



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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MEMORANDUM FOR CHIEF INFORMATION OFFICERS

FROM: Karen S. Evans 
Administrator, E-Government and Information Technology

SUBJECT: Cost Savings Achieved Through E-Government and Line of Business Initiatives

Key goals of the E-Government (E-Gov) and Line of Business (LoB) initiatives are to improve services to citizens, to increase the efficiency and effectiveness of the government, and to provide savings to the taxpayer. With the E-Gov initiatives deployed and operational, and the LoB initiatives underway, we are currently realizing the goals of improved citizen services and increased efficiency and effectiveness. We must now concentrate on identifying and realizing the cost savings these initiatives are providing on a government-wide basis.

As stated in the FY07 Budget, “Upon migration to common, Government-wide solutions, agencies will shut down redundant systems which will not only save money but also free-up resources for agencies to better focus on achieving their missions.”¹ Therefore, in cases where agencies migrate to a common solution provided by an E-Gov or LoB initiative, we expect to realize cost savings or cost avoidance through retirement or replacement of legacy systems and/or decreased operational costs.

As further detailed below, for those agencies not yet fully migrated to these common solutions, we are requesting a baseline be developed in order to measure cost savings following migration, on an on-going basis. This effort builds upon several initiatives already underway, including the E-Gov/LoB Implementation Plans and the focus on Earned Value Management (EVM) and improved project planning (see OMB Memorandum M-05-23 of August 4, 2005, “Improving Information Technology (IT) Project Planning and Execution”). Through the Implementation Plans, agencies are tracking investments to be modified, replaced, or retired due to agency use of an E-Gov/LoB initiative. Through the use of EVM, agencies can accurately measure progress toward cost, schedule, and performance goals.

Requested Agency Actions

To measure cost savings, we are requesting agencies take the following actions:

- 1) **Identify Impacted Investments** – Leveraging the work performed in support of the E-Gov/LoB Implementation Plans, agencies are to identify IT investments being (or planned to be) modified, replaced, or retired due to agency use of an E-Gov or LoB initiative. Examples include legacy payroll systems being retired due to migration to the E-Payroll initiative and legacy travel systems being replaced due to migration to an E-Travel service provider. Agencies should also consult their E-Gov/LoB Implementation Plans, Exhibit 53s, and Exhibit 300s to identify investments.

¹ FY2007 Budget, Analytical Perspectives Volume, p. 152.

- 2) Develop Baseline Cost Estimates – By September 30, 2006,** agencies are to develop a comprehensive baseline cost estimate for each investment identified. Use the guidelines in the IT Investment Cost Measurement Framework (Attachment A) to develop baseline cost estimates. Baseline cost estimates should include only current and planned/future costs associated with the identified investments – exclude costs associated with the use of the related E-Gov/LoB initiatives (e.g., migration costs, service fees). Submit the cost estimate to OMB using the Baseline Cost Reporting template (Attachment B).
- a. The IT Investment Cost Measurement Framework is intended to help agencies identify the full cost of performance to the government of an agency project or investment, including sufficient detail on the basis of the costs, and was developed based on the guidance and cost principles in Attachment C of OMB Circular A-76.²
 - b. Agencies should complete a separate template for each investment identified. Based on our experience with pilot projects, we anticipate it will take approximately 45 days to develop baseline costs using the framework.
- 3) Measure Costs –** Once baseline cost estimates for the identified investments are developed, agencies should begin measuring actual costs of those investments on an ongoing basis. We expect agencies to begin all cost measurement activities no later than September 30, 2006. Per OMB Memorandum M-05-23, agencies should already be managing and measuring projects to within ten percent of baseline goals through use of an EVM System compliant with the guidelines in ANSI/EIA STD-748 or, for steady-state projects, performing operational analyses.

We appreciate your attention in this important effort to demonstrate and realize the results of using E-Gov/LOB initiatives. Given the important nature of this effort, we are available to meet with agencies to discuss the approach and to address any questions or concerns. We will contact agencies prior to September 30, 2006 to review agency progress. In addition, we anticipate requesting information regarding actual cost savings and cost avoidance in November 2006 for use in OMB's Report to Congress on the Benefits of the President's E-Government Initiatives (the 2006 report is available at: http://www.whitehouse.gov/omb/inforeg/e-gov/e-gov_benefits_report_2006.pdf). Going forward, we envision requesting updates on a semi-annual basis.

Please provide your completed Baseline Cost Reporting templates to Stacie Boyd (sboyd@omb.eop.gov / 202.395.0346) no later than September 30, 2006. In the interim, please contact Stacie Boyd regarding any additional questions or concerns.

Attachments

² OMB Circular A-76 establishes federal policy for the competition of commercial activities. For the purpose of this effort, we are asking agencies to use the costing methodologies provided in OMB Circular A-76 to identify the total cost of projects, including both government and contractor costs. Agencies may refer to OMB Circular A-76 as a source of additional information for evaluating the cost of government performance. Furthermore, we worked with the Departments of Housing and Urban Development and Agriculture and the Environmental Protection Agency to conduct pilots using this framework to capture baseline costs of selected IT investments. The framework has been updated based upon feedback received from those agencies.

ATTACHMENT A - IT INVESTMENT COST MEASUREMENT FRAMEWORK

AUGUST 2006

OVERVIEW

The Information Technology (IT) Investment Cost Measurement Framework (referred to throughout as “the framework”) has been developed to assist agencies determine baseline costs of agency IT projects and investments and to subsequently measure actual costs and performance. The framework provides guidance for agencies to use in identifying the total cost of projects, including both government and contractor costs, and is based on costing methodologies provided in Attachment C of OMB Circular A-76.³ Agencies may refer to Circular A-76 as a source of additional information for evaluating the cost of government performance; however, strict adherence to the methodologies and guidelines in Circular A-76 is not required.

An illustrative example of the *Baseline Cost Reporting* template to capture costs is provided in Section 6 of this framework. Please use the Excel spreadsheet in Attachment B to record costs for submission to OMB. Agencies are to complete a separate spreadsheet for each project or investment for which costs are to be captured. Backup data and justification for all costs provided should be made available as necessary.

1. SUMMARY OF COSTING ELEMENTS

Agencies must capture both government and contractor costs associated with the project. A summary of required costing elements is provided below. Details regarding each costing element are provided in Sections 3 and 4. Additionally, Section 5 provides standard estimating factors (e.g., fringe, overhead percentage, etc.) for use in determining costs. Please note that these factors are estimates; more accurate factors should be applied if available.

Costs must be captured in the following areas:

- **Personnel Costs** – Represents all direct and indirect labor associated with the project, to include both full-time and part-time resources.
- **Material and Supply Costs** – Includes all materials and supplies (e.g., hardware, software) required to execute the project. Agencies must capture costs for both existing assets (i.e., those currently on hand) and planned acquisitions.
- **Other Costs** – Includes costs associated with facilities, utilities, maintenance and repair, travel, training, and contract administration.

³ The guidance in this framework is not intended to replace policies and principles in Circular A-76 that have been established for the conduct of public-private competitions.

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2. COST OF WORK (GOVERNMENT-PERFORMED)

In determining the cost of government-performed work, please distinguish between work performed directly by the agency and work performed by another government organization on a “fee-for-service” basis (e.g., a shared service center). Within the Baseline Cost Reporting template, use the “(Government) Agency” column to indicate work performed directly by the agency and the “(Government) Service Fees” column to indicate work performed on a “fee-for-service” basis. Additionally, for work performed on a “fee-for-service” basis, please indicate the service provider, the associated agency, and the methodology and algorithm for determining the service fee (e.g., fee per employee, fee per transaction, etc.).

Costing elements are identical for both the “(Government) Agency” and “(Government) Service Fees” columns. Sections 3.1 – 3.3 provide details regarding individual costing elements. References to Circular A-76 are for informational purposes only.

2.1. Personnel Costs

Personnel costs are costs associated with all personnel fully or partially involved in the project and include the following categories:

- **Direct Labor** – Labor attributed specifically to a project
- **Indirect Labor** – Labor in support of but not directly attributable to a project

In determining labor costs, identify project staff and the associated wage/grade classifications and salary. Use actual resources assigned to the project, including both recurring and nonrecurring workload. As appropriate, account for labor rate escalation and inflation. (Based on Sections B.2.a, B.2.k, and B.2.l of Circular A-76, Attachment C)

Account for the following in developing direct and indirect labor costs:

- **Prorated Labor** – Personnel not 100% dedicated to the project are to be accounted for as part of total project labor costs. Prorate the cost of those personnel based on the amount of time they spend on the project. For calculation purposes, use either the actual hours or percentage of time spent on the project. (Based on Section B.2.b)
- **Fringe Benefits** – Fringe benefits include retirement, insurance and health, Medicare, and miscellaneous benefit cost factors. The actual costs of these benefit cost factors should not be calculated separately; rather, apply the standard fringe benefit rate of 32.85% to full and part-time labor positions’ basic pay. Fringe benefits are not applied to temporary and intermittent civilian positions. For positions not covered by Civil Servant Retirement System or Federal Employee Retirement System (typically intermittent and temporary employees), apply the Federal Insurance Contribution Act (FICA) cost factor of 7.65%. (Based on Section B.2.f)
- **Personnel Liability Insurance** – The cost of personnel liability insurance is calculated by multiplying the total personnel-related costs, including fringe benefits, by 0.7%. (Based on Section B.4.f)

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- **Overhead Factor** – Calculate overhead by multiplying personnel costs, including fringe benefits (but not including the personnel liability insurance factor), by a standard overhead factor of 12%. (Based on Section B.5). To avoid double-counting of costs, do not apply the full 12% overhead rate if any of your overhead costs are captured in your indirect labor and/or material and supply costs. Instead, please determine an alternate agency-specific overhead rate to account for all overhead costs not included in another cost category. Please document your rationale/methodology for determining this alternate overhead rate.

2.2. Material and Supply Costs

Material and supply costs include all equipment (e.g., hardware, software) and supplies required by the investment. Please distinguish between the following:

- **Existing Assets** – Include the current value (depreciated as appropriate) of all materials and supplies. Additionally, provide an overview of the project lifecycle, indicating where the asset is in the project lifecycle. If an asset was not purchased by the project, but acquired on a different basis, please indicate the basis and account for costs accordingly. (Based on Sections B.3 and B.4)
- **Planned Acquisitions** – Include all planned acquisitions in materials and supply costs (e.g., hardware replacements, software license upgrades) required over the lifecycle of the project. Provide the methodology or basis used to determine the value of the planned acquisitions. (Based on Sections B.3 and B.4)

2.3. Other Costs

Other costs are those in addition to personnel and material/supply costs and include the following:

- **Facilities** – Facility costs include costs for all facilities (government-owned and non-government-owned) utilized for the project. Such facilities may include office space, hosting sites, etc. (Based on Sections B.4.b and B.4.d)
- **Utilities** – Utility costs include costs for electricity, telecommunications, and other services/utilities. (Based on Section B.4.e)
- **Maintenance and Repair** – Maintenance and repair costs include costs related to keeping facilities and equipment operational, including funds reserved for maintenance and repair purposes. (Based on Section B.4.i)
- **Travel** – Travel costs include any costs incurred for travel-related expenses in support of the project, including transportation, accommodations, meals and incidentals. (Based on Section B.4.g)
- **Training** – Training costs include expenses for training necessary to maintain required licensing or certification, develop skills necessary for the project, etc. (Based on Section B.4.j)

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- **Contract Administration Costs** – Contract administration costs include costs associated with reviewing compliance with the terms of the contract, processing payments and negotiating change orders. Contract administration costs typically vary based on the size of the contract. (Based on Section C.2)
- **Miscellaneous Costs** – Miscellaneous costs include costs not accounted for in the other categories. (Based on Section B.4.j)

3. COST OF WORK (CONTRACTOR PERFORMED)

The costing elements and descriptions as outlined in Section 3 apply to contractor-performed work as well. In many cases, the total value of the contractor-performed work will be available through the contract and associated monitoring mechanisms (e.g., EVM).

To the extent possible, break out the total value of the contractor-performed work into the costing elements contained in the *Baseline Cost Reporting* template.

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4. STANDARD COSTING FACTORS

The following table summarizes factors to use in determining costs.

Costing Factor Title	Originating Source	Factor
Annual Productive Hours	OMB Circular A-76	1,776 Hours
Full Fringe Benefit Cost Factor	OMB Transmittal Memoranda	32.85%
Standard Civilian Position Retirement Cost Factor	OMB Circular A-76	24.0%*
Insurance and Health Benefit Cost Factor	OMB Transmittal Memoranda	5.7%*
Medicare Benefit Cost Factor	Social Security Administration	1.45%*
Miscellaneous Benefit Cost Factor	OMB Transmittal Memoranda	1.7%*
Federal Insurance Contribution Act (FICA) Cost Factor	Social Security Administration	7.65%
Medicare Benefit Cost Factor	Social Security Administration	1.45%**
Old Age and Survivors Death Insurance Benefits	Social Security Administration	6.2%**
Personnel Liability Insurance Cost Factor	OMB Circular A-76	0.7%
Overhead Factor	OMB Circular A-76	12%
Labor Escalation	OMB Transmittal Memoranda No. 25	Depends upon FY
Inflation (FY2006)	OMB Transmittal Memoranda No. 25	Depends upon FY

* Factors already accounted for in Fringe Benefit Cost Factor

** Factors already accounted for in the FICA Cost Factor

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5. BASELINE COST REPORTING TEMPLATE

Template below is for illustrative purposes only. Please use the excel spreadsheet provided in Attachment B for actual reporting.

Investment/Project Name: _____

Related E-Gov/LOB Initiative: _____

Prepared by: _____

Date: _____

Costing Element	FY06			FY07			FY08			FY09		
	Government		Contractor									
	Agency	Service fees*		Agency	Service fees*		Agency	Service fees*		Agency	Service fees*	
Labor costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Direct												
Indirect												
Material and Supply Costs												
Other Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Facilities												
Utilities												
Maintenance and Repair												
Travel												
Training												
Contract Administration												
Miscellaneous												
Total Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL PROJECT COST			\$ -			\$ -			\$ -			\$ -

Illustrative Example

Notes:

* Refers to costs incurred on a fee-for-service basis from a government organization at another agency or within the agency (e.g. shared service centers)

1 - For work performed on a fee-for-service basis, please indicate the service provider and associated agency as well as the methodology and algorithm for determining the service fee (e.g., cost per employee, cost per transaction,

2 - Report all costs rounded to the nearest dollar

3 - Cells in blue are calculated values