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April 25, 2003

MEMORANDUM

TO: Members, Committee on Audit
William Hauck
Dee Dee Myers
Erene S. Thomas
Kyriakos Tsakopoulos
Anthony M. Vitti

FROM: Shailesh J. Mehta, Chair

SUBJECT: Notice of Special Committee Meeting, Thursday, May 8, 2003

The Committee on Audit of the CSU Board of Trustees will meet in the Munitz Room at the Office of the Chancellor, located at 401 Golden Shore, Long Beach, CA 90802 on Thursday, May 8, 2003, from 1:00 to 3:30 p.m. The meeting will be by teleconference for some trustees with the teleconference center open to the public and located in the Munitz Room in the Chancellor's Office.

The purpose of the meeting is to discuss the Bureau of State Audits' review of the University's integrated software system known as the Common Management System released on March 11, 2003.

/lh

cc: Agenda Mailing List

COMMITTEE ON AUDIT

Status Report on the Bureau of State Audits Report on the Common Management System

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Background

On March 11, 2003, the California State Auditor released its report of the California State University's Common Management System (CMS). This audit had been requested by Senator Richard Alarcon (D-Los Angeles) and Assembly Member Manny Diaz (D-San Jose), both members of the Joint Legislative Audit Committee (JLAC), on behalf of the California Faculty Association (CFA) and the California State Employees Association (CSEA). Due to the complexity of the subject matter the audit took over 11 months to complete and includes 30 recommendations for the California State University. The University administration takes very seriously the concerns raised in the auditors' report and has implemented (or is in the process of implementing) all 30 of the audit's recommendations through executive order, policies and procedures and proposed legislation. The JLAC has held one hearing on the results of the audit and has another scheduled for the end of May. Since the report was issued there have been several instances where the recommendations have been used to request legislative support for statutory directives and budget control language. We are continuing our efforts to provide state policymakers information regarding the CMS project, including the fact that by July 2003, 19 campuses will be relying on at least some portion of CMS to handle their day-to-day operations as well as the benefits of this one-time investment for students, faculty, staff, system and state.

Audit Conclusions

Since the release of the audit, conversations in Sacramento have focused on five issues raised either in the audit report itself or by the media, legislators and CFA: development of a business case; cost including fund source; security; procurement including conflict of interest, and accountability. Following is a brief status report of the major issues within these five areas.

Business Case

Faced with failing legacy systems, the demand for timely and accurate management information decision making/support, continually increasing demand due to enrollment pressures, and the lack of a human resource system at most

campuses, CMS is the result of collective campus efforts to meet campus administrative needs effectively, efficiently and at minimal cost. The campuses reviewed the benefits of suite systems (one vendor supporting all three applications: financial, human resource, and student administration) versus best of breed systems (picking the best application regardless of vendor for each area and integrating those applications). The University confirmed the benefits of the suite approach through a commissioned study evaluating the suite against the best of breed approach. The campuses determined that collaboration in procurement and management of the system would provide fiscal and operational benefits over the long term. In addition, campuses concluded that a common data center would minimize individual expenditures in this area. Both of these expectations were corroborated by independent studies. A recent assessment of the cost benefits of the CMS project has confirmed savings to the University over the long run.

The University believes that a business case existed and was made through various studies and analyses conducted during the development of the overall Integrated Technology Strategy (ITS) and its related initiatives. Campus and system personnel with expertise in administrative needs, day-to-day operations, and understanding of the expectations of policy makers and state taxpayers about the University's efficiency and productivity also supported this judgment.

Cost

The University's implementation costs are within the original projected estimates. In 1999 University projections totaled \$439 million over the complete implementation period. The same projection today totals \$445 million when comparing like expenditures over the 1998-2007 implementation period. The difference between the CSU and State Auditor estimates are related to on-going maintenance and operational costs after the project has been implemented at campuses. The audit estimate of \$662 million includes these costs, while the University cites new costs of \$445 million.

A secondary cost issue has been the suggestion that the University redirected dollars from instruction to CMS. CSU did not request special appropriations for CMS instead managed the needs of the institutions within the General Fund dollars allocated under the Governors' Compact and Partnership Agreements. As has been reported to the Committee on Finance and the full Board of Trustees in the past new dollars appropriated for increasing enrollment were provided under these agreements at the marginal cost rate per full-time equivalent (FTE) students. Those funds are used to cover not only direct instruction but *all* costs associated with a new student including such things as electricity costs, expansion of

programs and services, and the operation of the campuses including administrative systems, including CMS.

Accountability

The CSU provides the annual accountability report, Measures of Success, to the state, policymakers and other interested parties each year. The measures in this report were jointly developed with the Department of Finance and the Legislative Analyst's office and describes the progress and results of CMS and the ten other ITS initiatives. The University will continue to report on the development costs of CMS as we do with other major projects. We also report each year on the specific goals and objectives of the Partnership Agreements on major outcomes that include student access and success, investments in long-term needs, institutional productivity and efficiency, meeting the state's workforce needs in such areas as teacher education, and closing the faculty salary gap. Finally, the CSU is held accountable during the annual budget process and reports operational costs in the normal course of doing business.

Security

Security issues surrounding confidential student and employee information is another issue raised in the audit report; specifically protections for our students and employees from identify theft as a result of the use of social security numbers (SSNs) as the primary identifier in our data systems.

CMS allows the CSU to move away from using social security numbers as our primary identifiers through the implementation of the student administration and human resources modules. However, there are still circumstances where the use of social security number (SSN) and date of birth (DOB) is necessary to accurately identify the correct student or employee record and these numbers continue to be required for national student tests, financial aid, tax reporting and payroll. In recognition of the serious nature of the security concerns identified and to protect our students and employees, in March the University implemented additional controls, including executive level approval, over access to confidential information. Working with the vendor (PeopleSoft) we are making software improvements that will provide further increased security protection, which we expect to implement by the end of the year. In addition, the University has retained a security consultant to examine our systems and make recommendations on further security steps.

Procurement

The University achieved value in its software and consultant procurements although the audit report suggests several improvements for future projects. In recognition of the need to strengthen some of the IT procurement guidelines, the chancellor issued Executive Order 862 last month that now requires both a feasibility study and a solicitation plan prior to bidding, review of at least three offers for pre-qualified multiple-master award agreements, and approval by the Executive Vice Chancellor/CFO and the campus Chief Financial Officers for all information technology projects \$500,000 or more or of high risk.

The selection of application software was a long and thorough process and the CSU re-evaluated vendors and options as the project progressed. The audit raised concerns about the hiring of consultants using sole-source contracts. One percent (1%) of the total project costs was sole source agreements. While the University believes it gained value through providing the best possible consulting at a reasonable price, the campuses are now required to solicit at least three offers, as discussed above.

Related to the procurement concerns identified in the audit, were two separate instances of apparent conflict of interest for CSU employees. In all cases, the University and its employees complied with Conflict of Interest law and policy. One situation has been referred by the auditor to the Fair Political Practices Commission (FPPC) for examination. We have offered full cooperation and welcome any and all recommendations for improvements for the system and the state in conflict of interest laws. The second instance has been fully reviewed by counsel who determined there were no violations of Conflict of Interest law or policy.

Legislation sponsored by the Trustees, Senate Bill 971 (Burton) has been amended to: (1) require all academic, managerial and executive employees to report outside income to their direct supervisor annually, (2) prohibit CSU employees from being employed as consultants with for-profit vendors working with the system, and (3) require regular ethics training for designated employees resulting in higher conflict of interest standards for IT contracts than most, if not all, state agencies.

An abbreviated synopsis of the audit recommendations and the status of our response are contained in Attachment A. We will continue to return to this committee to report on the status of the University's responses, and our continuing conversations with policymakers in Sacramento.

CMS Audit Recommendations Status Summary
California State University
May 7, 2003



CHAPTER / RECOMMENDATION	STATUS	DATE
Chapter 1 - CMS BUSINESS CASE (2)		
1A. Adopt policies and procedures that require a feasibility study before IT acquisition.	Complete	Apr '03
1B. Establish quantitative measures of increased business process efficiencies through CMS.	In Process	Nov '03
Chapter 2 – PROJECT COSTS (4)		
2A. To monitor and control project cost:		
◦ 2A1&2. Collect and compile system-wide project cost information , including campus costs.	In Process	Oct '03
2B. Include all costs of the CMS project in annual reports to the Legislature.	In Process	Nov '03
2C. Establish a system-wide funding plan for the CMS project that includes campuses.	In Process	Dec '03
Chapter 3 – BUSINESS OBJECTIVES (10)		
3A. To minimize the costs and time to implement and maintain its CMS software:		
◦ 3A1. Reassess the design of CMS regarding data base instances.	In Process	Dec '03
◦ 3A2. Continue tracking modification costs and apply cost to decisions on modifications.	Complete	Feb '03
◦ 3A3. Define CMS Baseline Scope.	Complete	May '03
◦ 3A4. Examine cost of new campus functionality.	In Process	Sep '03
3B. Evaluate business processes against vendor products before procurement.	Complete	Apr '03
3C. To provide ready access to current, accurate and complete administrative information:		
◦ 3C1. Review design for CMS system-wide reporting.	In Process	Dec '03
3D. To provide project quality and information security:		
◦ 3D1. Establish quality assurance function for CMS.	In Process	Sep '03
◦ 3D2. Consider independent oversight consultant.	In Process	Jun '03
◦ 3D3. Establish sensitive information policy regarding CMS access. (Expanded action by CSU)	Complete	Mar '03
3E. To ensure that it uses recommended practices in its future procurements, the university should:		
◦ 3E1. Share risk with vendors and consultants through procurements.	Complete	Apr '03
Chapter 4 – CMS PROCUREMENT (4)		
4A. To ensure that it uses recommended practices in its future procurements, the university should:		
◦ 4A1. Use procurement processes appropriate to procurement objectives.	Complete	Apr '03
◦ 4A2. Establish practice of using quantitative scoring on procurement decisions.	Complete	Apr '03
◦ 4A3. Enforce sole source policy.	Complete	Apr '03
◦ 4A4. Establish policy to require three offers for procurement under MEAs.	Complete	Apr '03
Chapter 5 – DATA CENTER (2)		
5A. Continue to monitor and manage the data center contract and services.	Complete	Feb '03
5B. Expedite the inclusion of data warehousing in CMS.	In Process	Sep '03
Chapter 6 – CONFLICT OF INTEREST (8)		
6A. (Legislative action recommended) 6A1 – (Ethics training) 6A2. – (Incompatible Activities).	N/A	N/A
6B. To address potential conflicts of interest and prohibited use of nonpublic information:		
◦ 6B1. Conduct periodic conflict-of-interest training.	In Process	Dec '03
◦ 6B2. Establish an incompatible activities policy. (CSU will continue to implement existing law)	In Process	Jun '03
◦ 6B3. Require procurement disclosure statements.	Complete	Apr '03
◦ 6B4. Enhance procurement disclosure statements.	Complete	Apr '03
◦ 6B5. Update conflict-of-interest code.	Complete	Apr '03
◦ 6B6. Require consultants to file Form 700s.	Complete	Apr '03
◦ 6B7. Remind HR personnel of their responsibility to manage Form 700s for seven-years	Complete	Feb '03
◦ 6B8. Remind employees of the prohibition against using non-public information.	In Process	Jun '03

Common Management System (CMS)

Board of Trustees
Committee on Audit
May 8, 2003

What is CMS?

- **A management improvement project to standardize on best administrative practices across the CSU**
- **Implementing common administrative software for financial, human resources and student administration management**
- **Operating the software on a single shared data center**

The Bigger IT Picture

- **BOT endorsed the Integrated Technology Strategy (ITS) in 1996**
- **CMS is one of the 11 ITS initiatives**
- **ITS plan has guided the CSU's technology investments ever since**
- **CSU reports annually to the Legislature on ITS implementation progress including CMS**

CMS Objectives

- **High quality customer service**
- **Information quality**
- **Improved efficiency**
- **Enhanced change management**
- **Personal productivity**
- **Increased campus collaboration**

CMS Implementation Process

- **Single software version**
- **Separate database for each campus**
- **Centralized application development**
- **Campuses manage delivery to end users**

Business Case - Need

- **Legacy systems operated from antiquated technology no longer supported by the vendor**
- **Across the campuses and within a campus, legacy systems were duplicative and redundant compromising data quality and integrity**
- **Most campuses did not have a Human Resource system**
- **Modern systems form the basis for upgrading CSU services for students, faculty and staff**

Business Case – Business Objectives

- **Minimize cost and time to implement and maintain application software**
- **Enable best practices starting at implementation**
- **Improve management data by improving quality of campus operational data**
- **Leverage limited resources**
- **Provide ready campus access to current, accurate and complete administrative information**

Business Case - Benefits

- **Students will be able to: manage admission, monitor financial aid status, register & pay for classes, research graduation requirements and degree progress**
- **Faculty will be able to: tailor academic program to a student, calculate and post grades, evaluate student academic records, post assignments, develop and monitor grant proposals, manage sponsored research projects**
- **Staff will be able to: evaluate transfer credits, automate financial aid processing, automate hiring, payroll and benefits administration, prepare analyze and track budgets**

Business Case – Cost Analysis

- **Cap Gemini Ernst & Young just concluded a recent assessment of benefits**
- **More complete analysis of costs and benefits will be completed in early summer**
- **Old legacy systems would have cost \$78M/year to operate in 2006-07 compared to estimate of \$65M/year for CMS**
- **Other software and data center alternatives would have cost from 37 to 69 percent more**

Project Costs

- **Implementation estimates over the life of the project are the same today as when the project started**
- **University identified new costs to run the system, while the audit included new and continuing costs**
- **Costs have been managed within the funding provided through the Governors' Compact and Partnership agreements**

1998 – 2007 Cumulative Project Cost New and Ongoing (millions)

Cost Item	CSU 1999 Estimate	CSU 2002 Estimate	Auditor's 2002 Estimate
New Central Costs	\$209.7	\$236.4	\$236.4
New Campus Costs	\$230.0	\$208.1	\$245.4
Total New Costs	\$439.6	\$444.5	\$481.8
Ongoing Costs	\$103.0	\$154.0	\$116.7
In Kind			\$ 63.4
Grand Total	\$542.6	\$598.5	\$661.9

Accountability

- **Annual IT accountability report, Measures of Success (MOS), includes progress and results of CMS**
- **Other IT initiatives are also reported in MOS**
- **MOS measures developed in consultation with Finance and the Legislative Analyst**
- **Annual report on Partnership Agreement goals**

Security

- **Protection of identify theft is of high priority**
- **SSN and DOB are required for some activity**
- **Additional security measures put in place in March to protect confidential employee and student information**
- **Software modifications will be made by the end of the year**
- **Addressing exposure in both legacy and CMS systems**

Procurement

- **Procurement processes needed strengthening**
- **New Executive Order issued to require feasibility study and solicitation plan prior to bidding**
- **Enforcement of sole source policy**
- **Establish policy to require three offers for procurement under Master Enabling Agreements**

Conflict of Interest

- **Law and policy were followed by all employees**
- **We have offered full cooperation with FPPC in it's examination of issues referred from the audit**
- **Other audit recommendations are completed or in process**
- **SB 971 would require reporting of outside income and regular ethics training**

Summary

- **Overall technology strategy approved by Trustees in March 1996**
- **Needed to replace obsolete systems and provide necessary new services to students, faculty and staff**
- **Common, central approach will be more cost effective in the long run**

Summary (con't)

- **New costs estimated in 1999 are still on target in 2002 (\$439M cumulative cost vs. \$444M cumulative cost)**
- **These numbers were confirmed by the audit**
- **1.6% of the University's total budget**
- **Maintenance and operating costs for CMS will be approximately \$65M/year when fully implemented**
- **CMS annual cost would be 1.8% of University's total annual budget**

Summary (con't)

- **Security procedures have been strengthened and additional base system security changes will be implemented in the fall**
- **Procurement and information technology analysis processes have been put in place with Executive Order 862 issued by the chancellor on April 18, 2003**

Summary (con't)

- **Of the thirty recommendations in the State Audit report, 16 have already been implemented, 6 more will be implemented by September, and the final 8 by December 2003**

Summary (con't)

July 2003

- **16 campuses on HR**
- **15 campuses on Financial**
- **6 campuses on Student Administration**

July 2004

- **21 campuses on HR**
- **15 campuses on Financial**
- **8 campuses on Student Administration**