DEPARTMENT OF FINANCE

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August 6, 2014

Mr. Jay Sturges, Associate Secretary
Fiscal Policy and Administration
Labor and Workforce Development Agency
800 Capitol Mall, Suite 5003
Sacramento, CA 95814

Dear Mr. Sturges:

Final Report—Employment Development Department, Information Technology and Telecommunications Procurement Internal Control Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Employment Development Department's (Department) internal control over information technology and telecommunications procurement for the period July 1, 2012 through June 30, 2013.

The enclosed report is for your information and use. The Department's response to the report observations is incorporated into this final report. The Department agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its information technology and telecommunications procurement processes. This report will be placed on our website.

We appreciate the assistance and cooperation of the Department. If you have any questions regarding this report, please contact Cheryl McCormick, Assistant Chief, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

 Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Sheri Huber, Chief, Business Operations Planning and Support Division, Employment
       Development Department
     Ms. Marianne Jackson, Chief, Production Services Division, Employment Development
       Department

AUDIT REPORT

Employment Development Department
Information Technology and
Telecommunications Procurement
Internal Control Audit
July 1, 2012 through June 30, 2013

Prepared By:
Office of State Audits and Evaluations
Department of Finance

BACKGROUND

The Employment Development Department (Department) offers a wide variety of services to millions of Californians under the Employment Service, Unemployment Insurance, State Disability Insurance, Workforce Investment, and Labor Market Information programs. As California's largest tax collection agency, the Department also handles the collection, accounting, and auditing of payroll taxes and maintains employment records for nearly 17 million California workers. One of the largest departments in state government, the Department has nearly 10,000 employees providing services at more than 400 locations throughout the state.[1]

The Labor and Workforce Development Agency (Agency) has oversight responsibilities over the Department. The Agency contracts with the Department for all its procurement needs, including information technology (IT) and telecommunications procurement.

IT commodity and service procurement is the responsibility of the Department's Administration Branch, Business Operations Planning and Support Division (BOPSD). BOPSD's mission is to support the Department's public service programs by providing comprehensive and high quality business management consultation that support facilities, human resource, operational, financial, and economic information needs.[2]

BOPSD administers the Department's facilities and procurement, and prints and mails unemployment insurance, disability insurance, and paid family leave benefit checks, and tax information. BOPSD is also responsible for mail policy and processing, document design and production, conference planning, and transportation services.[3] Additionally, BOPSD is responsible for and receives specialized training for the administration of the Department's contracts.

Telecommunications procurement is the responsibility of the Department's IT Branch, Production Services Division (PSD). PSD's mission is to provide exceptional customer service and operational support by delivering IT services timely and efficiently while effectively protecting and supporting IT's client server, mainframe, and telephony environments.[4]

SCOPE

In accordance with a request from the Agency, the Department of Finance, Office of State Audits and Evaluations (Finance), performed an internal control audit of the Department's IT and telecommunications procurement process.

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[1] Excerpt from http://www.edd.ca.gov/pdf_pub_ctr/de8714a.pdf.
[2] Administration Branch Mission Statement provided by the Department.
[3] BOPSD's Functions Statement provided by the Department.
[4] PSD's Mission Statement provided by the Department.

The audit objective was to evaluate the Department's IT and telecommunications procurement process for efficiency and compliance with state requirements during the period July 1, 2012 through June 30, 2013. Specifically, Finance's objectives were to:

- Determine whether controls are well designed, implemented, and effective.
- Determine whether processes are in compliance with state laws and regulations.
- Provide recommendations for process efficiencies.

We did not include multi-year service agreements in our audit population because those projects either began or ended outside our audit period.

The Department is responsible for the establishment and maintenance of its internal control system.

METHODOLOGY

To evaluate the Department's internal control over IT and telecommunications procurement processes, we performed the following:

- Gained an understanding of the IT and telecommunications procurement processes at the Department:
    - Reviewed state procurement requirements, including:
        - State Administrative Manual (SAM) Chapter 5200 – IT Procurement
        - SAM Chapter 1200 - Contracts
        - State Contracting Manual (SCM)
        - State Telecommunications Management Manual (STMM)
    - Reviewed division policies and procedures.
    - Reviewed audit reports related to the Department's procurement processes.
    - Interviewed and observed key personnel engaged in procurement and accounting duties.
    - Identified critical procurement functions.
    - Developed a flowchart of the telecommunications procurement process.
- Gained an understanding of the encumbrance and payment processes, including policies and procedures implemented by the Department's Fiscal Program Division.
    - Reconciled a sample of procurement transaction data to final payments.
- Performed a risk assessment to identify the areas of greatest vulnerabilities.
- Assessed the reliability of data pertaining to procurement activity.
- Reviewed samples of IT commodity, IT service, and telecommunication procurement activity to verify compliance with internal policies and procedures and state rules and regulations.

To assess the reliability of data pertaining to procurement activity, we:

- Reviewed existing information about procurement data and the systems from which the data was produced.
- Interviewed Department officials knowledgeable about the data.
- Reviewed existing documentation related to the data sources.
- Reconciled data from different sources to identify obvious problems with completeness or accuracy.

We determined the data was sufficiently reliable for the purposes of this report.

Except as discussed in the following paragraph, we conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and recommendations based on our audit objectives.

In connection with our audit, there are certain disclosures required by generally accepted government auditing standards. Finance is not independent of the Department, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with key personnel involved in the information technology (IT) and telecommunications procurement process.

As described below, the Employment Development Department (Department) has many effective IT and telecommunications procurement controls that are well designed, implemented, and operating as intended. Additionally, based on the procedures performed, the Department's processes ensure compliance with state laws and regulations. However, we identified areas where management can implement additional controls and processes to enhance the efficiency of its IT and telecommunications procurement operations.

IT Commodity and Service Procurement

Per the State Administrative Manual (SAM), IT procurement is subject to compliance with Department of General Services (DGS) rules and regulations as outlined in the State Contracting Manual (SCM). The Business Operations Planning and Support Division (BOPSD) has developed a comprehensive Division-level policy and procedure manual which includes activities to ensure compliance with these rules and regulations. BOPSD's staff receive regular training to ensure they are aware of and in compliance with current state requirements related to all aspects of procurement.

We reviewed ten contracts for IT commodities and seven contracts for IT services initiated in fiscal year 2012-13. The amount reviewed for IT commodity contracts was 61.7 percent, or $20,888,769 of $33,831,410 total commodity contracts. We reviewed 94.2 percent, or $1,255,310 of $1,333,154 total service contracts.

For all seventeen contracts reviewed, we found BOPSD's controls over the IT procurement process were adequately implemented to ensure that:

- Procurement was in compliance with DGS rules and regulations:
    - Procurement was made within the Department's purchase authority level granted by DGS.
    - Additional approvals were obtained as required.
    - Contracts exceeding $5,000 were registered on the State Contract and Procurement Registration System (SCPRS).
- Contracts, including all changes and amendments, were approved by Department management.
- Procurement was in compliance with SCM rules and regulations:
    - Contracts negotiated by DGS with Western State Contracting Alliance (WSCA), were properly authorized by DGS management.
    - Non–WSCA contracts included at least two competitive bids.
    - A Statement of Work (SOW) was included with contracts for IT services.
- Actual payments for procurement materially agreed with the final bid amount. When actual payments differed from amount of final bids, we verified that change orders were submitted and approved in support of the amount paid.

Telecommunications Procurement

Telecommunications procurement activities are subject to guidelines outlined in the State Telecommunications Management Manual (STMM), authored by the California Department of Technology. Telecommunications procurement is authorized using the Telecommunications Service Request, Standard Form 20 (Form 20), and must include a SOW. Annually, the Production Services Division (PSD) develops telecommunications cost estimates for each Department Unit and for the Agency. These annual estimates are documented in Form 20, which is approved by the Department's Chief Information Officer.

At the Department, PSD is responsible for coordinating telecommunication "Move/Add/Change" (MAC) requests. Many of these requests are for small upgrades, such as adding a telecommunications outlet to an office, but some larger projects occur each year, such as office moves, closures, or reconfigurations. A Facility Coordination Plan (Plan) has been developed to manage these larger projects; however, use of the Plan is optional. See Observation 1 below for additional comments. Key components of the Plan include procedures to ensure:

- Project representatives are identified and communicate regularly.
- Pertinent information regarding changes to planned work is disseminated to project representatives.
- Activities are coordinated through formal statements of work approved prior to project commencement.
- Project scope is continually monitored and updated as needed.
- Projects are evaluated upon completion to identify potential areas of improvement.

We found PSD does not maintain written policies and procedures documenting its essential business functions and processes. See Observation 3 below. To better understand the telecommunications procurement process, we interviewed and observed staff to develop a work process flowchart, included as Appendix A.

We reviewed eight telecommunications projects for fiscal year 2012-13, including three projects exceeding $100,000 in total expenditures. The eight projects reviewed represented 48.7 percent, or $601,496 of $1,234,592 total annual telecommunications procurement activity.

For seven of the eight projects, we verified that:

- Actual costs agreed to vendor work request amounts.
- MAC requests were submitted by authorized personnel and included a SOW.
- Procurement was within annual Form 20 authorization limits.

We observed that Plans were developed and implemented for two of the three projects totaling greater than $100,000.

However, one telecommunication project totaling greater than $100,000 did not utilize a Plan. This project incurred many planning challenges which resulted in a need to re-perform completed work, increasing the cost by 1,014 percent or $101,357. The planning challenges included:

- Lack of full-time IT staff available to develop a detailed work plan at the beginning of the project.
- Change of facilities plan for office furniture and layout after telecommunication cable had been installed.

- Change of equipment and server room location after telecommunication cable had been installed.
- Failure to communicate with all relevant parties on cost overruns. See Observation 2 below.

The following observations and recommendations are provided to assist the Department in its efforts to improve controls over IT and telecommunications procurement and maximize efficiency.

Observation 1: Project Management Needs Improvement

PSD does not require its staff to use a Plan for large project management activities such as field office setup, moves, reconfigurations and closures. Additionally, when used, the Plan is missing key components such as a requirement to ensure projects are reviewed by BOPSD to determine whether additional SCM regulations may apply, and a requirement to evaluate whether projects will exceed telecommunications cost estimates as documented in the Form 20. As a result, there is an increased risk of inefficiencies, non-compliance with state laws and regulations, and projects exceeding their cost estimates.

Recommendations:

A. Require the use of a Plan for project management of field office setup, moves, reconfigurations and closures. PSD should establish project cost thresholds that would trigger use of the Plan.

B. Revise the Plan procedures to include processes for BOPSD to evaluate projects for compliance with SCM regulations and monitor projects to ensure costs remain within estimates.

Observation 2: Communication Could Be Improved

The Department does not have a formal policy to ensure communication among relevant parties involved in IT and telecommunications procurement activities. IT and telecommunications projects may involve BOPSD, PSD, and the Department's Fiscal Programs Division (Fiscal). Although the Department utilizes Microsoft Office SharePoint to coordinate review of documents and submits invoices to Fiscal for payment, it does not have practices in place to ensure all relevant parties are timely informed of decisions made or appropriate levels of approval are obtained.

For example, during fiscal year 2012-13, estimated telecommunications costs for the Agency were $10,000. However, actual costs were $111,357, a difference of $101,357 or 1,014 percent. Informal approval was provided by the Agency to Fiscal to charge the total costs to the Agency. However, the approval was not formally documented or communicated to all affected parties, causing confusion between Agency and Department staff.

Without a formalized communication method in place to address significant changes to projects, the Department is at risk of project inefficiencies and project cost and time overruns.

Recommendations:

A. Develop and implement procedures for obtaining and documenting formal approval from affected Divisions and/or the Agency when significant changes to project activities occur. Ensure relevant parties are timely apprised of the reasons for the changes and approve/document revisions to plans prior to changes being implemented.

B. Continue to utilize the Microsoft Office SharePoint document management platform to improve procurement and fiscal communications and coordination between Divisions.
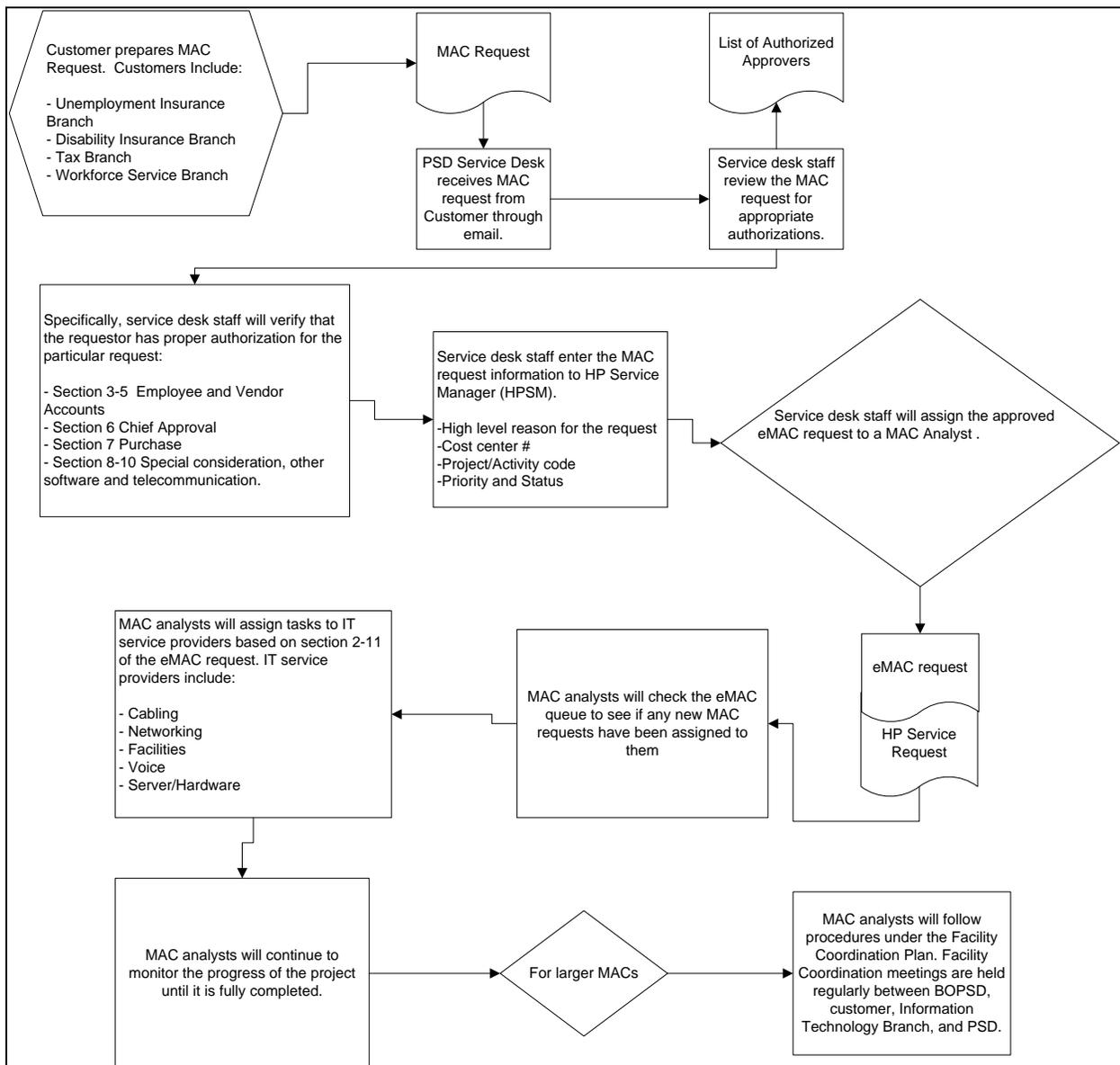
Observation 3: Lack of Established Policies and Procedures

PSD does not maintain adequate written policies and procedures for the telecommunications procurement process. Lack of well-documented procedures can create key person dependencies and inefficiencies, and increase the risk of fraud or errors. The Department is also at increased risk of non-compliance with state laws and regulations.

Recommendations:

A. Document policies and procedures for the telecommunications procurement process. The procedures should be developed in coordination with other affected Divisions to ensure efficiencies and consistency. The work process flowchart included as Appendix A can be used for reference.

B. Periodically review and revise the policies and procedures to ensure they represent current practices and state rules and regulations. Ensure information is timely disseminated to relevant parties.

Telecommunications Procurement Process Flowchart
Employment Development Department
Production Services Division

Customer prepares MAC Request. Customers Include:

- Unemployment Insurance Branch
- Disability Insurance Branch
- Tax Branch
- Workforce Service Branch

MAC Request

List of Authorized Approvers

PSD Service Desk receives MAC request from Customer through email.

Service desk staff review the MAC request for appropriate authorizations.

Specifically, service desk staff will verify that the requestor has proper authorization for the particular request:

- Section 3-5 Employee and Vendor Accounts
- Section 6 Chief Approval
- Section 7 Purchase
- Section 8-10 Special consideration, other software and telecommunication.

Service desk staff enter the MAC request information to HP Service Manager (HPSM).

-High level reason for the request
-Cost center #
-Project/Activity code
-Priority and Status

Service desk staff will assign the approved eMAC request to a MAC Analyst .

MAC analysts will assign tasks to IT service providers based on section 2-11 of the eMAC request. IT service providers include:

- Cabling
- Networking
- Facilities
- Voice
- Server/Hardware

MAC analysts will check the eMAC queue to see if any new MAC requests have been assigned to them

eMAC request

HP Service Request

MAC analysts will continue to monitor the progress of the project until it is fully completed.

For larger MACs

MAC analysts will follow procedures under the Facility Coordination Plan. Facility Coordination meetings are held regularly between BOPSD, customer, Information Technology Branch, and PSD.

Flowchart developed by Finance

MAC—Move/Add/Change
eMAC—electronically submitted MAC

Labor & Workforce Development Agency

GOVERNOR Edmund G. Brown Jr. · SECRETARY David Lanier

Agricultural Labor Relations Board · California Unemployment Insurance Appeals Board
California Workforce Investment Board · Department of Industrial Relations
Employment Development Department · Employment Training Panel · Public Employment Relations Board

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Sierra:

Enclosed is the response to the draft report on the audit of the Employment Development Department's (EDD's) internal controls over information technology and telecommunications procurement for the period July 1, 2012 through June 30, 2013.

We want to thank you and your staff for performing this audit and providing recommendations on how to more effectively and efficiently insure compliance with state requirements in the EDD's IT and telecommunications procurement process to insure that costs of these projects are more fully communicated and managed.

If you have any questions regarding this response, contact Jay Sturges, Associate Secretary, Fiscal Policy and Administration.

Sincerely,

Original Signed by:

Marisa S. Duek
Associate Secretary, Fiscal Policy and Administration

Enclosure
Mr. Jay Sturges, Associate Secretary, Fiscal Policy, Labor and Workforce Development Agency
Ms. Sheri Huber, Chief Business Operations Planning and Support Division, Employment Development Department
Ms. Marianne Jackson, Chief, production Services Division, Employment Development Department

CORRECTIVE ACTION PLAN
June 17, 2014

The Employment Development Department (EDD), Information Technology Branch, Production Services Division's (PSD) requested audit responses to the letter sent to Marisa Duek, Associate Secretary, Labor and Workforce Development Department Agency dated June 3, 2014 prepared by the Office of State Audits and Evaluations, Department of Finance, the Draft Report - Employment Development Department Information Technology and Telecommunications Procurement Internal Control Audit.

Observation 1: Project Management Needs Improvement

Response to Recommendations:

A. The MAC Group will adhere to using the Facility Coordination Project Plan (FCPP) using the Microsoft Project application; for office setup, moves, reconfiguration and closures. The FCPP will be enhanced to include site visits by the assigned project manager, triggers and timely notifications to appropriate relevant parties when a change to the project cost threshold happens. Once the baseline is set, any changes will be re-evaluated and approved by management. A $30,000 threshold has been set for the Cabling Management Group.

B. The FCPP will include negotiated cost threshold check points for Business Operations Planning and Support Division (BOPSD) to review to ensure State Contracting Manual (SCM) compliance and facilitate their role as the EDD Facilities Project Manager. Developed procedures will include project cost thresholds and change criteria for triggering subsequent Executive Management and/or Fiscal budget approvals.

The PSD, MAC Group will establish cost thresholds and change criteria for enhancing FCPP and in concert with BOPSD PM requirements. This will be implemented by December 31, 2014.

Observation 2: Communication Could Be Improved

Response to Recommendations:

A. The EDD will develop and implement formal communication procedures for obtaining approvals from the affected Divisions/Agency as well as EDD Fiscal Programs Division when significant cost changes occur. The Divisions/Agency will be apprised timely of the reasons for the changes and approve revisions to plans prior to changes being implemented.

CORRECTIVE ACTION PLAN
June 17, 2014

B. PSD will continue to utilize the Microsoft Office SharePoint document management platform, and where possible, expand its use to further improve timely communication.

The PSD, BOPSD and Fiscal Programs, will develop a communications procedure for EDD Facilities Projects. This procedure will be implemented by December 31, 2014.

Observation 3: Lack of Established Process and Procedures

Response to Recommendations:
A. PSD will create and publish procedures for telecommunications processes that call for procurement of data and voice cabling services. They will be developed in partnership with BOPSD's Purchase Services Group Desk Procedure Handbook and FCPP will include relevant workflow diagrams.

B. The EDD Policy, Accountability and Compliance Branch will implement a biennial policy and procedure review cycle and/or will initiate a review upon notification of changes in relevant state rules and regulations, and will share and provide additional information for impact analyses, and disseminate updated processes and procedures to relevant parties.

The PSD Telecommunications Group will collaborate with the PSD MACs Group and BOPSD, to develop processes and procedures that include workflow diagrams by December 31, 2014. PSD and BOPSD will create a policy and procedure review process that will be implemented by June 30, 2015.