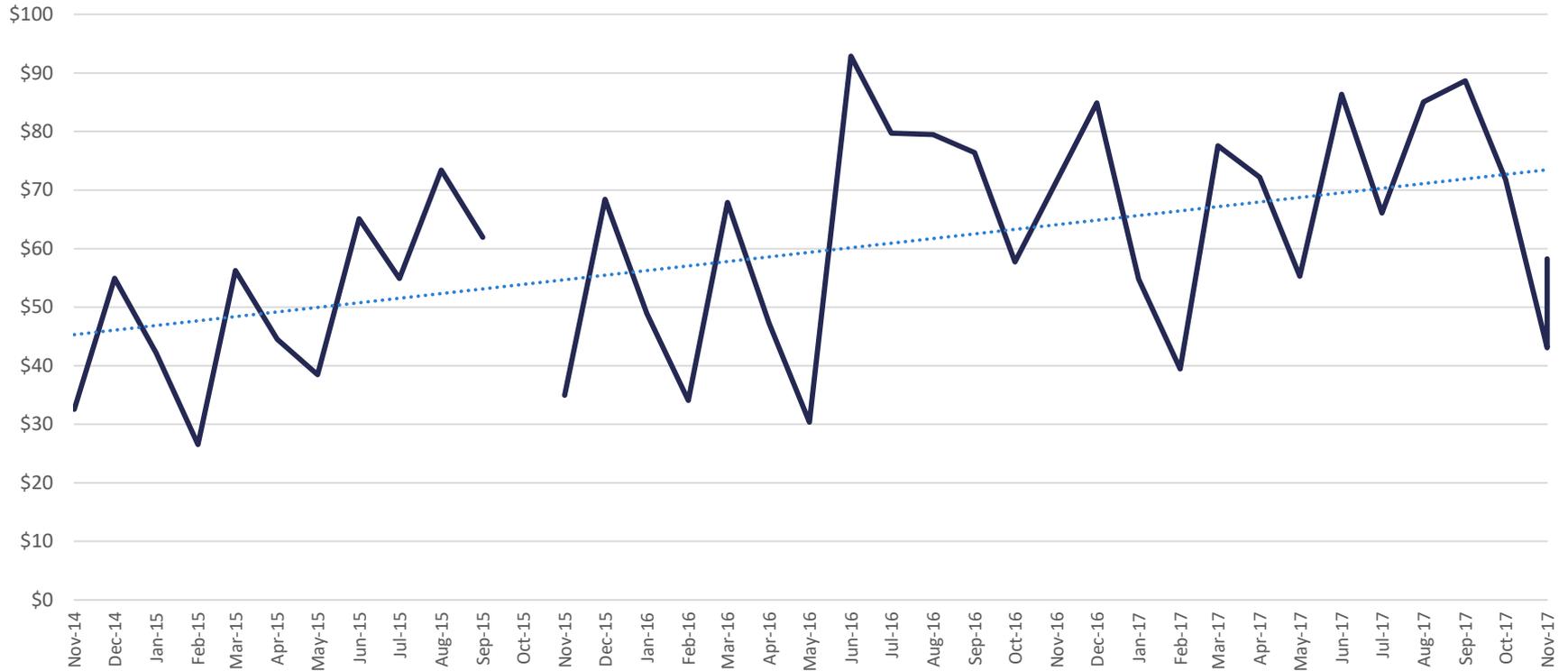
$$\text{Cash Inflow} + \text{Cash Reserves} \geq \text{Cash Outflow}$$



# Reserve Sizing

## DOC WCF Fund Balance with Treasury (FBWT) Shows Cash Balance Increasing

DOC WCF Monthly FBWT (\$M)





# Reserve Sizing

## Observations on DOC Cash Level

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- Since DOC receives advances for most customer orders, FBWT will give the impression the WCF has a reserve (or excess cash)
- However, this positive balance is the results of unliquidated obligations (ULO's)

**Opportunities for Improvement:**  
**Other Considerations**



# Other Considerations

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- Using payroll lapse to fund in-year shortfalls perpetuates staffing shortages in some services providers
- Some service providers are purchasing IT and administrative support services from contractors to augment service from WCF intrafund service providers due to previous issue
- Should consider using combined annual agreements that allows adjustments to charges between specific services as long as overall funding levels are sufficient and customers are notified

# Additional Comments by Expert Advisory Group



# Expert Advisory Group – Overarching Perspective

*The conversations need to reframe the “we” away from the Bureaus and back to the Department so that the full value of the WCF as an organization tool to manage the cost of running the organization can be realized.*

