

**IT Governance
Final Audit Report
Report Nr. 12/09
November 24, 2009**

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Introduction

In accordance with our FY2009 Audit Plan, EDC Internal Audit performed an audit of the Information Technology (IT) Governance process. IT Governance includes the controls and monitoring mechanisms which ensure that IT expenditures support the achievement of EDC's business objectives. Business Solutions & Technology (BS&T) manages a portfolio of projects intended to deliver and maintain systems and infrastructure that will sustain the business and improve performance. BS&T has established a number of mechanisms to guide the governance process including several steering committees and planning documents which outline annual objectives of the group. For example, the Information System Steering Committee (ISSC) is a senior management forum for approval of the corporate IT strategy and annual plans while the Engagement and Delivery Model (EDM) provides a framework to manage program and project delivery.

Audit Objectives & Scope

The overall objective of this audit was to evaluate the design effectiveness of the internal controls which ensure that technology related expenditures support the achievement of EDC's business objectives. The scope of the audit included strategic planning, resource planning, and performance management. Within the context of this scope, the audit addressed the following risk elements of EDC's Enterprise Risk Management (ERM) framework: measurement risk, strategy risk, information/infrastructure risk, governance risk, financial management/reporting risk, change management risk, and customer/product risk. Audit fieldwork was performed during June to October 2009.

Internal Audit Opinion

In our opinion, *Opportunities Exist to Improve Controls*¹ surrounding IT Governance. Through recent investments, BS&T has established many of the foundational elements needed to support effective IT governance. The requisite infrastructure and tools exist to support performance management and provide visibility into how well IT investments are supporting business objectives. Oversight mechanisms exist and are increasingly driving the prioritization of IT investments. With these key elements now in place, emphasis needs to be focused on ensuring that objectives included in the annual Corporate IT Plan are expressed in measurable terms and supporting metrics are implemented. The annual IT Spend Report needs to be aligned with the Corporate IT Plan in order to understand the portion of the total spend that is being allocated to each plan objective. Finally, the next update of the Corporate IT Strategy should include formal input from the oversight mechanisms that have recently been established.

¹ Our standard audit opinions are as follows:

- **Strong Controls:** Key controls are effectively designed and operating as intended. Best in class internal controls exist. Objectives of the audited process are most likely to be achieved.
- **Well Controlled:** Key controls are effectively designed and operating as intended. Objectives of the audited process are likely to be achieved.
- **Opportunities Exist to Improve Controls:** One or more key controls do not exist, are not designed properly or are not operating as intended. Objectives of the process may not be achieved. The financial and/or reputation impact to the audited process is more than inconsequential. Timely action is required.
- **Not Controlled:** Multiple key controls do not exist, are not designed properly or are not operating as intended. Objectives of the process are unlikely to be achieved. The financial and/or reputation impact to the audited process is material. Action must follow immediately.

Audit Findings & Recommendations

1. Information Technology Strategy & Tactical Plans

EDC's information technology strategy and related tactical plans are described in the multi-year Corporate IT Strategy (the Strategy), the annual IT Corporate Plan (the Plan) and the annual Spend Report. The Strategy outlines the IT strategies and investment priorities over the planning period and is reviewed annually to ensure it continues to align with EDC's business strategies. The Plan describes the specific objectives for the upcoming year while the Spend Report describes how the annual budget will be allocated. We noted that IT objectives outlined in the Plan are not always expressed in measurable terms. In addition, the IT budget in the Spend Report is allocated by investment category (value for money versus total cost of ownership), but does not show how the budget will be allocated to the various IT objectives outlined in the Plan. Furthermore, performance metrics are not yet in place to measure how well the portfolio of technology projects is supporting the Plan and Strategy. In the absence of measurable objectives and related performance metrics, it is difficult to understand how the Plan and related spend are supporting the Strategy and what results have been achieved for the business.

Since the last update of the Strategy, IT investment oversight mechanisms such as the Business Architecture Review Committee and the Business Development & Operations Steering Committee have been established and are fully operational. As a result, the last update of the Strategy was not constructed with the level of business input that would now be possible.

We recommend that all subsequent updates of the IT Strategy include formal input from the various IT investment oversight mechanisms. This level of input will help ensure customer centricity and that the Plan can be used to guide the prioritization of IT investments throughout the year. In addition, we recommend that IT objectives outlined in the annual Plan be expressed in measurable terms and that the Spend Report not only provide an allocation of the IT budget by investment category, but also for each of the Plan objectives.

Rating of Audit Finding - Major²

Action Owner - Director, Enterprise Portfolio Management Office (EPMO)

Due Dates - Q3 2010

2. Information Technology Budget Approvals

The annual IT budget is approved by an executive level Information Systems Steering Committee (ISSC) as part of the process to finalize the corporate budget. A key consideration in deciding whether to approve the proposed IT budget is its affordability relative to the corporate budget and financial performance targets. However, we noted that the IT budget is constructed on a non-GAAP (Generally Accepted Accounting Principles) basis, whereas the corporate budget and performance targets are based on GAAP. While the impact of using non-GAAP policies in constructing the 2010 IT budget was not material, this approach makes it difficult to evaluate the affordability of the proposed budget. We also noted that the VfM:TCO metric does not include salaries and depreciation, although they have a significant influence on corporate performance.

The approval levels required for individual IT projects is governed by the "Funding Approval for Technology Projects" document. It is being applied as a formal Delegation of Authority (DOA), but has not been approved as such and therefore is not included in EDC's formal DOA policy, GEN-002. Having this document exist outside GEN-002 and not subject to the oversight process embedded in GEN-002 may result in inconsistent DOA principles and levels.

²The ratings of our audit findings are as follows:

- **Major:** a key control does not exist, is poorly designed or is not operating as intended and the financial and/or reputation risk is more than inconsequential. The process objective to which the control relates is unlikely to be achieved. Corrective action is needed to ensure controls are cost effective and/or process objectives are achieved.
- **Moderate:** a key control does not exist, is poorly designed or is not operating as intended and the financial and/or reputation risk to the process is more than inconsequential. However, a compensating control exists. Corrective action is needed to avoid sole reliance on compensating controls and/or ensure controls are cost effective.
- **Minor:** a weakness in the design and/or operation of a non-key process control. Ability to achieve process objectives is unlikely to be impacted. Corrective action is suggested to ensure controls are cost effective.

We recommend that the IT budget be constructed using the GAAP policies embedded in the corporate budget. The VfM:TCO calculation should be reviewed relative to the objective of the metric and consideration given to the appropriateness of incorporating salaries and benefits and depreciation. We also recommend that the content from the Funding Approval for Technology Projects be incorporated into GEN-002.

Rating of Audit Finding - Moderate
Action Owner - Director, EPMO
Due Dates - Q3 2010

3. Program/Project Management Framework

The Engagement Delivery Model (EDM) was recently introduced to manage program and project delivery. The EDM outlines the process to be followed and related deliverables in taking a project from the Initiate phase through the Review phase. Monitoring procedures have been implemented to ensure on-going compliance to the EDM. Given the recent implementation of the EDM, compliance monitoring activities are currently limited to verifying the existence of an EDM deliverable. It does not yet include a content review of a sample of EDM deliverables to gain insight into such things as where additional training may be required, what template changes may be needed and relevance of individual deliverables based on nature/size of project.

Training sessions were provided to Project Delivery Managers and Business Partners in support of the launch of the EDM. However, on-going training programs to ensure EDM is understood and embraced have not yet been defined. Current training curriculums continue to refer to legacy project management tools and processes.

We recommend that the current EDM compliance monitoring activities be expanded to include a periodic content review of a sample of EDM deliverables with the objective of identifying trends and using this information to evolve the EDM and/or enhance training. In addition, we recommend that training curriculums be updated to incorporate the EDM.

Rating of Audit Finding - Moderate
Action Owner - Director, EPMO
Due Dates - Q2 2010

4. Project & Portfolio Variance Reporting

BS&T has recently implemented the infrastructure and tools that enables performance to be monitored and reported. A Portfolio Variance Report now exists and highlights schedule and budget variance at both a project and portfolio level. Within this report, each project is assigned a red, yellow or green status based on budget and schedule variance. The status is currently assigned based on percentage variances only without any minimum dollar value. In addition, the ranges used to determine a yellow status are broad. The report measures budget variance based on the approved re-baselined budget but does not include visibility into the original budget. Project and portfolio variance reporting has not yet been incorporated into the quarterly Technology Dashboard that is reviewed with ISSC. Inclusion of schedule and budget variance metrics at a portfolio level and for ISSC approved projects would be useful context when guiding resource allocations.

In order to further enhance project and portfolio monitoring, we recommend that thresholds for assigning a red, yellow and green status be adjusted to include both dollar and percent variances. The original project budget should also be tracked. The quarterly Technology Dashboard should incorporate budget and schedule variance reporting at a portfolio level and for ISSC approved projects.

Rating of Audit Finding - Moderate
Action Owner - Director, EPMO
Due Dates - Q2 2010

Conclusion

The audit findings and recommendations have been communicated to, and agreed by, management, who has developed action plans that are scheduled for implementation no later than Q3 2010. We would like to thank management for their support throughout the audit.