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| Revision  **0.0** | Prepared By  **Preparer’s Name / Title** | Date Prepared  **mm/dd/yyyy** |
| Effective Date  **mm/dd/yyyy** | Reviewed By  **Reviewer’s Name / Title** | Date Reviewed  **mm/dd/yyyy** |
|  | Approved By  **Final Approver’s Name / Title** | Date Approved  **mm/dd/yyyy** |

**Policy:** To provide Information Technology services that satisfy Company requirements while controlling costs, maintaining flexibility, and providing special expertise as needed.

**Purpose:** To provide guidance with respect to managing outsourcing of Information Technology functions. To ensure that outsourcing affords the best overall solution to an Information Technology problem, satisfying customer requirements while controlling costs and conforming to the Company’s strategic goals and objectives.

**Scope:** This procedure may apply to any Information Technology function or process.

**Responsibilities:**

Information Technology Managers are responsible for managing the outsourcing proposal process, administering outsourcing contracts, overseeing outsourced projects and reporting to Top Management on their status, maintaining relationships with outsourcers, and evaluating outsourced services.

Financial Management is responsible for conducting the parts of the Due Diligence Investigation pertaining to financial matters.

Top Management is responsible for final approval of outsourcing contracts. Top Management should consist of the Company’s chief executive officer and chief financial officer, at a minimum.

**Definitions:** Outsourcer – An outsourcing vendor; a business entity providing necessary services to the Company, allowing the Company to lower operating costs and gain flexibility while gaining special expertise on an as-needed basis.

Outsourcing – Seeking services (resources) outside the Company, typically to reduce costs, gain flexibility, and benefit from an outsourcer’s expertise with respect to a given function or process.

Service Level Agreement (SLA) – A binding contract, formally specifying or quantifying a customer’s expectations with regard to solutions and tolerances; a collection of service level requirements, negotiated and mutually agreed upon by the service provider and the consumer.

**Procedure:**

### identifying A CANDIDATE FUNCTION FOR OUTSOURCING

* 1. The Company may elect to outsource Information Technology functions in response to (or in anticipation of) changing business conditions or requirements, including – but not limited to – the following:
  + Need to control costs;
  + Improving service to the Company’s customer base;
  + Temporarily requiring access to skilled experts that do not currently exist within the Company;
  + Concentrating Company resources on core services; and/or
  + The function’s relationship (relevance) to the Company’s Strategic Plan.
  1. In the case of a first-time outsourcer, the outsourced function should present a minimal risk of failure to the Company if it does not meet requirements or the outsourcer fails to live up to any of the Service Level Agreements in the contract.
  2. Information Technology Managers shall periodically meet with Top Management (at least annually) to review the Company’s Information Technology Outsourcing agreements and ensure that they support ITAD101-1 – INFORMATION TECHNOLOGY PLAN.

1.4 Responsibility for maintaining effective internal controls over financial reporting in conjunction with outsourced activities rests with the Company’s chief financial officer, regardless of the Company’s level of control over those outsourced activities. (See Reference A).

### selecting aN IT OUTSOURCER

2.1 Information Technology Managers shall identify and select outsourcers in accordance with procedure ITAM103 – IT VENDOR SELECTION.

### OUTSOURCER BILLINGS

3.1 Consider negotiating a “money-back” guarantee with the right to audit any bill for up to six months. Request that all fees that are proven to be unnecessary or excessive be returned.

3.2 All outsourcing arrangements contracted by the Company shall require itemized billings to include the following information:

* Start and end times and dates of each service transaction;
* Detailed description of services provided or work performed; and
* Distinct itemization for each individual performing a service.
  1. Examine all internal discussions or conferences and note exactly who is working on the case and why. Ask for a justification for all individuals working on the project.
  2. Consider alternatives such as contingent fees, fixed fees, and monthly retainers. All fees are negotiable.

### ARBITRATION

4.1 Whenever practical, the Company should utilize arbitration to resolve disputes. Arbitration can significantly reduce the amount of time and legal fees to resolve a dispute. The major features of arbitration are:

* A written agreement to resolve disputes by the use of impartial arbitration. Such a provision can be inserted into a contract for the resolution of possible future disputes, or can be an agreement to submit to arbitration of an existing dispute.
* Under the rules of arbitration, the procedure is relatively simple and informal. Strict rules of evidence do not apply; there is no motion practice or formal discovery; no requirements for transcripts of the proceedings or for written opinions of the arbitrators. The rules are flexible and can be varied by mutual agreement of the parties.
* Impartial and knowledgeable neutrals serve as arbitrators. Arbitrators are selected for specific cases because of their knowledge of the subject matter. Based on that experience, arbitrators can render an award grounded on thoughtful and thorough analysis.
* Final and binding awards which are enforceable in a court. Court intervention and review is limited by applicable state or federal arbitration laws, and award enforcement is facilitated by these same laws.

4.2 The following standard clause should be inserted, whenever practical, into contracts, agreements, etc., to provide for the arbitration of possible future disputes:

“Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Commercial [or applicable] Rules of the American Arbitration Association and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.”

Arbitration of existing disputes may be accomplished by mutual agreement of parties, using the following (or a similar) clause:

“We, the undersigned parties, hereby agree to submit to arbitration under the Commercial [or applicable] Rules of the American Arbitration Association the following controversy.

[Describe Briefly]

We further agree that we will faithfully observe this agreement and the rules and that we will abide by and perform any award rendered by the arbitrator(s) and that a judgment of the court having jurisdiction may be entered upon the award.”

### OUTSOURCER RELATIONSHIP MANAGEMENT

* 1. The Company-outsourcer relationship shall be managed so as to meet the Company’s needs and requirements, conform to Company budget requirements, and promote the Company’s goals and objectives. This shall be done by Information Technology Managers or an appointed representative, whose responsibilities shall include:
* Developing and maintaining mutual understanding and trust;
* Communicating openly, clearly, and frequently;
* Monitoring and measuring project progress clearly and consistently; and
* Addressing issues promptly.
  1. Information Technology Managers or its representative shall maintain an ITAD109-2 – IT OUTSOURCER RECORD on every Information Technology outsourcer and every outsourcer record shall be kept in an Information Technology Outsourcer file.
  + Outsourcers shall be evaluated on an ongoing basis, at regular intervals, by Information Technology Managers. Outsourcers shall be evaluated on the basis of performance requirements (measured against Service Level Agreements) and conformance to Company standards and policies.
  + Any outsourcer found not in compliance shall be handled in accordance with ITAM103 – IT VENDOR SELECTION.

**Forms:**

* ITAD109-1 IT OUTSOURCER DUE DILIGENCE CHECKLIST
* ITAD109-2 IT OUTSOURCER RECORD

**References:**

1. **SARBANES-OXLEY ACT OF 2002**

According to Sarbanes-Oxley (SOX), enacted by U.S. Congress in 2002, a ***publicly-held*** Company’s responsibility for control of records does not stop “at the front door.” Any activity performed by an outsourcer for the Company’s benefit, as well as any result of that activity, is considered under the Company’s control, regardless of where the activity takes place.

**Additional Resources:**

* Kaplan & Norton, “The Balanced Scorecard – Translating Strategy Into Action”, HBS Press (1996).

**Revision History:**

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| **Revision** | **Date** | **Description of Changes** | **Requested By** |
| 0 | mm/dd/yyyy | Initial Release |  |
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**ITAD109-1 IT OUTSOURCER DUE DILIGENCE CHECKLIST**

**A. Company Information**

1. Legal name of business.
2. Trade name or “Doing Business As” (DBA) name.
3. Type of business (sole proprietorship; partnership; corporation, subsidiary, or division, or nonprofit organization).
4. Complete address (street, city, state/province, zip code/postal code) and telephone number(s). NOTE: A post office box is not an acceptable address.
5. Years in business (credit risks increase for businesses in existence for less than five years).
6. Primary bank and name of commercial loan officer. Since money can be moved around easily, a reference does not mean much if an account has had significant balances for less than six months. A year is much better. If an applicant switched primary banks within the past year, find out why.
7. Trade References. Five references are better than the standard three. References will be contacted but should be expected to be favorable as people seldom give out “bad” references. Also, friends or relatives may be references.
8. **Material Contracts & Agreements**
   1. List of banks or other lenders with whom outsourcer has a financial relationship (briefly describe relationship with lender - line of credit, etc.).
   2. Credit agreements, debt instruments, security agreements, financial/performance guarantees, liens, leases or other agreements evidencing outstanding loans the outsourcer is or was a party to within the past 2-3 years.
   3. All material correspondence between the outsourcer and lenders during the last three years, including compliance reports submitted by the outsourcer or its accountants.
   4. List of major clients and locations.
   5. Any other material contracts.
9. **Litigation**
   1. Copies of any pleadings/correspondence for pending or prior lawsuits involving the outsourcer or its founders.
   2. Summaries of disputes with suppliers, competitors, or customers.
   3. Correspondence with the outsourcer’s auditor or accountant regarding threatened or pending litigation, assessment, or claims.
   4. A description of all contingent liabilities.
   5. Decrees, orders, or judgments of courts or governmental agencies.
   6. Settlement documentation.
10. **Outsourcer Employees & Related Parties**
    1. A management organization chart and bios on top management.
    2. Summary of any labor disputes.
    3. Correspondence, memoranda, or notes concerning pending or threatened labor stoppages.
    4. List of negotiations with any group seeking to become the bargaining unit for any employees.
    5. All employment and consulting agreements, loan agreements, and documents relating to other transactions with officers, directors, key employees, and related parties.
    6. Schedule of compensation paid to officers, directors, and key employees for the most recent fiscal year, showing salary, bonuses, and non-cash compensation (use of company vehicles, property, etc.) separately.
    7. Summary of management incentives or other bonus plans not included in #6, above.
    8. Summary of company-paid employee benefits.
    9. Copies of pension, profit sharing, deferred compensation, and retirement plans.
    10. Confidentiality agreements with all employees.
    11. Descriptions of all transactions with related parties occurring during the last 3 years, as well as proposed transactions, and all related agreements.
11. **Financial Information**
    1. Audited financial statements from the last 3 fiscal years.
    2. Quarterly income statements for the last 2 fiscal years and the current year, to date.
    3. Financial / operating budgets or projections.
    4. Business plan and related documents.
    5. A description of each change in accounting methods (or principles) during the last 3 fiscal years.
    6. Documents relating to material write-downs or write-offs other than in the ordinary course.
    7. Revenue, gross margin, and average selling price by product or service.
    8. Management letters or special reports by auditors and outsourcer responses for the last 3 fiscal years.
    9. Aging schedules for accounts receivable for the last 2 years.
    10. Breakdown of general & administrative expenses for the last 2 years.
    11. Copies of any valuations of the outsourcer's stock.

**ITAD109-2 – IT OUTSOURCER RECORD**

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| **Outsourcer ID** |  |
| **Outsourcer Name** |  |
| **Outsourcer Main Address:** |  |
| **Street** |  |
| **City** |  |
| **State** |  |
| **Postal Code** |  |
| **Country** |  |
| **Outsourcer Contact Name** |  |
| **Contact Phone** |  |
| **Product Name** |  |
| **Product/Service Description** |  |
| **Contract Number** |  |
| **Information Technology Project ID** |  |
| **Project Description** |  |
| **Project Start Date – Proposed** |  |
| **Project Start Date – Actual** |  |
| **Project End Date – Proposed** |  |
| **Project End Date – Actual** |  |
| **Project Revision Number** |  |
| **Project Manager Employee ID** |  |
| **Project Manager Name** |  |
| **Outsourcer Rating For This Project**  **(1=Lowest to 10=Highest)** |  |

**Comments** (re, performance, adherence to Company policy, client satisfaction levels, etc.):

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