

## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Subject

This audit focused on three areas defined by law: 1) GITA's ability to contract, 2) whether contracting affects GITA's independence in evaluating information technology (IT) projects, and 3) the Statewide Technology Licensing Agreement (STLA) account. This was not a Sunset review of GITA.

### Our Conclusion

GITA did not take the appropriate steps to ensure that a \$30.6 million state-wide IT contract it negotiated was beneficial. Additional justification and reviews are needed prior to entering into future state-wide IT contracts that commit the State to over \$1 million. GITA also needs to develop a policy to ensure its independence when reviewing state agencies' IT projects. Finally, the STLA account should be allowed to sunset.



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## State-wide IT Contracts Need To Benefit the State

GITA was established in 1997 to plan and coordinate information technology for state government and provide related consulting services. GITA is required to develop a state-wide IT plan and to review and approve state agencies' IT projects. It has also been involved in developing state-wide contracts for information technology services.

### State-wide contract increased costs

In March 2000, GITA negotiated a 5-year, \$30.6 million state-wide IT contract with Computer Associates for software for mainframe and non-mainframe computers. This contract superseded other existing contracts that individual agencies had negotiated with Computer Associates. GITA believed that the new contract would save the State more than \$6 million, and that some of the contract savings would help fund future technology projects. Instead, the contract resulted in a 389 percent increase in costs to the State—costs the State was unable to pay.

**Basic procedures neglected**—GITA ignored several procedures which led to the problems with the contract.

- Although GITA has no authority to procure on its own, it never involved the State Procurement Office (SPO).
- GITA did not request competitive bids or obtain SPO approval to bypass competition.

- GITA did not do its own analysis of the need for the contract, but relied on Computer Associates to determine how much its products would be used. It was later determined that this analysis included over \$43 million of *unfunded* IT projects. GITA had not verified that there was funding for these projects or determined that there was a likelihood they would be funded.
- GITA never determined how the State would pay for the contract.
- GITA did not obtain other agencies' input. Some agencies had contract terms that were more favorable than the contract GITA negotiated.
- The Attorney General was given inadequate time—1 day—to review the 20-page contract and therefore could only review it for form.

### Renegotiation solved some problems—

As a result of the State's inability to pay Computer Associates, SPO stepped in and renegotiated the contract in June 2001. The contract was then extended 2 years at no additional cost, essentially allowing the State to make smaller payments over a longer period of time; however, the State lost the use of all but one of the non-mainframe software suites of products that it previously could use.

**Further renegotiation needed**—SPO should consider renegotiating to improve the contract. Although the contract has a provision that permits the State to terminate it, state agencies are currently

dependent on the Computer Associates mainframe products, which cannot be easily replaced. Therefore, SPO should try to get additional contract changes in two areas:

- **Processing growth**—SPO should try to renegotiate the contract to allow the State's mainframe capacity to increase proportionally during the 2 additional years added to the contract. No additional growth was provided in the 2 additional years.
- **Product selection**—SPO should try to renegotiate the contract to get a product mix that more closely reflects the State's current and projected needs. Only 55 of the 102 mainframe products provided under the contract for state-wide use are used by state agencies, and 3 state agencies have separate agreements with Computer Associates totaling \$1.6 million for other software products.

In preparation for possible renegotiation, the Department of Administration (DOA) is currently analyzing whether the State is getting value from the state-wide contract. DOA staff are surveying other states using Computer Associates products for information about pricing, and terms and conditions. It plans to have a consultant conduct a cost analysis of this information.

#### **Replacement strategy needed—**

Regardless of the results of any renegotiation, the State should begin to develop a strategy for possibly replacing the Computer Associates products. According to experts, replacement strategies are an essential part of IT planning. Such a strategy can provide more opportunity for competitive bidding in the future.

### **Steps needed for future contracts**

Several actions are needed to help avoid problems like those experienced with the Computer Associates contract. GITA's and SPO's respective roles should be defined and the Legislature should provide for thorough reviews of future state-wide IT contracts that commit the State to over \$1 million.

**Define roles**—Because SPO has the legal authority and expertise in managing major procurements, it should be the lead agency in procuring future state-wide IT contracts. GITA, with its technical expertise, should still play a critical role. For example, for state-wide IT contracts that commit the State to over \$1 million, it should prepare written justifications that include:

- An independent assessment of the State's needs for the IT contract
- Other agencies' input and feedback
- A cost-benefit analysis
- A funding plan
- A replacement strategy for the new product.

Both SPO and GITA should develop policies and procedures to guide them in the state-wide IT procurement process.

**Require reviews**—The Legislature should require review of the justifications for state-wide information technology contracts that commit the State to over \$1 million. Justifications should be reviewed to ensure that:

- The contract is in the State's best interest.
- The funding plan is financially reasonable.

ITAC should review the contract justifications to ensure the need for the contracts. ITAC is a 14-member committee with representatives from the Legislature, state agencies, and the private sector, and currently must approve all IT projects costing over \$1 million. However, GITA said ITAC had no responsibility for reviewing the Computer Associates state-wide contract because it was not a "project."

The Joint Legislative Budget Committee should review the contract justifications to assess the funding plan's feasibility.

## Recommendations

### The Legislature should:

- Consider having ITAC and the JLBC review the contract justifications for state-wide IT contracts that commit the State to over \$1 million.

### GITA should:

- Work with stakeholders to develop a strategy for replacing Computer Associates products if it becomes beneficial to do so.
- Develop policies and procedures to guide its advisory role in contract procurements.
- Prepare written justifications for state-wide IT contracts that commit the State to over \$1 million.

### SPO should:

- Investigate renegotiating the Computer Associates contract.
- Develop policies and procedures for managing the procurement of state-wide IT contracts.

## Policy Needed To Help Ensure Independence

GITA's state-wide IT responsibilities could lead to situations in which its objectivity in reviewing and approving agency IT projects is questioned. There is a potential that GITA could only approve projects that use a certain vendor's products if it would justify a particular contract that GITA helped develop.

While auditors found no evidence that GITA's independence is currently being compromised, GITA should, whenever possible, recommend more than one vendor or product when formulating conditions for approving state agency IT projects.

## Recommendation

GITA should develop a written policy that requires it to recommend or offer more than one IT vendor or product when formulating conditions for approving state agency IT projects.

## STLA Account Should Be Allowed To Repeal

The Legislature established the State-wide Technology Licensing Agreement (STLA) account in April 2000. The STLA was established so that agencies' payments for IT products/services on state-wide IT contracts could be collected into a central account, enabling the State to monitor agencies' software usage and thereby negotiate increased discounts with vendors. However, other mechanisms exist for monitoring usage, including an inventory GITA conducts.

Further, GITA cannot use the account for another purpose as it originally hoped. GITA anticipated that the State would obtain lower prices by establishing state-

wide contracts. GITA then planned to charge the agencies a slightly higher price and generate extra monies that could be accumulated in the account and used for future technology initiatives. However, by law, any monies the agencies pay into the account are appropriated to DOA and not GITA, and are restricted to paying for state-wide IT licensing contracts. In addition, federal cost principles say that agencies using federal grant monies cannot be charged more than the actual costs for their software.

The STLA account has never been used and is not needed. In October 2002, GITA arrived at the same conclusion.

### TO OBTAIN MORE INFORMATION

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can be obtained by calling  
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our Web site at:  
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### Recommendation

The Legislature should permit the STLA account to repeal as scheduled on June 30, 2003.