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Unisys Contract Review

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Date: June 27, 2012

To: Otto Doll, Information Technology (IT)

Re: Unisys Contract Review

The Internal Audit Department (IA) conducted a review of the Unisys Contract. This review was included in the 2011 Internal Audit Plan and was completed in April 2012.

Background

The City of Minneapolis (the City) Information Technology (IT) Department is devoted to innovation and service delivery excellence. IT drives effective management of City government by leading change, improving business outcomes, implementing information technology solutions that meet business needs, and providing cost-effective, efficient and reliable information services.

IT has contracted Unisys Corporation (Unisys) to provide outsourced information technology services throughout the City to ensure the business needs of the City are met. The current outsourcing contract began on December 31, 2007 and originally ended on December 31, 2012; on September 10, 2010 the contract was extended through December 31, 2015. It is currently valued at \$86,363,655. The outsourced services include data center and network management, disaster recovery of critical business applications, security services, e-mail services, a service desk, and desk side support. Beginning in 2013, it will also include support of the City's 911 computer aided dispatch environment.

Objectives

The review was performed to assess whether controls are adequate to ensure:

- IT's governance operating model is effective to monitor the outsourcing relationship with Unisys;
- The City pays the appropriate prices only for Unisys services received, per contract terms;
- Change orders are properly reviewed, approved and monitored;
- The performance of services provided by Unisys to the City is in accordance to the contract; and
- The City performs quality reviews to ensure Unisys maintains adequate internal controls over processes related to the services provided to the City.

Scope

This review included gaining an understanding of internal controls, including current policies and procedures, through observation, inquiry and limited testing surrounding the processes listed above. IA performed, on a sample basis, testing of the City's internal processes and transactions within the period January 1, 2010 through November 30, 2011 for the areas below:

- Contract governance processes;
- Contract management;
- Invoice payments;
- Change Orders;
- Quality of services; and
- Compliance with contract terms and conditions.

Summary of Findings and Management Responses

1. Review of Payments

While IT management reviews the invoices for accuracy and completeness, there is no evidence to support the invoice itself was reviewed. Also, the support documentation provided by Unisys only show total dollars without adequate details used to calculate the totals (i.e. rates and hours). Additionally, while there are written procedures on the IT invoice review process, the procedures are very brief and do not include detailed steps.

Management Response

As invoices are derived from the approval for invoicing documents, initial verification of the invoice has already been completed as evidenced by the signature on the supporting documentation. Another review is performed upon receipt of an actual invoice by the Finance Department. Regarding project numbers assigned to the solution documents, the review of the actual invoice shall include verification that the correct project numbers are used when payment is issued. While the current procedures for verifying the accuracy of invoices are generic in nature, very little needs to be done to accomplish a more comprehensive and detailed process. The recommendation for more detailed procedures of the verification process is not warranted. Should changes be needed, IT will implement as quickly as resources allow.

2. Contract Monitoring

IT management does not receive relevant reports from Unisys as stated in the contract. Also, there is currently no agreed upon process in place to validate that the City is receiving the most favored equipment prices and/or taking advantage of any special promotional rates or discounts. Additionally, disputed invoices are communicated verbally, rather than in writing as stated in the contract. Furthermore, the City and Unisys have been unable to determine a methodology to define the criteria to be used to compare such costs of services between the City and other customers Unisys has, as the contract did not define criteria to be used in the determination of benchmarking.

Management Response

IT shall review and make changes, if appropriate, to its procedures to 1) process disputed invoices; 2) maintain compliance with Exhibit 3, Section 7; and 3) maintain compliance with Exhibit 4, Section 3 and Part III, Section 10.2. IT shall develop a process, if appropriate, for both the MFC and the benchmarking clauses, during the next iteration of the outsourcing contract beginning in 2016. Should changes be needed, IT will implement as quickly as resources allow.

3. Review of SSAE 16 reports of Unisys

There are currently no formal procedures in place to properly guide IT personnel in requesting and reviewing external SSAE 16 reports of Unisys.

Management Response

IT shall take appropriate measures to ensure that the City receives and reviews the required SSAE 16 in compliance with the relevant sections in Exhibit 3 of the Agreement, including requiring the receipt of separate SSAE 16 Audit Reports on all Unisys Service Locations in Exhibit 2, Appendix J. Should changes be needed, IT will implement as quickly as resources allow.

Conclusion

Based on the review, IA believes there are opportunities for improvements that address risk areas identified in this report. IT management worked collaboratively with IA to develop action plans. However, this report contains disagreements between IA and IT management as some actions were not taken to address certain risk exposures to the City and specific estimated completion dates were not provided.

IA would like to extend our appreciation to IT personnel who assisted and cooperated with us during the review.

Cc: Bob Arko, IT
Kevin Carpenter, Finance and Property Services
Beth Cousins, IT
Paul Aasen, City Coordinator
Mark Paulsen, IT

Unisys Contract Review

Audit Findings and Management Action Plans

1. Review of Payments

Invoices

To process payments in a timely manner, IT and Finance mutually agreed to allow Finance to process payments under the assumption the invoice is accurate unless they hear otherwise from IT. It is important to note that the invoices contain documentation which supports the charges listed on the invoice. The support documentation has already been reviewed and signed by IT management after the service was completed by Unisys. While IT management reviews the invoices for accuracy and completeness, there is no evidence to support the invoice itself was reviewed. Not retaining evidence of reviewing the invoices may lead to the assumption that a review did not take place, or may potentially allow the review process to be overlooked.

On occasion, the support documentation provided by Unisys only show total dollars without adequate details used to calculate the totals (i.e. rates and hours). To assist IT management in performing a thorough review of the invoice prior to payment, relevant details should be included on the support documentation.

Also, while there are written procedures on the IT invoice review process, the procedures are very brief and do not include detailed steps. More detailed steps should be included in IT's procedures for invoice review to ensure they are properly verified for completeness of services, accuracy of rates and recalculating amounts, as examples. Incomplete verification of invoice accuracy may allow for payment of incorrect charges.

Change Orders (C/O)

In the event a City Department requests a change to its information technology environment (i.e. request for a new/replacement computer, software, etc.) the Department completes and submits a request for Installs, Moves, Adds, and Changes (IMAC)¹ or a Project Idea Form² to IT. As the C/O process is extensive, IA summarized the process, at a high level, below.

When Project Idea Forms are submitted, IT reviews the Department request for appropriateness and forwards the request to Unisys. Unisys creates a "solution document" which states the scope of work to be performed along with how much the work will cost in accordance to the contract. Unisys submits the solution document with cost estimate to IT, who then reviews the solution document and makes a determination as to whether the work should proceed or not.

Regarding the solution document, it appears that the review process may need to be enhanced concerning the verification of project numbers and the costs and totals shown on the solution documents. In the absence of such information, the solution document may potentially be inaccurate and/or be charged to a different project.

Recommendation

IA recommends IT management:

- Retain evidence of monthly invoice review in detail to ensure payment already made is accurate. Additionally, management should request Unisys provide adequate details on all invoices to allow for appropriate invoice review by management.

¹ *Installs, Moves, Adds, and Changes (IMAC)* is the process for installing existing approved software, moving computers, adding hardware or making various other changes to a City workstation.

² A *Project Idea Form* is used to request new equipment not currently offered, new software, or upgrades to current approved software.

- Develop more detailed procedures to ensure an effective verification process has been performed when payment is made (e.g. the calculations on invoices are verified for accuracy, rates are compared to contract rates, etc.).
- Institute a more robust review process for approval of C/O charges that includes verification of the correct coding, costs and totals. Accuracy of charges should be verified by re-performing the calculations.

Management Response

IA gives an incomplete picture of the Change Order process. A more detailed description follows:

In the event a City Department requests a change to its information technology environment (i.e. request for a new/replacement computer, software, etc.) the Department completes and submits a request for Installs, Moves, Adds, and Changes (IMAC) or a Project Idea Form to IT. A specific number of IMAC requests are included as part of the base charges in the outsourcing contract. The number of IMACs completed, and any additional standard hardware requested by Departments through an IMAC, is tallied on a monthly basis and submitted to IT personnel for review and verification. IT then verifies that the charges are appropriate and submits the reviewed IMACs back to Unisys with comments on any discrepancies found. Unisys then creates an “approval for invoicing” document which states the number of IMACs completed for the month and any one-time hardware costs associated with the IMACs and submits it to IT. IT personnel review the approval for invoicing, sign-off on the document, and return to Unisys who then creates an official contract document known as a “change order”. The signed approval for invoicing is attached to the change order as supporting documentation. The change order is then reviewed and signed by both a Unisys authorized representative and the City’s Chief Information Officer (CIO).

When Project Idea Forms are submitted, IT reviews the Department request for appropriateness and forwards the request to Unisys. Unisys creates a “solution document” which states the scope of work to be performed along with how much the work will cost in accordance to the contract. The cost shown on the solution document is either listed as time and materials (T&M) or as a fixed price. When listed as T&M, the pricing used to generate the estimate are based on the contractual hourly rates contained in the outsourcing contract. Fixed price solutions are generally used for those requests that do not contain contractual hourly rates but the level of effort is a known quantity. Unisys submits the solution document with cost estimate to IT, who then reviews the solution document and makes a determination as to whether the work should proceed or not. For those solutions that the City agrees to move forward with, IT management signs the solution document and returns it to Unisys who then creates a change order. The signed solution document is attached to the change order as supporting documentation. The change order is then reviewed and signed by both a Unisys authorized representative and the City’s Chief Information Officer. Once the work is completed, Unisys generates an approval for invoicing document and routes it to IT for review and approval. The approval for invoicing document lists the amounts for the actual work completed (in the case of T&M solutions) or the fixed price listed on the solution document. The approval for invoicing document is the basis for the actual invoice that Unisys sends the City.

- As invoices are derived from the approval for invoicing documents, initial verification of the invoice has already been completed as evidenced by the signature on the supporting documentation.

- Regarding project numbers assigned to the solution documents, the review of the actual invoice shall include verification that the correct project numbers are used when payment is issued.
- While the current procedures for verifying the accuracy of invoices are generic in nature, very little needs to be done to accomplish a more comprehensive and detailed process. The recommendation for more detailed procedures of the verification process is not warranted.

Should changes be needed, IT will implement as quickly as resources allow.

Responsible Party

Otto Doll, CIO

Expected Completion Date

No specific date was provided.

2. Contract Monitoring

Unisys contract Exhibit 3, Section 7, states “...Unisys shall...provide to City a summary of audit activity performed, associated findings, status of follow-up activity, summary of control incidents (e.g., frauds, conflict of interest situations) and related corrective action, every six (6) months.” It appears IT management does not receive the relevant reports as stated in the Unisys contract Exhibit 3, Section 7 to assist in monitoring Unisys’ performance that may have an impact on the contract with the City. As a result of not receiving and reviewing these reports, there is potential that the City may not be fully aware of significant issues that may have a negative impact on the IT services provided to the City.

Unisys contract Exhibit 4, Section 3 – Equipment Provision states, “Unisys agrees to provide most favored equipment (“MFE”) pricing for equipment provisioned or refreshed pursuant to the Agreement...On a quarterly basis...” Currently, there is no agreed upon process in place to validate that the City is receiving the most favored equipment prices and/or taking advantage of any special promotional rates or discounts as described in the Unisys contract language.

Additionally, Part III – Outsourcing and Managed Network Services Conditions, Section 9.6 (b) of the Unisys contract states, “City will give Unisys written notice and a reasonable explanation of any disputed invoice...” IA was told that there have only been two disputed invoices during the contract period and they were both resolved. IT discussed these disputed invoices verbally with Unisys. Communicating invoice disputes verbally, rather than in writing, may create a situation that could potentially result in inadequate tracking, communication and unsatisfactory resolution of disputed invoices, because no records were maintained.

Furthermore, Part III – Outsourcing and Managed Network Services Conditions, Section 10.2 Most Favored Customer (MFC) of the Unisys contract states, “Unisys shall, on an annual basis, conduct a formal review of the Monthly Base Charge to gain a market comparison...of the quality and price of the Services as compared to the quality and price of comparable services within the Target Market. In accordance with procedures to be agreed upon by City and Unisys, Unisys shall meet with City to review Unisys findings with respect to such comparison and, to the extent appropriate, offer to adjust the Monthly Base Charge such that the Monthly Base Charge is within the lowest quartile of market prices for comparable services within the Target Market. If the Parties are in agreement with respect to the proposed adjustment, Unisys shall immediately adjust the Monthly Base Charge. In no event will Unisys increase the Monthly Base Charge as a result of any annual review pursuant to this Section 10.2.” The contract specifies a benchmarking

process to treat the City as a MFC with respect to the quality and cost of service. The City and Unisys have been unable to determine a methodology to define the criteria to be used to compare such costs of services between the City and other customers Unisys has, as the contract did not define criteria to be used in the determination of benchmarking. In the absence of this process, it is possible that the City may have not received any benefits being the MFC with respect to quality and price of services provided by Unisys. IA acknowledges that IT management is planning to address this issue in the next iteration of the contract through modification of the contract language.

Recommendation

IA recommends IT management:

- Request that Unisys provide summaries as stated in Exhibit 3, Section 7 of the Unisys contract to assist in contract monitoring and establish a process to track and monitor key issues going forward. In addition, IA recommends IT management request a copy of the reports/audit findings for the last three years and get an update from Unisys on the status of action plans on the key findings, as appropriate.
- Develop a process that allows the City to adequately monitor Unisys when determining whether they have provided the most favored equipment prices as well as taken advantage of any special promotional rates or discounts offered for a limited period of time. In addition, IA recommends IT management request relevant information from Unisys for the last three years and claim any cost savings, if applicable.
- Communicate to Unisys in writing, as specified in the contract, all disputed invoices, including inaccurate charges.
- Consider leveraging third-party cost benchmarks to assess the quality and price of services, if Unisys and IT are not able to compromise and determine a methodology for this clause. In addition, IA recommends that when IT management is negotiating a different contract or renewing the current contract, the benchmarking process/criteria, if applicable, should be clearly defined in the new Master Agreement.

Management Response

IT shall review and make changes, if appropriate, to its procedures to 1) process disputed invoices; 2) maintain compliance with Exhibit 3, Section 7; and 3) maintain compliance with Exhibit 4, Section 3 and Part III, Section 10.2.

Since Unisys has non-disclosure agreements in place with its other clients, it is very difficult to access and agree upon information to use to satisfy the MFC and benchmarking clauses. IT shall develop a process, if appropriate, for both the MFC and the benchmarking clauses, during the next iteration of the outsourcing contract beginning in 2016.

Should changes be needed, IT will implement as quickly as resources allow.

Responsible Party

Otto Doll, CIO

Expected Completion Date

No specific date was provided.

3. Review of SSAE 16 reports of Unisys

Statement on Standards for Attestation Engagements (SSAE) No. 16 (formerly Statement on Auditing Standards (SAS) No. 70) is widely recognized as a third-party assurance audit designed for service organizations (in this case, Unisys). SSAE 16 effectively replaced SAS 70 on June 15, 2011. When the City obtains the Unisys SSAE 16 report, the City receives valuable

information regarding the effectiveness of Unisys' controls through an independent assessment of whether the controls were suitably designed, placed in operation, and effectively operated (in the case of a Type II report).

There are currently no formal procedures in place to properly guide IT personnel in requesting and reviewing external SSAE 16 reports of Unisys. Furthermore, the Unisys SSAE 16 did not include a review of Disaster Recovery nor did Unisys provide a separate report, as described in Exhibit 2, Appendix J - Unisys Service Locations of the Unisys contract. These external reports may contain relevant exceptions that may have an impact on the City's operations.

Recommendation

IA recommends IT management develop written procedures that adequately guide IT personnel in requesting and reviewing the external SSAE 16 reports of Unisys in a timely manner.

Management Response

IT shall take appropriate measures to ensure that the City receives and reviews the required SSAE 16 in compliance with the relevant sections in Exhibit 3 of the Agreement, including requiring the receipt of separate SSAE 16 Audit Reports on all Unisys Service Locations in Exhibit 2, Appendix J.

Should changes be needed, IT will implement as quickly as resources allow.

Responsible Party

Otto Doll, CIO

Expected Completion Date

No specific date was provided.

Abbreviations Used Throughout the Report	
CIO	Chief Information Officer
City	The City of Minneapolis
C/O	Change Order
IA	Internal Audit Department
IMAC	Installs, Moves, Adds, and Changes
IT	Information Technology Department
MFC	Most Favored Customer
MFE	Most Favored Equipment
SAS 70	Statement on Auditing Standards Number 70
SSAE 16	Statement on Standards for Attestation Engagements Number 16
T&M	Time and Materials
Unisys	Unisys Corporation