

**Katie Hobbs**  
Governor



**Elizabeth  
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Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

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July 5, 2023

Linsey A. Perry  
Auditor General  
2910 N. 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Perry,

Thank you for providing us with a revised final report draft of the performance audit of the Arizona Department of Administration-Arizona Strategic Enterprise Technology Office IT Project Oversight. We appreciate the opportunity to respond. Attached, please find our final response to the performance audit findings.

Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Alvarado-Thorson".

Elizabeth Alvarado-Thorson  
Director

**Finding 1:** ASET has provided insufficient oversight of IT projects, decreasing its ability to identify projects at risk of failing to meet their intended results and hindering critical State agency functions

**Recommendation 1:** ASET should ensure agencies submit all required IT project status reports.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

With the shift in the state workforce and service delivery to more virtual environments, technology support has become more critical. The volume and complexity of projects ASET is tracking, monitoring, collaborating on, and leading has increased to match this demand. To keep up with this demand and meet all of our statutory and best practice obligations, ASET will be requesting additional resources in its fiscal year 25 budget. These additional resources will assist in mitigating many of the findings listed throughout the report.

ASET believes that regular status reporting is an essential tool for project management which allows agency leadership, project leadership, suppliers, and oversight parties to have regular, consistent understanding of project progress, identification of potential misalignment between project teams, risks monitoring and appropriate resourcing. ASET has multiple levels of project engagement that help to inform us of project status, to include formal Status Reports, attendance of project meetings by staff, informational reporting to ITAC and others. This information is also provided to several parties through ASET's own reporting on projects in its Quarterly Report submitted to OSPB and JLBC, which can only be accomplished when ASET staff have engagement with project team members and has included escalation of missing status reports, but the application of an escalation process has been inconsistent.

Cooperation among project stakeholders is essential for project success and ASET believes when Oversight is an open participant in such cooperation, projects have increased chances of meeting intended goals. ASET has consistently put in place expectations for agencies to submit status reporting. Currently, ASET requests that agencies:

1. Submit status reports based on monthly or quarterly reporting requirements set in project approval conditions.
2. Use a digital user interface to supply status reporting that incrementally walks the submitter through a process to identify the project health, update progress of milestones and add milestones, identify and report on risks, and submit project financial information.
3. An internal escalation process for encouraging agencies to meet reporting time frames and an ASET health indicator that considers status reporting as a criterion.

ASET believes a greater focus on status reporting quality and not strictly on submission timeliness will improve the ability to assist agencies with struggling projects and implement additional measures to improve status reporting quality. ASET will identify ways to regularly engage appropriate agency leadership regarding their compliance with reporting requirements and continue to inform OSPB and JLBC of compliance concerns. As with all partnerships,

transparency from agencies and cooperation from all stakeholders will be key to ensuring compliance is maintained and that counter measures are taken when necessary to promote project success. We will take the following actions:

1. ASET will improve upon and implement a formally documented procedure or policy to set criteria for establishing monthly or quarterly status reporting.
2. ASET will improve upon and implement additional agency guidance on minimally required information to be provided by submitting agencies.

**Recommendation 2:** ASET should ensure its staff review all agency-submitted IT project status reports to determine if they include all the required information.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

ASET has many ways of documenting agency interaction during project development and implementation. However, improved use of the internal system functions through establishing specific procedures and ensuring consistent use will have improved benefits for increasing collaboration across stakeholders. ASET will continue its use of ITAC informational updates with agencies as appropriate, quarterly reporting on all ITAC approved projects and Automation Project Fund (APF) projects as well as providing those reports to JLBC and OSPB. Additionally, ASET will improve upon and implement:

1. Procedure or policy that sets processes for Status Report reviewing criteria for staff to include, but not limited to:
  - a. An escalation path for projects with delinquent status reports that will include notification of ADOA and the submitting agencies leadership,
  - b. Project health indicators impacted by reporting compliance,
  - c. Action plans from agencies to ensure compliance, and
  - d. Procedure for review of status reports and minimal documentation requirements.

**Recommendation 3:** ASET should ensure that at IT project closure:

**Recommendation 3a:** All IT project milestones have been completed.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

ASET agrees that improved consistency in project closure documentation from the submitting agencies as well as from ASET regarding close out procedures is needed. Administrative documentation should reflect actual project outcome. ASET will work to create specific close out instructions for all projects, regardless of approval level. The additional resources ASET will be requesting will assist in the process improvements and accountability activities regarding the processes. Agencies will maintain the ability to collaborate with ASET on additions and modifications of milestones as appropriate and to ensure that all milestones are updated at

project closure. However, as the dynamic nature of IT development and implementation requires, ASET will continue its use of the change request process as appropriate.

**Recommendation 3b:** All IT project expenditures have been reported.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

While ASET agrees that maintaining appropriate controls over public funds is critical, it has also recognized the numerous oversight functions across state governments already in place to ensure financial controls to include work by the Auditor General's Office, ADOA General Accounting Office, internal agency policy and procedures, and federal oversight groups. ASET will identify additional means to ensure increased project expenditure reporting going forward. The additional resources ASET will be requesting will assist in ensuring the reporting is completed and accountability is improved upon.

**Recommendation 4:** ASET should evaluate or ensure agencies evaluate and report to it project outcomes, including changes in customer service, productivity, performance, cost savings, cost avoidance, and benefits to the State.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

ASET agrees that the State will benefit greatly with more information regarding measures of achieving intended outcomes in projects. While ASET currently asks agencies to report in their PIJ documentation information regarding project benefits, ASET has not implemented specific policy or procedure to ensure the measures provided by the agency address specific areas of impact or meet minimal qualitative or quantitative requirements. ASET intends to produce such reporting requirements at PIJ submission, project closure and as a followup requirement. ASET does acknowledge there may be complications requiring agency compliance with reporting post project closure, but feels the process will provide valuable information to the agency and the state.

**Recommendation 5:** ASET should take action if it determines an IT project is at risk of failing to meet its intended results, including temporarily suspending IT projects, as required by statute and rule.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

The suspension of a project can have significant impact on an IT project, including increased costs from contractual disputes, supplier and state resource downtime and limitations in time for available funding. Therefore, any increased accountability action must be considered for all

unintended consequences. Increased enforcement action will not necessarily result in improved project delivery. Rather, increased collaboration between agencies and ASET, the Legislature and Executive leadership is more likely to improve transparency and problem solving.

ASET is working to identify increased collaborative requirements across stakeholder groups that can be gradually adopted/rolled out and increased in frequency to address IT project risks as well as reporting requirements. While these are not yet determined, they will include notifications from ASET to agency leadership, agency leadership participation in project governance, increased reporting frequency and increased reporting to Executive and Legislative leadership.

**Recommendation 6:** ASET should revise and implement its rules, policies, procedures, and/or standards, to outline processes related to status reporting, including:

**Recommendation 6a:** Expectations for ASET staff and agencies on the specific information that should be included in each section of the status report.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

As stated in earlier responses, ASET agrees that increased transparency and collaboration will be key in improving IT project outcomes. As a first measure in that process, ASET agrees that defining expectations, providing instructional material, and measuring compliance with expectations needs improvement.

As a first measure, in May of 2023, ASET reorganized its Business Engineering section to move the Oversight team members under the leadership of ASET's Project Management office. The change will improve cross collaboration of teams in assisting the adoption of ASET project management practices and procedures into the IT project status reporting requirements. Additionally, the increasing of resources discussed in previous responses will benefit ASET and agencies in the adoption of improved expectation setting and accountability.

**Recommendation 6b:** Expectations for ASET staff and agencies on the criteria that must be met for an IT project to be considered complete and the IT project completion summary information that should be documented in the IT project's last status report, such as actual project start and end dates and total development expenditures.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

ASET has addressed this recommendation in our response to Recommendation 3. Specifically, policy and/or procedure will be developed to specify minimum expectations for project closure for both the submitting agency and for ASET staff. Currently, ASET has minimum expectations for information included in APF and ITAC closeout reports. ASET will formally set expectations with agencies and identify means to evaluate staff's compliance with the requirements.

**Recommendation 6c:** Steps ASET staff should take to review status reports.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

[Our response to Recommendation 2 addresses our intended steps.](#)

**Recommendation 6d:** Steps ASET staff should take when they do not receive agency status reports in a timely manner or when status reports do not include the required information.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

[Our response to Recommendation 2 details our intended actions.](#)

**Recommendation 7:** ASET should develop and implement processes, including written policies, procedures and/or standards, to:

**Recommendation 7a:** Maintain complete and accurate IT project data, including actual project start and end dates.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

[ASET agrees that accurate project data is important. We will work to improve internal controls to ensure data is entered timely, and accurately and that changes are appropriately reflected in the system of record. ASET will develop formal internal control procedures to guide staff and validate staff's adherence. Adding additional resources will allow staff to have reasonable workloads that allow for quality control improvements.](#)

**Recommendation 7b:** Corroborate expenditure data reported in status reports for all IT projects, such as requiring agencies to submit invoices and reviewing a sample of invoices or reviewing agency financial transactions in AFIS.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

ASET currently has reporting functions in its initial project investment justification process and project reporting processes. The projects funded via Automation Projects Fund appropriations have a rigorous process for reporting projected budgets, planned expenses, actual expenses and for requesting funding transfers. However, the process is not replicable in all projects approved by ASET or ITAC under current appropriations dedicated for IT Project Oversight.

ASET will identify additional means to increase project expenditure validation going forward. As ASET adds additional human capital resources to help manage its portfolio, we will be adding the capacity to perform the recommended expenditure validations.

**Recommendation 7c:** Close IT projects, including ensuring that IT projects do not have outstanding issues at IT project completion, such as incomplete milestones.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

Our response to Recommendation 3 details our intended actions.

**Recommendation 7d:** Assess and address IT project failure risks, including comprehensive criteria for determining whether IT projects are at risk of failure, steps staff should take to address IT project failure risks, and determining whether an IT project should be temporarily suspended.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

Our response to Recommendation 5 details our intended actions.

**Recommendation 7e:** Evaluate project outcomes, including changes in customer service, productivity, performance, cost savings, cost avoidance, and benefits to the State, as required by the State-wide project status reporting standard.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

Our response to Recommendation 4 details our intended actions.

**Finding 2:** ASET did not always ensure that high-risk IT projects received an independent third-party review, limiting key information related to project concerns and risks for it and ITAC to consider and address, potentially jeopardizing these projects' success

**Recommendation 8:** ASET should comply with statute and ensure that for IT projects with total project costs exceeding \$5 million, agencies contract with an independent third party to review and guide the technology approach, scope, estimated cost, timeline for completion,

and overall feasibility of the project before ASET makes IT project recommendations to ITAC.

Department response: The finding of the Auditor General is agreed to, and a different method of dealing with the finding will be implemented.

Response explanation:

ASET acknowledges that independent third party evaluator contracts were not always in place at the time of ITAC approval and this fact was disclosed to the Auditors at the beginning of the audit process in 2022. Additionally, some of the contracts with signatures were not available to the auditors to determine if they were in place before ITAC approval. ASET believes there is great value in the third party evaluation services and worked with the Governor's Office in 2022 to increase involvement in the contracting and reporting of the evaluations. See Executive Memo, Change in Contracting Policy 3rd Party Independent Verification and Validation IV&V. [Memo Link](#)

ASET will work with policymakers to request statutory updates pursuant to best practices regarding 3rd Party IV&V. Updates should include clarifying that the evaluation activities start post ITAC approval, in order to reduce conflict between confidentiality of procurement activities, and conflict with federal requirements regarding IV&V activities. Additionally, ASET believes ADOA should have the ability to grant exceptions to 3rd Party IV&V in limited situations. Such as when ASET allowed the Department of Economic Security to move forward with a project that refreshed thousands of laptops and other workstation devices without 3rd Party IV&V. In certain circumstances, the value of such additional oversight is outweighed by the costs.

ASET will be requesting additional resources to expand its Executive Consulting services to all IV&V projects which will provide additional opportunity for assisting agencies in planning and delivering these critical information technology systems.

**Recommendation 9:** ASET should develop policies, procedures and/or standards that outline steps that ASET staff and agencies must take to contract for the independent third-party review of IT projects with total costs exceeding \$5 million, including requirements for obtaining and retaining independent third-party review documentation and time frames for when it should be contracted.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

While ASET works with policy makers to consider modifications addressed in our response to Recommendation 8, ASET will improve upon setting, communicating, and enforcing 3rd Party IV&V contracting time frames.

**Recommendation 10:** ASET should work with ITAC to develop a process, including written policies and procedures, for requiring that agencies obtain and provide ASET and ITAC with the initial results of independent third-party reviews, such as requiring that the independent third-party review be provided to ITAC at the time of project approval, or recommending that

ITAC approve projects with conditions that the independent third-party review be provided for ITAC's review during a subsequent ITAC meeting.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

ASET has previously provided ITAC with conditions, which it has adopted, for projects that are approved before a contract is awarded. Using this prior activity as a guide, ASET will work with ITAC to set clear expectations for agencies for the following circumstances:

1. Third-party IV&V contracts must be in place when not in conflict with Federal requirements,
2. Initial evaluation is due for a specific project, and
3. Any conditions ITAC wishes to impose on approval of the project.