

**STATEMENT OF  
THE HONORABLE KAREN EVANS  
ADMINISTRATOR FOR ELECTRONIC GOVERNMENT AND  
INFORMATION TECHNOLOGY  
OFFICE OF MANAGEMENT AND BUDGET  
BEFORE THE  
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,  
GOVERNMENT INFORMATION AND INTERNATIONAL SECURITY  
SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS  
COMMITTEE**

**July 31, 2008**

Good morning, Mr. Chairman and Members of the Committee. My remarks will focus on the Administration's strategy and continued progress in performing oversight of agency capital investments in information technology (IT). Specifically, I will address the topic of the Office of Management and Budget's (OMB's) ability to effectively analyze, track, and evaluate agency major capital IT investments.

The President's budget request for FY 2009 includes approximately \$71 billion for IT and associated support services government-wide. Though this amount does not represent a large percentage of the total President's budget request, the Office of Management and Budget (OMB) focuses considerable attention on IT-related budgetary issues, program planning and program execution given the cross-cutting nature of information systems management as well as the potential impact of investments in IT on an agency's ability to effectively deliver programs and services to the citizens of the United States.

Of the \$71 billion in the President's Budget request for 2009, \$22 billion, or 31%, represents proposed funding for development, modernization, or enhancement of new or existing information systems, infrastructure or services. Projected expenditure on existing systems operations and maintenance is \$49 billion or 69 percent.

**Capital Planning and Investment Control**

As I have discussed in previous testimony on the topic of OMB's oversight of IT investments, Public Law 104-106, the Clinger-Cohen Act of 1996 established processes for executive agencies to analyze, track, and evaluate the risks and results of major capital investments for information systems.

The operative means by which OMB evaluates agency capital asset plans and their associated budgetary requests is a business case, or exhibit 300, for individual investments. Agencies develop and submit business cases with their annual budget request to OMB, and we in turn evaluate each business case in terms of its ability to support a given investment proposal, including factors such as alignment with the IT

architecture, planned performance improvement goals, cost/benefit analyses, and eliminating costly duplicative and outdated systems.

OMB also evaluates the capability to manage the investment as demonstrated in the business case and planning process, including factors such as having a qualified project manager, acquisition planning, systems security, risk management, and use of Earned Value Management (EVM) to track and manage cost and schedule goals.

As OMB prepares a budget to sustain current services for Fiscal Year 2010, due to the impending change in Administrations, agencies are required to submit updates to their IT business cases and non-major systems spending projections by September 8, 2008, to allow continuity of oversight and review of IT capital investments in order to prepare for the transition period.

### **The Management Watch List and High Risk List**

Last year, I came before this committee to explain two specific tools OMB uses to track and review agency IT capital investments and high stake and special interest investments, the Management Watch List and the High Risk List. I am pleased to report that we have since expanded upon our criteria for evaluating investments, and improved upon the transparency of how investments and projects are placed on either or both lists.

We added three overall evaluation criteria affecting all business cases in an agency's investment portfolio to better capture and communicate the impact and importance of fundamental IT project management and planning capabilities in the areas of information security, privacy and cost, schedule and performance management. Now, if an agency has not demonstrated effective processes for systems certification and accreditation and performing privacy impact assessments, as evidenced by their Inspector General's evaluation of these processes in the agency's annual Federal Information Security Management Act (FISMA) report ([http://www.whitehouse.gov/omb/inforeg/reports/2007\\_fisma\\_report.pdf](http://www.whitehouse.gov/omb/inforeg/reports/2007_fisma_report.pdf)), all investments within the portfolio are placed on the Management Watch List until those core competencies are adequately performed. Likewise, if an agency has failed to achieve an average of seventy percent of the cost, schedule, and performance goals for acquisitions within the investment portfolio, as evidenced by their performance on the E-Government scorecard of the President's Management Agenda (which I will discuss in more detail shortly), all investments within the portfolio are placed on the Management Watch List until the agency remediates this fundamental investment management risk.

In terms of increasing transparency, during the preparation of the FY 2009 President's Budget, OMB provided specific feedback to agencies on a business case-by business case basis as to where they fell short of the evaluation criteria, published the section-by-section evaluation results for each business case on the Management Watch List, and published the criteria OMB uses in assigning scores for each section of the business case.

We also improved the High Risk List by expanding the information included for each project to include the reason(s) why the project is deemed high risk in nature or execution, and included this additional detail in the published version for the third quarter of FY 2008.

The Management Watch List and the High Risk List are reported as part of Chapter 9 of the Analytical Perspectives Chapter of the Budget, and are thereafter published quarterly until the next budget year.

Projects on the Management Watch List and High Risk List FY 2006, FY 2007, and as of Third Quarter FY 2008

Date of Publication	FY 2007 President's Budget (2006)		FY 2008 President's Budget (2007)		FY 2009 President's Budget (2008)	
	Q1	Q4	Q1	Q4	Q1	Q3
	Major IT Investments	857	861	840	833	810
Management Watch List Investments	263	84	346	134	585	352
High Risk Projects	N/A	234	477	603	601	477

**Performance Measures for Acceptable IT Business Cases and Cost/Schedule/Performance in the President’s Management Agenda Scorecard**

OMB oversees the agencies’ activities under the President’s Management Agenda and its associated quarterly reporting process. The Expanding Electronic Government Scorecard includes standards for success for the full complement of IT management practices, including enterprise architecture, capital planning and investment management, managing cost, schedule and performance, information systems security and privacy, and implementation of government-wide E-Gov shared service systems and Line of Business initiatives.

Agency scores are posted quarterly at <http://results.gov/agenda/scorecard.html>.

The percentage of acceptable business cases within an agency investment portfolio is an explicit criterion on the E-Gov Scorecard. Green performance requires an agency not to have any business cases on the Management Watch List. Yellow performance requires less than half of the business cases in the investment portfolio to be on the Management Watch List.

Starting in Fiscal Year 2008, if an agency’s entire portfolio is on the Management Watch List due to the addition of the three aforementioned cross-business case evaluation criteria for systems security, privacy impact assessments, and cost, schedule and performance management, the agency’s E-Gov Scorecard status is downgraded to red in the third quarter of the fiscal year.

## **Cost, schedule and Performance Management**

The exhibit 300 includes information on program cost and schedule milestones. Investments in development, modernization, and enhancement are required to report an original and current baseline upon entering into the systems development phase of the systems development lifecycle. Also, for projects requiring use of EVM, agencies report if cost or schedule variance is within 10%, and if the project has been rebaselined within the last fiscal year.

Green performance for cost, schedule and performance management on the E-Gov Scorecard requires a demonstration of management capabilities and sustained performance as evidenced by a composite cost and schedule variance within 10% of goals for development investments.

We also collect and review EVM data quarterly from those agencies that are green for cost, schedule and performance on the E-Gov Scorecard, as well as from agencies expecting to demonstrate green performance in the near term.

GAO's recent report on project rebaselining points out weaknesses in agency policies in terms of specifying all of the elements of rebaselining according to best practices. We acknowledge more should be done to address this in the future. In particular, OMB needs to clarify expectations for when an original baseline should be established, and elaborate upon the process steps for agencies to submit to and receive feedback from OMB on rebaseline requests.

Though the number of project rebaselines is admittedly high, the practice is not always indicative of project management or execution failure. As the GAO report indicates, 99% of the rebaselines for the sample projects in their survey cited changes in either requirements and scope or funding stream as the underlying reason for the rebaseline. There is inherent difficulty in projecting and predicting, or failure to accurately project and predict, the various internal and external factors and events that can impact an IT investment throughout its intended development life cycle.

To mitigate planning risks, agencies should be using an Integrated Baseline Review (IBR) to finalize a project baseline, and to validate the information for a rebaseline where appropriate. OMB policy directs agencies to perform Integrated Baseline Reviews (IBRs) to finalize the cost, schedule and performance goals of the project. IBRs can be conducted pre or post- contract award for systems acquisitions.

If agencies establish the performance measurement baseline prior to conducting an IBR, the likelihood of the baseline having enduring validity is lower. Likewise, if an agency establishes detailed original cost and schedule goals via the budget formulation process, a forward looking planning activity of two years or more, they may be setting themselves up for failure when conditions change at the time of actual contract award and project execution. The original baseline should be established at the onset of systems development and via a rigorous IBR process.

Corrective rebaselines can and do happen when a project is failing to meet goals due to mismanagement. Our shared goal should be to address the causes of project failure, before a corrective rebaseline is necessary, rather than focus on the procedural aspects of the rebaselining process itself.

### **Solutions for Improving Management and Oversight of IT Investments**

OMB, Congress, and agencies must work collaboratively to address weaknesses in IT program and project performance—we are all vested in a common interest: delivering results for the American people. How can we best do this going forward? I believe OMB has the foundational processes in place to perform program and project investment oversight at the macro-level. These core processes, capital planning, architectural alignment, the Management Watch List, the High Risk List, and the E-Gov scorecard have been, and can continue to be, further enhanced and incrementally improved to provide better visibility into program performance before a project is in trouble so deep it is irreparable.

One improvement for OMB would be to leverage the efforts of the Budget Formulation and Execution Line of Business and to ensure the use of the analytical tools and collaboration environment to improve our own information management capabilities supporting the management and oversight regarding IT investments and projects. The various data sets collected by OMB from agencies, can and should be better integrated into a more comprehensive knowledge base. We are working closely with this Line of Business to improve our ability to integrate the information.

I have brought a display of an example of how we could better integrate and expand upon information on agency IT investments. This is one potential snap-shot of project performance at a point in time. We would like to work with Congress to improve transparency and ease of use of this information. With the transparency into departments' and agencies' performance, will come improved accountability and results which the American taxpayers' deserve.

### **Conclusion**

Thank you for this opportunity to discuss the Administration's strategy and progress to date in tracking and evaluating IT investments and projects performance. With this foundation in place, we can continue to work together to achieve the outcome we both desire which is successful implementation of information technology for program and mission results. We have accomplished a lot in the last eight years, and there is more we can continue to do this very important area.