Technical Supplement for Information Technology Transformation at the Department of the Interior

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This proposal is contingent on the Parties reaching mutually agreeable terms and conditions and upon acceptance of any limitations described herein.

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Introduction

The Department of Interior (DOI) has embarked on a multi-year Information Technology Transformation. This Transformation, set in motion by Secretarial Order (SO) 3309, aims to "transform DOI's IT organization into an agile, reliable and cost effective service" that better supports DOI's mission. The effort aims to achieve $500 million in savings and is a critical component of the Department's strategy to ensure mission delivery in the face of intensifying budget pressures. More broadly, success will help keep DOI in a "front foot" posture with other governmental stakeholders -- including the White House and Congress – in ongoing dialogues over budgets, management reforms, and overall productivity. Finally, an effective IT Transformation will validate and serve as a catalyst for additional of cross-Department improvements. Other federal agencies will be watching DOI's efforts carefully as an example of how (and how quickly) to proceed with the transformational IT reform agenda set out in the OMB's 25-*point Plan.* In short, the stakes are high.

Given this context, the Department is seeking external support to accelerate the execution and change management that is now underway since the issuance of Secretarial Order 3309. Given the importance and strategic nature of this effort, as well as the many risks and challenges that stand in the way of success, the Department seeks a highly qualified and proven contractor. McKinsey is distinctively qualified to meet the particular needs of this effort, and in the remainder of this technical supplement we will detail our qualifications, proposed approach, and professional capabilities.

Distinctive McKinsey Qualifications

We bring a combination of expertise, relevant experience, proprietary tools and key personnel that make McKinsey uniquely qualified to support DOI in this effort. Specifically, we bring:

- **Leading expertise in change management in the public sector:** We understand that change management deals with more than just technical aspects of change and process hygiene; indeed, organizational culture and mindsets are often the largest barriers to success, especially in the public sector. We will engage the 'customers' of IT services, to better understand their needs and understand how mindsets and behaviors will need to change to realize the full value of the new IT service model. Change management must begin immediately and continue throughout the effort. McKinsey is at the forefront of change management innovation, in both the public and private sectors. Our publications, engagement and events, such as the "Public Sector Change Leaders Forum," highlight our experience in this area. We understand the importance of communication and of achieving early wins to build momentum and credibility.

- **Unique capability at the intersection of public sector, technology, strategy, and change management:** Although many firms offer technology consulting, McKinsey is distinctive in our

combination of public and private sector experience, deep understanding of business strategy and operations, robust technology expertise, and change management know-how. First and foremost, we approach transformational IT work with a primary focus on how the organizational will realize business value. This emphasis ensures tight links among IT strategy, business needs, and the organizational/operational changes required for success. Our IT Transformation approach has been refined over time through hundreds of engagements. A large portion of our client work in this area involves designing and delivering multi-year IT Transformations in complex environments. Finally, we have a track record of successful change management in the federal government, including driving transformational change across entire departments and agencies.

- **Intimate familiarity with DOI and the IT performance priorities set out by OMB:** We recently supported OMB in its development of the *25-point Implementation Plan to Reform Federal Information Technology Management* as well as the *Federal Cloud Computing Strategy*. Our experience working with OMB and the Federal CIO Council provides direct insights into the supporting rationales for these new policies. In addition, we bring a deep understanding of DOI based upon our recent work at the former MMS as well as the ongoing assessment of the FBMS project. We understand the DOI organization and culture, notably the particular challenges of department--wide initiatives. Our work with DOI illustrates our ability to drive change within DOI.

Additional Important Qualifications McKinsey brings:

- **Dedicated Business Technology Office (BTO):** Our Business Technology Office (BTO) has 650 practitioners who focus on IT Transformation and IT optimization in both the public and private sectors. We bring a proven set of tools, libraries of benchmarks, and a strong network of experts.
- **Complete independence and objectivity in our recommendations:** McKinsey has no downstream conflicts of interest. We have no relationships with vendors, and we derive no fees or commissions from systems, software, or equipment. This enables us to develop objective recommendations with only DOI's best interests in mind. Many clients site this independence as a critical differentiator for McKinsey, especially in IT-related work.
- **A team of key personnel with recent, relevant experience:** We have assembled a team with directly relevant experience in key disciplines such as IT shared services, organizational change management, business technology, IT service chargebacks, cloud strategies, and data center consolidation. An IT Transformation is a highly complex effort, and it requires a broad mix of functional expertise, public sector knowledge, and an understanding of DOI. Our team brings this optimal mix.

Understanding of the Project and Objectives

The Department has launched an exciting, ambitious transformation effort that has the potential to become a clear model for IT performance improvement in the Federal Government. The Department issued SO 3309 to consolidate all IT management and operations under the Department's Office of the CIO (OCIO). The objective of this SO is to build a dynamic new enterprise services model that will deliver scalable IT products and services to customers at much higher levels of efficiency and effectiveness than today. The team's vision is for a modern, consolidated IT Service Delivery organization that will support all bureaus in all locations, including its ~80,000 end users.

The more specific objectives are in line with OMB's *25-point plan*, "Cloud First" policy, and the Data Center Consolidation Initiative. Building upon the initial plan delivered in June, this effort will deliver the detailed IT Transformation Plan to achieve the strategic goals over the next four years. While part of the effort includes reviewing and building upon the work to date, the larger focus will be on developing solutions for the most critical issues identified in the RFQ, especially the eleven specified deliverables. Our team would bring deep expertise and relevant experience in IT Transformation, rigorous analytical capabilities, plus the creativity and judgment to help construct an actionable plan to successfully deploy a new IT Service Management (ITSM) model.

While the RFQ clearly specifies the objectives and technical deliverables, the Organizational Change Strategy (deliverable #9) is absolutely essential for success. DOI's goals are appropriately ambitious, and the cultural challenges are equally great. The OCIO has already embarked on a substantial outreach effort. In addition, the very visible, concrete move to the current ADIRs structure has unmistakably set out a marker for the degree of change yet to come. Our approach will build on and accelerate these initial change efforts. Getting the user community to embrace the new model is essential and will require extensive interaction, listening, and ongoing communication. The program will need to demonstrate early wins and deliver real value to customers to establish credibility and build momentum. Early success will beget even greater success, and meeting these near term engagement objectives will be factored into the overall Transformation approach and sequencing.

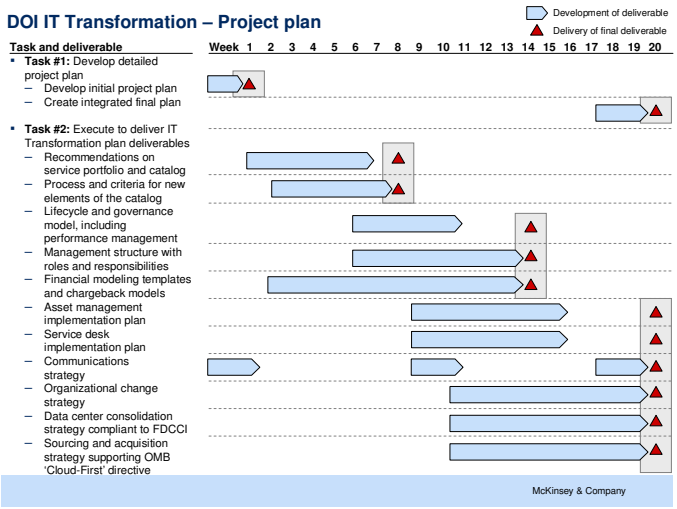
McKinsey's Methodology and Techniques

The methodology set out below combines our proprietary tools and techniques in an integrated, coherent 20-week effort to develop the detailed plan and the eleven deliverables. We would draw upon our many successful engagements in the public and private sector to bring these best practices to DOI.

Importantly, this integrated approach is holistic in nature. In our experience, a successful IT Transformation not only addresses technical elements but also focuses on the cultural and people elements of change management, placing considerable emphasis on developing and communicating a compelling message for change, generating early value for the business, role modelling for front-line employees, and developing a rigorous performance management system.

Exhibit 1:

Project plan/approach for the ITSM Implementation



Overview of Methodology to Develop Detailed Transformation Plan

Large IT Transformation projects are complex and demanding. IT organizations have the double duty of running the IT operations to support the ongoing business, while also executing the portfolio of change initiatives. In part for this reason, the majority of organizations do not capture the full potential of an IT Transformation. A recent McKinsey survey showed that two-thirds of the organizations had not yet realized the anticipated benefits from their IT shared services after five years of effort. Our analysis pointed to three primary casues of poor results: a) lack of an aggressive IT shared services aspiration that is embraced by the organization; b) overly-narrow business cases that focus on costs and ignore other benefits; and c) inconsistent governance and lack of investment in the change management effort.

Drawing on these lessons, we have developed our **IT Transformation (ITT) project framework** (see Appendix 2). Using this framework to guide the transformation helps avoid common pitfalls and highlights best practices of successful organizations that succeed. The approach is market-proven and continuously updated.

Our proposed methodology is designed to produce all of DOI's required deliverables in full detail and ahead of stated period of performance. We will use our existing tools, interview guides and assessment templates to quickly gather information and develop preliminary hypotheses based upon our extensive experience in similar settings. Our approach emphasizes collaboration with the DOI team. This interactive approach will generate better answers quickly and will underscore change management to build momentum.

Application of Methodologies and Techniques to DOI Tasks

This section describes how we would use our ITT framework to execute the tasks and produce the deliverables required to successfully build the detailed ITSM roadmap.

Task 1: Develop detailed project plan for DOI's IT Transformation Program.

1.1. Develop initial project plan: We would begin the engagement by designing a detailed project plan. The detailed plan would include an in-depth view of the major activities needed to develop each of the 11 deliverables. We would engage directly with the Department's leadership and working team members to plan and prioritize key activities, including any needed adjustments to the elements outlined in this proposal.

1.2. Finalize an integrated road map to drive the Transformation going forward: During the last weeks of the engagement, we would work with the DOI team to combine the elements of the eleven deliverables into an integrated plan to implement the ITSM roadmap. This plan would include milestones, owners, and risk mitigation actions required to set the full implementation on the right path.

Task 2: Complete IT Transformation Plan deliverables. Our work in this task focuses on completing the analyses and problem solving to deliver the eleven specific deliverables.

2.1. Initial IT Service Portfolio and IT Service Catalog: Many Transformations never get traction within an organization because they do not focus sufficiently on providing the IT services that their 'customers' demand. In our three-step approach, we would first use our *ITT Surveys and Structured Interview Guides* to understand the detailed end-user requirements for IT within the various agencies, bureaus and offices. Second, we would use our IT baselining tools, such as our *IT Cost Driver Model and Data Collection Templates,* to create a comprehensive, fact-based picture of IT spend, assets and staff capabilities by IT function and role. Finally, we would use this understanding of end-user needs and current IT baseline to develop both an initial service portfolio and a service catalog that meet the requirements of end-users across the entire Department. We would refine this initial portfolio using our *ITT Shared Service Catalogs* that we have compiled from prior efforts.

2.2. Process and criteria for identifying and prioritizing new elements of the IT Service Catalog: The IT service catalog would initially include the core IT services that present the greatest opportunity for improvement and provide clearly visible value to the business. It is critical that these elements deliver value quickly to allow the program to build momentum. A range of additional IT services may be included over time. To ensure that this 'living' IT Service Catalog can add new services, our *ITT Shared Service Framework* uses seven criteria to prioritize new opportunities and ensure future elements are scalable and standardized. We use this framework to develop an *IT Service Roadmap* that provides our recommendations of future service offerings that DOI could deploy in waves over time.

2.3. Detailed IT Services Lifecycle and Governance Model including performance management and measurement: Our work for this deliverable would apply our proprietary ITT governance frameworks and performance management tools.

2.3.1. To ensure the shared IT service model maintains high performance standards, we would design a rigorous performance management system to track quality, speed, efficiency and customer satisfaction. We would use our *ITT Framework* to tailor the DOI's key performance metrics across the service portfolio. Next, we would leverage our *Library of Public and Private Sector Infrastructure and End-User Benchmarks* to define target performance levels across the services. Finally, we would design a set of *Performance Management Dashboards* for each service within the IT Service Catalog.

2.3.2. We would also design a future-state life cycle and governance model that could serve as a guide for all bureaus and would identify accountability for administering the IT shared services. We would develop and syndicate *Organization IT Governance Maps* that clearly define roles and responsibilities across the entire IT services lifecycle. In developing this model, we would leverage our current IT governance work at BOEMRE, where we have identified challenges with current governance models and improved working processes and structures.

2.4. Management structure including roles and responsibilities: Ensuring that all stakeholders clearly understand their new roles and responsibilities is a critical success factor. We use a three-step approach to develop the management structure and achieve buy-in from all key stakeholders. First, we would design multiple options for management structures using our *ITT Organization Design Library* which contains sample IT management structures from our prior ITT engagements as well as case studies of other best-in-class organizations. Next, we engage IT stakeholders in *Design Workshops* that help delineate the pros and cons of each option, refining the best answer for DOI. Finally, we provide a recommended management structure for the IT Transformation, using the *RACI* framework to clearly define roles and responsibilities for stakeholders at each level of the organization. This area is of particular importance based on our experience elsewhere in DOI; often shared service and business are unclear on decision rights, leading to finger-pointing and slowed processes. We would also test the new model with simulations of important decision using real world scenarios.

2.5. Financial modeling templates and chargeback models: Developing appropriate, fair chargeback mechanisms is a common stumbling block and can become a significant barrier to bureau adoption. The model must be granular enough to allow useful demand management, but not so detailed that administrative costs are burdensome. Successful organizations demonstrate immediate value to their customers by improving costs and transparency. We use a three-step approach to design the optimal templates and model. First, we use our *Total Cost of Ownership (TCO)* model to calculate fully-loaded unit costs and develop chargeback bundles and rates. Next, we compare the rate benchmarks from our *Shared Service Rate Catalog* to identify opportunities for improvement. Finally, we design the final templates, recommend a balanced chargeback model, and show where and how the Department could improve rates/service over time.

2.6. Enterprise Asset Management implementation plan: Effectively managing IT assets can be a significant source of value for an organization. Our plan for executing this deliverable will focus on three steps. First, we analyze DOI's comprehensive inventory of all assets – purchased and managed. Next, we would leverage our *Value Stream Maps (VSMs)* to map how these assets are currently managed (provisioned, retired, and updated). Finally, we design a future-state, shared asset management model, and we create the detailed implementation plan for migrating to that future-state. The plan includes activities, resource requirements and governance changes to administer a central asset management service.

2.7. Enterprise Service Desk implementation plan: The service desk is a visible service to customers, so achieving excellence is critical. We would develop a detailed implementation plan for consolidating and optimizing the service desk by first developing the fact base on current support levels and staffing profiles, workload profiles (e.g., number of calls received, call types), service quality (e.g., average speed to answer), and technology usage (e.g., self-service, call routing). Next, we design an enterprise service desk model, with clear recommendations on staffing levels, services, processes and required skills. The plan would include pilots and the activities to scale the service across the DOI. We also leverage our *McKinsey Tech Lab* to recommend how to optimize the service desk environment, e.g., effective scheduling, skill based routing and IVR tree design systems.

2.8. IT Transformation Communications Strategy: Winning the 'hearts and minds' of both the business users and the IT staff is essential for success. We will bring our *ITT Strategic Communication Model* to provide actionable guidance on how to design and deliver effective communication during transformational change. Using this model, we build upon the vision already set out for the IT Transformation by DOI. We craft a strategy to reinforce key messages through an array of different communications media/venues and prescribed frequency. Based upon our experience with DOI, elements of the strategy would likely include ongoing outreach to end-users and IT staff, a creative array of communication venues and media, extensive two-way communications, and simple 'pulse surveys' to assess progress and satisfaction. Finally, we integrate this strategy into a detailed action plan and provide sample templates for each communication type.

2.9. Organizational Change Strategy: IT Transformations—especially in highly decentralized organizations—most commonly fail due to insufficient attention to change barriers and a lack of investment in a thoughtful change management approach. For DOI, we believe that stimulating agency 'demand' for shared services, delivering near-term value to establish credibility, and managing workforce changes will be particularly critical. We use a four step approach that succeeded at DOI during in both the MMS reorganization and the FBMS program assessment. First, we use our *Change Diagnostic* to identify the biggest change barriers to the IT Transformation, essentially forecasting where the Transformation could stumble. Second, we identify mindset and behavior changes required for each stakeholder group based upon our experience in thousands of IT change efforts and our understanding of DOI. Next, we will use this insight to develop strategies shift mindsets and behaviors to embrace the change. We would apply our *Influence Model* to design change strategies along four dimensions: compelling communications, capability building, role modeling and

reinforcing mechanisms (e.g., incentives). Finally, we craft a compelling 'Change Story' that cascades to all levels and articulates the benefits of IT Transformation. This analysis and approach will be documented in an integrated change strategy and execution plan.

2.10. Data center consolidation strategy to allow DOI to address requirements defined by the Federal Data Center Consolidation Initiative (FDCCI): We will help enhance and expand the data center consolidation strategy already developed by DOI to ensure full compliance with the FDCCI. Given our experience with OMB in developing the 25-point plan, we are deeply familiar with the data center consolidation targets and the FDCCI initiative. The plan will prioritize which data centers to consolidate including the sequence and timing of transition to the end state. The plan will include a tiered segmentation of your data centers, with actions and milestones for migrating each tier. In a recent Defense agency effort, we developed a detailed consolidation plan for its 200+ data centers based on the utilization, real estate cost and the security requirements for each center. This plan will allow Defense to eliminate over half its data centers and save over $100 million per year.

2.11. Sourcing and Acquisition Strategy that supports the OMB "Cloud First" directive: Our recent engagement with OMB in the development of the *Federal Cloud Computing Strategy* puts us in a unique position to help develop detailed sourcing and transition strategies for DOI. Working with OMB, we gained valuable insights into emerging cloud solutions, solutions other agencies are beginning to use, and the attributes of future cloud-based solutions including cost, service and security. Our work will focus on building an inventory of potential software as a service (SaaS) and infrastructure as a service (IaaS) solutions for DOI. We will leverage our IT benchmarks and Cloud Computing industry experts to evaluate the potential benefits and risks of moving specific services to the cloud. We will also examine other opportunities to improve IT sourcing. The result will be a list of priority solutions that support the OMB directive, plus an action plan to move forward.

Potential Problems and Intended Solutions

IT Transformation at DOI and the project described in the RFQ will be ambitious undertakings. Below are some of the most-important challenges to anticipate, and how we would address them:

- **Gaining alignment of the bureaus and offices.** Based on our experience at DOI and throughout government, we know the bureaus and offices will tend to view negatively any reduction in local levels of control over IT budgets and systems. To overcome this challenge, it will be imperative to (a) engage deeply and frequently with the stakeholders to truly understand their concerns and bring them into the process, (b) create incentives for stakeholders to participate willingly in IT Transformation, out of their own self interest, and (c) develop early wins to counteract negative preconceptions about centralization.

- **Striking the right balance with service-level agreements (SLAs).** SLAs are a key part of any IT Transformation, because one unit will have to provide services to another. If SLAs are too specific, they become cumbersome but if they are general, they fail to enable demand management and

cannot guarantee high performance. To help DOI strike the right balance, we would draw from McKinsey's breadth of experience in what has and has not worked well for other enterprises.

- **Separating infrastructure from applications.** Much of DOI's IT is provided by contractors, and many of the underlying contracts mix IT infrastructure, application development, and operations. The IT Transformation will likely seek to consolidate the IT infrastructure piece, which would require re-working many existing IT contracts. In our experience, the best approach to this challenge is to focus first on (a) the IT services and bureaus that are less intertwined and (b) develop a schedule to disentangle the IT contracts proactively or as they naturally expire.

This barely scratches the surface of the challenges for the overall IT Transformation. There will also be challenges related to the execution of this specific engagement, including: (a) completing a significant number of deliverables within a short timeline, (b) generating consensus or near-consensus across a wide array of stakeholders, (c) gaining access to all the necessary data, and (d) understanding the history and specifics of such a wide array of IT components and contracts. We have time-tested approaches for dealing with such challenges. For example, on accessing the required data, we would (i) send a data request in advance of our formal start date, (ii) use our experience elsewhere in U.S. government to estimate missing data based upon typical experience, (iii) use statistical sampling to estimate data, and (iv) tactically fill in gaps in data with targeted interviews of DOI personnel.

Project Schedule and Logistics

While the RFQ has allowed a maximum of 24 weeks of time to complete the detailed IT Transformation plan; we believe that due to our proven methodology and tools, together with our experienced personnel, we would be able to deliver Tasks 1 and 2 in 20 weeks.

This acceleration represents a significant value to the ITSM effort. The DOI would receive the final recommendations one month earlier than planned allowing it to begin implementing the revised plan sooner. And if needed, DOI would have more time to syndicate recommendations and achieve a greater level of buy-in and organizational conviction. The project plan, schedule and logistics of our approach are summarized in section 2 of this document and detailed in Appendix 2.

Personnel and Resource Allocation

The team consists of a working team of four full-time consultants, a project manager, core leadership team and an expert panel including dedicated IT, change management, and shared services experts. The detailed staffing plan and detailed resumes of our personnel (the core leadership team and expert panel) dedicated to this project are highlighted in Appendices 2 and 4.

- **Core leadership team.** A team of McKinsey partners and leaders with extensive relevant experience would review work, ensure high quality and bring relevant expertise to the project. Our

leadership team would include Jon Wilkins, Steve Kelly, and Andrew Sellgren. In aggregate, this team ensures we will provide senior engagement at all key meetings.

- **Project manager.** Ankur Ghia would be the project manager, providing further quality control, subject-matter expertise, and management of all expert contributions. He would also serve as the government's primary point of contact for technical matters on this contract.
- **Expert panel**. McKinsey experts would provide specific expertise on topics such as IT shared services, IT Transformations, change management, IT governance and organizational transformation. We have specifically selected a panel of experts who would dedicate time to support the team on an ongoing basis.
- **Working team members.** Four consultants would be dedicated full-time to this project. These individuals would be aligned to specific work streams and activities as detailed in the project plan. At the later project stages, the team members would collectively work on developing lessons learned and a consolidated report for DOI.
- **Working team leader**. The working team leader would be a full-time team member and would provide on-the-ground process management. He will develop end products and maintain an integrated view across all workstreams to manage interdependencies and connections.

Project management plan

A detailed project management plan is included in Appendix 2 of this document. The project management plan includes our planned approach, types of persons to interview and interview guides, experts to consult, as well as other activities and a detailed task list with timeline and resources required for each.

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