UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES

UC Davis
Software Licensing
Audit & Management Advisory Services Project #17-14

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MANAGEMENT SUMMARY

<u>**Background**</u>

As part of the fiscal year 2017 (FY17) Audit Plan, Audit and Management Advisory Services (AMAS) reviewed utilization of software licenses by departments. Software purchases by UC Davis departments are estimated to be approximately $16 million annually. We were specifically concerned with whether purchases of software are being made through optimal processes, with the result that departments take advantage of negotiated pricing and agree to appropriate terms and conditions.

Software purchases for UC Davis can be negotiated and executed through several channels.

Negotiations for major applications with UC-wide use occur at the Office of the President (UCOP). The Chief Operating Officer for UC Davis' Information and Educational Technology (IET) represents UC Davis' interests in UCOP committees addressing system-wide software purchases. Costs associated with these applications are typically shared amongst the participating campuses.

Local software purchases can occur via submission of a purchase order (PO), through AggieBuy, or with a purchasing card (P-Card).

Purchase Orders

Assuming departments preparing POs for software purchases utilize the correct commodity code, a PO of any amount for the purchase of software will be routed to the Accounting and Financial Services' (A&FS) Division of Contracting Services (Purchasing). There currently is no consolidated listing of active software purchase agreements throughout the campus, so Contracting Services personnel must have an awareness of similar existing agreements that can be utilized for the purchase. Otherwise, Contracting Services will negotiate the terms and conditions of the software license based upon standards provided by UCOP, with risk mitigation through ensuring proper terms and conditions, being the primary focus.

A position of IT Strategic Sourcing Manager was created within A&FS relatively recently. This member of the staff is currently developing business relationships with software consumers across campus in order to begin coordinating negotiated software purchases. These negotiations will aim to secure terms for more advantageous pricing and usage. Information and Education Technology (IET) input may be sought for significant purchases.

AggieBuy

Purchases through AggieBuy are always made under existing agreements. Proper terms and conditions are ensured as software products are added to the AggieBuy catalog.

P-Cards

When P-Cards are utilized for software purchases, there is no assurance that purchases made through P-Cards receive negotiated rates or agree to appropriate terms and conditions. In this case, the terms of the transaction depend on the vendor used, and it is up to the department (or the individual making the purchase) to select the vendor. Departments using P-Cards typically do not seek assistance from Contracting Services regarding software purchases.

Purpose and Scope

The purpose of this review was to:

1. Examine institutional awareness of existing software licenses and their utilization by departments making software purchases;
2. Estimate the cost to the University when purchases did not take advantage of negotiated pricing because they were made outside of negotiated agreements;
3. Assess customer-service capabilities, including cataloging and point-of-sale, under the assumption that better marketing and service delivery for existing licenses will drive more efficient spending and risk management practices;
4. Determine if procedures are in place to ensure the CIO (or delegate) is appropriately involved in software purchasing decisions.

We performed the following procedures to conduct our review:

1. We sourced data from Accounting & Financial Services (A&FS) and from the data warehouse, and performed analysis to identify software purchases paid through PO, P-Card, and AggieBuy. Our initial plan was to match these data sets against an inventory of current software purchase agreements, and to observe whether actual purchase prices matched negotiated rates. We were unable to perform this procedure because an inventory of university-owned software purchase agreements does not currently exist. Additionally, purchases of software using the P-Card were not always identifiable;
2. We explored AggieBuy and discussed plans for its expansion in the area of software purchasing;
3. We interviewed personnel from Contracting Services, IET and A&FS to develop an understanding of current processes for controlling risks and ensuring efficiency in software purchasing.

Conclusion

The campus is actively working to improve the procedures and controls surrounding software licensing by enhancing AggieBuy to include more opportunities to procure software through the site in FY18. As the range of software products that are available on AggieBuy increases, there will be less incentive for departments to purchase software by other methods. AggieBuy will also enable departments to avoid sales tax on these purchases. It represents the Campus' best option to provide an efficient and effective mechanism for routine department software purchasing, while mitigating related risks.

We do however, note that a body of information that would seem essential to any strategic sourcing effort – an inventory of current software purchase agreements – is not accessible to relevant campus stakeholders. This report recommends that A&FS develop an inventory of existing software licenses, and make this available to stakeholders, including departmental IT managers, IET, and various groups involved in managing, purchasing, or strategizing software buys.

Finally, we conclude that IET, as the operational extension of the CIO, possesses technical expertise that is often underutilized in software purchasing and licensing processes. We acknowledge that IET is not a centrally-funded authority over all campus IT matters, but is nevertheless the unit best situated to serve in an important advisory role to A&FS in this matter.

This report recommends that stakeholders develop a protocol for A&FS to identify higher-risk software transactions and create an opportunity for IET to comment on them.

Observations, Recommendations, and Management Corrective Actions

A. Inventory of Software Purchase Agreements

Information on software purchase agreements held by UC Davis is not available to stakeholders.

Because an effort has not been made to compile and publicize an inventory of negotiated software purchase agreements, UC Davis relies on the institutional memory of a small number of employees in A&FS for knowledge of their existence. As a result, there is no assurance that software purchases are consistently made under approved terms and conditions, including negotiated pricing.

Accessibility of information on purchase agreements would benefit a range of campus stakeholders, and facilitate better strategic sourcing, information security, software cost efficiency, and compliance with terms and conditions.

The University of California is currently negotiating with the GEP Worldwide Company for a system-wide agreement for a contract repository service. This service is expected to be able to make information on software licensing agreements available to procurement and strategic sourcing personnel across campus.

> **Recommendation**
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> A&FS should develop local implementation practices to maximize the potential for the GEP contract repository to serve as an accessible knowledge base on software purchase agreements.
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> > **Management Corrective Actions**
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> > 1) Appropriate leadership within A&FS will evaluate the GEP contract repository tool, and develop a plan to highlight and publicize software agreements for campus-wide utilization. This will be completed by June 15, 2018.
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> > 2) Appropriate leadership within A&FS will consult with IET to define categories of software products and create corresponding tracking codes. A coding scheme will be developed by June 15, 2018.

B. Input from IET on Software Purchases

IET does not always have an opportunity to comment on software licensing or purchase agreements.

Many software purchasing or licensing transactions are reviewed only by personnel in A&FS. There can be significant risks related to these transactions, many of which A&FS may not have the technical expertise to assess and manage. IET is a UC Davis unit under the leadership of the Chief Information Officer. It also houses the office of the campus' Chief

Information Security Officer. IET possesses technical expertise that is necessary to supplement A&FS' monitoring of potentially risky software transactions.

Recommendation

A&FS should create a forum or process through which the CIO (or delegate) may be notified of, and given an opportunity to comment on, potentially risky software transactions.

Management Corrective Action

1) IET will collaborate with A&FS to define parameters for transactions to be reported to the CIO, and procedures for communication, feedback, and approval as deemed necessary. A protocol will be finalized by June 15, 2018.

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