

IT Due Diligence

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Biography

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Mark is the leader of the Dallas Business Advisory Services Practice and has responsibility for IT Due Diligence, SAS 70, business consulting, internal audit and Sarbanes-Oxley engagements. He has over 20 years of management consulting experience and advises all sizes of public and private companies in the design, identification and testing of internal controls. He specializes in internal controls, IT strategy, IT solution selection, application design of controls, IT assessments, and program/project management. Mark has also completed due diligence reviews of information technology environments prior to a company being acquired, and evaluated costs associated with consolidating information technology organizations. Mark has experience in high technology, telecommunications, healthcare, professional services, energy and real estate industries.

Presentation Objectives

Objectives: Attendees will learn:

- General understanding of when IT due diligence may need to be performed
- Identification of key areas to include in a due diligence review of a company's IT environment
- Recognition of potential strengths and weaknesses associated with major IT areas under review in the due diligence process



Agenda

- When to perform an IT Due Diligence
- Why perform an IT Due Diligence
- Steps to perform a due diligence review
 - Prepare request for documentation
 - Visit the acquisition target
 - Interpret the results
 - Prepare findings and write report
 - Create the post acquisition plan

When to Perform an IT Due Diligence

Acquisition



Merger



Bankruptcy and turn around



New CIO intro to IT Department



Similar to an IT Assessment



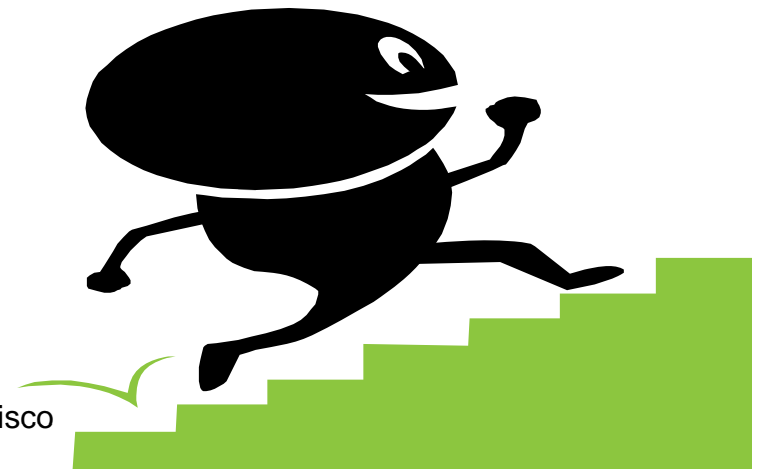
Why Perform an IT Due Diligence?

- Improves acquisition assumptions
 - IT unknowns
 - Assesses S/W licensing agreements and penalty clauses
- Evaluate adequacy of systems
- Identify key IT resources
- Identify opportunities to save money
- Identify opportunities for revenue generation
- Reduce risk to the company
- Achieve acquisition objectives
- Conduct a smooth transition
- Minimize service issues
- Improve the IT organization's focus

Steps to Perform an IT Due Diligence

Understand Acquisition Strategy

- Talk to executives to understand strategy, objectives and assumptions
- Key objectives of an IT due diligence include:
 - Understanding of key technology
 - Assessment of technology organization and staff
 - Understanding of vendor agreements
 - Financial cost trends and plans
 - Capital investments needed
 - Business continuity issues
 - Leverage opportunities

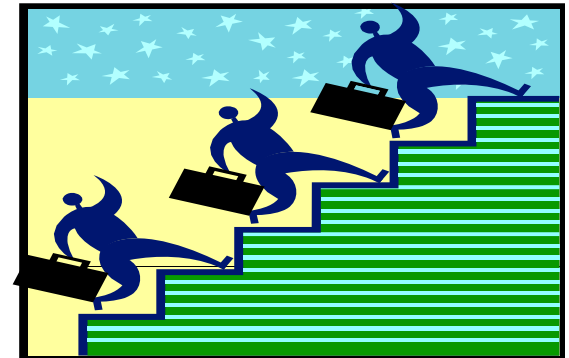


Reference: "The art of technology due diligence" by Michael Sisco

Steps to Perform an IT Due Diligence

Research the Company Being Acquired

- Research on Hoovers
- Read 10 K
- Research company on internet
- Research the CIO and IT management and their background
- Review Gartner reports and competition
- Understand percent of IT spend as compared to revenues and total assets.
- Regulatory requirements governing the merger



Prepare Request for Documentation

Plan of Attack

Before you go on-site, create an initial plan of attack. Break the due diligence into seven parts. Every interview and review should consider these issues:



- Current IT operation
- Risks and risk avoidance plans
- Financial plan (expected cost and budget to continue operation)
- Capital investment requirements
- Leverage opportunities and recommended plans
- Transition plan
- The due diligence report

Reference: "IT Due Diligence: The on-site discovery visit" by Michael Sisco

Prepare Request for Documentation

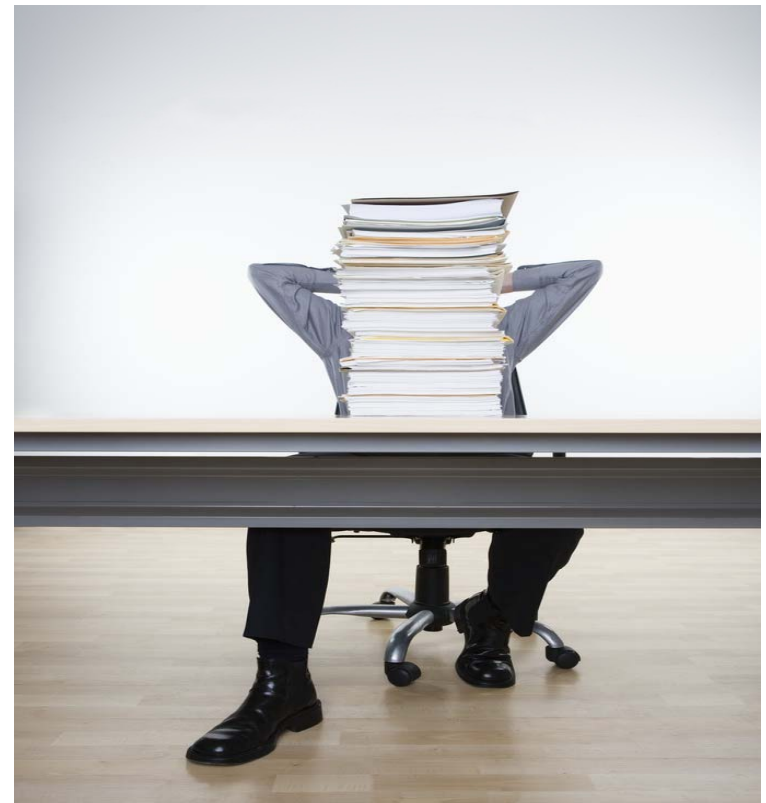
Areas to Include

IT infrastructure and associated contracts

- H/W maintenance
- S/W license and maintenance
- All other Vendor contracts

IT organization staff and culture

- Get IT Org chart
- Assess IT process maturity
- Identify key IT resources
- Culture



Prepare Request for Documentation

Areas to Include (cont.)

IT Asset Inventory

- Business application listing
- Network diagram
- Server listing
- Network user listing
- Computer/printer/and other IT assets listing



Prepare Request for Documentation

Areas to Include (cont.)



- IT internal control structure
 - Risk and control listing if available
 - External audit IT GCC reports
 - Internal audit IT GCC reports
 - IT risk assessment/vulnerability scans etc.
- IT budgets/spend
- Ongoing support costs
- New project listing
- Planned initiatives
- Planned capital expenditures listing (key investments)

Prepare Request for Documentation

- Request the information
- Read and study the information before you schedule on-site visit
- Establish communication before you show-up
 - Know the CIO's background
- Use the IT Organization chart and prepare interview schedule
- Prepare questions and additional information request
- Do homework and be prepared (a good first impression creates credibility)
- Evaluate if there is merit to outsource the IT function. Are there benefits? Decrease in operational costs?

Pre-Visit



Visit the Acquisition Target



- Strategize the reason for visit and coordinate
 - IT assessment for management
 - Be prepared to answer the question why you are there
- Review your IT field work plan with CIO
- Start at the Sr. manager level and work down
- Speak with key business operations leaders
- Re-cap findings with CIO before leaving

Interpret the Results

Costs

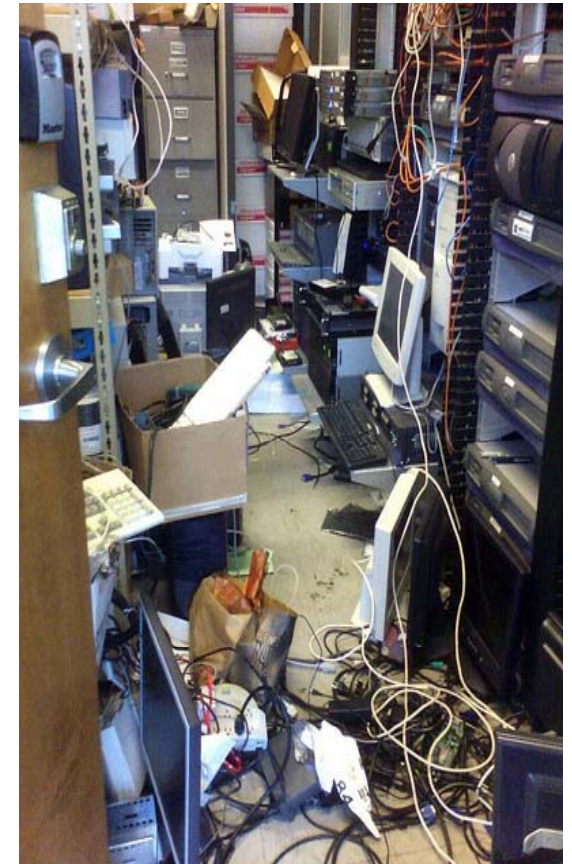
- Know the overall costs
- Know % of IT spend verse revenue and total assets
- What capital investments are needed going forward
- Will there be hidden costs not reflected in the overall agreement?
- How difficult will it be to integrate into your environment and how much will it cost?
- How will the outsource contracts be affected? (remaining life of contract, cancelation penalties, etc.)
- Operational performance metric information will become your baseline once the migration is underway



Interpret the Results

Non-Cost

- Culture
 - Well run organization ?
 - Disconnect with Sr. management?
- Technology stability
- Growth capacity and space requirements
- Support methods
- Client satisfaction and needed technology
- Will the organization compliment the acquiring organization? (structured vs. seat of pants)
- Will there be synergies
- Build a quantitative and qualitative picture
- Centralized or decentralized IT services
- Flight risk by key IT resources? Who?
- Business applications age and current support
- Complexity of interfaces
- Custom code verse off the shelf applications



Prepare Findings and Write Report

Findings



- Communicate strengths and weaknesses to Sr. Executives
- Identify risk areas
- Executive summary, details and recommendations
- Clear and succinct points
- Quantify risks and opportunities as it relates to the overall financial picture

Prepare Findings and Write Report

Example Report Outline

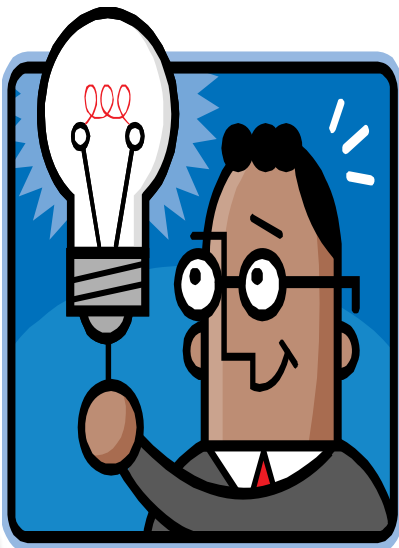
- Objective(s)
- Executive Summary
- Key Findings
 - Business Applications
 - Infrastructure
 - IT Organization
 - Technology Expense Run Rates
 - Capital Needs
 - Automated Processes
 - Key Projects
 - Risks
 - Leverage Opportunities
- Recommendations
- Financial Analysis
 - IT Operating Budget—Next 12 months
 - IT Capital Budget—Next 12 months
- Transition Plan



Reference: "Write and effective IT Due Diligence Report" by Michael Sisco

Create Post Acquisition Plan

Plan Objectives



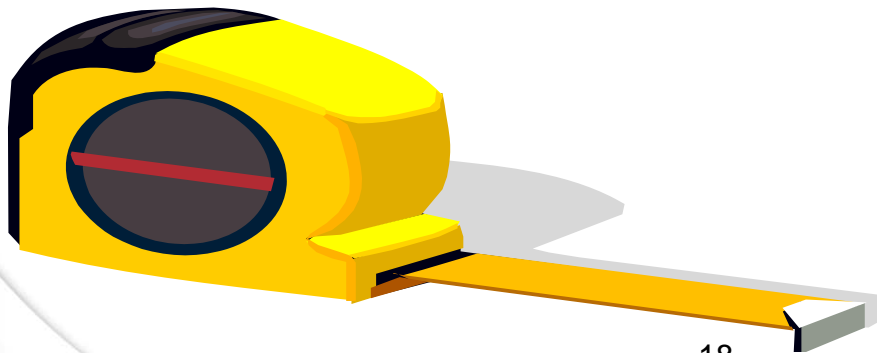
- Plan the post acquisition strategy
- Protect the company's assets
- Control changes to the organization in a cost effective manner
- Treat employees with respect and integrity
- Leverage opportunities typically include:
 - IT organization expense
 - Monthly technology operating expense
 - Technology leverage initiatives
 - Company department initiatives that require IT support

Reference: ("Measuring the results of an acquisition" by Michael Sisco)

Create Post Acquisition Plan

Measure Progress

- Measure productivity improvements/progress against the goals/objectives of the original acquisition strategy. Typical items to measure include:
 - IT organization expense
 - Telecommunications expense
 - IT organization office rent / space allocation (overhead)
 - Hardware and software maintenance, and software licenses
 - Data center (computer operations) expenses
 - Network and infrastructure expenses
 - Company or external department initiatives that depend on IT support to accomplish





Questions?

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