

LIMITED-SCOPE AUDIT PROPOSAL

Office of Information Technology Services: Reviewing the Office's Service and Rate Structures

SOURCE

This limited-scope audit proposal was requested by Senator Mike Petersen.

BACKGROUND

In 2013, certain IT functions managed by the Division of Information Systems and Communications within the Department of Administration were moved to a standalone agency called Office of Information Technology Services (OITS). State law requires OITS to provide data processing and application hosting services for state agencies, requires the agency to provide for and coordinate all telecommunications services, and makes OITS the sole agency for central data processing for most state agencies. The law also allows the agency to establish rates and charges for the services the agency performs and mandates the agency to maintain a cost system in accordance with generally accepted accounting principles. Lastly, the law allows for the inclusion of indirect costs (e.g. light, heat, power, insurance) as part of its rate structure.

In December 2013, our audit reviewing OITS service rates found OITS' service rates for many individual services did not reflect the actual cost of providing those services. Further, we found the rates were inflated because they included costs for other underfunded, discounted, or waived services. This was largely because OITS staff manually set its rates to ensure budget and funding stability. Further, the agency's reported profits and losses for individual services to the U.S. Department of Health and Human Services violated several federal reporting requirements which resulted in the state being required to reimburse the federal government almost \$2.5 million for improperly billed services and interest.

Legislators have expressed concern about OITS' rate setting process.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objective listed below represents the question that we would answer through our audit work.

The proposed steps for the objective are intended to convey the type of work we would do but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: Do OITS' service rates reflect actual costs for a sample of services?

- Interview OITS officials and review documents to determine how much OITS charges state agencies for each service it provides and how much those services generate for OITS annually.
- Interview OITS officials and review documents to determine how OITS determines rates, how they allocate direct and indirect costs, how they adjust rates, and how frequently adjustments are made.
- For a sample of services, determine if the rates OITS charges appear to reflect what it costs the agency to provide the service and interview OITS officials where they do not.

ESTIMATED RESOURCES

We estimate this audit would require **100 staff hours** to complete.