



United States Government Accountability Office
Washington, DC 20548

February 8, 2012

The Honorable Thomas R. Carper
Chairman
The Honorable Scott P. Brown
Ranking Member
Subcommittee on Federal Financial Management, Government Information, Federal Services,
and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Financial Management Systems: Status of OMB's Review of Financial System Projects*

This letter transmits the enclosed briefing slides that we presented to your staff on February 1, 2012, in response to your request that we review the status of the Office of Management and Budget's (OMB) oversight of federal financial system projects.¹ In June 2010, OMB announced an initiative to review federal agency financial system modernization projects at the 24 Chief Financial Officer (CFO) Act agencies.² OMB provided guidance on this initiative in its June 2010 Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*.³ The memorandum provided instructions for CFO Act agencies to revise financial system modernization projects in accordance with three guiding principles and to submit their revised project plans for review.

As discussed with your staff, our objectives were to describe: (1) the approach OMB followed to develop and implement the June 2010 memorandum; (2) the changes agencies reported making to their financial system project plans as a result of the June 2010 memorandum; and (3) OMB's future plans for oversight of financial system modernization projects.

To address these objectives, we:

- met with OMB staff and Financial Systems Advisory Board (FSAB)⁴ members to determine the approach OMB followed to develop and implement the June 2010 memorandum;

¹See enc. I for our briefing slides.

²CFOs were established under 31 U.S.C. § 901(b) for 24 specific agencies that are subject to the CFO Act, as amended: the Departments of Agriculture (USDA), Commerce, Defense (DOD), Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Justice (DOJ), Labor, State, Transportation, the Treasury, and Veterans Affairs; Environmental Protection Agency; National Aeronautics and Space Administration; Agency for International Development; General Services Administration (GSA); National Science Foundation; Nuclear Regulatory Commission; Office of Personnel Management (OPM); Small Business Administration; and Social Security Administration.

³OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects* (Washington, D.C., June 28, 2010).

⁴In addition to the issuance of the June 2010 memorandum, OMB established FSAB under the CFO Council. FSAB was comprised of three CFOs and three Chief Information Officers (CIOs) from major agencies. The FSAB function was to make recommendations to OMB, as requested, on financial system projects reviewed under the June 2010 memorandum.

- conducted a survey of the 24 CFO Act agencies to obtain their perspectives on OMB's oversight process, its impact on agency financial system projects, and future plans for financial system projects; and
- interviewed OMB staff to determine OMB's future plans for oversight of financial system modernization projects.

We conducted our work from January 2011 through February 2012 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions. See enclosure II for further details on our scope and methodology. Enclosure III provides a list of financial system projects that OMB or FSAB reviewed. Enclosures IV and V provide the survey results on the reported impact and challenges, respectively, of implementing the June 2010 memorandum.

In summary, OMB developed the June 2010 memorandum in consultation with the CFO Council and created FSAB to assist in its oversight and review of agency financial system projects as announced in the June 2010 memorandum.⁵ In November 2010, OMB reported an overall budget savings of \$1.6 billion as a result of decisions to postpone, cancel, or revise the scope of projects initially reviewed. In response to our survey, most agencies reported no change or that they did not know how the long-term project cost or completion time would change as a result of the actions, decisions, and recommendations related to the June 2010 memorandum and oversight process. However, several agencies reported that they narrowed the scope of their current project plans to focus on implementing more critical business needs first as a result of the June 2010 memorandum. They noted that this rescoping had the effect of delaying their efforts to improve accounting and reporting functions. Agencies also reported other challenges related to their financial system projects, including standardization of internal processes or data and funding delays. According to OMB staff, their plans for oversight of financial systems include (1) continuing to review agencies' financial system projects and (2) issuing a revised Circular A-127 that will serve as guidance on the issues noted in the June 2010 memorandum. OMB did not provide details or time frames on the planned issuance of the revised circular.⁶

Agency Comments

We requested comments on a draft of the briefing slides and related enclosures from the Director of the Office of Management and Budget or his designee. On January 13, 2012, staff from OMB's Office of Federal Financial Management provided oral comments and stated that they generally agreed with the information presented. They also provided technical comments, which we incorporated as appropriate.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we

⁵The CFO Council is an organization comprised of the CFOs of the 24 CFO Act agencies and senior officials in OMB and the Department of the Treasury who work collaboratively to improve financial management in the U.S. government.

⁶OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow concerning their financial management systems. See OMB Circular A-127, *Financial Management Systems* (Washington, D.C., Jan. 9, 2009).

plan no further distribution until 30 days from the report date. At that time, we will send copies to the Chairman and Ranking Member, Subcommittee on Government Organization, Efficiency, and Financial Management, House Committee on Oversight and Government Reform; the Director of OMB; and other interested parties. The report also will be available at no charge on the GAO website at <http://www.gao.gov>. If you or your staffs have any questions concerning this report, please contact Paula Rascona at rasconap@gao.gov or (202) 512-9816, or Nabajyoti Barkakati at (202) 512-2700 or barkakatin@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure VI.



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Financial Management Systems: Status of OMB's Review of Financial System Projects

Briefing for Staff Members of the

Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Committee on Homeland Security and Governmental Affairs

United States Senate

February 1, 2012

Introduction

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- As we have reported in our audit of the U.S. Government's Financial Statements,¹ long-standing financial management system weaknesses at several large Chief Financial Officers (CFO) Act agencies,² along with the size and complexity of the federal government, continue to present a formidable management challenge in providing accountability to the nation's taxpayers.
- Federal agencies continue to invest large amounts of resources in financial system modernization efforts. These efforts have too often cost more than they should, taken longer than necessary to deploy, and not delivered solutions that met agency needs.

¹See our audit report on the federal government's 2011 and 2010 consolidated financial statements that was incorporated into the *2011 Financial Report of the United States Government* published by the Department of the Treasury (Dec. 23, 2011).

²CFOs were established under 31 U.S.C. § 901(b) for 24 specific agencies that are subject to the CFO Act, as amended: the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs; Environmental Protection Agency; National Aeronautics and Space Administration; Agency for International Development; General Services Administration; National Science Foundation; Nuclear Regulatory Commission; Office of Personnel Management; Small Business Administration; and Social Security Administration.

- Although federal financial system modernization efforts have proven to be challenging, they are critical to instituting strong financial management as called for by the CFO Act of 1990, Federal Financial Management Improvement Act of 1996 (FFMIA), and other financial management reform laws.³
- In June 2010, the Office of Management and Budget (OMB) announced an initiative to review federal agency financial system modernization projects at the 24 CFO Act agencies as part of its overall strategy to reform how the federal government purchases and uses information technology (IT)—cutting waste and saving money. OMB provided guidance on this initiative in Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects* (June 2010 memorandum) and provided instructions for agencies to submit revised financial system modernization project plans for review.

³The CFO Act calls for the improvement of financial management systems in departments and major agencies throughout the federal government to achieve the systematic measurement of performance; the development of cost information; and the integration of program, budget, and financial information for management reporting. FFMIA builds on the foundation laid by the CFO Act by requiring CFO Act agencies to have financial management systems that can generate reliable, useful, and timely information with which to make fully informed decisions and to ensure accountability on an ongoing basis.

As discussed with the staff, our objectives were to describe:

- (1) the approach OMB followed to develop and implement the June 2010 memorandum;
- (2) the changes agencies reported making to their financial system project plans as a result of the June 2010 memorandum; and
- (3) OMB's future plans for oversight of financial system modernization projects.

(See enclosure II for details on our scope and methodology.)

- OMB plays a central role in setting federal financial management policy and for reviewing and evaluating IT expenditures, including financial systems, across the federal government. OMB uses the IT spending information submitted by agencies during the budget formulation process to review requests for agency financial system modernization projects and other IT spending.
- The CFO Act established OMB's Office of Federal Financial Management, which has responsibility to provide overall direction and leadership to the executive branch on financial management matters by establishing policies and requirements and by monitoring the establishment and operation of federal government financial management systems.
- Over the years, OMB has provided oversight, issued guidance, and started several initiatives with the goal of improving federal agency investments in financial system modernization efforts.
 - For example, prior to the June 2010 memorandum, OMB initiated the financial management line of business initiative in March 2004, in part, to reduce the cost and improve the quality and performance of federal financial management systems by leveraging shared service solutions and implementing other reforms.

- In September 2010, we noted that key issues associated with OMB’s approach for financial system modernizations announced in the June 2010 memorandum needed to be addressed, such as clearly defining the criteria to be used to evaluate agency financial system modernization projects.⁴ According to OMB staff, these key issues will be addressed in the revised Circular A-127.⁵

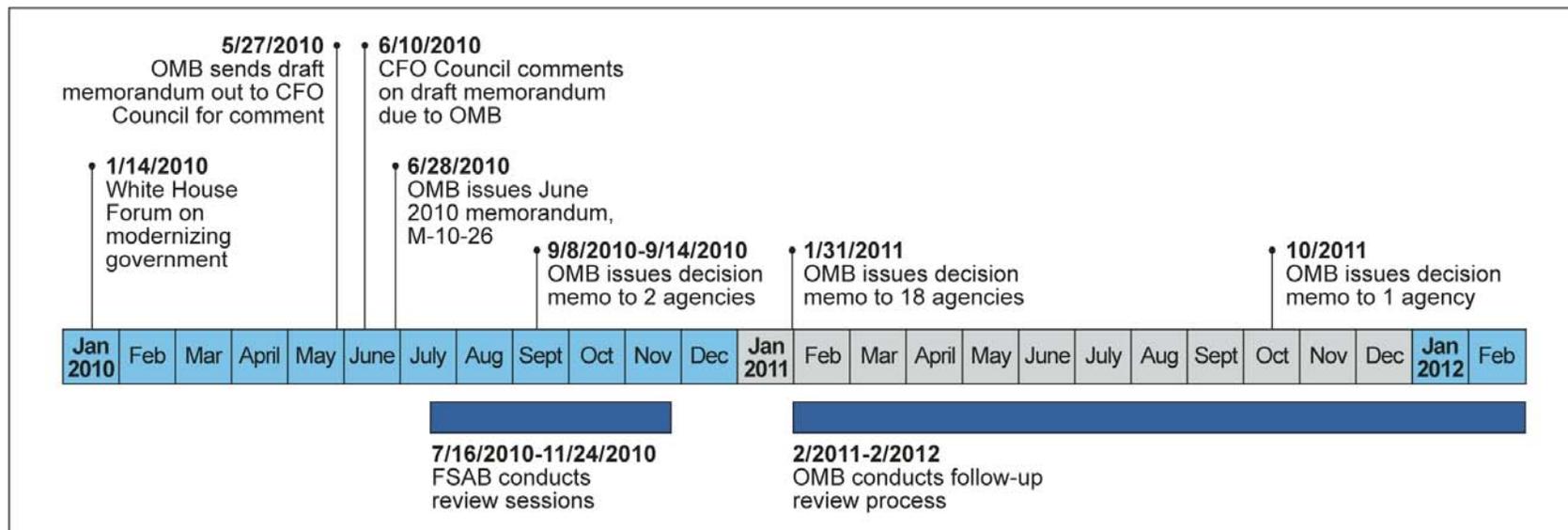
⁴GAO, *Financial Management Systems: Experience with Prior Migration and Modernization Efforts Provides Lessons Learned for New Approach*, [GAO-10-808](#) (Washington, D.C.: Sept. 8, 2010).

⁵OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow concerning their financial management systems. See OMB Circular A-127, *Financial Management Systems* (Washington, D.C.: Jan. 9, 2009).

OMB’s approach to develop and implement the June 2010 memorandum

Figure 1 shows the timeline of key events that occurred in the development and implementation of the June 2010 memorandum.

Figure 1: Timeline of Key Events Related to June 2010 Memorandum



Source: OMB staff and GAO analysis of OMB decision memos and agency survey responses.

- A forum was held by the President on January 14, 2010, to discuss, among other topics, IT best practices. The White House forum included 50 Chief Executive Officers from a broad range of private industries.

OMB's approach to develop and implement the June 2010 memorandum (continued)

- After the forum, OMB staff developed a series of IT reform initiatives, including a draft memorandum for the immediate review of financial systems IT projects. On May 27, 2010, OMB released the draft memorandum to the CFO Council for comment.⁶
- On June 28, 2010, OMB issued its final Memorandum M-10-26, which set forth guiding principles for the acquisition and project management of financial systems. The primary goals stated in the memorandum were to reduce costs, shorten time frames, and reduce risks associated with agency financial system projects. OMB's June 2010 memorandum required CFO Act agencies to
 - halt the issuance of new task orders or new procurements for all financial system projects with \$20 million or more in planned spending on development or modernization expenses, pending an immediate review and approval from OMB; and
 - within 60 days provide OMB with revised project plans to be evaluated against the three guiding principles outlined in the memorandum.

⁶The CFO Council is an organization comprised of the CFOs of the 24 CFO Act agencies, senior officials in OMB, and the Department of the Treasury who work collaboratively to improve financial management in the U.S. government.

June 2010 Memorandum - Three Guiding Principles

1. Agencies are to split financial system modernization projects into smaller, simpler segments with clear deliverables (i.e., project segmentation). The memo states that project segments should generally take no longer than 90-120 days to achieve specific project milestones. Furthermore, the overall length of a development project—which includes the planning, development, and implementation phases of the project—should not exceed 24 months.
2. Agencies are to focus on the most critical business needs first. According to the memo, agencies should prioritize the most critical financial functions first and consider functions of lesser importance for subsequent delivery.⁷
3. Agencies are to provide ongoing, transparent project oversight, which includes identifying and monitoring milestones, warning flags, and stop points over the course of the segment life-cycle.

⁷The June 2010 memorandum does not specifically identify financial functions or those that are the most critical. However, the major functions supported by a core financial system are defined by the Office of Federal Financial Management's *Core Financial System Requirements* as: System Management, General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management, Cost Management, and Fund Balance with Treasury Management.

OMB established FSAB to perform project reviews

In addition to the issuance of the June 2010 memorandum, OMB created the Financial Systems Advisory Board (FSAB) to make recommendations to OMB, as requested, on the projects being reviewed under the June 2010 memorandum. To select the six-member board, OMB staff told us that they focused on three criteria.

- Diversity of members' perspectives: To provide a balanced perspective for reviews, OMB selected three CFOs and three Chief Information Officers. Since modernization projects involve multiple levels of agency staff, OMB selected officials who held departmentwide positions and others who held positions in specific bureaus within an agency to further diversify FSAB.
- Significant, relevant experience: OMB sought to select officials with significant and relevant experience with financial system modernization projects to help ensure that FSAB members understood the processes and challenges involved with these projects.
- Availability to participate in reviews: Given the time commitment necessary to conduct the reviews, OMB also took into account the availability of potential members to serve both as FSAB members in addition to performing their regular duties.

OMB established FSAB to perform project reviews (continued)

FSAB coordinated with OMB and created a charter defining the purpose, scope, and responsibilities of the board.

- FSAB members defined the methodology for reviewing agencies' financial systems modernization projects based on the three guiding principles provided in the June 2010 memorandum.
- The FSAB charter outlines the board's responsibility to provide OMB with recommendations, advice, and support. It also states that the board is not chartered to (1) provide oversight of, or decisions to, the agencies or (2) make final decisions on behalf of, or binding on, the agencies or OMB.
- According to the charter, subsequent to initial project reviews and approval of revised plans, OMB will convene the board, as it deems necessary, on a quarterly basis through the end of fiscal year 2012.

OMB announced projects to be reviewed

- On July 8, 2010, OMB announced a draft list of 20 agency projects for review at 18 of the 24 CFO Act agencies. Based on further discussions and selections made by the agencies, OMB or FSAB reviewed 31 projects at all 24 CFO Act agencies, including 10 projects that were fully deployed.
- The key characteristics of projects reviewed varied significantly. For example, projects were described by agency officials at various life-cycle stages of development:
 - Planning or pre-deployment (planning, solicitation, pre-deployment): 13 projects
 - Initial deployment or phased deployment (being deployed): 6 projects
 - Fully deployed (operations and maintenance): 10 projects
 - Other—mixed cycle (multiple phases of development): 2 projects
- In October 2011, OMB staff informed us that the Department of Defense (DOD) project reviews were ongoing and that OMB utilized a process separate from the FSAB reviews to evaluate DOD's compliance with the June 2010 memorandum.

FSAB conducted project reviews from July 2010 through November 2010

Based on our interviews with FSAB members:

- FSAB relied on project plans submitted by agencies (excluding DOD) in accordance with the template provided in OMB's June 2010 memorandum.
- Some agencies provided additional information for the review such as architectural diagrams, project management plans, risk management plans, and implementation plans. OMB provided auditor reports to FSAB for some agencies to supplement this information.
- After reviewing the information provided, FSAB determined the need to meet with selected agencies. In those meetings, agencies presented their project plans and addressed any questions from the board.
- Board members did not participate in FSAB discussions of their own agency, but some participated in the presentation of their agency's project.
- FSAB prepared memorandums summarizing its findings and recommendations on each agency project reviewed and provided these to the affected agencies and OMB for a fact check before submitting its written assessments to OMB.

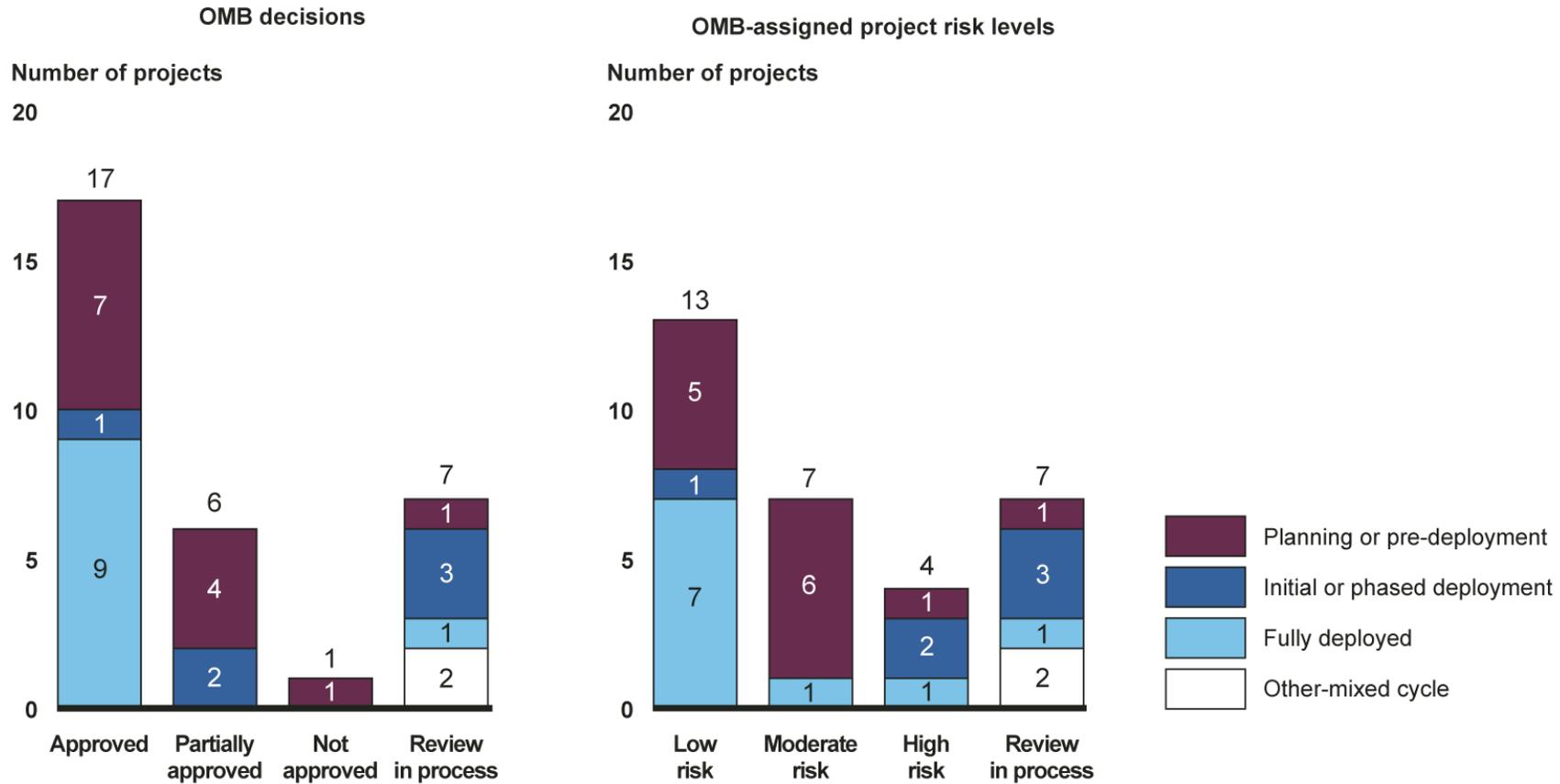
OMB staff reviewed the FSAB recommendations and issued decision memorandums to agencies

- OMB reviewed FSAB recommendations and issued decision memos to 21 agencies, including 2 agencies in September 2010, 18 agencies in January 2011, and 1 agency in October 2011.⁸ As of October 2011, OMB's review of 3 agencies, covering 7 projects, was still in process with the final decision memos pending.
- In the final decision memos, OMB reported its decision for each project and made recommendations to agencies (if applicable). OMB also assigned each project a risk level, which determines the frequency of OMB follow-up reviews.
- Figure 2 summarizes OMB's decisions and assigned risk levels by project life-cycle phase for 24 projects at 21 agencies.

(See enclosure III for a detailed list of projects reviewed with the phase of development; project budget; OMB-designated risk level; and decision, if issued.)

⁸For one of these agency projects, we were unable to obtain the issued decision memo from the agency or OMB.

Figure 2: OMB Decisions and Assigned Risk Levels of Projects



Source: OMB staff and GAO analysis of OMB decision memos and agency survey responses.

Note: For projects identified as “partially approved,” OMB only approved certain parts of the agency’s project to proceed at the time.

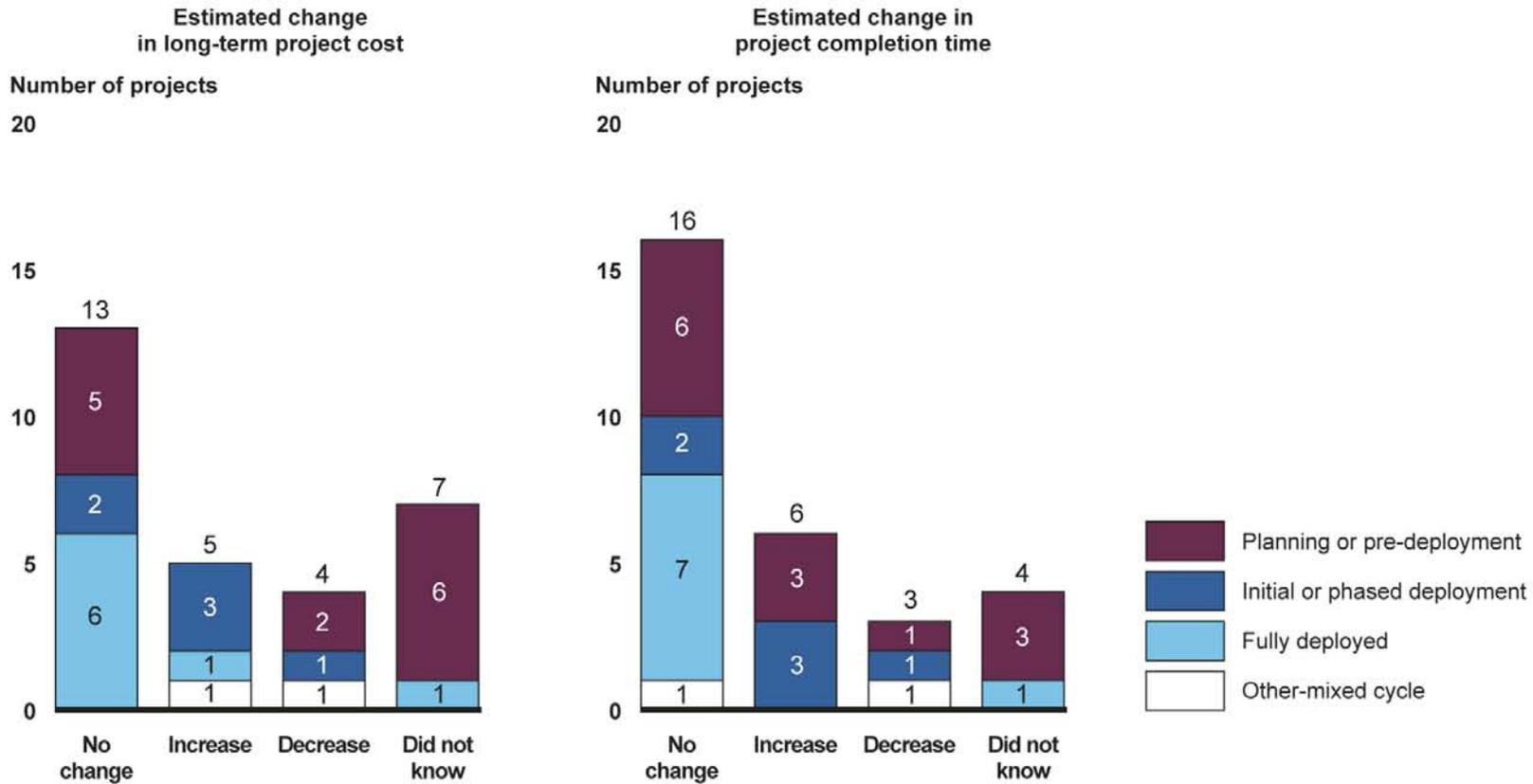
OMB staff reviewed the FSAB recommendations and issued decision memorandums to agencies (continued)

- As indicated in figure 2, OMB generally approved projects that were fully deployed and designated them as low risk.
- In November 2010, OMB reported on the results of projects initially reviewed, including an overall budget savings of \$1.6 billion as a result of changes to agency project plans made in response to OMB's June 2010 memorandum. This amount included projects that agencies postponed, canceled, or revised in scope.
- According to the June 2010 memorandum, beginning in fiscal year 2011, funding for financial system investments will be apportioned on a quarterly basis, as appropriate. Throughout the fiscal year, OMB will assess whether an investment should receive funding for the next segment. If approval is not granted, OMB will work with the affected agency to redirect funding pursuant to existing reprogramming requirements. According to the June 2010 memorandum, OMB may employ flexibility regarding funds control for projects that OMB has not designated as high-risk or that have a proven track record of achieving specific milestones within well-defined segments.

Reported Impact on Agencies

In response to our survey, most agencies reported no change or that they did not know how the long-term project cost or completion time would change as a result of the actions, decisions, and recommendations related to the June 2010 memorandum and oversight process. However, several agencies reported that they narrowed the scope of their current project plans to focus on implementing more critical business needs first as a result of the June 2010 memorandum. They noted that this rescoping had the effect of delaying their efforts to improve accounting and reporting functions. Agencies also reported other challenges related to their financial system projects, including standardization of internal processes or data and funding delays.

Figure 3: Agency Reported Estimated Change to Long-Term Project Cost and Schedule



Source: GAO analysis of agency survey responses.

Reported impact on agencies' project costs and schedules

- As indicated in figure 3, almost all projects that were fully deployed reported no estimated change in the total project cost or completion time. One agency with a fully deployed system indicated that costs may increase over the long term without clear guidance on federal financial system requirements.
- For projects that OMB did not approve in their entirety or for which OMB directed a change in scope, agencies reported that some of those costs are deferred to future efforts.
 - One agency noted that the project revision directed by OMB removed functional components, such as payroll accounting and payment systems, from its current core implementation and deferred them and their associated costs to future implementations.
 - One agency noted that although OMB did not approve certain portions of its projects or system components, such as standardization of financial capabilities and system upgrades, it is planning to revisit the decision with OMB. The cost of those efforts is also being delayed.

Reported impact on agencies' efforts to improve accounting and reporting functions

Several agencies noted that they narrowed the scope of their current project plans to focus on implementing more critical business needs first. They noted that this had the effect of delaying their efforts to achieve improved accounting and reporting functions. For example, according to agencies' survey responses:

- For one agency, which is also a shared service provider to other agencies, OMB did not approve its project to upgrade its accounting software to the current version. The agency stated that this action adversely affected its ability to maintain system security, maintain vendor support for aging software, upgrade existing software, and implement new technology—all factors that will also affect its customers.
- OMB postponed another agency's modernization efforts for three of its components. The agency stated that this action increases the cost of achieving unified modernization across the agency and requires additional investments to maintain existing legacy systems for a longer period of time.
- OMB postponed an agency's projects to standardize and expand core financial capabilities and upgrade core financial systems. The agency reported this action will delay the agency's ability to provide efficiencies and improve functionality.

Reported impact on agencies' efforts to improve accounting and reporting functions (continued)

- Another agency restructured its project to focus on the core financial system component as its highest priority business need. The agency commented that while postponing the remaining five components of the original project reduced project risk, it also delayed deploying functionality, such as account code structure integration.
- One agency deferred functionality for electronic records management and budget formulation to reduce risk and cost to the project. The agency also deferred implementation, which the agency reported will result in maintaining legacy systems for another year and increase project costs.
- Another agency's integration of component segments was postponed as a result of OMB's decision. The agency stated that this action has a strong negative impact on its ability to resolve audit findings and puts at risk any progress towards completing the project vision of an integrated financial system by at least an additional 2 years.

(See enclosure IV for survey results on the impact of implementing the June 2010 memorandum.)

Agencies reported other observations and challenges related to financial system projects

- Agencies whose projects were partially approved or not approved plan to continue to request OMB's approval or look for opportunities in the future for desired functionality.
- Of the remaining challenges reported by agencies, the most prevalent related to the following:
 - 12 of 22 agencies reported that standardization of internal processes or data is a major or moderate challenge. For example, one agency noted that it faces the challenge of simultaneously accommodating the need for management flexibility at the mission or office level and the need to collect standardized data for ease of aggregation, comparison, and reporting.
 - 9 of 22 agencies reported that funding delays are a major or moderate challenge. For example, one agency reported that ongoing delays and uncertainties make planning difficult, as the program manager is unable to initiate new projects, such as system upgrades or new enhancements, until funding status is certain.

Agencies reported other observations and challenges related to financial system projects (continued)

- 9 of 22 agencies reported that funding priorities are a major or moderate challenge. For example, one agency commented that trying to consider competing priorities is a major challenge because of the inflexibility, and uncertainty, of changing government mandates. Specifically, the program manager is currently determining how to accommodate budget cuts and reduce a long list of priority initiatives down to a small number of high-priority projects that could be completed within budget in fiscal year 2012.

(See enclosure V for survey results on challenges of implementing OMB guidance.)

Agencies' feedback

In their responses to a question included in our survey, many agencies offered feedback about the process. The following are the relevant suggestions that could be considered in future review efforts that the agencies provided in their written responses:

- The review process could be tied to steps in either the agency's systems development life-cycle or enterprise performance life-cycle methodology instead of 90-day segments. The agency's steering committee and OMB would review the project status prior to moving to the next stage. This solution supports the unique aspects of individual financial system implementation projects.
- Also, consider tailoring the review process to the project's life-cycle phase because fully deployed projects may not need the same level of scrutiny as projects in planning or early implementation phases.
- A workgroup concept could be used as an oversight body. This workgroup would spend a dedicated amount of time, potentially on-site, discussing the plans and status of projects.

Agencies' feedback (continued)

- Consider implementing an ongoing cross-organizational collaboration with customer control boards, sharing of agency best practices, and benchmarking experiences of agencies in terms of use, satisfaction, functionality, and business change.
- Possibly develop tools or mechanisms that might aid agencies in efforts to cost effectively enforce questionable vendor self-certification claims of meeting federal financial system requirements.
- Streamline governmentwide utilities, such as agency interfaces or maintenance of a specific interface, to help reduce agency costs to operate financial systems.
- Provide standard tools and templates for managing financial management system implementations to help in agencies' financial system projects.

OMB plans risk-based follow-up reviews

- The June 2010 memorandum states that, subsequent to initial project reviews, OMB will perform ongoing assessments to determine whether or not an investment should continue to receive funding for the next segment. The memorandum also stated that the purpose of these ongoing assessments is to inform the appropriations process going forward.
- According to OMB staff, OMB plans to review high-risk projects monthly, moderate-risk quarterly, low risk annually and has already started that review process.⁹ As of October 2011, OMB staff reported that follow-up reviews have occurred as follows:
 - For the five projects at five agencies OMB designated as high risk, OMB has held 14 meetings since February 2011.
 - For the seven projects at five agencies OMB designated as moderate risk, OMB has held 10 meetings since March 2011.

⁹According to the June 2010 memorandum, projects identified as high risk by OMB should require more frequent assessment to include review of task orders or activities. Review of projects nearing completion may be abbreviated and will include consideration of the costs and benefits of implementing the policy (i.e., the three guiding principles) within the project.

OMB plans to issue a revised Circular A-127

- OMB staff stated a revised Circular A-127 would provide additional guidance on the issues noted in the June 2010 memorandum.
- OMB issued a draft of the revised Circular A-127 in October 2010. However, as of October 2011, OMB did not provide an estimated date of when a final version of its revised Circular A-127 would be issued.

Enclosure II: Scope and Methodology

To determine the Office of Management and Budget (OMB) approach to develop and implement OMB Memorandum M-10-26,¹ we conducted interviews with OMB staff, including the Deputy Controller of the Office of Federal Financial Management to discuss the process OMB followed to develop the memorandum to review agencies' financial system modernization projects to ensure consistency with the memorandum. We obtained and reviewed the Financial Systems Advisory Board (FSAB) charter to identify its purpose, scope, and responsibilities. In addition, we met with all six of the FSAB members to discuss their roles, the process used in reviewing agencies' financial system projects, and the assessments and recommendations made to OMB, and to obtain the members' perspectives on the oversight process. Further, we also obtained and reviewed the decision memos OMB issued to agencies.²

To identify the changes agencies made to financial system projects as a result of the June 2010 memorandum, we conducted a survey of the 24 Chief Financial Officer (CFO) Act agencies. We asked each agency to identify the financial system projects that underwent review by OMB or FSAB as part of OMB's oversight and review process. We obtained and reviewed agencies' revised project plans submitted to OMB for review. Through the use of an e-mailed, self-administered questionnaire, we collected descriptive information on the financial system projects selected for review as well as agency perspectives on the process for reviewing financial system projects. We also collected descriptive information on agencies' efforts to implement the June 2010 memorandum; the impact of the memo on project costs, schedule, and agency efforts to improve accounting and reporting functions; and agencies' suggestions for improving OMB's oversight and review process for financial system projects. We designed and tested the questionnaire in consultation with GAO survey research methodologists, subject matter experts at GAO, and selected agency officials. Data collection took place from June 2011 to September 2011. Of the 24 CFO Act agencies surveyed, all agencies responded to the survey request, and 22 agencies completed questionnaires on 29 projects that had been reviewed by OMB or FSAB. However, two agencies, with one project each, did not complete the

¹OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects* (Washington, D.C., June 28, 2010).

²As of October 2011, OMB had issued decision memos to 21 of 24 CFO Act agencies, but we were unable to obtain the issued decision memo for one of these agencies from the agency or OMB. The reviews of projects at the remaining 3 agencies were still in process.

survey because they said their financial systems were fully deployed and therefore not subject to OMB's review. See enclosure III for a listing of the 31 projects reviewed by OMB or FSAB.

The practical difficulties of conducting any survey may introduce other errors into our findings. In addition to questionnaire design activities discussed above, to minimize errors of measurement, question-specific nonresponses, and data processing errors, GAO analysts (1) pretested a draft questionnaire with officials from two agencies prior to conducting the survey, (2) contacted respondents to follow up on answers that were missing or required clarification, and (3) answered questions from respondents to resolve any difficulties they had in responding to the survey.

To address the objective concerning OMB's future plans for financial system modernization projects, we conducted interviews with OMB staff to discuss their plans for oversight of agencies' financial system modernization projects. During the meetings, we discussed OMB's plans to issue a revised Circular A-127 to serve as guidance on the issues noted in the June 2010 memorandum.

We requested comments on a draft of the briefing slides and related enclosures from the Director of OMB or his designee. Staff from OMB's Office of Federal Financial Management provided oral comments, including technical comments, which we incorporated as appropriate.

We conducted our work from January 2011 through February 2012 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

Enclosure III: Financial System Projects Reviewed by OMB/FSAB

Enclosure III summarizes the results of responses from CFO Act agencies related to their 31 financial system projects, including the reported deployment phase of projects, estimated project costs, OMB decisions after reviewing projects, and the assigned risk level of projects. The reported life-cycle phases of agencies' financial system projects are categorized as follows:

- *Planning and pre-deployment*—Agency project is in the planning, solicitation, or pre-deployment phase.
- *Initial or phased deployment*—Agency project is in process of being deployed, including initial deployment, subsequent and phased deployments, or in final deployment.
- *Fully deployed*—Agency project is in operations and maintenance and fully deployed.
- *Other—mixed cycle*—Agency has multiple sub-projects or components that are in different phases of development. For example, projects can be in planning, solicitation, pre-deployment and fully deployed life-cycle phases.

Figure 4: Financial System Projects Reviewed

Project number	Agency-reported project lifecycle phase	Agency-reported estimated development and modernization costs, FY 2010 and forward = \$100 million	OMB decision memo outcome		OMB-assigned risk level	
			Approved Partially approved Not approved		High Moderate Low	
1	Fully deployed	\$11.9 million	Approved		Low risk	
2	Initial/phased deployment	\$85.1 million	Approved		Low risk	
3	Fully deployed	\$0.0 million	Approved		Low risk	
4	Initial/phased deployment	Not provided	Review in progress		Review in progress	
5	Initial/phased deployment	Not provided	Review in progress		Review in progress	
6	Fully deployed	Not provided	Review in progress		Review in progress	
7	Fully deployed	\$23.8 million	Approved		Low risk	
8	Fully deployed	Not provided	Approved		Low risk	
9	Planning/pre-deployment	\$16.0 million	Approved		Moderate risk	
10	Planning/pre-deployment	\$30.0 million	Partially approved		Moderate risk	
11	Planning/pre-deployment	\$74.5 million	Not approved		Moderate risk	
12	Planning/pre-deployment	\$87.4 million	Partially approved		High risk	
13	Planning/pre-deployment	\$91.0 million	Partially approved		Moderate risk	
14	Initial/phased deployment	\$380.1 million	Partially approved		High risk	
15	Initial/phased deployment	Not provided	Partially approved		High risk	
16	Fully deployed	\$0.0 million	Approved		High risk	

Source: OMB staff and GAO analysis of OMB decision memos and agency survey responses.

Project number	Agency-reported project lifecycle phase	Agency-reported estimated development and modernization costs, FY 2010 and forward = \$100 million	OMB decision memo outcome		OMB-assigned risk level	
			Approved 	Partially approved 	Not approved 	High
17	Fully deployed	\$50.2 million 	Approved 			Low risk
18	Planning/pre-deployment	Not provided	Partially approved 			Moderate risk
19	Planning/pre-deployment	\$8.5 million 	Review in progress			Review in progress
20	Other-Mixed cycle	\$30.5 million 	Review in progress			Review in progress
21	Other-Mixed cycle	\$56.6 million 	Review in progress			Review in progress
22	Fully deployed	\$0.0 million	Approved 			Moderate risk
23	Planning/pre-deployment	\$51.9 million 	Approved 			Moderate risk
24	Planning/pre-deployment	\$41.4 million 	Approved 			Low risk
25	Fully deployed	Not provided	Approved 			Low risk
26	Planning/pre-deployment	\$19.5 million 	Approved 			Low risk
27	Planning/pre-deployment	\$33.3 million 	Approved 			Low risk
28	Planning/pre-deployment	\$17.6 million 	Approved 			Low risk
29	Initial/phased deployment	\$36.2 million 	Review in progress			Review in progress
30	Planning/pre-deployment	Not provided	Approved 			Low risk
31	Fully deployed	\$0.0 million	Approved 			Low risk

Source: OMB staff and GAO analysis of OMB decision memos and agency survey responses.

Enclosure IV: Reported Impact of Implementing OMB Guidance

Enclosure IV summarizes agencies' responses to the survey question regarding the impact of the June 2010 memorandum and OMB's oversight and review process on their financial system projects. As indicated below, most agencies reported neither a negative or positive impact on their efforts to perform a variety of activities for their projects.

Figure 5: Survey Results on Impact

What kind of an impact has M-10-26 and the OMB/FSAB review and oversight process had on your agency's overall ability to do each of the following?					
Item	Very positive	Somewhat positive	Neither negative or positive	Somewhat negative	Very negative
Comply with Clinger-Cohen	1	2	19	0	0
Comply with Federal Financial Management Improvement Act (FFMIA)	0	5	16	1	0
Address prior audit findings and recommendations	0	4	15	1	2
Maintain system security	0	1	19	1	1
Reduce project risk	2	7	9	3	1
Focus on critical business needs	2	8	10	2	0
Segment projects	1	10	8	2	1
Provide project oversight	1	5	15	1	0
Improve system functionality	1	3	16	1	1
Maintain vendor support for aging software	0	1	16	2	3
Upgrade existing software	0	3	16	1	2
Share additional project information with OMB	5	7	9	1	0
Share experiences and best practices with other agencies through FSAB	3	9	10	0	0
Consult with a broad range of industry experts	0	4	18	0	0
Participate in working groups such as Customer Control Boards	7	4	11	0	0
Achieve agency's stated goals for improving accountability	1	2	17	1	1
Implement new technology	0	5	13	1	3
Implement enterprise resource planning initiatives	0	4	17	1	0
Increase likelihood of project success	1	5	15	1	0

Source: GAO analysis of agency survey responses.

Enclosure V: Reported Challenges of Implementing OMB Guidance

Enclosure V summarizes agencies' responses to the survey question regarding challenges related to financial system projects after issuance of the June 2010 memorandum. As shown below, agencies reported that standardization of internal processes or data, funding delays, and funding priorities as the most prevalent major and moderate challenges.

Figure 6: Survey Results on Challenges

How much of a challenge, if any, has arisen in each of the following areas after issuance of M-10-26?					
Item	Major challenge	Moderate challenge	Minor challenge	Not a challenge	Area did not apply
Funding delays	■ ■ ■ ■ ■ 5	■ ■ ■ ■ 4	■ ■ ■ ■ ■ 5	■ ■ ■ ■ ■ ■ 6	■ ■ 2
Funding priorities	■ ■ ■ 3	■ ■ ■ ■ ■ 6	■ ■ ■ ■ ■ 5	■ ■ ■ ■ ■ ■ 6	■ ■ 2
Changes in management (e.g. top management, project management office, etc.)	0	■ ■ ■ ■ 4	■ ■ ■ ■ ■ ■ ■ 8	■ ■ ■ ■ ■ ■ ■ 7	■ ■ ■ 3
Project planning	0	■ ■ ■ ■ ■ ■ ■ 8	■ ■ ■ ■ ■ ■ ■ 8	■ ■ ■ ■ 4	■ ■ 2
Requirements management	0	■ ■ ■ ■ ■ ■ 6	■ ■ ■ ■ ■ ■ ■ ■ 9	■ ■ ■ ■ ■ 5	■ ■ 2
Availability of software solutions	0	■ ■ ■ 3	■ ■ ■ ■ 4	■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ 13	■ ■ 2
Development of systems interfaces	■ 1	■ ■ ■ ■ ■ ■ ■ 8	■ ■ ■ ■ 4	■ ■ ■ ■ ■ ■ 6	■ ■ ■ 3
Standardization of internal processes or data	■ ■ ■ 3	■ ■ ■ ■ ■ ■ ■ ■ 9	■ ■ ■ ■ ■ 5	■ 1	■ ■ ■ ■ 4
Data conversion	■ ■ 2	■ ■ ■ ■ ■ ■ 6	■ ■ ■ ■ 4	■ ■ ■ ■ ■ ■ 5	■ ■ ■ ■ ■ 5
Risk management	0	■ ■ ■ ■ ■ ■ ■ 7	■ ■ ■ ■ ■ 5	■ ■ ■ ■ ■ ■ ■ ■ 8	■ ■ 2
Segmentation of milestones	0	■ ■ ■ 3	■ ■ ■ ■ ■ ■ ■ ■ ■ 10	■ ■ ■ ■ ■ ■ ■ 7	■ ■ 2
Project management activities	0	■ ■ ■ ■ ■ 5	■ ■ ■ ■ ■ ■ ■ 8	■ ■ ■ ■ ■ ■ ■ 6	■ ■ ■ 3
Contractor delivery of promised deliverables	■ 1	■ ■ ■ ■ 4	■ ■ ■ ■ ■ ■ ■ 8	■ ■ ■ ■ ■ ■ 6	■ ■ ■ 3

Source: GAO analysis of agency survey responses.

Enclosure VI: GAO Contacts and Staff Acknowledgments

GAO Contacts

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