Governance of Outsourced IT Services

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Topics Covered in This Session

- Common failures in governing outsourced IT services
- Services with higher risk due to outsourcing
- Effectively governing outsourced IT services
- Integrating internal business processes, outsourced business processes and outsourced IT services with effective governance for all
- Guidelines for oversight of key performance indicators that truly measure the effectiveness of outsourced IT services
Background

- IT services typically outsourced
- Traditional activities involved in IT governance
- Roles and responsibilities in managing outsourced IT services
# IT Services Typically Outsourced

<table>
<thead>
<tr>
<th>Service</th>
<th>Pro</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Logical Security</strong></td>
<td>Provider cost and maintenance fee distributed among clients</td>
<td>➢ Loss or unauthorized access of data</td>
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<tr>
<td></td>
<td>Rapid updates with live monitoring</td>
<td>➢ Data Integrity</td>
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<td></td>
<td>Dedicated staff with up to date knowledge</td>
<td>➢ Failure to fully design, develop and implement enterprise security</td>
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<tr>
<td></td>
<td></td>
<td>architecture</td>
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<td></td>
<td></td>
<td>➢ Rely primarily on the firewall</td>
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<td></td>
<td></td>
<td>➢ Failure to understand the relationship security has with the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>organization</td>
</tr>
<tr>
<td><strong>Specialized service</strong></td>
<td>No in-house training</td>
<td>➢ Inability to support service during ongoing operation.</td>
</tr>
<tr>
<td><strong>Desktop &amp; server maintenance</strong></td>
<td>Remote control</td>
<td>➢ Inaccurate/corrupted data and process integrity</td>
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<tr>
<td></td>
<td>Consistent version control</td>
<td>➢ Inadequate built-in controls</td>
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<tr>
<td></td>
<td>55% reduction in IT costs per employee</td>
<td>➢ Few written procedures</td>
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<td></td>
<td></td>
<td>➢ Inadequate unauthorized access protection</td>
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<td></td>
<td></td>
<td>➢ Unapproved change implementation</td>
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<td></td>
<td></td>
<td>➢ Failure to maintain the application</td>
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<td></td>
<td></td>
<td>➢ Intellectual property theft</td>
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<td></td>
<td></td>
<td>➢ Customer information - lost, manipulated or stolen</td>
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<td></td>
<td></td>
<td>➢ Delayed service</td>
</tr>
</tbody>
</table>

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### IT Services Typically Outsourced (cont)

<table>
<thead>
<tr>
<th>Service</th>
<th>Pro</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disaster recovery</td>
<td>Frequently outsourced IT service</td>
<td>➢ Hot/Cold recovery:</td>
</tr>
<tr>
<td></td>
<td>Well established outsource service</td>
<td>➢ Data access and integrity;</td>
</tr>
<tr>
<td></td>
<td>Service costs -low maintenance and does not require dedicated full-time staff</td>
<td>➢ Business/customer service disruption;</td>
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<tr>
<td></td>
<td>Reduces risk of destroying company business.</td>
<td>➢ Financial/external report misstatement;</td>
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<td></td>
<td></td>
<td>➢ Lack of staff to support recovery;</td>
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<td></td>
<td></td>
<td>➢ Access to recent back-up</td>
</tr>
<tr>
<td>Voice and data telecommunications</td>
<td>Well established outsource service</td>
<td>➢ Illegal/malicious hacking;</td>
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<tr>
<td></td>
<td></td>
<td>➢ Denial of service attacks;</td>
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<tr>
<td></td>
<td></td>
<td>➢ Data corruption;</td>
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<td></td>
<td></td>
<td>➢ Bottlenecks;</td>
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<tr>
<td></td>
<td></td>
<td>➢ Slow response times</td>
</tr>
<tr>
<td>Infrastructure operations</td>
<td>No need for land or building to house equipment/personnel</td>
<td>➢ Inadequate risk assessment;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Inadequate provider controls and ineffective monitoring</td>
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<tr>
<td></td>
<td></td>
<td>➢ Lack of strategic planning to meet buyer's needs</td>
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<td></td>
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<td>➢ Failure to maintain the system</td>
</tr>
<tr>
<td>Service</td>
<td>Pro</td>
<td>Risks</td>
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</tr>
<tr>
<td>Application Development and Maintenance</td>
<td>Do not pay provider during downtime No need to interview, hire, train team members No direct management of team members</td>
<td>➢ Inefficiencies in the business process supported by the application ➢ Inadequate contingency strategies for delayed projects; ➢ Average outsourced projects are completed successfully and effectively 63% of the time</td>
</tr>
</tbody>
</table>
## IT Services Typically Outsourced (cont)

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| Help Desk – Internal/Customer | Less knowledgeable technicians can resolve 80% of all help desk calls | Information may not be shared among service departments and providers  
Conflicting behavior/solutions from the provider team  
Difficulty in identifying performance trends  
Inability to respond quickly to changing market conditions  
Loss of revenue from customer dissatisfaction  
Customer requirements may be misunderstood  
Provider staff may not be trained to meet customer needs effectively  
Inaccurate reporting  
Provider employees may breach organization standards related to security and confidentiality  
Incomplete/inaccurate recording and communication of problem – common or critical  
Cultural differences may interfere with escalation of problems to appropriate staff  
Key decision-makers may not be aligned with day-to-day operations |

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Traditional Activities in IT Governance

- Contract Management
- Service Level Metrics and Reporting
- Business Project Liaison with Service Provider
- Annual Review of SAS 70s and Other Industry-specific Regulatory Compliance
- Routine Meetings to Resolve Issues
- Others from Session Participants
Roles and Responsibilities

Buyer

- CIO – Chief Information Officer
  - coordinate internal technology strategic direction
  - coordinate information technology as infrastructure for all business units
  - manage external partnerships
  - improve services to employees and partners
- CTO – Chief Technology Officer (Business Specific)
  - provide a technical voice in strategic planning
  - reduce operating costs
  - manage application specific solutions
  - liaison with business owner
- CSO – Chief Security Officer
  - provide IT security vision, strategy and programs
  - manage cyber security, standards, data and network asset protection

Information Technology Leadership is bigger than a single service provider relationship

Service Provider

- Service Delivery Managers
  - relationship management
  - ensure service levels
  - communication with buyer management
  - coordinate services across silos
- Service Operation
- Administrative Manager
  - measurement of metrics
  - reporting
  - billing
- Project Management Office
  - prepare proposals
  - provide oversight of project activities
  - change management
  - communicate with business owner

More from session participants
IT Governance (more than meets the eye)
An IT Strategy is Critical

Strategic Plan

- Training
- Remote Servers
- Clarity
- Technology Budget
- Acquisiton Divestiture
- Service Level Agreements
- Project Management
- Strategic Alliances
- Thought Leadership
- Network Strategy
- Backup Strategy
- Control System Design
- Network Security
- Wireless
- Warehouse System
- Op Sys
- ROI
- Budget Tracking/Reporting
- Disaster Recovery
- Business Continuity
- Super Tech
- Enabling Technology
- Corporate
- Mining Technology
- Other Support
- KPI's
- VoIP
- Partner Relationship
- Resources

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Business Expectation Management

- BPO = Business transactions/processes
- ITO = IT Services
- Positive changes in ITO = positive changes in the business processes
- Negative changes in ITO = negative changes in the business processes
- Broken or ineffective IT processes that are outsourced will not be miraculously repaired
- Buyer is always responsible for what, where, who, and how
- Only “you” know your business
- Only “you” are accountable for compliance with laws and regulations

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Common Failures in Governing Outsourced IT Services

- Negotiating too hard to a least cost scenario
- Misplaced haste to get a contract in place
- Lack of an exit strategy
- Failure to control legal compliance
- Failure to plan for a long-term strong relationship
- Negotiating and managing from an “Ivory Tower”
- Ignoring performance details
Common Failures in Governing Outsourced IT Services (cont.)

- Impairing your ability to "Get Up and Walk Away"
- Burning bridges with other partners
- Failure to monitor service (business)
- Relinquishing control/oversight (business)
- Failure to review Outsourcer’s internal controls
- Failure to audit services provided
- *More from session participants*
Research Data will be Provided at the working session

Question: Is the “total” cost of outsourcing offshore = or less than the “total” cost of alternatives? Total = $ cost + communication + controls governance + performance + risk.

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Governance Risks

- Strategic direction
  - Who determines the problem to be solved?
  - Motivation to find best functional strategy vs. cost effective strategy?

- Total costs
  - Baseline
  - Maintenance
  - New projects
  - Decommissioning services/applications
  - Adding new services/controls
Governance Risks (cont.)

- Legal and regulatory consequences
  - Financial controls (Sarbanes Oxley for U.S.)
  - Data privacy (global issue)
  - Effective controls assertion (SAS 70)
  - Industry specific governing committees and standards
Active strategic guidance of the process is imperative to achieve monetary and functional value for corporate stakeholders. Each governance strategy should address:

- What problem are we trying to solve?
- What is the cost?
- What is the value to the company?
- Do the services provided negatively impact required business functions?
Key Performance Indicators and Metrics for the Effectiveness of Outsourced IT Services

- **Today**
  
  Research Data will be Provided at the working session

- **Future**
  
  Future State will be Developed by Participants at the working session
Research results from five companies

- Outsourcing all IT services
- Onshore and offshore outsourcing
- Mixed mode outsourcing
- Discussion

Research Data will be Provided at the working session
For More Information:

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ISACA International Academic Relations Committee
Director, Internal IT Auditing

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Thank you!