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IT PROGRAMS AT RISK: IS IT TOO LATE TO SAVE $12 BILLION?

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

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IT PROGRAMS AT RISK: IS IT TOO LATE TO SAVE $12 BILLION?

THURSDAY, SEPTEMBER 7, 2006

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:34 a.m., in room 342, Dirksen Senate Office Building, Hon. Tom Coburn, Chairman of the Subcommittee, presiding.

Present: Senators Coburn, Carper, and Lautenberg.

OPENING STATEMENT OF CHAIRMAN COBURN

Chairman COBURN. Good morning. The Subcommittee on Federal Financial Management will come to order.

We are having a hearing today on IT projects of the Federal Government. I have an opening statement, which I will not read. I will place it into the record and a copy will be given to each of you.

This year, we are going to spend $64 billion on IT in the Federal Government. That is $15,000 per Federal employee per year. When we went to the private sector, we saw very few industries who spend that amount of money per employee on IT. There are some, but very few. The ratio is significant.

A couple of things that we are looking at, this first poster[1] shows what the budget is for IT, the watch list, and the percentage of the IT budget for Management Watch List projects. You can see for the 2007 budget, it looks like only $9.9 billion. Some of the things we will raise today is whether or not that $9.9 billion is accurate. We have some major concerns that may not be accurate, although I would defer until we hear the actual testimony.

The concern is spending $64 billion, first of all, are we getting our money's worth for it? I have some real problems with the Exhibit 300 process, and the problems that I see with that is it seems to me that many of the Exhibit 300s are not written by the agencies but rather by the contractors to get the approval in the first place, which I think is a large conflict of interest for the agencies. The contractors should not be writing those. In fact, the agency should be writing them if, in fact, they think they need these IT projects.

[1] The chart referred to appears in the Appendix on page 27.

The second poster that is up there on the Management Watch List 2007,[2] in terms of the percentage of projects that are on there, from 857 projects that are proposed in 2007, 263 of these are on that. That doesn't necessarily mean there is a financial problem, but there may be a management or execution problem that is vital to the country, and I think to have 31 percent of the projects, we are worrying about them, says a whole lot about some of our IT management.

I do want to compliment OMB on their working with us. It is really great to have an agency that will communicate with you, be fair and open and honest, and is trying to do the right things to right our government in terms of spending our deficits and getting good management tools in place, and I have been impressed with the quality and the openness with which our staffs and Mr. Portman has been available to us and his staff.

The final poster shows performance shortfalls and how they break down and the number of IT projects with performance shortfalls.[1] That number is actually on the rise, which gives me great concern. If you look at unclear baselines, you see what was happening in September and December and March of 2006. If you look at cost and schedule variance exceeding 10 percent, you see that number is on the rise, where you have 25 percent of the projects, the cost and scheduling variance is greater than 10 percent.

And probably even more troublesome is that the project managers for the projects are not qualified to be running the managements, which may be one of the reasons why we are seeing the costs and scheduling and the unclear baselines. And then, finally, duplication of projects, which is also concerning.

The key point that I want to get across with this hearing is just to get a better understanding of where we are on IT. Can we save money?

The final point that I would make is the ability for us to look at and manage IT, I believe needs to be streamlined somewhat, and with that needs to come not cost-plus contracts, but the idea that if we have a clear goal in mind of what we want to accomplish, there, in fact, ought to be quotes out there for people to accomplish the goal without cost overruns, without more money, without more time, and they ought to sign a contract and have to perform. I would guarantee you, not very many businesses allow open-ended cost-plus contracts on IT. They get a quote, they have it competitively bid, there is a contract signed, and the requirements are met in the contract and if they are not met, they are enforced in a court of law. The idea that we have contracts that aren't performing or are over cost tells us that some of our problems are in our contracting to begin with.

So the whole goal is to look at this, to see what we can do. It is not to point fingers. It is not to say—I believe the efforts to get this under control are underway at OMB and I want to compliment them on that. I want to thank the GAO, as well, for being here and for their work on this, because I think it is important, and it is a large segment. Sixty-four-billion dollars a year spent on IT is a lot

[2] The chart referred to appears in the Appendix on page 28.
[1] The chart referred to appears in the Appendix on page 29.

of money and we ought to be getting $64 billion worth of value for it and we need to make sure that we continue to do that in years forward.

Again, I would compliment the President's agenda in terms of management agenda, what he has put in in a lot of areas. I know it is slow to come, but we are seeing progress and I think that is great. But oversight is about looking at it and making sure the pressure is there to continue to do the same thing.

[The prepared statement of Chairman Coburn follows:]

PREPARED STATEMENT OF SENATOR COBURN

Not very long ago, it would have been possible to find offices in which employees did not rely much on computers—today, it would be unthinkable. Information technology has come to occupy so central a position in our work that we can barely remember what we did before we all had cell phones, blackberries, laptops and email.

The Federal Government is no exception: One of the fastest growing IT markets is within Federal agencies. IT projects of all kinds can speed communications, secure critical records, squeeze out inefficiencies and save time. Americans are now able to interact with their government in ways never before dreamed of because of the huge strides we've made in IT.

None of this, though, has come without a huge cost. Our government has invested hundreds of billions of dollars in IT throughout all Federal agencies. In fiscal year 2007 alone, the Administration has requested $64 billion to fund more than 850 IT projects. Money will be spent on everything from defense weapons systems to electronic payroll and everything in between. But, with this huge investment, the government also carries a huge risk. IT projects are complex and especially prone to schedule delays, cost overruns and, sometimes, they are obsolete before they are even operational. In other words, IT projects are highly susceptible to waste if we are not vigilant in oversight.

Providing some of that needed oversight is why we're here today. I want to thank my colleague, Senator Carper, for suggesting the need for this hearing. GAO has identified upwards of $12 billion in Federal IT projects with significant potential for waste if the right measures are not taken. As a percentage of a $64 billion IT budget, $12 billion at risk is an extremely large percentage. It means that nearly one in five Federal dollars that the Federal Government will spend on IT in the coming year may result in failure and waste. This potentially wasteful spending is an enormous problem, and one which the Federal Government cannot afford, especially now, but not ever.

To put $12 billion in perspective:

- It is about twice as much as the entire budget of the Department of Commerce.
- With an average income of $43,000 in this country, it also represents the salary of nearly 280,000 working Americans.
- $12 billion is the collective amount of money that more than 5,700 Americans with college degrees will earn in a LIFETIME.
- Finally, to waste $12 billion would be tantamount to taking the taxes sent in by 1.5 million people and flushing it down the toilet.

We must do anything and everything to steward this money so that doesn't happen.

The responsibility of overseeing all Federal IT spending falls to the Office of Management and Budget. OMB reviews all IT projects on a regular basis to ensure that agencies are not spending money on wasteful projects, and keeps a close eye on the projects with problems. to this end, I want to congratulate the Office of Management and Budget for taking certain positive steps to keep track of the projects that pose the greatest risk of failure. It has developed two separate lists, each with a slightly different function: The High-Risk List and the Management Watch List. The High-Risk List is primarily to keep track of projects with potential *performance* problems, while the Management Watch List tracks projects *planning* problems. Essentially, one list for those projects planned well, but prone to failure in execution, and another list for those not even planned well from the start.

Placing a project on either one of these lists is a very serious matter. A project is only placed on either list if it is usually risky. The disturbing reality is that, of the 857 Federal IT projects to be funded in 2007, 452 are currently on one or both of these lists. *That means a staggering 53 percent of all IT projects are at serious*

risk. The $12 billion total is obtained from adding the value of all projects on the Management Watch List—$9.9 billion—to the value of High-Risk List projects with known "performance shortfalls"—$2.2 billion. Numbers like this serve as a wake up call that something must be done to ensure Federal IT projects are being well managed and given proper oversight.

Twelve billion dollars is bad enough. But I suspect that the real number is even higher. In June, this Subcommittee held a hearing on the Census Bureau, and discovered that the Bureau currently has a $1.8 billion contract for its technology needs in the 2010 Census. That contract, the Decennial Response Integration System, or DRIS, is experiencing so many problems at the moment that the Census Bureau is threatening to scrap it and go back to a pen and paper census, adding a billion dollars or more to its costs. So imagine our surprise, to find that this contract does not appear on either of OMB's two lists, the High-Risk List or the Management Watch List. Adding this project alone to the list would increase the amount of IT projects at risk of waste from $12 billion to more than $13 billion.

Similarly, GAO has uncovered other projects worth billions of dollars that meet the criteria for placement on one of these two lists that do not show up either. This means that $12 billion may be a floor, rather than a ceiling.

Further leading me to believe that the total dollar figure at risk is higher than currently known has to do with the business cases, or Exhibit 300s, submitted by agencies. Exhibit 300s are planning documents that agencies fill out and send to OMB to explain their plans for costs, schedule and other important items before a project ever gets funding. I am concerned that contractors responsible for carrying out the work may actually be the ones filling out exhibit 300s on behalf of the agencies they work for. If so, this would present an enormous conflict-of-interest, whereby contractors could be responsible for not only setting agency priorities, but also benefiting financially from them.

Finally, my last concern gets at an issue very near to the heart of what this Subcommittee has tried to promote: Transparency and sunshine. Transparency means allowing Congress and the public to know how their hard-earned money is spent. At the very least, the information should be given to Congress, which is asked to make decisions about spending taxpayer dollars. This is especially true for the government's most at-risk IT projects. But, as of today, OMB has kept the Management Watch List internally and used it for its own planning purposes.

The Management Watch List consists of 263 projects and represents $9.9 billion of the government's total $64 billion in IT spending for 2007. Each of the projects on this list is there because it has serious planning weaknesses. I believe that Congress has a right to know not only what these projects are, but also why we are funding projects that have been poorly planned. I look forward to working with OMB to find a way forward by which Congress can know more fully what problem projects it is funding while enabling OMB to do its job as well.

It is my hope that this hearing will provide a needed spark to try and get a better grasp on Federal IT spending. We cannot sit idly by and watch billions of dollars be put at risk year-by-year, with American citizens paying the price. Our goal should be to minimize that risk to the greatest degree possible and do everything in our power to protect the precious financial resources entrusted to us by Americans each year.

I want to thank the witnesses for being here today to discuss this important issue.

Chairman COBURN. Senator Carper will be here in a moment. He is on the floor. I would like to recognize Senator Lautenberg at this time.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thanks, Mr. Chairman. This is an especially meaningful review because, as you noted, $64 billion being spent on IT, information technology, is about $25,000 per Federal employee. That is a huge sum of money. Federal agencies from the Defense Department to the Department of Veterans' Affairs are funding IT projects that don't meet clear baselines and don't maintain their cost projections, don't stick to schedule, and don't seem to have qualified project managers.

Now, I have been in the business world and in the IT world. I started a company called Automatic Data Processing, ADP as it is

commonly known, a company that employed IT at its very earliest developmental stages. That company now processes one out of six paychecks given to employees throughout the country. We could never have succeeded if we had managed our technology as does the government.

It seems it is very hard to get a handle around projects that we do in government. Mr. Chairman, I was very active on the Transportation Subcommittee in my former iteration and we started out with projects with the best companies, you name it, the computer companies, and none of them succeeded because of magnitude of the project was never really understood, and these things have to be done, in my view, modularly to make sure that you have appropriate benchmarks to guide yourself by, guide your progress by, and not expect to be able to solve major problems in a single setting.

So when we look at the $12 billion that could be wasted by poor planning, poor management and planning, just think, it could provide health care coverage for 85 percent of the children in America. It could send more than two million bright young Americans to universities. So wasting that kind of money is a disgrace. It is unacceptable. We are working hard to make our dollars go further and the last thing we ought to do is be throwing them away casually. To avoid this, we have got to hold people and government agencies accountable.

Mr. Chairman, thanks again. This is consistent with your view of how we ought to manage government, and I agree totally, so we will hear from the witnesses and go on.

Chairman COBURN. Thank you.

Let me introduce, if I may, Karen Evans. She is the Administrator for E–Government and Information Technology at OMB. Previously, she served at the Department of Justice as an Assistant Director for Information Services and then as Division Director for Information System Management. Prior to that, she was Deputy Director for the Applications Management Division at the Department of Agriculture. She has an MBA from West Virginia University.

I would also like to introduce David Powner. He is the Director for Information Technology Management Issues at the Government Accountability Office. He has been with GAO for 14 years. After 10 years at GAO, though, Mr. Powner took a break and worked in the private sector for 4 years in the telecommunications industry. He has now been back at GAO for 4 years and brings with him a depth of knowledge about both private and Federal IT management.

I would like to recognize you both. You can take the amount of time that you need to take in terms of your opening statements. Senator Carper will arrive somewhere between your opening statements and we will allow him to make a statement at that time.

Ms. Evans.

TESTIMONY OF KAREN EVANS,[1] ADMINISTRATOR FOR ELECTRONIC GOVERNMENT AND INFORMATION TECHNOLOGY, U.S. OFFICE OF MANAGEMENT AND BUDGET

Ms. EVANS. Good morning, Mr. Chairman and Members of the Committee. My remarks today will focus on the Administration's strategy and progress in planning, managing, and measuring the results of the Federal Government's information technology investments.

The President has proposed to spend roughly $64 billion in fiscal year 2007 for information technology 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, nonprofit organizations, and the American people.

In particular, you have requested a discussion about two specific tools we use throughout the year to manage information technology investments, the Management Watch List and our high-risk list of projects. I plan to discuss our overall process for managing investments given our tools and how OMB executes its responsibilities using various methods, such as reviewing agencies' annual budget submissions, engaging with agencies throughout the year on issues such as the E–Government scorecard of the President's Management Agenda, and monitoring specific projects of interest to OMB, what we call the high-risk list projects.

OMB reviews and evaluates the business cases as part of our overall evaluation of an entire agency budget submission. Business cases are primarily planning documents and do not reflect the actual project performance. Performance information is obtained through other means that I will describe later. It is important to note, though, that OMB is not the only intended audience for the business case. The primary audiences should be and are the agency officials and their investment review boards. These managers should use the business cases to effectively manage their own IT portfolios and to submit to OMB only those investment requests that meet the criteria specified in law, OMB policies, and supporting the priorities of the Administration. For the fiscal year 2008 budget cycle, agencies will be required to post on their agency website within 2 weeks of the release of the President's budget these updated exhibits, which will reflect the final Presidential decisions.

Business cases reflecting one or more planning weaknesses are placed on what we call the Management Watch List and they are targeted for follow-up and correction. We continue to use the Management Watch List as one of the many tools that we use to oversee planning activities for the investments and to drive improved portfolio management. The fiscal year 2007 budget, as you have pointed out, is approximately $64 billion for IT and associate support services. Included in there is 857 business cases of which the 263 were valued at $9.9 billion not meeting this criteria for success.

[1] The prepared statement of Ms. Evans appears in the Appendix on page 30.

As of this hearing, I am pleased to report that this year's list has now been reduced to 86 investments valued at $4.5 billion.

While over the past several years agencies have improved the quality of their IT project planning and justification, we have recognized the need to continue this improvement throughout the life cycle into the execution phase of the IT project. This time last year, we issued new guidance specifically to assist the agencies in monitoring and improving project planning and execution and the implementation of earned value management for their IT projects. The objective is to manage the risk associated with an IT investment or project to achieve the intended outcomes. Each quarter, agencies evaluate and report to us on the performance of these high-risk projects.

These projects are high risk, not at risk, thus the definition of high risk. These projects require special attention from the highest levels of agency management and oversight authorities, including OMB, agencies' Inspectors General, and GAO. For an example, a project could be classified as high risk because of the exceptionally high cost, and even if this project is performing well, we would still ask and classify it as a high-risk project.

The goal is for the 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 not sooner, if a project is not performing well. The goal is to manage project risk and avoid problems or catch them early enough, should they occur, before the taxpayers' dollars are wasted.

It is also important to note that this policy is designed to supplement and complement our existing oversight and agency internal processes, not to replace them. This policy is separate and apart from the Management Watch List and discusses and presents to oversight authorities information differing in focus, timing, and expected results.

OMB oversees the agencies' activities under the President's Management Agenda and its associated quarterly reporting process. Each quarter, agencies receive a scorecard about their progress and status in achieving the government-wide goals. We deliberately include a criterion for acceptable business cases to underscore it is at the core of an essential management practice and issue. The acceptability of business cases is just one of the number of critical components agencies must satisfy to get green or yellow on the scorecard. If the business case criteria are not successfully met, agencies do not move forward, regardless of their performance on other elements of the scorecard.

Additionally, our oversight of agencies' investment requests over the past 2 years have identified widespread weaknesses in agencies' abilities to meet cost, schedule, and performance goals. Therefore, we now emphasize earned value management as a key feature of the quarterly scorecard.

And finally, the recent GAO report revealed questions about the validity of the agencies' information in the Exhibit 300 submitted to OMB. We are working with each of the agencies to correct these problems and to ensure that they do not occur in the future.

We do have many examples of success, two of which I included in my written statement, and there are more. Each year in OMB's report to Congress on the implementation of the E–Government Act, we included one example of the success stories from the agencies. The agencies include more information in their own annual E–Government reports and publish them on their websites. However, we do need to continue improvement and build upon these successes to ensure that we do not waste the taxpayers' dollars with duplicative investments or unsuccessful IT projects.

I thank you for this opportunity to discuss the Administration's strategy and we look forward to continue to work with the agencies and with Congress for new opportunities to refine our oversight and improve the execution of our projects.

Chairman COBURN. Thank you, Ms. Evans. Mr. Powner.

TESTIMONY OF DAVID A. POWNER,[1] DIRECTOR, INFORMATION TECHNOLOGY MANAGEMENT ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. POWNER. Dr. Coburn, Ranking Member Carper, and Senator Lautenberg, we appreciate the opportunity to testify on poorly planned and performing IT projects across the Federal Government.

In fiscal year 2007, the Federal Government plans to spend nearly $65 billion on information technology. Agency CIOs are accountable for ensuring their agency investments are appropriately selected, meaning they are tied to mission improvements and appropriately overseen, meaning that progress is monitored through proven performance measures and corrective actions taken when needed. GAO's reports and others have highlighted that there is much room for improvement in these areas. Given this, OMB's statutory responsibility, to establish processes to analyze, track, and evaluate the risks and results of major capital IT investments, is critical.

To its credit, OMB has established several processes and criteria to improve the management of Federal IT projects, including the E–Government scorecard associated with the President's Management Agenda, the Management Watch List that identifies poorly-planned projects, and high-risk projects that identify poorly performing projects.

This morning, I will summarize three key points. First, agencies and OMB annually identify hundreds of IT projects representing billions of dollars that are poorly planned or performing. Second, our work has shown that the number of troubled projects is likely even higher. And third, opportunities exist to oversee these projects better.

First, over 300 projects totaling more than $12 billion in estimated IT expenditures have been identified on OMB's Management Watch List or as a high-risk project with performance issues. Specifically, in the President's budget, OMB reported that 263 projects representing about $10 billion is on the Management Watch List. Today, OMB is reporting that this number is now 86 projects totaling $4.5 billion, still significant.

[1] The prepared statement of Mr. Powner appears in the Appendix on page 36.

In addition, agencies reported that 79 high-risk projects collectively totaling more than $2 billion had performance shortfalls. Highlighting these projects with shortfalls creates tremendous opportunities to correct deficiencies in these investments that comprise a significant portion of the Federal IT budget.

Our work has shown that the number of projects is likely even higher. OMB derives projects on its Management Watch List based on a detailed review of IT budget justifications, called Exhibit 300s. Our evaluation of Exhibit 300s showed that the information reported in them is not always accurate or reliable. This is not surprising, since there is pressure to overstate budget justifications so that investments can make the selection cut and to keep them off of OMB's oversight radar. Ensuring reliability of information in the Exhibit 300s is essential for many reasons, including an accurate Management Watch List.

For the high-risk projects, we found that agencies do not always consistently apply OMB's criteria for identifying these projects. For example, we found projects that we have reported on and testified on that have clearly met OMB's criteria that were not listed. These included a key census system and environmental satellite acquisitions that are both laden with risks.

In addition, the charts in my written statement that lists the number of poorly-performing projects by agencies raises many questions. For instance, how can DOD only have five performing projects when they comprise $30 billion of the 64? In addition, NASA reported no projects.

In addition to improving how these projects are identified, improvements are also needed in how these deficiencies are followed up on, tracked to resolution, and reported. OMB does not aggregate either list. We have never seen the complete list of Management Watch List projects, as OMB keeps this information in-house. In addition, we have found the processes of following up on the watch list projects to be ad hoc and are concerned that this may leave unattended weak projects consuming significant budget dollars. Contrary, the high-risk projects are available for IGs and GAO and their follow-up is transparent through a quarterly reporting process.

To take full advantage of both lists, we recommended that OMB aggregate each list so that government-wide analysis can be performed, resolution of deficiencies can be tracked, and the list of specific projects can be shared with the Congress to assist in the Administration's oversight. Until this occurs, OMB is missing an opportunity to seek assistance in assuring that agencies address project weaknesses.

In summary, OMB should be commended for its many efforts to identify projects at risk and to raise the bar on CIO accountability. But, Mr. Chairman, this bar has a ways to go. First, OMB's oversight starts with accurate data being reported to them. Data used to identify both watch list and high-risk projects needs to be improved and OMB needs to round out its oversight of these projects. Until this is done, not all problem projects will be identified, nor do we have assurance that follow-up on identified problems is enough to keep billions of dollars from being wasted.

This concludes my statement. I would be pleased to respond to questions at this time.

Chairman COBURN. Thank you, Mr. Powner.

Welcome, Senator Carper. Let me give due credit to Senator Carper. The idea behind this hearing is his and his interest in making sure we are efficient. I am pleased that we are able to have this hearing. I also would say that this won't be the only hearing on IT that this Subcommittee will have. We are going to watch this.

Senator Carper, you are recognized for an opening statement.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thanks so much. I apologize to our witnesses for not arriving earlier. As I think the Chairman knows, we begin every day in the U.S. Senate with an opening prayer and oftentimes the prayer is given by the Senate Chaplain, Barry Black. Occasionally, we have a guest who presents the opening prayer and today that person was from Delaware, the leader of our Greek-American community, and I wanted to be there to welcome him, so I missed, unfortunately, all of your statement, Ms. Evans, and part of yours, Mr. Powner.

I am grateful to the Chairman for agreeing to schedule the hearing and I am thankful to my own staff and to our majority staff for working with us to make it a good one.

There is a lot of money involved in these projects. As the Chairman noted, no one is more committed in the Senate than he is to finding ways to bring down our budget deficit and reestablish some fiscal sanity around here, and we can't ignore the potential savings that we can accrue by putting in place solid, sound IT projects. That is good to the extent that there are those that are running off the track and we can identify those and try to get them back on track. That is critically important, as well.

I remember from my own experience in my old job, my last job as governor, the money that we spent and money that we invested in IT projects of all kinds. Some of them were able to enable us to save a lot of money, and frankly, some of them cost a bundle and didn't, at the end of the day, we didn't have as much to show for them that we wanted to. They are not easy to do well, and frankly, the oversight in some cases, at least in our case, wasn't what I would have liked.

I am grateful to our friends from GAO for trying to help us in our oversight missions to make sure that to the extent that we can, we play the appropriate watchdog role, not just being critical but being constructive, asking the right questions as we go forward.

I have a statement that I would like to enter for the record, Mr. Chairman. I am grateful that we are here. This is good stuff. Thank you.

Chairman COBURN. Without objection, your statement as well as mine will be entered.

[The prepared statement of Senator Carper follows:]

PREPARED STATEMENT OF SENATOR CARPER

I want to thank Chairman Coburn for holding today's hearing to focus on how the OMB will ensure the success of potentially $12 billion—as of this hearing, $7 billion-at-risk information technology projects. As our witnesses will testify to, the President has proposed to spend nearly $64 billion in FY 2007 for information tech-

nology. Without the needed investments in information technology, our government could not conduct its everyday business. As we all know, investment in information technology is not a one stop deal. Implementing and maintaining information technology involves detailed planning—with clear costs, project schedules, and performance goals. Within Federal agencies, Chief Information Officers and project managers are among the many that have the responsibility to ensure that information technology projects are implemented in the most efficient manner. We in this room—our Subcommittee, the Office of Management and Budget, and the GAO—also have the responsibility to conduct oversight on Federal information technology investments. It's unfortunate that not all information technology projects are implemented in the most efficient manner.

As the OMB will testify to, there are currently 226 information technology projects classified as "high-risk." The OMB also has 86 information technology projects listed on their "Management Watch List." Information technology projects that are the most at-risk of planning and performance shortfalls total nearly $7 billion in Federal funds. What we will hear today is that $7 billion worth of information technology projects is in serious risk of being wasted unless:

- The OMB improves its oversight of at-risk information technology projects, and
- Agenceis improve their reporting on all information technology projects.

Due to problems with the OMB's classification of high-risk projects and projects on the Management Watch List, I believe the OMB cannot possibly be carrying out adequate oversight of information technology projects. Not only does the OMB not keep running-aggregate lists of the Management Watch List and high-risk projects, the OMB does not have consistent processes for following-up on at-risk projects.

In my opinion, one of the most concerning problems, which the GAO will testify to, is that agencies often inadequately report information on their information technology projects. Agencies are required to justify resource requests for major information technology projects on forms that the OMB calls Exhibit 300s. Unfortunately, information on these forms is often inadequate. Agencies tend to leave out necessary documentation and include unreliable cost estimates. Therefore, according to the GAO, the OMB is depending on unreliable information when monitoring the management of major information technology projects and making critical funding decisions. Since the OMB derives its information from Exhibit 300s when placing projects on its Management Watch List, I believe that the number of projects on that list (approximately 86) is likely to be understated.

Until we fix these problems, the Federal Government risks losing billions of dollars from the shortfalls of the most at-risk information technology projects. Personally, I believe that both the OMB and Federal agencies can do better and we must. I look forward to hearing suggestions from our witnesses on how we can improve oversight of the most at-risk information technology projects.

Thanks you.

Chairman COBURN. I am going to start off our questioning. I want to try to get an understanding of process a little bit. We have an Exhibit 300. This is a justification for a project, is that correct?

Ms. EVANS. It is a justification for an investment.

Chairman COBURN. For an investment in IT——

Ms. EVANS. Yes, sir.

Chairman COBURN [continuing]. To save money?

Ms. EVANS. Well, not necessarily to save money, as well. It is a justification in order to meet a business need or requirement.

Chairman COBURN. All right. And that is approved by an agency Secretary and that is approved by a management review board, is that correct?

Ms. EVANS. Yes, sir. Within an agency, there is an investment review board and then the CIO is to manage the investment review process, and it is included in the project and then gets submitted by the Secretary.

Chairman COBURN. So that happens. So how come we have a third of them that are poorly planned?

Ms. EVANS. That is actually a really good question and why we have been working on it since I have been in this job, of going through and making sure that we have the underlying management practices in place, that we really are reviewing the investments, that you really are looking at those to ensure that there is alignment between what you are trying to do in a program and how the IT investment will support that program, either through efficiencies or to get the outcome to support a service.

Chairman COBURN. What I am trying to figure out is the management review board, if we have nearly a third of them poorly planned, somebody isn't doing their job right.

Ms. EVANS. Yes, sir.

Chairman COBURN. So where does that lie? Does that lie at the CIO level, the management review board, where does that lie? If the whole purpose for the Exhibit 300 is to give a justification for an investment for a project or an advancement or greater ability for the government to function in some way or measure something or defend us and we have that laid out and that gets approved and yet a third of them are poorly planned, I thought that was the purpose for the Exhibit 300, is to make sure they are planned properly.

Ms. EVANS. Yes, sir, and the way that the process is set up and the way that we hold the agencies accountable is through the scorecard process. So the Secretary is ultimately held accountable for making the decisions of what those IT investments should go forward to support the Administration's priorities and that agency's mission goals to support the Administration's priorities.

Chairman COBURN. So is it possible that the Exhibit 300s aren't accurate when they come through?

Ms. EVANS. It is possible that the Exhibit 300s, based on the skill levels of the people evaluating them at the agency and the CIO who is explaining how this works, may need improvement. And so I think that is evident when you look at the overall performance and how we have ranked the agencies on scorecard, because if all agencies were performing well, then we would have all agencies showing a green progress and green status. We don't have that.

As you can see on the scorecard, if you have had an opportunity to look at it, which I am sure you have, you can see that we have agencies that are very red and we have agencies that are having mixed results, a yellow score, based on what they are doing, and then agencies who are green. There are a few agencies that are green, and it varies back and forth based on where we are in the year and the products that we are evaluating from our oversight role during the quarterly scorecard.

So I agree with you there are problems and we have identified what they are and we work with the agencies to strengthen where those weaknesses are within the agencies.

Chairman COBURN. When you look at these projects, do you ever look at the projects by vendor?

Ms. EVANS. No.

Chairman COBURN. Well, let me suggest that you do that because, in fact, if we have a large number of underperforming or poorly planned or high-risk but we are not looking at it by vendor, we may, in fact, see a trend by two or three vendors out of the 10

or 20 or 50 that are used that says these are constantly poor performing, or these are constantly over cost or behind schedule. I think that one of the analyses that OMB ought to do is look at it by vendor and see if there is a pattern of poor performance.

Mr. Powner talked about inaccurate reporting—what is the consequence for an agency for inaccurately reporting?

Ms. EVANS. In the fact that we identify that there are weaknesses associated with a business case when it comes in. I am going to say we make an assumption that people are not deliberately reporting erroneous data, that what we need to do from an OMB perspective is identify what appears to be the job or what is the issue within that agency. Is it just within that particular investment or is it a systemic problem throughout the agency?

For example, one thing that we have noticed across the board, and you have highlighted it in your charts, is the ability for agencies to put qualified project managers in charge of individual projects as they go forward. We have that as a systemic problem across the government, not just within an agency.

So if that is a weakness that is identified, what we do, what I do through the CIO Council, is we come up with an overall plan, which we have, to work with the agencies to strengthen project managers, also come up with a common way that agencies can evaluate the qualifications of the people who they are putting in charge of projects so that we have a consistent measure across the board, and then once that is done, what we have worked now with the agencies over the past year is each agency has a human capital plan for the weaknesses of their workforce and they have specific milestones that are now being measured through the Human Capital Initiative on the President's Management Agenda for them to either hire, recruit, or train and close those gaps so that, first and foremost, first defense there, is being met and that the agencies can then improve that area to at least move forward in that particular piece dealing with success.

As far as if they overall have a systemic problem and we cannot remediate what we see as a weakness before the fiscal year starts, then OMB does take action such as using the tools that we have available, like Category B apportionments, and so then that puts more restrictions on the agencies to produce results instead of getting the money, them being able to do what they want to do and then us not having proper oversight.

Chairman COBURN. I don't want to question anybody's motivation, but one of the tools of management is consequences of not stepping up to the line. So whether somebody inadvertently or intentionally is inaccurate in their reporting, what I want to see developed, and I think is a correct management technique, is there ought to be a consequence and there ought to be a measurement goal of whether or not they are performing accurately in terms of reporting accurately.

Ms. EVANS. I can tell you that, especially when I was still at the agency at the Department of Energy, the goals that we have in the E–Government scorecard are directly reflected and were directly reflected in my performance plan, which then meant that my own individual performance plan as an SES within the government was that I had to meet those marks and there were consequences. If I

did not achieve that within my own agency of what those requirements were, it was reflected in my own performance, which then reflected my ability to get a raise or a bonus or those types of activities. That alignment is now there in many of the CIOs' performance plans and they are now getting greater alignment within their own agencies so that you can see how people's performance is now dependent on each other.

We have also done that internally within my own staff. So some of the weaknesses and some of the repeatable processes that we are talking about that we need to improve on ourselves, we have now—through the President's Management Agenda, we are a beta site. So my own performance plan is public so that you can see what the goals are, but my staff's performance plans now align to those goals so that they are now vested in the agency's success, as well. So there is an individual consequence back on all of us who are responsible for ensuring the management of these initiatives.

Chairman COBURN. But the project still gets funded.

Ms. EVANS. Sometimes the projects need to be funded, and that is why we put them on the Management Watch List. For example, when I first came into this job, one of the investments that were on there was TRICARE For Life. That was on the Management Watch List. They needed to do certain investments in order to upgrade and be able to improve health care information. You are not going to not fund things to support TRICARE For Life, but what you are going to do is then put additional oversight and management into that to ensure that—because this is now an area that we need that is high risk, so we need to continue to watch that to make sure that DOD had the right practices in place so that they could achieve the outcome knowing that there was a risk associated with it.

Chairman COBURN. I want to go back to something Mr. Powner said, and it concerns me because the Defense Department has $30 billion out of the $65 billion in IT. The question I have is either their reporting is inaccurate—as a matter of fact, I know their reporting is inaccurate because DTS, the Defense Travel System, isn't on anybody's list and it is a mess and it has been a mess from the time it started in terms of cost overruns and delays and everything else. So there has to be inaccurate reporting. This is going back to the point that my worry is that we are underestimating what the risk is, and I think GAO has testified to that. How is it that Defense can say, and I don't know where I have it, but I have the list of all the projects——

Ms. EVANS. Right.

Chairman COBURN [continuing]. And they have very few on the high-risk list and very few on the Management Watch List. How can that be?

Ms. EVANS. And I would put the responsibility back on myself as far as clarity of the instructions and then consistency across the board about how we need to work with the agencies to be able to do that. So Defense is a good example. So when we are looking at this—this is a new policy that we put in place—there is a distinction between what is on the Management Watch List and the high-risk project list.

Chairman COBURN. Yes, I understand the difference.

Ms. EVANS. But I would say that we need to bring better clarity to the instructions on what should be on a high-risk project. For example, we have all the 24 E–Government initiatives on the high-risk project list that we monitor through another mechanism. That is not included because there isn't a direct Exhibit 300 to map a lot of those to within each of the agencies.

Chairman COBURN. And why is that?

Ms. EVANS. Because of the way that we allow certain flexibility of how agencies would categorize a major capital investment, and so that is why we make a distinction between an actual project——

Chairman COBURN. And the investment——

Chairman COBURN [continuing]. And the capital investment. For example, our policy says that all office automation and infrastructure types of investments need to be on one business case. So that would be things like telecommunications, office automation, any of those types of things, BlackBerrys, e-mail. You could have several major projects included in that one investment, like what we are currently doing now, the upgrade to IPB6. That is a project, but that would only have one capital investment. If you are upgrading your telecommunications to use new technology like voice-over IP and consolidate phone systems, that is only going to show up in one business case, one Exhibit 300, but that is a separate project. So that one particular investment could have anywhere, at a minimum, like five major projects underway. So that is why we have distinguished between the two of them.

A lot of the E–Government initiatives, the dollar threshold is really low because the total budget across the board when we are collecting that, it averages about $190 million all the way across the board for all agencies doing all of their parts within 25 initiatives and six lines of business. But it is the complexity of depending now on interagencies to meet their part and the project planning and the major milestones make that high-risk, because if one person misses a milestone, the ripple effect is huge. So that is why we distinguish those.

We have to go back to the agencies, giving the example that you just gave, like DOD, and clarifying further to them how they can use these tools and not necessarily drive reporting underground so that they get on our list and then we are looking at them, but encouraging them to use these tools so that they can really manage it within their agencies to achieve the results.

Chairman COBURN. My time is up. Senator Carper.

Senator CARPER. Thanks, Mr. Chairman.

In State Government, as in Federal Government, we use information technology in similar initiatives to provide better service. We use them to save money. We use them to, in many cases, improve the performance but also the job satisfaction of those that are working, whether it is in State or the Federal Government. I like to say that everything I do, everything that my team, my staff and I do, we could do better, and I think the same is probably true in every agency with whom you or each of you work.

I want to start off with just a real basic question so I understand it. Now, the Chairman has delved into this, and I am sure, Ms. Evans, you spoke to it in your testimony. But I understood pretty well in State Government how we identify initiatives to which we

wanted to bring information technology to bear. Just explain in a very basic way, how agencies identify their own IT projects, the screening process that they go through to have those funded, and then, if you will, the process by which we oversee, or OMB or someone oversees those projects to make sure that we are getting our money's worth, projects end up on the watch list.

Ms. EVANS. What an agency should do, and when I was at an agency myself, the way that we would do this based on the policies that are existing within OMB and the laws, what you are supposed to do is take a look at what are the agency's business needs, and basic things like utilities, telecommunications, office automation, those types of activities, you are supposed to go through, look at what is the cost to operate those, if you are going to upgrade those, it is a major system investment that you would then take to what is called an investment review board. Some agencies will have them divided into two areas, a technical review board as well as an executive review board.

So the first threshold would be the technical review board would say, OK, this meets all our requirements. This has a good return on investment. It appears that it is going to meet our agency needs. So it can meet that first threshold of review.

When it goes to the second level of review, which is an executive review board, they have to look at that across the board of what dollars do we have available? What are we trying to accomplish? What is the mission of the agency? Does this support mission outcomes? If we invest this dollar, will we achieve X, Y, and Z? And the business case is supposed to be able to articulate that in a way and summarize it in a way that senior executives can realize if I invest this one dollar, I am going to achieve X results for my mission. That is how you are supposed to do it.

And then at that point, you then tie it, and we ask it to be very specifically tied to a program or to a business outcome. Are there performance measures? How will you know you will be successful? Is it just total efficiency because I am going to reduce cycle time? Those types of activities. That all is summarized in what we are calling the business case, the Exhibit 300.

Senator CARPER. Back up. Say that last sentence again, please.

Ms. EVANS. Sure. They are supposed to review these investments to ensure that they are tied to a business area, that they are either tied to an efficiency measure, like they are going to reduce cycle time within an agency—I am not going to mail things out anymore, those types of things, or actual program performance, that they have a measure that they can show that if I invest a dollar, this is the outcome that I should get. And that is what they are supposed to include and justify within what we call an Exhibit 300.

Then what the CIO does all throughout this process is advise, make sure that it is aligned with everything that they are doing IT-wise within the agency, information-wise, make sure there are no duplications for the cost savings, how you can maximize those things, and then they send them over included in the overall budget because these are the investments that are going to enable program results. And then we——

Senator CARPER. Let me interrupt.

Ms. EVANS. Sure.

Senator CARPER. When would that be taking place during the year, right about now?

Ms. EVANS. September. Yes, sir. We get them as part of the regular budget submission, and so they are submitted concurrently with the overall budget and then what my area does is review and analyze those across the board to make sure that they are supporting the program outcomes. So there are very specific questions that we will ask, like we will ask, are you supporting a program that has been PART-ed? What are the measures associated with that?

And so we look at those and we analyze them across the board. There are several criteria. There are several areas, acquisition strategy, project management, all those things. We look at them through our lens. So an agency may feel that they have done everything to the extent possible to mitigate risk, that they have a qualified project manager, that they have certified that project manager, they have good performance measures, but then we evaluate it and look at it and that is how they end up on the Management Watch List. From that planning document, we will say there appears to be weaknesses in the performance.

But we also use other information at that point, because that is the same time that we get the annual cyber security reports coming in from the IGs and the CIOs. So if there is an overall problem in an agency, their ability to manage and secure data that they are collecting, we also use that information because there is a piece within the business case that talks about cyber security.

So there are several tools that we use when we evaluate it and then determine that planning project, that particular effort should be on a Management Watch List, and then we integrate our processes into the internal OMB processes that then the Director reviews and makes recommendations to the President about what should be included in the investments going forward.

Senator CARPER. Maybe for no one else in the room, but for me, that was helpful. Thank you.

Mr. Powner, let me turn to you, if I could. The title of your testimony, full testimony, is "Information Technology: Improvements Needed to More Accurately Identify and Better Oversee Risky Projects Totaling Billions of Dollars." Sort of reflecting back on what Ms. Evans has just said and thinking of what you are trying to do in your testimony, looking at the process that she outlined, what are the strengths and weaknesses of that process?

Mr. POWNER. First of all, if we start with the Federal agencies, and back to Dr. Coburn, your question, too, where you look at those processes that are in place associated with these management review boards, our reviews of individual agencies and government-wide looking at basic processes that are in place with these investment review boards, do they select the investments appropriately? And what this is all about is racking and stacking of business cases. You rack and stack them. You put them in priority order and you say, here is where the budget runs out and everyone else doesn't get funding and these projects do. Now, there are a few nuances to that because of things that are called for in law and that type of thing——

Senator CARPER. Because of things that are called what?

Mr. POWNER. There are a few nuances that because of requirements in law for certain projects need to be funded and that type of thing, but overall, that is how it should work, just the way Ms. Evans described it.

If you look at those processes at the agency level, we found weaknesses across the board. Sometimes the investment review boards don't comprise the right individuals. You can start there. The CIO should be driving it. You ought to have the business owners of these systems on the boards. We found investment boards that don't have the appropriate makeup, they don't have the appropriate processes, and I think agencies are improving over time. I think OMB is doing a lot to improve those processes. Our reviews highlight some of these things.

This goes back to requirements called for in the Clinger-Cohen Act back in 1996, so this isn't new and these processes aren't new, but there are weaknesses there. So first of all, you have those weaknesses at the agency level.

And then when you look at, if you think about the racking and stacking of these Exhibit 300s, of the business cases, there is pressure to game those business cases, to overstate. What our review showed, we looked at 30 of these in great detail at a number of agencies and they were inaccurate, unreliable, and not supported by documentation in a number of areas. So if you look at that, what do we do about it?

I think OMB issued some new instructions where agencies are going to publish on their websites these business cases. That will help. That is a step in the right direction. Another step in the right direction is within the agencies, there are controls that can be put in place. In the private sector, the same thing happened. Folks game their business cases because they want to secure funding. What did we do? We used internal audit to review business cases. Why not use IGs to review a handful of business cases that would at least put those project owners on their toes that it is going to get looked at? You don't know which ones are going to get reviewed, but you could look at a handful. There are controls that you could put in place to improve this process.

Senator CARPER. My time is about to expire here on this round. Mr. Chairman, could I ask Ms. Evans just to respond briefly to the recommendations that Mr. Powner made right at the end of his comments?

Ms. EVANS. Actually, I wrote the recommendation down because that is a great idea. We work a lot with——

Senator CARPER. Just restate the recommendation and then respond to it.

Ms. EVANS. The recommendation is to use the Inspector Generals within the agencies to go and do a random check of the business cases to ensure quality. I think it is a wonderful idea. We work with the IG community often. The IG community is doing certain things for us right now. They do it on the cyber security aspect for us so that we get that independent review and I am willing to take that recommendation back to the IGs and ask them specifically, would they be willing to take that on.

They have taken on several things for us, like validating savings where agencies have estimated what their cost savings would be,

and validate that type of methodology. The high-risk policy projects, we also ask for independent validation, and that is where we did open up everything for IGs and GAO to request all that documentation, as well. And I do think that several of them, I know GAO has taken us up on that and they are reviewing that information that the agencies should have available and randomly look at to support whether it is really reliable data.

Senator CARPER. Let me, first of all, thank you for the suggestion, Mr. Powner, and for the spirit that you responded to it, Ms. Evans. I think it would be interesting or be welcomed if you would let us know what kind of progress is made on this front. Thank you.

Chairman COBURN. Ms. Evans, are Exhibit 300s ever rejected?

Ms. EVANS. Yes, they are, but——

Chairman COBURN. What is the frequency of that?

Ms. EVANS. From our perspective, it is very few because of the checks and balances that we have put in place, because what we really are doing at that point is that we want the agencies to do that due diligence going forward, so we really should not get failing business cases.

Chairman COBURN. But let us go back to the earlier question. You get 30 percent of them, poor planning that we have now——

Ms. EVANS. Yes.

Chairman COBURN [continuing]. And we haven't rejected the Exhibit 300s. Something is wrong in between there.

Ms. EVANS. Well, because those investments that do come forward that we then release on the Management Watch List are investments that are clearly aligned with the President's priorities that we feel that we do need to go forward with, but do extra due diligence on whatever the gaps are that we have identified. But do we outright say no to something? Yes, we have done that because it is not either aligned with the President's priorities or agencies will come back based on the guidance that we do through our budget process and will withdraw them or cancel them.

Chairman COBURN. Based on what Mr. Powner said about the boards not being constituted properly, some suggestion that some of the firms are actually writing the Exhibit 300s rather than the agencies, are you aware that happens?

Ms. EVANS. Sure. Absolutely. That is why——

Chairman COBURN. Do you not see that as a conflict of interest?

Ms. EVANS. What I also see is that people view, and this will support Mr. Powner's comments, that the Exhibit 300 is like the test. This is the test. If I turn in a good term paper, I am going to become fully funded. So we recognize that maybe we were driving certain behavior so that an industry is springing up that is writing business cases. We run analysis, for example, on a portfolio. This is because we get it all electronic. I ran an analysis this past year. We did an analysis to see exactly how many words changed in a business case because it is electronic. So we can run it through and see how many words actually changed. So knowing where the investments are, for example, if they are steady state, then we should see more things happening later in the life cycle on the latter part of the business case. If they are in the first part,

then you would see big changes in what they have completed in their acquisition strategy and where they are now in execution.

Needless to say, what was happening was we had very few business cases that there were absolutely no changes to, but there are sections where, for example, in security where nothing is changed but we knew they had a problem. So we know that there is evidence of people just trying, well, this passed last year so I will just resubmit it again this year.

Chairman COBURN. So how do we fix that? How do we incentivize behavior that is based on accuracy and better outcome?

Ms. EVANS. Well, the way that we did it, and we would welcome any comments or additional suggestions that you would have is that is why we released and really focused on execution, because it is one thing to talk about what you are going to do, but it is another thing to actually be able to deliver results.

And so through our implementation and oversight of what the agencies are doing through earned-value management, which is really you are taking actual against planned, so there are 32 different criteria in that——

Chairman COBURN. So it is measurement metrics?

Ms. EVANS [continuing]. And there is measurement metrics in that and it is very sensitive. And so when you start getting those reports and you are looking at those, and I personally read those. An agency does not get the checkmark to move to green that they actually are managing 10 percent of cost schedule and performance until we—and we physically go to the agency and we discuss with the agency managers, because we know the same weakness that Mr. Powner has brought up. Who is actually managing this? Are you just producing reports because OMB has asked for reports or are you really using this data to make management decisions?

And so it is one thing to get a really good planning document. It is almost like you take a driver's test. In West Virginia, you have to take a driver's test, but then you actually have to drive before they give you the license and it is a 6 months' difference. It is the same type of logic that we apply here. You can get through the first hurdle because you wrote a good term paper, but you have to now apply that knowledge that you said you have and produce results.

Chairman COBURN. Good analogy. The problem I have with the way we are doing it is we are looking backwards rather than incentivizing behavior going forward. I would love for you all to think about, and maybe Mr. Powner think about, how do we set the system a little differently where we incentivize better behavior rather than have to look back? What you are doing is auditing, right?

Ms. EVANS. Yes.

Chairman COBURN. The fact that there is an audit and an audit can be gamed and then you are using the final, where is the performance. But how do we get it to where we have to do less auditing and less control after the fact and incentivize better in the beginning? I don't expect you to answer that, but I think that is where we want to go with this, because if we have management review boards that are not constituted properly, how do we incentivize that to change? In other words, not after the fact that we come back and look at it——

Ms. EVANS. Right.

Chairman COBURN [continuing]. But how do we get it right the first time? From my business experience, it just wasn't acceptable. What we are seeing in this is things that would never be acceptable in a personally-run business or like what Senator Lautenberg had. It just wouldn't be acceptable, the degree of what we are seeing, and I know it is tough to manage that.

Again, let me go back to the Exhibit 300. The whole purpose for that is to put forward a plan that is based accurately, that will be a proper investment, whether it be through cost savings or accomplishing a goal. How do we make that tool really be what it should be? Let me address that to you, Mr. Powner. How do we make sure that every Exhibit 300 is right, is accurate, to the best of the ability it can be, with no question about motives, so that we can make a good judgment on it? Everything after that, once that goes through, it is all retrospective looking.

If you look at the Defense Travel System, or, for example, another one that is not on the high-risk list is the Census Bureau. I can't figure out how that isn't on the high-risk list. That system is either gamed—I will reserve my comment. There is no way it should not be on the high-risk list.

Ms. EVANS. Right.

Chairman COBURN. Senator Carper and I have sent a letter to GAO today asking some very specific questions about the Decennial Response Integration System, because I think it is a disaster right now. The fact that it is not on there tells us we have got a problem with the list.

Ms. EVANS. Yes.

Chairman COBURN. How do we do that, Mr. Powner? How do we make it more effective prospectively rather than have to have the threat of a retrospective look?

Mr. POWNER. A couple of comments. First of all, the Exhibit 300, the intent is fine. It is the business case. It puts in place some assurances that there are basic project management capabilities there associated with this investment or this project. So that is all well and good. I think an opportunity to streamline that over time, so it is not a writing exercise where contractors are filling their pockets, that should probably be looked at.

But going back to one of your original questions, what are the consequences of submitting an Exhibit 300 that is, one, either inaccurate, or two, that shows that this project isn't ready to go forward and spend money, there should be real consequences. I think Ms. Evans pointed out some of these projects, like TRICARE, we have to keep going forward and we have to fund them and we have to try to fix them on the fly. But they are not all TRICARE. Using the apportionment process and withholding money, that matters, and if we did that more, maybe folks would take it a bit more serious.

Chairman COBURN. OK. Ms. Evans, you mentioned in your opening statement the decision to post Exhibit 300s, I think is very good for transparency, and to allow us to actually see those, I think will be very helpful.

I think also the fact that the Congress ought to be aware of the high-risk list and ought to be aware of the Management Watch

List. It is our responsibility to oversee that and I think we have pretty much had an agreement from your boss that is going to be made available to us. Is that your understanding?

Ms. EVANS. About the Management Watch List and the high-risk list?

Chairman COBURN. Yes.

Ms. EVANS. Yes, sir. What we will do is we will provide the high-risk list that we have to you guys next week.

What we would like to do, if it is OK with you, and my boss, is on the Management Watch List, what we do is we have a deadline on the scorecard of June 30. So we receive them in September and we work through the budget process with the agencies and then we have a deadline on the scorecard of June 30 where they have to remediate any of the weaknesses or have an adequate plan that shows that they are going to remediate the weakness that we have identified. If that hasn't happened by June 30, which obviously the date has passed now so we can make the list available, we would like at that point to publish what is remaining on the Management Watch List so that Congress could then use that going forward in their own decisions that they want to make through the appropriations process.

Chairman COBURN. The problem with that is, hopefully, most of the appropriations hearings and everything have already happened by that time, and so the decisions to really impact that will be a year and a half later. But we will work with you on that.

Ms. EVANS. OK.

Chairman COBURN. It is the obligation of the U.S. Congress to know what is not working right and to be able to hold oversight hearings on specific cases when they are not working right, we can be a tool for you. When it is not working right and we have that agency here with the Exhibit 300, with the budget and say, what went on here?

We, myself and Senator Carper, have every intent to do that, is to help the rest of the agencies understand you are not going to skid this thing. We want to fund you. We want you to do what is right. We understand that your intent is to do what is right. But when it doesn't work, we want to hold you accountable and for us to have the correct oversight and transparency, not just for us, but for the American people.

Senator Carper and I have a bill that is going to go through this week, which OMB is backing and we are very thankful for, that is going to allow the American people to know where the money went. All these contracts are going to be known. Everybody in America is going to know who has got the contracts, unless it is a national security issue. So that is going to help.

But the point is, we need to do the specific oversight, and if we can't know where the problem is because we can't get the list of the problems from OMB, then we don't have the ability to carry out our constitutional function, which we consider very seriously on this Subcommittee.

Senator Carper, do you have additional questions?

Senator CARPER. Yes, just a few, if I could. Again, I think this would be probably a question for Mr. Powner. We learned today that there are many problems with the oversight of at-risk infor-

mation technology projects. I am just asking your opinion. How much in cost overruns do you think we can expect to endure from the most at-risk information technology projects that make up the $7 billion that we have heard about?

Mr. POWNER. So to project how much the overrun would likely be? I think that would be very difficult to do. I think the—I mean, that is tough. We look at a lot of individual projects. There is one project we looked at, Rescue 21, a Coast Guard communications system that isn't on the high-risk list that overran $300 million in a very short period of time. That is very common.

Senator CARPER. The overrun was $300 million?

Mr. POWNER. Three-hundred million. There is a system that we have been tracking for years, environmental satellite system, a joint acquisition between DOD, NOAA, and NASA called NPOESS. It basically provides weather forecasting information. It is important for hurricane tracking, very important going forward. That project has gone over a 3-year period from $6 billion life cycle cost to $12 billion. OK, that is not on the list. So you could look at that.

Senator CARPER. Why not?

Mr. POWNER. Well, that is one of our examples where we think the high-risk list is understated. So those are two examples that we pointed out in our reports, Rescue 21 at the Coast Guard and NPOESS——

Senator CARPER. Let me stop you for just a second and just ask for something. Why do you suppose those are not on the list?

Ms. EVANS. And I agree with Mr. Powner that they should be on the list. What agencies have a tendency to do, and the way that we are measuring some of these things, which sometimes—and I agree that we need to improve this—is that agencies will have a tendency to rebaseline a project or——

Senator CARPER. When you say rebaseline, give me that in plain English.

Ms. EVANS. What they do is, for example, if GAO is tracking the same project by a different name and it is going on for 10 years, agencies will have a tendency when a project is deemed a failure or needs to be redone, will say, OK, after 5 years, this project hasn't been successful. So they will rebaseline it and——

Senator CARPER. What is rebaseline?

Ms. EVANS. They will zero it out and they will count it as a sunk cost and they will give us a new Exhibit 300, so it will show as something new. So I am going to give you a quick example of how this would work.

Senator CARPER. OK.

Ms. EVANS. So we track by agencies, like number of business cases that they will submit. So last year we saw a big drop. You can see it right here. There was 1,087 major investments that came in and it dropped to 857. That is a big flag for me, going, what has happened here? Did people actually finish projects and stop? Because the dollar amount is the same. So something has happened in the way that these agencies are putting together the investments and putting together the business cases.

We went through agency by agency. So I have one specific agency——

Senator CARPER. That is a lot to go through.

Ms. EVANS. Yes, it is, but, that would be the question that I would figure my boss would ask me. What is the difference? What is the drop? Why do you see this change? Because we are collecting all these numbers now, we should be able to analyze them.

So I looked at who were the biggest deviants that happened here and we had one agency that in fiscal year 2006, they had 51 business cases. In fiscal year 2007, they went to 34. So I sent them an e-mail. You should be able to answer this question fairly quickly and say what happened to the other 17. Because when we look at it, there are several of them that had brand new names. But when you look at how the dollars are broken out, there is development, modernization, enhancement, which is supposed to be new dollars, and steady state, which is supposed to be existing systems.

So I asked them, I said, what happened to these 17 business cases? You should be able to tell me. I want to know by the end of the day, because that gets to your contractor issue. You should be able to answer this question if you are managing it. So the agency did come back and say, OK, we have recategorized this. Twelve of them went into what we have as the single business case for office automation. Four are actually brand new. We actually completed one, and so that is off the list, and we restructured. So that is the rebaselining. We restructured four of those and we canceled one. So when you look at it, they redistributed their portfolio in a way that they thought that they could better manage it.

But we do go agency by agency to ask them what they are doing with those so that you are not kind of flying under the radar screen or that you are just doing certain things. So in these particular cases, what will happen is GAO will track it through the entire requirement. It could take 25 years on some of these things. What we are tracking is if they ended and then they start a new one because they said that they have done all of these different things, it becomes a new investment for us. So there is a difference between the way GAO is tracking them and the way that we get the information from the agency.

Senator CARPER. All right. Thank you.

Mr. Powner, I interrupted you in order to ask that question of Ms. Evans. Do you want to pick up your train of thought?

Mr. POWNER. Well, just to round out, I think that is a very important point that Ms. Evans made on the rebaseline. Basically what rebaselining is is you start over. When we track in the President's Management Agenda, that is a high bar, to OMB's credit. To have all major projects within 10 percent of cost, schedule, and performance, used earned value techniques, that is a very high bar.

The concern would be what some agencies do is—our cost is $200 million on this. We rebaseline it. We bump it up to $300 million. So now we are within 10 percent. It is kind of a "get out of jail free" card, just because they moved the total up that we are measuring from. That is what rebaselining is all about, so it is very important to look at these numbers to make sure.

And I am sure if we looked in detail at some of these projects that aren't on the high-risk lists at DOD and other places, it is probably due to rebaselining. So it is something we are all aware of and we will keep our eye out for.

Chairman COBURN. Do you have a rebaseline list that you follow?

Ms. EVANS. No, I don't maintain a rebaseline list.

Chairman COBURN. Should we? I mean, that is really gaming the system.

Ms. EVANS. Well, we can. And what we do—some of the agencies—the term relentless has been associated with my name——[Laughter.]

Chairman COBURN. I like that.

Ms. EVANS [continuing]. That I have been pretty stringent about what you can and what you can't do on some of these major investments. But we do recognize that at a certain point, you have to be able to produce an audit trail so that GAO can track the history. But at a certain point, you do have to, like, start to ensure that they actually do have management practices, because some of these projects were so bad that if we kept all that information in there, they would never be able to show that they actually have the right progress and the right management practices in place and that they are now managing that effort to 10 percent of cost, schedule, and performance. But that is a very conscious decision and agreed-upon point between OMB and the agency before we allow an agency to rebaseline.

Chairman COBURN. My point would be is that ought to be a policy and a reporting policy inside OMB, because no matter who the Administration is, you want to be able to track that. That ought to be something that happens all the time so that we know, as a performance indicator. That is just a suggestion.

Ms. Evans, is GAO reporting their examples in their report in June about the projects that weren't on the high-risk list or on the watch list. The ones they reported, are they now on the list?

Ms. EVANS. Yes. Actually, we have gone back very specifically and asked. I am very intimately aware of the Census issue, sir.

Chairman COBURN. I am announcing today I am going to send a letter to every agency asking every IT project that they have and where they are and where they are in terms of cost overrun. We are going to look at those. We are going to help you.

Ms. EVANS. OK.

Chairman COBURN. We are going to expect them to respond and also list by vendor so that we can look at it. I am convinced that you all are trying to do the right thing, and I think Senator Carper is, too, but I think we need more oversight and I certainly believe that we need the recommendations that we saw in the GAO report instituted as best as we can, and maybe some of the new ones that Mr. Powner brought forward today.

We have great IT companies in this country, but we don't want them to get to be lazy and we want to hold them accountable as well as the agencies accountable. My hope is that in the next couple of months, we will single out two or three projects and look at those to see why they are not meeting what they need to do. We have done it on the Defense Travel System. I have tried to win. I have lost on that. The vendor is stronger than I am on the floor and we have spent $500 to $600 million on something we could have gotten for $30 million, and when they redo all the computers in the Pentagon, DTS isn't going to work. They are doing a good job of trying to do that, but it is a half-a-billion dollars of our kids' money that we have thrown out the door.

We can't have any more of those. We just have to do a better job. I am talking about us. Senator Carper and I are committed to do the oversight that is necessary and we want to help you. We don't want to be your adversaries. We want to be your supporters and we want to shine sunshine on areas that are weaknesses and allow good ideas to filter up to hold people accountable.

Anything further?

Senator CARPER. Just to follow up on what the Chairman said, just in terms of reaching out to all the agencies and asking them to come back with the information that he has mentioned, sometimes I say to my staff, help me to be a guided missile as opposed to being an unguided missile. If you were to give some friendly advice and constructive advice as to how we might craft the kind of inquiry used just to describe it, do you have any thoughts now as to how it would be most constructive and most helpful to the work that you are trying to do, that would be welcome. If you don't have anything right off the bat to share with us, maybe you could within the next 24 or 48 hours. That would be, I think, helpful to us.

Ms. EVANS. OK.

Chairman COBURN. Thank you all very much for your testimony and your cooperative nature. We look forward to working——

Senator CARPER. Mr. Chairman, could I interrupt just one quick minute?

Chairman COBURN. Yes, sure.

Senator CARPER. Ms. Evans indicated that one of the adjectives that she used to describe her is relentless, and I heard you talking about the Department of Defense Travel System and how you were outmanned on the floor. One of the adjectives that is used to describe the Chairman, and I hope me, is relentless, as well, and this is a good one to be relentless on. Thank you.

Chairman COBURN. Thank you all for being here. Thanks for your effort, and thank you for the service to our country.

Ms. EVANS. Thank you.

Chairman COBURN. The hearing is adjourned.

[Whereupon, at 10:50 a.m., the Subcommittee was adjourned.]

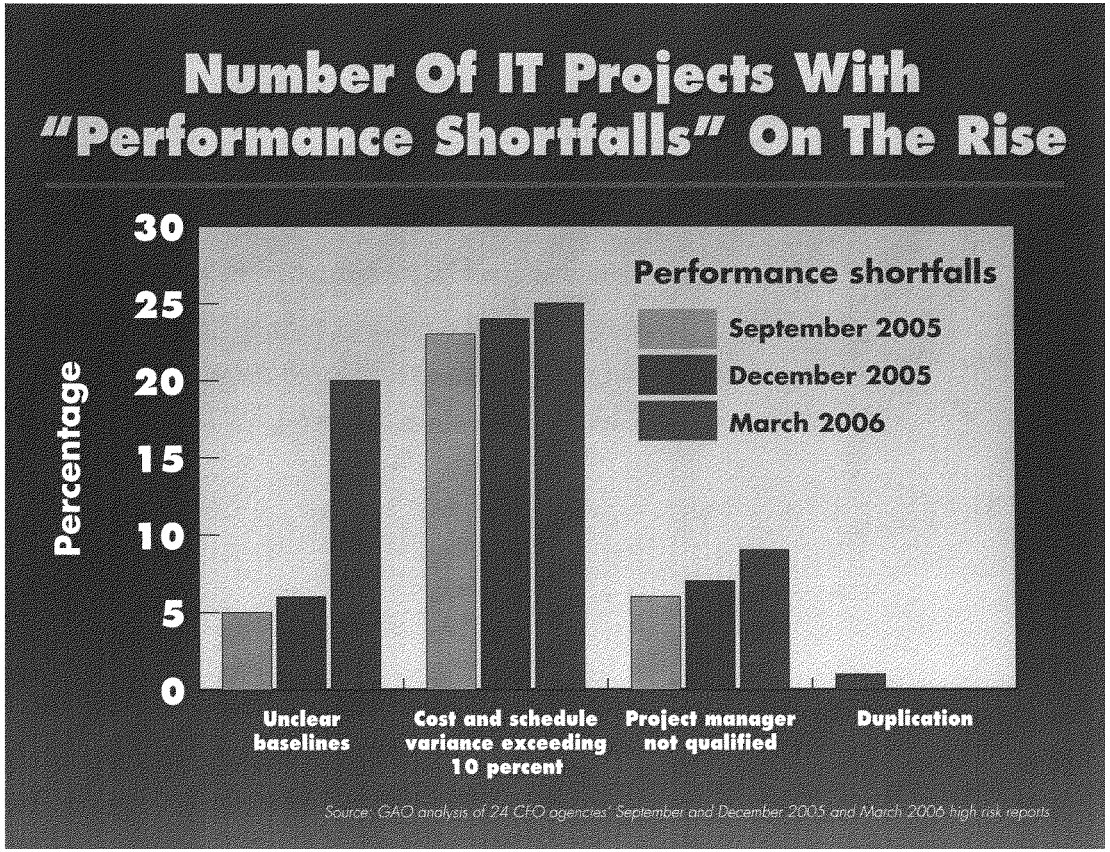
APPENDIX

IT Projects on the Management Watch List

Fiscal Years	Total IT Budget	Management Watch List Projects	Percentage of projects on Management Watch List
2004	1400	771	55%
2005	1200	621	52%
2006	1087	342	31%
2007 (proposed)	857	263	31%

IT Projects on the Management Watch List

Fiscal Years (in billions)	Total IT Budget	IT budget for Management Watch List Projects	Percentage of budget for Management Watch List projects
2004 budget	$59.0	$20.9	35%
2005 budget	$60.0	$22.0	37%
2006 budget	$65.0	$15.0	23%
2007 budget request	$64.0	$9.9	15%


Number Of IT Projects With
"Performance Shortfalls" On The Rise
Percentage
30
25
20
15
10
5
0
Performance shortfalls
September 2005
December 2005
March 2006
Unclear baselines
Cost and schedule variance exceeding 10 percent
Project manager not qualified
Duplication
Source: GAO analysis of 24 CFO agencies' September and December 2005 and March 2006 high risk reports

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

September 7, 2006

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

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

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.

[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.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Financial Management, Government Information and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
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INFORMATION TECHNOLOGY

Improvements Needed to More Accurately Identify and Better Oversee Risky Projects Totaling Billions of Dollars

Statement of David A. Powner
Director, Information Technology Management Issues

GAO-06-1099T

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-06-1099T, a testimony before the Subcommittee on Federal Financial Management, Government Information and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The Office of Management and Budget (OMB) plays a key role in overseeing federal IT investments. The Clinger-Cohen Act, among other things, requires OMB to establish processes to analyze, track, and evaluate the risks and results of major capital investments in information systems made by agencies and to report to Congress on the net program performance benefits achieved as a result of these investments.

OMB has developed several processes to help carry out its role. For example, OMB began using a Management Watch List several years ago as a means of identifying poorly planned projects based on its evaluation of agencies' funding justifications for major projects, known as exhibit 300s. In addition, in August 2005, OMB established a process for agencies to identify high risk projects, i.e., projects requiring special attention because of one or more reasons specified by OMB, and to report on those that are poorly performing or not meeting performance criteria.

GAO recently issued reports on the Management Watch List, high risk projects, and agencies' exhibit 300s. GAO was asked to summarize (1) the number of projects and the fiscal year 2007 dollar value of Management Watch List and high risk projects, (2) previously reported results on how these projects are identified and provided oversight, and (3) recommendations it made to improve these processes.

www.gao.gov/cgi-bin/getrpt?GAO-06-1099T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David A. Powner at (202) 512-9286 or pownerd@gao.gov.

September 7, 2006

INFORMATION TECHNOLOGY

Improvements Needed to More Accurately Identify and Better Oversee Risky Projects Totaling Billons of Dollars

What GAO Found

As a result of the Management Watch List and high risk projects processes, about 300 projects totaling about $12 billion in estimated IT expenditures for fiscal year 2007 have been identified as being either poorly planned or poorly performing. Specifically, of the 857 major IT projects in the President's budget for fiscal year 2007, OMB placed 263 projects, representing about $10 billion on its Management Watch List. In addition, in response to OMB's memorandum, agencies reported that 79 of 226 high risk projects, collectively totaling about $2.2 billion, had a performance shortfall.

While this information helps to focus both agency and OMB management attention on these poorly planned and poorly performing projects, GAO identified opportunities to strengthen how these projects are identified and provided oversight.

- The Management Watch List may be undermined by inaccurate and unreliable data. OMB uses scoring criteria to evaluate agencies' exhibit 300s to derive the projects on its Management Watch List. GAO's detailed evaluation of exhibit 300s showed that the information reported in them is not always accurate or supported by documentation.
- The criteria for identifying high risk projects were not always consistently applied and projects that appeared to meet the criteria were not identified as high risk. Without consistent application of the high risk criteria, OMB and agency executives cannot have the assurance that all projects that require special attention have been identified.
- For both sets of projects, OMB did not develop a central list of projects and deficiencies that could facilitate tracking progress and reporting to Congress. Without such lists, OMB is not fully exploiting the opportunity to analyze and track these projects on a governmentwide basis and not involving Congress in the oversight of these projects with risks.

To improve the way the Management Watch List and high risk projects are identified and provided oversight, GAO has made a number of recommendations to the Director of OMB. These recommendations include directing agency chief information officers to improve the accuracy and reliability of exhibit 300 information and to consistently apply the high risk criteria defined by OMB. In addition, GAO recommended that the Director develop a single, aggregate list for both the Management Watch List and high risk projects to facilitate tracking progress, performing governmentwide analysis, and reporting the results to Congress. OMB generally disagreed with these recommendations. However, GAO believes that they are needed to provide greater assurance that poorly planned and poorly performing projects are more accurately identified and provided oversight, and ultimately ensure that potentially billions of taxpayer dollars are not wasted.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the federal government's processes for improving the management of IT investments that total $64 billion for fiscal year 2007. Effective management of these investments is essential to the health, economy, and security of the nation. The Office of Management and Budget (OMB) plays a key role in overseeing federal IT investments. The Clinger-Cohen Act, among other things, requires OMB to establish processes to analyze, track, and evaluate the risks and results of major capital investments in information systems made by executive agencies and to report to Congress on the net program performance benefits achieved as a result of these investments.

To help carry out its role, OMB has developed several processes to improve the management of federal IT projects, including the e-Gov scorecard,[1] Management Watch List, and high risk projects. The Management Watch List identifies projects with weaknesses in their funding justifications (or exhibit 300s) based on an evaluation of these documents. High risk projects are projects requiring special attention from oversight authorities and the highest level of agency management because of one or more of the following four reasons[2] (1) the agency failed to demonstrate the ability to manage complex projects; (2) the projects has exceptionally high development, operating, or maintenance costs; (3) the projects are addressing deficiencies in the agencies' ability to perform mission critical business functions; or (4) the projects' delay or failure would impact the agencies' essential business functions. Agencies are also

[1] The quarterly e-Gov Scorecards are reports that use a red/yellow/green scoring system to illustrate the results of OMB's evaluation of agencies' implementation of e-government criteria in the President's Management Agenda. The scores are determined in quarterly reviews, where OMB evaluates agency progress toward agreed-upon goals along several dimensions, and provides input to the quarterly reporting on the President's Management Agenda. Key criteria used to score agencies e-government process include acceptable business cases, cost and schedule performance; and security accreditation. As of June 30, 2006, 21 of the 26 departments/major agencies were identified as having a yellow (mixed results) or red (unsatisfactory) score.

[2] These reasons are specified in OMB, *Memorandum to Chief Information Officers: Improving Information Technology (IT) Project Planning and Execution*, M-05-23 (Washington, D.C., Aug. 4, 2005),

required to provide quarterly reports to OMB on identified high risk projects that have performance shortfalls, meaning that they do not meet one or more of four performance evaluation criteria. The performance criteria are (1) establishing baselines with clear cost, schedule, and performance goals;(2) maintaining the project's cost and schedule variances within 10 percent; (3) assigning a qualified project manager; or (4) avoiding duplication by leveraging interagency and governmentwide investments.

These processes, among other things, are instrumental in helping to identify and improve oversight of poorly planned and poorly performing projects. Given the importance of these processes, you asked us to summarize (1) the number of projects and fiscal year 2007 dollar value of Management Watch List and high risk projects, (2) previously reported results on how these projects are identified and provided oversight, and (3) recommendations made to improve these processes. In preparing this testimony, we summarized our previous reports on initiatives for improving the management of federal IT investments.[3] The work in these reports was performed in accordance with generally accepted government auditing standards.

Results in Brief

As a result of the Management Watch List and high risk projects processes, about 300 projects totaling about $12 billion in estimated IT expenditures for fiscal year 2007 have been identified as being either poorly planned or poorly performing. Of the more than 857 major IT projects in the President's budget for fiscal year 2007, OMB placed 263 projects, representing about $10 billion on its Management Watch List. In addition, in response to OMB's memorandum, agencies reported that 79 of 226 high-risk projects, collectively totaling about $2.2 billion, had a performance shortfall

[3] GAO, *Information Technology: OMB Can Make More Effective Use of Its Investment Reviews, GAO-05-276* (Washington, D.C.: April 15, 2005.); *Information Technology: Agencies Need to Improve the Accuracy and Reliability of Investment Information, GAO-06-250* (Washington, D.C.: Jan.12, 2006); *GAO, Information Technology: Agencies and OMB Should Strengthen Processes for Identifying and Overseeing High Risk Projects, GAO-06-647* (Washington, DC, June 15, 2006)

primarily associated with cost and schedule variances that exceeded 10 percent.

While this information helps to focus both agency and OMB management attention on these poorly planned and poorly performing projects, our reviews identified opportunities to strengthen how these projects are identified and provided oversight.

- The Management Watch List may be undermined by inaccurate and unreliable data. OMB uses scoring criteria to evaluate each major projects' justification for funding (known as exhibit 300s) to derive the projects on its Management Watch List. Our detailed evaluation of exhibit 300s showed that the information reported in them is not always accurate or supported by documentation.
- For the high risk projects, the criteria for identifying projects were not always consistently applied and we found examples of projects that appeared to meet the criteria but were not identified as high risk. Without consistent application of the high risk criteria, OMB and agency executives cannot have the assurance that all projects that require special attention have been identified.
- For both sets of projects, OMB did not develop a central list of projects and deficiencies that could facilitate the tracking of progress and reporting to Congress. By not having such lists, OMB is not fully exploiting the opportunity to analyze and track these projects on a governmentwide basis and to involve Congress in the oversight of these projects with risks.

To improve the way the Management Watch List and high risk projects are identified and provided oversight, we have made a number of recommendations to the Director of OMB. These recommendations include directing agency chief information officers to improve the accuracy and reliability of exhibit 300 information and to consistently applying the high risk criteria defined by OMB. In addition, we recommended that the Director provide for training of agency personnel responsible for completing exhibit 300s and to develop a single, aggregate list for both the Management Watch List projects and for high risk projects to facilitate tracking progress, performing governmentwide analysis, and reporting the results to Congress. OMB generally disagreed

with our recommendations. However, we continue to believe that they are needed to help accurately identify poorly planned and performing projects and more effectively oversee these projects.

Background

Each year, OMB and federal agencies work together to determine how much the government plans to spend for IT and how these funds are to be allocated. Federal IT spending has risen to an estimated $64 billion in fiscal year 2007.

OMB plays a key role in overseeing federal IT investments and how they are managed. To drive improvement in the implementation and management of IT projects, Congress enacted the Clinger-Cohen Act in 1996 to further expand the responsibilities of OMB and the agencies under the Paperwork Reduction Act.[4] In particular, the act requires agency heads, acting through agency chief information officers (CIOs), to, among other things, better link their IT planning and investment decisions to program missions and goals and to implement and enforce IT management policies, procedures, standards, and guidelines. The Clinger-Cohen Act requires that agencies engage in capital planning and performance and results-based management.[5] The act also requires OMB to establish processes to analyze, track, and evaluate the risks and results of major capital investments in information systems made by executive agencies. OMB is also required to report to Congress on the net program performance benefits achieved as a result of major capital investments in information systems that are made by executive agencies.[6]

In response to the Clinger-Cohen Act and other statutes, OMB developed policy for planning, budgeting, acquisition, and

[4] 44 U.S.C. § 3504(a)(1)(B)(vi)(OMB); 44 U.S.C. § 3506(h)(5) (agencies).

[5] 40 U.S.C. § 11312; 40 U.S.C. § 11313.

[6] These requirements are specifically described in the Clinger-Cohen Act, 40 U.S.C. § 11302 (c).

management of federal capital assets. This policy is set forth in OMB Circular A-11 (section 300) and in OMB's Capital Programming Guide (supplement to Part 7 of Circular A-11), which directs agencies to develop, implement, and use a capital programming process to build their capital asset portfolios. Among other things, OMB's Capital Programming Guide directs agencies to

- evaluate and select capital asset investments that will support core mission functions that must be performed by the federal government and demonstrate projected returns on investment that are clearly equal to or better than alternative uses of available public resources;
- institute performance measures and management processes that monitor actual performance and compare to planned results; and
- establish oversight mechanisms that require periodic review of operational capital assets to determine how mission requirements might have changed and whether the asset continues to fulfill mission requirements and deliver intended benefits to the agency and customers.

To further support the implementation of IT capital planning practices, we have developed an IT investment management framework[7] that agencies can use in developing a stable and effective capital planning process, as required by statute and directed in OMB's Capital Programming Guide. Consistent with the statutory focus on selecting,[8] controlling,[9] and evaluating[10]

[7] GAO, *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity*, GAO-04-394G (Washington, D.C.: March 2004).

[8] During the selection phase, the organization (1) identifies and analyzes each project's risks and returns before committing significant funds to any project and (2) selects those IT projects that will best support its mission needs.

[9] During the control phase, the organization ensures that, as projects develop and investment expenditures continue, the project is continuing to meet mission needs at the expected levels of cost and risk. If the project is not meeting expectations or if problems have arisen, steps are quickly taken to address the deficiencies.

[10] During the evaluation phase, actual versus expected results are compared once projects have been fully implemented. This is done to (1) assess the project's impact on mission performance, (2) identify any changes or modifications to the project that may be needed, and (3) revise the investment management process based on lessons learned.

investments, this framework focuses on these processes in relation to IT investments specifically. It is a tool that can be used to determine both the status of an agency's current IT investment management capabilities and the additional steps that are needed to establish more effective processes. Mature and effective management of IT investments can vastly improve government performance and accountability. Without good management, such investments can result in wasteful spending and lost opportunities for improving delivery of services to the public.

Prior Reviews on Federal IT Investment Management Have Identified Weaknesses

Only by effectively and efficiently managing their IT resources through a robust investment management process can agencies gain opportunities to make better allocation decisions among many investment alternatives and further leverage their investments. However, the federal government faces enduring IT challenges in this area. For example, in January 2004 we reported on mixed results of federal agencies' use of IT investment management practices.[11] Specifically, we reported that although most of the agencies had IT investment boards responsible for defining and implementing the agencies' IT investment management processes, agencies did not always have important mechanisms in place for these boards to effectively control investments, including decision-making rules for project oversight, early warning mechanisms, and/or requirements that corrective actions for underperforming projects be agreed upon and tracked. Executive-level oversight of project-level management activities provides organizations with increased assurance that each investment will achieve the desired cost, benefit, and schedule results. Accordingly, we made several recommendations to agencies to improve their practices.

In previous work using our investment management framework, we reported that the use of IT investment management practices by

[11] GAO, *Information Technology Management: Governmentwide Strategic Planning, Performance Measurement, and Investment Management Can Be Further Improved*, GAO-04-49 (Washington, D.C.: Jan. 12, 2004).

agencies was mixed. For example, a few agencies that have followed the framework in implementing capital planning processes have made significant improvements.[12] In contrast, however, we and others have continued to identify weaknesses at agencies in many areas, including immature management processes to support both the selection and oversight of major IT investments and the measurement of actual versus expected performance in meeting established performance measures.[13]

OMB's Management Watch List Intended to Correct Project Weaknesses and Business Case Deficiencies

In helping to ensure that investments of public resources are justified and that public resources are wisely invested, OMB began using the Management Watch List, in the President's fiscal year 2004 budget request, as a means to oversee the justification for and planning of agencies' IT investments. This list was derived based on a detailed review of the investments' Capital Asset Plan and Business Case, also known as the exhibit 300.

The exhibit 300 is a reporting mechanism intended to enable an agency to demonstrate to its own management, as well as OMB, that a major project is well planned in that it has employed the disciplines of good project management; developed a strong business case for the investment; and met other Administration priorities in defining the cost, schedule, and performance goals proposed for the investment.

[12] These agencies include the Departments of Agriculture, Commerce, and the Interior.

[13] For example, GAO, *Information Technology: Centers for Medicare & Medicaid Services Needs to Establish Critical Investment Management Capabilities*, GAO-06-12 (Washington, D.C.: Oct. 28, 2005); *Information Technology: Departmental Leadership Crucial to Success of Investment Reforms at Interior*, GAO-03-1028 (Washington, D.C.: Sept. 12, 2003); and *United States Postal Service: Opportunities to Strengthen IT Investment Management Capabilities*, GAO-03-3 (Washington, D.C.: Oct. 15, 2002).

We reported in 2005 that OMB analysts evaluate agency exhibit 300s by assigning scores to each exhibit 300 based on guidance presented in OMB Circular A-11.[14] As described in this circular, the scoring of a business case consists of individual scoring for 10 categories, as well as a total composite score of all the categories. The 10 categories are

- acquisition strategy,
- project (investment) management,
- enterprise architecture,
- alternatives analysis,
- risk management,
- performance goals,
- security and privacy,
- performance-based management system (including the earned value management system[15]),
- life-cycle costs formulation, and
- support of the President's Management Agenda.

Using these scores, projects were placed on the Management Watch List if their exhibit 300 business case received a total composite score of 3 or less, or if it received a score of 3 or less in the areas of performance goals, performance-based management systems, or security and privacy, even if its overall score was a 4 or 5. To derive the total number of projects on the list that were reported for fiscal year 2005, OMB polled the individual analysts and compiled the numbers.

According to OMB, agencies with weaknesses in these three areas were to submit remediation plans addressing the weaknesses. OMB officials also stated that decisions on follow-up and monitoring the

[14] GAO-05-276.

[15] Earned value management is a project management tool that integrates the investment scope of work with schedule and cost elements for investment planning and control. This method compares the value of work accomplished during a given period with that of the work expected in the period. Differences in expectations are measured in both cost and schedule variances.

progress were typically made by staff with responsibility for reviewing individual agency budget submissions, depending on the staff's insights into agency operations and objectives. According to OMB officials, those Management Watch List projects that did receive specific follow-up attention received feedback, among other means, through the passback process, through targeted evaluation of remediation plans designed to address weaknesses, and through the apportioning of funds so that the use of budgeted dollars was conditional on appropriate remediation plans being in place, and through the quarterly e-Gov Scorecards.

OMB Issued August 2005 Memorandum on Improving Performance of High Risk IT Projects

To improve IT project execution, OMB issued a memorandum in August 2005 to all federal CIOs, directing them to begin taking steps to identify IT projects that are high risk and to report quarterly on their performance.[16] As originally defined in OMB Circular A-11 and subsequently reiterated in the August 2005 memorandum, high risk projects are those that require special attention from oversight authorities and the highest levels of agency management because of one or more of the following four reasons:

- The agency has not consistently demonstrated the ability to manage complex projects.
- The project has exceptionally high development, operating, or maintenance costs, either in absolute terms or as a percentage of the agency's total IT portfolio.
- The project is being undertaken to correct recognized deficiencies in the adequate performance of an essential mission program or function of the agency, a component of the agency, or another organization.
- Delay or failure of the project would introduce for the first time unacceptable or inadequate performance or failure of an essential mission function of the agency, a component of the agency, or another organization.

[16] OMB Memorandum, M-05-23 (Aug. 4, 2005).

As directed in the memorandum, agencies are to work with OMB to identify their high risk IT projects using these criteria. 2006. Most agencies reported that, to identify high risk projects, CIO office staff compared the criteria against their current portfolio to determine which projects met OMB's definition. They then submitted the list to OMB for review. According to OMB and agency officials, after the submission of the initial list, examiners at OMB worked with individual agencies to identify or remove projects as appropriate. According to most agencies, the final list was then approved by their CIO.

For the identified high risk projects, beginning September 15, 2005, and quarterly thereafter, CIOs were to assess, confirm, and document projects' performance. Specifically, agencies were required to determine, for each of their high risk projects, whether the project was meeting one or more of four performance evaluation criteria: (1) establishing baselines with clear cost, schedule, and performance goals; (2) maintaining the project's cost and schedule variances within 10 percent; (3) assigning a qualified project manager; and (4) avoiding duplication by leveraging inter-agency and governmentwide investments. If a high risk project met any of these four performance evaluation criteria, agencies were instructed to document this using a standard template provided by OMB and provide this template to oversight authorities (e.g., OMB, agency inspectors general, agency management, and GAO) on request. Upon submission, according to OMB staff, individual analysts review the quarterly performance reports of projects with shortfalls to determine how well the projects are progressing and whether the actions described in the planned improvement efforts are adequate using other performance data already received on IT projects such as the e-Gov Scorecards, earned value management data, and the exhibit 300.

Poorly Planned and Performing Projects Identified, Totaling About $12 Billion in Estimated Expenditures for Fiscal Year 2007

About 300 projects totaling about $12 billion in estimated IT expenditures for fiscal year 2007 have been placed on OMB's Management Watch List or as a high risk project with performance shortfalls. Specifically, the President's budget for fiscal year 2007 included 857 major IT projects, totaling approximately $64 billion. Of this, OMB reported that there were 263 proposed major projects that were poorly planned, totaling $10 billion. In addition, agencies reported that 79 of the 226 high-risk projects identified as of March 2006, collectively totaling about $2.2 billion had a performance shortfall primarily associated with cost and schedule variances that exceeded 10 percent.

OMB has reported on the Management Watch List in the President's budget request for 2004. While the number of projects and their associated budget have decreased since then, they still represent a significant percentage of the total IT budget. Table 1 shows the budget information for projects on the Management Watch List for fiscal years 2004, 2005, 2006, and 2007.

Table 1: Management Watch List Budget for Fiscal Years 2004, 2005, 2006, and 2007

Fiscal Years	Total IT budget (in billions)	IT budget for Management Watch List projects (in billions)	Percentage of budget for Management Watch List projects
2004	$59.0	$20.9	35%
2005	$60.0	$22.0	37%
2006	$65.0	$15.0	23%
2007	$64.0	$9.9	15%

Source: GAO analysis of OMB data.

Table 2 provides the number of projects on the Management Watch List for fiscal years 2004, 2005, 2006, and 2007.

Table 2: Number of Projects on Management Watch List for Fiscal Years 2004, 2005, 2006, and 2007

Fiscal Years	Total IT projects	Management Watch List projects	Percentage of projects on Management Watch List
2004	1400	771	55%
2005	1200	621	52%
2006	1087	342	31%
2007	857	263	31%

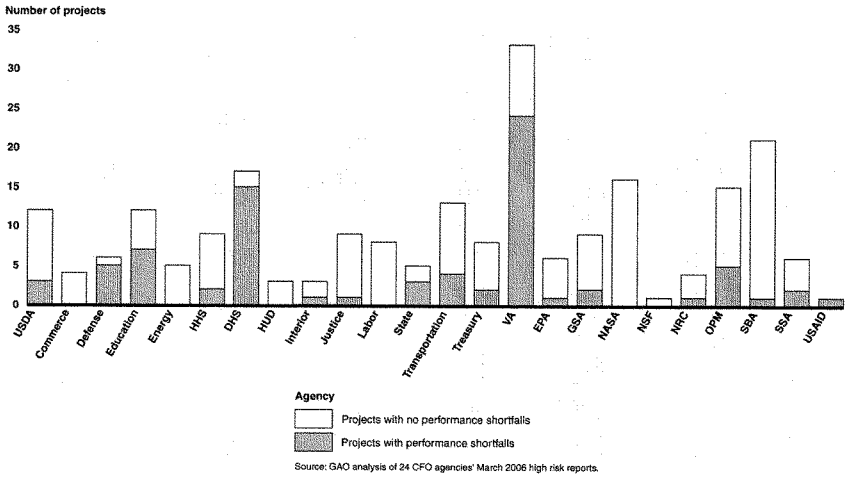
Source: GAO analysis of OMB data.

In addition, in response to OMB's August 2005 memorandum, the 24 major agencies identified 226 IT projects as high risk, totaling about $6.4 billion in funding requested for fiscal year 2007[17]. Agencies identified most projects as high risk because their delay or failure would impact the essential business functions of the agency. In addition, agencies reported that about 35 percent of the high risk projects—or 79 investments, collectively totaling about $2.2 billion in fiscal year 2007—had a performance shortfall, primarily associated with cost and schedule variances that exceeded 10 percent.

Figure 1 illustrates the number of agency high risk projects as of March 2006 with and without shortfalls. The majority of the agencies reported that their high risk projects did not have performance shortfalls in any of the four areas identified by OMB. In addition, six agencies—the departments of Commerce, Energy, Housing and Urban Development, and Labor, and the National Aeronautics and Space Administration and the National Science Foundation—reported that none of their high risk projects experienced any performance shortfalls.

[17] GAO-06-647.

Figure 1: Number of Agencies High Risk Projects with and without Performance Shortfalls (as of March 2006)



Source: GAO analysis of 24 CFO agencies' March 2006 high risk reports.

Note: Department of Agriculture (USDA); Department of Health and Human Services (HHS); Department of Homeland Security (DHS); Department of Housing and Urban Development (HUD); Department of Veterans Affairs (VA); Environmental Protection Agency (EPA); General Services Administration (GSA); National Aeronautics and Space Administration (NASA); National Science Foundation (NSF); Nuclear Regulatory Commission (NRC); Office of Personnel Management (OPM); Small Business Administration (SBA); Social Security Administration (SSA); Agency for International Development (USAID)

Improvements Needed to Identify and Oversee Management Watch List and High Risk Projects

While the Management Watch List and high risk processes serve to highlight poorly planned and performing projects and focus attention on them, our reviews identified opportunities to strengthen the identification and oversight of projects for each.

Management Watch List May Be Based on Unreliable Data and High Risk Project Criteria Are Not Always Consistently Applied

OMB's Management Watch List may be undermined by inaccurate and unreliable data. While OMB uses the exhibit 300s as the basis for designating projects as poorly planned, we have recently reported[18] that the underlying support was often inadequate for information provided in the exhibit 300s GAO reviewed. Three general types of weaknesses were evident:

- All exhibit 300s had documentation weaknesses. Documentation either did not exist or did not fully agree with specific areas of the exhibit 300.
- Agencies did not always demonstrate that they complied with federal or departmental requirements or policies with regard to management and reporting processes. Also, none had cost analyses that fully complied with OMB requirements for cost-benefit and cost-effectiveness analyses. In contrast, most investments did demonstrate compliance with information security planning and training requirements.
- In sections that required actual cost data, these data were unreliable because they were not derived from cost-accounting systems with

[18] GAO-06-250.

adequate controls. In the absence of such systems, agencies generally derived cost information from ad hoc processes.

Moreover, although agencies, with OMB's assistance, generally identified their high risk projects using criteria specified by OMB, these criteria were not always consistently applied.

- In several cases, agencies did not use OMB's criteria to identify high risk projects. Some agencies reported using other reasons to identify a total of 31 high risk projects. For example, the Department of Homeland Security reported investments that were high risk because they had weaknesses associated with their business cases based on the evaluation by OMB. The Department of Transportation reported projects as high risk because two did not have approved baselines, and four had incomplete or poor earned value management assessments.

- Regarding the criterion for high risk designation that the agency has not demonstrated the ability to manage complex projects, only three agencies reported having projects meeting this criterion. This appears to be somewhat low, considering that we and others have previously reported on weaknesses in numerous agencies' ability to manage complex projects. For example, we have reported in our high risk series on major programs and operations that need urgent attention and transformation in order to ensure that our national government functions in the most economical, efficient, and effective manner possible.[19] Specifically, the Department of Defense's efforts to modernize its business systems have been hampered because of weaknesses in practices for (1) developing and using an enterprise architecture, (2) instituting effective investment management processes, and (3) establishing and implementing effective systems acquisition processes. We concluded that the Department of Defense, as a whole, remains far from where it needs to be to effectively and efficiently manage an undertaking with the size, complexity, and significance of its

[19] GAO, *High-Risk Series: An Update, GAO-05-207* (Washington, D.C., January 2005).

departmentwide business systems modernization. We also reported that, after almost 25 years and $41 billion, efforts to modernize the air traffic control program of the Federal Aviation Administration, the Department of Transportation's largest component, are far from complete and that projects continue to face challenges in meeting cost, schedule, and performance expectations.[20] However, neither the Department of Defense nor the Department of Transportation cited the "inability to manage complex projects" criteria for any projects as being high risk.

- Finally, while agencies have reported a significant number of IT projects as high risk, we identified other projects on which we have reported and testified that appear to meet one or more of OMB's criteria for high risk designation including high development or operating costs and recognized deficiencies in the adequate performance but were not identified as high risk. Examples we have recently reported include the following projects:

  - The Decennial Response Integration System of the Census Bureau, is intended to integrate paper, Internet, and telephone responses. Its high development and operating costs are expected to make up a large portion of the $1.8 billion program to develop, test, and implement decennial census systems. In March 2006,[21] we testified that the component agency has established baseline requirements for the acquisition, but the bureau has not yet validated them or implemented a process for managing the requirements. We concluded that, until these and other basic contract management activities are fully implemented, this project faced increased risks that the system would experience cost overruns, schedule delays, and performance shortfalls.

  - The National Polar-Orbiting Operational Environmental Satellite System—an initiative managed by the Department of Commerce,

[20] GAO-05-207.

[21] GAO, *Census Bureau: Important Activities for Improving Management of Key 2010 Decennial Acquisitions Remain to be Done*, GAO-06-444T (Washington, D.C.: Mar. 1, 2006).

the Department of Defense, and the National Aeronautics and Space Administration—is to converge two satellite programs into a single satellite program capable of satisfying both civilian and military requirements. In November 2005,[22] we reported that the system was a troubled program because of technical problems on critical sensors, escalating costs, poor management at multiple levels, and the lack of a decision on how to proceed with the program. Over the last several years, this system has experienced continual cost increases to about $10 billion and schedule delays, requiring difficult decisions about the program's direction and capabilities. More recently, we testified[23] that the program is still in trouble and that its future direction is not yet known. While the program office has corrective actions under way, we concluded that, as the project continues, it will be critical to ensure that the management issues of the past are not repeated.

- Rescue 21, is a planned coastal communications system of the Department of Homeland Security. We recently reported[24] that inadequacies in several areas contributed to Rescue 21 cost overruns and schedule delays. These inadequacies occurred in requirements management, project monitoring, risk management, contractor cost and schedule estimation and delivery, and executive level oversight. Accordingly, the estimated total acquisition cost has increased from $250 million in 1999 to $710.5 million in 2005, and the timeline for achieving full operating capability has been extended from 2006 to 2011.

For the projects we identified as appearing to meet OMB's criteria for high risk, the responsible agencies reported that they did not consider these investments to be high risk projects for such reasons

[22] GAO, *Polar-Orbiting Operational Environmental Satellites: Technical Problems, Cost Increases, and Schedule Delays Trigger Need for Difficult Trade-Off Decisions*, GAO-06-249T (Washington, D.C.: Nov. 16, 2005).

[23] GAO, *Polar-Orbiting Operational Environmental Satellites: Cost Increases Trigger Review and Place Program's Direction on Hold*, GAO-06-573T (Washington, D.C.: Mar. 30, 2006).

[24] GAO, *United States Coast Guard: Improvements Needed in Management and Oversight of Rescue System Acquisition*, GAO-06-632 (Washington, D.C.: May 31, 2006).

as (1) the project was not a major investment; (2) agency management is experienced in overseeing projects; or (3) the project did not have weaknesses in its business case. In particular, one agency stated that their list does not include all high risk projects, only those that are the highest priority of the high risk investments. However, none of the reasons provided are associated with OMB's high risk definition. Without consistent application of the criteria, OMB and executives cannot have the assurance that all projects that require special attention have been identified.

OMB Does Not Use an Aggregate List to Perform Its Oversight of the Management Watch List or High Risk Projects

While OMB's Management Watch List identified opportunities to strengthen investments and promote improvements in IT management, OMB did not develop a single, aggregate list identifying the projects and their weaknesses. According to OMB officials, they did not construct a single list of projects meeting their watch list criteria because they did not see such an activity as necessary in performing OMB's predominant mission: to assist in overseeing the preparation of the federal budget and to supervise agency budget administration. Thus, OMB did not exploit the opportunity to use the list as a tool for analyzing IT investments on a govermentwide basis, limiting its ability to identify and report on the full set of IT investments requiring corrective actions.

In addition, while OMB asked agencies to take corrective actions to address weaknesses associated with projects on the Management Watch List, it did not develop a structured, consistent process or criteria for deciding how to follow up on these actions. We also reported that because it did not consistently monitor the follow-up performed, OMB could not tell us which of the 621 projects identified on the fiscal year 2005 list received follow-up attention, and it did not know whether the specific project risks that it identified through its Management Watch List were being managed effectively. This approach could leave resources at risk of being committed to poorly planned and managed projects. Thus, OMB was

not using its Management Watch List as a tool for improving IT investments on a governmentwide basis and focusing attention where it was most needed.

Similar to the Management Watch List, we reported in June 2006 that while OMB analysts review the quarterly performance reports on high risk projects, they did not compile a single aggregate list of high risk projects. According to OMB staff they did not see such an activity as necessary in achieving the intent of the guidance—to improve project planning and execution. Consistent with our Management Watch list observations and recommendations, we believe that by not having a single list, OMB is limiting its ability to identity and report on the full set of IT investments across the federal government that require special oversight and greater agency management attention.

Implementation of Recommendations Can Lead to Improved Processes to Identify and Oversee Management Watch List and High Risk Projects

To address our key findings, we made several recommendations to the Director of OMB. For example, to improve how the Management Watch List projects are identified, we have made several recommendations to improve the accuracy and validity of exhibit 300s for major IT investments, including that the Director require agencies to determine the extent to which the information contained in each exhibit 300 is accurate and reliable, and, where weaknesses in accuracy and reliability are identified, disclose them and explain the agency's approach to mitigating them. We also recommended that the Director provide for training of agency personnel responsible for completing exhibit 300s, and specified that, in developing the training, OMB consult with agencies to identify deficiencies that the training should address. Likewise, to improve how high risk projects are identified, we recommended that the Director direct federal agency CIOs to ensure that they are consistently applying the high risk criteria defined by OMB.

To improve how the Management Watch List is provided oversight, in our April 2005 report, we recommended that the Director of OMB develop a central list of projects and their deficiencies and report to Congress on progress made in addressing risks of major IT investments and management areas needing attention. In addition, to fully realize the potential benefits of using the Management Watch List, we recommended that OMB use the list as the basis for selecting projects for follow-up, tracking follow-up activities and analyze the prioritized list to develop governmentwide and agency assessments of the progress and risks of IT investments, identifying opportunities for continued improvement. We also made similar recommendations to the regarding high risk projects. Specifically, we recommended that OMB develop a single aggregate list of high risk projects and their deficiencies and use that list to report to Congress progress made in correcting high risk problems, actions under way, and further actions that may be needed.

OMB generally disagreed with our recommendations for strengthening the Management Watch List and high risk projects processes. Specifically, OMB's Administrator of the Office of E-Government and Information Technology stated that the ultimate responsibility to improve the accuracy and reliability of the exhibit 300s lies with the agencies. While this is true, OMB also has statutory responsibility for providing IT guidance governmentwide, especially when it involves an OMB-required budget document. Regarding the consistent application of the high risk criteria, the Administrator stated that some flexibility in the application of the criteria is essential. While some flexibility may be appropriate, we believe that these criteria should be more consistently applied so that projects that clearly meet them are identified and provided oversight. The Administrator also disagreed with our recommendations that an aggregated governmentwide Management Watch List and high risk project list is necessary to perform adequate oversight. However, we continue to believe that these lists are needed to facilitate OMB's ability to track progress. Addressing these recommendations would provide increased assurance that poorly planned and performing projects are accurately identified and more effectively provided oversight.

In summary, the Management Watch List and High Risk processes play important roles in improving the management of federal IT investments by helping to identifying poorly planned and performing projects totaling at least $12 billion that require management attention. However, the number of projects identified on both lists is likely understated because the Management Watch List is derived from budgetary documents that are not always accurate and reliable and the high risk projects are not always identified consistently using OMB criteria. In addition, we noted areas where oversight of both sets of projects could be strengthened primarily by reporting the results in the aggregate so that governmentwide analyses can be performed, progress can be tracked, and Congress can be informed. The recommendations we made to agencies and OMB to address these issues are aimed at providing greater assurance that poorly planned and performing projects are more accurately identified and receiving adequate oversight, and ultimately ensuring that potentially billions of taxpayers dollars are not wasted.

Contacts and Acknowledgements

If you should have any questions about this testimony, please contact me at (202) 512-9286 or by e-mail at pownerd@gao.gov. Other individuals who made key contributions to this testimony are Sabine Paul and Niti Tandon.

United States Government Accountability Office
Washington, DC 20548

November 17, 2006

The Honorable Tom Coburn
Chairman
The Honorable Thomas R. Carper
Ranking Minority Member
Subcommittee on Federal Financial Management, Government Information, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: Management of Risky IT Projects

This letter responds to your request that we answer questions related to our testimony on September 7, 2006.[1] During that hearing, we summarized (1) the number of projects and the fiscal year 2007 dollar value of the Office of Management and Budget's (OMB) Management Watch list and high risk projects, (2) previously reported results on how these projects are identified and provided oversight, and (3) our recommendations to improve these processes. Your questions, along with our responses, follow.

1. What is your opinion on the OMB's announcement that they reduced the number of projects on the Management Watch list from 263-86?

The announcement that the number of projects on the Management Watch List was reduced from 263 to 86 means that, according to OMB, fewer poorly planned projects are being funded and therefore potentially fewer taxpayer dollars are at risk of being wasted. However, the 86 projects are still significant because, according to OMB, they total $4.5 billion for the fiscal year 2007 President's budget request. Therefore, it is essential that follow-up on the 86 projects occur and that OMB improve its follow-up activities. We reported in 2005 that OMB lacked a consistent and integrated approach to follow-up on and track progress in addressing weaknesses associated with the Management Watch List projects and that, because of this, there is an increased risk that remedial actions by agencies were incomplete.[2] We made recommendations to OMB aimed at improving the consistency with which identified weaknesses are followed up on and tracked.

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[1] GAO, *Information Technology: Improvements Needed to More Accurately Identify and Better Oversee Risky Projects Totaling Billions of Dollars*, GAO-06-1009T (Washington, D.C.: Sept. 7, 2006).
[2] GAO, *Information Technology: OMB Can Make More Effective Use of Its Investment Reviews*, GAO-05-276 (Washington, D.C.: April 15, 2005).

2. You listened to the OMB describe the resources that they have to review information technology projects. Do you believe that they have adequate resources to carry out their responsibility of overseeing all federal IT investments?

OMB should be commended for its efforts to identify federal IT investments needing more attention and to reduce the number of projects that are poorly planned or poorly performing. Although, we do not have specific information on the number of resources OMB has to support these efforts, OMB has in the past sought opportunities to engage other entities, including the Chief Information Officers (CIO) Council and agencies' Inspector General offices, to oversee federal IT investments. For example, in its August 2005 memo[3] to Chief Information Officers, OMB required CIOs to assess, confirm, and document the performance of high risk projects and provide the performance documents to the agency Inspector General and the Government Accountability Office upon request for additional oversight. Given the size of the federal IT budget—the President's budget request for fiscal year 2007 comprises over 800 projects, totaling approximately $64 billion—we believe that OMB should continue to seek opportunities to rely on assistance from accountability offices to support the Congress in overseeing federal IT investments.

3. In your opinion, should Chief Information Officers be responsible for filling out exhibit 300s?

The Clinger-Cohen Act of 1996 assigned CIOs with responsibility for better linking IT planning and investment decisions to program missions and goals and to implement and enforce IT management policies, procedures, standards, and guidelines. Given this responsibility, CIOs should play a significant role in ensuring the accuracy and reliability of the exhibit 300s.[4] The task of filling out these forms can be left up to project managers or other staff who are more directly involved in the day-to-day management of the projects. We recently reported that underlying support for the information provided in the exhibit 300s was often inadequate.[5] Accordingly, we recommended that OMB work through agency CIOs to improve the accuracy and reliability of exhibit 300s for major IT investments.

In responding to these questions, we relied on previously reported information on initiatives for improving the management of federal IT investments.[6] We performed

[3] OMB, *Memorandum for Chief Information Officers: Improving Information Technology (IT) Project Planning and Execution*, M-05-23 (Washington, D.C.: Aug. 4, 2005)

[4] CIOs typically work with investment boards to carry out this responsibility. An investment board is a decision-making body, made up of senior program, financial, and information managers, that is responsible for making decisions about IT projects and systems, based on comparisons and trade-offs among competing projects, with an emphasis on meeting mission goals.

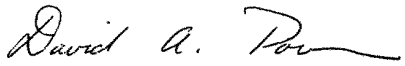
[5] GAO-06-250.

[6] GAO-05-276; GAO. *Information Technology: Agencies Need to Improve the Accuracy and Reliability of Investment Information*, GAO-06-250 (Washington, D.C.: Jan. 12, 2006); GAO, *Information Technology: Agencies and OMB Should Strengthen Processes for Identifying and Overseeing High Risk Projects*, GAO-06-647 (Washington, D.C.: June 15, 2006)

our work in November 2006, in accordance with generally accepted government auditing standards.

Should you or your office have any questions on matters discussed in this letter, please contact me at (202) 512-9286 or pownerd@gao.gov.

Sincerely yours,



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