

## MEMORANDUM

**Date:** October 27, 2015

**To:** Steven Relyea  
Executive Vice Chancellor and Chief Business Officer

**From:** Larry Mandel   
Vice Chancellor and Chief Audit Officer

**Subject:** Audit Report 15-38, *Information Technology Procurement*, Office of the Chancellor

We have completed an audit of *Information Technology Procurement* as part of our 2015 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

LM:amd

c: Timothy P. White, Chancellor



**The California State University**  
Office of Audit and Advisory Services

# INFORMATION TECHNOLOGY PROCUREMENT

**California State University**  
**Office of the Chancellor**

Audit Report 15-38  
September 2, 2015

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to provide assurance that the management control framework that supported information technology (IT) procurement and contracting were appropriate, complete and effective; that procurement and contracting activities complied with applicable policies, procedures, laws, and regulations; and that IT project oversight included appropriate budget management and reporting.

### CONCLUSION

Based upon the results of the work performed within the scope of the audit, operational and administrative controls as of May 8, 2015, taken as a whole, were sufficient to meet the objectives of this audit. In general, Contract Services and Procurement (CS&P) had a control framework in place to ensure that operational and administrative controls over IT procurement and contracting activities at the Office of the Chancellor (CO) were appropriate, complete and effective. In addition, applicable controls were in place to help ensure that formal and informal bidding was compliant with applicable laws and regulations.

Our audit procedures did identify opportunities to improve communication of IT project management requirements. Our review noted that published guidance regulating and monitoring large IT project management was vague, outdated, and in certain instances not in alignment with actual project management practices.

Specific observations, recommendations, and management responses are detailed in the remainder of the report.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. PROJECT MANAGEMENT GUIDANCE

#### OBSERVATION

The primary guideline for IT project management, Executive Order (EO) 862, *Information Technology Project Management*, dated April 18, 2003, was outdated, and in certain instances was unclear or not in alignment with current project management practices.

We noted the following:

- The EO had not been revised since 2003 and referenced an outdated *Policy Manual for Contracting and Procurement*, instead of the current Integrated California State University Administrative Manual (ICSUAM).
- The EO did not adequately define which IT purchases required feasibility studies. It stated that feasibility studies are required for procurement of IT that is neither routine nor recurring but has an estimated cost of \$500,000 or more, or comprises an activity that, regardless of cost, poses a high project risk or will have a high impact to the California State University (CSU). We reviewed several high-dollar purchases both at the CO and on campuses, and we found inconsistent interpretations of what constitutes a high project risk or high impact. In addition, the guidance does not address projects that have a high-dollar IT component that constitutes only a minor portion of the overall project.
- The EO did not establish a clearly defined method for the review of major project milestones, budgets, and completion dates. The EO simply states that an implementation review should be conducted by “someone not closely involved in the project yet possessing sufficient knowledge to grasp the project goals and outcome.” In addition, the EO did not include a process for reporting significant deviations from the stated milestones.

#### RECOMMENDATION

We recommend that the CO review both current IT project management practices and the supporting management directives and align them to ensure adequate controls are in place.

#### MANAGEMENT RESPONSE

We concur. The CO will review both current IT project management practices and the supporting management directives and align them to ensure adequate controls are in place.

This recommendation will be completed by May 2016.

## 2. FEASIBILITY STUDIES

### OBSERVATION

The CO did not have a process in place to ensure that feasibility studies were complete and approved before IT project start dates.

We reviewed feasibility studies for two projects and found that:

- One of the studies did not include project changes, performance constraints, and the consequences of failure to achieve goals or meet timelines, as required in the Contracting Resource Library 055, *Model Information Technology Project and Procurement Planning Guidelines*.
- One was approved the same day the contract for the vendor was signed.
- One did not contain documented approval as required by EO 862, Section IIA.

### RECOMMENDATION

We recommend that the CO establish a process to ensure that feasibility studies are complete and approved before IT project start dates.

### MANAGEMENT RESPONSE

We concur. The CO will establish a process to ensure that feasibility studies are complete and approved before IT project start dates.

This recommendation will be completed by March 2016.

## 3. CONTRACTS

### OBSERVATION

The management process for informally bid contracts outlined in ICSUAM was not always followed.

We reviewed 18 contracts and purchase orders for IT goods and services and found that:

- In one instance, the contract was signed before the required approvals were obtained. The contract was signed on December 12, 2014, and the approval was signed on December 17, 2014.
- In one instance, there was no documented project scope or additional vendor quotes.

- In one instance, a purchase awarded to a small business did not include additional quotes from other small business vendors.

ICSUAM §5501-100 states that acquisitions of less than \$250,000 from a California Certified Small Business may be awarded as long as the campus obtains price quotes from two or more certified businesses.

ICSUAM §5501-300 states that Information Technology Resource (ITR) purchases between \$50,000 and \$500,000 must include a written project scope documenting the requirements and characteristics of the ITR goods or services. In addition, written responses based on the project scope must be obtained from at least three vendors.

**RECOMMENDATION**

We recommend that the CO follow the process outlined in ICSUAM for informally bid contracts.

**MANAGEMENT RESPONSE**

We concur. The CO will follow the process outlined in ICSUAM for informally bid contracts.

This recommendation will be completed by December 2015.

## GENERAL INFORMATION

### BACKGROUND

Public Contract Code Sections 10295 and 12120 require the CSU to maintain an independent procurement authority separate from the state departments of General Services and Finance.

Public Contract Code Section 12100.5 requires the Trustees to develop and maintain policies that further the legislative policies for ITR procurement as expressed in sections 12100 et seq. of the Public Contract Code.

In accordance with the Public Contract Codes listed above, the CSU has developed specific policies in the ICSUAM related to purchasing and has issued an EO related to procurement of IT equipment and services. The CSU-specific purchasing criteria are listed below.

CSU guidance states that ITR are defined to include, but are not limited to: all electronic technology systems and services; automated information handling; system design and analysis; conversion of data; computer programming; information storage and retrieval; telecommunications that include voice, video, and data communications; requisite system controls; simulation; electronic commerce; and all related interactions between people and machines.

The campus is responsible for assuring that all applicable state procurement laws and regulations are followed, in addition to the policies contained herein. In addition, each campus shall employ sound and appropriate business practices to guide and control the planning, acquisition, development, operation, maintenance, and evaluation of all ITR-related applications.

It is the policy of the CSU that campuses be given the choice of vendors that best meet individual or unique campus hardware, service, and application requirements. Long-term contracts with annual cancellation and funding-out clauses are encouraged, as they help protect the CSU's investment, as well as provide multiyear renewal options that encourage vendors to develop higher levels of service and support (Ref. Public Contract Code 12101.5(a)).

The CS&P at the CO is unique in that it negotiates contracts for both the CO and for systemwide projects. Therefore, we reviewed both local and systemwide practices in this audit.

### SCOPE

We visited the CO from April 6, 2015, through May 8, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. The audit focused on procedures in effect from January 1, 2014, through May 8, 2015.

Specifically, we reviewed and tested:

- Authorization and administrative processing controls over IT procurement and contracting activities.
- Processes to ensure competitive bidding requirements were satisfied, when applicable, for all purchases of IT equipment or services.
- IT purchase transactions to ensure compliance with applicable campus and CSU policies and state and federal laws and regulations.
- IT procurement card purchase transactions to ensure compliance with campus and CSU policies.
- Methods for classifying significant IT projects to ensure compliance with the project management guidelines and periodic reporting requirements.
- Project management and administration of significant IT projects, including project authorization, feasibility studies, budget management, cost reporting, and project status reporting.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology was designed to provide a managerial-level review of IT procurement practices, which included detailed testing of a sample of IT-related purchases and testing of large IT projects that surpassed the established CSU dollar threshold requiring additional executive management oversight. Our testing approach was designed to provide a broad view of controls surrounding information technology purchases.

## CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus policies and procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Contracting Resource Library 055, *Model Information Technology Project and Procurement Planning Guidelines*
- EO 862, *Information Technology Project Management*
- ICSUAM §5500, *ITR Procurement Policy*
- ICSUAM §5501, *Solicitation Thresholds for ITR Goods and Services*
- ICSUAM §5502, *Formal Solicitations for ITR Goods and Services*

- ICSUAM §5503, *ITR Project Solicitation Plans*
- ICSUAM §5505, *Competitive Solicitation*

## AUDIT TEAM

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