



INFORMATION TECHNOLOGY TASK FORCE

Final Report

February 5, 2020

IT Task Force Members

Chairman Huizenga

Representative Whiteford

Representative Glenn

Representative Sabo

Representative Hammoud

TABLE OF CONTENTS	
LETTER FROM CHAIRMAN HUIZENGA	3
MISSION STATEMENT	4
OVERVIEW	4
MAJOR STATE IT SYSTEM/PROJECT INEFFICIENCIES	5
FINDINGS	
DEPARTMENT OF TECHNOLOGY, MANAGEMENT, AND BUDGET (DTMB)	6
DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS)	8
DHHS & DTMB: WORKING TOGETHER	10
RECOMMENDATIONS FROM THE TASK FORCE	10
CONCLUSION	13
EXHIBITS AND SUPPORTING DOCUMENTS	15
Appendix A - DHHS IT Projects	16
Appendix B - Dewpoint: Perspective DHHS / DTMP Agile Structure	18
Appendix C - Auditor General IT Requested Audit	20
Appendix D - MiSACWIS Rollout Process	25
Appendix E - SBO DHHS IT Budget Shortfall	30

Dear Chairman Hernandez,

The House Information Technology Task Force – created in June 2019 -- submits this report with findings and recommendations related to the State of Michigan's overall management of IT projects.

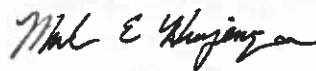
This bipartisan Task Force was established to help resolve the chronic cost overruns and inefficiencies affecting state information technology projects. The goal is to help the state better manage IT projects, improve services for residents and invest taxpayer dollars more effectively. In multiple meetings with state departments, vendors and other stakeholders, we researched the failures of state IT projects with the goal of identifying solutions to ensure these failures do not become systematic deficiencies.

Information technology is a multi-faceted area that encompasses networks, physical hardware, operating systems, applications, databases, storage, and servers. It is constantly evolving, and as new technology is created, systems and processes must be updated. State departments and the legislature must work together to ensure proper changes are made to improve the overall performance of Michigan's IT systems.

The recommendations included in this report are an important step in that direction. I want to thank the Task Force members for their work, and Chair Hernandez for your support and direction.

It has been my honor and pleasure to serve the residents of Michigan as Chair of the House IT Task Force. It is the Task Force's belief that this bipartisan effort will produce significant results and make a great difference for many years to come.

Respectfully,



Mark E. Huizenga

Mission Statement

The House Appropriations IT Task Force was commissioned June 5, 2019, due to cost overruns and inefficiencies plaguing state information technology projects. The mission statement of the IT Task Force is for the state to provide IT services that meet the needs of Michigan residents, businesses and other users in a fiscally responsible way with greater accountability.

The IT Task Force met with numerous vendors, stakeholders, and state departments to develop an understanding of how information technology systems are vetted, contracted and managed. This information shaped the Task Force's recommendations relating to greater oversight, boilerplate requirements and reporting, which will lead to more cost-effective and efficient systems going forward. Through accountability and continued partnership with the respective departments, the Task Force is optimistic our state can improve its IT performance while looking toward the future with innovative ideas and technologies.

Overview

Our findings shed light on why problems have occurred and our recommendations help address those shortcomings:

Best practices: As with any large enterprise, some projects have better management practices than others. We must do a better job implementing 'best practices' related to IT procurement and management across the board in all state departments. One example is our recommendation that all contracts include "clawback" provisions to hold vendors accountable.

Standardization: In some cases, definitions and accounting practices are so vague there is no clear understanding of what an IT project cost or whether it was within budget. Definitions and accounting practices must be standardized so all state IT projects are using the same terminology and accountability measures.

Oversight: Transparency must be improved so the legislature, operating as the steward of taxpayer dollars, has better information to make informed decisions about the state's IT needs. As part of this effort, the Task Force requested that the State Auditor General review work done by vendors to ensure true costs for projects are reflected from start to finish.

Communication: There must be better communication within and between departments to clearly identify who is responsible for particular portions of IT projects. Centralizing projects to DTMB will help improve communication and coordination. Furthermore, greater deference must be paid to clearer communication between state departments and the legislature.

Major State IT System/Project Inefficiencies

Michigan was an early leader in its management of state IT systems. Governor Engler through Executive Order 2001-3 created the Department of Information Technology (DIT)¹. DIT was one of the first departments of its kind in the country, managing the state's information technology investments and improving the delivery of services to Michigan residents through the consolidation of data centers. DIT was merged into the Department of Management and Budget under Governor Granholm's Executive Order 2009-55, creating the Department of Technology Management and Budget (DTMB). Over the past decade many state departments have been plagued by poorly designed, poorly implemented, or outdated software systems.

In 2015, the state sued Hewlett-Packard for failing to meet the requirements of a \$49 million contract for the Department of State's (DOS) Business Application Modernization (BAM) project. The project initially began in 2005 as an effort to replace the department's mainframe used by its branch offices around the state and had an estimated end date in 2010. The state eventually settled with Hewlett-Packard, now known as DXS Technology (a spin-off of Hewlett Packard Enterprise Service segment and Computer Sciences Corporation), for \$13 million in 2017.²

In 2017, DOS moved forward once again with its IT modernization project, now known as the Customer and Automotive Records System (CARS), which will be implemented by the vendor, Fast Enterprises, with expected completion in 2022³.

The Department of Health and Human Services (DHHS) has had significant challenges with system implementation, most notably the system it uses to track child welfare cases. This program is called the Michigan Statewide Automated Child Welfare Information System (MiSACWIS), which was implemented in 2014 at a total cost of \$231 million. It was announced in June 2019 that DHHS would be abandoning this system for several reasons including lack of reliability and poor user experience. Additionally, a class action lawsuit, *Dwayne B. v. Snyder, 2006*, resulted in heightened federal oversight due to program concerns. DHHS has announced the current MiSACWIS program will be replaced with a new program, beginning with a request for proposal (RFP) that went out for bid in December, 2019.

In 2017 DTMB announced that an October 2016 software update to the Michigan Integrated Data Automation System (MiDAS), a \$47 million system used by the Unemployment Insurance Agency (UIA), exposed sensitive information that users of the program were not authorized to view. Information exposed in this large scale data breach included names and social security numbers of an estimated 1.87 million residents. The

¹ <http://www.legislature.mi.gov/documents/2001-2002/executiveorder/htm/2001-EO-03.htm>

² <https://www.detroitnews.com/story/news/local/michigan/2017/04/25/state-hp-settle-failed-computer-contract/100909770/>

³ <https://www.michigan.gov/sos/0,4670,7-127--428778--00.html>

problem went unnoticed for four months. DTMB identified the problem on January 30, 2017 and repaired the problem on January 31st of the same year.⁴

Additionally, from October 2013-August 2015 MiDAS was found to have an estimated 93% error rate, which lead to nearly 20,000 residents improperly being accused of fraud due to the program's automated process. This led to a class action lawsuit in 2015, *Bauserman v. Unemployment Insurance Agency*, which is yet to be decided.

The project initiated in September of 2017 with a budget of \$700,000 and a contract awarded to DXC (formerly Tri Bridge). According to the department, the total project cost is now projected to be approximately \$2.6 million, with \$916,000 contributed by MDCR, over \$1.6 million allocated by ITF, and \$96,000 contributed by DTMB. The cost increase is in large part a result of a failure to understand at the outset the state of the existing system and the amount of work needed to modernize it.

Lastly, the Gaming Control Board initiated a project in 2017 to replace 27 legacy systems. The project was awarded to Unisys at a cost of \$9.3 million. In October 2017 a corrective action plan was initiated resulting in a \$1.5 million change. After \$1.4 million was paid to Unisys the contract was terminated in May 2018 for a variety of reasons. In April 2019 the first phase of the Gaming Control Board CHIPS system went live replacing two of the 27 legacy systems.

These major IT problems and lawsuits, along with spending over-runs and inefficiencies led to the creation of the House Appropriations Committee IT Task Force. This report consists of findings of the IT Task Force and provides recommendations to address current issues and help prevent future problems from arising due to lack of proper oversight and project management failure.

Findings

Department of Technology, Management, and Budget

Current Oversight

In 2015, the state established the Enterprise Project Management Office (EPMO) to align IT projects from eight different portfolio management offices (PMOs) that operated in 28 separate agencies.⁵ PMOs provide best practice and standards for project management within an organization. EPMOs have the same function as PMOs but provides alignment for all portfolio activities, projects, and programs to obtain organizational objectives and goals.

The function of the EPMO is to manage the state's IT portfolio by standardizing IT portfolio management practices to IT projects, applications, and investments. Prior to the EPMO, each department and agency was run differently and information on projects would take

⁴ https://www.mlive.com/news/2017/02/computer_glitch_potentially_ex.html

⁵ <https://www.govtech.com/state/Michigan-Improves-IT-Project-Oversight-with-New-Enterprise-PMO.html>

months to gather. Additionally, the EPMO produces quarterly reports to the legislature showing key transformational metrics that provide detail on the progress of IT projects.

Customer Services

Our goal is to assist in the facilitation of IT systems that provide the best and most efficient delivery of services to our residents. Our Task Force has heard of too many constituents spending an unreasonable amount of time on hold to solve their IT concerns. Services have improved, however, as DTMB's client service center first call resolution has improved from 50% to 85% and wait times have been reduced from over an hour to four minutes. Even with this progress, the Department of Health and Human Services (DHHS) handles its own calls regarding its systems. Only if a call cannot be addressed by DHHS does DTMB's client service center receive the call for final resolution. This disconnect is problematic in ensuring efficient customer service for end users.

Procurement

The IT Task Force also focused on procurement, which is the DTMB process for soliciting and awarding contracts. The department uses industry standards through a six-step process:

Step 1. Analyze the need – What is needed, what is the state looking to buy and what existing state contracts may meet the need.

Step 2. Solicitation Development - Vendor communication, pre-proposal meeting Q/A, and amendments to the request for bid if necessary.

Step 3. Evaluation Process - Determination on whether the vendor is responsive and responsible.

Step 4. Award Process - Award recommendation and evaluation synopsis with vendor debrief meetings which include why a vendor got denied, vendor protests and transparency of the process.

Step 5. Contract Development – Contract integration, final negotiations, and approval.

Step 6. Contract Management – Authorization to begin along with contract monitoring, contract compliance reporting, and change notices.

Clawback Provisions

During procurement, clawback provisions are generally included to ensure accountability of the vendor. A clawback provision provides a penalty when projects are not on track or the vendor has failed to meet the requirements set in the contract. The Task Force discovered that clawback provisions have not always been included in past contracts. If a contract does not include a clawback, departments still have the ability to withhold funding from the vendor until the problem is resolved. However, DTMB has become better at including similar clauses in recent contracts.

Findings

Department of Health and Human Services

Current Oversight

In 2015, Governor Snyder signed an order that merged the Department of Human Services and the Department of Community Health into one single department known the Department of Health and Human Services. As part of this merger, IT programs had to integrate with a partnership in business and technology. In assisting with this transition, the Business Integration Center (BIC) was created. BIC consisted of IT and project management administration with a focus on technology initiatives.

In 2018, BIC was restructured into the Strategic Integration Administration (SIA) after numerous IT budget shortfalls. The purpose of both BIC and SIA is to bring management and business together including organizational change management and IT project management. SIA also ensures integration of DHHS services to ensure the focus is on residents while providing oversight to the department so that projects are on track with deadlines and spending. The transition allowed SIA to focus on the delivery of IT projects by realigning functions, eliminating duplication of efforts within the financial functions related to IT, and allowing greater transparency and accountability of IT project spending.

Programmatic Changes

DHHS has over 300 IT systems, but spends a majority of its IT budget on five systems, Bridges, CHAMPS, MiCES, MiSACWIS, and the Data Warehouse. There are numerous programmatic dilemmas with the IT projects in DHHS. The Task Force learned that the Universal Case Load (UCL) project was designed to balance the workload between caseworkers across the state. While it was well intended, the program rollout was poor and traditional channels of oversight, including having the program approved by BIC, were not met. By not utilizing a systematic method for vetting the program a continued imbalance in workload continued resulting in horrible experiences for end users in many districts.

Further, subsequent reprogramming of the UCL was not charged to the project but rather to the costs of maintenance and operations (M&O). Through this discovery, some of the accounting that the Task Force received did not have accurate total project costs. DHHS does not have any firm definitions of "maintenance and operations" and more shockingly, DHHS does not define "over-run".

According to the Office of the Auditor General, "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."

However, improvement has been made by the department. Recently, the department moved from a traditional waterfall project delivery approach to an Agile⁶ project delivery approach. A waterfall approach is when an IT project is completed in different stages⁷, which leads up to the full release to the consumer. It is a much longer approach. Agile is shorter, taking a maximum of a month to rollout the project including initiation, design, and testing with a quick full release to the consumer within that timeframe. Agile is expected to enable DHHS to respond faster to changes, reduce the chance of large-scale failures, allow for continuous improvement throughout the project lifecycle, and allow for smaller and more frequent enhancements.

MiSACWIS

It is no secret that the DHHS has had significant challenges with the Michigan Statewide Automated Child Welfare Information System (MiSACWIS), which was implemented in 2014 at a total cost of \$231 million. It was announced in June 2019 that DHHS would be abandoning this system for several reasons including lack of reliability and poor user experience. The Task Force found that the outdated platform MiSACWIS was developed upon was unsustainable and the new approach will be module based, meaning the system will not be built as one unit, which should result in a better product launched in a more rapid manner.

Currently, there is a Request for Proposal (RFP) out for a vendor to provide an improved child welfare system. The department will not be providing a single solution, but rather launching various modules over the next several years. [SEE APPENDIX D] Overall, DHHS expects the first module to be completed as soon as 2021. The department created an executive committee in the summer and it is tasked with overseeing the transition to the new system.

Fiscal Monitoring and Oversight

The department's IT budget had a General Fund shortfall of \$15 million for FY 2018 and an initial \$45 million for FY 2019. This is absolutely unacceptable and the Task Force had to dive into the causation of this shortfall. Numerous processes of accountability and leadership shifts were the biggest drivers of the shortfall. The department took quick steps for remediation, but proper oversight to make certain these changes stay in place will be the responsibility of both the department and the legislature.

DHHS's IT fiscal monitoring and oversight were moved under the financing department of DHHS. DTMB and DHHS are involved in weekly meetings to discuss fiscal matters, project management and processes. Through this work, DHHS was able to re-evaluate

⁶ Agile project management is an iterative and incremental approach to delivering requirements throughout the project life cycle. At the core, agile projects should exhibit central values and behaviors of trust, flexibility, empowerment and collaboration. For more, see here: <https://www.apm.org.uk/resources/find-a-resource/agile-project-management/>

⁷ <https://activecollab.com/blog/project-management/waterfall-project-management-methodology>

projects and save a total of \$11 million: \$5.5 million by “pausing” projects and \$5.5 million through contract renegotiations.

Findings

DHHS & DTMB: Working Together

SIA vs. EPMO

The Task Force was interested in how these two managerial practices were similar and whether the two could work together in coming to solutions. An outside entity specified that the two groups are very similar and that the EPMO has come a long way from when it originated. The task force confirmed that the EPMO has improved significantly since the February 2017⁸ Performance Audit report concluded numerous material deficiencies within the EPMO. The follow-up to that report conducted in August 2018⁹ showed continuous improvement to those material conditions by DTMB.

Recommendations from the Task Force

Our recommendations are focused on transparency, oversight, accountability, and being fiscally responsible with taxpayer dollars. The Task Force is excited and willing to work through these recommendations with other members, state departments, and the executive in order to achieve success in our IT management and systems. We are optimistic that the following recommendations will lead to more accountability of our system in the future.

Transparency

Both departments, DHHS and DTMB, should provide the legislature with a report on all IT projects greater than \$250,000 that exceed their budget and are over 25 percent past the estimated completion date. These reports shall be provided to the legislature and the non-partisan Senate and House Fiscal Agencies quarterly.

Further, DHHS shall report on all IT projects, including an explanation of whether a project is court ordered, federally required, statutorily required, legislatively authorized, or solely a department initiative, should be provided to the legislature. This will help give priority to the IT projects that impact the residents of the state the most.

DTMB should establish definitions related to project spending and other necessary definitions across all departments (such as over-run, maintenance, and operation). Once common usage IT definitions have been developed by DTMB, the legislature should update boilerplate or statute with the definitions of the terms.

DHHS should provide the legislature with accurate total project numbers in order to improve collaboration. DHHS will be better able to provide those numbers if it is provided

⁸ <https://audgen.michigan.gov/wp-content/uploads/2017/02/r071058516.pdf>

⁹ <https://audgen.michigan.gov/wp-content/uploads/2018/08/r071058516F-6336.pdf>

by DTMB with consistent definitions of maintenance and operations (M&O), over-run, and other IT-related terms, and direction regarding allocation of spending when dealing with vendors on a retainer basis.

All departments should continue to transition at an accelerated rate to cloud based solutions vs in house servers, with particular attention to the “total cost of ownership” calculation.

RFP’s can be overly restrictive – DTMB should provide more latitude which should result in more creative solutions. Vendors should provide a broad array of solutions instead of the current model which specifies a detailed solution. This will help provide the end user with more success while providing latitude and project ownership (and accountability for success) to the vendor.

Fiscally Responsible

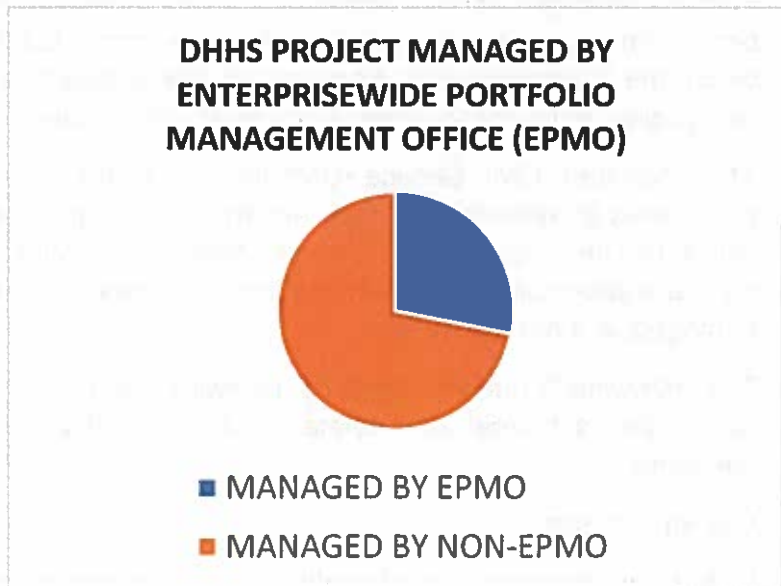
All department procurement contracts should include and abide by clawback repayment provisions in the event of a breach by the vendor. No contract should ever be secured for taxpayers without clawback provisions to hold the vendor accountable.

DTMB bills its vendor contracts monthly, but has a lag time with getting the bill to DHHS. While DTMB is paying the vendor, DHHS does not receive that bill from DTMB in a timely manner. This especially causes problems if it occurs at the end of a fiscal year. DTMB should give departments notice on payment of contracts within 15 days of receiving and paying a procurement contract, to prevent accounting errors and over-runs.

Earlier warnings to the legislature when shortfalls are discovered are the best method of practice by the departments so that the legislature may be partners in helping to solve the problems that brought forward the shortfall.

Oversight

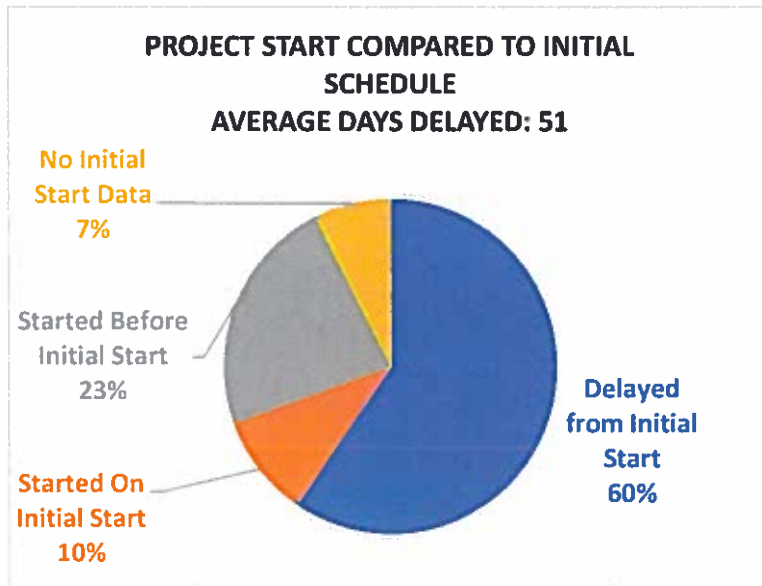
All IT projects should utilize the EPMO process across all departments, regardless of whether DTMB or the individual department is the project manager. Although mandated by PA 389 of 2018, DHHS has not been consistently compliant with this statute.



Although the collaboration and communication between DHHS and DTMB has improved, work still needs to occur. Proper oversight by the legislature to ensure MiSACWIS meetings are continual should be conducted.

The Task Force requested the Office of the Auditor General (OAG) to conduct a review of how the SIA, DHHS, and DTMB account for DHHS IT vendor contracts and projects

with focus on accounting for projects to ensure the true costs for projects are identified from start to finish. The OAG will be releasing their report later this month.



Partnership with Other States

Our IT problems are not unique to just Michigan. That is why it is important that DTMB reviews “best practices” from other states. One way to do this is to visit other states and learn “what works” and “what does not work” for those states. While some organizations may do this, our state would benefit significantly from this work itself. State comparisons should also identify other commercial off-the-shelf (COTS) products prior to developing custom programs either internally or via vendor development.

Further, Michigan should cooperate on purchase agreements with other states for IT projects that are more standard in nature, i.e., major federal requirements. While this does occur, the legislature should encourage this approach before departments develop their own project agreements when it comes to large scale projects.

The Michigan Civil Service Commission should review compensation rates of IT employees to determine if they are market competitive in Michigan and other states. Currently, the industry is facing shortfalls for staffing. The state tends to have lower compensation compared to private contract rates. This results in projects developed and managed at a net higher cost.

The statewide IT budget should be reviewed over a 5-10 year period to show what percent of the state’s budget is IT-related and how that aligns with other states and their IT spending.

Communication

DTMB has fragmented relationships with the departments to which it provides services—particularly related to organizational responsibilities, such as who owns the project.

DTMB must work closely to better set goals and responsibilities with the various departments and clearly articulate who is responsible for the various aspects of project management.

The department should develop easier to understand questions on forms that residents use. This will help guide departments toward success for the end user and our constituencies.

The legislature was part of a MiSACWIS stakeholder group this past summer that was put on by the department. This collaboration was much appreciated and the legislature should be part of the workgroup that is tasked with overseeing the new child welfare system. Involvement during this process will help with not only the proper transition, but ensure proper allocation of funding is provided to guide this project in a viable direction. The legislature and the departments do not want to see another IT failure with this system.

Given the lack of communication between the legislature and department relating to IT expenditures and needs, it is abundantly clear a direct line of communication for such matters must be established. The chair of the General Government Appropriations Subcommittee should function as the liaison between state departments and the legislature regarding IT project management.

DTMB has been working closely to remedy the issues that have arisen over the past few years. In February 2020, the department will launch the DTMB Toolbox which will provide a detailed inventory of the state systems and applications it already owns.

The auditor general has provided several audits for the legislature. Although there continues to be opportunities for improvement, the number of deficiencies continues to decrease. [SEE APPENDIX - C]

Centralization

As IT projects continue to be more important to the way services are delivered, the state continues to centralize projects to DTMB. One major exception to this centralization is DHHS and its use of SIA to manage and fund IT projects. Further, DTMB is responsible for procurement and contracting for all other departments. For consistency the Task Force's vision is that IT procurement, management, and fiscal responsibility should be applied to all departments equally.

DHHS IT systems should be transitioned as soon as possible to the DTMB, resulting in a more consistent process and one centralized department to handle IT-related services. This will include the shift of all IT functions, including the office of SIA, to DTMB.

Conclusion

There is no question the state has come a long way in terms of attempting to properly manage its IT space. In fact, there are many instances in which Michigan is a leader in IT management, procurement, and development. We recognize the work that has gone

into addressing the structural issues and applaud the departments for working towards the goal of fully functional IT solutions. It is our intent to continue to work alongside the departments to sustain the already gained forward momentum in addressing both the issues departments are facing and the concerns the legislature has expressed.

Exhibits and Supporting Documents

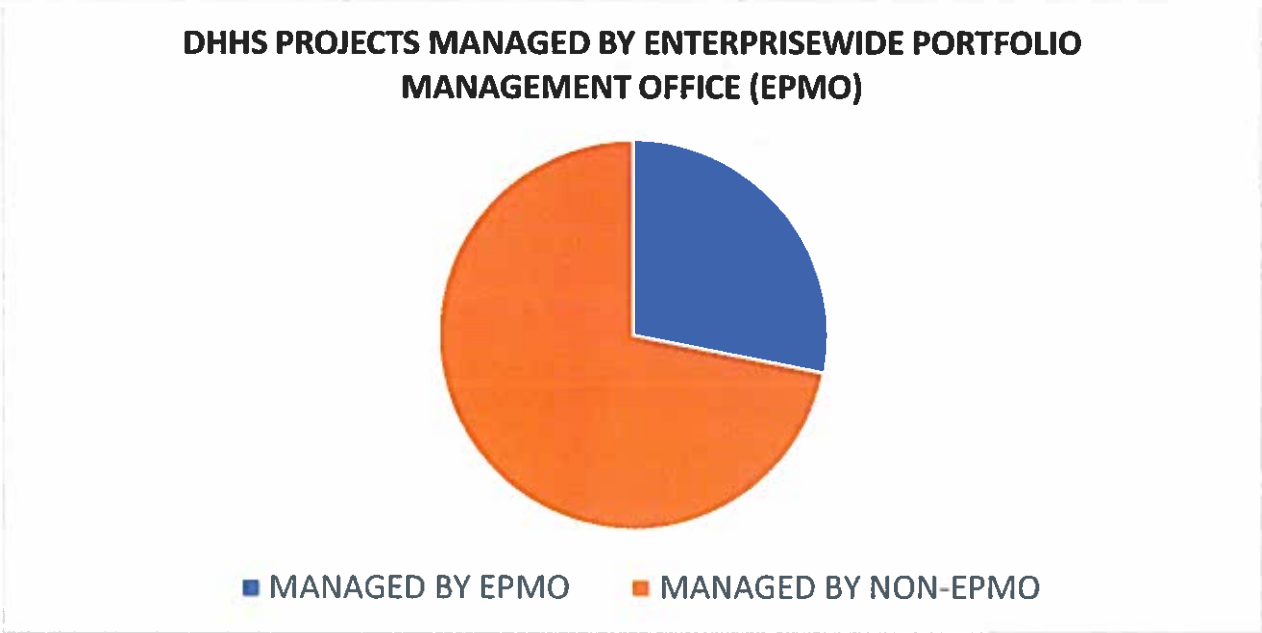
According to analyses prepared by House Fiscal Agency (HFA) staff, there have been 121 DHHS IT projects reviewed from October 1, 2013 through October 12, 2018. Only 34 (28.1%) projects have been managed by EPMO and 87 (71.9%) non-EMPO. Of the 121 projects reviewed the total initial budget was \$383,230,722. Reviewing the 121 projects and comparing their actual finish date compared to their approved start date, the majority 77 (63.64%) of projects were completed 100-500 days past their due date. [SEE APPENDIX A]

On Time	1	0.83%
0 - 100 Days	12	9.92%
100 - 500 days	77	63.64%
500 - 1000 days	18	14.88%
1000 - 1500 days	10	8.26%
over 1500 days	3	2.48%

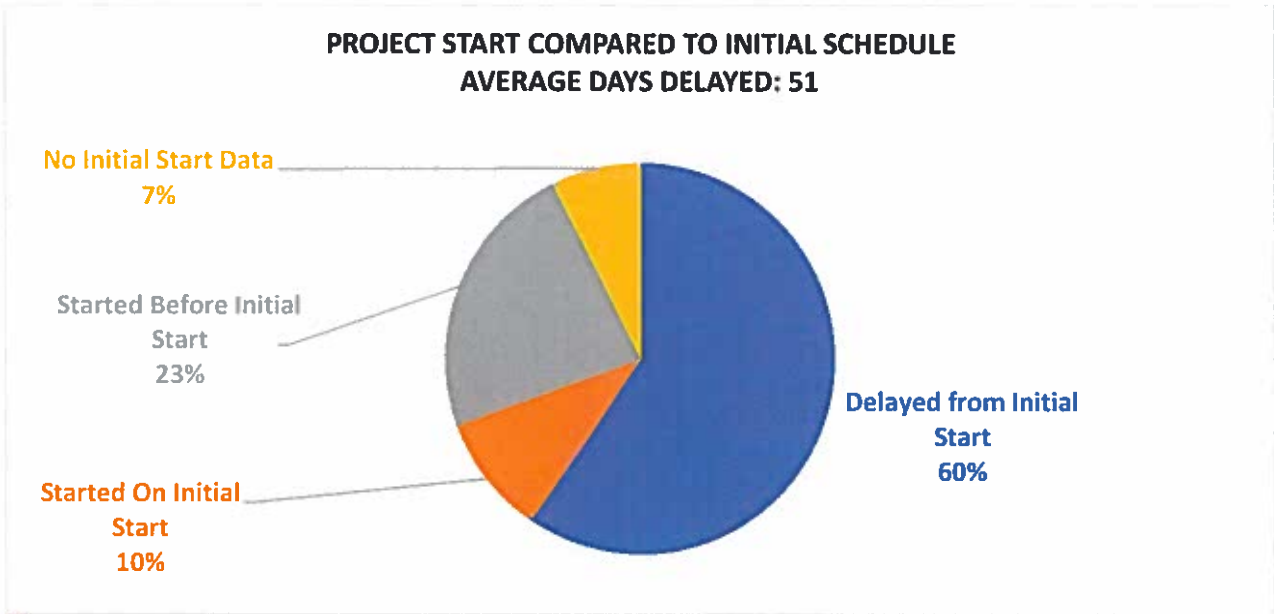
Although HFA, based off EPMO reports has indicated in their analysis that 80%¹⁰ of projects are operating within their budget, recent discussions with HFA staff indicated that subsequent re-work or change order (anything added or deleted from the original scope of a contract) expenditures are not correctly allocated to the projects, resulting in a lower estimate than one that reflects actual project costs. There is uncertainty related to the validity of these EPMO reports. This highlights the inefficiencies created without the presence of an established IT terminology among departments.

¹⁰ EPMO Quarterly Report April 2019

APPENDIX A – DHHS IT Projects



11

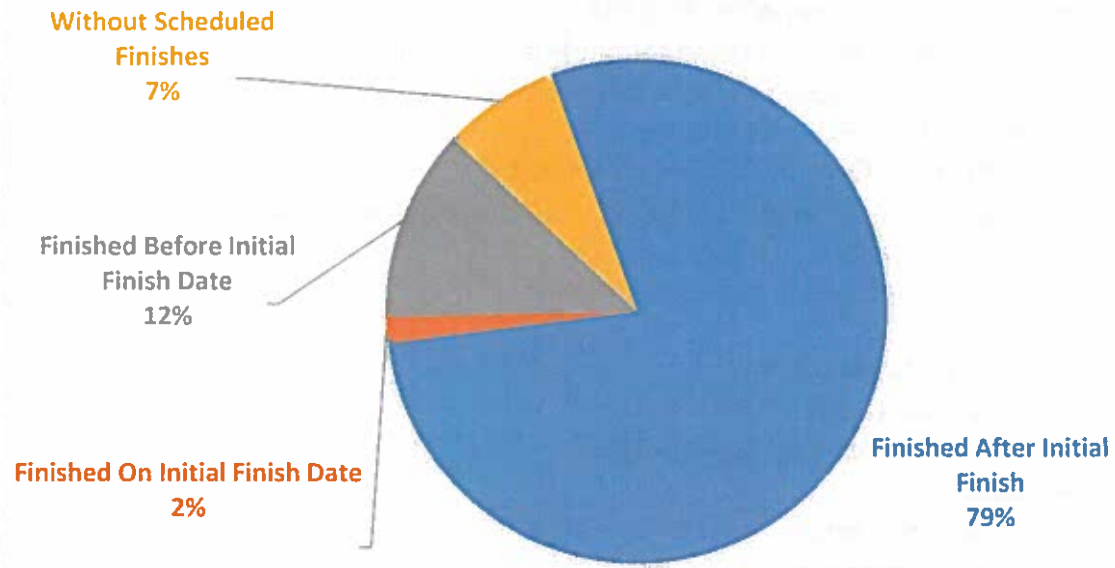


12

¹¹[EPMO Quarterly Report April 2019](#)

¹² [EPMO Quarterly Report April 2019](#)

**PROJECT FINISH COMPARED TO INITIAL SCHEDULE
AVERAGE DAYS DELAYED: 305**



13

APPENDIX B - Dewpoint: Perspective DHHS / DTMP Agile Structure

1. DHHS – Product Managers

- Organizational reporting into SIA
- One overall product manager per business unit (eligibility, child support...)
- Potential for “sub” product managers in each area
- Ratio of 2-4 POs per Product Manager

2. DHHS – Product Owners/Business Analysts

- Organizational reporting into new bureau within business unit
- Number based on area/complexity
- Ratio of 1-3 teams per Product Owner

3. DTMB

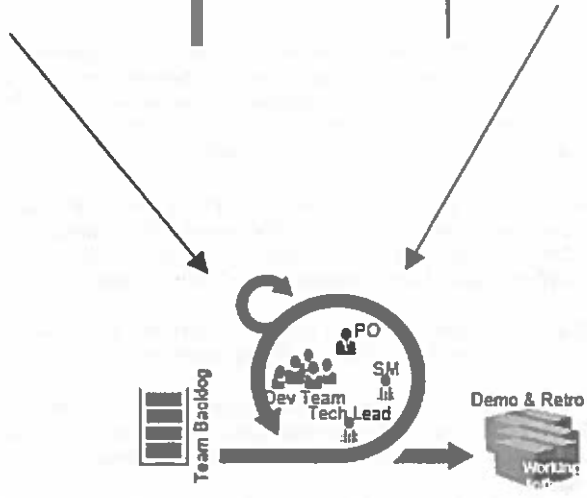
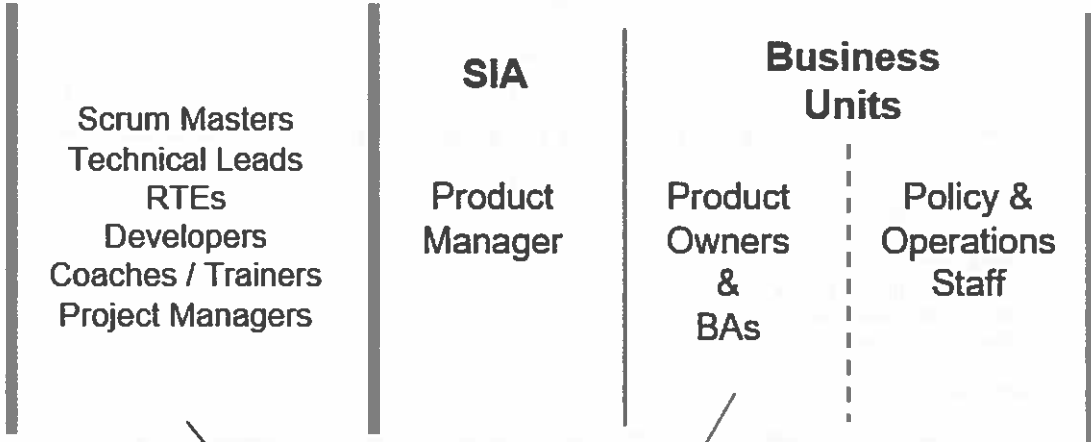
- Scrum Masters (SM)
- Technical Leads (TLs)
- Release Train Engineers (RTEs)
- Developers
- Coaches/Trainers
- Project Managers

4. EPMO

- Needs discussion (enterprise/portfolio)

DTMB

DHHS



APPENDIX C - Auditor General IT Requested Audit



74TH DISTRICT
STATE CAPITOL
P.O. BOX 30014
LANSING, MI 48909-7514

MICHIGAN HOUSE OF REPRESENTATIVES
MARK E. HUIZENGA
STATE REPRESENTATIVE

PHONE: (517) 373-8900
FAX: (517) 373-8697
Mark.Huizenga@house.mi.gov

Doug A. Ringler, CPA
Auditor General
Office of the Auditor General
201 N. Washington Square
Victor Center, Suite 600
Lansing, Michigan

Dear Mr. Ringler:

The Michigan House of Representatives Information Technology Task Force appreciates the work of your office and respectfully requests your review of the Strategic Integration Administration (SIA), Michigan Department of Health and Human Services (MDHHS) and the Department of Technology Management and Budget (DTMB), focusing on the departments' accounting for MDHHS information technology vendor contracts and projects. Our questions are as follows:

1. Has 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?
2. Does DTMB and MDHHS accurately track and account for IT project spending on MDHHS systems?
3. What costs do DTMB and state departments include in the total cost of a project? Does DTMB and MDHHS include all costs (contractor, state employee, hardware, and software) in project cost totals?
4. How are cost overruns in system development projects identified and monitored?
5. Does DTMB and MDHHS have a process for managing and accounting for change orders?
6. How does DTMB and MDHHS inform the Legislature of changes to project scope and project budgets?
7. What is included in a project's maintenance and operation costs? How are these costs accounted for?
8. How is project accounting handled when the project covers more than one fiscal year?
9. Are appropriated dollars for specific systems only spent on the development and maintenance of those systems?

Thank you for your attention to this matter.

Sincerely,


Representative Mark E. Huizenga


Representative Abdullah Hammoud


Representative Terry Sabo


Representative Annette Glenn


Representative Mary Whiteford





OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

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

Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud/

Hotline: (517) 334-8060, Ext. 1650

- 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.

APPENDIX D - MiSACWIS Rollout Process

Department of Health and Human Services
Children's Services Agency

MiSACWIS System Upgrade to CCWIS

Background


2011
Purchased the MiSACWIS system to comply with federal court order

April 2014
Statewide Implementation of MiSACWIS

August 2016
Comprehensive Child Welfare Information System (CCWIS) rules became effective

Children's Services Agency – Snapshot

Children's Protective Services:	Foster Care:	Adoption:	Juvenile Justice:
<ul style="list-style-type: none"> • Complaints received: 170,650 • Complaints investigated: 95,868 • Complaints with preponderance finding: 21,448 	<ul style="list-style-type: none"> • 12,471 children in care • Children who entered foster care: 6,254 	<ul style="list-style-type: none"> • 2,161 completed adoptions <p style="font-size: small; margin-top: 10px;">[*Please note these are preliminary numbers and adoption data for FY 2015 will be finalized in February].</p>	<ul style="list-style-type: none"> • 547 youth served



MiSACWIS - Statewide child welfare system that supports the following programs:


- Child Protection
- Adoption
- Foster Care
- Juvenile Justice
- Prevention Services
- Financial payments to foster parents, relatives and providers
- Other System Integrations and Interfaces

Examples:

- Bridges
- BITS/LARA
- SIGMA

Currently 7,000 users

Challenges

 **Federal Consent Decree - persistent and significant defects**

 **Federal Regulation Changes**

 **Data Quality Issues**

 **Barrier to Caseworkers**



Court Ordered Independent Assessment

Persistent defects

Flawed design and an infrastructure that hinders the ability to produce accurate data.



Recommendations from National Child Welfare Technology Experts

Replace the system incrementally utilizing the modular design and cloud-based technology.

Assessments

5

Core CCWIS project and design requirements include:

Modularity – break complex functions into separate, manageable, and independent components

Simplified language – Clear simple English for all system documentation

Standard approach – permits agencies to more easily switch vendors or combine offerings from different vendors

Reusability – functions must be capable of being shared, leveraged, and reused

Data Quality – system must establish data quality standards and monitoring

6

Core Processes



CLOUD FIRST



HUMAN
CENTERED DESIGN



STANDARDIZED
INTERFACES



AGILE SOFTWARE
DEVELOPMENT

CCWIS Modules

Licensing

Intake

Investigation

Service Provision

Placements

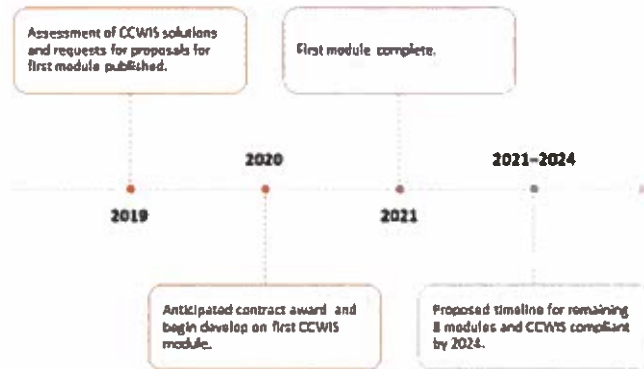
Case Management

Court

Eligibility

Financials

Timeframes



9

Contact Information

JooYeun Chang, Executive Director
Children's Services Agency
Michigan Department of Health and Human Services
changj4@Michigan.gov

10

Appendix E - SBO DHHS IT Budget Shortfall

Update for Legislature: DHHS IT Budget Shortfall



The Problem

- DHHS and SBO have been aware of a GF shortfall in the department's IT budget since February 2018. Transfers were used to close the shortfall for FY 2018.
- The shortfall increased further due to the expiration of enhanced federal match rates for certain IT development projects in January 2019. Supplemental funding was provided in December to help address the shortfall for FY 2019.
- In early April, the department became aware that the magnitude of the shortfall was larger than previously realized, reporting a projected GF shortfall of \$45m to SBO.
- No appropriations have been overspent at this point, but absent major adjustments to spending this shortfall would result in overspending by the close of FY 2019.

What We're Doing About the Problem Now

- SBO, DHHS, and DTMB have taken quick and comprehensive actions in response to the reported shortfall. The three department directors are spending substantial amounts of their time on this, with biweekly steering committee meetings involving the directors and the Governor's Office and daily conference calls at the deputy director level.
- In particular, Director Kolb instructed SBO's Office of Internal Audit Services (OIAS) to immediately commence a formal audit engagement with DHHS. This engagement consists of both short- and medium-term efforts:
 - In the short term (wrapping up now): Verify the amount of the shortfall, assess how the shortfall problem emerged, and identify potential solutions to remediate the FY19 shortfall that can be incorporated into a comprehensive budget solution being developed by DHHS and SBO.
 - In the medium term (through October 31): Establish new IT spending controls for DHHS projects and review DHHS and DTMB practices and activities to determine long-term solutions for managing DHHS IT investments.
- OIAS has nearly completed its shortfall validation process, identifying a number of corrections (both positive and negative) in the calculation of the shortfall. The potential magnitude of the shortfall, however, remains at \$45m. GF savings through the year-end cost allocation process could lower this number but those potential savings are still being validated.
- DHHS, with assistance from SBO and DTMB, is pursuing multiple courses of action to close the budget shortfall for FY 2019 and structurally balance the department's FY 2020 IT budget:
 - Getting concessions from all IT vendors
 - Prioritizing and pausing/stopping IT projects where it is determined this will not negatively impact service delivery and program clients
 - Identifying other available discretionary savings in the department's budget that can be transferred to help resolve the shortfall
- Additional controls and reporting on DHHS IT spending are being instituted by SBO and DTMB in the state's accounting and procurement systems: allotment controls, developing biweekly spending reports that can be tracked against a planning budget, and a single point of final approval for IT contracts, change orders, and other IT spending commitments.

How the Problem was Created

OIAS's review to date has identified the following major factors that led to the shortfall:

- Lack of a formal process and attention from DHHS leadership over a multi-year period to oversee IT spending and monitoring of progress on projects:
 - Using large, multi-year contracts to fund additional projects not authorized in appropriations (e.g., spending maintenance and operations (M&O) funds on development projects)
 - The use of change notices in lieu of additional competitive bids on technologies leveraged statewide may have resulted in higher vendor rates that contributed to the department's overspend on appropriated projects
 - Contractors working on projects prior to execution of signed statements of work
 - No direct linkage of project spending to approved appropriations
 - Failure to maximize matching federal contributions and lack of appropriate monitoring of changes in the federal participation rates such as the expiration of enhanced federal match for certain large projects (from 90/10 federal/state to 50/50 as of 1/1/19)
 - It appears that prior department leadership, that has since transitioned out of the department, fostered an arrangement to exclude proper oversight of IT budgets by the department's financial operations organization, resulting in an inability to perform critical financial management and oversight due to a lack of visibility and timely access to related fiscal information
- Previous leadership took steps to shift current shortfall amounts into subsequent fiscal years by:
 - Supplemental appropriations being used to bridge overspending on currently executing projects
 - Using funding from routine M&O contracts in advance of the intended contract budgets to fund projects outside of the intended M&O scope

In short, the previous administration pursued multiple major IT initiatives without correctly accounting for the long-term cost impacts. The problem was papered over with short-term budget maneuvers for several years before reaching this magnitude.

Commitments from the Administration

- SBO and DHHS will present a comprehensive budget plan to the Legislature in conjunction with FY 2020 budget target setting to both resolve the FY 2019 shortfall and ensure a structurally balanced IT spending plan for FY 2020, while ensuring that services to DHHS program clients are not interrupted or compromised.
- Going forward, new project development will be done the right way: Launching projects only when funding has been identified and accounted for and ensuring the contracting process is fully utilized to get maximum value for taxpayer dollars.
- Any major projects creating new state obligations (e.g., MISACWIS) will be brought to the Legislature in a fully transparent manner for approval and appropriation adjustments prior to moving forward with signed contracts, etc.
- DTMB, DHHS, and Internal Audit will be working to review all existing IT contracts and seek adjustments where appropriate and further refine and improve contracting and oversight practices to avoid making these kinds of mistakes under this administration. This group is also evaluating the most effective and efficient way to organize project management and oversight responsibilities between DHHS and DTMB.

