White Paper

Enron's Lesson for
IT Quality Assurance Management

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Enron went down hard and fast. The debacle drastically affected lives of thousands of the company's employees and now has ripple effects throughout the economy and government.

It also carries an important lesson for managers of IT quality assurance (QA). The soul searching has started. Did Enron's auditing firm simply miss the warning signs in the numbers (which would reflect poorly on the quality of the audit) or did the auditing firm participate in something more sinister (which would reflect very poorly on the ethics of the auditing firm)? Did the other big auditing firm that conducted a recent "peer review" on Enron's auditing firm miss the same warning signs (which would reflect poorly on the quality of the peer review) or did that third party go lightly in hopes that future reviews of its work would receive reciprocal kindness (which would reflect poorly on the ethics of the entire auditing and peer review process)? Should the "acceptability" of traditional such practices continue in light of the increasing risks to shareholders, consumers, and taxpayers alike?

Numerous legislative and even criminal investigations will focus on these issues for many years to come. In the meantime, there are some immediate lessons and warning signs for IT quality managers.

The most immediate lessons relate to those "independent" QA reviews that IT managers and project teams endure.

The natural inclination is to greet them with groans, mistrust, and even outright resistance, as anyone who has spent time under that particular microscope can attest. However, the current practice of "independent" QA reviews in large projects carries in it the same seeds of operational or ethical weakness that marked the final days of Enron.

What is wrong with these pictures?

Picture Number 1

A very well-known IT consulting firm was the implementation "partner" with a major enterprise resource planning (ERP) provider in an implementation of the ERP solution in over 100 agencies in a state government. Indeed, the consulting firm noted in its glossies and on its web site that it has a strategic business alliance with the ERP solution provider.

In the course of the $50+ million project, the ERP solution provider carried out an initial internal QA review according to its standard project management methodology. The QA findings included the following findings:

1. The design phase is now complete
2. State resource shortages are impeding progress
3. There are problems with LAN support

4. Hardware procurement is on the critical path
5. The detailed project plan will be completed this week

These findings were not exactly riveting. However, after receiving the findings, the state's project manager provided a response containing the following conclusion: "To summarize, I am concerned that the tone of the document appears to cast blame primarily on the State for putting the project in jeopardy, and to minimize your responsibility for the situation." This sentence came after almost bitter rejection of the QA review's detailed findings. The solution provider saw fit not to carry out additional internal QA review findings, handing the job for the second internal QA review over to the implementation partner.

The implementation partner in this large project received approximately $60,000 in billable time to carry out that second internal QA review. The review contained mild findings and recommendations, largely relating to the project falling behind in staffing the project's training, transition management, and security components. One finding related to the lack of convenient parking for project staff. The State agency's director provided the following response in a letter to the implementation firm's senior project

manager: "Replaying such observations in a Quality Assurance report is _disruptive and misleading_." [Emphasis added.]

That concluded the quality assurance reviews on the project by the internal, "independent" reviewers. The state agency shelved both reviews, never presenting them outside the immediate senior project management group—until a subsequent legislatively mandated independent QA review turned up the documents. The project subsequently received public notoriety for late and error-plagued payrolls affecting thousands of employees, thousands of late vendor payments, and chart of accounts conversion failures to name a few of the more public catastrophes. The state removed the project manager. The software vendor and the implementation vendor have received many hundreds of thousands of dollars in contract extensions and additional contracts to "fix" the major problems that continue to plague the project. Lawsuits and charges of breach of contract followed.

Picture Number 2

A national consulting firm received a contract valued at well less than $100,000 to carry out a "post-

implementation" QA review of a public agency's ERP project. The chief analyst on the review team wrote a thorough draft, pinpointing several situations in which the implementation firm had failed to undertake substantial steps in training, transition management, and security configuration control. The draft concluded that the project would need millions of dollars more to correct these problems.

The consulting firm instructed the analyst to revise the draft findings and recommendations in what would be a public document. The analyst and review team complied with the instructions and released a QA review that found the project was implemented in a substantially successful manner. This review was in spite of very highly publicized failures of the implementation to meet its schedule, its budget, or its contractual requirements.

The consulting firm subsequently received contracts well in excess of $200,000 from the State to assist in correcting many of the significant errors and failures in the original implementation.

Picture Number 3

A major ERP solution provider received a contract from a state agency to

implement its software solution using its proprietary project management methodology. The methodology called for internal, but so-called "independent," detailed QA reviews at specific points in the project schedule. ("Independent" meant that the company supplied staff members, who were not actually working on the development team, to carry out the QA review. The methodology specifically called for several days spent by the review staff onsite in meetings, documentation reviews, and preparation of findings.

However, the agency's senior project manager and the vendor's senior project manager decided that the reviews would interfere with the aggressive schedule. They would require time from project managers, senior functional team members, and senior technical team members. Even though the contract called for the specific QA reviews, the vendor sent one staff member to the agency's site for one day to look over project documentation. The staff person produced the following internal, "independent," detailed review from the solution provider's staff member: "After reviewing the documents associated with the project, it is my opinion that the project is off to a great start. All the

documents meet or exceed the requirements of management."

However, the project never developed a single, comprehensive project management plan, a transition management plan, a contingency plan, a security management plan, or a communications management plan. Ultimately, senior management demanded in an independent, third-party QA review that found the project lacking internal QA review processes, lacking a transition management plan, missing a training plan, and needing procedures for communicating with stakeholders throughout the enterprise. Soon after release of the third-party QA review, the agency postponed the "cast-in-concrete" go-live date to address the review's recommendations.

Not-So-Independent Quality Assurance Reviews

What is wrong with these pictures is that they occur far too frequently in large IT projects, particularly ERP solutions implemented on accelerated project schedules.

Clearly, large IT projects that rely solely on the solution provider's "internal" QA reviewers or that use the solution provider's "business partners" to carry out QA reviews are likely to get less

independence, less quality, and less review than they pay for. The "double scratch" QA review methodology (you scratch my back, and so forth) actually fosters project failure. There is a relatively straightforward set of incentives for these quality assurance reviewers NOT to carry out a meaningful review. (1) "If you "gig," "ding," or "write us up" too much on this small dollar QA review, we will not consider you for the big dollar implementation work." (2) If you say too many harsh (but true) things about the work of a fellow big consulting firm, the firm likely will retaliate on another project at another time. It is mutually assured destruction.

How can IT managers avoid these problems? Here are some straightforward steps.

(1) Retain an outside quality assurance review firm that agrees to refrain from all other consulting in the implementation organization for at least the next three years. Several of the major accounting firms have agreed to avoid carrying out both consulting and auditing activities in the wake of the Enron fiasco. The gesture is a bit late. However, itshows that the firms at least know the right step to take. A similar step is needed in the case of carrying out QA on major ERP and SCM

implementations. QA reviewers should agree to refrain from providing other consulting services to the firm for a period of at least three years after conclusion of the last QA review. These reviewers should be the project manager's partner,not the vendor's partner. That independence means the reviews can focus exclusively on quality assurance steps without fear of losing other business because of their impartial assessments.

(2) Retain a QA firm that specifically does not have a "strategic alliance" or "business partnership" with the project's solution provider or implementation consultants. Again, a QA firm with a partnership with a solution provider will have more allegiance to it's long-term partner (and the long-term financial rewards) than to a one-time, small dollar QA review.

(3) Hire an internal QA review staff person with a specific reward and compensation structure based on experience in conducting QA reviews. Require that person to stick around to monitor and report on implementation of QA review findings.

(4) Insist on the use of IEEE quality assurance standards and guidelines. Even if the implementation vendor or

solution provider has a proprietary project management methodology that includes some types of QA processes. There are significant advantages to using industry-developed QA standards and guidelines. They are more comprehensive than vendors' proprietary methods. More trained professionals are familiar with IEEE standards than are trained in the vendor's QA guidelines and processes.

The Enron failure was so catastrophic not only because the foxes were in the hen house, but worse, the foxes built the hen house and paid other foxes handsomely to work in it. As the **New York Times** online edition reported soon after the Enron's former auditing firm was convicted in a case involving the massive scandal, a juror said that "They (Enron and Arthur Andersen) just got too close."

Perhaps the large ERP and SCM implementation failures that we hear about with great regularity suffer from the same set of conflicts of interest and inherently contradictory reward structures that reportedly existed at Enron and their auditing/consulting firm. Introducing true QA independence from the implementation vendor and the solution provider can ameliorate the conflict problems. Using real,

documented, industry standard quality assurance standards will go a long way toward opening up the QA process to qualified reviewers whose primary allegiance is to the project's success and professional integrity.

About the Authors

M. Glenn Newkirk is President of InfoSENTRY Services, Inc. Before founding InfoSENTRY, he spent many years as an IT Manager in the public sector. He has directed independent QA reviews on major ERP implementations, receiving all the normal threats and acts of retribution for his efforts. He obviously has a direct interest in the conclusions and recommendations in this article. You can contact him at glenn_newkirk@infosentry.com .

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