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Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

January 30, 2020

The Honorable Mark Huizenga, Chair
The Honorable Terry Sabo
The Honorable Mary Whiteford
The Honorable Abdullah Hammoud
The Honorable Annette Glenn
Information Technology Task Force
Michigan House of Representatives
House Office Building
Lansing, Michigan

Dear Representatives Huizenga, Sabo, Whiteford, Hammoud, and Glenn:

Enclosed are answers to the nine questions posed in the October 16, 2019 letter to our office from the Michigan House of Representatives Information Technology Task Force. The questions are regarding accounting for information technology projects of the Strategic Integration Administration, Michigan Department of Health and Human Services (MDHHS) and the Department of Technology, Management, and Budget (DTMB).

Consistent with our standard practice, we are sending an advance copy of this letter to you and will post it on our publicly accessible Web site in five business days.

We appreciate the opportunity to assist in answering questions regarding this topic. If you have further questions, please do not hesitate to contact our office.

Sincerely,

Doug Ringler
Auditor General

Enclosure

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House of Representatives Information Technology Task Force Request

Q1: Have DTMB and MDHHS established a documented process for accounting for and monitoring project costs? Has the process, including clearly defined roles, been communicated to all responsible parties? Does the process align with industry best practices?

A: Yes, DTMB established guidance for accounting for and monitoring project costs through its Project Management Methodology (PMM), which is part of the State Unified Information Technology Environment (SUITE). DTMB's PMM is based on *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)* and includes defined roles.

No, MDHHS has not established documented processes for accounting for and monitoring project costs. However, in November 2018, MDHHS established the Bureau of IT Support Services to improve the coordination of IT-related financial records and ensure budget availability and budget prioritization accuracy. MDHHS also established an IT Executive Steering Committee to oversee IT priorities and budget. Further, MDHHS and DTMB underwent a lean process improvement (LPI) in July 2019 related to the IT project life cycle. The LPI defines process changes designed to align with DTMB's PMM and other best practices.

Q2: Do DTMB and MDHHS accurately track and account for IT project spending on MDHHS systems?

A: No. In fiscal year 2019, MDHHS implemented a monthly process for tracking and accounting for project spending by allocating costs to projects from various sources. This process occurs using project cost estimate and project spend plan spreadsheets.

However, allocating expenditures to projects is a manual process that relies upon historic knowledge of key individuals at the departments. Project expenditures are not directly linked to Statewide Integrated Governmental Management Applications (SIGMA), the State's accounting and financial reporting system, and are not consistently linked to Clarity, the State's enterprise project portfolio management tool. This lack of integration results in an inability of DTMB and MDHHS to ensure that all project expenditures are allocated appropriately.

We selected 7 projects and 27 corresponding project expenditures to assess the accuracy of tracking and accounting for project spending. We noted:

- MDHHS and DTMB could not provide records of project spending that occurred for any of the 6 projects that were active prior to fiscal year 2019.
- 2 projects did not have project cost estimates for fiscal year 2019.
- 4 projects did not have project spend plans for fiscal year 2019.

- 2 expenditures, totaling approximately \$36,000, were not allocated to the correct project.
- Supporting documentation did not exist or was insufficient for us to conclude whether project costs were accurately tracked and accounted for. Specifically, we could not determine whether:
 - 20 expenditures, totaling \$3.1 million, were allocated to the correct project or were properly classified.
 - 19 expenditures, totaling \$3.1 million, were recorded to the correct fiscal year.

Q3: What costs do DTMB and State departments include in the total cost of a project? Do DTMB and MDHHS include all costs (contractor, State employee, hardware, and software) in project cost totals?

A: DTMB has not provided formal guidance to State departments regarding the specific types of costs to be included in the total cost of a project. MDHHS attempts to include all direct costs in its project cost totals. This generally includes contractor, State employee, hardware, and software. However, for State employee costs, MDHHS allocates the cost of only DTMB employees and not its own employees. MDHHS also does not allocate other indirect costs to projects from DTMB-provided services, such as system security, server hosting, and telecommunication costs.

Q4: How are cost overruns in system development projects identified and monitored?

A: MDHHS uses project cost estimate and project spend plan spreadsheets to track budgets, funding sources, and costs charged to a project. We reviewed the completeness and accuracy of these spreadsheets for a selection of 7 projects and 27 corresponding project expenditures. We noted:

- 2 expenditures, totaling approximately \$36,000, were not recorded on the correct project spend plan.
- 4 expenditures, totaling \$2.7 million, were not recorded on the project spend plans at the correct amount.
- 9 expenditures, totaling \$0.4 million, were not recorded on any project spend plan.

These deficiencies, in conjunction with those identified in our response to Question #2, limit the ability of DTMB and MDHHS to effectively identify and monitor cost overruns on a project basis.

Q5: Do DTMB and MDHHS have a process for managing and accounting for change orders?

A: Yes. When a project change order is necessary, MDHHS and DTMB perform an analysis of the technical and financial impact to the project and submit the change request to the project manager for approval. Approved change orders are tracked as part of the project cost estimate and project spend plan.

We reviewed a selection of 10 change orders and noted that 3 change orders, totaling approximately \$70,000, were not reflected in the project's cost estimate or spend plan.

Q6: How do DTMB and MDHHS inform the Legislature of changes to project scope and project budgets?

A: DTMB Reporting

Section 830, Public Act 207 of 2018 requires DTMB to report, on a quarterly basis, key information on all executive branch department and enterprise-wide information technology projects to the Senate and House Appropriations Subcommittees on General Government, the Senate and House Fiscal Agencies, and the State Budget Director as well as posting online. Changes to project scopes and project budgets are required to be contained within this report.

DTMB reported this information in fiscal year 2019 through its project reporting Web site. However, the Web site is based on information from Clarity, which is not an accurate representation of all MDHHS projects. We noted that not all MDHHS projects are included in Clarity as well as inaccuracies in the projects that are in the system.

MDHHS Reporting

Section 1901, Public Act 207 of 2018 requires, once an award for an expansion of an information technology project is made, that MDHHS report on a semiannual basis to the Senate and House Appropriations Subcommittees for the department budget, the Senate and House Fiscal Agencies, the Senate and House Policy Offices, and the State Budget Office the projected cost of the expansion broken down by use and type of expense.

Section 1903, Public Act 207 of 2018 requires MDHHS to report to the Senate and House Appropriations Subcommittees on the department budget, the Senate and House Fiscal Agencies, the Senate and House Policy Offices, and the State Budget Office by November 1 of the current fiscal year information regarding project change orders and the associated estimated and actual costs to modernize the Michigan Statewide Automated Child Welfare Information System (MiSACWIS).

MDHHS submitted these reports in fiscal year 2019. However, the reports did not include all IT project expansions, nor did the reports include projected costs of IT project expansions broken down by use and type of expense as required by Section 1901, Public Act 207 of 2018.

Q7: What is included in a project's maintenance and operation costs? How are these costs accounted for?

A: In June 2019, MDHHS issued a briefing to classify the following costs as maintenance and operations: system operations, client support, incident management, problem management, minor maintenance, data protection, hosting, licensing, monitoring, network support, and storage. These costs are budgeted based on historic cost estimates and are tracked through spreadsheets by IT system.

We reviewed 40 expenditures for 3 IT systems to determine whether the expenditures were properly classified as maintenance and operations.

We noted:

- 30 expenditures, totaling \$25.3 million, did not fully meet MDHHS and DTMB's definition of maintenance and operations. These expenditures included some costs for new development and other unspecified activities.
- 7 expenditures, totaling \$4.9 million, were not solely for the specific system designated.

Also, the contracts associated with 2 of these systems do not contain sufficient information to allow MDHHS and DTMB to delineate the specific costs incurred for maintenance and operations.

Q8: How is project accounting handled when the project covers more than one fiscal year?

A: MDHHS performs project accounting on a fiscal year basis through project cost estimate and project spend plan spreadsheets designed to align sources of funds and project costs by fiscal year. We reviewed this information for a selection of 7 IT projects and 27 corresponding project expenditures. Supporting documentation did not exist or was not sufficient for us to conclude whether 19 project expenditures, totaling \$3.1 million, were recorded and tracked in the correct fiscal year.

Q9: Are appropriated dollars for specific systems only spent on the development and maintenance of those systems?

A: Generally, yes. We reviewed 25 expenditures recorded to the Michigan Medicaid information system and child support automation appropriations during fiscal year 2019. Because of the insufficient supporting documentation, we could not determine whether 1 expenditure, totaling approximately \$131,000, was correctly recorded to the child support automation appropriation.



House of Representatives - Information Technology Task Force Request

Questions 2, 4, and 8

- Project expenditures for the 7 projects:
\$9.1 million
- Project expenditures reviewed:
\$3.7 million

Question 5

- Change order population:
57 change orders (covering 5 projects)
- Change orders reviewed:
10 changes orders (covering 5 projects)
\$6.4 million

Question 7

- Maintenance and operations expenditure population:
\$90.5 million
- Maintenance and operations expenditures reviewed:
\$27.4 million

Question 9

- Appropriated dollars population:
\$80.8 million
- Appropriated dollars reviewed:
\$5.8 million

