

PERFORMANCE AUDIT

OF THE

**OFFICE OF INFORMATION TECHNOLOGY SERVICES
INFORMATION TECHNOLOGY PROCUREMENT FUNCTION**

**OFFICE OF THE STATE AUDITOR
RALPH CAMPBELL, JR.
STATE AUDITOR**

FEBRUARY 2002



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

February 7, 2002

The Honorable Michael F. Easley, Governor
The Honorable Marc Basnight
President Pro Tempore of the Senate
The Honorable James B. Black
Speaker of the House of Representatives
Mr. Ronald P. Hawley
State Chief Information Officer
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We are pleased to submit this performance audit of the *Office of Information Technology Services, Information Technology Procurement Function*. At the request of the General Assembly, the objectives of the audit were to determine whether ITS established rules and internal procedures, ascertain compliance with applicable statutes rules and regulations, and assess the efficiency and effectiveness of the ITS procurement function.

This report consists of an executive summary, findings and recommendations, and appendices. The State's Chief Information Officer has reviewed a draft copy of this report. His written comments are included as Appendix D.

We wish to express our appreciation to the Governor, the Chief Information Officer and his staff for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive style.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	5
FINDINGS AND RECOMMENDATIONS	7
❑ <i>Objective 1: Rules and Internal Procedures</i>	7
❑ <i>Objective 2: Compliance with Regulations</i>	12
❑ <i>Objective 3: Efficiency and Effectiveness</i>	16
TABLES:	
1 Status of Requirements of Senate Bill 222	8
2 Office of Information Technology Services, Summary of Revenues and Expenditures, FY1997-1998 through FY2000-2001	12
3 Statewide IT Procurement Office, Expenditures and Revenues January 1, 2000 through June 30, 2001	13
4 Purchase Request Turnaround Times, Comparison of ITS to P&C.....	16
5 Statewide IT Procurement Office Staffing as of June 30, 2001	20
6 User Survey Results Comparison, January 1, 2001 through June 30, 2001.....	22
7 Statewide IT Procurement Office, Additional Staffing Costs Incurred January 1, 2000 through June 30, 2001	23
8 Statewide IT Procurement Office, Reported Cost Savings, January 1, 2000 to June 30, 2001.....	24
EXHIBITS:	
1 Statewide IT Procurement Office, Purchase Request Turnaround Time Comparison by Audit Phase.....	17
2 Office of Information Technology Services, Organizational Structure as of June 30, 2000.....	18
3 Office of Information Technology Services, Organizational Structure as of June 30, 2001.....	18
4 Statewide IT Procurement Office, Organizational Structure as of January 1, 2000	19
5 Statewide IT Procurement Office, Organizational Structure as of June 30, 2001.....	21
6 Statewide IT Procurement Office, User Survey Comparison, All Phases	22
APPENDICES:	
A User Agency Questionnaire – Phase 1	29
B User Agency Questionnaire – Phase 2.....	33
C User Agency Questionnaire – Phase 3.....	37
D Response from the Chief Information Officer, Office of Information Technology Services	41
DISTRIBUTION OF AUDIT REPORT	47

EXECUTIVE SUMMARY

Program Description

The Office of Information Technology Services (ITS), within the Governor's Office, is charged with providing information technology services to state agencies, universities and community colleges, as well as local government (city and county) agencies. The 1999 Session of the General Assembly transferred the responsibility for procurement of information technology assets from the Department of Administration, Division of Purchase and Contract to ITS. The purpose of the legislation was to align all technology-related items under a single organization to improve the management of these assets on a statewide basis and lower the costs over the life cycle of the assets. ITS operates as an internal service fund and, as such, the costs of providing services are recovered through direct billings to clients as opposed to appropriations from the General Assembly.

Audit Scope and Methodology

This performance audit of the Office of Information Technology Services' procurement function was undertaken by the Office of the State Auditor under the legislative mandate contained in Senate Bill 222 of the 1999 Session of the General Assembly. The work was accomplished in three phases, as directed by the legislation, with interim reports issued for phases 1 and 2. The scope of the audit focused on the operations of the Statewide IT Procurement Office within ITS. In addition, the operations of the Division of Purchase and Contract (P&C) were reviewed during the first phase of the audit in an effort to provide comparative data for the IT procurement function. Audit efforts included interviews with knowledgeable individuals both within and outside ITS and P&C, surveys of state agency purchasing officers, examination and review of records, testing of samples for compliance with regulations and rules, observation of daily operations, and analysis of expenditures.

Conclusions in Brief

OBJECTIVE 1: RULES AND INTERNAL PROCEDURES

ITS established adequate rules and internal procedures to exercise the powers granted including those additional powers granted by Senate Bill 222. Temporary rules for IT procurement were developed and became effective January 1, 2000. ITS held a public hearing February 15, 2000 and permanent rules were adopted effective August 1, 2000. Additional revisions were implemented effective March 1, 2001. ITS created information technology procurement policies and procedures and posted these policies on the ITS web site. In addition, ITS established internal policies and procedures governing the operations of the Statewide IT Procurement Office. However, ITS has not established a formal monitoring process for the program. Also, ITS had not developed the required statewide IT asset inventory at the completion of the audit.

EXECUTIVE SUMMARY

OBJECTIVE 2:
COMPLIANCE
WITH
REGULATIONS

ITS complied with statutes, rules, and regulations. Contract files included necessary documentation and expenditures were adequately supported and recorded. However, the computerized tracking system contained unnecessary data. To date, the Procurement Office has not conducted the required compliance reviews of agency IT purchasing. Also, the Procurement Office has not established procedures to effectively track the administrative fees received from vendors.

OBJECTIVE 3:
EFFICIENCY AND
EFFECTIVENESS

The Statewide IT Procurement Office had a faster overall turnaround time than did P&C for IT procurement requests. In fact, ITS processed requests more quickly than P&C for all request types during the final period of the audit, 24 days for ITS compared to 40 days for P&C. Further, the ITS turnaround time improved over that calculated in the first two phases, with an overall reduction of 12.2 days. Over time, user assessment of the ITS' expertise and responsiveness improved. However, users rated P&C higher than ITS in two of the three audit phases. While the creation of the Statewide IT Procurement Office caused the State to incur an additional \$1,047,298 in total costs including salary and benefit costs, the Procurement Office identified \$5,870,382 in state contract cost savings resulting from this change, a cost/benefit ratio of 1 to 5.6.

EXECUTIVE SUMMARY

OFFICE OF INFORMATION TECHNOLOGY SERVICES

1: Rules / Internal Procedures

ITS established necessary rules and internal procedures for IT procurement function.

MAJOR CONCLUSIONS:

2: Regulations Compliance

ITS complied with statutes, rules, and regulations.

3: Efficiency / Effectiveness

ITS processes requests faster than P&C; function resulted in positive cost / benefit ratio.

INFORMATION TECHNOLOGY PROCUREMENT FUNCTION



MAJOR RECOMMENDATIONS:

1

Establish formal monitoring process for the procurement function.

- a) Develop monitoring process.
 - Incorporate measurements.
 - Assess goals achievement.
- b) Correct internal procedures manual.
 - Update as necessary.
- c) Develop statewide IT Asset Inventory.

2

Conduct required compliance reviews and track administrative fees from vendors.

- a) Eliminate unnecessary data in tracking system.
 - Calculate turnaround times on valid data.
- b) Designate staff to conduct agency compliance reviews.
- c) Develop, implement formal tracking system for vendor's administrative fees.

3

Continue efforts to improve and to achieve cost savings.

- a) User agencies views of ITS expertise and responsiveness improved.
- b) Develop system to record and report cost savings.
- c) General Assembly needs to examine split purchasing authority.

AGENCY RESPONSE:

Monitoring system underway; will work on asset inventory.

Steps taken to implement recommendations.

ITS will continue efforts to improve and will track savings.



EXECUTIVE SUMMARY

Specific Findings

Page

Objective 1: Rules and Internal Procedures7

- ❑ The IT Procurement Office has not established a formal monitoring process for the program.10
- ❑ ITS' internal procedures manual for statewide procurement contained some inconsistencies.....10
- ❑ ITS has not developed a statewide IT asset inventory as required by Senate Bill 222.11

Specific Findings

Page

Objective 2: Compliance with Regulations12

- ❑ The Procurement Office's computerized tracking system contains unnecessary data.13
- ❑ The Procurement Office has not conducted required compliance reviews.14
- ❑ The Procurement Office is not tracking the receipt of administrative fees charged to vendors.15

Specific Findings

Page

Objective 3: Efficiency and Effectiveness16

- ❑ User agency views on the ability of the Procurement Office have changed over time.....21
- ❑ Creation of the Statewide IT Procurement Office Resulted in a positive Cost/Benefits ratio for the State.23
- ❑ The State's purchasing authority is split between two agencies.24

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

North Carolina General Statute 147-64 empowers the State Auditor with authority to conduct performance audits of any State agency or program. Performance audits are reviews of activities and operations to determine whether resources are being used economically, efficiently, and effectively.

This performance audit of the statewide information technology procurement function within the Office of Information Technology Services (ITS) was undertaken by legislative mandate. Senate Bill 222 of the 1999 Session of the General Assembly stated "...Office of the State Auditor shall audit the Office of Information Technology Services, and in particular the additional powers conferred upon the Office of Information Technology Services by this act" i.e., the Statewide Information Technology Procurement function. The audit was conducted in three phases with an interim report on operations from January 1, 2000 through June 30, 2000, an interim report on operations from January 1, 2000 through December 31, 2000, and this final report on operations from January 1, 2000 through June 30, 2001.

Given this mandate, our specific objectives were to:

- Determine whether the Office of Information Technology Services (ITS) established adequate rules and internal procedures to exercise the powers granted especially with regard to the additional powers contained in Senate Bill 222.
- Ascertain whether ITS complied with applicable statutes, rules, and regulations.
- Assess the efficiency and effectiveness of the procurement policies and operations of ITS and compare the procedures and operations of the IT procurement process at ITS to the process previously used at the Department of Administration, Division of Purchase and Contract (P&C).

The scope of the audit focused on the operations of the Statewide IT Procurement Office within ITS. However, the operations of ITS as a whole were examined to the extent necessary to draw conclusions regarding the procurement process and compliance with applicable statutes, rules, and regulations. In addition, the operations of P&C were reviewed during the first phase of the audit for the purpose of providing comparative data for the Statewide IT Procurement Office function.

During the period August 2000 through October 2000, we conducted the on-site fieldwork for the first phase of the audit of ITS. Fieldwork for the second phase was conducted from January 2001 through March 2001, and the final phase audit fieldwork was performed from September 2001 to October 2001. To achieve the audit objectives, we employed various auditing techniques that adhere to the generally accepted auditing standards as promulgated in *Government Auditing Standards* issued by the Comptroller General of the United States. These techniques included:

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

- Review of existing General Statutes and the North Carolina Administrative Code as they related to ITS and P&C.
- Analysis of policies and procedures of ITS, the Statewide IT Procurement Office, and P&C.
- In-depth interviews with members of the Statewide IT Procurement Office and P&C officials.
- Examination of organizational charts and job descriptions.
- Survey of agency purchasing officers using the Statewide IT Procurement Office services during January 2000 through June 2001.
- Review of a sample of contract files and the database that tracks purchase requests through the procurement process at ITS, as well as corresponding files and databases at P&C.
- Analysis of a sample of expenditures for ITS.
- Compilation of cost data.
- Calculation of time required to process IT purchasing requests at ITS and P&C.
- Survey of procurement officials in other states.

This report contains the results of the audit as well as specific recommendations aimed at improving the operations of the Statewide IT Procurement Office in terms of economy, efficiency, and effectiveness. Because of the test nature and other inherent limitations of an audit, together with the limitations of any system of internal and management controls, this audit would not necessarily disclose all weaknesses in the system or lack of compliance. Also, projection of any of the results contained in this report to future periods is subject to the risk that procedures may become inadequate due to changes in conditions and/or personnel, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

FINDINGS AND RECOMMENDATIONS

RULES AND INTERNAL PROCEDURES

Objective 1: To determine whether the Office of Information Technology Services established adequate rules and internal procedures to exercise the powers granted especially with regard to the additional powers contained in Senate Bill 222.

We conducted in-depth interviews, observed operations, reviewed policies and procedures manuals, and reviewed information contained on the ITS web site to determine whether adequate rules and internal procedures had been developed for the statewide IT procurement function. Analysis of Senate Bill 222 indicated which areas were required for development of new rules and procedures. Further, we compared the rules and policies and procedures of ITS to those utilized by the Department of Administration, Division of Purchase and Contract.

Conclusion: ITS established adequate rules and internal procedures to exercise the powers granted including those additional powers granted by Senate Bill 222. Table 1, page 8 summarizes the requirements contained in Senate Bill 222 and ITS' progress toward implementing the powers granted. Temporary rules for IT procurement were developed and became effective January 1, 2000. ITS held a public hearing February 15, 2000 and permanent rules were adopted effective August 1, 2000. Additional revisions were implemented effective March 1, 2001. ITS created information technology procurement policies and procedures and posted these policies on the ITS web site. In addition, ITS established internal policies and procedures governing the operations of the Statewide IT Procurement Office. However, ITS has not established a formal monitoring process for the program. Nor, has ITS developed the required statewide IT asset inventory.

Overview: The Office of Information Technology Services (ITS) was originally established in 1983 as State Information Processing Services (SIPS) when the General Assembly consolidated the existing data centers within state government. Originally, SIPS was placed within the Department of Administration but was moved to the Office of the State Controller (OSC) by executive order on March 1, 1987. Executive Order 111 transferred all technology functions from OSC to the Department of Commerce during 1997. House Bill 253 of the 1999 Session of the General Assembly formally changed the name of the State Information Processing Services to Information Technology Services. Effective September 1, 2000, ITS became a separate agency within the Office of the Governor as a result of House Bill 1578 of the 2000 Session.

FINDINGS AND RECOMMENDATIONS

TABLE 1 STATUS OF REQUIREMENTS OF SENATE BILL 222			
Cite	Requirement	Status	Explanation
143B-472.50(a)	Establish Office of ITS as a division of Department of Commerce.	Implemented	
143B-472.50(b)	ITS shall be administered by the State Chief Information Officer (CIO)	Implemented	
143B-472.50(b)	The CIO shall be appointed by and report to the Secretary of Commerce. (Moved to Governor's Office in 2000)	Implemented	
143B-472.51(a)(1)	Procure all information technology (IT) for State agencies, except the University of NC and its constituent institutions.	Implemented	
143B-472.51(a)(2)	Obtain IRMC approval for all rates and fees for common, shared State government technology services.	Implemented	
143B-472.51(a)(3)	Recommend State government-wide, enterprise-level policies for information technology	Implemented	
143B-472.51(a)(4)	Develop standards, procedures and processes for implementing policies approved by IRMC.	Partially Implemented	IRMC developed standards, procedures, and processes for implementing policies approved by IRMC. ITS is working to improve the consistency between existing procedures for different types of IT procurement contracts.
143B-472.51(a)(6)	Develop a plan for managing IT assets to minimize total life cycle costs of assets and have this plan approved by IRMC.	Partially Implemented	ITS is studying this issue. Due to budgetary constraints, no action has been taken.
143B-472.51(b)	Other state agencies and local governmental entities may use the IT programs, services or contracts offered by ITS	Implemented	
143B-472.52(c)	Conduct and maintain a continuous inventory of each State agency's current and planned investments in IT assets. Including the development and implementation of standards, processes and procedures for the inventory.	Partially Implemented	ITS is studying this issue. Due to budgetary constraints, no action has been taken.
143B-472.53(b)	ITS shall develop a plan for the State government-wide management of distributed IT assets. The plan shall prescribe the State government-wide infrastructure and services for managing these assets. The plan must be submitted to the IRMC.	Implemented	
143B-472.54	The office shall procure all IT for State agencies except the UNC System. ITS shall integrate technological review, cost analysis, and procurement for all information technology needs of those state agencies in order to make procurement and implementation of technology more responsive, efficient, and cost effective.	Implemented	
143B-472.55(1)	ITS can authorize any department, institution, or agency to purchase or contract IT assets/services	Implemented	
143B-472.55(2)	Establish processes, specifications and standards that apply to all IT to be purchased licensed or leased in the State government.	Implemented	
143B-472.55(3)	Comply with the state government-wide technical architecture, as required by the IRMC	Implemented	
143B472.56	All State agencies covered by this part shall use contracts for IT acquired by ITS for any IT required by the State agency that is provide by these contracts.	Implemented	
143B-472.58(a)	ITS encourage state agencies to use small, minority, physically handicapped and women contracts.	Implemented	
143B472.58(b)	Every State agency required by this part to use the services of ITS in the procurement of IT which purchases IT directly shall report to ITS the information required by GS. 143-48(b). ITS will report to the DOA this information.	Repealed by HB1578	
143B-472.60	The Secretary of Commerce and CIO shall not have a financial or personal beneficial interest in the purchase of or contract for IT.	Implemented	
143B-472.60	ITS employees cannot accept or receive rebate, gifts or otherwise any money or anything of value from persons, firms or corporation.	Implemented	
143B-472.63(a)	The Secretary will establish a benchmark for contract approval by the Board of Awards.	Implemented	
143B-472.63(b)	The Director of Budget will approve all contracts for IT being acquired by ITS	Implemented	
143B-472.64	Develop a system for budgeting and accounting of expenditures for IT operations, services, projects, infrastructure and assets. This is a joint effort with ITS, OSBM, and OSC	Partially Implemented	ITS, OSC, and OSBM are continuing to develop a uniform reporting system for budgeting and accounting of IT assets and services.
143-135.9(c)	Acquisition of information technology by the State shall be conducted using the "Best Value" procurement method	Implemented	
150B-21.1(a)(4)	The Secretary may adopt temporary IT procurement rules. 30 days prior to adopting temporary rules the Secretary must notify appropriate persons, accept oral and written comments and hold a public hearing	Implemented	
Section 18	The Secretary shall develop policies and procedures to ensure the use of "Best Value" procurement no later then December 31, 1999.	Implemented	
Section 19	The Secretary will provide training to agencies and vendors on "Best Value" procurement.	Implemented	
Section 20	The Secretary will report to the Joint Select Committee on IT on the results of the implementation of this act on or before April 1, 2000.	Implemented	

FINDINGS AND RECOMMENDATIONS

ITS provides information technology services to state agencies, universities and community colleges, as well as local government (city and county) agencies. These services are provided through use of mainframe computers, servers, and statewide voice, data, and video networks. Services include software development, centrally managed computing services, statewide leadership in developing information technology plans and strategies, IT security, contract management, centralized telecommunications networks, and, as directed by Senate Bill 222 of the 1999 General Assembly, statewide IT procurement. ITS operates as an internal service fund¹ and, as such, the costs of providing services are recovered through direct billings to clients as opposed to appropriations from the General Assembly.

Traditionally, the procurement of all goods and services within state government has been performed under the direction of the Department of Administration, Division of Purchase and Contract (P&C). As information technology assets became more abundant, complex, and integral to the business processes of state government, the General Assembly realized the need to focus more efforts on these assets. Therefore, Senate Bill 222 of the 1999 Session transferred the responsibility for procurement of information technology assets from P&C to ITS. The purpose of this legislation was to align all technology-related items under a single organization to improve the management of these assets on a statewide basis (an "enterprise" approach) and lower the costs over the life cycle of the assets (known as "total cost of ownership").

The goals and objectives of the IT procurement program are:²

- To ensure that the procurement process for IT enables statewide infrastructure management.
- To establish processes and procedures that facilitate the purchase, leasing, and acquisition of IT goods and services.
- To meet the needs of state agencies.
- To ensure all purchases meet "best value" criteria.
- To negotiate contracts that ensure customer agencies obtain significantly better value than currently available.
- To establish an environment that is customer-friendly and supportive of clients' needs, requirements, and expectations.
- To enable consensus building activities with a medium for continuous customer feedback and input.
- To publish rules that are consistent with enterprise management and best value practices and that are flexible and responsive to the ever changing IT environment.

Specific findings and recommendations relative to ITS' development and implementation of specific IT procurement rules and internal procedures follow.

¹ An "internal service fund" is a fund used to account for services provided exclusively to other state agencies on a cost reimbursement basis.

² *ITS Framework for Developing an IT Procurement Program for IT Products and Services in North Carolina.*

FINDINGS AND RECOMMENDATIONS

Findings—Rules and Internal Procedures:

THE IT PROCUREMENT OFFICE HAS NOT ESTABLISHED A FORMAL MONITORING PROCESS FOR THE PROGRAM.

During the first months of the Statewide IT Procurement Office, the former Chief Procurement Officer contracted with a consultant to establish goals and objectives. However, these goals were not stated in a manner that would enable measurement over time. Further, while some goals and objectives were included as criteria in the performance evaluations of the procurement specialists, management took no action to monitor the Procurement Office's accomplishment of those goals and objectives. As of October 2001, no further work has been achieved in this area due to a change in management and the necessity of placing priorities on other activities. To be of use to management, goals and objectives must be clearly defined, understandable, and effectively communicated to employees. Further, goals and objectives must be measurable and time dated to allow proper evaluation of their accomplishment.

RECOMMENDATION

ITS management should continue development of the formal monitoring process. Goals and objectives should be stated in a manner that would enable measurement over a stated period. Further, a system to evaluate the achievement of those goals should be implemented.

ITS' INTERNAL PROCEDURES MANUAL FOR STATEWIDE PROCUREMENT CONTAINED SOME INCONSISTENCIES.

The Statewide IT Procurement Office's internal policies manual lacked detail regarding some contract approvals, did not address the handling of cancelled contracts, and was inconsistent regarding the documentation that should be included in contract files. These deficiencies were noted during the first two phases of the audit, and ITS management made a number of changes to the procedures. However, the employee assigned to review and update the policy manual was not informed of the exact deficiencies noted in the prior phases of the audit. As a result, the issues identified were not corrected. A complete, consistent internal policy manual would assist in training of new employees and resolving situations when questions arise.

RECOMMENDATION

The Statewide IT Procurement Office should review its internal policy manual to correct the issues noted. Management should be actively involved in the revisions to ensure that all identified problems are resolved.

FINDINGS AND RECOMMENDATIONS

ITS HAS NOT DEVELOPED A STATEWIDE IT ASSET INVENTORY AS REQUIRED BY SENATE BILL 222.

Senate Bill 222 contained a provision requiring ITS to “. . . conduct and maintain a continuous inventory of each State agency’s current and planned investments in information technology, a compilation of information about these assets, and the total life cycle cost of these assets. . .” [GS 143B-472.52(c)] During the first two phases of the audit, ITS personnel reported that they were studying the issue and developing a plan to be implemented within two years. However, before ITS could present the project to the Information Resource Management Commission for approval, the State’s budget crisis put these plans on hold. While the General Assembly provided no funds for this requirement, the legislation still requires that ITS develop this inventory system.

RECOMMENDATION

ITS should take steps to comply with GS 143B-472.52(c) by continuing with development of a statewide IT asset inventory. If insufficient funds delay this action, ITS should seek a remedy with the General Assembly through a request for funding.

FINDINGS AND RECOMMENDATIONS

COMPLIANCE WITH REGULATIONS

Objective 2: *To ascertain whether ITS complied with applicable statutes, rules, and regulations.*

We reviewed ITS' policies and procedures as well as the General Statutes and North Carolina Administrative Code pertaining to ITS and procurement operations. To assess compliance with regulations regarding contracts, we analyzed a sample of contracts approved and awarded by ITS during all three periods covering January 1, 2000 through June 30, 2001. In addition, we performed tests of a sample of expenditures incurred during the same periods.

Conclusion: **ITS complied with statutes, rules, and regulations. Contract files included necessary documentation and expenditures were adequately supported and recorded. However, the computerized tracking system contained unnecessary data. To date, the Procurement Office has not conducted the required compliance reviews of agency IT purchasing. Nor has the Procurement Office established procedures to effectively track the administrative fees received from vendors.**

Overview: Table 2 summarizes ITS' overall financial data for fiscal years 1997-1998 through 2000-2001. As an internal service fund, ITS receives almost all of its funds through a fee-for-service arrangement. These fees are set annually based on input from user agencies, projections of service levels, and equipment and staffing needs estimated

TABLE 2 OFFICE OF INFORMATION TECHNOLOGY SERVICES SUMMARY OF REVENUES AND EXPENDITURES FY1997-1998 THROUGH FY2000-2001				
	FY1997-1998	FY1998-1999	FY1999-2000	FY2000-2001
REVENUES				
Telecommunications Services	\$ 59,799,053	\$ 69,282,566	\$ 76,433,631	\$ 78,001,349
Data Processing Services	64,006,404	66,532,740	66,309,925	72,703,613
Professional Services	1,041,542	1,780,858	4,407,636	6,205,127
Sale of Surplus Property & Other Goods	4,799	1,522	783,596	555,484
Rental of Equipment	2,940	-	1,798,419	1,981,471
Registration Fees	-	-	92,450	129,015
Other Revenues	148,432	272,097	301,421	343,539
Intragovernmental Transfers	54,023,419	20,066,239	78,275,750	86,554,283
TOTAL REVENUES	\$ 179,026,589	\$ 157,936,022	\$ 228,402,828	\$ 246,473,881
EXPENDITURES				
Personal Services	\$ 18,909,681	\$ 22,059,815	\$ 24,895,300	\$ 27,499,373
Purchased Services	74,069,692	86,397,939	100,449,293	127,547,191
Supplies	667,203	776,977	2,289,873	2,070,864
Property, Plant, and Equipment	18,875,666	24,155,372	24,525,217	17,003,696
Other Expenses	452,789	538,175	395,344	1,622,553
Intragovernmental Transfers	23,524,834	17,963,909	78,319,982	90,871,741
TOTAL EXPENDITURES	\$ 136,499,865	\$ 151,892,187	\$ 230,875,009	\$ 266,615,419
EXCESS REVENUES/(EXPENDITURES)	\$ 42,526,724	\$ 6,043,835	\$ (2,472,181)	\$ (20,141,538)
Source: ITS Monthly Budget Reports				

FINDINGS AND RECOMMENDATIONS

through the annual business planning process. The Information Resources Management Commission approves the annual business plan and its associated rates. Any excess revenues are used to cover operating costs during the monthly billing process and to fund equipment purchases as necessary to maintain adequate capacity. If excess revenues remain, ITS may adjust the rates or provide refunds to user agencies.

Table 3 summarizes the financial data specifically for the Statewide IT Procurement Office for the audit period January 1, 2000 through June 30, 2001. Since this function was created during the 1999 Session of the General Assembly, no funds were expended in this operation until January 2000. The Statewide IT Procurement Office revenues are generated from administrative fees paid by vendors that are awarded technical services or convenience contracts. The vendors pay a percentage of the contract award to ITS to cover the costs of processing and maintaining these contracts.

TABLE 3 STATEWIDE IT PROCUREMENT OFFICE EXPENDITURES AND REVENUES JANUARY 1, 2000 THROUGH JUNE 30, 2001				
	PHASE 1	PHASE 2	PHASE 3	ALL PHASES
EXPENDITURES	01/01/00--6/30/00	07/01/00--12/31/00	01/01/01--06/30/01	01/01/00--06/30/01
Personal Services (salaries and benefits)	\$ 155,808	\$ 199,402	\$ 239,986	\$ 595,196
Purchased Services	19,862	41,736	181,046	242,645
Supplies	2,555	2,214	1,999	6,769
Property, Plant, and Equipment	-	2,247	-	2,247
Other Expenses	517	332	35	884
Intragovernmental Transfers	51	164	199,342	199,558
TOTAL EXPENDITURES	\$ 178,793	\$ 246,096	\$ 622,409	\$ 1,047,298
REVENUES	\$ 694,586	\$ 491,678	\$ 621,024	\$ 1,807,288
EXCESS REVENUES (EXPENDITURES)	\$ 515,793	\$ 245,582	\$ (1,385)	\$ 759,989

Source: ITS Financial Services section

Specific findings and recommendations relative to ITS' compliance with regulations follow.

Findings—Compliance with Regulations:

THE PROCUREMENT OFFICE'S COMPUTERIZED TRACKING SYSTEM CONTAINS UNNECESSARY DATA.

The IT Procurement Tracking System is a database used to monitor the progress of procurement requests. The system is used by contract specialists to manage their workload and by Procurement Office management to monitor contract progress and evaluate employees' performance. When the Procurement Office receives a request, the

FINDINGS AND RECOMMENDATIONS

program assistant enters the request into the tracking system and a contract specialist is assigned the request.

IT Procurement established a policy to allow agencies to purchase items under \$25,000 directly without IT Procurement Office approval. That is, the agency does not have to send a request to the Procurement Office. We learned during the audit that the Procurement Office receives a number of requests under the \$25,000 delegation amount. These requests are entered into the tracking system and assigned to a contract specialist along with all other requests. Upon receipt, the contract specialist sends a letter to the requesting agency informing it to purchase the item directly. At that point, a contract file is created and the procurement specialist shows the request as cancelled in the tracking system.

When ITS calculates turnaround times on purchase requests, these cancelled requests show a turnaround of one day although no actual work was required. As a result, these cancelled requests skew the calculated turnaround times causing the true time to be understated. From January 1, 2000 through June 30, 2001, 61 requests (11% of the total number of requests) under the \$25,000 limit were entered into the tracking system and immediately cancelled. This resulted in the Procurement Office understating turnaround times by 4 days.

RECOMMENDATION

The Statewide IT Procurement Office should cease entering requests into the tracking system that fall below the general delegation amount. Instead, the Procurement Office should notify the agency to procure the item directly. The notification date should be documented on the request and a central file of these requests should be maintained.

THE PROCUREMENT OFFICE HAS NOT CONDUCTED REQUIRED COMPLIANCE REVIEWS.

The North Carolina Administrative Code relating to the IT Procurement function requires the Office to conduct periodic compliance reviews on IT purchasing practices at all agencies. These reviews are intended to determine if an agency is complying with ITS' purchasing statutes and rules. Further, the reviews allow ITS to determine whether the agency should continue to have the same general delegation amount. As of the completion of the audit fieldwork, ITS has not conducted any compliance reviews. Management stated that position vacancies and responsibilities related to e-procurement limited its ability to perform this function. Plans are for the Contract Compliance Specialist to be responsible for this task. ITS has discussed with P&C the possibility of conducting joint compliance reviews of state agency purchasing files. Failure to conduct compliance reviews increases the risk that agencies are not following established procurement rules and regulations. Also, compliance reviews could show that some

FINDINGS AND RECOMMENDATIONS

agencies are suitable for an increased delegation amount, thus lessening the workload of the Statewide IT Procurement Office.

RECOMMENDATION

The Procurement Office should comply with the NC Administrative Code by conducting agency compliance reviews. Management should proceed in identifying the manner in which these reviews will be conducted and designate staff members to perform this function. Further, at the completion of a review, copies of the compliance report should be provided to the agency's executive officer, the State Auditor, and State Budget Officer in compliance with regulations.

THE PROCUREMENT OFFICE IS NOT TRACKING THE RECEIPT OF ADMINISTRATIVE FEES CHARGED TO VENDORS.

ITS' Statewide IT Procurement Office oversees the approval of vendors to provide technical IT services to state agencies. Vendors submit a proposal detailing the types of services they will provide, the experience level of those providing services, and the charges for services. ITS reviews these proposals and establishes an approved list of vendors available for various service types. When a state agency wishes to utilize an outside source for these services, it may select any vendor on the approved list. As part of the technical services proposal, vendors agree to submit an administrative fee to ITS equal to two percent of the contract amount. This fees covers the cost to ITS of administering the contracts.

Examination of the administration of these contracts shows that the Procurement Office has not effectively tracked the receipt of administrative fees. Often, vendors submit the fees to the ITS Fiscal Services section, but the Procurement Office is unaware of the receipt of the fees. In August 2000, the Procurement Office hired a temporary employee to collect information on the submission of the fees and contact the vendors to ensure that fees were being submitted. This temporary employee left the agency in December 2000 and no follow-up work was completed. However, the new scope statement for technical services contracts contains specific reporting requirements that will enable the Procurement Office to actively manage and track the receipt of administrative fees. Failure to submit the fees and required reports will be just cause for either removing the vendor from the approved list or for contract termination.

RECOMMENDATION

ITS should develop and implement a formal system to track the receipt of administrative fees. In those cases where vendors do not comply with contract requirements regarding submission of fees and associated reports, the Procurement Office should remove those vendors from the technical services vendor listing.

FINDINGS AND RECOMMENDATIONS

EFFICIENCY AND EFFECTIVENESS

Objective 3: *To assess the efficiency and effectiveness of the procurement policies and operations of ITS and to compare the procedures and operations of the IT procurement process at ITS to the process previously used at the Department of Administration, Division of Purchase and Contract.*

To assess the efficiency and effectiveness of the ITS procurement function, we calculated the turnaround times for purchase requests for the Statewide IT Procurement Office for each of the three six-month periods covering January 1, 2000 through June 30, 2001. We then compared those to times for processing of IT requests by the Department of Administration, Division of Purchase and Contract for the period July 1, 1999 through December 31, 1999. We also compared the turnaround times from each phase to determine whether ITS was improving in its operations. In addition, we conducted a survey of agency purchasing agents who had used either ITS or P&C for their IT purchases since January 1, 2000. The user surveys provided further information regarding the quality of service provided by the two procurement functions. We reviewed and verified the cost savings reported by ITS. Finally, we analyzed the organizational structure in place at ITS to handle the IT procurement process.

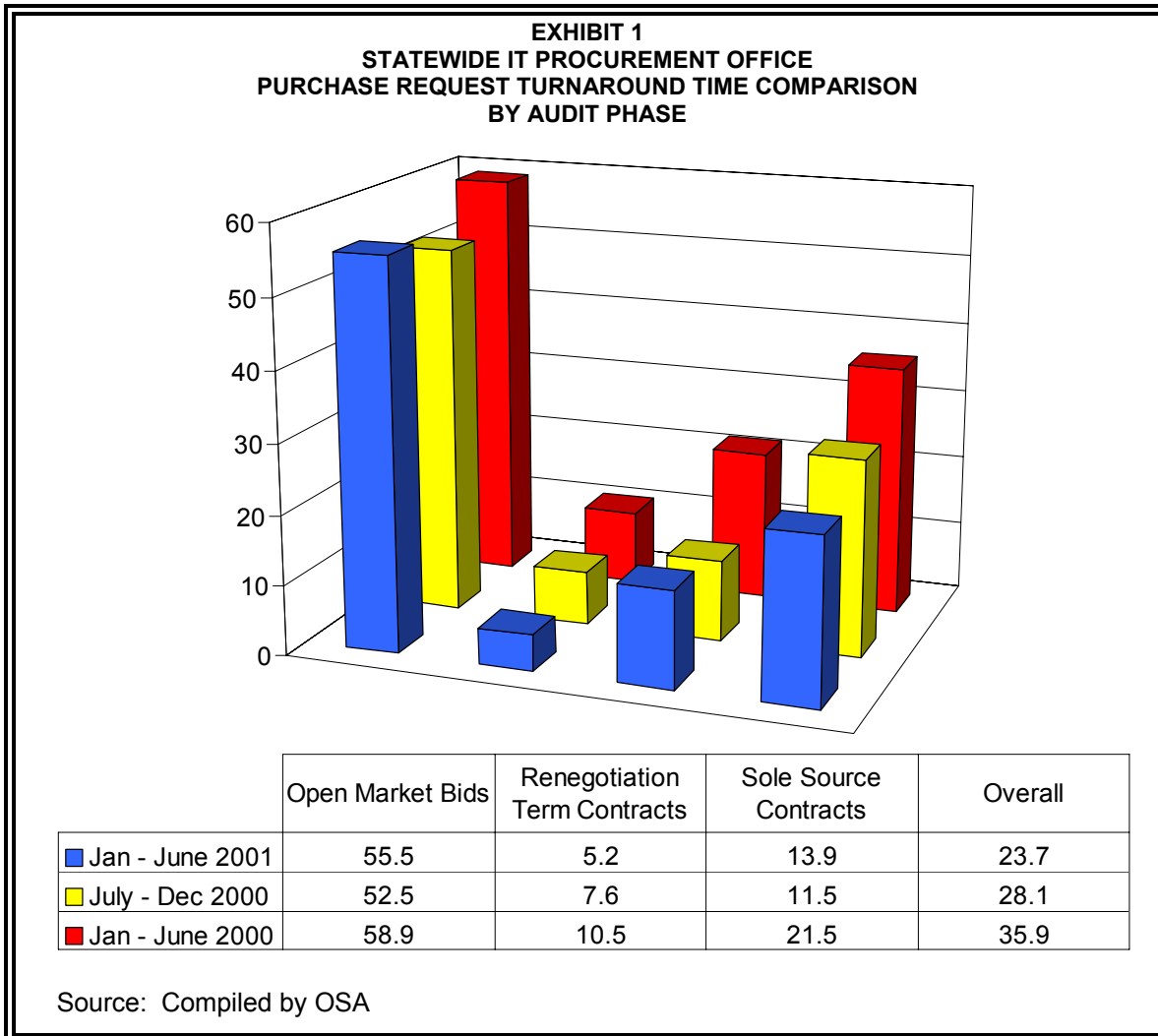
Conclusion: The Statewide IT Procurement Office had a faster overall turnaround time than did P&C for IT procurement requests. In fact, ITS processed requests more quickly than P&C for all request types during the final period of the audit, as shown in Table 4. Further, the

TABLE 4 PURCHASE REQUEST TURNAROUND TIMES (in days) COMPARISON OF ITS TO P&C (Highlighted items show faster time)		
PURCHASE TYPE	ITS 1/1/01 - 6/30/01	P&C 7/1/99 - 12/31/99
IT Goods	18	35
IT Services	37	44
Open Market Bids	56	63
Emergency Purchases	N/A	15
Renegotiated Term Contracts	5	7
Sole Source Contracts	14	20
Overall	24	40
Source: ITS and P&C contract files		

ITS turnaround time improved over that calculated in the first two phases, with an overall reduction of 12.2 days, as shown in Exhibit 1, page 17. Over time, user assessment of the ITS' expertise and responsiveness improved. However, users rated P&C higher than ITS in two of the three audit phases. While the creation of the Statewide IT Procurement Office caused the State to incur an additional \$1,047,298 in total costs

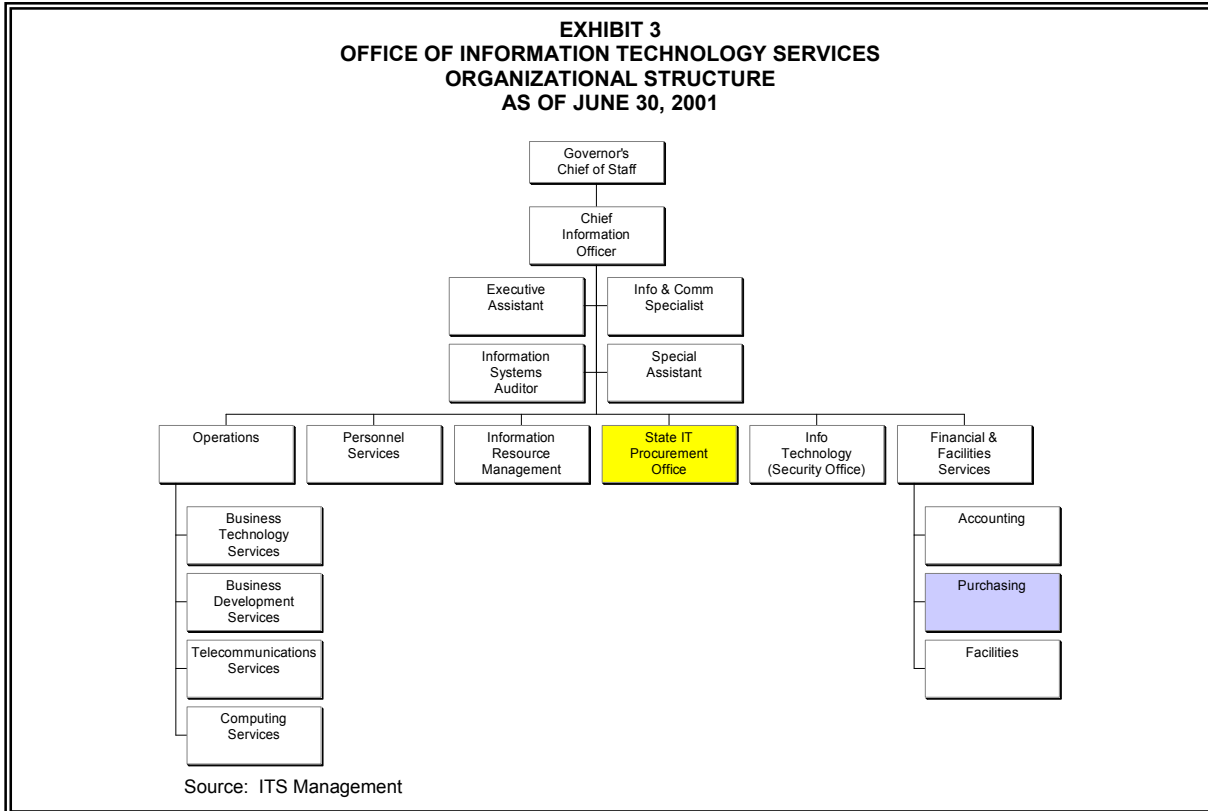
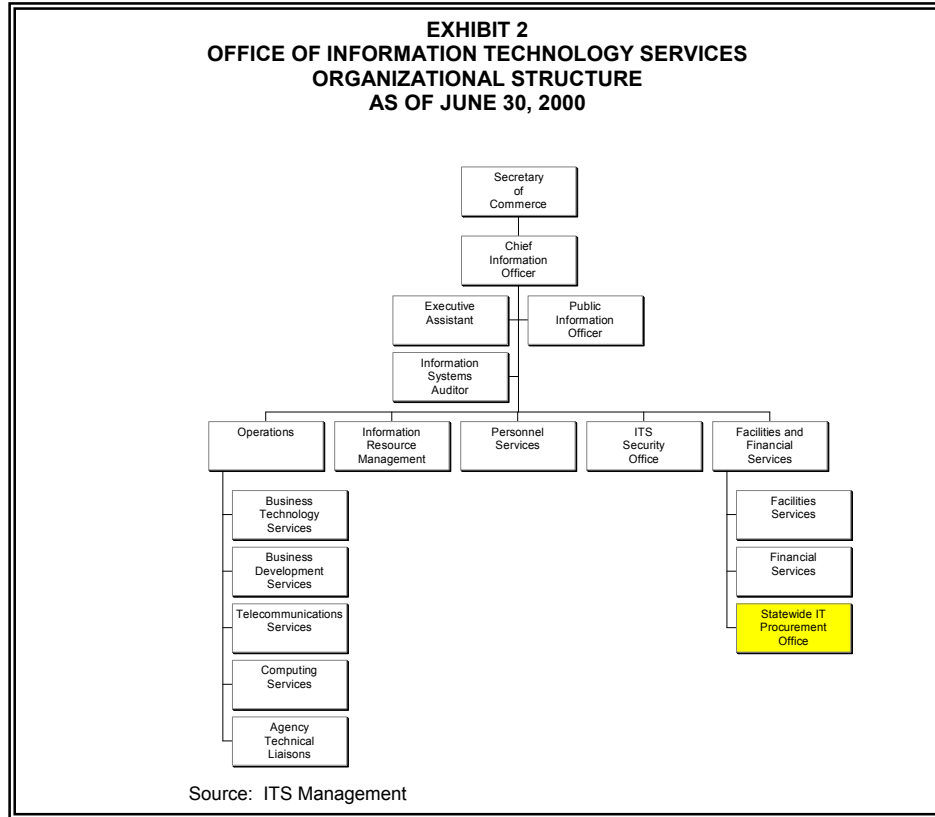
including salary and benefit costs, the Procurement Office identified \$5,870,382 in state contract cost savings resulting from this change, a cost/benefit ratio of 1 to 5.6.

FINDINGS AND RECOMMENDATIONS



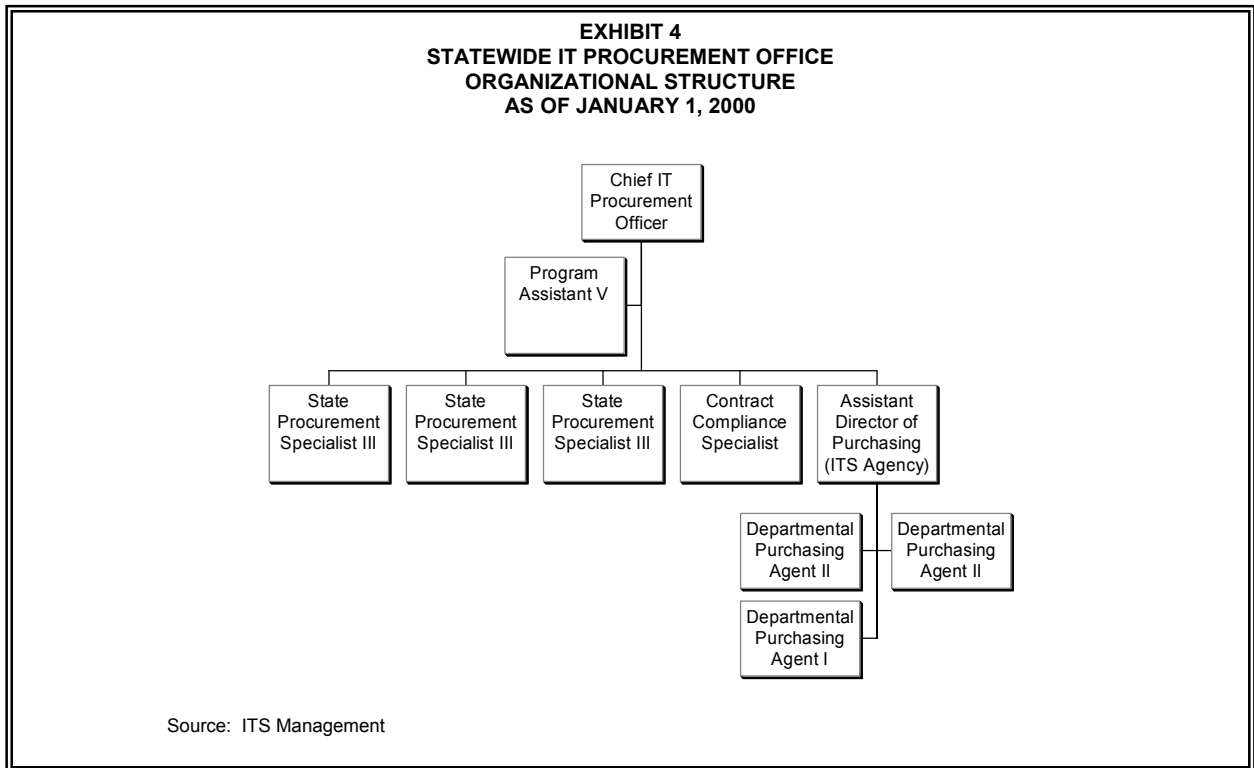
Overview: Exhibit 2, page 18, depicts the overall ITS organizational structure in place at the beginning of the audit. At that time, the State's Chief Information Officer (CIO), who oversees ITS, reported directly to the Secretary of Commerce. Effective September 1, 2000, ITS became a separate agency within the Office of the Governor (House Bill 1578 of the 2000 Session of the General Assembly). The CIO now reports to the Governor's Chief of Staff. Exhibit 3, page 18, depicts these changes. ITS administrative functions include the personnel, facilities, and financial services which support the operations of ITS as well as the ITS Security Office and staff for Information Resource Management. ITS operations functions consist of services provided to external state agencies such as centralized and distributed computing services, applications development, and telecommunications services.

FINDINGS AND RECOMMENDATIONS



FINDINGS AND RECOMMENDATIONS

At the beginning of Phase 1 of the audit, the Statewide IT Procurement Office was located within the ITS Financial and Facilities Services section. (See Exhibit 4.) The Chief IT Procurement Officer reported to the ITS Chief Financial Officer. In addition, the Statewide IT Procurement Office contained both statewide purchasing responsibilities (those functions transferred from the Department of Administration, Division of Purchase and Contract) and ITS purchasing responsibility for handling internal purchases for ITS. When the procurement function was transferred to ITS on January 1, 2000, management identified 10 positions to staff the office—6 existing ITS positions from other areas and 4 positions added for procurement. Three more positions were added during April and May 2000 and three positions were added during the period July 2000 to December 2000 bringing the total to 16 positions. Twelve of these positions were responsible for statewide IT procurement and the remaining four handled ITS internal agency purchasing.



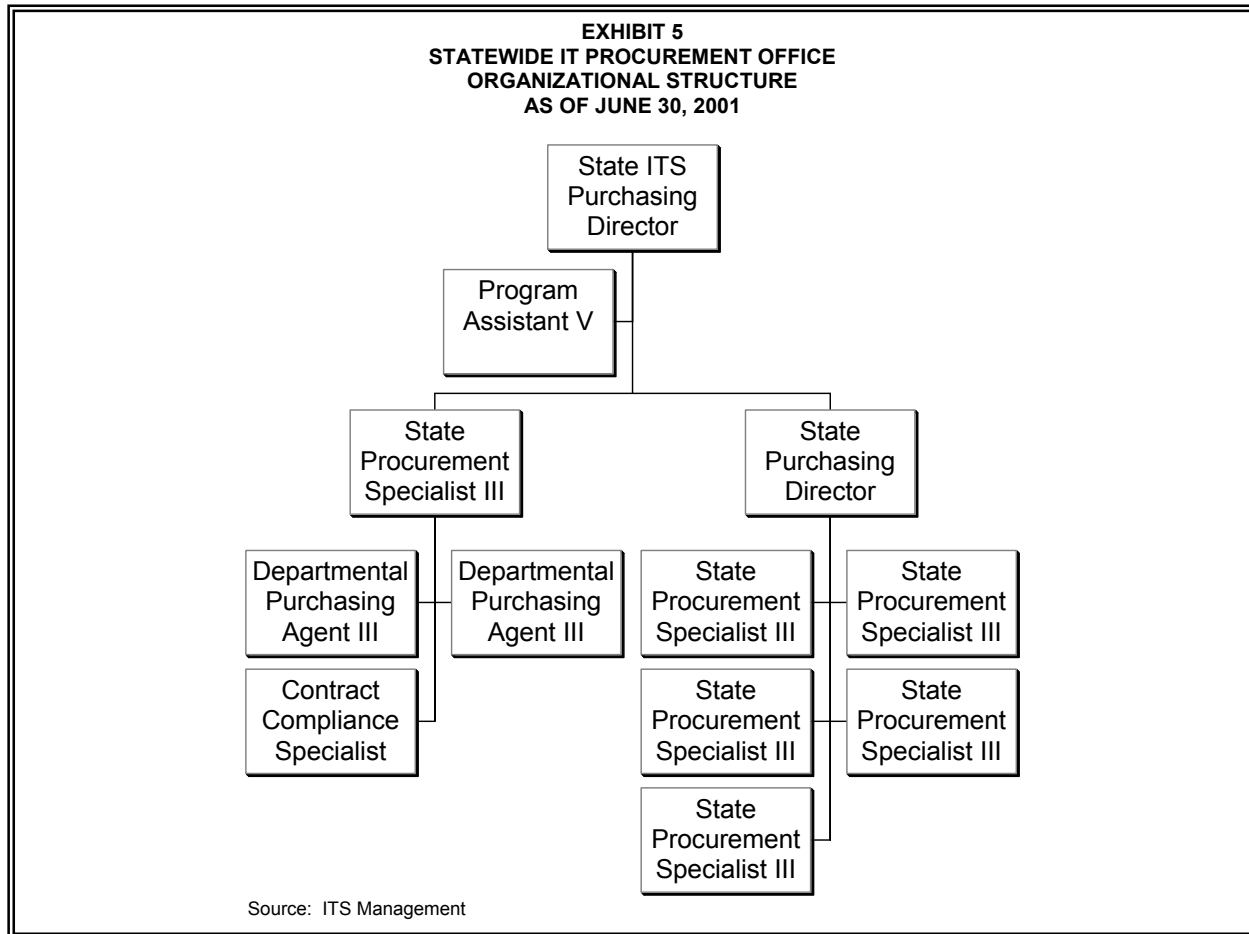
Effective March 19, 2001, based upon audit recommendations from Phase 1 and Phase 2, the Statewide IT Procurement Office was moved from the Financial and Facilities Services section and the ITS Agency Purchasing function was removed from the Statewide IT Procurement Office. (See Exhibit 3, page 18.) As a result, the remaining 12 positions have an estimated annual total cost of \$855,313. Table 5, page 20, summarizes these costs.

FINDINGS AND RECOMMENDATIONS

TABLE 5 OFFICE OF INFORMATION TECHNOLOGY SERVICES STATEWIDE IT PROCUREMENT OFFICE STAFFING AS OF JUNE 30, 2001				
POSITION TITLE	PRIOR ORGANIZATIONAL PLACEMENT/FUNDING DATE	BUDGETED SALARY	ESTIMATED BENEFITS (1)	ANNUAL PERSONNEL COST
Chief IT Procurement Officer (2)	ITS Computing Services	\$ 62,857	\$ 27,029	\$ 89,886
Program Assistant V	Funded 10/1/99	30,645	13,177	43,822
State Purchasing Administrator (Statewide)	Funded 4/1/00	59,306	25,502	84,808
State Procurement Specialist III	Funded 5/1/00	50,808	21,847	72,655
State Procurement Specialist III	Funded 10/1/99	44,926	19,318	64,244
State Procurement Specialist III	Funded 9/1/99	44,074	18,952	63,026
State Procurement Specialist III	Funded 9/1/99	51,572	22,176	73,748
State Procurement Specialist III (2)	Funded 12/1/00	50,053	21,523	71,576
State Procurement Specialist III (2)	Funded 12/1/00	50,053	21,523	71,576
Departmental Purchasing Agent III	ITS Business Technology Services	45,736	19,666	65,402
Contract Compliance Specialist	ITS Telecommunications Services	68,652	29,520	98,172
Departmental Purchasing Agent III	Funded 10/1/00	39,439	16,959	56,398
TOTAL		\$ 598,121	\$ 257,192	\$ 855,313
Source: Office of State Personnel Position Histories				
(1) Benefits estimated at 43% of salary				
(2) Position vacant at 6/30/2001, salary estimated at mid-point of salary range				
Note: Effective March 19, 2001, four positions handling ITS Agency Purchasing were transferred from the Statewide IT Procurement Office to the ITS Financial and Facilities Services section.				

Presently, the Chief IT Procurement Officer (renamed the State ITS Purchasing Director) reports to the Chief Information Officer, as shown in Exhibit 3, page 18. The State ITS Purchasing Director is assisted by a program assistant who manages the database that tracks purchase requests and maintains records on use of Historically Under-utilized Businesses. The State Purchasing Director is responsible for supervision of office staff and assisting the Chief Procurement Officer. The State Procurement Specialists concentrate their efforts on certain types of goods such as hardware, software, or telecommunications. The Departmental Purchasing Agents oversee contracts that link qualified technical persons to specific types of technological expertise required by state agencies. The Contract Compliance Specialist is responsible for ensuring the IT Procurement Office's internal files comply with regulations and updating the North Carolina Administrative Code as well as the Procurement Office policies and procedures. Exhibit 5, page 21, depicts the structure in place as of June 30, 2001.

FINDINGS AND RECOMMENDATIONS



Specific findings and recommendations relative to ITS' efficiency and effectiveness and comparison to P&C follow.

Findings—Efficiency and Effectiveness:

USER AGENCY VIEWS ON THE ABILITY OF THE PROCUREMENT OFFICE HAVE CHANGED OVER TIME.

During Phase 1, we surveyed all state agencies, universities, community colleges, and local school systems that had either used the Statewide IT Procurement Office or the Department of Administration, Division of Purchase and Contract. Thirty (53.6%) of the 56 agencies contacted responded. At that time, user agencies expressed concern with the transfer of the IT procurement function and generally believed P&C was more responsive, had a higher level of expertise, and was less problematic. In Phase 2, 44 agencies had utilized the procurement services of ITS. The 28 (63.6%) survey respondents' opinions had changed, rating ITS higher in these areas. Twenty-three (39.7%) of the 58 agencies using the Procurement Office during Phase 3 responded to the

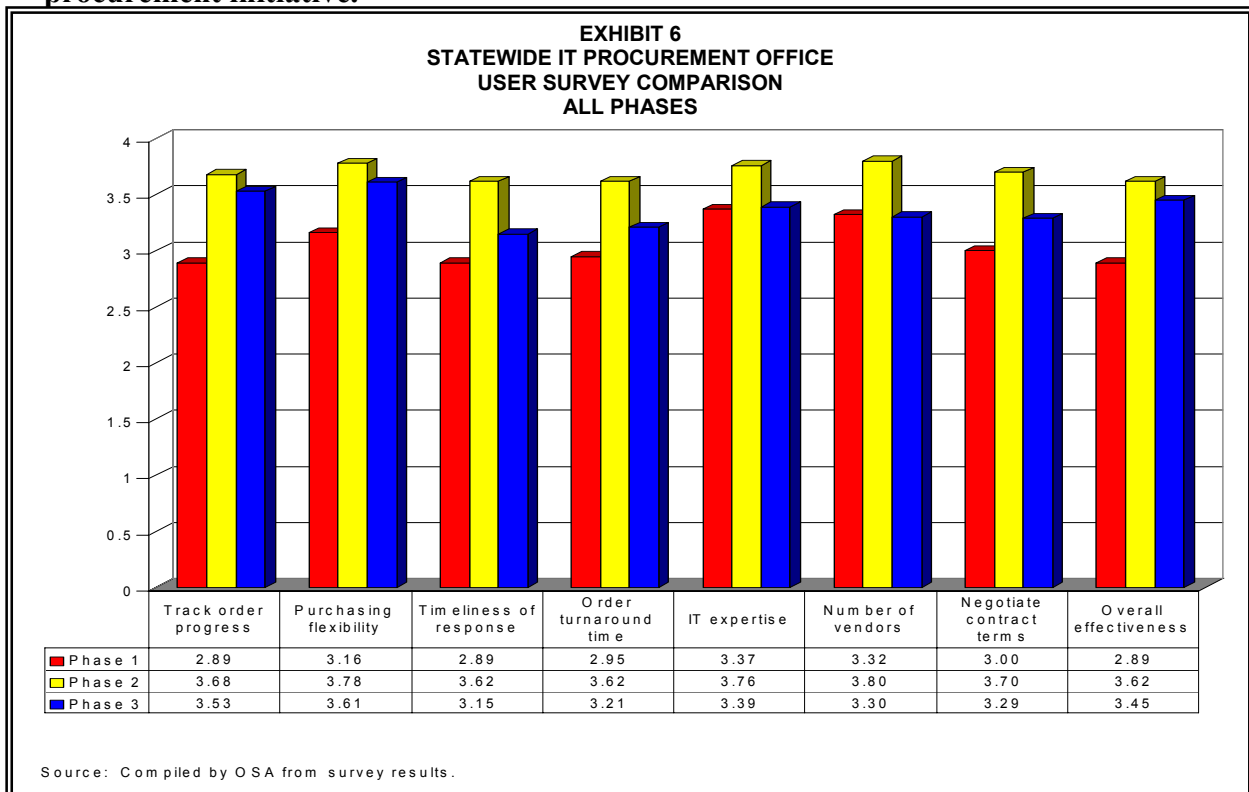
FINDINGS AND RECOMMENDATIONS

survey. Phase 3 results were mixed, (see Table 6) showing ITS performing better than in Phase 1 but not as well as in Phase 2. Phase 3 responses showed problems with response times in several areas. Vacant positions and the necessity of spending time on e-procurement initiatives may be the causes for the decreased satisfaction. Exhibit 6 below shows user assessment of the Procurement Office for each of the three audit periods. Appendices A, B, and C (pages 29 through 40) contain the summary results for each audit phase.

RECOMMENDATION

ITS should continue to work on improving service to user agencies. Special emphasis should be placed on responding timely to customers. ITS management should work to fill vacant positions especially with the increased demands brought on by the State's e-procurement initiative.

TABLE 6 USER SURVEY RESULTS COMPARISON (Table shows percentage of respondents choosing each entity.) JANUARY 1, 2001 THROUGH JUNE 30, 2001		
FACTOR	ITS	P&C
Experienced problems with service	43%	20%
Personnel Expertise		
Excellent	18%	13%
Good	64%	53%
Fair	18%	7%
Poor	0%	0%
Don't Know	0%	27%
Responsiveness		
Excellent	18%	7%
Good	36%	50%
Fair	32%	14%
Poor	14%	0%
Don't Know	0%	29%
RATING SCALE (5 point scale)		
Ability to track progress of purchase request/order	3.53	3.85
Purchasing flexibility (not just lowest price)	3.61	3.69
Timeliness of response	3.15	3.71
Turnaround time of requests/purchase orders	3.21	3.77
Expertise regarding IT items	3.39	3.69
Number of vendors to choose from	3.30	3.43
Ability to negotiate terms of contracts	3.29	3.75
Overall effectiveness	3.45	3.62
Source: Compiled by OSA from Survey Results		



FINDINGS AND RECOMMENDATIONS

CREATION OF THE STATEWIDE IT PROCUREMENT OFFICE RESULTED IN A POSITIVE COST/BENEFITS RATIO FOR THE STATE.

When the procurement function was transferred from Purchase and Contract to ITS in January 2000, no positions were transferred with the function. To adequately staff this function, ITS moved three positions from other areas to the Procurement Office and created six new receipt-supported positions. An additional position was authorized in October 2000 and filled in February 2001, with two more positions that remain vacant authorized in December 2000. Thus, the State incurred an additional \$498,824 in salaries and benefits for these seven positions from January 1, 2000 through June 30, 2001, as shown in Table 7. Total costs for the Procurement Office were \$1,047,298, including salaries and benefits. (See Table 3, page 13.)

TABLE 7 STATEWIDE IT PROCUREMENT OFFICE ADDITIONAL STAFFING COSTS INCURRED JANUARY 1, 2000 THROUGH JUNE 30, 2001										
POSITION TITLE	JANUARY--JUNE 2000 (Phase 1)			JULY--DECEMBER 2000 (Phase 2)			JANUARY--JUNE 2001 (Phase 3)			JAN 2000-- JUNE 2001
	ACTUAL SALARY COSTS	ESTIMATED BENEFITS	TOTAL COSTS	ACTUAL SALARY COSTS	ESTIMATED BENEFITS	TOTAL COSTS	ACTUAL SALARY COSTS	ESTIMATED BENEFITS (1)	TOTAL COSTS	TOTAL ADDITIONAL COSTS
Program Assistant V	14,705	6,323	21,028	15,323	6,589	21,911	15,323	6,589	21,911	64,851
State Purchasing Administrator (Statewide)	-	-	-	23,228	9,988	33,216	29,653	12,751	42,404	75,620
State Procurement Specialist III	-	-	-	11,474	4,934	16,408	25,404	10,924	36,328	52,736
State Procurement Specialist III	19,598	8,427	28,025	22,463	9,659	32,122	22,463	9,659	32,122	92,269
State Procurement Specialist III	24,747	10,641	35,387	9,660	4,154	13,813	22,037	9,476	31,513	80,714
State Procurement Specialist III	24,747	10,641	35,387	25,786	11,088	36,874	25,786	11,088	36,874	109,135
Departmental Purchasing Agent III	-	-	-	-	-	-	16,433	7,066	23,499	23,499
TOTAL	\$ 83,796	\$ 36,032	\$ 119,828	\$ 107,933	\$ 46,411	\$ 154,345	\$ 157,099	\$ 67,552	\$ 224,651	\$ 498,824

Source: Office of State Personnel Position Histories
(1) Benefits estimated at 43% of salary

However, ITS documented \$5,870,382 in State contract cost savings during this same period, a cost/benefits ratio of 1 to 5.6. The majority of the savings were derived from negotiating better prices than those stated in term contracts. Further, the amount of cost savings generated increased each audit period as the Procurement Office staff gained more expertise. Table 8, page 24 shows the cost savings for each audit period.

FINDINGS AND RECOMMENDATIONS

TABLE 8 STATEWIDE IT PROCUREMENT OFFICE REPORTED COST SAVINGS JANUARY 1, 2000 TO JUNE 30, 2001				
Type	Phase 1	Phase 2	Phase 3	Total
Bid Renegotiations	\$ 148,102	\$ 214,216	\$ 56,898	\$ 419,215
Maintenance Renegotiations	3,911	0	0	3,911
Term Contract Price Renegotiations	434,856	1,008,672	3,206,303	4,649,831
Lease/Buyouts	82,033	715,393	0	797,426
Total	\$ 668,901	\$ 1,938,280	\$ 3,263,201	\$ 5,870,382
Source: Statewide IT Procurement Office Cost Savings Reports				

The manner of recording cost savings is inefficient, though. The contract specialists identify cost savings and forward this information to the administrative assistant who records it in a separate database rather than the IT Procurement tracking system. This process results in some duplicate information being entered into both databases. Further, we noted the cost savings report had inaccuracies, resulting in an understatement of \$211,640. These oversights occurred because the contract specialists did not provide cost savings information to the administrative assistant. The Procurement Office has no formal policies directing employees to identify and record cost savings.

RECOMMENDATION

The Statewide IT Procurement Office should continue to focus efforts on achieving cost savings. The Procurement Office should modify the IT procurement tracking system to include a field for cost savings. All prior cost savings should be added to the system. Each contract specialist should be responsible for documenting and recording cost savings in the contract file and tracking system. In addition, internal policies and procedures should be developed for cost savings reporting and provided to all Procurement Office employees. Finally, the Procurement Office should consider using cost savings reports as a performance measure.

THE STATE'S PURCHASING AUTHORITY IS SPLIT BETWEEN TWO AGENCIES.

The State's purchasing authority is split between two agencies leading to confusion and concern by state agencies and vendors. Survey respondents commented that they had to learn two separate sets of rules, one for ITS and another for P&C. While many of the rules regarding IT procurement mirror those of P&C, some regulations do differ. Further, user agencies noted that they were unsure at times which agency to contact for purchase approval. To remedy these concerns, ITS offered training sessions for user agencies to familiarize them with the new rules.

FINDINGS AND RECOMMENDATIONS

In addition, the legislation governing IT procurement states that universities, community colleges, and local government agencies “**may**” use ITS for IT purchases. The wording allows these entities to use ITS, P&C, or purchase items directly from an approved vendor. The result is the potential loss of economies of scale that could be achieved through bulk-buying discounts. Further, P&C must remain proficient on IT goods and services since these agencies could request its assistance for these items, a potential duplication of effort. These issues would have to be addressed by the General Assembly.

RECOMMENDATION

ITS should continue to offer periodic training to user agencies on the rules and regulations governing IT procurement. The General Assembly should consider the ramifications of the split purchasing authority. Further, the General Assembly should consider requiring all governmental entities to utilize ITS for IT purchases to enable achievement of economies of scale and ensure that the State is receiving the best value in all IT purchasing decisions.

(This page left blank intentionally)

APPENDICES

Appendix	Description	Page
A	User Agency Questionnaire – Phase 1	29
B	User Agency Questionnaire – Phase 2	33
C	User Agency Questionnaire – Phase 3	37
D	Response from the Chief Information Officer, Office of Information Technology Services	41

APPENDICES

(This page left blank intentionally)

APPENDICES

APPENDIX A

OFFICE OF THE STATE AUDITOR PERFORMANCE AUDIT INFORMATION TECHNOLOGY SERVICES PROCUREMENT PROCEDURES USER AGENCY QUESTIONNAIRE

SURVEYS SENT: 56
RESPONDENTS: 30
% RESPONDING: 53.6%

Phase 1: 1/1/2000-6/30/2000

1. Did you purchase IT equipment or use IT service or term contracts from July 1, 1999 through December 31, 1999 while those purchases were authorized by P&C? **29 RESPONDENTS**
 A. Yes **27 (93.1%)** B. No (go to question # 6) **2 (6.9%)**

2. Did you experience any problems with your purchases of IT equipment when the function was handled by P&C? **26 RESPONDENTS**
 A. Yes **3 (11.5%)** B. No (go to question # 4) **23 (88.5%)**

3. What problems did you experience with P&C? **5 RESPONDENTS**
 A. Lack of timely response **3 (60.0%)**
 B. Lack of expertise **1 (20.0%)**
 C. Inability to track order/request in process **0 (0.0%)**
 D. Item approved did not meet agency needs/specifications **1 (20.0%)**
 E. Lengthy approval process **2 (40.0%)**
 F. Difficult to access contact person **1 (20.0%)**
 G. Other (please specify) _____ **0 (0.0%)**

4. How would you rate the expertise of personnel at P&C who were responsible for IT procurement? **25 RESPONDENTS**
 A. Excellent **6 (24.0%)**
 B. Good **13 (52.0%)**
 C. Fair **4 (16.0%)**
 D. Poor **0 (0.0%)**
 E. Don't Know **2 (8.0%)**

5. How do you rate the responsiveness of personnel at P&C with regard to procurement problems/questions? **25 RESPONDENTS**
 A. Excellent **8 (32.0%)**
 B. Good **9 (36.0%)**
 C. Fair **5 (20.0%)**
 D. Poor **1 (4.0%)**
 E. Don't Know **2 (8.0%)**

6. Were you aware that the IT procurement process was transferred from P&C to ITS? **29 RESPONDENTS**
 A. Yes **29 (100.0%)** B. No (go to question # 10) **0 (0.0%)**

APPENDICES

APPENDIX A

7. How did you become aware of this change? (check all that apply) **28 RESPONDENTS**
- A. Notified by ITS **14 (50.0%)**
 - B. Notified by P&C **23 (82.1%)**
 - C. Reviewed legislation **10 (35.7%)**
 - D. Informed by someone within your agency **9 (32.1%)**
 - E. Other (please specify) _____ **5 (17.8%)**
8. Did you or another member of your organization attend any training provided by the Statewide IT Procurement Office regarding the new IT procurement process? **29 RESPONDENTS**
- A. Yes **10 (34.5%)**
 - B. No (go to question # 10) **19 (65.5%)**
9. How would you rate the training provided? **10 RESPONDENTS**
- A. Excellent **0 (0.0%)**
 - B. Good **8 (80.0%)**
 - C. Fair **1 (10.0%)**
 - D. Poor **1 (10.0%)**
 - E. Don't Know **0 (0.0%)**
10. Have you purchased IT equipment or used IT service or term contracts since January 1, 2000? **29 RESPONDENTS**
- A. Yes **26 (89.7%)**
 - B. No (go to question # 17) **3 (10.3%)**
11. Through which agency were these purchases approved? **27 RESPONDENTS**
- A. ITS Statewide IT Procurement Office **13 (48.2%)**
 - B. P&C **6 (22.2%)**
 - C. Neither **8 (29.6%)**
12. Have you experienced any problems with IT procurement since the process has become the responsibility of the ITS Statewide IT Procurement Office? **23 RESPONDENTS**
- A. Yes **8 (34.8%)**
 - B. No (go to question # 14) **15 (65.2%)**
13. What problems have you experienced with the ITS Statewide IT Procurement Office? **8 RESPONDENTS**
- A. Lack of timely response **6 (75.0%)**
 - B. Lack of expertise **3 (37.5%)**
 - C. Inability to track order/request in process **3 (37.5%)**
 - D. Item approved did not meet agency needs/specifications **1 (12.5%)**
 - E. Lengthy approval process **4 (50.0%)**
 - F. Difficult to access contact person **6 (75.0%)**
 - G. Other (please specify) _____ **4 (50.0%)**
14. How would you rate the expertise of personnel at the ITS Statewide IT Procurement Office that are responsible for IT procurement? **25 RESPONDENTS**
- A. Excellent **2 (8.0%)**
 - B. Good **9 (36.0%)**
 - C. Fair **5 (20.0%)**
 - D. Poor **1 (4.0%)**
 - E. Don't Know **8 (32.0%)**

APPENDICES

APPENDIX A

15. How do you rate the responsiveness of the ITS Statewide IT Procurement Office with regard to procurement problems/questions? **25 RESPONDENTS**
- A. Excellent **2 (8.0%)**
 - B. Good **7 (28.0%)**
 - C. Fair **8 (32.0%)**
 - D. Poor **1 (4.0%)**
 - E. Don't Know **7 (28.0%)**

16. How much did your agency spend on IT assets from January 1, 2000 through June 30, 2000? **26 RESPONDENTS**
- A. Less than \$100,000 **6 (23.1%)**
 - B. \$100,001 to \$500,000 **9 (34.6%)**
 - C. \$500,001 to \$1,000,000 **5 (19.2%)**
 - D. \$1,000,001 to \$5,000,000 **5 (19.2%)**
 - E. More than \$5,000,000 **1 (3.9%)**

17. Please rate P&C in the following areas related to IT procurement on the following scale: **27 RESPONDENTS**
5—Excellent, 4—Very Good, 3—Good, 2—Fair, 1--Poor

Category	Ranking
A. Ability to track progress of request/purchase order	<u>3.92</u>
B. Purchasing flexibility (not just lowest price)	<u>3.30</u>
C. Timeliness of responses	<u>3.44</u>
D. Turn-around time of requests/purchase orders	<u>3.41</u>
E. Expertise regarding IT items	<u>3.44</u>
F. Number of vendors to choose from	<u>3.96</u>
G. Ability to negotiate terms of contracts	<u>3.56</u>
H. Overall effectiveness	<u>3.63</u>

18. Please rate the ITS Statewide IT Procurement Office in the following areas related to IT procurement on the following scale: **19 RESPONDENTS**
5—Excellent, 4—Very Good, 3—Good, 2—Fair, 1--Poor

Category	Ranking
A. Ability to track progress of request/purchase order	<u>2.89</u>
B. Purchasing flexibility (not just lowest price)	<u>3.16</u>
C. Timeliness of responses	<u>2.89</u>
D. Turn-around time of requests/purchase orders	<u>2.95</u>
E. Expertise regarding IT items	<u>3.37</u>
F. Number of vendors to choose from	<u>3.32</u>
G. Ability to negotiate terms of contracts	<u>3.00</u>
H. Overall effectiveness	<u>2.89</u>

19. Are there any services related to IT procurement that you need that the ITS Statewide IT Procurement Office does not provide? **27 RESPONDENTS**
- A. Yes (please specify) _____ **5 (18.5%)**
 - B. No **22 (81.5%)**

APPENDICES

APPENDIX A

20. Please discuss any other concerns you have regarding the IT procurement function.
- The rules prepared by IT lack clarity and invite problematic disparity for purchasing offices.
 - Establishment of IT Procurement section created an additional set of rules to understand and follow.
 - Should be included with other purchasing groups currently reporting to Department of Administration, Division of Purchase and Contract.
 - Need training for using matrix evaluation methods.
 - General knowledge of public procurement practices is lacking.
 - Decision to place IT Procurement under the Governor's Office concerns us. Seems questionable to put a public procurement operation in the most politically charged office.
 - Now, our purchasing agents answer to three oversight entities. There are three sets of rules and procedures to learn.
 - Term contracts not being replaced but using last minute extensions.
 - There is still confusion over who handles certain contracts, P&C or ITS.
 - Requested training from ITS and never received it.
 - Difficulty finding certain information on web site.
 - Responsiveness of ITS Statewide IT Procurement Office improving recently.
 - Impression that Statewide IT Procurement Office could use additional personnel.

APPENDICES

APPENDIX B

OFFICE OF THE STATE AUDITOR PERFORMANCE AUDIT INFORMATION TECHNOLOGY SERVICES PROCUREMENT PROCEDURES USER AGENCY QUESTIONNAIRE

SURVEYS SENT: 44	Phase 2: 1/1/2000 through 12/31/2000
RESPONDENTS: 28	
RESPONSE RATE: 63.6%	

1. Did you purchase IT equipment or use IT service or term contracts from July 1, 2000 through December 31, 2000? **28 RESPONDENTS**
 - A. Yes **28 (100.0%)**
 - B. No (go to question # 12) **0 (0.0%)**

2. Through which agency were these purchases approved? **28 RESPONDENTS**
 - A. ITS Statewide IT Procurement Office (complete questions #3 and #4, then go to question #7) **17 (60.7%)**
 - B. P&C (go to question #5) **0 (0.0%)**
 - C. Some through both **11 (39.3%)**
 - D. Neither (go to question #9) **0 (0.0%)**

3. How would you rate the expertise of personnel at the ITS Statewide IT Procurement Office who are responsible for IT procurement? **28 RESPONDENTS**
 - A. Excellent **9 (32.1%)**
 - B. Good **15 (53.6%)**
 - C. Fair **3 (10.7%)**
 - D. Poor **1 (3.6%)**
 - E. Don't Know **0 (0.0%)**

4. How do you rate the responsiveness of personnel at the ITS Statewide IT Procurement Office with regard to IT procurement problems/questions? **28 RESPONDENTS**
 - A. Excellent **10 (35.7%)**
 - B. Good **12 (42.9%)**
 - C. Fair **6 (21.4%)**
 - D. Poor **0 (0.0%)**
 - E. Don't Know **0 (0.0%)**

5. How would you rate the expertise of personnel at P&C who are responsible for IT procurement? **20 RESPONDENTS**
 - A. Excellent **5 (25.0%)**
 - B. Good **7 (35.0%)**
 - C. Fair **4 (20.0%)**
 - D. Poor **0 (0.0%)**
 - E. Don't Know **4 (20.0%)**

APPENDICES

APPENDIX B

6. How do you rate the responsiveness of personnel at P&C with regard to IT procurement problems/questions?

20 RESPONDENTS

- A. Excellent **5 (25.0%)**
- B. Good **5 (25.0%)**
- C. Fair **7 (35.0%)**
- D. Poor **0 (0.0%)**
- E. Don't Know **3 (15.0%)**

7. Did you experience any problems with those purchases of IT equipment or services?

28 RESPONDENTS

- A. Yes **9 (32.1%)**
- B. No (go to question # 9) **19 (67.9%)**

8. What problems did you experience and with which agency?

Problem	At ITS	At P&C
RESPONDENTS	7	6
Lack of timely response.	5 (71.4%)	1 (16.7%)
Lack of expertise.	2 (28.6%)	1 (16.7%)
Inability to track order/request in process.	2 (28.6%)	1 (16.7%)
Item approved did not meet agency needs/specifications.	0 (0.0%)	0 (0.0%)
Lengthy approval process.	2 (28.6%)	2 (33.3%)
Difficult to access contact person.	3 (42.9%)	1 (16.7%)
Confusion regarding which rules to follow or which agency (ITS or P&C) to contact.	4 (57.1%)	4 (66.7%)
Lack of training provided to user agencies.	4 (57.1%)	3 (50.0%)
Procurement Office employees not adequately trained.	2 (28.6%)	0 (0.0%)
Rules are not clear.	4 (57.1%)	2 (33.3%)
Lack of on-line capabilities.	2 (28.6%)	0 (0.0%)
Untimely renewal of term contracts.	3 (42.9%)	2 (33.3%)
Other (please specify)	0 (0.0%)	0 (0.0%)

9. Have you or another member of your organization attended any training provided by the Statewide IT Procurement Office regarding the new IT procurement process? **28 RESPONDENTS**

- A. Yes **12 (42.9%)**
- B. No (go to question #12) **16 (57.1%)**

10. When did this training occur? (mark all that apply) **12 RESPONDENTS**

- A. Prior to January 1, 2000 **6 (50.0%)**
- B. Between January 1, 2000 and June 30, 2000 **6 (50.0%)**
- C. Between July 1, 2000 and December 31, 2000 **2 (16.7%)**
- D. Since January 1, 2001 **1 (8.3%)**

APPENDICES

APPENDIX B

11. How would you rate the training provided? **12 RESPONDENTS**

- A. Excellent **2 (16.7%)**
- B. Good **5 (41.7%)**
- C. Fair **3 (25.0%)**
- D. Poor **2 (16.7%)**
- E. Don't Know **0 (0.0%)**

12. How much did your agency spend on IT assets from July 1, 2000 through December 31, 2000?
28 RESPONDENTS

- A. Less than \$100,000 **6 (21.4%)**
- B. \$100,001 to \$500,000 **12 (42.9%)**
- C. \$500,001 to \$1,000,000 **3 (10.7%)**
- D. \$1,000,001 to \$5,000,000 **4 (14.3%)**
- E. More than \$5,000,000 **3 (10.7%)**

13. Please rate the ITS Statewide IT Procurement Office and the Department of Administration, Division of Purchase and Contract, as applicable, in the following areas related to IT procurement on the following scale:

5—Excellent, 4—Very Good, 3—Good, 2—Fair, 1—Poor

Category	ITS	P&C
RESPONDENTS	26	19
A. Ability to track progress of request/purchase order	3.68	3.75
B. Purchasing flexibility (not just lowest price)	3.78	3.22
C. Timeliness of responses	3.62	3.47
D. Turn-around time of requests/purchase orders	3.62	3.32
E. Expertise regarding IT items	3.76	3.37
F. Number of vendors to choose from	3.80	3.63
G. Ability to negotiate terms of contracts	3.70	3.67
H. Overall effectiveness	3.62	3.58

14. Are there any services related to IT procurement that you need that the ITS Statewide IT Procurement Office does not provide? **26 RESPONDENTS**

- A. Yes (please specify) _____ **3 (11.5%)**
- B. No **22 (88.5%)**

APPENDICES

APPENDIX B

15. Please discuss any other concerns you have regarding the IT procurement function.
- This time around the experience was much better. During the previous six months we had some serious concerns (tracking orders).
 - Need better friendly on-line contracts.
 - Add search motors for commodities.
 - Better define components in contracts.
 - Happy with range of services available.
 - Needs to get additional technical/convenience contracts fully developed.
 - Too many vendors for PC hardware does not lend itself to obtaining best possible prices.
 - Continue clause in term contract that imposes a penalty on vendor for late delivery of equipment.
 - IT Procurement did not receive the lowest price until after we negotiated with vendor.
 - Using agencies have difficulty tracking process once it is received by ITS or P&C.
 - Difficulty obtaining training from ITS Statewide IT Procurement Office on how to use their service contracts in place.
 - Have the savings which were originally anticipated that this move would create been realized? Confusion regarding the policies, what steps are required, and who is responsible for what.
 - Purchases that do not "fit the mold" seem to be especially painful.

APPENDICES

APPENDIX C

OFFICE OF THE STATE AUDITOR PERFORMANCE AUDIT INFORMATION TECHNOLOGY SERVICES PROCUREMENT PROCEDURES USER AGENCY QUESTIONNAIRE

SURVEYS SENT: 58
RESPONDENTS: 23
RESPONSE RATE: 40%

Phase 3: 1/1/2000 through 6/30/2001

1. Did you purchase IT equipment or use IT service or term contracts from January 1, 2001 through June 30, 2001?
23 RESPONDENTS
 A. Yes **22 (95.7%)** B. No (go to question # 12) **1 (4.3%)**

2. Through which agency were these purchases approved? **23 RESPONDENTS**
 A. ITS Statewide IT Procurement Office (complete questions #3 and #4, then go to question #7) **17 (73.9%)**
 B. P&C (go to question #5) **1 (4.3%)**
 C. Some through both **4 (17.4%)**
 D. Neither (go to question #9) **1 (4.3%)**

3. How would you rate the expertise of personnel at the ITS Statewide IT Procurement Office who are responsible for IT procurement? **22 RESPONDENTS**
 A. Excellent **4 (18.2%)**
 B. Good **14 (63.6%)**
 C. Fair **4 (18.2%)**
 D. Poor **0 (0.0%)**
 E. Don't Know **0 (0.0%)**

4. How do you rate the responsiveness of personnel at the ITS Statewide IT Procurement Office with regard to IT procurement problems/questions? **22 RESPONDENTS**
 A. Excellent **4 (18.2%)**
 B. Good **8 (36.3%)**
 C. Fair **7 (31.8%)**
 D. Poor **3 (13.6%)**
 E. Don't Know **0 (0.0%)**

5. How would you rate the expertise of personnel at P&C who are responsible for IT procurement?
15 RESPONDENTS
 A. Excellent **2 (13.3%)**
 B. Good **8 (53.3%)**
 C. Fair **1 (6.7%)**
 D. Poor **0 (0.0%)**
 E. Don't Know **4 (26.7%)**

APPENDICES

APPENDIX C

6. How do you rate the responsiveness of personnel at P&C with regard to IT procurement problems/questions?

14 RESPONDENTS

- A. Excellent **1 (7.1%)**
- B. Good **7 (50.0%)**
- C. Fair **2 (14.3%)**
- D. Poor **0 (0.0%)**
- E. Don't Know **4 (28.6%)**

7. Did you experience any problems with those purchases of IT equipment or services?

21 RESPONDENTS

- A. Yes **9 (42.9%)**
- B. No (go to question # 9) **12 (57.1%)**

8. What problems did you experience and with which agency?

Problem	At ITS	At P&C
RESPONDENTS	9	1
Lack of timely response.	8 (88.8%)	0 (0.0%)
Lack of expertise.	4 (44.4%)	0 (0.0%)
Inability to track order/request in process.	1 (11.1%)	0 (0.0%)
Item approved did not meet agency needs/specifications.	0 (0.0%)	0 (0.0%)
Lengthy approval process.	5 (55.5%)	0 (0.0%)
Difficult to access contact person.	5 (55.5%)	0 (0.0%)
Confusion regarding which rules to follow or which agency (ITS or P&C) to contact.	3 (33.3%)	1 (100.0%)
Lack of training provided to user agencies.	1 (11.1%)	0 (0.0%)
Procurement Office employees not adequately trained.	2 (22.2%)	0 (0.0%)
Rules are not clear.	1 (11.1%)	0 (0.0%)
Lack of on-line capabilities.	3 (33.3%)	0 (0.0%)
Untimely renewal of term contracts.	4 (44.4%)	0 (0.0%)
Other (please specify)	0 (0.0%)	0 (0.0%)

9. Have you or another member of your organization attended any training provided by the Statewide IT Procurement Office regarding the new IT procurement process? **23 RESPONDENTS**

- A. Yes **6 (26.1%)**
- B. No (go to question #12) **17 (73.9%)**

10. When did this training occur? (mark all that apply) **7 RESPONDENTS**

- A. Prior to January 1, 2000 **3 (42.9%)**
- B. Between January 1, 2000 and June 30, 2000 **2 (28.6%)**
- C. Between July 1, 2000 and December 31, 2000 **1 (14.3%)**
- D. Since January 1, 2001 **1 (14.3%)**

APPENDICES

APPENDIX C

11. How would you rate the training provided? **7 RESPONDENTS**
- A. Excellent **1 (14.3%)**
 - B. Good **4 (57.1%)**
 - C. Fair **2 (28.6%)**
 - D. Poor **0 (0.0%)**
 - E. Don't Know **0 (0.0%)**
12. How much did your agency spend on IT assets from January 1, 2001 through June 30, 2001?
23 RESPONDENTS
- A. Less than \$100,000 **5 (21.7%)**
 - B. \$100,001 to \$500,000 **6 (26.1%)**
 - C. \$500,001 to \$1,000,000 **4 (17.4%)**
 - D. \$1,000,001 to \$5,000,000 **4 (17.4%)**
 - E. More than \$5,000,000 **4 (17.4%)**

13. Please rate the ITS Statewide IT Procurement Office and the Department of Administration, Division of Purchase and Contract, as applicable, in the following areas related to IT procurement on the following scale:

5—Excellent, 4—Very Good, 3—Good, 2—Fair, 1—Poor

Category	ITS	P&C
RESPONDENTS	20	14
A. Ability to track progress of request/purchase order	3.53	3.85
B. Purchasing flexibility (not just lowest price)	3.61	3.69
C. Timeliness of responses	3.15	3.71
D. Turn-around time of requests/purchase orders	3.21	3.77
E. Expertise regarding IT items	3.39	3.69
F. Number of vendors to choose from	3.30	3.43
G. Ability to negotiate terms of contracts	3.29	3.75
H. Overall effectiveness	3.45	3.62

14. Are there any services related to IT procurement that you need that the ITS Statewide IT Procurement Office does not provide? **21 RESPONDENTS**
- A. Yes (please specify)_____ **1 (4.8%)**
 - B. No **20 (95.2%)**
 - **Better on-line description of products and services available**

APPENDICES

APPENDIX C

15. Please discuss any other concerns you have regarding the IT procurement function.
- **Increase abnormal quantity limit to \$150,000.**
 - **Communications among ITS staff need improvement.**
 - **Now have to know where to send procurement actions (ITS or P&C) and deal with two locations and two sets of rules.**
 - **Bid analysis delayed due to ITS buyer being assigned to a priority project.**
 - **Should return to framework of Department of Administration-Division of Purchase and Contract.**
 - **Very knowledgeable and always responds to questions and problems in expeditious manner.**
 - **Need to make sure purchasing rules are the same statewide. Different individuals at ITS give a different interpretation of the rules.**
 - **Maybe a little hard to get up with at times.**
 - **Appear to have little or no sense of impact of their actions/inactions on the agencies who use them. Suffering from severe lack of leadership.**



**State of North Carolina
Office of Information Technology Services**

Michael F. Easley, Governor

Ronald P. Hawley, State Chief Information Officer

January 24, 2002

The Honorable Ralph Campbell, Jr.
North Carolina State Auditor
2 South Salisbury Street
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

Attached are our management responses to the recent performance audit that your office performed entitled *Office of Information Technology Services, Information Technology Procurement Function* dated December 2001.

As requested, we have also provided your office with an electronic copy of our management responses.

We appreciate your recommendations for improving our Information Technology Procurement Office.

Sincerely,

A handwritten signature in black ink that reads "Ronald P. Hawley".

Ronald P. Hawley

P.O. Box 17209 • Raleigh, North Carolina 27619-7209
Tel: 919.981.5555 • Fax: 919.981.2548 • State Courier 51-01-11
An Equal Opportunity/Affirmative Action Employer

(This page left blank intentionally)

North Carolina Office of Information Technology Services
Management Responses to Findings in the December 2001 State Auditor's
Performance Audit of ITS' IT Procurement Function

Findings—Rules and Internal Procedures:

THE IT PROCUREMENT OFFICE HAS NOT ESTABLISHED A FORMAL MONITORING PROCESS FOR THE PROGRAM.

RECOMMENDATION

ITS management should continue development of the formal monitoring process. Goals and objectives should be stated in a manner that would enable measurement over a stated period. Further, a system to evaluate the achievement of those goals should be implemented.

Management Response: The existing tracking system is used to monitor turnaround times and workload and serves to provide procurement status to management and customer base.

We conducted an internal file audit in August of 2001 to ensure and monitor compliance with internal policies and procedures and to identify areas where additional monitoring and or training may be required.

A plan is being developed to tie turnaround times and cost savings to performance ratings.

ITS' INTERNAL PROCEDURES MANUAL FOR STATEWIDE PROCUREMENT CONTAINED SOME INCONSISTENCIES.

RECOMMENDATION

The Statewide IT Procurement Office should review its internal policy manual to correct the issues noted. Management should be actively involved in the revisions to ensure that all identified problems are resolved.

Management Response: Statewide IT Procurement Office management has reviewed the internal policy manual and will correct the issues noted.

APPENDICES

APPENDIX D

ITS HAS NOT DEVELOPED A STATEWIDE IT ASSET INVENTORY AS REQUIRED BY SENATE BILL 222.

RECOMMENDATION

ITS should take steps to comply with GS 143B-472.52(c) by continuing with development of a statewide IT asset inventory. If insufficient funds delay this action, ITS should seek a remedy with the General Assembly through a request for funding.

Management Response: This has not yet been implemented due to budget constraints. ITS will begin addressing this requirement with the new Distributed Computing Services/Seat Management Contract and new security requirements that will be established.

Findings—Compliance with Regulations:

THE PROCUREMENT OFFICE'S COMPUTERIZED TRACKING SYSTEM CONTAINS UNNECESSARY DATA.

RECOMMENDATION

The Statewide IT Procurement Office should cease entering requests into the tracking system that fall below the general delegation amount. Instead, the Procurement Office should notify the agency to procure the item directly. The notification date should be documented on the request and a central file of these requests should be maintained.

Management Response: Due to the workflow in the Statewide IT Procurement Office, we feel that it is more efficient to have all incoming requests tracked in a single database. This is necessary for on-line inquiry. Where no work is involved in the processing of such requests, they will be flagged as returned to agency to process under delegation and removed from turnaround time calculations.

THE PROCUREMENT OFFICE HAS NOT CONDUCTED REQUIRED COMPLIANCE REVIEWS.

RECOMMENDATION

The Procurement Office should comply with the NC Administrative Code by conducting agency compliance reviews. Management should proceed in identifying the manner in which these reviews will be conducted and designate staff members to perform this function. Further, at the

APPENDICES

APPENDIX D

completion of a review, copies of the compliance report should be provided to the agency's executive officer, the State Auditor, and State Budget Officer in compliance with regulations.

Management Response: This position has been funded, but has not been established due to budget constraints. Management is currently working with personnel to address this vacancy. This process was delayed as a result of personnel and management engagement in the recent RIF at ITS which eliminated 23 positions.

THE PROCUREMENT OFFICE IS NOT TRACKING THE RECEIPT OF ADMINISTRATIVE FEES CHARGED TO VENDORS.

RECOMMENDATION

ITS should develop and implement a formal system to track the receipt of administrative fees. In those cases where vendors do not comply with contract requirements regarding submission of fees and associated reports, the Procurement Office should remove those vendors from the technical services vendor listing.

Management Response: The new Technical Service Contract has been awarded and contains reporting requirements that will facilitate and ensure the tracking of administrative fees for scope statements awarded.

Findings—Efficiency and Effectiveness:

USER AGENCY VIEWS ON THE ABILITY OF THE PROCUREMENT OFFICE HAVE CHANGED OVER TIME.

RECOMMENDATION

ITS should continue to work on improving service to user agencies. Special emphasis should be placed on responding timely to customers. ITS management should work to fill vacant positions especially with the increased demands brought on by the State's e-procurement initiative.

Management Response: Management will continue to monitor and respond to customer service issues. The State ITS Purchasing Director vacancy has been filled through the promotion of the State Purchasing Director leaving two vacancies. Management is currently working with personnel to address these vacancies. This process was delayed as a result of personnel and management engagement in the recent RIF at ITS which eliminated 23 positions.

CREATION OF THE STATEWIDE IT PROCUREMENT OFFICE RESULTED IN A POSITIVE COST/BENEFITS RATIO FOR THE STATE.

RECOMMENDATION

The Statewide IT Procurement Office should continue to focus efforts on achieving cost savings. The Procurement Office should modify the IT procurement tracking system to include a field for cost savings. All prior cost savings should be added to the system. Each contract specialist should be responsible for documenting and recording cost savings in the contract file and tracking system. In addition, internal policies and procedures should be developed for cost savings reporting and provided to all Procurement Office employees. Finally, the Procurement Office should consider using cost savings reports as a performance measure.

Management Response: There are currently two fields in the tracking system one for estimated amount and one for award amount. These fields will be used to track and record cost savings as opposed to using a separate database. Greater efficiency will be achieved by tracking cost savings in a single database as well as allow for on-line inquiry.

THE STATE'S PURCHASING AUTHORITY IS SPLIT BETWEEN TWO AGENCIES.

RECOMMENDATION

ITS should continue to offer periodic training to user agencies on the rules and regulations governing IT procurement. The General Assembly should consider the ramifications of the split purchasing authority. Further, the General Assembly should consider requiring all governmental entities to utilize ITS for IT purchases to enable achievement of economies of scale and ensure that the State is receiving the best value in all IT purchasing decisions.

Management Response: The Statewide IT Procurement Office will continue to offer training specific to agency needs with regard to "best value" procurement practices. We will continue to offer training through attendance and participation in meetings with various purchasing and IT organizations throughout the state. We are currently attending many of these group meetings on a regular basis.

DISTRIBUTION OF AUDIT REPORT

In accordance with GS §147-64.5 and GS §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Ronald P. Hawley	State Chief Information Officer

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gulley	Representative Ruth M. Easterling
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Luther H. Jordan, Jr.	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Larry T. Justus
Senator R. L. Martin	Representative Edd Nye
Senator William N. Martin	Representative Warren C. Oldham
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Fountain Odom	Representative E. David Redwine
Senator Aaron W. Plyler	Representative R. Eugene Rogers
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Dan Robinson	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Ronald L. Smith
Senator Robert G. Shaw	Representative Gregg Thompson
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator Ed N. Warren	Representative Russell E. Tucker
Senator David F. Weinstein	Representative Thomas E. Wright
Senator Allen H. Wellons	Representative Douglas Y. Yongue

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

Members of the Information Technology Committee

Senator Eric M. Reeves, Chair
Senator Hamilton C. Horton, Jr., Ranking Minority Member
Senator Linda Garrou, Vice Chair
Senator Tony Rand, Vice Chair
Senator Austin M. Allran
Senator Charles Carter
Senator Daniel G. Clodfelner
Senator David W. Hoyle
Senator Howard N. Lee
Senator Kay R. Hagan
Senator R. C. Soles, Jr.
Senator Virginia Foxx
Senator Wib Gulley

Members of the Science and Technology Committee

Representative Drew P. Saunders, Chair
Representative Joe P. Tolson, Chair
Representative Paul Miller, Vice Chair
Representative Flossie Boyd-McIntyre
Representative Debbie A. Clary
Representative Pryor A. Gibson, III
Representative Lyons Gray
Representative Michael Harrington
Representative Mark Hilton
Representative Linda P. Johnson
Representative Russell E. Tucker
Representative William L. Wainwright
Representative Trudi Walend

Members of the Information Resource Management Commission

- Ralph Campbell, Jr., Commission Chair, State Auditor
- Janet Smith, Commission Vice-Chair, President and CEO, JWS Members
- Robert S. Brinson, Chair, The Criminal Justice Information Network (CJIN) Governing Board
- Olin H. Broadway, Jr., UNC-Charlotte Executive in Residence, State House of Representatives
- Gwen A. Canady, Chair, Information Technology Management Advisory Council (ITMAC)
- Rufus L. Edmisten, Attorney at Law, The Edmisten & Webb Law Firm, NC Senate
- Lisbeth C. Evans, Secretary for the Department of Cultural Resources
- Ronald P. Hawley, State Chief Information Officer, North Carolina Office of Information Technology Services
- John M. Kennedy, Acting Director, Administrative Office of the Courts
- Martin Lancaster, President, North Carolina Community College System
- James E. Long, Commissioner of Insurance
- Lee Mandell, Ph.D., Director of Information Technology and Research, North Carolina League of Municipalities
- Elaine Marshall, Secretary of State
- David McCoy, State Budget Officer
- Joan P. H. Myers, NCEITA, State House of Representatives
- Jane Smith Patterson, Executive Director, Rural Internet Access Authority
- Beverly E. Perdue, Lieutenant Governor
- Robyn Render, Vice President for Information Resources and CIO - UNC-Office of the President.
- Robert L. Powell, State Controller
- Gwynn Swinson, Secretary of Department of Administration
- E. Norris Tolson, Secretary of Department of Revenue
- Rebecca Troutman, Director, Research and Information Technology, North Carolina Association of County Commissioners
- Michael E. Ward, State Superintendent of Public Instruction

February 7, 2002

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

E-Mail: reports@ncauditor.net

A complete listing of other reports issued by the Office of the North Carolina State Auditor is available for viewing and ordering on our Internet Home Page. To access our information simply enter our URL into the appropriate field in your browser: <http://www.osa.state.nc.us>.