



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

**Internal Audit Report
on
Portfolio Management
Framework**

July 2009



OSFI
BSIF

Canada

Portfolio Management

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Background

Introduction

An audit of OSFI Portfolio Management was approved by the Audit Committee and the Superintendent for inclusion in OSFI's 2008-09 - Internal Audit Plan.

In early 2008, as part of its annual review of OSFI's information technology (IT) investments the Executive Committee commissioned a benchmark study of IT services and related expenditures from the view of demonstrating the value of current IT services, rationalization of effort, resources and expenditures in providing IT services, alignment of business priorities to IT services, and identifying functions that are over or under performing. Based on the study's results, the Executive Committee initiated actions to address areas of concern and take advantage of opportunities identified in IT services.

External studies¹ of information projects report that about one third of projects are cancelled before they are completed. About half of those that are completed cost an average one hundred fifty per cent of their original estimates and less than half of planned features and functions are met. Only ten per cent of projects are completed on time and budget. These statistics are reflective of the high level of inherent risk in these types of projects. Given the inherently difficult nature of this work, *portfolio management* plays an important role in managing risk associated with information projects.

Portfolio management (PM) can be defined as an oversight process for managing an organization's 'entire' spectrum of projects at the consolidated corporate level. The PM sets out the governance and accountability arrangements; management, monitoring and reporting processes; and the prioritization of projects (systems development / change requests / upgrades) based on set criteria. As an enabling function, PM is an important tool in managing the organization's information development and operations activities. The value proposition is in implementing a common set of structures, activities and processes (framework) of portfolio management that optimizes the information technology investment within the organization's plans and priorities and its spending envelope.

Key elements of effective portfolio management include:

- Setting out stakeholder requirements and expected benefits of the 'project' in a comprehensive 'business case.'
- Established methodology / approach for selecting, prioritizing, assessing and managing projects.
- Project/Portfolio progress monitoring, assessment, and reporting on a consolidated basis.
- Project progress and spending decision-making (gates) incorporated into portfolio management governance and accountability, and related processes.
- Established priority, resource, and conflict resolution processes to minimize project problems and delays.

Realizing defined business benefits requires two key, inter-related activities. Firstly, accountability, the project sponsor / lead stakeholder responsible for ensuring that business benefits are realized is identified. Secondly, a formal plan for realizing the benefits is put in place and followed through to conclusion. Realizing benefits to the organization often requires change in the way the business operates day-to-day. Managing the benefit realization requires planning and action in:

¹ TBS Enhanced Framework for Management of Information Projects

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- agreeing and setting measurable goals,
- clarifying roles and responsibilities,
- adopting a communication plan for all stakeholders,
- ongoing support of senior management, and
- putting in place support through to full realization of benefits.

OSFI maintains and continually improves its information systems (applications) in support of the Office's regulatory and supervisory activities of federally regulated financial institutions and federally registered private pension plans. Major system development is underway and more is planned in IT operations e.g. Livelink and user information systems e.g. Pensions – Case Management System, and Standardized Institution Credit Monitoring Data Call.

The Executive Committee reviews and, as appropriate, approves major Sector /Division sponsored information system projects and Information Management / Information Technology division IT operations and system development funding. A spending envelope for information system development is established, managed by a Priority Projects IM/IT Change Management Committee (PPICMC). The committee reviews the status of approved projects, on a case-by-case basis, and, as appropriate, funds are released at project phases/gates. As well, the committee reviews projects' progress and, as appropriate, reallocates funds among projects to optimize system development work.

OSFI's IM/IT division manages approximately 100 initiatives, about half of which are orientated to IT operations and support services while the remaining are for Sector / Division business projects. During the 2009/10 planning cycle, the projects were balanced between IT operations and business projects.

The Project Management Group (PMG) has in place a detailed project management (system development and change) methodology and guidance-covering areas such as project specific governance and accountability, project progress & project performance status reporting, and standardized project development processes. In addition to managing system development, PMG supports the Sectors / Divisions in the identification and assessment of information and system needs, for both new applications and enhancements to existing applications.

Also, a project prioritization methodology and process called MORE was introduced for 2009-10 planning purposes by which projects were assessed and prioritized in four categories: Mandatory or legislated change required; QSFI Priority (Operational Risk); Reduction of Risk; and Efficiency.

Terms used

COBIT	Control Objectives for Information and related Technology (IT management control framework)
COSO	Committee Of Sponsoring Organizations of Treadway Commission framework (control framework)
ITIL	Information Technology Infrastructure Library, UK (de facto standards, best practices for IT service management)
PMI PMBOK	Project Management Institute – Project Management Book of Knowledge
Users (Applications)	Supervision, Regulation and Corporate Services Sectors, Pensions Division and Office of the Actuary (applications)

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IM/IT - PMG	IM/IT Project Management Group
PPICMC	Priority Projects and IM/IT Change Management Committee
TBS-EMF	Treasury Board - Enhanced Management Framework

Providing assurance to the Superintendent

In order to manage its work in a complex and rapidly changing environment, OSFI develops and puts in place specialized policies, guidance and processes. In general, these are called frameworks. These frameworks provide assurance to the Superintendent and senior management that the nature and scope of work required to carry out OSFI's activities is well defined and that consistency and quality of the work is maintained.

Such frameworks are essential to the Superintendent and the Audit Committee in being able to fulfil their responsibilities under the Treasury Board Policy for Internal Audit regarding OSFI's governance, risk, and control processes. Under the Policy, Audit & Consulting Services is to conduct assurance audits of OSFI's operations reporting on the adequacy of OSFI's frameworks and their application in carrying out OSFI's activities. This audit of OSFI's portfolio management framework is such an assurance report.

An Overview of Portfolio Management

What is Portfolio Management?

Portfolio management is an approach used to provide oversight and decision-making over a group of projects within an organization by identifying, prioritizing, selecting and funding opportunities based on standard criteria ensuring that they are aligned with corporate and business plans and priorities within an investment or spending envelope. As a governance process, the primary purpose of portfolio management is to maximize investment value / benefits while minimizing risk.

*Portfolio management is about doing the right projects
Whereas project management is about doing the projects right*

How do you know that you have the right project?

The answer lies in putting in place a structured portfolio management program that:

- Establishes criteria and weights for identifying opportunities,
- Identifies opportunities (initiatives / projects) from management and business units aligned with achieving plans and priorities,
- Calls for business cases / opportunity studies on identified opportunities,
- Scores opportunities (proposed projects) based on the selection criteria and weights,
- Presents to management, on a consolidated basis, the investment value / benefits of proposed projects,
- Supports management selection of projects that maximize value in achieving plans and priorities, and
- Monitors projects with performance reporting to management on projects on an individual and consolidated basis.

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What are the benefits of having a Portfolio Management program?

By following these seven steps of portfolio management (see also *Appendix C- Portfolio Management Phases & Steps*) the values of projects are strengthened and expected results or benefits are achieved. These benefits include:

- Projects are *aligned with plans and priorities* with defined benefits and set of project criteria,
- *Reduced risk* in project selection and in achieving project objectives and stated benefits,
- *Focused investments* through managed allocation of scarce resources,
- A *performance management* framework for establishing, monitoring and reporting on project targets and achieving project objectives and stated benefits, and
- *Ongoing engagement of management* in selection of projects, decision-making, and realizing state benefits.

How do you know that Portfolio Management is working?

There are key indicators of a successful portfolio management program:

- Executive sponsor and business unit lead stakeholder buy-in.
- Portfolio (and project management) is incorporated into corporate and business planning.
- Project performance reporting is aligned with plans and priorities, and translates projects objectives and stated benefits into measures and targets.
- Project performance reporting is incorporated into portfolio reporting on a consolidated basis.
- Portfolio management processes incorporate both new application development and changes to existing applications.
- The seven steps of portfolio management are incorporated into project management processes and practices.

These fundamental questions of portfolio management were incorporated into the audit criteria and in our assessment OSFI's portfolio management structures, activities, and related processes & tools.

About the audit***Objectives***

The objectives are to:

- Provide an assessment of OSFI portfolio management (PM) oversight structures, activities, and related processes and tools (PM Framework)
- Identify potential areas for improvement in PM, if any

Audit scope

The audit covers OSFI portfolio management for the 2008/09 period as at December 2008 as well improvements underway 4th Quarter and planned for the 2009/10 period. The audit includes interaction and information provided by the Project Management Group and Infrastructure Technology Services of IM/IT, members of the Priority Projects and IM/IT Change Management Committee and those in the Sectors involved in user application / system development and changes to existing applications.

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Matters outside of the scope of this review are:

- An assessment of the degree to which portfolio management is applied in the Office, except for a walkthrough of existing and planned structures, activities, processes and tools associated with PM oversight, priority setting, monitoring and reporting.
- A review of individual project's management, except for a walkthrough of the selected projects to gain an understanding of the information / input *from* the project, and information provided *to* the project in oversight and managing of OSFI's overall projects.

Audit approach

The audit was conducted according to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, consistent with the Treasury Board Policy on Internal Audit. The audit was conducted to provide high assurance as to the conduction of the audit, an assessment of the findings and observations, and the recommendations and overall conclusion on the audit.

The Portfolio Management framework work included:

- A review and walkthrough of existing, underway and planned portfolio management structures, activities, processes and tools associated with oversight, priority setting, monitoring, initiating, closing projects and reporting.
- A review and walkthrough of selected system development projects to gain an understanding of information *from* the project to PM, and information provided *to* the project from PM.
- Interviews with those involved in portfolio and project management. Interviews will be held with but not limited to:
 - Assistant Superintendent, Corporate Services
 - Director of Project Management Group and Infrastructure Technology Services of IM/IT
 - Members of the Priority Projects and IM/IT Change Management Committee
 - Sector / Division project sponsors
- An identification and application of comparable practices and methodologies such as COBIT, ITIL, Project Management Institute - Project Management Book of Knowledge, and the TBS Enhanced Management Framework to OSFI's business and information technology environment.

Portfolio Management criteria

The Portfolio Management audit criteria elements and related components, as set out in *Appendix A-Portfolio Management Criteria*, were used as the basis for assessing the Portfolio Management Framework structures, activities and processes.

These criteria were developed from varied sources of project management guidance and best practices in consultation with the Director of Project Management Group and Director of Infrastructure Technology Services of Information Management / Information Technology division. The scope and complexity of applications / systems in OSFI as well related inherent risks were considered in developing the audit criteria.

The audit criteria and related risks were accepted by the Assistant Superintendent, Corporate Services, as the basis for assessing and reporting on the portfolio management framework.

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Observations and Recommendations**Overview**

Our audit of OSFI portfolio management covered the 2008/09 period as at December 2008 as well improvements underway in 4th Quarter and planned for the 2009/10 period.

As a collaborative audit, our work involved discussions with the Managing-Director of the Project Management Group, the Director of Infrastructure Technology Services, and key of Information Management and Information Technology (IM/IT) managers as well members of the Priority Projects and IM/IT Change Management Committee (PPICMC).

We observed the introduction of an informal assessment / prioritization methodology for managing Sector/Division system development, and steps in establishing a CIO position, demonstrating a commitment in establishing a portfolio management function.

Many elements and components of a comprehensive portfolio management framework need to be put in place although we recognize steps being taken by management in this regard. This will require a focused co-ordinated effort across the Office due to the integration and interdependencies of Sector/Division applications. We identified significant concerns in managing of projects on a consolidated portfolio basis. Our comments and recommendations focus on:

- Establishing portfolio management to provide oversight and decision-making over investments in system development, changes to existing applications and related IT services.
- Aligning existing applications, system development and IT services with 'plans and priorities'

Integration of project and portfolio processes and information flows related to project initiation, project planning and reporting, project closing, and risk management.

Audit Criteria**Observations and Assessment****Governance and Accountability**

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ <i>Governance and oversight accountabilities structures exist</i> ▪ <i>Structures are aligned with 'plans and priorities'</i> ▪ <i>Responsibilities and accountabilities are defined,</i> | <p>Portfolio management and respective roles and accountabilities is currently being reviewed by the Office as part of an IT strategy review and establishing a Chief Information Officer position.</p> <p>The Executive reviews and approves priority projects and the IM/IT budget that includes a system development 'spending envelope'. The PPICMC provides oversight of the 'spending envelope' by reviewing each project's spend and releasing funds at development stages / gates. Initially, the PPICMC mandate was to include oversight (review and recommend) on new system development;</p> |
|---|---|

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communicated and understood

however, this role has not been established.

Recommendations

Establish a portfolio management function that incorporates oversight and accountabilities over OSFI IT investments

At this time, there is not a summary report outlining existing applications, proposed systems, and systems under-development with related investment requirements and known associated risks so that investments can be managed on a consolidated portfolio basis.

The Project Management Group (PMG) has put in place a detailed project system development & change methodology and guidance covering areas such as governance and accountability, progress & performance status reporting, and standardized project development processes from the IM/IT perspective. In addition, the PMG supports the business Sections/Divisions in the identification and assessment of information and system needs, including both new applications as well as enhancements to existing applications.

In addition, within IM/IT, there are various committees and groups, such as a Change Approval Board, a Data Management Committee, and an informal Architecture Council, that provide support in the system development effort. However, their roles and accountabilities and their inter-relationships are informal. Steps are being taken to formalize them.

The Auditor General of Canada 2008 report on Managing Information Technology Investments emphasises the importance that “Large organizations must have management practices in place that ensure they focus on current and planned IT investments and that best contribute to meeting their business objectives, with an acceptable degree of risk and at reasonable cost. These management practices, referred to as portfolio management, are widely accepted as best practices for the governance of IT investments.”

Due to the complexity and size of system development, it is important to establish *portfolio management* to provide oversight and decision-making over OSFI’s investments with respective structures, activities and processes, and related responsibilities and accountabilities. *Appendix B – Portfolio Management Structure* and *Appendix E – Typical Portfolio Management Roles and Responsibilities* illustrates the stakeholders and IT respective accountabilities within in a governance structure of portfolio management.

A ‘portfolio management committee’ would include representation from the business units (Sectors/Divisions) and support service (Finance, Human Resources, and IM/IT) areas.

Objective Setting

- *Policy and guidance for portfolio management is established reviewed and changes as appropriate*

As set out in *Governance and Accountability*, OSFI does not have *portfolio management* at this time. With the establishment of a Chief Information Officer position, the Office expects to establish portfolio management as an integral element of the delivery of the revised IT strategy.

Currently, the Executive Committee reviews and approves priority projects and an overall system development ‘spending envelope’. As part of annual

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- Objectives are aligned with corporate “plans and policies”

Recommendations

Establish a portfolio management function that provides for an analysis of the alignment of IT investments with ‘plans and priorities’

planning, the Executive Committee reviews existing and proposed priority projects, including their IT commitment, as to their relevance and their alignment with ‘plans and priorities.’ Major changes in the scope or funding of a project are brought to the Project Steering Committee or PPICMC as appropriate at a monthly or special purpose meeting.

There is not consolidated reporting on the plans, status and funding of proposed projects (system development, and changes to existing applications and respective IT support) as an investment portfolio, nor is there consolidated reporting on existing applications.

The Auditor General of Canada 2008 report on Managing Information Technology Investments states, “Having a complete list of all IT applications and knowing the associated risks is essential to managing IT investments as a portfolio.”

The recent benchmark study commissioned by the Executive in early 2008 states, “The value of the current application portfolio is not clear. The Office has made large investment in applications. It is not clear whether the Office: Has realized the expected benefits? Can afford the on-going maintenance and support?”

The Office needs to establish *portfolio management* on an urgent basis to ensure its investment in Sector/Division’s system development (applications) and related IT support and IT operations are aligned with ‘plans and priorities.’

Operating Environment

- External and internal environments are monitored, gathered and considered

Recommendation

Establish a portfolio management function that incorporates reporting of OSFI IT needs on a consolidated basis

OSFI’s 2009-10 planning exercise included an extensive consultation of IM/IT with the Sectors/Divisions in identifying system development, changes in existing applications, and IT service needs. The consultation included each Sector/Division identifying potential system development work and providing a top ten-project list. These lists were used in preparing an informal Office list of top projects. For those projects, basic information was gathered for planning purposes. Although the exercise was informal and a formal priority list was not established, this exercise was an important step in managing current and potential future projects as a portfolio of projects.

In addition, IM/IT is developing a strategic IT plan incorporating Sector/Division business application and IT service requirements so that long-term investment decisions can be made, enabling IM/IT to assess overall IT needs, and plan for and leverage new technology in meeting business needs. IM/IT strategic planning will provide two key outputs:

- A Strategic Plan, which will include the current and target state of all IM/IT products and services (applications, infrastructure, service delivery, organization, etc), and
- An Implementation Roadmap, which will lay out the steps needed for closing any gaps identified by the strategy (e.g. application portfolio rationalization) between the current and proposed state of IT system development, IT

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operations and support services.

As noted in a recent benchmark study of IT services, “IT appears to be ‘free’ (from a user’s perspective) and demand is largely unchecked. The relatively unchecked demand has compounded the issues related to funding ongoing support requirements as the lines of business have little insight into the affects of their decisions.” Management recognizes the need for a business-driven IT strategic plan and has acted to address this gap through calling for a comprehensive IT strategic plan and establishing a CIO position.

As previously indicated, having a complete list of all existing applications and system development, and knowing the associated resources and risks are essential to managing OSFI’s investments as a portfolio. We expected to find a complete projects list with an analysis of their sustainability and any specific risks.

We observed that, although project management provides for consultation with the Sectors/Divisions in identification and development of applications and the PPICMC reviews project funding, there is not a formal ‘committee of key stakeholders’ (portfolio management committee). Such a committee would have the purpose of reviewing business cases, prioritizing projects on a consolidated basis, balancing investments, funding, and ‘plans and priorities’ and reporting to the Executive Committee.

In establishing *portfolio management* there should be structures, activities and processes such that there is a gathering of information on OSFI IT needs (application and IT service needs) reflecting the views of key stakeholders as a whole and supporting decision-making on a consolidated basis.

Risk Management

- *Internal and external risks are identified and incorporated into portfolio management oversight*
- *OSFI risk and risk tolerance guidance is incorporated into portfolio risk management*

Recommendation
Establish a portfolio management function that incorporates the management of

Portfolio risk management, project risk on a consolidated basis, is not in place as to:

- Achievement of stated project benefits and savings, in the whole
- The sustainability of current and planned applications and supporting IT services
- Adequacy of funding to sustain system development commitments and IT services
- Achieving project objectives within planned timelines
- Continuing relevancy of existing and planned applications and IT services

The project management methodology and guidance incorporates risk management including the identification and reporting of risk on a project-by-project basis. Such risk information would be a good source of core risk information for assessing and reporting on risk on a consolidated basis. Another source is the risk information used by Enterprise Risk Management at both the corporate and Sector/Division levels.

Portfolio management should include a process for gathering risk information

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IT investment risk from varied sources and assessing projects on a portfolio basis.

Process: Portfolio Management

- *Portfolio management are aligned with 'plans and priorities'*
 - *Processes exist and communicated on portfolio management*
 - *Process exists and communicated to assess projects with performance indicators*
- As part of 2009-10 planning, IM/IT introduced an informal assessment /prioritization methodology, called *MORE*. The objective of *MORE* is to manage business Sector/Division calls for systems development, manage IT capacities for developing systems, and provide ongoing IT services based on projected infrastructure and support requirements. The *MORE* group's system development is divided into four categories: *Mandatory or legislated change required, OSFI Priority (Operational Risk, Reduction of Risk, and Efficiency)*. In addition, each Sector/Division was asked to come up with a list of top ten projects based on *MORE*. This information was used by the Executive Committee in establishing project priorities, a system development-spending envelope, and an overall IM/IT budget.

Recommendations

Establish a portfolio management function that incorporates project management planning and reporting into portfolio management

We support this initiative as it implements the first critical building block of OSFI *portfolio management*: defining common dimensions of value and establishing weightings to identify and prioritize system development (projects). *Appendix C - Portfolio Management Phases & Steps* depicts the processes involved in portfolio management while *Appendix B -Portfolio Management Structure* shows the interaction between portfolio management, Executive, project management, individual projects, and IT operations.

Establish portfolio management working processes and information flows

There is currently work being conducted to establish a portfolio management discipline as an internal enabler of the IT strategic plan currently under development. A revised governance structure and formal assessment criteria to determine the relative value of proposed system development and existing applications are part of this discipline. Such an assessment is an important part of having the necessary processes and information needed for managing projects as a portfolio of projects.

These initiatives along with establishing a CIO position are consistent with a comment in the Auditor General of Canada 2008 report on Managing Information Technology Investments: "Organizations that use portfolio management practices go beyond making decisions on a project-by-project basis and consider the appropriateness of their portfolio of IT investments as a whole."

However, work is needed in establishing formal *portfolio management*. An internal study noted, confirmed by interviews with members of PPICMC and those involved in system development, OSFI "does not seem to take into account the impact of the approved project on the ongoing maintenance and support costs." "The value of the current application portfolio is not clear". "It is not clear whether the Office has realized the expected benefits".

Portfolio reporting needs to be established as a key oversight component of portfolio management. Current project management reporting such as a project dashboard along with *MORE* could be leveraged in establishing consolidated

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portfolio reporting. *Appendix D - Consolidated Reporting by Project* shows a typical portfolio dashboard, which would be supported with detail information on individual projects.

As reported previously, the Office needs to establish an OSFI *portfolio management function* on an urgent basis that incorporates structures, activities, processes and interactions in managing projects as depicted in Appendices: *B-Portfolio Management Structure, C-Portfolio Management Phases & Steps and E-Typical Portfolio Management Roles and Responsibilities*.

Process: Project Initiating

- *Processes exist and communicated on:*
 - *assessment & authorization of new projects and project phases*
 - *project management in areas: charter, scope statement, management plan*
 - *project indicators, monitoring & reporting*

Recommendation
Establish portfolio management working processes and information flows including initiation of projects

The IM/IT Project Management Group has established a *Project Management Framework*, and a draft *Project Management Guide* that outlines stages of system development, artefacts required, responsibilities, and approval levels required. The process for assessment and authorization of new projects is described within the guide. The *MORE* methodology for selection and prioritization of projects is to be incorporated into this guidance.

This guidance and *MORE* at the project level could be used for monitoring progress on assessing, selecting, and approving proposed projects (system development, changes to existing applications and IT services) at a portfolio level. This is an important next step in OSFI getting a firm hand on managing the demand for system development and managing the capacity of system development and IT operations.

However, those interviewed indicated that ‘feasibility or business cases’ are not in all cases prepared, and in other cases the information needed for assessing requests for system development lacks the needed details. In addition, Sector/Division staff involved in system development indicated they were not always aware of the process to be followed for project approval.

Some of those interviewed indicated that often requests for ‘approved’ application changes are not being addressed or significantly delayed. In addition, there is not a central review, assessment, selection, and recommendation of new system development and changes to existing applications as a *portfolio of projects*. The role of PPICMC is limited to informal oversight of project spending on priority and large projects.

A recent study noted that “the relatively unchecked demand (for system development) has compounded issues related to funding ongoing support requirements as the lines of business have little insight into the affects of their decisions.” This gap in managing system development has been recognized by management with initiatives undertaken to manage projects at a portfolio level: an IM/IT strategic plan is being developed, a CIO position is being established and *MORE* is to be incorporated into project management guidance.

We support these initiatives undertaken by management and the Project Management Group. They need to be incorporated into portfolio management

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processes and information flows for reporting on proposed projects (system development, changes to existing applications and IT services) at a consolidated portfolio level. This is essential in establishing *portfolio management*.

Process: Project Planning & Reporting

- *Processes exist and communicated on project planning and reporting*
- *Reporting requirements are understood, established and aligned with governance and oversight*

Recommendation
Establish a portfolio management function that incorporates project management planning and reporting in its processes

The *Project Management Guide* includes specific guidance for planning and reporting on a project. The guide also includes *Status Reporting, Deliverable Dashboard, Project Issue Log, Project Change Request* templates and a *Lessons Learned Checklist*. As well, the guide sets out the detailed documentation management requirements and instruction on the retention of documentation.

There are three levels of reporting on projects: Project Level, Working Committee & PPICMC (Change Control Board). Interviews with those directly involved in system development indicated they did understand project planning and reporting principles. However, some members of PPICMC (3rd level) indicated they did not know the specific steps and information requirements.

A project dashboard with performance and status information has been introduced. This is an important step. As a new initiative, there is a need for improved consistency in the performance and metrics reported. Moreover, not all projects provide a dashboard report.

The *Project Status Report* 'health metrics' along with *MORE* could be used for OSFI portfolio reporting purposes. Other performance indicators are necessary for reporting on projects at a portfolio level such as:

- overall success rate of IT projects and the IT investment objectives,
- level of risk in the IT portfolio,
- achievement of the project objectives / benefits,
- compliance with policies and standards, and
- end-user satisfaction levels.

Appendix D - Consolidated Reporting by Project shows a typical portfolio dashboard report, which would be supported with additional detail information on individual projects.

Progress made in and planned improvements in project reporting could provide the foundation for OSFI portfolio reporting.

Process: Closing Projects

- *Processes exist and communicated on project closeout and lessons learned*

The *Project Management Guide* includes specific guidance on project termination. The guide sets out the circumstances for closing a project, information and documentation requirements, the signoff and approval requirements, and a *Lessons Learned Checklist*. However, there is not a formal process for sharing lessons learned from one project to another. This could lead to repetition of similar issues and risks in future projects.

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Recommendation
Establish portfolio management working processes and information flows for closing projects

One of the top reasons why system development (application) generally fails is that key stakeholders do not participate in major reviews. There is transition planning and handoff between ‘project state’ and ‘operational state’, however, it is informal, and not all stakeholders are involved. All stakeholders such as the application sponsor, Finance, Human Resources and IT operations should be involved in a formal review and signoff on respective requirements or needs throughout the lifecycle of the project, not only at transition.

The lack of a formal closing process with formal transition planning and sign-offs could lead to an underestimation of effort required to achieve ‘operational state’, and lack of tracking and reporting on realization of planned benefits.

A project closing process involving detailed plans, stakeholders’ sign-off and closing reporting is necessary to ensure that progress can be monitored, tracked, and assessed at both the project and OSFI portfolio level. The integration and interdependencies of existing and new applications are such that closing reporting is essential at the OSFI portfolio level.

Project closing, lessons learned and realization of benefits processes and reporting needs to be incorporated into portfolio management.

Process: Information & Communications

- *Portfolio management information is defined, gathered, assessed and incorporated into reporting*
- *Regular portfolio management communications are in place*

Recommendation
Establish portfolio management working processes and information flows including communications and reporting

The information and reporting on projects at an OSFI portfolio level is quite limited. A recent study noted, “the value of the current application portfolio is not clear.” As set out in *Objective Setting*, the Office cannot readily answer two key questions: Has (the Office) realized the expected benefits? Can (the Office) afford the on-going maintenance and support?

The Auditor General of Canada 2008 report on Managing Information Technology Investments reported that an agency provided “limited performance information at the portfolio level. For example, it is not providing performance information on the:

- Achievement of initiatives outlined in the IT investment strategy
- Compliance with policies and standards
- End-user satisfaction levels
- Overall success rate of IT projects
- Level of risk in the IT portfolio”

As set out in *Closing Projects, Project Planning and Reporting* and *Project Initiating*, there is a need to establish processes and information flows for reporting on projects on an OSFI consolidated basis. Initiatives introduced such as *MORE* and a dashboard for project reporting on a summary level are essential in putting in place the processes and information flows necessary for portfolio management.

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Monitoring, Controlling & Reporting

- *Processes in place to control, track and monitor projects in the portfolio*
- *Portfolio reporting in place with performance indicators, aligned with respective governance and oversight accountabilities*

Recommendation
Establish a portfolio management function incorporating project monitoring and reporting on a consolidated basis

Monitoring, controlling and reporting of projects on a consolidated basis, a ‘portfolio of projects’, is limited. Previously, we reported that there is a need to establish processes and information flows for fully monitoring, controlling and reporting at project and OSFI portfolio levels. We recognized the initiatives undertaken under *Project Management*. For example, the introduction of *MORE* with weighted criteria reporting at the project level is a major step in putting in place the foundation for ongoing monitoring, controlling and reporting on projects as a ‘portfolio of projects’.

The ‘change management committee’ (PPICMC) reviews spending allocations and expenditures on a monthly basis. It is focused on individual project ‘spending’ but does not monitor or review the overall OSFI investments (portfolio) such that non-performing projects are not identified, proposed system development is not evaluated and prioritized, and projects (applications) are released into production without a formal review and sign-off.

Issues of prioritization, managing of system development demands, value of investments (and applications), risk and cost need to be incorporated into OSFI portfolio monitoring, controlling, and reporting.

Although this audit focuses on portfolio management, developing project and portfolio management in concert is essential as the information, processes, performance indicators and reporting requirements are essentially the same, individual projects form a ‘portfolio of projects.’

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Conclusion

Overview

The audit of OSFI portfolio management was for the 2008/09 period as at December 2008 as well improvements underway 4th Quarter and planned for the 2009/10 period.

The audit was conducted on a collaborative basis involving information gathering and interviews with Information Management and Information Technology directors and managers as well members of the Priority Projects and IM/IT Change Management Committee. We observed a commitment to establishing portfolio management and its integration with project management across the Office.

Conclusion

Our audit conclusion based on our assessment of the portfolio management criteria is that:

Many elements and components of a comprehensive portfolio management need to be put in place. The Office has undertaken key initiatives and steps in establishing portfolio management. As outlined in this report, there are significant areas that need the immediate attention of management so that Information Technology investments can be effectively managed.

A focused effort is required in:

- Establishing portfolio management for managing OSFI Information Technology investments on a consolidated basis
- Alignment of existing applications, system development and Information Technology services with OSFI plans and priorities
- Integration of project and portfolio processes and information flows to provide seamless management of OSFI Information Technology investments

Our audit team wishes to recognize the support we received throughout this audit and the views shared in establishing portfolio management in the Office.

Senior Director,
Audit & Consulting Services

Date

Portfolio Management

Management Response

Overall, management is of the view that this report presents a fair and balanced assessment of OSFI's current portfolio management capacity. This report recognizes that through the implementation of portfolio management practices, going forward, OSFI will be able to view IM/IT project approval decisions in light of how each one affects the overall balance of OSFI IM/IT investments.

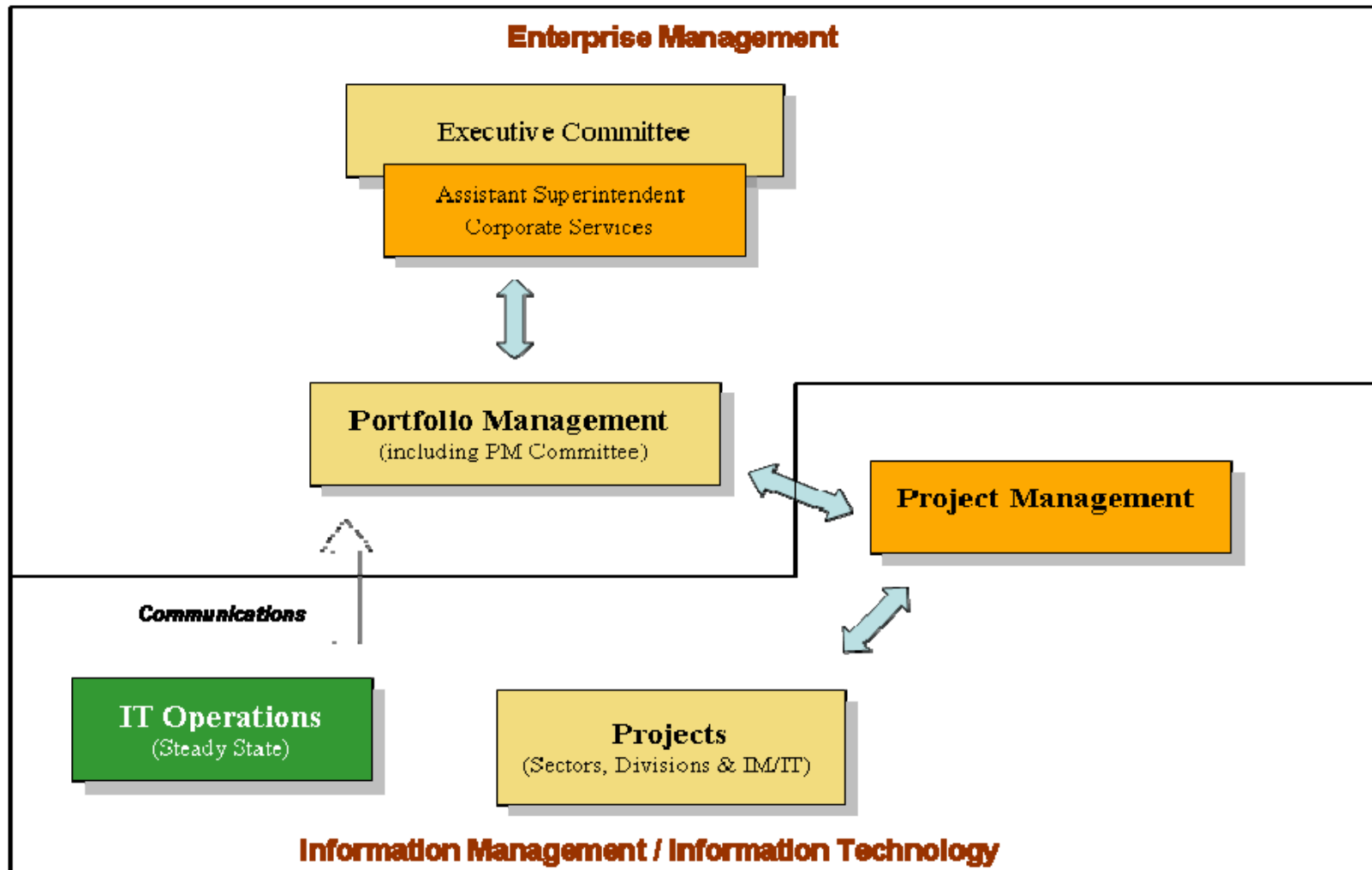
A foundation for portfolio management currently exists at OSFI, in part due to the organization's mature project management discipline and the decision in FY 08/09 to allocate IM/IT resources to sustaining current operations and delivering new projects, in accordance with industry best practice levels. OSFI business units are supporting the use of new project and portfolio scoring tools that were approved by the Executive. Further, implementation of a business unit and IM/IT governance model is being phased in through FY 09/10 with the launch of OSFI's new business planning calendar. Management plans the establishment of a portfolio management reporting framework in Q3 09/10 with capability in Q4 FY 09/10, once stakeholder information requirements are fully identified, in order to provide OSFI stakeholders with consolidated views of OSFI IM/IT investments and associated risks.

Portfolio Management

Appendix A - Portfolio Management Criteria



Audit Criteria	
Element	Components
Governance and Accountability	<ul style="list-style-type: none"> ▪ Governance and oversight accountabilities structures exist for portfolio management ▪ Structures are aligned with 'plans and priorities' and respective policies and practices ▪ Responsibilities and accountabilities are defined, communicated and understood
Objective setting	<ul style="list-style-type: none"> ▪ Policy and guidance for portfolio management is established (defined, documented & communicated), reviewed and changed as appropriate ▪ Objectives are aligned with corporate 'plans and priorities'
Operating environment	<ul style="list-style-type: none"> ▪ External and internal environments (issues, information technology, standards / guidelines) are monitored, gathered and considered in portfolio management
Risk management	<ul style="list-style-type: none"> ▪ Internal and external risks related to project management are identified and incorporated into portfolio management oversight ▪ OSFI risk and risk tolerance guidance is incorporated into portfolio risk management
Process: Portfolio Management	<ul style="list-style-type: none"> ▪ Portfolio management and related projects are aligned with 'plans and priorities' ▪ Processes exist and communicated on portfolio management in areas: identification, categorization, evaluation, selection, prioritization, portfolio balancing and authorization ▪ Process exists and communicated to assess projects with performance indicators
Process: Project Initiating	<ul style="list-style-type: none"> ▪ Processes exist and communicated on: <ul style="list-style-type: none"> ▪ assessment & authorization of new projects and project phases ▪ project management in areas: charter, scope statement, management plan ▪ project indicators, monitoring & reporting
Process: Project Planning & Reporting	<ul style="list-style-type: none"> ▪ Processes exist and communicated on project planning and reporting in areas: scope, risk, time, cost, & progress and completion management ▪ Reporting requirements are understood, established and aligned with governance and oversight accountabilities
Process: Closing Project	<ul style="list-style-type: none"> ▪ Processes exist and communicated on project closeout and lessons learned
Portfolio Information & Communications	<ul style="list-style-type: none"> ▪ Portfolio management information is defined, gathered, assessed and incorporated into reporting ▪ Regular portfolio management communications are in place
Portfolio Monitoring, Controlling, and Reporting	<ul style="list-style-type: none"> ▪ Processes in place to control, track and monitor projects in the portfolio, including resource utilization and decision making ▪ Portfolio reporting in place with performance indicators, aligned with respective governance and oversight accountabilities

Appendix B - Portfolio Management Structure






Portfolio Management




Appendix C - Portfolio Management Phases & Steps

Phase	Step
 Portfolio & Funding Planning	<p>Step 1 - Establish criteria with weights (MORE value process)</p> <p>Step 2 - Identify opportunities (initiatives / projects / activities)</p> <p>Step 3 - Develop business case / opportunity study</p>
 Priorities Investment Decision	<p>Step 4 - Score the opportunities based on MORE</p> <p>Step 5 – Consolidated opportunities</p> <p>Step 6 - Select the set of opportunities (projects) that maximize value</p>
 Portfolio Management Oversight	<p>Step 7 – Portfolio monitoring & reporting</p>

Appendix D - Consolidated Reporting by Project

Consolidated Reporting by Project							
Report Period:	Month 20xx			Project Count:			X
	Stakeholders are committed	Business Benefits are being realized	Work and Schedule are Predictable	Scope is realistic and managed	Team is high performing	Risks are being mitigated	Delivery Organization Benefits are being realized
Projects							
P1	G	G	Y	Y	G	G	G
P2	Y	G	Y	G	Y	Y	G
P3	G	G	Y	G	Y	Y	Y

Bulletin Board	
Item	Possible Containments/Actions
	
	
	

Legend: Priority Level		
Low 	Medium 	High 

Portfolio Management

Appendix E – Typical Portfolio Management Roles and Responsibilities

Role	Responsibility
Executive Committee	<ul style="list-style-type: none"> • Convey the organization’s strategic goals (plans and priorities) to the portfolio management committee • Review and evaluate achievement of the performance of portfolio management and projects to conclusion
Portfolio Management Committee	<ul style="list-style-type: none"> • Puts in place the framework, rules and procedures for portfolio management • Committee is comprised of business units representing interests across the organization with requisite knowledge and experience to discern alignment of strategy and organizational goals • Committee has the authority to evaluate portfolio and project performance, proposed projects (business cases) and make decisions / recommend as appropriate
Portfolio Management Manager	<ul style="list-style-type: none"> • Typically a member of senior management, responsible for portfolio management and reporting • Conveys progress and performance information to the Portfolio Management Committee
Business Unit - Project Sponsor / Lead Stakeholder	<ul style="list-style-type: none"> • Champions the business case and funding approval of projects, programs, and other work. • Owns the business case and is the leader of the business / provider / enabling stakeholders of the proposed project • Once approved, ensures the progress of the project and achievement of the strategic goals and expected benefits
Project Development Managers	<ul style="list-style-type: none"> • Work closely with Sponsor and Stakeholders to gain funding approval, creation of the business case and achieving of strategic goals associated
Project Managers	<ul style="list-style-type: none"> • Planning, execution, tracking and delivery of the project • Provide project performance indicators and reporting against them, directly or indirectly to Portfolio Management Committee • Recovery plans for projects in jeopardy • Responsible for managing the budget and the project timeline /schedule