STATE OF MICHIGAN
DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
LANSING

GRETCHEN WHITMER
GOVERNOR

TRICIA L. FOSTER
DIRECTOR

December 26, 2019

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

Dear Mr. Lowe:

In accordance with the State of Michigan, Financial Management Guide, Part VII, following are 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 Department of Technology, Management and Budget, Modernization of Legacy IT Systems Audit.

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

Sincerely,

Tricia L. Foster, CPM, ACoM
Director DTMB

c: Representative Shane Hernandez, Chair, House Appropriations
      Senator Jim Stamas, Chair, Senate Appropriations
      Melissa Schuiling, Office of the Auditor General
      JoAnne Huls, Executive Office
      Jay Rising, Executive Office
      House Fiscal Agency
      Senate Fiscal Agency
      Brom Stibitz, DTMB   Eric Swanson, DTMB
      Rob Surber, DTMB   Michelle Lange, DTMB
      Caleb Buhs, DTMB   Mike Williams, SBO
      John Juarez, SBO

Department of Technology, Management and Budget,
Modernization of Legacy IT Systems Audit

Summary of Agency Responses to Recommendations

1. Audit recommendations DTMB fully complied with: #1, 4
2. Audit recommendations DTMB agrees with and will comply: #2, 3
3. Audit recommendations DTMB disagrees with: N/A

Agency Responses to Recommendations

Audit Finding #1 - Expanded ITIM program needed.

DTMB agrees and has complied with the recommendation. DTMB recognizes
the importance of continuous improvement of the State's IT investment program
and will continue to refine and mature existing processes. Since the completion
of the OAG's audit, DTMB has addressed the five best practices identified in the
audit report. Specifically:

a. DTMB reviewed the GAO's ITIM framework and the IT Governance
   Institute's VAL IT framework, and adopted VAL IT as a better fit with other
   SOM frameworks such as COBIT and the Capability Maturity Model
   Integrated (CMMI). The DTMB IT Steering Committee formally adopted
   Val IT as the SOM investment management framework on February 18,
   2018. Full implementation of the framework is an ongoing process.
b. DTMB established an enterprise IT Investment Management Board in May
   2018. Membership includes representatives from DTMB, SBO, Dept. of
   Health and Human Services, Treasury, Dept. of Natural Resources, Dept.
   of Transportation, and the Civil Service Commission. The purpose of the
   Board is to define the end-to-end process of soliciting projects, defining
   eligibility criteria, selecting project candidates for inclusion, and providing
   executive oversight of the following projects:
   - All projects chosen to be included in the IT Investment Fund (ITIF)
     portfolio. These projects are specifically designated to receive
     funding from ITIF as designated by Public Act 207 of 2018 Section
     814. The scope of these projects is focused on legacy application
     replacement and technical infrastructure improvement. They may
     be enterprise or agency level projects.

- All projects chosen to be included in the Enterprise Information Technology (EIT) portfolios. Projects in this category include all non-ITIF projects that meet the following criteria:
    - Common solutions that:
        - Support statewide or multi-agency business processes; or
        - Provide new or significantly enhanced technical infrastructure capability
    - Are not routine product or infrastructure upgrades (e.g., Microsoft Windows, Oracle Database)
    - Are new initiatives for FY19 and later
- All IT investment candidates resulting from proposals for change (PFC), not included in the categories listed above.

The IT Investment Management Governance Board acts as an advisory board that provides ITIF and EIT funding recommendations to both the State Budget Office (SBO) and the DTMB Director.

For FY20 the IT Investment Management Board will review IT Investments that are submitted by Agencies as a proposal for change (PFC) / Investment Request. The IT Investment Management Board will score IT Investment candidates and provide a recommendation to the SBO director and DTMB director.

For FY21, the IT Investment Management Board will provide a common standard for Agency Investment Management boards to use when evaluating and selecting IT investments. Investment requests outside of the Agencies current service baseline (CSB) will be evaluated by the IT Investment Management Board (described above). For those IT investments funded by and Agency's CSB, the IT Investment Management Board will not evaluate the results of the selection but will ensure the agency followed the common standard. The standard that is adopted for the method of review will be approved by normal IT Governance procedures.

c. The DTMB Enterprise Portfolio Management Office (EPMO) is leading an initiative to expand the SUITE framework to include not only existing guidance for project management and systems engineering, but also investment management. A new Investment Management policy includes three primary components: business case, governance, and benefits realization. The draft policy is currently being reviewed by all executive

branch agencies for an impact analysis. Publication in the State
Administrative Guide is expected by the end of the calendar year

d. Improvements to the existing State of Michigan Call for Projects process
are in development and were implemented in the new Project Portfolio
Management (PPM) tool beginning in October 2018. Additionally, a
change to the alignment between the Call for Projects and the Budget
Cycle is in progress and expected to be implemented for FY21. The
changes to the alignment will provide top-down mapping of agency
business priorities to SOM strategic goals and DTMB IT strategies, which
will enhance the ability identify investments with higher strategic value.
The changes in alignment will also allow agencies to have a more
comprehensive view of IT changes and impacts as early as 24 months
prior to the deadline for budget submissions. Both results should make
agency IT investment estimating more accurate and evaluation and
selection more efficient.

e. The DTMB EPMO developed and currently delivers training on candidate
creation, Call for Projects, and benefits realization. The EPMO already has
a comprehensive SUITE training program, which will be updated to
include investment management to coincide with publication of the
updated overarching policy and investment management standard. The
EPMO will develop and implement initial and ongoing training related to IT
investment management. The EPMO will also provide, upon request,
assistance with integrating ValIT best practices into agency IT Investment
evaluation and selection for any given budget year.

Audit Finding #2 - Additional IT investment policies and procedures needed.

Agree. DTMB and SBO have already established foundational processes and
recognize the need to continue to strengthen and broaden that base.
Specifically, SBO revised instructions for the budget development process in
August 2018, that further document and align DTMB's complementary call for
projects processes with budgetary requests identifying IT resource needs. In
concert with adopting the Val IT framework, DTMB has started to implement
Technology Business Management (TBM), a leading commercial and
federal/state framework of standards and best business practices for relating
business value for IT investments, and to deliver innovation for the organization.
Key benefits of TBM include alignment of budget and resource plans to strategic
business priorities, budget and spending transparency, and portfolio optimization.
Additionally, DTMB and SBO are working collaboratively as members of a

workgroup which is developing standard investment management processes that align with VAL IT. These standard processes will be -introduced as best practices and incorporated in SUITE to ensure compliance guidance is available to all SOM departments. The workgroup is scheduled to complete its work by December 31, 2018.

For the FY20 Budget process, the SBO and EPMO collaborated and enhanced instructions provided to the agency to assist with the evaluation and selection of the IT Investment Management Board's activities in February of 2019. For FY21, efforts are ongoing to streamline candidate data to optimize evaluation and selection processes

DTMB has started to implement Technology Business Management (TBM), a leading commercial and federal/state framework of standards and best business practices for relating business value for IT investments, and to deliver innovation for the organization. Key benefits of TBM include alignment of budget and resource plans to strategic business priorities, budget and spending transparency, and portfolio optimization.

As of November 1, 2018, the workgroup has evaluated several larger agency as-is processes for evaluation and selection to determine an initial concentration for best practice guidance and is building out process models for agencies to utilize for the FY20 Call for Projects. DTMB will comply with the recommendation by July 2020.

Audit Finding #3 - Processes to improve business cases needed.

Agree. The DTMB EPMO has developed a detailed candidate project user guide. DTMB has developed a process to monitor candidate project data and measure required completion to ensure that data is populated in the enterprise PPM tool. As noted above in the response to Finding #2, DTMB and SBO are working together to fully integrate candidates, business cases, and budget requests. SBO will revise its budget development instructions to ensure consistent presentation of a business case for candidate projects from initial inception during the SOM Call for Projects through resource requests during the budget development process. SBO will provide additional direction regarding agency ROI and TCO calculations.

SBO revised instructions for the budget development process in August 2018, which requires additional detail around the investment business case, including ROI, TCO, and a Benefits Realization Plan. For FY20, the EPMO will partner with SBO to assist the Agencies in completing their IT PFC submissions. A major goal of this partnership is to promote best practices and consistency of IT PFC data, including TCO, Benefits Realization, and ROI.

Further improvements will be identified and included in the budget instructions for FY21 as approved by the incoming administration. DTMB will comply with the recommendation by September 30, 2020.

Finding #4 - Additional ITIM program metrics needed.

DTMB agrees and has complied with the recommendation. DTMB recognizes the need for the State of Michigan to continue moving up the maturity scale in its IT investment management program. Given the State's current basic maturity level, current metrics meet expectations and management needs. As the State continues to mature its investment management processes and implements the Val IT framework and TBM, metrics will be revised accordingly.

To date, no additional metrics have been identified beyond existing metrics to measure IT Investment performance. Any additional metrics identified, will be proposed, reviewed and approved via the SUITE Decision Information Flow, which includes the SUITE Approval Team, the EPMO Director, and the DTMB IT Steering Committee.