



# **IT AUDIT REPORT**

## **Enterprise Project Management Office: Evaluating the Statutory Definition and Monetary Threshold for Major IT Projects**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
April 2018**

# Legislative Division of Post Audit

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April 25, 2018

To: Members, Legislative Post Audit Committee

This report contains the findings, conclusions, and recommendations from our completed audit, *Enterprise Project Management Office: Evaluating the Statutory Definition and Monetary Threshold for Major IT Projects*. The audit was suggested by our staff as part of our IT monitoring responsibilities. The audit team included Alex Gard and Clyde-Emmanuel Meador. Katrin Osterhaus was the audit manager.

In the course of the audit, we also noted some minor issues that were not directly related to answering the audit question(s). We conveyed those issues in two separate management letters to agency officials as well as the Joint Committee on Information Technology. The management letters are not included as part of this report but are available upon request.

Legislative Post Audit Committee Rule 3-3 requires the Legislative Post Auditor to notify the committee if an audited agency responds negatively to the findings or recommendations in the report. In its formal response, agency officials concurred with most of the report's findings and recommendations. However, officials disagreed with our recommendation for an audit concerning the agency's rate-setting practices. That is because officials said the Office of Information Technology Services had implemented changes to address recommendations based on the LPA's 2013's audit regarding rates. More information on this issue can be found in Appendix A starting on page 21 of the report.

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

Sincerely,

Justin Stowe  
Interim Post Auditor

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# Enterprise Project Management Office: Evaluating the Statutory Definition and Monetary Threshold for Major IT Projects

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## ***Background Information***

The Office of Information Technology Services (OITS) provides centralized, information processing, and technical management services to state agencies, including data processing and voice-data telecommunication services. Within OITS, the Enterprise Project Management Office (EPMO) provides oversight of state agencies' major information technology (IT) projects. As part of its oversight role, the EPMO collects quarterly summary reports to evaluate the progress of state agencies' IT projects to determine whether those projects are in good standing.

State law defines a major IT project as one that will cost at least \$250,000. The statutory threshold has remained the same since it was originally established 20 years ago in 1998.

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## ***Objectives, Scope, and Methodology***

As part of our ongoing monitoring work, we proposed an audit to evaluate whether the statutory requirements surrounding IT projects were appropriate. This audit answers the following question:

1. **Do the statutory definition and monetary threshold for a major IT project appear to be appropriate, and what effects would changing the definition or threshold have on project oversight?**

To answer this question, we reviewed state laws, policies from the Joint Committee on Information Technology, and guidance from the Information Technology Executive Council to identify and understand the state's IT project oversight process. We also reviewed several quarterly reports published by the EPMO from 2015 through 2017 to determine the types and estimated costs of projects that require oversight. Lastly, we interviewed officials from the EPMO, the three Chief Information Technology Officers, and officials from five judgmentally selected agencies (Department of Labor, Department of Revenue, the Kansas Bureau of Investigation, Pittsburg State University, and the Office of Judicial Administration) to gather opinions on whether the existing definition of an IT project and the monetary threshold seemed appropriate. Because the interviewed stakeholders only represent a small number of agencies, the findings do not necessarily represent the views of all agencies subject to IT project oversight.

At the request of OITS officials, we did additional work on the EPMO function and its performance. This work uncovered some issues we did not have time to fully evaluate.

This audit also did not include a review of internal controls because such a review was outside the scope of this audit.

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***Compliance with  
Generally Accepted  
Government Auditing  
Standards***

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We also provided a management letter to OITS and the Joint Committee on Information Technology to convey minor findings not discussed in the report.

Although we do not believe that it affected our findings, conclusions, or recommendations, we want to call the reader's attention to one issue regarding auditor independence. Generally accepted government auditing standards require that auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be viewed as impartial by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third party to conclude the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

The reader should be aware that as a state agency, the Legislative Division of Post Audit is a consumer of information technology and telecommunications services from OITS. In fiscal year 2017, the division paid OITS approximately \$9,700, including \$245 for project management training. Although changes in the OITS service rates could have a small effect on the division's finances, we do not think this affected the impartiality of our opinions, findings, conclusions, judgments, and recommendations.

Our findings begin on page 7, following a brief overview.

## Overview of IT Project Oversight in Kansas

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### *In the Late 1990s, the Legislature Created Oversight Processes To Proactively Monitor IT Projects*

**In the late 1980s, several large state IT projects experienced significant cost increases and schedule delays.** With the rise of computer use during the 1980s and 1990s, the number of IT projects in state government increased. However, several IT projects failed during that time.

- **CAESCES cost more than twice its original cost estimate in mid-1989.** The Department of Social and Rehabilitation Services' Comprehensive Automated Eligibility and Child Support Enforcement System (CAECSES) was implemented in mid-1989. It was completed almost a year behind schedule and cost nearly \$30 million which was more than double the original estimate (\$11.6 million). Even after it was finished, the system had a slow response time, which had to be addressed because it negated the time savings the system was supposed to achieve through automation.
- **KFIS was halted in late 1990 due to significant cost overruns and lack of progress.** The Department of Administration's Kansas Financial Information System (KFIS), was initiated in 1988 and estimated to cost \$3.7 million. The project was aborted two years later, after problems with the contractor, escalated project costs, and the department's inability to commit the necessary money and personnel to complete it.

**Because of these project failures, the 1998 Legislature added several IT project oversight provisions to state law.** These laws established specific roles and responsibilities for the state's IT project management and oversight function. Specifically:

- **The law defined and established a dollar threshold for IT projects.** K.S.A. 75-7201 defined IT projects as a major computer, telecommunications, or other IT improvement having an estimated cost of \$250,000 or more. IT projects include new or replacement equipment or software, upgrades to existing equipment or software, and any consulting, or other professional services related to those purchases or upgrades.
- **The law created a statewide IT governance structure.** It established the Information Technology Executive Council (ITEC), a Chief Information Technology Officer (CITO) for each of the three branches of government, and a Chief Information Technology Architect. Various statutes lay out the purpose and duties for these groups and positions to carry out a statewide approach to IT project management.
- **The law required CITOs to approve major IT projects within their branch of government.** Specifically, the law required agencies to complete various budgetary and project plan documents and the respective agency head and CITO to approve those plans before project execution.

- **Finally, the law required ongoing IT projects to receive legislative oversight.** The legislative CITO was required to monitor state agency IT project execution of ongoing IT projects and to report progress to the Joint Committee on Information Technology (JCIT).

Shortly after these statutes were enacted, JCIT and ITEC developed additional policies and guidance for IT project management oversight.

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***Since 2013, the Enterprise Project Management Office within OITS Has Overseen the State's IT Project Management Activities***

In 2013, the Legislature created the Office of Information Technology Services (OITS) and established the executive branch CITO as the agency head. The agency provides centralized IT services such as network, data storage, data processing, and voice data telecommunications for state agencies and local government entities.

**In fiscal year 2017, OITS employed 89 FTE staff and operated on a \$46 million budget.** These staff maintain and manage the state's network and computer operations, telecommunications services, cloud services, IT security, and other professional services. OITS also has finance and administration staff. As a fee-funded agency, OITS generally does not receive state appropriations. OITS must recover its cost of providing services from entities using its services.

**With 2.5 FTE staff, the Enterprise Project Management Office represents a small division within OITS.** The Enterprise Project Management Office (EPMO) provides various IT project management services to state agencies. EPMO's staff:

- assist agencies with project plan development, ad hoc project reporting, quarterly project monitoring and tracking
- compile quarterly IT project status reports from agency submissions for the Joint Committee on Information Technology
- assist agencies with project close-out activities
- provide project management training for agency staff

**The EPMO carries out certain project management activities for state agencies even though it lacks the formal authority.**

The 1998 Legislature required the CITO from each of the three branches of government to approve IT projects within their agencies. However, early on, staff within the executive branch took on certain IT project management oversight functions for all state agencies across all three branches. These project management activities were moved to OITS and its EPMO division in 2013.

As a result, current EPMO staff, working on behalf of the three CITOs, review project proposals and ongoing project status

paperwork for agencies across all three branches of government. They provide feedback and may ask for changes in agencies' planning or status documents.

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***In 2016, the Legislature  
Also Authorized our Office  
To Perform Ongoing  
Audits of High-Risk IT  
Projects***

Over the years, our office has conducted several audits of IT projects that had problems with cost, schedule, or quality. *Appendix B* provides a list those audits. In response to continued IT project failures, the Legislature authorized our office to conduct ongoing monitoring audits in 2016. This work is carried out with existing staff resources within the IT security division of our office. To date, we have conducted monitoring audits of two IT projects:

- KanLicense (Department of Revenue): modernizes the state's drivers' license system and has been under audit since early 2016.
- OSCAR (Department of Labor): modernizes the state's workers' compensation system and has been under audit since early 2017.

As part of our monitoring work, we review the project's various planning documents and participate in periodic project meetings as the project is being executed. We examine quarterly status and additional project documents, and interview project managers and other individuals as necessary. Lastly, we compile quarterly reports that assess the project in four areas: scope, schedule, cost, and IT security.

For example, we reported the overall project health for KanLicense project to be in caution status in all six quarterly reports due to various risks we identified in several of these areas. Conversely, the three OSCAR reports we published thus far have not identified the overall project health to be at risk.

*Appendix C* contains a glossary of frequently used abbreviations in this report.

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## Question 1: Do the Statutory Definition and Monetary Threshold for a Major IT Project Appear to Be Appropriate, and What Effects Would Changing the Definition or Threshold Have on Project Oversight?

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*Although the statutory definition generally appears appropriate, the monetary threshold for a major IT project appears to be too low. Stakeholders generally found the statutory definition of IT projects appropriate but made several suggestions that would reduce the number and types of IT projects tracked (p. 7). Most, but not all, stakeholders thought the monetary threshold for IT projects was too low or too simplistic (p. 9). Increasing the monetary threshold could save state agencies time and money, but could reduce the state’s oversight over smaller projects (p. 11).*

*We also identified several other issues for further consideration. First, the EPMO’s quarterly reports may not include all IT projects, and project costs may be inaccurate (p. 12). Second, we identified potential compliance issues with two statutory requirements put in place in 1998 (p. 14). Additionally, the fees the EPMO collects do not accurately reflect its costs, which puts OITS at risk of violating federal reporting requirements (p. 15). Lastly, stakeholders questioned whether the EPMO’s project management services add sufficient value to the state (p. 17).*

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### ***Stakeholders Generally Found the Statutory Definition of IT Projects Appropriate, But Made Suggestions that Would Reduce the Number and Types of IT Projects Tracked***

State statute (K.S.A. 75-7201(c)) defines IT projects as:

*“major computer, telecommunications or other information technology improvement with an estimated cumulative cost of \$250,000 or more and includes any such project that has proposed expenditures for: (1) New or replacement equipment or software; (2) upgrade improvements to existing equipment and any computer systems, programs or software upgrades therefor; or (3) data or consulting or other professional services for such a project.”*

**All the stakeholders we worked with generally found the current statutory definition of IT projects to be appropriate.** We interviewed officials from the Enterprise Project Management Office (EPMO), the Chief Information Technology Officers (CITOs) representing each branch of government, and project management officials from five agencies (Department of Labor, Department of Revenue, the Kansas Bureau of Investigation, Pittsburg State University, and the Office of Judicial Administration). We selected those agencies because they had taken on IT projects of various sizes, and we thought they would be able to provide useful insight on the audit question.

Officials generally did not report any significant concerns with the definition. For example, the interim legislative CITO noted that the definition is sufficiently broad, which allows it to apply to changing technology.

**However, stakeholders recommended changes that would eliminate certain projects from the approval and oversight process to save agencies staff time and resources.** These are summarized below:

- **The interim executive branch CITO suggested removing large-scale software license renewals or certain hardware purchases from the definition.** For example, when large agencies replace desktops or laptops for their staff, or renew licenses for geographic information systems, those purchases often become IT projects, complete with creating a business case, planning documents, and milestones. One agency official agreed that those more basic purchases could be excluded from the statutory definition of IT projects. The risk of such projects failing generally is lower because the purchase typically is for hardware or software with clear specifications. Those purchases generally do not result in significant cost or schedule overruns.
- **One agency official suggested removing “consulting or other professional services” from the IT project definition.** Consulting and other professional services generally involve vendors who help establish a needs assessment or design plan for agency improvements to their systems or databases. Additionally, contractors may supply expert staff to help build an agency’s IT project which, under current definition, becomes part of the projects’ cost.
- **One agency official suggested excluding projects that are not funded with state general funds.** Some projects are funded solely through state general funds while others are funded by federal, grant, or fee funds. Many projects rely on a mix of funding sources. By only requiring oversight for projects using State General Funds, the reporting process would be more consistent across state agencies. The interim legislative CITO voiced concerns about this idea because constituents view a failed project as problematic regardless of the funding source.

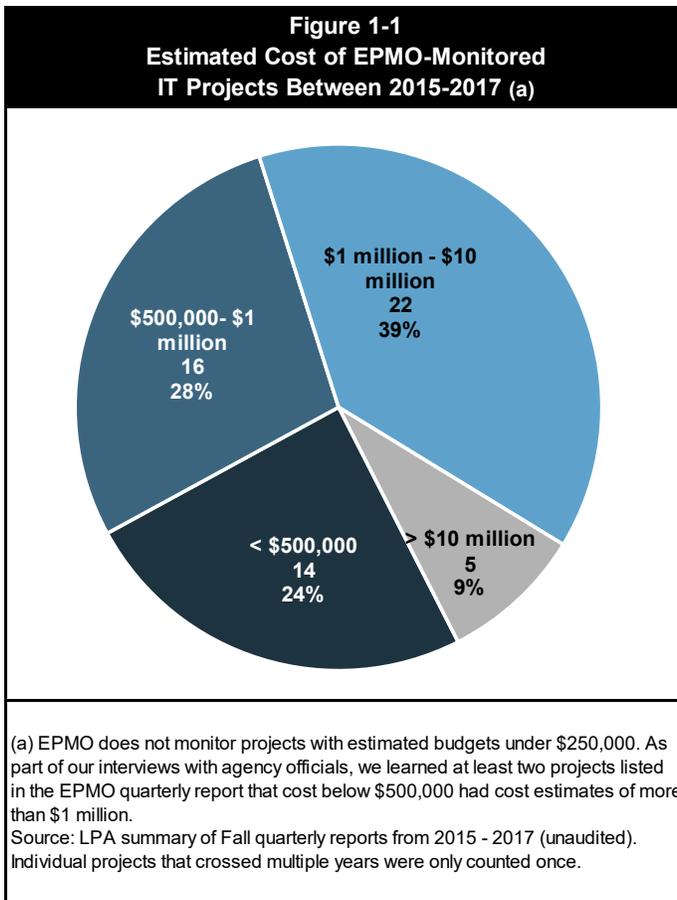
We think these suggestions are worth future consideration but noted there was not consensus on any individual suggestion and also may not be consistent with legislative intent. As such, any of these proposed changes would need to be fully vetted before implementation.

**Finally, stakeholders suggested adding a statutory definition for “infrastructure projects” to help codify how certain projects are handled.** During the audit we learned the EPMO allows agencies to categorize certain projects as “infrastructure” projects. These IT projects receive less oversight and reduces the

associated fees agencies pay the EP MO compared to fees for non-infrastructure projects. This process is not codified in statute and has not been formally ratified by JCIT or ITEC. Further, information about this only appears on one of several planning templates agencies must fill out. The executive branch CITO thought it would be a good idea to codify legislative approval of current practices.

**Most, But Not All, Stakeholders Thought the Monetary Threshold for IT Projects Was Too Low or Too Simplistic**

Enacted in 1998, K.S.A. 75-7201 defines major IT projects as those projects having an estimated cost of \$250,000 or more. This amount acts as the monetary threshold for a project to be considered large enough to need formal approval and monitoring. This threshold has not been adjusted for inflation since the statute was enacted.



**About three-fourths of the IT projects the EP MO tracks are estimated to cost more than \$500,000.** We analyzed the Fall EP MO reports between 2015 and 2017 to determine what sorts of projects were being monitored. *Figure 1-1* on the left shows the estimated costs of 57 projects during that time. As the figure shows, 43 projects were estimated to cost at least \$500,000, 22 projects were between \$1 million and \$10 million, and five cost \$10 million or more. Larger projects often take several years to complete and may be separated into phases. These larger projects typically replace major systems that play a crucial role in meeting agencies' main responsibilities. For example, the Fort Hays State University Enterprise Resource Planning Implementation System (which incorporates modern technology to centralize various HR, payroll and other data modules and processes) was approved in June 2015 and is estimated to be done by August 2019.

**About one-fourth of the IT projects the EP MO tracks are estimated to cost less than \$500,000.** *Figure 1-1* shows 14 of the 57 projects are in this category. Several of these smaller projects appeared to be straight-forward hardware purchases, such the Department of Labor's recent replacement of Storage Area Network (SAN) equipment or KDHE's SQL server project.

**Stakeholders suggested increasing the monetary threshold because these relatively small projects do not benefit from project oversight.** Agency officials we spoke with, as well as the Judicial and Legislative CITO, favored increasing the threshold because the approval and monitoring process requires a disproportionate amount of paperwork and staff time for the value added by the monitoring process. In addition, it adds to the project costs because of the additional fees agencies incur. Consequently, several stakeholders suggested increasing the monetary threshold anywhere between \$500,000 and \$1 million.

Some stakeholders noted that the threshold had not been raised even though technology costs have steadily increased since 1998—the year the law was passed. Our analysis showed that the statutory threshold would be about \$360,000 if adjusted to 2017 dollars.

**In contrast, OITS officials identified benefits in keeping the monetary threshold at its current level.** The executive branch CITO and EPMO officials told us their oversight process provides benefits to state agencies and the Legislature. Officials noted that increasing the threshold would reduce the number of projects subject to the process, thus reducing their oversight value. They offered several reasons for keeping the current process in place:

- The existing planning and oversight process requires agencies to deliberately think through project planning and project status. Officials said that filling out the EPMO's required planning or quarterly status reports helps ensure agency staff think through the agency's needs, goals, costs, and timeline for the IT project.
- Having a centralized body involved with the initial approval process helps avoid unnecessary or incompatible projects. Officials stated that vendors may try to sell products that agencies do not need or are not compliant with the state's IT architecture (an approved overall structure and logical interrelationship of computers and networks). They explained the CITO and EPMO involvement could identify and prevent bad agency decisions.
- Newer models of IT management include subscription-based services that may bypass the project oversight process. Officials said that these types of projects have lower initial costs than traditional projects, even though they can have sizeable ongoing costs and be critical to the agency's mission. Raising the threshold could result in these projects not receiving external oversight.

We did not evaluate the merits of the EPMO's involvement in small IT projects, but think these points are worth further consideration if the Legislature decides to modify the current monetary threshold in state law.

**Stakeholders also suggested adding non-monetary factors and proposed different monitoring levels for various projects.**

Several officials expressed support for these two concepts:

- **Adding non-monetary factors could identify projects that would benefit from additional approval and oversight.** Several officials told us the current \$250,000 threshold was too simplistic to determine whether a project should have to go through the approval and monitoring process. To identify relevant projects, they suggested adding a risk score, considering the time sensitivity, importance, or complexity (e.g. involving multiple agencies or contractors) of the project. Some stakeholders suggested these types of non-monetary factors should be used in place of the existing monetary threshold. The executive branch CITO also supported the idea. Adding or switching to non-monetary factors to identify projects for CITO approval and monitoring would require more deliberation to establish an effective decision model.
- **Several stakeholders supported the idea of adding different monitoring levels for different types of projects.** For example, they supported simple tracking or “light” monitoring for low-cost or low-risk projects, and a more rigorous monitoring process for more costly or complex projects. To that end, ITEC policy already requires a more in-depth monitoring process for IT projects costing \$10 million or more. Those projects must undergo an independent verification and validation process. This includes a periodic assessment of the project’s design, development, and implementation by an external contractor, at an additional cost. The contractor must provide written results to the project staff and the respective branch CITO.

**OITS officials supported the idea of adding other variables or different monitoring levels.** An EPMO official agreed the criteria for project approval and monitoring should not just be based on the estimated project cost, but should also allow high-impact projects to be part of the monitoring process. The executive branch CITO agreed other factors such as impact and who the stakeholders are should be considered. She also supported the idea of creating an inventory of all major IT projects agencies are working on, but only continually monitoring projects deemed to be of high importance or high impact.

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***Increasing the Monetary Threshold Could Save State Agencies Time and Money, But Could Reduce the State’s Oversight Over Smaller Projects***

**Agencies could save staff time and additional costs if a higher monetary threshold excluded smaller projects from the approval and reporting requirements.** Several stakeholders said an increased threshold could save project managers’ time by eliminating the need to compile planning documents and periodic reports for the EPMO. Additionally, agencies would not have to pay the quarterly fees on those smaller projects (fees are further described in a later section). In turn, EPMO staff would have more time to assist on agencies’ larger projects. Lastly, one stakeholder

said the quarterly EPMO report—published primarily for the consideration of the JCIT—is extremely large. Increasing the threshold would result in a smaller report, which could increase the attention given to the state’s more expensive and complex IT projects.

**Increasing the monetary threshold would reduce oversight for smaller IT projects.** EPMO officials told us the detailed approval process and periodic reporting requirements help agency staff determine what the IT project is supposed to accomplish and establishes clear project costs and deadlines. One stakeholder said less oversight could potentially mean project failure. However, other stakeholders contended that lower-cost projects are typically less complex, and do not have the same risk of failure.

We agree that smaller projects generally do not include complex dependencies within or across state agencies. As a result, these projects have a lower risk of failure and benefit less from external oversight.

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## POTENTIAL ISSUES FOR FURTHER CONSIDERATION

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***The EPMO’s Quarterly Reports May Not Include All IT Projects, and Project Costs May Be Inaccurate***

The EPMO’s quarterly report provides a list of IT projects that are either proposed, planned, active, or completed across all state agencies and branches. Further, projects that are not on track are categorized as “in caution” while other projects may be listed as “recast” when the project’s schedule, scope, or costs have changed significantly. The quarterly report is provided to JCIT to inform the Legislature about the status of major IT projects.

**Some entities may not report all IT projects to the EPMO because they misinterpret the monetary threshold.** State law specifies the \$250,000 threshold is an estimated cumulative cost which is further defined as “total expenditures from all sources.” One Regents institution official told us some universities may only report projects that only use State General Funds, and therefore may not report other IT projects to the EPMO. We reviewed the last two years of quarterly EPMO reports and did not see any projects reported for three of the six state universities: Emporia State University, Wichita State University, or the University of Kansas.

As part of our IT security audit work, we have collected previous three-year strategic plans for those universities. Our review of these plans identified several planned or completed IT projects such as a wireless expansion project, VoIP roll-out, and a distributed antenna system. Although these plans did not include project costs, we think it is likely these universities have major IT

projects that would exceed the \$250,000 threshold and should be CITO-approved and monitored. EPMO officials emphasized they have no statutory enforcement authority to ensure agencies follow the approval and reporting requirements they have established.

**Estimated project costs listed in the quarterly reports may be understated in terms of agency staff time.** Often project costs include resources related to both outside vendor staff and agency staff time. The state’s planning guidelines require agencies to only include internal staff costs when those staff are associated with a project at least 50% of the time. In our first KanLicense monitoring audit, we noted several tasks with no dedicated funding. For example, planning for and testing disaster recovery was budgeted at 252 hours across seven staff (each at 30%) and had no cost associated. At an estimated cost of \$40 an hour, these two tasks alone would add an additional \$10,000 to the project. To the extent that this occurs on other projects, agency reported costs for projects may be understated.

**Estimated project costs listed in the quarterly reports may also be understated for projects that have been recast.** EPMO requires project managers to “recast” projects with significant deviations in project schedules, cost, or resources. Recasting a project changes the project’s expected schedule, cost or other factors to what is more realistic. The following examples show how recasting resulted in understating total project costs:

- **KanLicense project (Department of Revenue):** Originally a \$6.1 million project in 2015, the agency changed the project scope several times, increasing its cost to \$7.2 million by June 30, 2016, and to \$8.7 million by September 30, 2017. However, the corresponding cost information in EPMO’s quarterly reports showed the project’s cost remained at \$6.1 million through December 2016, and then dropped to \$2.6 million by June 30, 2017. The large cost reduction was a result of the project being recast and reflected only the projects’ remaining cost.
- **Oracle Cloud project (Pittsburg State University):** In the quarterly EPMO report ending March 31, 2016, this project had a cost of about \$2.6 million. The EPMO report ending December 31, 2017 showed the project had been recast (Cloud III) with a remaining cost of about \$900,000.

Recasting projects is a legitimate project management process when schedule, cost, or other factors change. However, when historical information is not reported, or previously incurred costs are excluded in the individual reports, stakeholders may not be able to identify which projects deserve more scrutiny.

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***We Identified Potential Compliance Issues with Two Statutory Requirements Put in Place in 1998***

Currently, the EPMO within the executive branch carries out specific project management responsibilities of the legislative CITO. Here are the details about this issue:

- **State law requires certain project oversight and reporting responsibilities to be carried out by the legislative branch CITO.** The 1998 laws strengthened IT project oversight by requiring agencies to seek project approval from their respective branch CITO (legislative, executive or judicial). Additionally, each of the three CITO is required to report all IT project budget estimates and amendments and revisions to the JCIT and the Kansas Legislative Research Department annually.

Lastly, state law (K.S.A. 75-7210) made the legislative CITO responsible for reviewing all project budget estimates and make recommendations to the Joint Committee on Information Technology (JCIT) regarding the merit of these budgets and related requested appropriations, and for periodically receiving progress reports and proposed expenditures on IT projects from the other two CITO.

- **The EPMO within the executive branch currently fulfills some of those monitoring and reporting requirements.** Soon after the project oversight laws took effect in 1998, staff within the executive branch took on certain IT project management oversight functions for all state agencies, regardless of branch. These project management activities moved to the newly created OITS and its EPMO division in 2013. As a result, the current EPMO staff, working on behalf of the three CITO, review project proposals, planned projects, and ongoing project status paperwork for agencies across all three branches of government. Finally, they compile a quarterly project report and provide periodic testimony to the JCIT, therefore carrying out responsibilities the law envisioned the legislative CITO to perform. This practice does not appear to comply with the law.
- **The oversight and reporting responsibilities likely shifted to the executive branch for several reasons.** According to EPMO staff, the state's first executive CITO was an advocate of increased project oversight and took on those functions shortly after the IT project oversight statutes went into effect. Further, they said that executive CITO was willing to house the function within the Department of administration, and the executive branch accounted for a greater number of IT projects overall.

**State officials have not collected the three-year strategic IT plans as required by law.** K.S.A. 75-7209 requires all state agencies to prepare an annual IT plan describing the agency's current and future upcoming IT needs for the upcoming three fiscal years. Completed plans are to be submitted to respective branch CITO. Since 2005, the Chief Information Technology Architect had been responsible for gathering these plans from agencies and compiling them into reports on behalf of oversight bodies, such as the JCIT. Since 2014, the statutorily created CITA position has been vacant. EPMO officials acknowledged agencies' three-year

plans are no longer collected by anyone because of that vacancy and a lack of emphasis on this responsibility.

Reviewing the three-year plans could help policymakers identify what IT projects agencies plan to carry out. Additionally, such review could ensure agencies' plans align with the state's overall IT architecture (an approved overall structure and logical relationship of computers and networks) and could avoid potential duplication of efforts across agencies.

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***The Fees the EPMO Collects Do Not Accurately Reflect Its Costs, Which Puts OITS at Risk of Violating Federal Reporting Requirements***

**The EPMO is within a fee-funded agency and must recover its direct and indirect costs by charging agencies for its services.**

The EPMO began charging agencies a sliding scale percentage fee for project monitoring services starting July 1, 2013. The fees are assessed on projects that meet the \$250,000 threshold and have received CITO approval. Agencies pay the fee as part of submitting their quarterly status reports to the EPMO. The percentage fee for a \$5 million IT project is 0.3%, which adds an additional annual cost of \$60,000 to the agency.

**Federal regulations ensure that federal funds are not used to subsidize service costs that should be funded with state money.**

Federal law allows agencies that receive federal funding to use that money to pay for centralized IT services. Under federal law:

- OITS, as the state's provider of IT services, can set its rates to allow it to recover its costs.
- OITS must recover costs for each service by the end of the next fiscal year or absorb the losses.
- OITS cannot generate profits for any of its individual services.

The next two sections show OITS had problems with its rate structure in the past and may continue to experience problems.

**We found issues with OITS' rate setting structure in a 2013 audit.** Our 2013 audit (R-13-012) showed OITS rates for many individual IT services did not reflect the actual cost of providing those services. Further, the 2013 audit found that OITS set its rates to ensure budget and funding stability, rather than reflecting actual service costs. The audit also showed an administrative fee collected by OITS was used to subsidize other services. Finally, our audit showed OITS made accounting adjustments to avoid reporting profits to the federal government which ultimately resulted in the state having to reimburse the federal government a total of almost \$2.5 million for improperly billed services and interest.

The EPMO's fees were significantly more than its costs in fiscal year 2017, and likely will be for fiscal year 2018 as well, resulting in potentially inappropriate profits. EPMO collected nearly \$475,000 more in revenue than its project management service expenditures in fiscal year 2017. Our analyses showed the following:

- **Service fees were insufficient to cover the EPMO's cost in fiscal years 2015 and 2016.** *Figure 1-2* below provides expenditure and revenue trends for the EPMO over the past three years. As the figure shows, the division incurred losses in fiscal years 2015 and 2016, when the fees were still fairly new and did not apply to several projects that had been grandfathered in.
- **Project management fees have generated profits of nearly \$475,000 in fiscal year 2017.** Revenues steadily increased from 2015 to 2017, as the division assessed fees for more projects. Conversely, EPMO's expenditures dropped markedly in fiscal year 2017 largely due to reduced salary costs associated with several vacant positions. The division had 6.5 FTE positions in fiscal year 2015 but went down to 2.5 FTE positions by fiscal year 2017.
- **As of March 2018, the division has not increased its staffing expenditures and is likely to finish fiscal year 2018 with similar profits.** However, the division has not reimbursed agencies or reduced its fees to better match the cost of providing project management services.

**Figure 1-2**  
**EPMO Expenditures and Revenues**  
**Fiscal Years 2015 -2017 (a)**

Fiscal Year	Revenue (b)	Expenditures	Net Loss / Profit	Running Net Loss / Profit (c)
2015	\$ 261,000	\$ 481,000	\$ (219,000)	\$ (197,000)
2016	\$ 578,000	\$ 610,000	\$ (32,000)	\$ (228,000)
2017	\$ 829,000	\$ 356,000	\$ 473,000	\$ 245,000

(a) Amounts are rounded to the nearest thousand.  
(b) FY 2015 revenues appeared to include administrative fees for project management and project training. FY 2016 and FY 2017 revenues appeared to exclude administrative fees for project management and project training.  
(c) At the end of FY 2014, EPMO had a \$17,461 profit. FY 2014 was the first year in which the agency received revenues for this service.  
Source: Fiscal data provided by Department of Administration officials (audited).

Officials told us they track and report losses or profits for individual services to the federal government based on running totals. The far-right column in *Figure 1-2* includes that information for EPMO services. We also learned that OITS should review their profit or loss balance annually and adjust their individual service rates based on anticipated revenues and expenditures. EPMO officials indicated this did not take place in previous years, partly because the service rate is relatively new and because of the state's biennial budgeting process. However, they

told us they plan to review their past and anticipated revenues and expenditures and adjust rates for FY 2019 in the coming months. Lastly, officials explained that project management revenues depend on the number and size of IT projects agencies take on, which makes revenues more difficult to predict.

**The EPMO's excess revenues indicates OITS may be at risk for violating federal reporting requirements.** Evaluating and validating the rate setting and federal reporting process for the IT project management service (or any other OITS' service) was beyond the scope of this audit. However, we remain concerned that the EPMO's revenues from project management services may result in a violation of federal reporting requirements similar to those we identified in 2013.

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***Stakeholders Questioned Whether the EPMO's Project Management Services Add Sufficient Value to the State***

At the request of the former executive CITO, we asked stakeholders their opinions on the EPMO's performance. Several stakeholders expressed dissatisfaction with the value the division provides.

**Most agency officials told us they were not getting much value from the EPMO.** Officials generally were dissatisfied with what they got from EPMO given the fees they paid. For example, officials told us EPMO staff seemed more focused on compiling reports than assisting their project management staff, as was the case in previous years. Specifically, one stakeholder said EPMO staff needs to work more closely with procurement staff during the planning portion of an IT project to avoid contract issues. Agency staff mentioned other concerns, including poor communication, inaccurate templates, outdated reporting forms, and problems transmitting the files electronically. Several stakeholders acknowledged EPMO's staff shortages likely contributed to these problems.

**One official said the current project oversight process does not ensure IT projects stay on schedule and within budget.** That stakeholder told us the EPMO's current process is insufficient to flag projects at risk of failure. Two recent findings from past audits lend some support to that view.

- **The Kansas Department of Health and Environment's KEES project ended up costing significantly more and taking much longer than planned.** EPMO's quarterly reports showed the KDHE's Kansas Eligibility Enforcement System (KEES) was either on track, in caution, or recast status, but did not reflect the severity of the projects' problems despite additional periodic independent verification and validation reports. Our 2015 performance audit reported the system was approximately two and a half years behind

its original schedule and was expected to exceed its original budget by at least \$46 million.

- **The Department of Revenue's DMV project had fallen at least three years behind schedule.** EPMO's quarterly reports did not include project risks identified by KDOR or the independent reviewers. Additionally, based on information from KDOR officials, the reports listed the project as 'on hold' in June 2013 through March 2014. That status did not trigger a caution or alert despite the project already being delayed at that time. Our October 2014 audit found that phase one of the project was delayed by 10 months, and phase two had not yet been implemented, but was nearly three years behind schedule at the time of our audit.

**OITS officials told us a lack of enforcement authority is a contributing factor to problems within the EPMO.** The interim executive branch CITO was aware that agencies question the value of the EPMO and suggested JCIT reexamine whether the quarterly reports it receives are worth the cost to state agencies.

With regard to the oversight process itself, EPMO officials told us the office stopped requiring recovery plans when projects started failing cost or schedule milestones at the direction of a former executive branch CITO. Lastly, the vacant CITA position resulted in the agency no longer collecting the three-year IT plans. Those plans could help identify agencies' IT initiatives that potentially need approval and monitoring.

When asked what improvements they would like to make to the EPMO, the interim executive branch CITO and the EPMO director said more enforcement authority would be necessary. Officials told us staff may follow up with agencies when information is missing, but do not have time or authority to scrutinize submitted information. Without verifying the projects' reported information, project problems are much less likely to be detected.

## Conclusion and Recommendations

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### **Conclusion**

The Legislature has created a set of IT project definitions and oversight requirements to help prevent complex and expensive projects from failure. Although stakeholders we talked with suggested several minor changes to the statutory definition of IT projects, most thought it made sense to increase the 20-year-old monetary threshold to reflect the rising costs of IT projects. Ultimately, the Legislature will need to determine whether it is satisfied with the size and types of IT projects currently being monitored, or whether any of the suggested changes would improve the efficiency or effectiveness of the current process.

We also identified several potential issues that may warrant further evaluation, including whether the state's current monitoring process aligns with state law and whether the EPMO office is in compliance with federal reporting requirements. Although fully evaluating these issues were beyond the scope of this audit, we wanted legislators to be aware of them in case they think further evaluation is necessary.

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### **Recommendations for Executive Action**

#### **Office of Information Technology Services & Enterprise Project Management Office**

1. To ensure the EPMO's quarterly reports include all IT projects and accurate costs, the EPMO should:
  - a. periodically request confirmation from state agencies subject to the respective laws and policies that they are aware of and following the reporting standards (p. 12).
  - b. review projects to ensure cost information for recast projects provides the original and revised total estimated costs (p. 13).
2. To ensure critical IT governance functions are carried out, including requesting and reviewing the three-year IT plans from state agencies, the executive branch CITO should:
  - a. attempt to fill the statutory Chief Information Technology Architect (CITA) position within the next six months (p. 14); or
  - b. appoint another staff to fulfill the necessary tasks (p. 14); or
  - c. communicate with the other two CITOs to agree to take back this statutory responsibility within each agency branch (p. 14).
3. To ensure that its project management revenues are more accurately aligned with the actual service costs, the Enterprise

Project Management Office should review its revenues and expenditures at least annually and either reimburse agencies or adjust its fees as necessary to ensure compliance with federal reporting requirements (p. 16).

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***Recommendations for  
Legislative Consideration***

1. To ensure the intent of project oversight is met at the appropriate level, the Joint Committee on Information Technology should consider amending existing statutes (K.S.A. 75-7201 et seq.) to:
  - a. change the IT project definition if it determines the current definition no longer satisfies legislative intent (p. 8).
  - b. incorporate appropriate inflation mechanisms for the current monetary threshold, select a new monetary threshold, or confirm the current \$250,000 threshold is still appropriate (p. 10).
  - c. add non-monetary factors if it thinks that doing so would enhance the project oversight process. (pp. 11-12)
  
2. To ensure the desired level of independence and assurance is provided to IT project management oversight, the Joint Committee on Information Technology should consider:
  - a. evaluating the level of project monitoring desired and set up an appropriate funding mechanism so the role can be carried out through the legislative CITO as statutorily required (p. 14); or
  - b. amending relevant statutes to reflect current practice (p. 14); or
  - c. evaluating other options to achieve IT monitoring oversight and set up an appropriate funding mechanism to support that effort. (p. 14)
  
3. To determine whether OITS rate-setting practices are compliant with federal law, the Legislative Post Audit Committee should consider authorizing additional audit work on this topic. (pp. 15-17)

**APPENDIX A**  
**Agency Response**

On March 26, 2018, we provided copies of the draft audit report to the Office of Information Technology Services. Its response is included as this Appendix. Agency officials generally agreed with the report findings and recommendations with one exception: Officials said a review of rates is being completed annually and the office had implemented procedural changes to address recommendations based on the LPA’s 2013 audit regarding rates. As a result, officials stated they are compliant with federal reporting procedures concerning rates. Following the agency’s written response is a table listing the department’s specific implementation plan for each recommendation.

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Donna Shelite  
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April 9, 2018

Justin Stowe  
Interim Legislative Post Auditor  
Legislative Post Audit  
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Re: Enterprise Project Management Office: Evaluating the Statutory Definition and Monetary Threshold for Major IT Projects

Dear Mr. Stowe:

I have reviewed the audit report and would like to address the concerns raised in two parts:

- Recommendations for Executive Action
- Potential Issues for Further Consideration

Recommendations for Executive Action

1. To ensure the EPMO's quarterly reports include all IT projects and accurate costs, the EPMO should:
  - a. Periodically request confirmation from state agencies subject to the respective laws and policies that they are aware of and following the reporting standards.

*The EPMO will request information from agencies on any newly planned IT projects on the same schedule as the required quarterly report. This process will begin on April 10, 2018.*

- b. Review projects to ensure cost information for recast projects provides the original and revised total estimated costs.

*The funding information for the pre-recast project plans is currently provided in the quarterly report. This information will be moved to a more visible area toward the top of that project's page. The original planned dates will be included as well. These changes will take effect with the next published report on May 10, 2018.*

2. To ensure critical IT governance functions are carried out, including requesting and reviewing the three-year IT plans from state agencies, the executive branch CITO should:
  - a. Attempt to fill the statutory Chief Information Technology Architect (CITA) position within the next six months; or
  - b. Appoint another staff to fulfill the necessary tasks; or
  - c. Communicate with the other two CITOs to agree to take back this statutory responsibility within each agency branch.

*Currently, the role of the CITA is being filled by the Architecture and Standards Committee. This committee is made up of five representatives from executive branch agencies. This approach is included in current proposed legislation. If approved, it will allow for this committee to permanently fill this role.*

3. To ensure that its project management revenues are more accurately aligned with the actual service costs, the Enterprise Project Management Office should review its revenues and expenditures at least annually and either reimburse agencies or adjust its fees as necessary to ensure compliance with federal reporting requirements.

*Currently, a review of rates is completed annually. The new planned project information that will be gathered quarterly will be included in the review when forecasting rates.*

#### Recommendations for Legislative Consideration

1. To ensure the intent of project oversight is met at the appropriate level, the Joint Committee on Information Technology should consider amending existing statutes (K.S.A. 75-7201 et seq.) to:
  - a. Change the IT project definition if it determines the current definition no longer satisfies legislative intent.
  - b. Incorporate appropriate inflation mechanisms for the current monetary threshold, select a new monetary threshold, or confirm the current \$250,000 threshold is still appropriate.
  - c. Add non-monetary factors if it thinks that doing so would enhance the project oversight process.

*The current entity responsible for approval and maintenance of all information technology policies, information technology project management procedures, the statewide technical architecture and the state's strategic information plan is the Information Technology Executive Council (ITEC). ITEC has not met in more than two years and, therefore, state polices have not been updated during that time. H. sub for SB56 has been proposed in this legislative session. This bill will update the membership of the Information Executive Technology Council (ITEC) and set a minimum meeting schedule at quarterly meetings.*

*When ITEC begins meeting again, the three CITOs, the Architecture and Standards Committee and the EPMO will begin working to review and update all Kansas information technology policies as needed.*

2. To ensure the desired level of independence and assurance is provided to IT project management oversight, the Joint Committee on Information Technology (JCIT) should consider:
  - a. Evaluating the level of project monitoring desired and set up an appropriate funding mechanism so the role can be carried out through the legislative CITO as statutorily required; or
  - b. Amending relevant statutes to reflect current practice; or
  - c. Evaluating other options to achieve IT monitoring oversight and set up an appropriate funding mechanism to support that effort.

*I look forward to working with JCIT in this effort.*

3. To determine whether OITS rate-setting practices are compliant with federal law, the Legislative Post Audit Committee should consider authorizing additional audit work on this topic.

*LPA conducted an audit of OITS rates in 2013. At that time, we implemented procedural changes to address their recommendations. OITS is compliant with federal reporting procedures concerning our rates.*

Sincerely,



Donna Shelite  
Interim Chief Information Technology Officer

cc: Sara Spinks, KITO Interim Director

**Itemized Response to LPA Recommendations**

**Audit Title:** Enterprise Project Management Office: Evaluating the Statutory Definition and Monetary Threshold for Major IT Projects  
**Agency:** Office of Information Technology Services

LPA Recommendation	Agency Action Plan
1. To ensure the EPMO's quarterly reports include all IT projects and accurate costs, the EPMO should:	
a. periodically request confirmation from state agencies subject to the respective laws and policies that they are aware of and following the reporting standards, and	The EPMO will request information from agencies on any newly planned IT projects on the same schedule as the required quarterly report. This process will begin on April 10, 2018.
b. review projects to ensure cost information for recast projects provides the original and revised total estimated costs.	The funding information for the pre-recast project plans is currently provided in the quarterly report. This information will be moved to a more visible area toward the top of that project's page. The original planned dates will be included as well. These changes will take effect with the next published report on May 10, 2018.
2. To ensure critical IT governance functions are carried out, including requesting and reviewing the three-year IT plans from state agencies, the executive branch CITO should:	Currently, the role of the CITA is being filled by the Architecture and Standards Committee. This committee is made up of five representatives from executive branch agencies. This approach is included in current proposed legislation. If approved, it will allow for this committee to permanently fill this role.
a. attempt to fill the statutory Chief Information Technology Architect (CITA) position within the next six months, or	
b. appoint another staff to fulfill the necessary tasks, or	
c. communicate with the other two CITO's to agree to take back this statutory responsibility within each agency branch.	
3. To ensure that its project management revenues are more accurately aligned with the actual service costs, the Enterprise Project Management Office should review its revenues and expenditures at least annually and either reimburse agencies or adjust its fees as necessary to ensure compliance with federal reporting requirements.	Currently, a review of rates is completed annually. The newly planned project information that will be gathered quarterly will be included in the review when forecasting rates.

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## **APPENDIX B**

### **Bibliography**

This appendix includes a list of reports published by Kansas Legislative Division of Post Audit which focused on IT project monitoring or IT project management.

1. IT Project Monitoring Report – Kansas Department of Labor OSCAR IT Project (quarter ending December 31, 2017) (March 2017).
2. IT Project Monitoring Report – Kansas Department of Revenue KanLicense IT project (quarter ending September 30, 2017) (December 2017).
3. IT Project Monitoring Report – Kansas Department of Labor OSCAR IT Project (quarter ending September 30, 2017) (December 2017).
4. IT Project Monitoring Report – Kansas Department of Revenue KanLicense IT project (Quarter Ending June 30, 2017) (October 2017).
5. IT Project Monitoring Report – Kansas Department of Labor OSCAR IT Project (quarter ending June 30, 2017) (October 2017).
6. IT Project Monitoring Report – Kansas Department of Revenue KanDrive IT Project - Quarter Ending March 31st, 2017 (July 2017).
7. IT Project Monitoring Report – Kansas Department of Revenue KanDrive IT Project Quarter Ending December 31, 2016 (April 2017).
8. IT Project Monitoring Report – Kansas Department of Revenue KanDrive IT Project Quarter Ending September 30, 2016 (December 2016).
9. IT Project Monitoring Report – Kansas Department of Revenue KanDrive IT Project Quarter Ending June 30, 2016 (September 2016).
10. The Kansas Eligibility Enforcement System: Evaluating Delays in the System’s Implementation (December 2015).
11. Department of Revenue: Examining Issues Related to the DMV Modernization Project (October 2014).
12. Animal Health Department: Reviewing Issues Related to a Recent Animal Tracking Technology Project (limited-scope audit) (October 2006).
13. Information Technology Projects: Determining Whether the Chief Information Technology Officer Has Followed All Applicable Approval and Notification Requirements (100-hour audit) (June 2004).

14. Reviewing the Progress of the Department of Revenue's Project 2000 (August 1997).
15. Reviewing the Department of Social and Rehabilitation Services' Efforts to Computerize Alcohol and Drug Abuse Treatment Information (May 1995).
16. Reviewing the Progress of the Statewide Human Resource and Payroll System Project (March 1995).
17. Examining the Kansas Lottery's Plans for Acquiring New Computer Software and Hardware (April 1992).
18. Examining Problems Implementing the Kansas Financial Information Systems (KFIS) (January 1992).
19. Comprehensive Automated Eligibility and Child Support Enforcement System (CAECSES) (January 1990).

## APPENDIX C

### Glossary of Frequently Used Abbreviations

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

- **EPMO – Enterprise Project Management Office.** EPMO supports the statutory responsibilities of the Executive, Judicial, and Legislative Branch Chief Information Technology Officers and the state’s Chief Information Technology Architect by providing IT project management services for state government agencies. This office is a division within the Office of Information Technology Services (OITS) and is also referred to as the Kansas Information Technology Office (KITO).
- **CITA – Chief Information Technology Architect.** K.S.A. 75-7204 establishes a Chief Information Technology Architect under the supervision of the executive CITO. This role proposes policies, procedures, and project management methodologies, as well as IT architecture, standards for data management, and a strategic IT management plan to ITEC.
- **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 their branch agencies regarding information technology plans, monitors compliance with information technology policies, and coordinates implementation of new information technology, among other duties.
- **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.
- **JCIT – Joint Committee on Information Technology.** A committee of the Kansas Legislature which has the charge to review, monitor, and report on technology plans and expenditures. It also is charged with making recommendations on budget and implementation plans to the Senate Ways and Means and House Appropriations Committees and evaluating cybersecurity preparedness, among other things.
- **KITO – Kansas Information Technology Office.** KITO is largely synonymous with the EPMO. KITO was the original title for the functions performed by staff supporting the three branch-level CITOs and the CITA, and included a handful of non-project related duties. Although this report uses EPMO, it should be noted that many agencies have not gotten used to that terminology, and OITS’ website and the Governor’s Budget Report continue to use KITO.
- **OITS – Office of Information Technology Services.** Created in 2013, this agency provides centralized, statewide information processing and technical management services to state agencies and local governmental entities. Example services include network, data storage, data processing, and voice-data telecommunication services.

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