




THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Peter R. Orszag 
Director

SUBJECT: Immediate Review of Financial Systems IT Projects

Federal Information Technology (IT) projects too often cost more than they should, take longer than necessary to deploy, and deliver solutions that do not meet our business needs. Although these problems exist across our IT portfolio, financial systems modernization projects in particular have consistently underperformed in terms of cost, schedule, and performance.

To address these problems, the White House Chief of Staff and I today signed a Memorandum launching an IT project management reform effort. As part of this effort, OMB is concurrently issuing this guidance that requires all CFO Act agencies to immediately halt the issuance of new task orders or new procurements for all financial system projects¹ pending review and approval from OMB. This guidance also:

- Sets forth guiding principles for the acquisition and project management of new financial systems;
- Specifies the procedures for an immediate review and evaluation of current financial system modernization projects; and
- Clarifies and updates OMB policies on financial management shared services, financial system standards, and financial software testing and certification.

Overview

Financial system modernizations projects in the Federal government have become too large and complex. By setting the scope of projects to achieve broad-based business transformations rather than focusing on essential business needs, Federal agencies are experiencing substantial cost overruns and lengthy delays in planned deployments. Compounding this problem, projects persistently fall short of planned functionality and efficiencies once deployed.

There are two basic factors causing these results. First, the large-scale modernization efforts undertaken by Federal agencies are leading to complex project management requirements that

¹ The focus of this effort is on core financial systems as defined in OMB Circular A-127. However, when an agency deploys a financial system modernization project in conjunction with other business systems, those non-core financial systems will also fall under the purview of this Memorandum and the review process described herein.

are difficult to manage. Second, by the time the resulting lengthy projects are finished, they are technologically obsolete and/or no longer meet agency needs.

In response to these problems, this guidance initiates a re-examination of these expensive and lengthy investments in financial modernization solutions in favor of shorter-term, lower-cost, and easier-to-manage solutions. By dividing projects into smaller segments that deliver the most critical functionality more quickly, Federal agencies will achieve greater functionality sooner, better align projects to their organizations capacity to manage change, and reduce risk and cost. This guidance also delineates related policy changes that will reduce project complexity by encouraging shared services where cost effective, initiating a performance-based approach for compliance with financial system requirements, and streamlining the process for certifying financial management software.

Guiding Principles

When seeking to deploy a financial modernization project, agencies should follow certain principles and adopt best practices that have been proven to reduce project risk and increase success rates. OMB reviews of financial projects will be based on these principles and practices. They include:

- ***Split projects into smaller, simpler segments with clear deliverables.*** Project segments should generally take no longer than 90 -120 days to achieve specific project milestones. Although all specific milestones may not deliver functionality, all such milestones must support the delivery of well defined functionality. The overall length of a development² project should not exceed 24 months. Historically, Federal government IT projects have involved expansive, long-term projects that attempt to change almost every aspect of a business system at once. These projects have taken years, sometimes a decade, and have failed at alarming rates. The best practice in IT project design now focuses on the development of an overall, high-level system architecture with specific development projects working on tight timetables with clear deliverables that provide interim functionality. This approach simplifies planning, development, project management and oversight, and training. It reduces risk and allows changes in technology to be incorporated into later phases at lower costs.
- ***Focus on most critical business needs first.*** Historic practice in Federal IT system projects has been to attempt to address a wide range of needs at once through expansive process reengineering projects. The complexity involved in this approach has added substantially to costs, significantly increased risks and delayed implementation of all functionality, including the most critical needs. One of the benefits of the segmented approach outlined above is that it allows prioritization of needs and functionality. The most critical functionality can be delivered first while functions of lesser importance can be considered for subsequent delivery. Among other benefits, this process has been proven to cause a healthy reevaluation or reconsideration of secondary functions after critical functions are in place and being used. Therefore, revised projects plans should prioritize the most critical financial functions.

² This includes the planning and development, as well as the implementation phases of the project. The focus is on modernization projects and software upgrades, not on-going operations and maintenance costs.

- ***Ongoing, transparent project oversight.*** One of the major causes of IT system failure is insufficient oversight by senior management. Often in the Federal government, senior agency managers do not adequately monitor projects on an ongoing basis once they are underway. Proven best practices in this area include identifying up-front a series of milestones, warning flags, and stop points over the course of the segment lifecycle which, if deemed necessary, can cause the project to be suspended and returned to planning. Additionally, clear deliverables should be monitored closely and any delays in deliverables should automatically result in a more in-depth review of a project. Finally, mechanisms for review of project status by senior management should be built into a project plan. Revised agency projects plans should integrate these best practices into their oversight processes.

OMB Review Process

1. ***Projects Subject to Review.*** Effective immediately, for all CFO Act agencies³, all financial system modernization projects with \$20 million or more in planned spending on development or modernization expenses shall be halted pending an agency re-evaluation and a subsequent review by OMB⁴ as noted below. In addition, as a part of this review, projects identified as high-risk by OMB should require more frequent assessment to include review of task orders or activities. Review of projects nearing completion may be abbreviated and will include consideration of the costs and benefits of implementing the policy within the project.

Agencies that have previously completed modernization projects must refrain from moving into additional rounds of planning and development until OMB has approved a revised implementation plan for those projects consistent with this guidance. Lastly, OMB may review systems that have completed implementation when a failure occurs (e.g., the system fails in performing basic functions).

2. ***Financial Systems Advisory Board.*** As of this date, OMB is establishing the Financial Systems Advisory Board (Board) under the Chief Financial Officer (CFO) Council. The Board will include CFOs and CIOs from major agencies and have available experts from various communities, including acquisition and e-government. Its function will be to make recommendations to OMB, as requested, on projects being reviewed under this memorandum. Agencies with longstanding expertise in IT project management may also be asked to participate more extensively and directly with OMB in the overall review process.
3. ***Agency Project Plans.*** Within 60 days of this order, agencies will provide revised project plans for all projects covered herein to OMB for review. Such plans, as described in Attachment A, shall clearly outline the project's strategy for reducing costs, shortening the project timeline, and reducing risks. Criteria for review will be the Guiding Principles described earlier in this Memorandum.

³ For purposes of this memorandum, the Intelligence Community agencies are included.

⁴ OMB review is a coordinated review led by the Office of Federal Financial Management that also includes staff from OMB's Resource Management Offices and the E-gov Office.

4. ***Project Review.*** OMB will review revised project plans within 60 days of submission. This review may include presentation of plans to the Board for its evaluation and recommendations, but OMB will make the final decision regarding approval of a revised project plan. Many agencies have already begun working on revised project plans. Attachment B includes an initial schedule of review dates for these projects.
5. ***Funds Execution and Link to Project Reviews.*** Beginning in the first quarter of FY 2011, to align with this guidance, financial system investments subject to this guidance will be apportioned consistent with a segmented approach. Where the apportionment process is employed, funding shall be controlled under Category B on a quarterly basis. As such, contracts shall reflect the overall implementation phase of 18 to 24 months, with task orders written to reflect 90 to 120-day deliverables. Task orders shall be funded consistent with the apportionment – after OMB review throughout the development, modernization, and execution phases. For projects that OMB has not designated as high-risk or that have a proven track record of achieving specific milestones within well-defined segments, OMB may employ flexibility regarding funds control.

Throughout the fiscal year, OMB shall assess whether or not an investment should receive funding for the next segment. If approved, OMB will apportion funding for the next segment under Category B. If approval is not granted, OMB will work with the affected agency to redirect funding pursuant to existing Congressional reprogramming requirements. An agency's failure to complete a segment as planned may be a basis for canceling the remaining investment. Additionally, inconsistent, incomplete, or inaccurate data or documentation may be justification for redirecting funding.

6. ***Future Reviews.*** Subsequent to initial project reviews and approval of revised plans, OMB will review project status, and as necessary will re-engage the Board, on a quarterly basis through FY 2012. These reviews will be used, among other things, to inform the appropriations process for FY 2011 and OMB's review of budget proposals for FY 2012. Funding for projects subject to the apportionment process under this guidance will continue to be apportioned on a quarterly basis through Category B allocations. Projects must continue to meet 90 to 120-day milestones in order for OMB to release project funding for additional segments. For projects that have a proven track record of achieving specific milestones within well-defined segments, OMB may employ flexibility regarding funds control.

Shared Services, Financial System Standards, and Financial Software Testing and Certification

- ***Shared Services.*** OMB supports shared service arrangements when cost effective, but will no longer mandate them in all cases for financial management systems.⁵ Past attempts to mandate use of financial management shared services yielded inconsistent results, as medium

⁵ OMB's previous policy on financial management shared services was captured under the Financial Management Line of Business (FMLOB) initiative. Under FMLOB, Federal agencies were required to either serve as a shared service provider or leverage a shared service provider when modernizing a financial system.

and large agencies encountered the same types of costs and risks with a shared service provider as they did when modernizing “in house.” These risks, along with early reluctance by Federal agencies to fully leverage the shared service model, led agencies to pursue shared service arrangements for low impact areas in terms of operational efficiency, such as common hosting, and to defer higher impact areas, such as common transaction processing.

OMB expects the requirements to re-scope agency modernization projects contained in this guidance will enable greater adoption of shared service arrangements with lower risk and greater cost impacts. Further, financial management shared service efforts will now focus on the higher impact area of transaction processing. OMB, Department of the Treasury, and the CFO Council will identify the development of common automated solutions for transaction processing. The Office of Financial Innovation and Transformation, which has been recently established within Treasury’s Fiscal Service, will pilot these solutions. The first priorities will be to develop initial operating capabilities for vendor invoicing and intergovernmental transactions. Existing shared service relationships will remain unchanged, but agencies that are being cross-serviced can re-evaluate whether the current and future relationship remains cost-effective.

- ***Financial System Standards.*** Current “Core Financial System” requirements⁶ remain in effect and Federal agencies have an ongoing responsibility to comply with them. OMB will soon issue a revision to OMB Circular A-127, *Financial Management Systems*, which will update existing requirements and include new guidance on how agencies and auditors will assess compliance with these requirements. Specifically, OMB will initiate a performance-based approach to assessing compliance that will assist in the overall objective to reduce the cost, risk, and complexity of financial system modernizations. The objective of this approach will be to provide additional flexibility for Federal agencies to initiate smaller scale financial modernizations as long as relevant financial management outcomes (e.g., clean audits, proper controls, timely reporting) are maintained.
- ***Software Certification.*** The Financial Systems Integration Office (FSIO)⁷ previously required a formal test procedure of financial software as part of a certification program that confirmed the products contained the functionality required by issued system standard requirements. This process was established at a time when problems with software functionality posed a significant risk to system performance. Over time, this risk has diminished.

In addition, the FSIO software certification process was lengthy and resource intensive, delaying the procurement process for software by 18 months and creating significant costs for the software vendor that were passed back to the taxpayer. This process was terminated by OMB in March 2010 because it did not align well with our objectives to deploy newer,

⁶ See http://www.fsio.gov/fsio/fsiodata/docs_systemrequirements.shtml.

⁷ The Financial System Integration Office (FSIO), previously referred to as the Joint Financial Managers Improvement Program (JFMIP) office, was an organization within the General Services Administration (GSA) whose mission included the development and implementation of a testing protocol applied to financial software to ensure such software met minimum functionality requirements.

cost-effective technologies more timely. In addition, the certification program still resulted in products that did not have some required functionality, despite the testing.

Therefore, OMB is reforming the certification process by shifting the accountability for software performance to the vendor through self-certification. To the extent software functionality does not perform in accordance with vendor certification, the Federal agency will hold the vendor accountable in the same manner in which other contractual obligations are enforced, such as through the imposing of liquidated damages, requiring repair or replacement, or terminating the contract. If the contractor is found to have made any materially false or fraudulent statements or representations, it may be subject to penalties under the False Statement Act. This should make contractors clearly accountable for delivering what they promise.

OMB will, as appropriate, revisit this policy on an annual basis to determine the potential need for refinement. Additional details related to this change to the testing process will be provided in an upcoming revision to OMB CircularA-127, scheduled to be issued this summer, as well as the OMB Audit Bulletin.

We look forward to working with you as we implement the steps outlined in this guidance to achieve our mutual goals. If you have any questions regarding this memorandum, please contact Debra Bond, Deputy Controller of the Office of Federal Financial Management/OMB.

Attachments:

- A. Template for Submissions
- B. Initial Review Schedule

Financial System Template

Instructions Please provide a systems review package, which should not exceed 20 pages, and a current project plan to the Office of Management and Budget (OMB) and the Financial Systems Advisory Board (FSAB) one calendar week prior to the scheduled system review outlined in Attachment B. The systems review package and the project plan will be discussed during the 50 minute review session, of which 15 minutes will be provided to the agency or component being reviewed and the remaining 35 minutes will be for questions from the FSAB.

The components to include in the systems review package for each of the Department's financial management IT systems follows. If you have questions regarding the template, please submit them to the Financial Management Community page in MAX [<https://max.omb.gov/community/x/KIJHlg>]. Agencies are encouraged to leverage the Exhibit 300 required by OMB Circular A-11 as applicable. Future Exhibit 300 submissions should be consistent with the information presented in this systems review package.

Executive Summary

Project Name: Provide the name of the project and system being modernized. If the name has changed or there are multiple component names, please list each.

Agency: Provide the name of the agency implementing the project. If the project is being implemented in multiple bureaus or components, please list each. For shared service providers, please list the impacted Departments and bureaus/programs.

System Status: Fill out the below chart and self-assess each status item.

SYSTEM STATUS			
Status Item	Current Status*	Prior Status*	Summary
Overall Project Status	Yellow	Red	Include a brief overall summary for the project
Cost	Yellow	Red	Include a description of any variance in cost (costs to date against projects costs; also total estimated costs)
Schedule	Red	Green	Include a description of any variance in Schedule for the lifecycle of the project
Performance (Scope)	Yellow	Red	Include a description of any changes in Performance
Project Risk	Green	Yellow	Include a description of any changes in the project risk(s)

Note: the Prior Status will be blank for the first review.

Chart Key: Red = missed defined milestones during the 90-120 day segment (e.g., cost, schedule, scope)
Yellow = risks identified that could place the project in jeopardy (e.g., cost, schedule, scope) .
Green = on track to meet deliverables; no project slippage
Blue = task completed

* Agencies are encouraged to use the formula based/ variance approach as defined within the OMB Office of E-gov's IT Dashboard. [<http://itdashboard.gov/?q=content/faq-agencies>].

Section 1

Type of Project: Provide a description of what type of project is being reviewed (new initiative, major enhancement/upgrade, or ongoing initiative-e.g., steady state). In addition, please describe what lifecycle phase the project is currently in (pre-acquisition/planning, full acquisition/implementation, deployed/operations and maintenance, or mixed life cycle).

Project Description: Provide a description of the project objectives, including what functionality is being obtained, interfaces required internally or by external stakeholders. In addition please provide number of users, number of locations and description of the locations (e.g. national, localized, international), and a description of the type of users and who is impacted by the system.

Business Needs/Solution: Provide a description of what critical business needs are being addressed and the need or problem driving the proposed project, including the timeframe the critical business needs must be addressed. Please include detailed contingency plans that outline budgetary and performance impact. Describe how the project is consistent with the agency's mission and/or strategic plan. Also, please highlight "in-scope" and "out-of-scope" changes/issues. In addition, please describe the alternatives that were evaluated when choosing the solution.

Benefits: Provide a description of the outcomes of the project that would resolve the business need or problem. Provide a description of direct benefits anticipated from the project. Specify the measurable improvement of the project and the implications of not doing the project. Please relate these descriptions to the overall mission of the Department.

Technology Solution: Provide a description of the technology solution being obtained and the flexibility of that solution (e.g. is it open or closed, does it leverage cloud technology, is it proprietary).

Section 2

Management Structure: Provide a description of the management structure of the project including, the name and contact information for the project manager and the number of staff working on the project. In addition, provide the grades, job series, and office locations of the staff. If staff only work less than 100 percent of their time on the project, please delineate full or partial FTE ratio. Lastly, include a list of the contractors working on the project with their classification and billable rate.

Project Oversight: Provide a description of the project oversight including the date(s) of internal project review(s), highlights from the review(s) and a description of the body reviewing the project (e.g. Department Investment Review Board). In addition, provide the names and titles of the project sponsor(s), how often senior leaders are briefed on the project, and the level of senior leader involvement in the project.

Communication Plan: Provide a description of the communication plan including the identification of all stakeholders, how the agency will communicate critical information on the project to the stakeholders, and how frequently the agency will communicate with each stakeholders.

Training Plan. Provide a detailed description of the agency training plan for all users (e.g., financial management personnel, program personnel, field and headquarter personnel).

Section 3

Project Risk: Provide a description of the identified risks associated with acquiring and implementing this project and explain how the risks will be mitigated. Provide a description of risk associated with the project, such as legacy data cleanup, human resource constraints, and change management needs. Agencies should reflect the probability of occurrence as well as the magnitude of impact of these potential risks. In addition, provide planned risk mitigation steps that would be performed to limit identified project risk and alternatives considered (e.g. in-house development versus outsourcing).

Emerging Issues (applicable if in implementation or deployed phase): List any issues identified that were not anticipated during the planning phase, the impact to the project, and required actions.

Organizational Change Management: Provide a description of the training needs identified for stakeholders associated with this project and the plan for providing the training, including timelines.

Section 4

Cost: Provide a cost estimate for the project, including all funding for the project regardless of source and spanning all years of the project. Estimates should be separated by initial planning, acquisition (development), and annual (recurring) operation and maintenance costs (including FTE costs). Provide original estimated cost of the project, revised estimated cost of the project, and a brief description of any increased or decreased cost projections from the original estimate. In addition, include the amount of actual cost incurred.

Initial Budget	Current Budget	Variance to Initial Budget	Available Funding to Date	Actual Costs to Date

Schedule: Summarize the strategy that will be used to implement the outcomes of the project, identify the key pieces of development, and the high-level milestones and dates. Provide an overview of the overall timeline of the project with deliverables identified in 90-120 day segments. Provide the following high-level information on the project timeline.

Initial Schedule (in Months)	Current Schedule (in Months)	Variance to Initial Schedule	Actual Schedule to date (in Months)

Attachment A

Performance: Provide a description of any major scope changes that has occurred, including the impact the change had on the schedule and budget. Provide the following high-level information on the projects deliverables. Provide a narrative describing the change control process and the number and costs associated with approved changes.

Number of Initial Deliverables	Number of Current Deliverables	Number of Scope Changes	Actual Deliverables provided to date	Narrative on Change Control Process

Segments: For each segment of the project (e.g., 90-120 day timeframes) being presented for review, identify the estimated cost, timeframe and deliverable(s). For each deliverable being presented, describe the criteria that must be met in order for the deliverable to be considered acceptable.

	Estimated Cost	Timeframe (90-120 days)	Deliverable
Segment 1			
Segment 2			
Segment 3			

Financial System Review Schedule

Please see the below draft review schedule of agency financial systems to the Financial Systems Advisory Board. The schedule is also posted on the Financial Management Community page in MAX and agencies may post conflicts or requests for changes through that site at <https://max.omb.gov/community/x/KIJHq>. Please note that the system review package is due to the Board a calendar week prior to the review session.

- 1st Review: July 9, 2010 Departments of Homeland Security, Energy, and Veterans Affairs
- 2nd Review: July 16, 2010 Departments of Interior, Commerce, and Housing and Urban Development
- 3rd Review: July 23, 2010 Departments of Justice and Health and Human Services*, and the Environmental Protection Agency
- 4th Review: July 30, 2010 Department of the Treasury*
- 5th Review: August 6, 2010 Department of Transportation, General Services Administration, and the Office of Personnel Management
- 6th Review: August 13, 2010 U.S. Department of Agriculture, National Science Foundation, Small Business Administration, and the Nuclear Regulatory Commission
- 7th Review: August 20, 2010 Departments of Education and Labor, and the Social Security Administration
- 8th Review: August 27, 2010 Department of State, US AID, and NASA

* Note this includes departmental and component financial systems.