STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION AND INTERNATIONAL SECURITY
SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
COMMITTEE

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Good morning, Mr. Chairman and Members of the Committee. My remarks will focus
on the Administration's strategy and progress in planning, managing, and measuring the
results of the Federal government's information technology (IT) investments.

The President proposed to spend roughly $64 billion in FY 2007 for IT and associated
support services to support the multiple and wide-ranging missions of the Federal
government. When performing appropriately, these IT investments help improve the
ability of the government's programs and operations to more effectively deliver services,
products, and information to state, local, and tribal governments, industry, non-profit
organizations, and the American people.

In particular, you have requested a discussion of two specific tools we use throughout the
year to manage IT investments -- the "management watch list" and our "high risk"
projects. While I will do so, I would like to first discuss our overall process for managing
investments given all of our tools. OMB executes its responsibilities using various
methods such as

- reviewing agencies' annual budget submissions,
- engaging with agencies throughout the year on such issues as the electronic
  government scorecard of the President's Management Agenda, and
- monitoring specific projects of interest to OMB -- high risk projects

IT Investments and The Budget Cycle

Each year, OMB updates and issues guidance to the agencies for preparing, submitting
and executing the budget.[1] Agency submissions must reflect the policies of the President
-- including implementation of the President's Management Agenda initiatives.

Two sections of this Circular provide additional guidance about IT funding requests
specifically targeted at agency project planning.[2] Specific questions are asked on

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[1] Circular A-11, "Preparation, Submission, and Execution of the Budget" ,
http://www.whitehouse.gov/omb/budget/fy2007/

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performance goals and measures, project management, alternatives analysis, earned value management, security plans, and privacy impact assessments.

For major IT projects, agencies answer these questions and provide supporting details in a "Capital Asset Plan and Business Case" (business case). OMB reviews and evaluates these business cases as part of our overall evaluation of their entire agency budget submission. It is important to note, business cases are primarily planning documents and do not reflect actual project performance. Performance information is obtained through other means I will describe later.

Our summary of where agencies stand with their planning for IT investments (also called the "management watch list)"is reported as part of Chapter 9 of the Analytical Perspectives Chapter of the Budget.[3]

This report is an OMB requirement under the Clinger-Cohen Act (the net program performance benefits achieved by executive agencies as a result of major capital investments in information systems). As I have discussed in previous testimony on similar topics, the Clinger-Cohen Act establishes processes for executive agencies to analyze, track, and evaluate the risks and results of major capital investments for information systems.

It is important to note, OMB is but one of the intended audiences for the business case -- the primary audiences are agency officials and their investment review boards. These managers should use the business cases to effectively manage their own IT portfolios and submit to OMB only those investment requests meeting criteria specified in law, OMB policies and supporting the priorities of the Administration.

For the FY 08 budget cycle, we have modified these exhibits to add appropriation code information to better target our spending dollars. Agencies are also required to post on their agency website, within 2 weeks of the release of the President's budget, these updated exhibits reflecting final Presidential decisions. These products are included in agency Information Dissemination Product Inventories, Priorities, and Schedules and expose agency spending to even greater scrutiny by the taxpayer.

The Management Watch List in FY2006 and FY2007

Business cases reflecting one or more planning weaknesses are placed on the so-called "management watch list" and are targeted for followup and correction.

As I have said, the information included in each business case helps OMB and the agencies ensure correctly planned IT investments. The President's Budget for FY2006 included approximately 1087 major IT projects, totaling about $65 billion. Of this

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[2] Section 53, "Information Technology and E-Government" and Section 300, "Planning, Budgeting, Acquisition, and Management of Capital Assets."
[3] http://www.whitehouse.gov/omb/budget/fy2007/

number, OMB reported 342 projects, representing about $15 billion—as being on a "management watch list."

We continue to use the "management watch list" as one of many tools to oversee agencies' planning for IT investments and drive improved portfolio management. The FY2007 President's budget proposes approximately $64 billion for IT and associated support services. Of the 857 business cases submitted this year, there were 263, valued at $9.9 billion, not meeting the criteria for success. As of this hearing, I am pleased to report this year's list has been reduced to 86 projects valued at $4.5 billion.

Improving Project Performance

Having described a business case as a planning document and the management watch list as one tool used by OMB to monitor agency planning, let me now describe how other tools are used to monitor actual project execution and performance. In doing so, one will see as OMB does, over emphasis on the management watch list may produce unintended results.

Although business cases include information designed to identify whether the agency appropriately considered project performance as part of the project planning, they are but a snapshot in time and are not designed to be nor are they used for measuring project performance (i.e., whether the project is within cost, schedule and performance goals). Managing and measuring project performance is of course first and foremost an agency responsibility.

While over the past several years, agencies have improved the quality of their IT project planning and justification, we recognized we need to continue this improvement during the execution phase of the IT project. This time last year, we issued new guidance specifically to assist agencies in monitoring and improving project planning and execution and implementing earned value management for IT projects.[4]

Specifically, our guidance describes procedures regarding:

- Establishing and validating performance measurement baselines with clear cost, schedule and performance goals;
- Managing and measuring projects to within ten percent of these goals using a standard earned value management process established by the American National Standards Institute;
- Assigning to each project a qualified project manager; and
- Avoiding duplication by using inter-agency and government-wide investments to support common requirements;
- Ensuring performance goals are appropriate.

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[4] http://www.whitehouse.gov/omb/memoranda/2005.html

The objective is to manage the risk associated with the IT investment to achieve the intended outcomes. Each quarter agencies evaluate and report to us on the performance of high risk projects. These projects are high risk, not at-risk, thus the definition of "high-risk"—those requiring special attention from the highest level of agency management and oversight authorities, including OMB, agency Inspectors General, and GAO. For example, a project may be classified as high-risk because of exceptionally high costs and even if this project is performing well, it is still classified as high risk.

The goal is for oversight authorities and agency management to have data on how these projects are performing at least quarterly to better ensure improved execution and performance. Agency managers and oversight authorities should know within 90 days if a project is not performing well. The goal is to manage project risk and avoid problems or catch them early should they occur before taxpayers' dollars are wasted.

It is also important to note this policy is designed to supplement and complement existing oversight and internal agency processes, not replace them. This policy is separate and apart from the "management watch list" discussed and presents oversight authorities with information differing in focus, timing, and expected results.

Using the President's Management Agenda Scorecard to Assist Oversight

OMB oversees the agencies' activities under the President's Management Agenda and its associated quarterly reporting process.

The Expanding Electronic Government Scorecard includes the following standards for success. To get to green, agencies must:

- Have an effective Enterprise Architecture;
- Demonstrate they are managing their major IT projects so they deliver results as expected, on-time and within budget;
- Secure at least 90% of operational systems and sustaining progress correcting security weaknesses through a Department-wide remediation process verified by the agency Inspector General or the Head of the Agency;
- Avoid redundant or agency-unique IT projects by participating in government-wide E-Gov initiatives and Lines of Business; and
- Justify successfully major IT investments with complete business cases

Each quarter agencies receive a scorecard about their progress and status in achieving the Government-wide goals. We deliberately included a criterion for "acceptable business cases" to underscore it is at its core an essential management issue.

Again, the acceptability of businesses cases is just one of a number of critical components agencies must satisfy to get to green (or yellow) for the E-Government scorecard. If the business case criteria are not successfully met, agencies cannot move forward, regardless of their performance against other E-Government criteria. Agency scores are posted quarterly at http://results.gov/agenda/scorecard.html.

Follow-up is dependent on the particular issues identified and tends to focus on strategic issues or problems existing at a government-wide or agency-wide programmatic level, not tactical ones residing with individual investments.

For example, in our work for the President's FY 07 budget, we noted while more than 70% of major IT investments had a qualified project manager, there continued to be gaps in project management capabilities. In many cases, a qualified project manager supported more than one investment, diminishing their overall effectiveness and increasing project risks. To further strengthen our project management capability, we have subsequently provided additional guidance through the President's Management Agenda Human Capital scorecard to reduce gaps in mission-critical occupations and competencies.

Additionally, our oversight of agency investment requests over the past two years ago, identified widespread weaknesses in agencies meeting cost, schedule and performance goals. Therefore, we now emphasize earned value management as a key feature in the quarterly President's Management Agenda scorecard reviews.

Finally, a recent GAO report revealed questions on the validity of agency information in the Exhibit 300s submitted to OMB. We are working with each of the agencies to correct these problems and ensure they do not occur in the future.

I would now like to discuss two examples of how our policies and oversight have helped agencies succeed on projects to reduced costs and burden on industry and the public.

The Shipper's Export Declaration is the most common form of export documentation files by the U.S. exporter community. Information collected on the form is used by the U.S. Census Bureau to compile trade statistics and help prevent illegal exports. The Automated Export System and the associated website (AESDirect.gov) automated the formerly manual, paper-based process of filing the Shipper's Export Declaration and related export documentation. AESDirect.gov, the Census Bureau's free Internet-based system, can be used directly by exporters and anyone else responsible for export reporting. This saves exporters time and effort in filing required forms, reduces time and resources required by the Census Bureau for processing the data, and provides the Federal government more timely and accurate trade information for the monthly principle economic indicator, "U.S. International Trade in Goods and Services."

Overall the use of the Automated Export System has reduced reporting burden by 167,000 hours and reduces the cost of filing Shipper's Export Declarations from $50 for paper forms to $1.50 when filed electronically.

Another example of successful agency implementation of sound policies is the National Highway Traffic Safety Administration's collection of data from over 650 manufacturers of vehicles, child safely seats, tires, and motor vehicle equipment. Successfully automating this process has reduced costs to manufacturers by an estimated $1.2 million dollars per year and improves access to the information for more timely analysis. Over

9,000 users visit the site each data to access real-time data on prior investigations, recalls, and consumer complaints.

Conclusion

Thank you for this opportunity to discuss the Administration's strategy and progress to date in planning, managing, and measuring the results of the government's IT investments. As we continue to work with agencies to improve the planning, execution, and management of IT projects, we will also continue to look for new opportunities to refine our oversight.