The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Office of Information Technology, Administration for the period July 1, 2002 to March 12, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

James B. Patterson  
Assistant State Auditor  
June 9, 2004
Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Background</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Partial Compliance with Executive Order #87</td>
<td>3</td>
</tr>
<tr>
<td>IT Purchase Control</td>
<td>6</td>
</tr>
</tbody>
</table>
Office of Information Technology
Administration

Scope
We have completed an audit of the Office of Information Technology (OIT), Administration for the period July 1, 2002 through March 12, 2004. We reviewed expenditures made during our audit period from the OIT revolving fund which totaled $106 million for fiscal year 2003. Our audit also focused on OIT’s compliance with Executive Order #87 which established OIT. Our audit did not determine the accuracy of the billing system used by OIT to charge departments for their share of OIT’s costs.

Objectives
The objectives of the audit were to determine whether OIT was in compliance with Executive Order #87, and whether expenditures were reasonable and properly recorded.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology
Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of OIT. Provisions that we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our samples of transactions. We also interviewed OIT personnel to obtain an understanding of the operations and the internal controls.

A nonstatistical sampling approach was used. Our tests of transactions were designed to provide conclusions about the validity of transactions as well
as internal control and compliance attributes. Sample transactions were judgmentally selected for testing.

**Conclusions**

We found that the expenditure transactions included in our testing were reasonable and recorded properly. However, we did find that OIT was not in full compliance with Executive Order #87 causing a lack of centralized control over the state’s information technology efforts. We also noted control weaknesses meriting management’s attention.

**Background**

The Office of Information Technology was established by Executive Order #87 on September 4, 1998. This order committed the state to building an infrastructure that supports the effective use of information technology throughout state government, and integrating and coordinating information technology planning and budgeting on a statewide basis to effectively realize operating efficiencies. This executive order abolished the Office of Telecommunications and Information Systems (OTIS).

Executive Order #87 transferred all the functions, powers, and duties of OTIS to OIT. This order stated that OIT shall be headed by a Governing Board chaired by the Chief Information Officer (CIO) which shall set policy for OIT, review and approve the annual budget request for OIT, and appoint and advise the Chief Technology Officer (CTO). The Governing Board is to also review and approve the strategic plan for OIT and shall ensure that such a plan is consistent with the strategic direction established by the executive branch agencies as embodied in the Statewide Strategic Plan for Information Technology (IT). In addition, the CIO, working with the executive branch agencies, shall develop and implement the Statewide Strategic Plan for Information Technology and shall lead, coordinate, and integrate statewide information technology policies and activities.
OIT operates as a revolving fund, with departments’ appropriations transferred to the revolving fund as reimbursements for IT expenses incurred on their behalf.

**Partial Compliance with Executive Order #87**

Industry and government best practices, including recommendations by the National Association of State CIOs, suggest that unless a true statewide enterprise architecture is developed and enforced, the chances for significant waste greatly increase. Enterprise architecture effectively supports the business of government, enables information sharing across traditional barriers, enhances government’s ability to deliver effective and timely citizen services, and supports agencies in their efforts to improve government functions. Development of the enterprise architecture is an ongoing process requiring continuous monitoring of the driving business and technology factors. Without this centralized control, incompatible technologies, the inability to share data, and unsuccessful implementations of expensive IT projects may occur. When the state expends $95 million annually through OIT alone, the danger becomes significant.

OIT was established by Executive Order #87 to coordinate information processing activities of all state government agencies, to effectively service the needs of state government, and to institute statewide information processing policy resulting in the most effective and efficient use of the state’s resources. Currently, OIT is not complying with significant requirements set forth in this order.

Executive Order #87 requires OIT to be headed by a Governing Board appointed by the Governor and consisting of seven members as follows: the Chief Information Officer, as the chair; the State Treasurer or designee; two executive branch agency members;
and three public members who shall be New Jersey residents employed by, owners of, or members of the Board of Directors of a business that is located in New Jersey. Public members shall possess both business and information technology leadership expertise. This makeup of the Governing Board provides a range of IT knowledge and experience that offers current guidance.

As stated earlier, the order also requires a CIO, appointed by the Governor, who develops and implements the Statewide Strategic Plan for Information Technology in conjunction with the state agency CIOs, and who “shall lead, coordinate, and integrate statewide information technology policies and activities.” Therefore, the CIO is to have sufficient positional and operational power to effectively coordinate statewide IT efforts.

Initially steps were taken to comply with the order. A CIO was appointed, a Governing Board was named and met, and a Statewide Strategic Plan was in place. However, these positive actions did not continue. The state’s second CIO resigned in December 2002, and no replacement has been named; the CTO is serving as the acting CIO. The Governing Board last met in June 2001, and a new board has not been appointed. The Strategic Plan in place after the order’s issuance expired in 2002. A Statewide Strategic Plan “framework” was recently issued, but it is not yet supported by planned strategic action and implementation plans. This negates the monitoring and centralized control that compliance with the order would provide.

**Recommendation**

We recommend the following:

- the Governor’s Office appoint a CIO who is given sufficient power to properly oversee statewide IT decisions,
the Governor’s Office reconstitute the Governing Board or establish a new governance model through a new executive order,

the promulgation, implementation, and enforcement of a complete statewide strategic IT plan including actionable deliverables,

the requirement of departmental strategic IT plans that are compatible with the statewide plan, and

the pursuit of any legislative and administrative rule changes necessary to allow the CIO and OIT to implement and enforce the enterprise architecture detailed in the Statewide Plan framework.

**Auditee Response**

OIT currently has a Strategic Plan Framework in place and has begun the process of developing and implementing actionable deliverables with the assistance of internal staff and external best practice solution providers. All other Departments and Agencies are involved in this effort.

OIT’s Chief Technology Officer (CTO) has been serving as the CIO/CTO for the State of New Jersey. This has been done with the full concurrence of the Governor’s Office. The CTO has been elected to the Executive Committee of the National Association of State Chief Information Officers (NASCIO) as a recognized IT leader among state CIOs. Being elected to the Executive Committee formally acknowledges the consolidation of the roles of the CIO and CTO. NASCIO peers have acknowledged the CTO for experience and leadership skills in Strategic Planning, Role of the CIO, Information Technology Security, Networking Infrastructure and Disaster Recovery/ Business Continuity. At the request of these state government peers and others in the federal government and commercial business sectors, the CTO has been asked to share expertise
by serving on numerous panels, committees, and workgroups related to these issues.

In addition, OIT has been working closely with the Governor’s Office to ensure the alignment and implementation of the Statewide Strategic direction. OIT does not concur with the recommendation to appoint a new CIO and reconstitute the Governing Board. However, we do agree that a new governance model as well as the consolidation of roles of CIO/CTO be established through a new Executive Order. Although we are supportive and realize the need to update the current Executive Order, the decision to execute a new Executive Order is ultimately under the purview of the Governor’s Office.

IT Purchase Control

Circular Letter 00-03-DPP/OIT, Procurement of Information Technology (IT) Hardware, Software and Related Services, requires all IT purchases over $25,000 be approved by OIT. It also requires all IT purchases to conform to departmental strategic IT plans. OIT staff are signing off on these purchases. However, we found the review to be minimal, and the process lacked a structured methodology that would ensure compliance with state and related departmental IT strategy. There was also a lack of documentation for the approval process to show the justification and comparison with existing capabilities. We reviewed the documentation of five purchases and found that none had documentation of a thorough review. OIT currently does not have departmental IT plans which staff could review to ensure that requests are in compliance with these plans. In addition, OIT has not been granted true enforcement capabilities. As a result of this lack of a coordinated review process, the state may incur unnecessary IT costs.
**Recommendation**

We recommend OIT institute and provide the following:

- a structured review process covering need and compatibility including a thorough comparison of all requests with statewide and compatible departmental strategic IT plans,

- complete documentation of the reviews providing accountability to the process, and

- denial and correction of requests where necessary, based on the recommended structured review process. If this requires administrative changes, those should be sought.

**Auditee Response**

The Agency is currently in the process of updating and expanding our structured Review process for IT purchase control.

Although we currently feel that we include complete documentation of these reviews, we will specifically design a system that allows these items to be accounted for with greater facility.

This updated process will more clearly explain the denial and correction decisions.