



STATE OF MICHIGAN

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET

LANSING

RICK SNYDER
GOVERNOR

JOHN E. NIXON, CPA
DIRECTOR

December 7, 2012

Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Business Application Modernization (BAM) Project, Department of State and Department of Technology, Management & Budget.

Questions regarding the attached summary table or corrective action plans should be directed to me.

Sincerely,

Signature Redacted

Michael R. Gilliland, Director
Financial Services

Attachment

c: Rep. Chuck Moss, Chair, House Appropriations
Senator Rodger Kahn, Chair, Senate Appropriations
Melissa Schuiling, Office of the Auditor General
Dennis Muchmore, Executive Office
Dick Posthumus, Executive Office
House Fiscal Agency
Senate Fiscal Agency
Ruth Johnson, MDOS
Mike Senyko, MDOS
David Behen, DTMB
Rick Lowe, DTMB
Kurt Weiss, DTMB
Chris Harkins, DTMB
Lynn Draschil, DTMB

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c: James McFarlane, DTMB
Gina Hyde, MDOS
Rose Jarois, MDOS
Steven Stier, MDOS

Summary of Agency Responses to Recommendations

1. Audit recommendations DTMB fully complied with: #1, 2, 5, 6, 10, 11
2. Audit recommendations DTMB agrees with and will comply: #3, 4, 7, 8, 9, and 12
3. Audit recommendations DTMB disagrees with: None

Agency's plan to address the recommendations

Recommendation No. 1: Governance Structure

We recommend that DOS and DTMB continue their efforts to implement an effective governance structure over the BAM project.

Agency Response:

DOS and DTMB agree and have complied with the recommendation. The departments have implemented and will continue to practice an effective governance structure over the BAM project. As noted in the audit report, DOS and DTMB have already revised the BAM project's governance structure in March 2011. The new governance structure replaced the BAM Steering Committee with an Executive Committee and created separate program management and project management teams. Also, the program management team created a charter that established goals and objectives for managing the BAM project. In addition, the Executive Committee began keeping minutes of its meetings and began documenting its approval of the BAM project changes.

Recommendation No. 2: Contractor Payments

We recommend that DOS ensure that all payments to its development contractor are made in compliance with contract terms or BAM project procedures.

Agency Response:

DOS agrees and has complied with the recommendation. DOS and DTMB will continue to ensure that all payments to its development contractor are made in compliance with contract terms or BAM project procedures, since the payment process is a joint responsibility. Members of the executive committee discuss and approve payments and, since January 2011, initial approvals are obtained by the program management team prior to executive approval. All payments are authorized by appropriate levels in both DOS and DTMB, and final payments are issued to the vendor by DTMB.

Recommendation No. 3: Enforcement of Contract Provisions

We recommend that DOS and DTMB enforce contract provisions that were designed to protect and compensate the State for unsatisfactory contractor performance.

We also recommend that DOS and DTMB collect the liquidated damages to offset payments and any damages the State has incurred.

Agency Response:

DOS and DTMB agree with the recommendations. The departments have ensured that the appropriate steps are in place for offsetting liquidated damages and the completion of performance reviews through the contract amendment process.

Also, the program management team will be documenting changes in key personnel. A written memo will accept or reject the change in key personnel. The contract will be updated with any changes in key personnel. DOS and DTMB will fully comply with the recommendation by December 31, 2012.

Recommendation No. 4: Impact of Significant Changes

We recommend that for future changes, DOS and DTMB sufficiently assess the impact of significant changes to the BAM project.

Agency Response:

DOS and DTMB agree with the recommendation and will formally assess impacts of significant changes to the BAM project. DTMB has implemented specific reporting requirements and monitoring activities to monitor changes and statuses on all projects (e.g. monthly status reports, portfolio reporting and Mi-TechStat status reviews). Additionally, enterprise control objectives to address the roles and responsibilities of contracted PCOs, who will be responsible for, but not limited to, monitoring project status and changes, evaluating recommendations and conducting feasibility studies, will be completed by January 2013. DOS and DTMB will fully comply with the recommendation by January 31, 2013.

Recommendation No. 5: Procurement Process

We recommend that DTMB ensure that all future procurements for BAM and other information systems are competitive and unbiased.

Agency Response:

DTMB agrees and has fully complied with the recommendation. DTMB will continue to ensure that all procurements for BAM and other information systems are competitive and unbiased. In 2007, DTMB revised its procurement practices to prevent vendors who assist in the development of business requirements from bidding on the subsequent development projects. Section 2.035 of the IT template states: "Contractor acknowledges that, to the extent this Contract involves the creation, research, investigation or generation of a future RFP; it may be precluded from bidding on the subsequent RFP. The State reserves the right to disqualify any Bidder if the State determines that the Bidder has used its position (whether as an incumbent Contractor, or as a Contractor hired to assist with the RFP development, or as a Vendor offering free assistance) to gain a competitive advantage on the RFP."

The Re: START program ended in 2012 and has been replaced with a Vendor Managed Solution (VMS) for acquiring staff augmentation services which was competitively bid.

Recommendation No. 6: Information Reported to Legislature

We recommend that DOS report complete and accurate information about the cost and status of the BAM project to the Legislature.

Agency Response:

DOS agrees and has complied with the recommendation to report accurate and complete information about the costs and status of the BAM project. The 2011 report to the Legislature complied with the recommendation and followed the requirements in the legislation.

Recommendation No. 7: Project Documentation

We recommend that DOS and DTMB prepare, or ensure that its development contractor prepares, all required project documentation.

Agency Response:

DOS and DTMB agree with the recommendation. The departments will continue to ensure that the development contractor prepares quality and acceptable project documentation. DOS and DTMB will take appropriate actions when required documentation is not received from the vendor. DTMB has implemented specific reporting requirements and monitoring activities to monitor changes and statuses on all projects (e.g. monthly status reports, portfolio reporting and Mi-TechStat status reviews). Additionally, enterprise control objectives to address the roles and responsibilities of contracted PCOs, who will be responsible for, but not limited to, monitoring project status and changes, evaluating recommendations and conducting feasibility studies, will be completed by January 2013. All contract deliverables will be incorporated into the project plans with target dates by December 31, 2012. DOS and DTMB will fully comply with the recommendation by January 31, 2013.

Recommendation No. 8: Independent Assessment of Troubled Project

We recommend that DTMB's PMM require independent assessments of troubled projects. We also recommend that DTMB conduct an independent assessment of the BAM project's status.

Agency Response:

DTMB agrees and has complied with the recommendations. DTMB has taken significant proactive steps to address troubled projects. At the request of the new DTMB Executive Team, effective January 11, 2012, a monthly Mi-TechStat process has been implemented which identifies and assesses select troubled projects. Projects are identified as 'troubled' using consistent standardized criteria based on PMBOK (Project Management Book of Knowledge). The Mi-TechStat Review Committee determines appropriate action, if any, in addition to the corrective actions for the project. The representation of the Mi-TechStat Review committee has been designed to include other governmental or vendor IT partners. Steps are also in place as part of DTMB's PMM methodology, which requires Corrective Action Plans (CAPs) be submitted, approved, and independently monitored by DTMB for all troubled projects. DTMB will

conduct a Mi-TechStat Review meeting by the end of November 2012 specifically to assess the BAM project.

In March 2011, at the request of the new DOS Executive team, DOS and DTMB pursued an Independent Validation & Verification (IV&V). One of the purposes of the IV&V is to ensure the work deliverables and processes generated by the team meet project goals and requirements. The IV&V vendor contract has been executed and work will begin in September 2012.

Recommendation No. 9: Quality Management Function

We recommend that DOS and DTMB implement all aspects of an effective quality management function for the BAM project.

Agency Response:

DOS and DTMB agree with the recommendation. Prior to the audit, in March 2011, DOS leadership requested the engagement of an IV&V to ensure effective and efficient quality management functions for the BAM Project. The IV&V vendor contract has been executed and work will begin in September 2012. Structured walk-throughs of the software code will be conducted prior to implementation of each code release. Target date for structured walk-through is November 2012 with additional ones to be scheduled according to project plans. DOS and DTMB will fully comply with the recommendation by November 30, 2012.

Recommendation No. 10: Project Risk Management

We recommend that DOS and DTMB improve their risk management processes for the BAM project.

Agency Response:

DOS and DTMB agree and have complied with the recommendation. As a result of the revised project governance implemented in March 2011, project management processes have been improved, including the Risk Management Plan.

Recommendation No. 11: Development Contract Terms and Conditions

We recommend for future contracts and amendments, DOS and DTMB improve the development contract terms and conditions to better protect the State's interest.

Agency Response:

DOS and DTMB agree and have complied with the recommendation. Since 2005, DTMB has required that development and implementation contracts be awarded to different vendors. DTMB has also developed a Contract Management Toolkit. The toolkit provides DTMB and State agency staff with a consistent method to establish and determine that deliverable objectives are being met and payments are made in accordance with contract provisions, and not for inoperable deliverables.

Furthermore, DTMB will ensure the cited issues are addressed in all future bidding, contracts and specifically in the upcoming BAM contract amendment. Contract

language will be modified to include criteria that reflect industry contract management best practices.

Recommendation No. 12: BAM Project Costs

We recommend that DOS and DTMB account for all costs associated with the BAM project. Also, we recommend that DTMB improve its guidance to State agencies for accounting for IT project costs and identifying which IT development costs should be capitalized and reported for GASB Statement No. 51.

Agency Response:

DOS and DTMB agree with the recommendation. DTMB Financial Services is working work with the DTMB IT General Managers to review projects which may meet capitalization thresholds. DTMB Financial Services will conduct a final review during year-end closing of DCDS activity and costs by AC3 to ensure all development projects meeting the threshold were capitalized by November 5, 2012.

OFM has issued additional guidance to agencies regarding GASB 51 compliance and will review agency submissions of intangible assets for accuracy and completeness during the year-end closing process. Capital Asset Reports will be submitted to OFM by October 29, 2012. DOS and DTMB will fully comply with the recommendation by November 30, 2012.