



IT PROJECT MONITORING REPORT

**Kansas Department of Labor
OSCAR IT Project
Quarter Ending September 30, 2017**

CURRENT STATUS: SATISFACTORY

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2017**

Legislative Division of Post Audit

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Scott Frank, Legislative Post Auditor

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December 15, 2017

To: Members, Legislative Post Audit Committee

This report contains the findings from our second monitoring report of the *Kansas Department of Labor OSCAR IT Project (Quarter ending September 30, 2017)*. The audit team included Alex Gard (Principal IT Auditor), and Katrin Osterhaus (IT Audit Manager).

We would be happy to discuss the findings and conclusions presented in this report with any legislative committees, individual legislators, or other state officials.

Sincerely,

Scott Frank
Legislative Post Auditor

This work was conducted by Alex Gard, CISA, PMP; and Katrin Osterhaus, PMP, CIA, CISA, CGAP. If you need any additional information about the findings, please contact Alex Gard at the Division's offices.

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Overview of the OSCAR Project

The Purpose of the OSCAR Project is to Modernize the State’s Workers’ Compensation System

Kansas has a traditional workers’ compensation program which requires employers to maintain insurance coverage for their employees in the case of workplace accidents. The Department of Labor’s current core information system—Biltmore—collects and stores information about workers’ compensation insurance and related claims against that insurance. The agency uses information from Biltmore to conduct fraud investigations, hold administrative hearings, and administer the workers’ compensation system.

Biltmore has been in production since August 2001 and has become outdated. The system has limited audit and history capabilities, requires manual status updates, and is not integrated with some of the agency’s other systems, such as the imaging system. The Department of Labor’s Online System for Claims Administration and Research (OSCAR) project will replace and modernize this system.

The Current OSCAR Project Started with a Separate Planning Project Called DigiComp

The effort to update the agency’s workers’ compensation system was split into two parts, and were handled as two distinct projects. The planning process for the workers’ compensation modernization project was carved off and handled as its own distinct project, known as DigiComp. DigiComp’s overall goals were to identify the new system’s requirements and to find a suitable company through the state’s request for proposal (RFP) process to build it. The DigiComp project started in early 2014 and was completed in the fourth quarter of 2016 for a cost of about \$580,000. The second “OSCAR” project comprises the actual construction of the new system.

Splitting large projects into smaller ones is a common practice, and there are several reasons why an agency might do this. Smaller projects with short timelines are easier to manage than larger projects with a long timeline. If a large multi-year project does not have a dedicated funding source, splitting it up into multiple parts can allow the agency to be more agile with its finances. Finally, it can be less expensive for an agency to make changes to a project’s scope or schedule when the project is smaller.

We Selected the OSCAR Project for Continuous Monitoring Due to its Criticality and Cost

K.S.A. 46-1135 directs our office to conduct continuous audits of ongoing information technology projects by state agencies, including systems development and implementation. Our primary objective is to identify, as early as possible, when a project is at risk of failure due to scope, schedule, cost, or quality problems, and to communicate that risk to the appropriate level of project leadership, legislative bodies, or other stakeholders to get those

projects back on track. Our secondary objective is to evaluate whether monitored IT projects have adequately planned for the implementation of required security controls.

In December 2016, we selected the OSCAR project from a total of 25 planned and active projects by state agencies. We chose the OSCAR project for several reasons, including the project's estimated cost, its criticality for the department and its stakeholders, and the failure of the department's previous unemployment insurance modernization project—which was ultimately cancelled in 2011.

Methodology and Results of Prior Monitoring Periods

Our Monitoring Reports Evaluate the System Development and Implementation Status of the Project

Authorized under K.S.A. 46-1135, our audits of ongoing information technology projects evaluate the health of the project regarding system development and implementation, and the project's adherence to relevant state statutes, Information Technology Executive Council (ITEC) policies and guidelines, Kansas Information Technology Office (KITO) templates and instructions for IT projects, and international project management standards and guidelines.

As part of our monitoring efforts, we reviewed project documentation and read relevant KITO reports. We also attended key communication meetings (e.g. kickoff, steering committee) from July 1, 2017 through September 30, 2017, and reviewed additional project documents as they became available. Lastly, we interviewed members of the project team and steering committee as necessary.

Due to their continuous nature, these audits are not conducted in accordance with generally accepted government auditing standards.

We provided the draft report to the Department of Labor on November 3, 2017, and its response is included as *Appendix A*.

The OSCAR Project Was in Satisfactory Status in Our Previous Monitoring Report

Our previous monitoring report included an assessment of the project's execution activities through July 31, 2017. That report was published in October 2017.

We considered scope, schedule, cost, and quality to be satisfactory in our last report. The following summarizes our findings in those areas from our monitoring report:

- **Scope (satisfactory):** The project scope was the result of a formal analysis of the department's goal to improve services and update technology. The department entered into a fixed-price contract with CapTech, which helps prevent scope creep.
- **Schedule (satisfactory):** The OSCAR project schedule was revised soon after its initial KITO approval to update its starting date. As of the end of the second quarter, work appeared to be on track even though officials did not collect schedule performance statistics.
- **Cost (satisfactory):** The estimated \$8.7 million price for this project consists primarily of a single fixed-price contract. As of the end of the second quarter, officials did not collect cost performance statistics for the project, but CapTech contract payments appeared to be on track.
- **Quality (satisfactory):** The project follows several project management processes that help ensure good quality.

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LPA Assessment of the OSCAR Project (as of September 30, 2017)

Overall Project Status:
SATISFACTORY

We determined the overall project health for the OSCAR project to be satisfactory. We evaluated the project across four major areas: project scope, schedule, cost, and quality. Except for quality, these areas also are tracked by the Kansas Information Technology Office, or KITO. *Appendix B* contains a glossary of frequently used abbreviations in this report. The scale below describes the categories we established for our assessment:

- **Satisfactory status:** The project generally meets applicable state laws, policies and guidelines, generally complies with project management best practices, and has no material issues in scope, schedule, cost or quality.
- **Caution status:** The project does not meet several state laws, policies or guidelines, has deviations or unrealistic milestones in scope, schedule, cost, or quality, or has weak or insufficient mitigation plans for known issues which could result in project failure.
- **Unsatisfactory status:** The project is not in compliance with many state laws, policies or requirements, or has scope, schedule, cost, or quality deviations that are sufficiently material and no mitigation plans, thus causing the project to be at significant risk of failure.

Appendix C summarizes the project measurement guidelines established by the Joint Committee on Information Technology. KITO uses these measures in their quarterly summary reports to determine whether active projects should be considered in alert or caution status.

The table below provides a summary of our findings through the end of this monitoring period. The following sections provide more details of our assessment in each of the four major areas we evaluated.

Kansas Department of Labor's OSCAR Project Summary of LPA Monitoring Findings as of September 30, 2017					
Area	Summary of Assessment	Satisfactory	Caution	Unsatisfactory	Informational
Scope	The scope for this project remains unchanged.	x			
Schedule	Performance statistics for the project show work appeared to be on track as of the end of the third quarter.	x			
Cost	Performance statistics for the project show spending appeared to be on track as of the end of the third quarter.	x			
	The agency did not have a documented process to manage internal project cost changes.				x
Quality	Officials proactively planned for the project to have necessary security elements.	x			

Source: LPA review of project documents, interviews, and attendance of periodic project meetings

**SCOPE:
SATISFACTORY**

The scope for this project remains unchanged (satisfactory). The department's fixed-price contract with CapTech (which constitutes most of the work) helps prevent scope creep by removing the incentive to add work for more pay. Additionally, potential changes to project scope must go through an established change control process, which is an appropriate project management control. We observed the department's active participation in monitoring the contractor's activities and progress and noted no signs of scope issues thus far. Lastly, the project has an established process to track risks, assumptions, and issues, which helps project management staff identify potentially necessary scope changes.

**SCHEDULE:
SATISFACTORY**

Performance statistics for the project show work appeared to be on track as of the end of the third quarter (satisfactory). Our review of the project schedule, milestones, and deliverables shows that sufficient time appears to have been devoted to the various project areas (e.g. requirements gathering, code writing, user testing, etc.). The fixed-price contract with CapTech, which promotes timely deliverables, accounts for more than two-thirds of the project costs. During this quarterly monitoring period, the department received and approved two expected deliverables that were scheduled for completion. The project manager's performance statistics, which incorporate the main contractor's work as well as an approximate status of internal and other costs, show the project is about 4% ahead of schedule.

**COST:
SATISFACTORY**

Performance statistics for the project show spending appeared to be on track as of the end of the third quarter (satisfactory). This \$8.3 million project has several cost components, the largest of which is a \$6 million contract with CapTech. Through the end of this monitoring period, the department has made \$1.9 million in payments to CapTech for 10 tasks that have been completed and accepted. Performance statistics show project spending is about 4% more than was anticipated at this point, which makes sense because the overall project is also about 4% ahead of schedule. We do not have concerns in this area at this point.

The agency did not have a documented process to manage internal project cost changes (informational). One significant cost overrun related to internal capital outlay expenditures was not formally approved through a change management process. Cost

information through September 30, 2017 revealed the project had spent nearly \$300,000 more than planned on internal infrastructure costs. We confirmed the steering committee had been informed of the cost increase even though no change order had been submitted to increase the overall project budget. Officials told us they would accept the increased cost to the project, instead of using a formal change order process which would re-baseline the project cost. Given the overage is small, this seems appropriate. If additional cost overruns become necessary, we would expect the project manager to initiate a change control process to increase the planned project budget. Using that process ensures the steering committee understands and supports necessary budget changes which in turn prevents pressure to cut costs elsewhere.

***QUALITY:
SATISFACTORY***

Officials proactively planned for the project to have necessary security elements (satisfactory). Best practices recommend evaluating security risks and necessary controls as early in an IT project as possible. This ensures the system will comply with necessary security standards and avoids having to “bolt on” necessary features at the end (often resulting in higher costs). Our review showed agency officials had included security requirements in the high-level planning documents they submitted to KITO. In addition, agency officials told us time has been set aside before the go-live date so OSCAR’s code can be fully scanned for security weaknesses.

We do not have concerns in this area at this point but will continue to monitor this aspect of the project to ensure IT security efforts continue to make progress.

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APPENDIX A
Agency Response

On November 3, 2017, we provided copies of the draft audit report to the Department of Labor. Its response is included as this Appendix. The agency generally agreed with the findings and conclusions from the report.

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Lana Gordon, Secretary

Sam Brownback, Governor

November 15, 2017

Legislative Division of Post Audit
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Dear Scott Frank,

The Kansas Department of Labor received the draft report from Legislative Post Audit on November 3, 2017 for the OSCAR project. We have reviewed the draft report and findings as well as discussed them with Post Audit staff on November 8, 2017 and this letter constitutes our official response.

KDOL does not dispute any of Post Audit's evaluation of the overall health of the project as satisfactory rated. We also do not with dispute any of the satisfactory findings related to scope, cost, schedule, and quality. KDOL is in agreement with their assessment and thanks them for their review.

Again, we are in agreement with the findings in the report and would like to thank the Legislative Post Audit, and staff for their participation and information provided in the report.

Sincerely,

A handwritten signature in blue ink that reads "Lana Gordon". The signature is written in a cursive, flowing style.

Lana Gordon
Secretary, Kansas Department of Labor

APPENDIX B

Glossary of Frequently Used Terms and Abbreviations

The following list contains various abbreviations and a definition of those terms.

- **CITO - Chief Information Technology Officer.** K.S.A 75-7205 through K.S.A. 75-7207, established a CITO for each of the executive, judicial, and legislative branches of government. The respective CITO reviews and consults with each their branch agencies regarding information technology plans, monitors compliance with all information technology policies, and coordinates implementation of new information technology, among other duties.
- **OSCAR – Online System for Claims Administration Research/Regulation.** The new workers’ compensation system created through this project. As of June 30, 2017, the system is scheduled to start being used (go live) in November 2018.
- **DigiComp** – The planning phase of the new workers’ compensation system. This phase was handled as its own project. It started in early 2014 and was completed in the fourth quarter of 2016, for a cost of about \$580,000.
- **ITEC - Information Technology Executive Council.** The 17-member Information Technology Executive Council is responsible for approval and maintenance of all information technology policies, IT project management procedures, the statewide technical architecture, and the state's strategic information management plan.
- **KDOL - Kansas Department of Labor.** The Department is a Kansas Cabinet-level agency and assists in the prevention of economic insecurity through unemployment insurance and workers compensation. The department provides a fair and efficient venue to exercise employer and employee rights and helps employers promote a safe work environment for their employers.
- **KITO - Kansas Information Technology Office.** KITO supports the statutory responsibilities of the Executive, Judicial, and Legislative Branch CITO's and the state’s Chief Information Technology Architect by providing enterprise services across state government.
- **SPI - Schedule Performance Index.** A measure of schedule efficiency expressed as the ratio of earned value (how much work has been completed by a certain date) to planned value (how much work was supposed to have been completed by that date). If the result is less than one, it indicates the project is behind schedule.
- **CPI – Cost Performance Index.** A measure of cost efficiency expressed as the ratio of budgeted cost of work performed to the actual cost of work performed. If the result is greater than 1, then the project is under budget, which is the best result.

APPENDIX C

JCIT Project Measurement Guidelines

JCIT Policy 2, approved by the committee in 1998, establishes many specific measures to evaluate state projects in active status. The table below enumerates those measures.

JCIT Project Measurement Guidelines		
Area	JCIT threshold	Condition
Critical Path	10%-20% behind schedule	The project will be considered in a caution status
Critical Path	20% or more behind schedule	The project will be considered in a red or alert status.
Task Completion Rate	Completion rate of 80%-90%	The project will be considered in a caution status
Task Completion Rate	Completion rate of 80% or less	The project will be considered in a red or alert status.
Deliverable Completion Rate	Completion rate of 80%-90%	The project will be considered in a caution status
Deliverable Completion Rate	Completion rate of 80% or less	The project will be considered in a red or alert status.
Cost	10%-20% deviation from plan	The project will be considered in a caution status
Cost	20%-30% deviation from plan	The project will be considered in a red or alert status.
Cost	30% or more deviation from plan	If costs are 30% higher than planned, serious consideration should be given to stopping the project. JCIT should find specific approval of the agency head and approval of a rationale that strongly supports continuation of the project. JCIT should consider recommending that an independent 3rd party be obtained to conduct a project review and make recommendations to the agency head and JCIT regarding causes for the project deviation from plan, corrective actions needed, expected outcomes, and whether the project the project should be continued.
Actual vs. Planned Resources	Deficiency gap of 15%-20%	The project manager should be acting with the project sponsor to correct this condition. For some projects, the impact of this level of deficiency may be greater than indicated and be reflected in the other measures as well.
Actual vs. Planned Resources	Deficiency gap of 20%-25%	There should be a plan to show a compensatory change n resources or a plan to reduce the scope, costs and objectives for the project with approval of the agency head. For some projects, the impact of this level of deficiency may be greater than indicated and will be reflected in the other measures as well.
Actual vs. Planned Resources	Deficiency gap of 25% or more	A deficiency of this magnitude places project in jeopardy and 3rd party review should be considered if the impact is reflected in other measures. The project should not be permitted to drift awaiting a compensatory resources plan or a new reduced project scope plan. If a new project plan is developed, the new financial plan, return on investment and objectives to be achieved must recalculated and presented for review as well.

APPENDIX D
Summary Schedule and Cost Statistics For OSCAR

This table includes quarterly statistics for the OSCAR project based on our review of internal project management reports for the quarterly time periods from January 1, 2017 through September 30, 2017. The initial project cost for the project was \$8.7 million and is scheduled to be completed April 2019.

Summary Schedule and Cost Statistics			
Calendar Year Quarter ending	3/31/2017	6/30/2017	9/30/2017
Cost Baseline - the approved version of the project budget.	\$8,678,450	\$8,661,400	\$8,256,450 (b)
Planned Value (PV) - the authorized budget assigned to scheduled work (also known as Budgeted Cost of Work Scheduled)	(a)	(a)	\$2,650,320
Earned Value (EV) - the measure of work performed expressed in terms of the budget authorized for that work (also known as Budgeted Cost of Work Performed)	(a)	(a)	\$2,749,398
Actual cost (AC) - the realized cost incurred for the work performed on activity during a specific time period.	(a)	(a)	\$2,877,006
Schedule variance (SV) - a measure of schedule performance expressed as the difference between the earned value and the planned value.	(a)	(a)	\$99,078
Schedule Performance Index (SPI) - a measure of schedule efficiency expressed as the ratio of earned value to planned value (a ratio of 1.0 or better is good).	(a)	(a)	1.04
Cost Variance (CV) - the amount of budget deficit or surplus at any given point in time, expressed as the difference between earned value and actual cost.	(a)	(a)	(\$127,608)
Cost Performance Index (CPI) - a measure of the cost efficiency of budgeted resources expressed as the ratio of earned value to actual cost (a ratio of 1.0 or better is good).	(a)	(a)	0.96
(a) As of June 30, 2017, agency staff had not created overall statistics to track cost and schedule. We did not calculate cost or schedule metrics for the first or second quarter of 2017. (b) Cost baseline was adjusted when estimated costs for Lorax project were removed.			