

M-10-XX

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Peter Orszag
Director

SUBJECT: Immediate Review of High-Risk 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 projects 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 scoping projects to achieve broad-based business transformations rather than focusing on essential business needs, Federal agencies are incurring 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 often exceed agency management capabilities. Second, the resulting lengthy projects often mean that by the time projects are finished they are technologically obsolete and/or no longer meet agency needs.

In response to these problems, this Memorandum initiates a re-examination of these expensive and lengthy investments in financial management 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 organization's capacity to manage change and reduce risk and cost. This Memorandum 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 system, agencies should follow certain principles and adopt best practices that have been proven to reduce project risk and increase success rates. OMB reviews of projects will be based on these principles. They include:

- *Split projects into smaller, simpler segments with clear deliverables.* Project segments should generally be no longer than 90 days and be built around delivery of well defined functionality. The overall length of a development project should not exceed 24 months. Historically, Federal government IT projects have involved expansive, long-term projects which 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, broad 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.

- *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 in which, if deemed necessary, the project will be suspended and returned to planning. Additionally, clear deliverables are monitored closely and any delays in deliverables automatically results in a more in-depth review of a project. Finally, mechanisms for review of project status by senior management are 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 agencies, all pre-acquisition financial system modernization projects with \$10 million or more in planned spending on development or modernization expenses are halted pending agency re-scoping and a subsequent review by OMB as noted below. In addition, effective immediately, no new task orders may be issued for existing, ongoing modernization projects over \$500,000 without OMB review. OMB will work with agencies with ongoing task orders or activities to ensure that they are handled in a manner that protects taxpayer interest by finishing tasks that are substantially near completion and equitably settling all payments legally owed to non-government parties.

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 the project that is 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 establishes the Financial Systems Advisory Board (Board) under the Chief Financial Officer (CFO) Council. The Board will include CFOs and CIO 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.
3. *Agency Project Plans.* Within 60 days of this order, agencies will present revised project plans for all projects covered herein to OMB for review. Such plans, in a form similar to that described in Attachment B, 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.

4. *Project Review.* OMB will review revised project plans within 30 days of submission. Such 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 been working on revised project plans. Attachment B includes a schedule of review dates for these projects.
5. *Funds Execution and Link to Project Reviews.* To align with this order, financial system investments will be funded based on an incremental, segmented approach. Funding shall be restricted through apportionments under Category B on a quarterly basis. As such, contracts shall reflect the overall implementation phase of 18-24 months, with task orders written to reflect 90 day deliverables. Task orders shall be obligated only after OMB has released the appropriate funds throughout the development, modernization, and execution phase.

OMB will assess whether 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 reprogramming requirements. An agency's failure to complete a segment as planned could be considered 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 determined 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 Fiscal Year 2011 and OMB's review of budget proposals for FY 2012. Funding for projects that are covered by this order will continue to be apportioned on a quarterly basis through Category B allocations. Projects must continually meet quarterly deliverables in order for OMB to release project funding for additional segments.

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 it in all cases.¹ Past attempts to mandate use of financial management shared services yielded inconsistent results, as medium and large agencies encountered the same types of costs and risks with a shared service provider as they did when modernizing

¹ 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.

“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 herein 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 (Treasury), and the CFO Council will identify and facilitate the acquisition or development of common automated solutions for transaction processing. The Office of Financial Innovation and Transformation (OFIT), which has been recently established within Treasury’s Fiscal Service, will pilot these solutions for eventual adoption across the Federal government. The first priorities will be to develop initial operating capabilities for vendor invoicing and intergovernmental transactions. Existing shared service relationships remain unchanged.

- *Financial System Standards.* Current “Core Financial System” requirements² 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)³ 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 a lengthy and resource intensive process that delayed the procurement process for software by 18 months and created

² See http://www.fsio.gov/fsio/fsiodata/docs_systemrequirements.shtml.

³ 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.

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

As such, OMB is reforming the certification process by shifting the accountability of 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. Depending on the nature of any given problem, the vendor may be subject to penalties under the False Claims Act. This will not only increase accountability but also increase agency options to have products to purchase more quickly and thus in line with current technology.

OMB will, as appropriate, revisit this policy on an annual basis to determine the potential need for policy refinement. Additional details related to this change to the testing process will be provided in an upcoming revision to OMB Circular No. A-127, scheduled to be issued this summer.

We look forward to working with you as we implement the steps outlined in the Memorandum 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