Cutting IT costs by consolidating systems: the US "Lines of Business" project

Shortly after taking office in 2001, President George W Bush issued his "President's Management Agenda," which described a range of projects intended to make the US government more results-oriented, more market-focused, and more accessible to citizens.[1] President Bush described the Agenda as "a bold strategy for improving the management and performance of the Federal government". The Agenda included a broad initiative to improve the Federal government's value to the citizen by expanding the use of e-government; in particular, Bush proposed to spend $100 million[2] in fiscal years 2002 – 2004 on cross-agency e-government projects. On 17 December 2002, the President signed the *E-Government Act of 2002*. Among its many provisions, the Act authorised $13 million to fund a study and a report to specified congressional committees on progress toward integrating Federal information systems across agencies; and to designate a series of no more than five pilot projects that integrated data elements.[3] The Director of the US Office of Management and Budget (OMB) was required to oversee these activities.

By 2004 the OMB's new "e-gov" program had identified and analysed five "lines of business" to determine how information technology (IT) could be used to reduce costs, including IT costs, and to improve service. The cost reductions would be achieved in part by consolidating IT services into a few agencies that would function as service providers. The lines of business, the responsible agencies, and the goals were:

- Case Management (to be run by the Justice Department) – improve procedures for exchanging data with the FBI, the Bureau of Alcohol, Tobacco, Firearms, and Explosives, and other agencies

This case was written by Professor Michael Vitale, Monash University, Melbourne, Australia. It has been prepared as a basis for class discussion rather than to illustrate correct or incorrect handling of a managerial situation.

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[1] http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf visited 18 May 2009
[2] All financial figures in this case are stated in US dollars
[3] http://thomas.loc.gov/cgi-bin/query/z?c107:H.R.2458: visited 18 May 2009

- Grants Management (Health and Human Services Department and the National Science Foundation) – improve access to government grants and reporting
- Federal Health Architecture (Health and Human Services Department) – assure that government health IT systems can interoperate with private sector systems
- Human Resources Management (Office of Personnel Management) – reduce costs by using government-wide systems for basic HR functions
- Financial Management (General Services Administration) – reduce costs by sharing accounting systems across agencies.

The OMB estimated that $5 billion could be saved in 10 years by consolidating functions and systems in the human resources and financial management lines of business alone.[4]

The Lines of Business project

In March 2004, the OMB officially launched interagency task forces to perform government-wide analyses of the identified lines of business. The analyses quickly narrowed in on HR Management and Financial Management as the areas in which the most money could be saved most quickly, and identified the need for at least six service provider agencies in each area. Potential service providers had a number of concerns, including a lack of resources for delivery, and the fact that provider agencies took most of the risks, while customer agencies gained most of the benefits, including cost savings. Potential customer agencies, for their part, were concerned about the large investment in staffing and time needed to convert their systems so they could be managed by another agency. The OMB proposed establishing an innovation fund to provide loans to pay for the conversion projects, to be repaid from the savings gained.

Customer agencies were required to pay the service provider agencies out of their own budgets. If the customer agencies chose not to purchase the consolidated services, then funding for new initiatives of their own would be reduced.

The OMB's fiscal year 2005 report to Congress on the benefits of the President's e-government initiatives showed that about $1.9 million had been spent to date on planning for the Financial Management line of business, and about $3.4 million on HR Management.[5] The focus of this planning was primarily consolidation of applications and the IT infrastructure supporting the applications.

By early 2006, the US General Services Administration (GSA) and the Departments of the Interior, the Treasury, and Transportation had been named as shared-service providers of financial management services, and the Departments of Agriculture, the Interior, the Treasury, Defense, and Health and Human Services as shared-service providers of HR services. Some private sector organisations, particularly those that already provided services to individual agencies, criticised the OMB for allowing only government agencies to become shared-service providers for the two lines of business.

In November 2006, the OMB requested that agencies report the first set of data on cost savings and cost avoidance resulting from participation in a line of business project. The OMB said it wanted agencies to include in their cost analysis government and contractor

[4] Bosworth, Martin, "Lines of Business," *Government Executive*, 15 June 2008, pp 34 – 40
[5] http://www.whitehouse.gov/omb/inforeg/e-gov/e-gov_benefits_report_2006.pdf visited 19 May 2009 (Attachment B p 7 – 8)

data, including personnel, material and supply, and other costs such as facilities, maintenance, repair, travel and training. [6] Information provided in response to this request was included in the OMB's report to Congress. Early the following year, the Senate Appropriations Committee, in hearings on a 2007 Appropriations Act, found the e-government programs "vague" and the assertions of cost-savings through consolidation "speculative," and stated, "The committee has no confidence that the amounts being assessed have any relationship to the benefits anticipated to be returned."[7] The Senate was thought not to like the idea of one agency paying another for services, nor OMB's threat to cut funding for agencies that didn't comply with its edict to use consolidated services. These actions were perceived to be a threat to the Senate's appropriations authority. The Appropriations Act finally passed by Congress turned down the OMB's proposed innovation fund and insisted on an annual e-government report containing a cost-benefit analysis, information about the business metrics used to measure successful execution, and a projection of all savings to be achieved through the use of e-government.

The Transition

President Bush requested no new funding for the lines of business initiatives in his budget for fiscal year 2008, and the emphasis of the program shifted to standardisation rather than consolidation. The fiscal year 2009 Federal IT budget, which proposed overall spending of nearly $71 billion, noted that 20 agencies planned to shut down their financial management systems and move to a shared service provider, and 19 agencies had the same sort of plan for their human resources system.

In February 2009, President Barack Obama appointed Vivek Kundra as administrator for e-government and information technology in the Office of Management and Budget – essentially as the Federal government's Chief Information Officer. Kundra had been the Chief Technology Officer for the District of Columbia and had also been active in the Obama transition, advising its technology innovation and government reform team.[8] The newly reconstructed White House web site included a report on e-government benefits for fiscal year 2009; the lines of business sections included written descriptions of activities and goals, but no financial details.[9] Much speculation centred on whether the new President, who had promised during his campaign to improve the efficiency of government, would re-introduce his predecessor's approach to cutting IT costs.

<u>Discussion Questions</u>

1. Something similar to the lines of business program would very likely be implemented in the corporate world following a merger or acquisition. Was it appropriate for the US Federal government? Why or why not?

2. Was the lines of business program the right place to start with respect to reducing IT costs?

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[6] http://gcn.com/Articles/2006/08/18/The-test-of-egov-efficiency-and-effectiveness.aspx?Page=2 visited 20 May 2009
[7] http://government.zdnet.com/?p=2450 visited 19 May 2009
[8] http://www.ibia.org/newsevents/email_ibia.php?id=223#2232 visited 20 May 2009
[9] http://www.whitehouse.gov/omb/egov/documents/FY09_Benefits_Report.pdf visited 19 May 2009

3. Should President Obama re-introduce the innovation fund proposed by the OMB? What else, if anything, might he do to increase the momentum of the lines of business program?