



PERFORMANCE AUDIT REPORT

**Office of Information Technology
Services: Reviewing the Office's
Service Rates and Viable Alternatives
for Its Services**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2013**

Legislative Division of Post Audit

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November 27, 2013

To: Members, Legislative Post Audit Committee

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This report contains the findings, conclusions, and recommendations from our completed performance audit, *Office of Information Technology Services: Reviewing the Office's Service Rates and Viable Alternatives for its Services*. The audit was requested by Senator Caryn Tyson. We would be happy to discuss the findings, recommendations, or any other items presented in this report with any legislative committees, individual legislators, or other State officials.

Sincerely,

A handwritten signature in black ink, appearing to read 'Scott Frank'. The signature is fluid and cursive, with a large initial 'S' and 'F'.

Scott Frank
Legislative Post Auditor

This audit was conducted by Lynn Retz, Heidi Zimmerman, and Matt Etzel. Justin Stowe was the audit manager. If you need any additional information about the audit's findings, please contact Lynn Retz at the Division's offices.

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Office of Information Technology Services: Reviewing the Office's Service Rates and Viable Alternatives for Its Services

State law requires that the executive chief information technology officer—the agency head of the Office of Information Technology Services (OITS)—provide all telecommunication services for state agencies. Specifically, K.S.A. 75-4709 states “the executive chief information technology officer shall have the authority to control the acquisition, retention and use of all telecommunications services for all divisions, departments, and agencies of the state.”

Functionally, OITS provides those services. OITS had about 120 FTE staff and about \$36 million in expenditures during fiscal year 2013. The agency is funded through charges paid primarily by other state agencies and local units of government that use OITS services.

Legislators have expressed concern that OITS' rates for information technology and telecommunication services may be excessively high because it lacks any private sector competition.

This performance audit answers the following questions:

- 1. Do OITS' service rates reflect actual costs and are they competitive with comparable services provided in the private sector?**
- 2. What viable options exist for decreasing the cost of information technology and telecommunications services for state agencies?**

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in *Appendix A*.

Our work included a variety of steps designed to help us answer the first audit question about OITS' rates and how they compare to those in the private sector. We reviewed state laws governing OITS and federal regulations regarding the rate setting process. We talked with officials from OITS about how they allocate costs for each service they provide and how they use that information to set rates. We reviewed OITS' annual cost allocation process and its rate model for the past several years. We also evaluated the costs and rates for OITS' three primary services—mainframe, network, and dial tone services—in detail to better understand how agency costs were reflected in service rates. Finally, we

surveyed other states that had privatized IT services and private sector vendors to compare OITS rates with private sector rates.

To answer the second question, we reviewed other states efforts to reduce costs and improve IT service efficiencies. Specifically, we interviewed and surveyed state IT officials, reviewed literature, and interviewed officials from national IT organizations. We also interviewed OITS staff about their efforts to outsource, consolidate, or implement cloud computing to reduce costs and improve efficiencies.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We also provided a management letter to OITS to convey minor findings not discussed in the report.

Though we do not believe that it affected our findings, conclusions, or recommendations, we do want to call the reader's attention to one issue regarding auditor independence. Generally accepted government auditing standards require that auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial (and viewed as impartial) by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

The reader should be aware that as a state agency, the Legislative Division of Post Audit is a consumer of information technology and telecommunications services from OITS. In fiscal year 2013, the division paid OITS approximately \$12,000 for various services (out of just more than \$2 million in total expenditures for the division). Although changes in the OITS services rates could have a small effect on the division's finances, we do not think this affected the impartiality of our opinions, findings, conclusions, judgments, and recommendations.

Our findings begin on page 7, following a brief overview.

Overview of the Office of Information Technology Services

The Office of Information Technology Services (OITS) Provides Some Centralized IT Services and Oversees Others

In 2013, the Office of Information Technology Services (OITS) was designated as the state's central IT services agency. Prior to 2013, the state's IT services were provided by DISC, which was a division within the Department of Administration.

House Bill 2200 designated OITS as the state's sole provider of telecommunications and data processing services. Passed by the 2013 Legislature, House Bill 2200 made several changes to the state's IT service structure. Among other things, House Bill 2200:

- abolished the Division of Information Systems and Communications (DISC) and established OITS in its place.
- established the Executive Chief Information Technology Officer (CITO) as the head of OITS.
- required OITS to provide all state telecommunication and data processing IT services to all agencies, and required state agencies to only get those services from OITS.

Additionally, Executive Order (EO) 11-46 requires all non-regent executive branch state IT staff under the Governor's jurisdiction to report directly to the agency head of OITS.

Although OITS staff provides several state IT services, many agencies retain IT staff for specific agency operations. OITS offers more than 30 services related to telecommunications and data processing, including network services, data storage, and IT support to all state agencies. Additionally, many state agencies have IT staff to help maintain agency applications, administer their networks, and provide onsite user support. Although EO 11-46 requires many of these agency IT staff to report directly to OITS, they are paid through individual agency budgets.

In fiscal year 2013, OITS employed 120 FTE staff and operated on a \$36 million budget. The majority of those expenditures can be attributed to contractual services and salaries and wages. Of its \$36 million fiscal year 2013 expenditures, about \$21.6 million (60%) was attributed to contractual services. Contractual service expenditures pay vendor costs related to infrastructure for the state's network, telephones, and other specialized support services.

Additionally, about \$9.5 million (27%) was attributed to the salary and wages of OITS' 120 FTE employees. These

expenditures cover the cost of OITS staff to maintain and manage the state's network, the state's mainframe systems, and to provide a variety of other related services.

OITS Has Developed Service Rates to Recover the Costs of Providing Those Services

As a fee-funded agency, OITS does not receive a state appropriation to fund its operations. Rather, OITS is funded entirely through revenues it receives from state agencies that use its services.

The rates OITS charges for its services must recover both the direct costs of providing the services as well as the overhead costs of running the agency. The direct costs include the salaries and wages of the technical staff who deliver the service, the equipment and other capital used in providing the service, and any parts of the direct service OITS hires an outside vendor to provide. The overhead costs are not directly attributable to the specific service, but are necessary to run the agency. These include management staff salaries and administrative costs for support activities such as personnel and accounting. For the agency to be fully funded, both types of costs need to be recovered through the service rates.

OITS has developed a rate-setting model to set rates in a way that ensures it only recovers its costs for each service provided. In 2001, OITS (then DISC) contracted with a private company to develop a rate model to meet federal reporting requirements. This model uses previous years' actual costs, revenues, and service utilization estimates to calculate rates by service for the coming fiscal year. The service rates produced from this model should reflect OITS total actual costs for each service, including overhead and direct costs. However, as we discuss on page 12 of Question 1, many of OITS' actual service rates are set manually and do not follow this model.

OITS' primary sources of revenue come from the rates it charges for its three largest services. These services accounted for about 80% of OITS' total billed services in fiscal year 2012:

- Network services (50% of the total billed services) allow agencies to connect to the Internet, the state's wide area network (KanWIN), and various local area networks.
- Mainframe services (24% of the total billed services) provide centralized processing for applications such as the state's accounting and payroll systems.
- Dial tone services (8% of the total billed services) include local and long distance telephone services. Beginning in 2012, state agencies

were transitioned from traditional phone lines to Voice over Internet Protocol (VoIP).

Finally, although almost all state agencies utilize OITS services in some capacity, three agencies accounted for about half of OITS' revenues in fiscal year 2012. These were the Department of Administration, the Department for Children and Families, and the Department of Revenue.

Federal Law Allows Agencies to Use Federal Funds to Pay for IT Services, but Prohibits OITS from Generating Profits From Those Services

In fiscal year 2013, state agencies expended over \$5 billion in federal funds through grants or contracts with federal agencies. As a recipient of federal funds, the state must comply with the regulations under the Office of Management and Budget's Circular A-87 (OMB A-87).

Agencies can use federal funds to pay for the IT services provided by OITS in accordance with OMB A-87. Federal law permits state agencies that receive federal funding to use that money to pay for centralized services, including the telecommunication and data processing services OITS provides. OMB A-87 specifies which of those costs can be paid for with federal funds and ensures that federal funds are not used to subsidize costs that should be paid for with state money. Because not all costs can be paid for with federal funding, some state agencies use a combination of both state and federal funding to pay for OITS services.

Under federal law, OITS is not allowed to generate profits for any of the more than 30 individual services it provides. In setting its rates, OITS is required to follow federal regulations outlined in the Office of Management and Budget Circular A-87. Among other things, these regulations prohibit OITS from generating a profit for any of the individual services it provides. OITS is allowed to set its rates at a level that allows it to recover its costs (including agency overhead), but it cannot generate profits to help fund other state services. On page 16 of Question 1 we discuss how OITS may violate these federal requirements.

Question 1: Do OITS' Service Rates Reflect Actual Costs and are They Competitive with Comparable Services Provided in the Private Sector?

Answer in Brief:

OITS' rates for many individual services do not reflect the actual cost of providing them (p. 7). The rates agencies pay for some OITS services are inflated because they include costs for other underfunded, discounted, or waived services (p. 8). Additionally, although OITS has developed a complex rate model to help ensure rates reflect actual costs, it does not use the model to set most rates and instead relies on staff to manually set them (p. 12). That is because instead of setting rates to reflect actual service costs, OITS sets its rates to ensure budget and funding stability (p. 13). Further, OITS operates and sets rates with almost no oversight or accountability (p. 14). Finally, we were unable to make valid private-sector comparisons for the rates OITS charges for its largest services because of differences in the way services are typically tracked and delivered, and the absence of good cost information for OITS (p. 15).

This report contained a number of additional findings. Specifically, the way OITS has reported profits for individual services to the federal government appears to violate several federal reporting requirements (p. 16). We also identified two issues that are indicative of an unstable fiscal situation at OITS (p. 18). Finally, many of the issues we identified appear to be longstanding issues, some of which current management is trying to address (p. 19).

OITS' Rates for Many Individual IT Services Do Not Reflect the Actual Cost of Providing Them

As mentioned in the overview on page 4, OITS has a model intended to calculate rates to recover its costs. Federal law requires OITS either recover its costs for each service by the end of the next fiscal year, or absorb the losses.

We found that OITS rates for many services do not reflect the actual cost to provide them. We identified numerous reasons for why rates do not always reflect the cost to provide them, including:

- The rates agencies pay for some OITS services included costs for other underfunded, discounted, or waived services (See page 8)
- Although OITS has a complex rate model intended to ensure rates reflect actual costs, OITS does not use it to set most rates (See page 12).

- Instead of setting rates to reflect actual service costs, OITS sets its rates to ensure budget and funding stability (See page 13).
- OITS operates and sets rates with almost no oversight or accountability (See page 14).

In addition to potentially violating federal law, setting rates that do not reflect actual costs negatively affects the state. The federal government’s primary interest in ensuring that rates reflect cost is to ensure that federal moneys are not used to help fund unrelated state services. Setting rates that do not reflect actual costs could potentially violate these regulations. In addition, we identified two other negative consequences for the state.

- **Some state agencies pay for services that they do not use while others receive services they do not pay for.** Ultimately, OITS must recover the costs for all services it provides to state agencies. When the rates for some services do not fully fund actual costs, the difference has to be added to other rates. Consequently, some agencies pay too much for some services and others pay too little.
- **OITS has the ability to subsidize the cost of underutilized or unnecessary services through other services.** OITS is the sole provider of several IT services in the state, including network connection, phone services, and data storage. Because agencies have no other alternative for these services, OITS can tack on the costs of new, and potentially unnecessary, services to these rates. Enterprise Internet Services (EIS), a severely underutilized service to help agencies with their websites, is an example of this kind of service. We talk more about EIS on page 9.

The Rates Agencies Pay for Some OITS Services are Inflated, Because They Include Costs for Other Underfunded, Discounted, or Waived Services

OITS provides a number of telecommunication and data processing services to state agencies. Although the costs for some of those services are fully covered through OITS rates, we identified a number of services that were not. These services fell into two categories:

- Underfunded services include services whose rates are set too low, and as a result the revenues generated do not cover all the relevant costs. These costs must be subsidized by other, unrelated services.
- Discounted or waived services include services whose costs are subsidized by other agencies because OITS simply charged the agency that received the service too little or nothing at all.

In either case, the costs for these types of services must be added to the rates of other, unrelated services.

In fiscal year 2012, state agencies paid at least \$2 million in additional costs for underfunded services by paying higher rates for unrelated services. We identified at least three underfunded services that were included in the rates for other, unrelated services in fiscal year 2012.

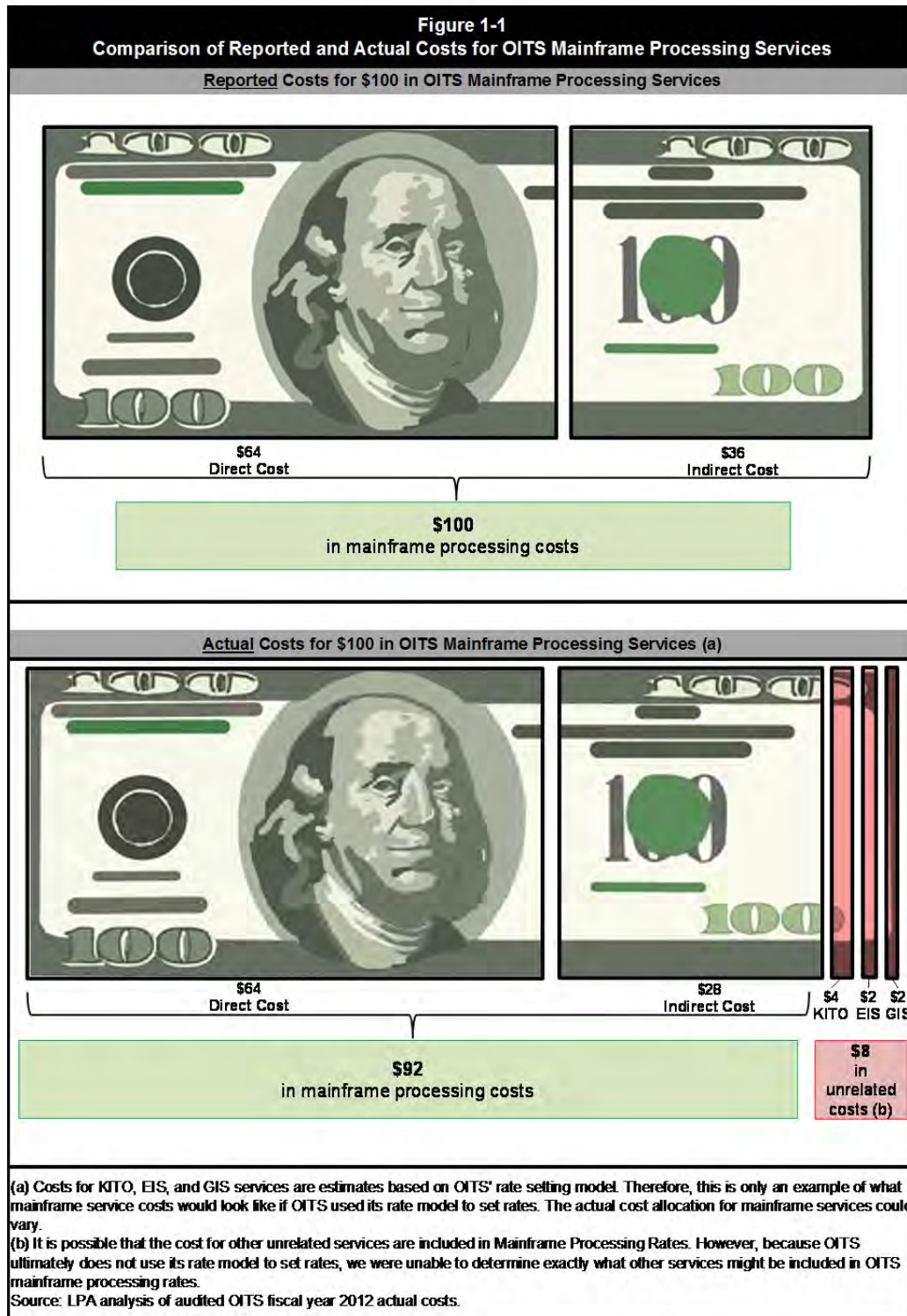
- **Nearly all of the \$600,000 in costs for Enterprise Internet Services (EIS) were billed to other agencies through unrelated services because very few agencies utilize the service.** EIS provides various internet services to state agencies, including website design. Although the services are available to all state agencies, OITS officials told us this service has primarily been utilized by the Department of Administration and the Governor's Office. Because of its limited use, EIS services only recovered about \$40,000 of its total cost of almost \$600,000 through direct charges in fiscal year 2012. The remaining balance of about \$560,000 was classified as overhead, allocated to unrelated services, and paid for by other agencies.
- **The entire \$900,000 in costs for the Kansas Information Technology Office (KITO) was added to the cost of unrelated services in the form of agency overhead.** KITO provides project management services to agencies undergoing various IT projects. Historically, OITS and DISC have chosen not to charge agencies directly for these services. Rather, they have allocated all KITO costs to other, unrelated services, meaning agencies that do not have active IT projects have to pay for some of these costs.

OITS officials told us they plan to change this. They indicated that beginning in fiscal year 2014, agencies with active IT projects will pay for 80% of KITO's \$900,000 in total costs based on a sliding fee scale. The remaining 20% of KITO's costs will continue to be allocated across other unrelated services.

- **Although service fees from state agencies covered about 80% of the cost of Geographic Information Systems (GIS) services, approximately \$500,000 had to be subsidized through other, unrelated services.** This service provides GIS data and storage, technical support, and other GIS-related services to agencies. Although these services are generally billed on a case-by-case basis, those revenues do not recover the full cost of the service. For example, in fiscal year 2012, agencies were billed directly for about \$2 million in services while the remaining \$500,000 balance was classified as overhead, allocated to unrelated services, and paid for by other agencies.

Figure 1-1 on the next page illustrates the impact that underfunded services can have on the rates for other services. The allocated amounts vary for different types of services, but in the figure we estimate the impact on the mainframe services rate for fiscal year 2012. As the figure shows, at least \$8 for every \$100 billed in mainframe services was used to cover costs for these three unrelated services. For an agency like the Department

for Children and Families which spent \$6.2 million on mainframe services in fiscal year 2012, that amounts to about an extra \$500,000 that it paid to subsidize services it may not have used.



Similarly, OITS has discounted or waived service fees for some state agencies. In addition to the underfunded services listed above, OITS has also given discounts or waived service costs entirely for some agencies. These costs are then passed on to other agencies in the form of higher rates for unrelated services.

- **Since 2004, OITS and DISC have not charged the Governor's Office for IT services.** These include data processing, telephone services, email services, and computer workstations. The total value of these services could not be quantified because OITS does not track these unbilled costs.
- **Until recently, the Legislature received network services at a substantially discounted rate.** According to OITS officials, from 1998 to 2009, the Legislature and legislative agencies (including Legislative Post Audit) received a discounted network connectivity rate. According to OITS officials the Legislature and legislative agencies began paying the standard rate for network services in 2013. The exact amount of the discount is difficult to quantify because of conflicting and limited documentation concerning these rates, but it appears to have been between \$250,000 and \$350,000 a year.
- **Because of unique circumstances, OITS provided the Department of Education and the Board of Healing Arts with temporary discounts on network connection rates.** OITS charges either a node rate (more expensive) or a router rate (less expensive) for network connection depending on an agencies location. Recently, both the Board of Healing Arts and the Department of Education moved into buildings that are charged the more expensive node rate. However, OITS offered both agencies a temporary discount on their network service rates in order to accommodate the unique circumstances associated with relocating to a building with the more expensive node rate.

OITS also includes an administrative fee on most rates which is used in part to cover costs for underfunded, discounted, or waived services. Although its name implies that it is intended to cover the administrative costs of running OITS, the actual purpose of the administrative fee is to fund future IT initiatives for the state (overhead costs are already included in the service rates). This percent-based fee is applied directly to agencies' bills for most OITS services, including its three largest (network, mainframe, and dial tone services). Although the administrative fee began at 2% in 1991, it rose as high as 5% in 1998 before settling at the current 2.5%.

In fiscal year 2012, the administrative fee generated nearly \$720,000. OITS officials told us that at least some of the fee has

been used to subsidize underfunded services and outstanding debt. However, because OITS does not track how the fee is actually spent, we could not quantify the amount used as a subsidy.

Although OITS Has Developed a Complex Rate Model to Help Ensure Rates Reflect Actual Costs, it Does Not Use the Model to Set Most Rates

OITS has developed a rate-setting model intended to calculate rates based on actual costs, revenues, and utilization estimates from previous fiscal years. If OITS used this model, it would recover the cost of each of the services it provides. However, in the course of our work, we learned that OITS does not use the rates predicted by this model.

OITS has a complex rate model to allocate \$36 million in budgeted expenditures in fiscal year 2013 across more than 30 individual service rates. The cost to provide a service and the extent to which agencies use that service can fluctuate from year to year. The rate model accounts for this variability by recalculating rates each year based on actual costs and revenues for the previous fiscal year and revised estimates of how much agencies will utilize the services in the coming year.

Our detailed review of OITS' rate model revealed it is extremely complex. The model requires staff to manually update cost data for more than 100 expenditure line items and refresh service usage data each year. Moreover, that information is linked across a myriad of spreadsheets and formulas. Although this system is complex, if properly administered it can help ensure the rates reflect the actual costs for each service.

However, in most cases, OITS staff manually set the rates for services rather than using the rates predicted by the model. In an effort to recover its costs for all services and to keep rates stable from year to year, OITS officials do not use the rates calculated by the model. Instead, OITS staff set most rates manually based on their personal knowledge of historic rates and anticipated changes in service usage.

The manually entered rates can significantly differ from the rates calculated by OITS' rate model. For example, in fiscal year 2014 the mainframe services rate should have been \$427 per hour based on the rate model. Instead, OITS officials set the rate manually at \$380 per hour. When the \$47 per hour shortfall is projected across all the hours of service, the projected loss for mainframe services is about \$700,000. Similarly, network service rates should have been \$34 per month according to the model, but OITS officials set the rate at \$40 per month. This resulted in a

projected profit of \$1.2 million for this service. Many of the rates for other services also do not reflect actual costs, which means that some agencies pay too much for some services, while others pay too little.

Instead of Setting Rates to Reflect Actual Service Costs, OITS Sets Its Rates to Ensure Budget and Funding Stability

OITS must set and charge agencies a standard rate for each service it provides. Both the cost to provide a service and the revenue a service generates fluctuate from year to year. Consequently, rates should be adjusted periodically to account for these changes. However, OITS does not make these adjustments for two reasons, discussed below.

OITS does not adjust its rates to reflect actual costs because it wants to keep the rates stable for budgeting purposes. OITS tries to hold rates constant for many of its services to provide agencies with budget stability. Generally, OITS publishes an annual service catalog with rates for individual services for the next three fiscal years. Agencies use these rates to determine how much to budget for IT services in the coming fiscal years. OITS officials told us they purposely try to hold service rates constant from year to year instead of adjusting them to cover costs to provide agencies with stability during the budget process.

For example, OITS did not make any adjustments to the rate for mainframe services for the last few years. **Figure 1-2** compares OITS’ model rates to its actual rates for mainframe services. As the figure shows, OITS held mainframe service rates at \$400 for four years, which was consistently lower than the rates suggested by the model.

Figure 1-2
Differences Between Model Rates and OITS Rates for Mainframe Services (fiscal year 2010 - 2013)

Fiscal Year	Model Rate	OITS Rate	Difference
2013	\$ 465	\$ 400	\$ (65)
2012	\$ 486	\$ 400	\$ (86)
2011	\$ 467	\$ 400	\$ (67)
2010	\$ 526	\$ 400	\$ (126)

Source: LPA analysis of OITS rate models for fiscal year 2010 through 2013.

OITS also sets its rates to ensure it has adequate funding for the entire agency, instead of setting rates to reflect the actual costs for individual services. Ensuring that each rate reflects the actual cost of each service is not a primary goal for OITS. Rather, OITS’ primary goal is to ensure that collectively, through all of its rates, it generates enough revenue to cover its total

operating costs. As such, OITS acknowledges that individual rates do not necessarily reflect actual costs of individual services.

OITS Operates and Sets Rates with Almost No Oversight or Accountability

State law gives OITS broad discretion to establish services and rates for state agencies. House Bill 2200, passed by the 2013 Legislature, gives the Executive Branch Chief Information Technology Officer the authority to establish rates and services for state agencies. However, it does not include any oversight mechanisms to ensure that those rates are reasonable.

OITS' budget is not set through the appropriations process, and there is no legislative oversight of how OITS sets its service rates. As an off-budget agency, OITS is excluded from the full scrutiny of the formal legislative appropriation process. This is because OITS is funded through the individual budgets of the agencies that pay for OITS services. Moreover, the Legislature does not currently have a process to review or approve the rates OITS charges agencies for services.

The Division of Budget reviews OITS' rates, but does not have the statutory authority to set them. OITS officials told us they (and their predecessors at DISC) historically give the Division of Budget an opportunity to review the service rates, though they are not required to do so by state law. In 2009, DISC attempted to raise rates to fund the state's new accounting system and the Division of Budget denied it. While the Division of Budget had no legal authority over the rates at that time, both Division of Budget and then DISC were under the direction of the Secretary of Administration and they felt obligated not to raise the rates.

The only formal oversight of OITS is a limited review of its profits and losses by the U.S. Department of Health and Human Services. Federal regulation requires OITS to annually submit a summary of its profits and losses to the federal agency for review. However, the report OITS submits appears to be at a high enough level that federal officials can only conduct a cursory review of OITS' profits and losses.

Moreover, OITS is not directly reviewed through the annual statewide financial audit. The purpose of that audit is to provide assurance as to the reliability of the state's financial statements and to evaluate how state agencies spend their federal funds. Although OITS' service rates are within the scope of that audit, in recent years the accounting firm that conducts the audit has not considered the amount of money material to the audit's objectives

and therefore has not included OITS' rate-setting process in the audit.

We Were Unable to Compare the Rates OITS Charges for its Largest Services to Rates in the Private Sector

We tried to compare OITS' primary service rates to private sector rates in numerous ways. Specifically, we worked with OITS staff, reviewed relevant literature, surveyed other states, and contacted private sector IT companies to determine how much the private sector charges for comparable services. Despite these efforts, we were unable to make valid private-sector comparisons for several reasons.

Private sector companies track service usage, whereas OITS generally tracks service access. For example, it appears that private sector companies' network connectivity rates typically are based on the amount of bandwidth used. Conversely, OITS' network connectivity rates are based on an agencies number of connection points. Therefore, OITS only charges for access to the network, and not according to how much an agency actually uses it. OITS officials have told us they are moving towards a bandwidth usage model.

The available information on private-sector rates for services that are comparable to those provided by OITS is limited. Even when we were able to identify seemingly comparable rate information in the private sector, the complexity of those services prohibited relevant comparisons to OITS. That is because the rates for many of these services vary significantly depending on service usage and how much support is being provided for those services.

For example, we found that a company under contract with Virginia offers roughly 60 different types of network connection services, each with its own rate. Virginia's different rates are based on several factors including connection speed and system type. By contrast, OITS only offers four different network connection services based on a single factor of how many nodes are being serviced. Consequently, we could not make the comparisons.

A private sector comparison has limited value because OITS' rates do not reflect actual costs. As described in the preceding sections, OITS' service rates do not reflect actual costs for a number of reasons. Those reasons included:

- The rates agencies pay for some OITS services included costs for other underfunded, discounted, or waived services

- Although OITS has a complex rate model intended to ensure rates reflect actual costs, OITS does not use it to set most rates
- Instead of setting rates to reflect actual service costs, OITS sets its rates to ensure budget and funding stability

Unlike OITS, rates in the private sector are more likely to reflect the actual cost to provide a service. Because we know that OITS' rates do not reflect actual cost, comparing its rates to the private sector would not yield useful information.

OTHER FINDINGS

The Way OITS Has Reported Profits for Individual Services to the Federal Government Appears to Violate Several Federal Reporting Requirements

OITS must follow several federal regulations concerning how it handles profits for the individual services it provides. Throughout the course of our work, we identified several potential violations of those regulations. Additional conversations with U.S. Department of Health and Human Services officials on the issues discussed below confirmed that they are potential violations of federal regulations, and could result in federal demands for reimbursement.

Since fiscal year 2009, DISC and OITS have made approximately \$6 million in accounting adjustments to avoid reporting profits, which appears to violate federal regulations.

OITS is required to annually submit a cost allocation report to federal officials for the previous fiscal year. Among other things, this report describes to federal officials how OITS officials set service rates, what services are offered, and the profits or losses OITS incurred for those services.

Under federal law, OITS is not allowed to generate a profit for any of the individual services it offers. If OITS does generate a profit, federal law mandates OITS refund the profit, or lower its rates. However, if OITS operates at a loss, federal law allows OITS to attempt to recover that loss by the end of the next fiscal year. If OITS has not recovered the loss by that time, federal law requires them to absorb it. Therefore, it is advantageous for OITS to come as close to breaking even as possible for each of its services.

Since fiscal year 2009, DISC and OITS have made a series of accounting adjustments for several services to avoid reporting profits to the federal government. According to OITS officials, these adjustments were done at the close of the fiscal year, after all revenue had been received but before OITS reported their profits or losses to federal officials. OITS officials told us this

had been done to specifically avoid reporting profits for several services. For example, in fiscal year 2012, OITS used an adjustment to turn nearly a \$750,000 profit into about a \$40,000 loss for tape services. By hiding the profit, OITS likely avoided about \$26,000 in imputed interest based on the OITS rate model calculations.

In addition, DISC and OITS have consistently used losses from prior years to offset current year profits, which also appears to violate federal regulations. In addition to prohibiting OITS from generating a profit, federal law prohibits OITS from carrying forward losses through more than one fiscal year. However, DISC and OITS have cumulatively carried forward losses since 2001. For example, although OITS ended fiscal year 2011 with a \$190,000 profit, they began the next fiscal year with about a \$10.3 million loss. This \$10.3 million is a cumulative loss, carried forward since 2001. By carrying forward losses from previous years, OITS is able to hide current profits.

Officials from the U.S. Department of Health and Human Services notified state officials in February 2012 of a similar infraction, which occurred before OITS was established. Specifically, DISC incurred a series of losses for its UNIX services in fiscal year 2004 and prior years. UNIX continues to be a service that OITS provides, but it is now part of a new service rate which includes a number of other services. DISC has attempted to collect these losses with fiscal year 2006 and subsequent years' profit from these other services. As a result of this violation, federal officials told us they will likely seek reimbursement for an estimated \$1.4 million or more for this violation.

Because of these apparent violations, the state could be required to repay several million dollars in federal funds.

Based on our discussion with federal officials and their response to the use of UNIX losses described in the preceding section, it seems likely that the federal government will also seek reimbursement for the federal share of the \$6 million in profits that OITS did not properly report as a result of adjustments made since fiscal year 2009. Assuming a reimbursement rate similar to the one likely in the UNIX case, we estimate that the state could owe about \$1.2 million as a result of these violations. This is a very rough estimate—any federal penalty would be assessed based on many factors that we are not able to accurately predict.

We Identified Two Additional Issues That Indicate an Unstable Fiscal Situation at OITS

In the course of this audit, we noted a couple of issues that indicate OITS' fiscal situation has been unstable for a number of years.

OITS has had to borrow money and pay penalties to address short-term cash flow problems. In fiscal year 2012, OITS had to borrow \$1 million from the Department of Administration to pay its vendors. In addition, OITS paid out about \$30,000 in late fees to vendors in fiscal year 2013. Based on conversations with OITS officials we think the root cause of these cash flow problems may be that the service rates it charges may be too low. OITS officials indicate that late fees and delays in payments to vendors will continue to be an issue in fiscal year 2014.

OITS and the Department of Administration have had to piece together funding to cover the ongoing operating costs of the state's new accounting system. According to OITS officials, the Department of Administration began the implementation of the Statewide Management, Accounting and Reporting Tool (SMART) with the intent of seeking legislative appropriations to cover both the implementation and ongoing operating costs of the SMART system. Officials from OITS told us that although some appropriations were made to help cover implementation costs, both OITS and Department of Administration officials indicate there is no evidence that any appropriations were requested to cover the ongoing operating costs.

Additionally, DISC and OITS did not raise service rates to cover the costs of the SMART system, and as a result had to use revenues from other services to help cover the system's costs. In fiscal year 2009, DISC (before OITS was formed) asked the Division of Budget to approve an immediate rate increase to help cover the ongoing operating costs associated with SMART. The Secretary of Administration, who at that time was also the State Budget Director, denied the request. OITS and Department of Administration officials indicated the denial was to avoid an increase to agency expenditures for the states' accounting system at that time.

According to OITS officials, the costs of the system began to shift back to the Department of Administration in fiscal year 2012. The department covered \$3 million in SMART and other state system expenditures in fiscal year 2012, and most of the ongoing

costs associated with SMART were transferred to the Department of Administration beginning in fiscal year 2013.

Many of the Issues We Identified Appear to Be Longstanding Issues, Some of Which Current Management Is Trying to Address

During our review of OITS' rate setting process we noted a number of issues that have been in practice with the agency for a number of years.

OITS' current management inherited a complex and fragile rate model from DISC that is difficult to change. In 2001, DISC hired a contractor to develop a model that among other things, would allow it to calculate service rates. As mentioned earlier, this model is very complex and involves numerous manual adjustments and a large number of linked spreadsheets and formulas. This complexity makes it difficult for OITS to update its model to accommodate new technologies or to enhance the model's transparency.

The poor practices we identified with the current rate setting process appear to have existed for years. For example, the practice of not billing the Governor's Office for a number of IT services (see page 11) began in 2004 with DISC, before OITS was established. Further, the practice of making accounting adjustments to hide profits (see page 16) was initiated by DISC in fiscal year 2009. Although it is important to note that these practices were initiated many years ago under OITS' predecessor agency, officials have now been aware of them for a couple of years but have not corrected them so far.

OITS management appears to be trying to address some longstanding issues with its operations and rate setting process. In 2012 OITS published a list of 25 IT initiatives aimed at making OITS more efficient, competitive, and transparent. These initiatives will be discussed in more detail in Question 2 of the report. *Figure 1-3* on the next page summarizes OITS recent effort to update its rate setting process. As the figure shows, OITS has purchased IT business management software to help streamline and refine its current rate setting model.

Figure 1-3
**OITS is Contracting with VMware to Develop a
New Rate Setting Software Package**

OITS has been using a complicated and fragile financial model since 2001 to allocate costs and calculate service rates. The current model does not sufficiently meet the needs of OITS staff. Specifically, the model's complexity limits OITS' ability to make significant changes and limits the transparency of both the cost allocation and rate-setting process. As a result, OITS officials have decided to contract with VMware to develop a new rate setting model.

If successful, this new model should allow OITS officials to efficiently track data consumption, automate their billing process, and increase the overall transparency of OITS's rate setting process. OITS officials hope to have the new software implemented by January 2014.

Conclusion

OITS had budgeted expenditures of \$36 million in fiscal year 2013 with virtually no oversight over what rates it charges agencies or how it spends the revenues. We expected OITS to have a transparent rate-setting process that ensured rates reflect actual costs—based on both federal law and to ensure equity in rates across state agencies. Instead, we found that OITS' manually sets its rates with its primary interest being to keep rates and revenues stable. The process potentially violates federal law, and may be responsible for an unstable cash flow situation at the agency. Many of these issues do precede the creation of OITS as an independent agency and the tenure of its current management. However, officials have been aware of many of these issues for some time and have taken only limited action to correct them so far.

***Recommendations for
Executive Action***

1. To ensure rates reflect actual costs as discussed on pages 7 through 16, OITS should:
 - a. adjust rates based on its rate model calculations to ensure that individual service rates reflect actual costs for those services.
 - b. establish billing rates for direct services such as KITO, GIS, and EIS services that ensure agencies are billed according to how much they use the service.
 - c. properly track all unbilled or discounted services so they can be properly accounted for.

2. To ensure OITS is properly reporting profits and losses as required by federal regulation discussed on pages 16 through 17, OITS should:
 - a. work with the U.S. Department of Health and Human Services to resolve all reporting issues identified in this report.
 - b. should cease making adjustments to avoid reporting profits for specific services.
-

***Recommendations for
Legislative Consideration***

1. To ensure adequate oversight of the services OITS provides and the rates it charges as discussed on page 14, the Legislature should consider one or both of the following options:
 - a. require OITS' budget go through the formal appropriations process.
 - b. establish independent oversight of OITS' service rates through an existing legislative committee such as the Joint Committee on Information Technology, the Senate Ways & Means Committee, or the House Appropriations Committee, or establish a new independent commission to provide such oversight.

Question 2: What Viable Options Exist for Decreasing the Cost of Information Technology and Telecommunication Services for State Agencies?

Answer in Brief:

Outsourcing, cloud computing, and consolidation are potential options for reducing the state's IT costs (p.23). Outsourcing IT services can provide many benefits including better service and cost savings, but requires strong contracts and vendor oversight (p. 24). However, it is currently not feasible for the state to outsource OITS services in their entirety for a variety of reasons. Additionally, cloud computing, a specialized form of outsourcing that typically involves web-based services, offers many opportunities for savings but carries significant security risks (p. 27). Finally, although the state has already consolidated some IT services, consolidating others may achieve further savings (p. 30).

Additionally, we found OITS does not have a process to ensure that costs are minimized and its rates are competitive (p.33).

Outsourcing, Cloud Computing, and Consolidation are Potential Options for Reducing the State's IT Costs

To determine what options the state has to reduce IT costs we interviewed state IT officials, reviewed literature, surveyed other states, and interviewed officials from national IT organizations.

Currently, many states have outsourced, used cloud computing, or consolidated IT services to reduce IT costs. A simple definition for each of these options is provided below.

- Outsourcing involves contracting with a private sector company to provide services to the state.
- Cloud computing involves moving computer processing or data storage to a third party service (typically web-based) outside an agency's own network. For example, web-based email services such as Yahoo and Gmail are examples of cloud computing.
- Consolidation involves combining individual agency systems into one system, maintained by a central agency.

These options are not mutually exclusive. For example, it is possible to outsource an IT service through a cloud service provider. Similarly, contracts for outsourced IT services often involve some level of service consolidation.

OITS has taken some steps to consolidate and outsource IT services and is assessing opportunities for cloud computing to

reduce IT costs. OITS has taken steps or is considering taking steps in each of these areas.

- **OITS is preparing to outsource email services to a cloud service.** OITS is planning to select a vendor by the end of the year and start transitioning executive branch agencies to a cloud based email provider in 2014. This is further discussed on page 29.
- **OITS has begun a three-year plan to move various agency servers to an internal cloud service.** A recent study commissioned by OITS found the state could potentially save up to \$19.2 million over five years by consolidating server and storage services and then moving them to a cloud service. In September 2013, OITS officials released a request for proposals (RFP) for the infrastructure necessary to support an internal cloud service that would be run by OITS staff.
- **OITS has already consolidated a number of services.** The most significant consolidated services include the state's network and the mainframe system that processes the state's accounting and payroll data. However, others such as software licensing have not yet been consolidated.

The state's opportunities for outsourcing, cloud computing, and consolidation are described in more detail in the following sections.

***Outsourcing IT Services
Can Provide Benefits,
But Requires Strong
Contracts and Vendor
Oversight for Successful
Implementation***

As mentioned previously, outsourcing involves contracting with a private sector company to provide services to the state. Although we do not know the full extent to which other states have outsourced their IT services, we have identified some states that have outsourced in the last several years.

Literature and interviews with state IT officials revealed particular characteristics of services that are best suited for outsourcing. During our work, we found that not all services are well suited for outsourcing because of their complexity or need for intense oversight. However, services that are relatively simple, stable with few day-to-day changes, and do not require extensive knowledge of the system often can be outsourced. For example, email tends to be a stable and generic service that is often well suited for outsourcing.

At least eight other states including Kansas have outsourced various IT services. *Figure 2-1* on the next page shows states we identified that have outsourced services and the benefits, challenges, and lessons learned related to that process. As the figure shows, we identified eight states including Iowa, Nebraska,

and Oklahoma that have or are in the process of outsourcing a variety of services including email and telecommunications.

**Figure 2-1
Summary of Kansas and Other States Efforts to Outsource IT Services**

State	Services						Savings
	Email	Web Development	Network	Data Centers	Telecommunications	Others (a)	
Kansas	(b)						N/A
California	✓		✓				10% to 30% reduction in network costs
Georgia			✓		✓	✓	\$181 million in predicted savings
Iowa	(b)	(b)				(b)	N/A
Nebraska					✓	✓	N/A
Oklahoma	(b)				✓	(b)	N/A
Texas				✓			\$159 million in predicted savings
Virginia (c)	✓		✓		✓	✓	N/A

Reported Benefits

- Increased access to industry expertise
- Better service
- Faster upgrades
- Because the vendor takes over much of the day-to-day management, in-house staff are free to take on other tasks
- Eliminates the need for onsite support
- Standardized systems
- Stronger security

Reported Challenges

- Agencies often resist the outsourcing effort
- Loss of control over systems and administration
- Adequately managing the contract and the vendor
- Managing vendor transitions over time
- Unifying many different systems across agencies

Lessons Learned

- Adequately staff help desks during the transition so users can receive guidance quickly
- Include agencies when setting service terms
- Clearly articulate what performance measures the vendor will be evaluated against
- Offer a variety of training well in advance of the transition
- Robust state oversight of the vendor is critical
- Solicit staff input during the whole process
- Adequately staff the internal management team

(a) Other services include Medicaid databases, business applications, and help desks.

(b) These states are currently in the process of outsourcing these services.

(c) Although Virginia has outsourced its executive branch IT function, the state still employs a CIO and IT staff.

Source: LPA literature review and interviews with other state chief information officers.

States have reported benefits to outsourcing such as better service and cost savings, although few have verified those savings. We reviewed several states' IT outsourcing efforts and found:

- **States have reported additional benefits achieved through outsourcing such as stronger security and standardized systems.** Those benefits can largely be attributed to two factors. First, state chief information officers reported that the private sector

is better equipped to make changes and decisions quickly because it does not have to work through a government bureaucracy. Additionally, state officials also noted that outsourcing provides access to industry expertise that often does not exist in the public sector.

- **States have reported anticipated savings by outsourcing IT services, but generally have not quantified those savings.** We reviewed several states' IT outsourcing efforts, but most had not determined actual savings. For example, Georgia estimated that it is on track to save more than \$180 million over the life of the contract, but has not performed analysis to verify these estimates. Additionally, Virginia reported that although they are seven years into the contract with Northrup Grumman, they cannot say whether they have achieved any savings. Only California reported meaningful savings information—they were able to reduce network rates by 10% to 30% by outsourcing.

Some states that have outsourced IT services have faced significant setbacks in the process. Some of the difficulties states have encountered are described below.

- **Texas reported that the vendor charged with consolidating the state's data center in 2006 was too slow to provide services and did not provide enough assistance to state agencies.** The state's dissatisfaction with this vendor led them to re-bid their \$863 million data center consolidation contract and award the contract to a new vendor in 2012.
- **Georgia reported the contractors had underestimated the size and complexity of the state's IT infrastructure, which led to significant delays.** The eight-year long project, which started in 2008, was temporarily halted in 2011 so a new Chief Information Officer (CIO) could meet with the vendor to create a new plan. Officials reported this plan included itemizing the tasks that needed to occur to complete the project and the new strategy has put them back on track.
- **Virginia reported delays, poor service, and cost overruns in its efforts to outsource the state's executive branch IT infrastructure services.** In 2006, Virginia contracted with Northrup Grumman to update and operate the IT assets of the executive branch through a 10 year, \$2 billion contract. Officials reported that neither they, nor the vendor, fully understood the complexity of the state's infrastructure which resulted in costly delays. In 2009, the state fired the CIO in charge of the transition and re-structured the contract to include new performance requirements.

Negotiating contracts and overseeing vendors are two of the most challenging aspects of outsourcing IT services. Because private companies' primary goal is to maximize profits, they have some incentive to limit the quantity and quality of services they provide in order to minimize costs. As a result, officials must intensively manage vendors to ensure services are provided at the

agreed-upon level. To overcome these challenges, states should take the following steps:

- **States' expectations for what services the vendor will provide must be clearly articulated.** Contracts must explicitly and clearly state what services the vendor will provide and how they will be provided. Further, states should also clearly describe how the quality of those services will be measured.
- **States must provide strong oversight for its contracted IT services.** Literature suggests that states with the most successful outsourcing experiences created a permanent, centralized entity to manage and oversee the operation. We should also note that a Harvard Journal of Law and Technology article found that this increased monitoring often creates additional costs and reduces potential savings.

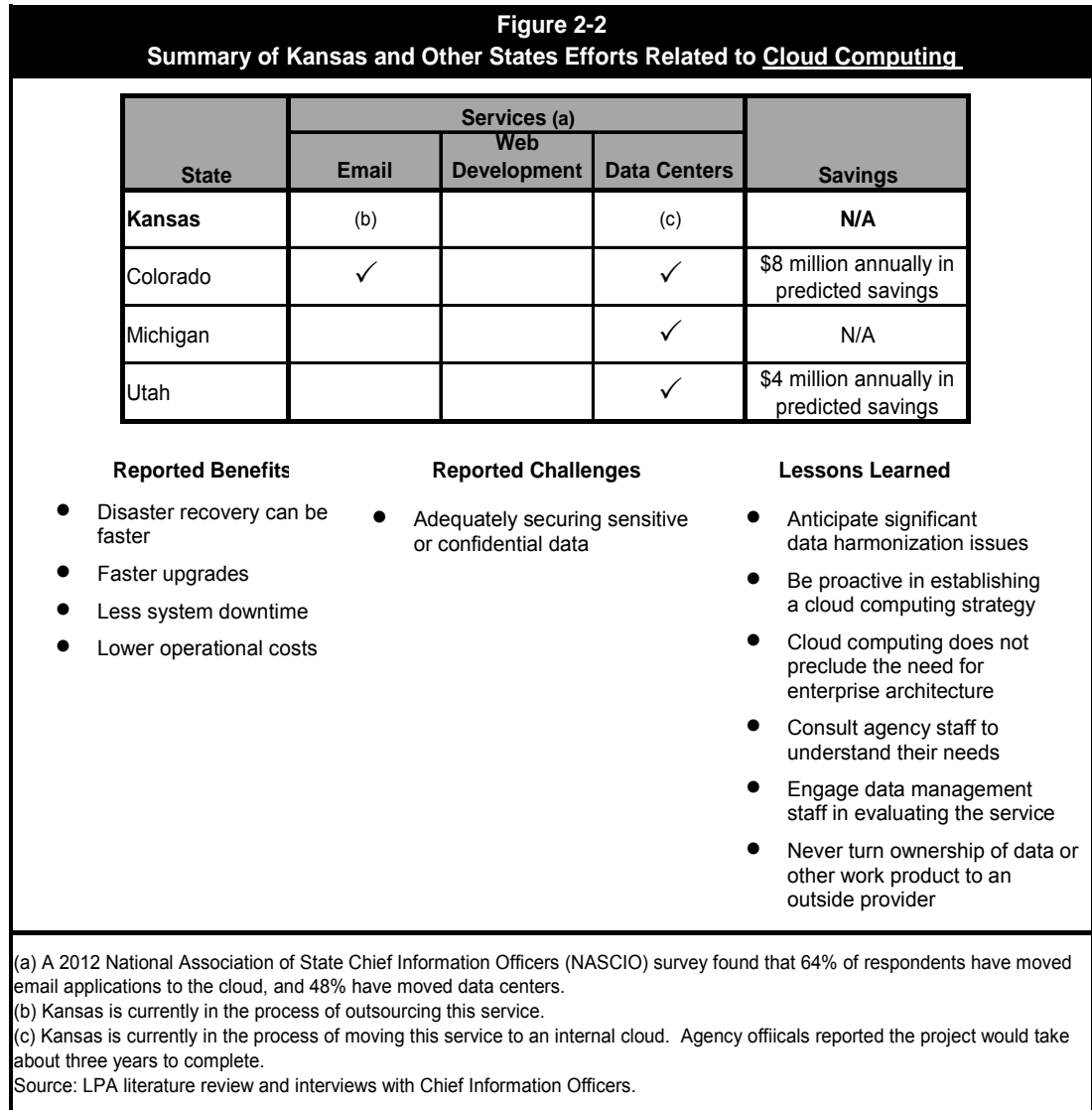
Currently, OITS is not well positioned to outsource the state's IT services in their entirety. Although at least one state (Virginia) has outsourced its executive branch IT infrastructure services, this does not appear to be a viable option for Kansas at this time.

- **OITS is not in a position to determine if outsourcing would save money for most of its services.** As noted in Question 1, this is because OITS' current rate structure does not accurately reflect the costs of each service.
- **OITS does not have a process in place to ensure that current service costs are minimized.** As discussed later in this report on page 33, OITS does not have an efficiency management process. Without this process, OITS is unable to determine whether current costs are efficient, which makes it difficult to ensure a competitive contracted rate.
- **The state may not have the procurement capabilities to ensure success.** Robust oversight of the contract and vendor is critical. An audit we conducted in 2010 of the Division of Purchases found a number of weaknesses in the division's practices including a lack of documentation, best practices that were not followed, and significant errors in negotiating and awarding a major statewide contract. Although the process may have improved and division leadership has changed since we conducted that audit, the division's ability to provide adequate services needs to be considered.

Cloud Computing Offers Many Opportunities for Savings But Carries Significant Security Risks

Cloud computing can be simply defined as any computer processing or data storage that occurs outside of an agency's own network. Although this technology comes with security risks, many states are now considering cloud computing a viable alternative for providing a variety of IT services at a reduced cost.

In a 2012 National Association of State Chief Information Officers (NASCIO) survey, 71% of states reported using at least some cloud applications. For example, Utah, Colorado, and Michigan have moved services to the cloud in the last several years. *Figure 2-2* summarizes cloud computing efforts in these states and in Kansas. As the figure shows, email and data center services are two services commonly placed in the cloud.



Moving applications to a cloud can save states money and help them keep pace with new technology. Savings are primarily achieved through reduced maintenance and better economies of scale. Further, additional savings are possible because cloud services often provide a consumption-based model for the cost of the service (the state only pays for what it actually consumes). Finally, the state may find it easier to keep up with new technology because upgrades are the vendor’s responsibility.

Properly securing sensitive confidential data on a cloud service is challenging, but manageable. States maintain a significant amount of confidential data including individual tax returns, medical benefits, and social security numbers. We identified several ways to manage the security risks inherent in maintaining these data on the cloud, including:

- **Involve legal staff early in planning and when negotiating contracted service terms.** Legal staff help ensure that the contract adequately addresses any security issues and lays out clear service performance expectations.
- **Ensure the state retains and maintains ownership of data and any product it creates.** The state should be very cautious to not grant the cloud provider the ability to use data for anything other than for the state's intended purposes.
- **Require the cloud service provider to obtain a federal security certification.** The federal government has established a process for cloud providers to obtain an assessment from a third-party organization that certifies the provider meets certain security standards. States should require a similar certification from cloud providers or only contract with providers who already have the certification.

OITS is in the process of implementing cloud services for a number of IT functions, including email. In 2012, OITS hired someone to oversee its cloud services and created a working group of IT officials across multiple agencies to assess what services could feasibly be moved to a cloud service. Currently, OITS is planning to move email for all executive branch agencies under the Governor's jurisdiction to a cloud service in 2014. Further, in September 2013 OITS released a request for proposals to solicit bids for the infrastructure necessary to support a private government cloud service. Officials told us this is the first step in a three-year plan to move some executive branch agency servers to the cloud.

Figure 2-3 on page 30, provides further information on the different types of cloud computing. As the figure shows, cloud computing is a versatile option that can be used to provide network, data center, and application support.

Figure 2-3
Cloud Computing Could Provide Agencies with Additional Offsite Resources Including Software and Infrastructure

Cloud computing is a broad term often used to describe a variety of different types of cloud services. Generally speaking, it can simply be defined as any computer processing or storage performed for an agency outside of its own network. Different types of cloud service models exist to provide a range of services.

- **Software as a service** - In this model, the agency does not host or maintain a software application in its own data center. Instead, it is hosted on the cloud provider's servers and the provider makes the application accessible from various devices. Under this model the agency does not manage or control the infrastructure used to run the application including the network, servers, or operating systems. Examples of this type of cloud computing include web based email services such as Yahoo or Gmail, and online office applications such as Microsoft Office 365 and Google Docs.
- **Platform as a service** - In this model, the cloud provider provides the necessary tools for the agency to create its own applications within the providers computing environment. This service eliminates the need for the agency to maintain its own infrastructure. The agency has control over the applications it developed but not the infrastructure including the network or servers. For example, Google's App Engine allows individuals to run web applications on Google's infrastructure.
- **Infrastructure as a service** - In this model, the agency essentially rents a data center from a provider who provides processing, storage, networks, and other fundamental computing resources to the agency. However, the agency can still deploy and run its own software, operating systems, and applications. An example of this type of service provider is Rackspace.com.

Although OITS Has Already Consolidated Some IT Services, Consolidating Others May Achieve Further Savings

Consolidating IT services is a common strategy for reducing costs that involves combining individual agency systems into one centrally maintained system. A 2011 NASCIO survey found more than 90% of respondents either had consolidated, or were in the process of consolidating, a service. Further, a recent National Governor's Association white paper named consolidating IT services as a top action to save money.

Figure 2-4 on the next page shows which services other states have consolidated and the associated benefits, challenges, and lessons learned. As the figure shows, Oklahoma reports achieving significant savings in recent years by consolidating many services.

Many states reported they achieved savings through consolidation, but few have quantified those savings. States reported consolidating a range of services such as email, servers, data centers, and telecommunications. However, we found little information regarding actual savings.

- **A 2012 NASCIO survey found about half of the states that have consolidated services reported saving as much or more than they expected.** Unfortunately, the survey did not ask officials to quantify these savings.

- **Since 2009, Oklahoma reported saving \$115 million through several consolidation efforts.** In 2009, the Oklahoma legislature required the state's IT office to reduce costs by 15%. To meet that goal, the state began consolidating its network, licensing agreements, data centers, and many other services. As of August 2013, the state was about 50% done with this consolidation effort and expected to save an additional \$88 million over the next four years.

Figure 2-4
Summary of Kansas and Other States Efforts to Consolidate IT Services

State	Services (a)							Savings
	Email	Web Development	Network	Telecommunications	Data Centers	Software Licensing	Others (b)	
Kansas	(c)		✓	✓	(c)			N/A
Oklahoma	(d)		(d)	(d)	(d)	(d)	(d)	\$115 million since 2009

Reported Benefits	Reported Challenges	Lessons Learned
<ul style="list-style-type: none"> ● Can lead to better service because systems and processes are standardized ● Convenient way to determine the true costs of a service before outsourcing ● Improved decision making because of better access to information ● Stronger security 	<ul style="list-style-type: none"> ● Can be a slow process to implement ● Can be inflexible and unresponsive to specific agency needs ● Difficult to make changes because they affect so many agencies 	<ul style="list-style-type: none"> ● Consolidation is sometimes resisted by individual agencies because they must give up some autonomy and control ● Have a plan prepared to address the various agency dynamics ● It's important to be sure that consolidation will solve root problems rather than just treating a symptom

(a) A 2012 National Association of State Chief Information Officers (NASCIO) survey found that 52% of respondents have consolidated email applications, 62% have consolidated telecommunications, and 31% have consolidated data centers.
(b) Other services include security, help desk, and various business applications.
(c) Kansas is currently in the process of consolidating this service and then moving it to a cloud.
(d) As of August 2013, the Oklahoma CIO reported the state is about 50% complete with its consolidation efforts.
Source: LPA literature review and interviews with other state Chief Information Officers.

Consolidation can produce a number of other benefits such as improved service. A 2006 NASCIO publication noted that consolidated systems increased the availability of information across agencies, which resulted in better decision making and service. It also reported that network security improved with consolidated systems because there were fewer systems for hackers to attack. Additionally, Oklahoma officials reported consolidation was a convenient way to determine the true costs of services before outsourcing them.

However, consolidation can also create an inflexible or generic service system that does not meet the needs of individual agencies. That is because consolidation requires standardizing agency systems. When systems are standardized across many agencies functions created to meet specific agency needs are often removed. To avoid this problem, officials should consult with agencies throughout the consolidation process to identify and solve these issues as they arise.

OITS has consolidated some services such as the statewide network and most mainframe services. OITS has already consolidated its data network through KanWin and manages access to that network for all state agencies. Additionally, OITS has consolidated many of the state's mainframe services, including data processing for the state's accounting and payroll systems. In both cases, that is because OITS is the sole provider for all state telecommunications and data processing services by state law.

OITS is currently in the process of consolidating some, but not all of the other services that it could. OITS has made progress in consolidating some of these services (such as the state's network and mainframe services), but very little progress in others.

- **OITS is in the process of consolidating the state's email service and help desk function.** Officials plan to move email to a cloud provider as part of the consolidation process. They expect the vendor to be chosen by the end of the year and then to start consolidating individual state agency email systems soon after. Additionally, OITS officials said they have purchased new help desk software but have not yet set a date for when that consolidation will begin.
- **OITS has made minimal progress in consolidating software licenses and applications.** Officials told us some of this work could not start until they choose an email provider because email licensing is related to other types of software and application licenses. Additionally, officials told us that staff turnover has hindered their efforts to inventory all of the state's various applications—an important initial step in consolidation efforts.
- **Data centers could be consolidated further, but physical space is a barrier.** An audit we completed in 2010 assessed the potential of consolidating data centers across the state. That audit found the state had the necessary network to support a statewide data center, but did not have enough physical building space to house the servers. This is still a concern, but OITS officials indicate they plan over the next three years to move some executive branch agency servers to a private government cloud service which could help resolve or minimize this issue.

Figure 2-5 on the next page describes principles we identified that help ensure that the transition to any of the options discussed above is successful. As that figure shows, thoroughly researching the potential options and providing intensive oversight of the transition can make the transition easier and more successful.

Figure 2-5
We Identified a Number of Principles That Help Ensure
IT Outsourcing, Cloud Computing, or Consolidation Transitions are Successful

Transitioning services to a new delivery method can be difficult because of resistance to change or lack of buy-in from agencies. However, many states have already successfully made these transitions. Through our literature review and interviews with other state officials, we noted a few principles that can make the transition easier and more successful. These principles include:

- **Thoroughly research the options to choose the right approach.** Choosing the right strategy should be based on an assessment of the state's infrastructure, operations, and goals.
- **Consult with agencies to be sure the end result will meet their needs.** Frequent discussions with agencies about their needs and expectations make it more likely that a transition will be successful.
- **Start with a small non-mission critical project.** Starting small will allow officials to identify any issues with the process before taking on larger projects of more consequence.
- **Provide intensive oversight of the project.** Several sources cited this as the most important step for successful transitions. Officials must provide robust oversight to deliver a quality project on time, and on budget.

OTHER FINDINGS

OITS Does Not Have a Process to Ensure That Costs are Minimized and Its Rates are Competitive

An important aspect of assessing efficiency is to compare efficiency measures to a peer or a benchmark. For OITS, the primary measures of efficiency are service costs. By comparing its service costs to other states, the private sector, or other industry benchmarks it can explore the reasons it costs more for certain services. Officials can then adjust policies, procedures, or practices to ensure they provide the best service for the lowest possible cost.

A model for a good efficiency management process includes four steps:

- compiling data such as costs or other measures
- comparing those measures to other states, the private sector, or other benchmarks
- identifying reasons for any costs that seem significantly out of line
- making appropriate changes to improve efficiency

Although OITS made some efforts to compile efficiency data, they were not sufficient to make valid rate comparisons.

OITS officials reported they gather rate information from other states through their websites and national organizations and then make comparisons. We reviewed OITS' most recent comparison (officials told us it was last updated in November 2012) and found it was for a limited number of services and was missing a

large portion of the data. As such, it was not adequate for making a thorough and valid rate comparison.

OITS does not systematically compare its rates to the private sector. Officials reported they had previously contracted with a private company to compare its rates to the private sector but had not done this since 1998. OITS staff have attempted to collect comparison data to other states in the last couple of years. However, they told us they were not able to obtain comparable cost information for the various services they provide. We acknowledge this is a difficult task, but it could be made easier if OITS took action in two areas described below.

- **OITS officials must clearly determine which costs are associated with each service.** As discussed in Quesiton 1, OITS' service rates do not reflect actual costs. Ensuring relevant costs are associated with each service could allow officials to make better comparisons to private sector costs.
- **OITS officials must charge for major service usage, and not just service access.** Taking this step would allow OITS to create more accurate comparisons because much of the private sector charges customers based on usage rather than access. Officials told us they have already purchased software that will allow them to begin this process.

By taking these steps, OITS would increase the likelihood that they could create accurate comparisons between their rates and the private sector. Gathering this type of information is an important part of OITS' ability to assess its efficiency.

OITS has implemented very few of the eight efficiency related initiatives it started in May 2012. OITS officials identified 25 initiatives intended to help improve efficiency, increase transparency, and lower the cost of providing IT services. We assessed OITS progress in implementing eight of its initiatives intended to enhance efficiency through consolidation, use of cloud services, and increased rate transparency. *Figure 2-6* on page 35 describes the initiatives we reviewed and the actions OITS officials have taken to address them. As the figure shows:

- **Six initiatives were still in the planning phases and have not yet been fully implemented.** Those initiatives included developing key performance indicators, consolidating IT licenses across agencies, and assessing rates on an annual basis.
- **Two initiatives had largely been implemented.** Those initiatives were tracking internet bandwidth usage and developing cloud services.

Figure 2-6 Summary of OITS' Progress for Eight Efficiency Related Initiatives as of September 2013					
Initiative Description	OITS Planned Action	Planned Completion Date	Current Status...		Agency Status
			Completed	In Progress	
Assess Strategies for Tracking Internet Usage by Agency	Staff will research possible tools they could use to track and bill bandwidth utilization back to separate agencies and will make a recommendation to the Executive CITO accordingly.	July 2012	✓		OITS officials have purchased software and expect to have the system implemented by the end of 2013.
Assess Cloud Computing Opportunities	Officials will hire a cloud service director and form a working group to assess opportunities for cloud computing. Additionally, OITS will submit a request for information to gather more information from potential vendors.	August 2012	✓		Officials hired a cloud service director and created a working group to assess which services, such as email or data centers could potentially be moved to a cloud. Officials told us they chose to create a request for proposals instead of a request for information. As of October 2013, the request had been released.
Clarify OITS Central Office Rates	Staff will refine OITS service catalog to better articulate what each rate covers, phase in rate adjustments so rates better reflect the cost of individual services and publish financial statements for each service.	July 2013		✓	OITS officials reported the new software they purchased will resolve some of these issues. However, it is unclear to us whether the new software will truly resolve the issues.
Conduct Annual Rate Assessments of Services	Develop a process for conducting annual assessments of the central office rates to determine what services are best supplied by the state versus being outsourced.	Not specified		✓	OITS finance staff is in the process of planning an assessment to compare OITS' rates to other states and the private sector. However, this assessment will not be conducted until 2014.
Develop Key Performance and Customer Satisfaction Indicators	The Executive CITO and staff will work with agency leadership to develop a set of performance indicators and then publish those metrics on an annual basis.	August 2012		✓	Officials reported performance indicators are still being developed and thus have not been implemented.
Offer Incentives to Staff to Develop Cost Reducing Innovations	Officials will develop a pilot incentive program to evaluate employee suggestions for innovations or changes that yield quantifiable savings to the state.	August 2012		✓	Officials reported this initiative was more difficult to implement than initially thought because it involves a number of agencies, so more research is required.
Consolidate IT Software Licenses Across Agencies	Officials will form a working group to make recommendations about the state's licensing cycle and to recommend a tool to ensure agencies complied with licensing agreements.	August 2012		✓	Officials reported the work group has not yet been formed but will be as soon as they have chosen an email vendor.
Develop a Plan to Consolidate Agency Applications	Agencies will designate an individual to assist in creating an application inventory. These individuals will work together to analyze that information to identify duplication and consolidation opportunities.	August 2012		✓	Officials reported this work has not yet been started due to turnover in key staff positions. They plan to begin this work after the email vendor is chosen.

Source: LPA review of "25 Information Technology Initiatives to Lower IT Costs or Improve State IT Efficiency" and interviews with OITS officials.

Conclusion

OITS has taken some actions in the past to reduce IT costs and are currently in the early stages of consolidating some additional services. To identify other areas where savings might be possible, OITS needs to regularly assess its costs to identify areas where it is significantly out of line with other states or the private sector. Performing this type of analysis would provide the agency an opportunity to evaluate its delivery models and make necessary changes. Because IT delivery models change quickly as technology improves, it is important that OITS become more proactive in adjusting its service models to maintain quality service at the lowest possible cost. Although it appears that OITS officials are making some progress in these areas, it is still too soon to say whether those efforts will achieve their intended purposes.

***Recommendations for
Executive Action***

1. To reduce state IT costs as discussed on pages 23 through 33, OITS should continue to evaluate which services are most suitable for outsourcing, cloud computing, and consolidation and create appropriate strategies for transitioning each service.
2. To better assess the agency's efficiency discussed on pages 33 through 35, OITS should implement an efficiency management process that includes:
 - a. compiling data such as costs or other measures
 - b. comparing those measures to other states, the private sector, or other benchmarks
 - c. identifying reasons for any costs that seem significantly out of line
 - d. making appropriate changes, based on that information, to improve efficiency

APPENDIX A

Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on March 22, 2013. The audit was requested by Senator Caryn Tyson.

SCOPE STATEMENT

Office of Information Technology Services: Reviewing the Office's Service Rates and Viable Alternatives for Its Services

State law requires that the Department of Administration provide all telecommunication services for state agencies. Specifically, K.S.A. 75-4709 states that "The secretary of administration shall have the authority to control the acquisition, retention and use of all telecommunications services for all divisions, departments, and agencies of the state."

Functionally, those services are provided by the Office of Information Technology Services (OITS). OITS is housed within the Department of Administration for administrative purposes, but functions like an autonomous agency with its director being appointed directly by the Governor. OITS has about 120 FTE staff and is estimated to spend about \$36 million in fiscal year 2013. The agency is funded entirely through charges paid by state agencies and local units of government that use OITS services. The Office of Management and Budget reviews those charges to ensure OITS only recovers its costs and no more. However, that review does not evaluate whether the charges for specific services are competitive or reasonable.

Legislators have expressed concern that OITS' rates for information technology and telecommunications services may be excessively high because it lacks any private sector competition.

A performance audit in this area would address the following questions:

- 1. Do OITS' service rates reflect actual costs and are they competitive with comparable services provided in the private sector?** To answer this question, we would analyze relevant federal and state laws and other requirements related to providing information technology and telecommunications services. Further, we would work with OITS officials and would review available internal documentation to determine how OITS sets its rates, how often the rates change, and why. Moreover, we would review how much OITS has charged for common information technology and telecommunications services over the past several years to determine how they have changed over time. We would review relevant professional literature and interview several private sector vendors to determine how much comparable services might cost in the private sector. For services in which OITS rates are significantly higher than those in the private sector, we would interview OITS officials to determine the reasons why. We would perform additional work in this area as necessary.
- 2. What viable options exist for decreasing the cost of information technology and telecommunications services for state agencies?** To answer this question, we would review professional literature and would interview officials in several other states with an information technology and telecommunications provider similar to OITS to determine what they may have done to encourage competition or otherwise control costs for their services. We would also interview other state and OITS officials to identify the potential advantages and disadvantages of exclusively providing information technology and

telecommunication services through a state agency. Further, we would assess the feasibility of privatizing some or all of the state's information technology and telecommunications services. As part of that assessment, we would review previous efforts to privatize or increase competition for other government services, and would determine whether the strategies used for those transitions could be effectively applied to information technology or telecommunication services. We would perform additional work in this area as necessary.

Estimated Resources: 3 LPA staff
Estimated Time: 4 months (a)

(a) *From the audit start date to our best estimate of when it would be ready for the committee. This time estimate includes a two-week agency review period.*

APPENDIX B

Agency Response

On October 15, 2013 we provided copies of the draft audit report to the Office of Information Technology Services. Its response is included as this Appendix. Following the agency's written response is a table listing the department's specific implementation plan for each recommendation.

The agency generally concurred with the report's findings, conclusions, and recommendations.



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Anthony Schlmsog
Chief Information Technology Officer, Executive Branch

Sam Brownback, Governor

October 30, 2013

Scott Frank
Legislative Division of Post Audit
800 SW Jackson St, Suite 1200
Topeka, KS 66612-2212

Re: OITS Response to LPA Audit of OITS Rates and Alternatives

Dear Mr. Frank:

The Office of Information Technology Services (OITS) has received the draft copy of your completed performance audit, *Office of Information Technology Services: Reviewing the Office's Service Rates and Viable Alternatives for Its Services*. This letter constitutes our written response to the findings and Recommendations for Executive Action set forth in that audit.

The staff and leadership of OITS clearly realize that how we choose to operate and charge for our services have ramifications far beyond our own budget and office. With that in mind, OITS embarked on a series of changes, starting in early 2012 to find a more transparent and equitable way to charge for and monitor the performance of our services.

Not wanting to place any additional financial burden on the state, we choose to not seek additional funding that might have sped up the process. Laying out a coordinated transition plan to move OITS rate transparency forward and radically change our service catalog offerings and cost allocation model while preserving the integrity and performance of our information and computer systems has also necessitated a slower rate of change than anticipated.

But as you see in our responses to the LPA recommendations and from our regular updates to the Joint Committee on Information Technology (JCIT), OITS was taking action to resolve almost every one of the issues raised prior to the beginning of the audit.

We do believe the right questions were asked in the audit and the general recommendations coming from the audit are consistent with the direction OITS is moving. Much of the audit is focused on changes to the OITS cost allocation model and certainly the recommendations coming from LPA with regards to making these changes will help us in over-coming any agency resistance we might meet.

Our response to the bolded recommendations is as follows:

To ensure rates reflect actual costs OITS should: a) adjust rates based on its rate model calculations to ensure that individual service rates reflect actual costs for those services, b) establish billing rates for direct services such as KITO, GIS, and EIS services that ensure agencies are billed according to how much they use the service, c) properly track all unbilled or discounted services so they can be properly accounted for.

The federally required Statewide Cost Allocation Plan (SWCAP) is inherently complicated, as can be simply verified by looking at the published SWCAPs for each state. And while OMB A-87 regulations provide a framework around what is or isn't allowed in cost allocation, the approaches that states take to allocate costs for services vary significantly. Each approach has definite pros and cons – the ramifications of which may not have been clearly understood at the time the approach was adopted.

Historically in Kansas, the approach has been to minimize the number of individual service offerings by the OITS Central Office (formerly DISC) and formulaically spread the non-rated IT expenses across published offerings. This cost-allocation method is one that is employed by many states and is an acceptable cost allocation approach by HHS for expenses that may be utilized to some degree across many rates. Examples of these types of expenses may be those associated with governance, oversight, regulation, administration, and/or enforcement.

Cost-recovering these expenses in this manner has created a problem in that by adding additional “overhead” to a rate, it begins to appear that OITS rates are more expensive than a seemingly comparable service from a third-party. One might be tempted to immediately assume acquiring the service from the third-party would make the most economic sense until one realizes that even if the base service is outsourced, the functions of IT security, coordinating system architecture across the enterprise, governance and ensuring adherence to state standards remain in the purview of the State – and those functions require resources and human capital that isn't free. Outsourcing the root service without a funding source or cost-allocation method to pay for this very necessary governance would be akin to painting oneself into a corner.

OITS agrees that finding better and more equitable ways to fund these services needs to be a priority. This was an issue we identified during the first year of OITS and we began looking for cost allocation methodologies that would allow us to remove more of these governance and administrative expenses from existing service rates and rate them back out as a separate service.

Beginning in FY14, OITS implemented a separate KITO rate for new projects. According to approved HHS methodologies, the corresponding rates that carried KITO charges will be reduced in the following fiscal year by the revenue received from this rate. According to our projections, it will take approximately 3 years for this rate to fully phase in at which time we estimate it will fund 80% of the KITO operations. This rate will be born proportionally by those agencies that have the most KITO reportable

projects and budget under oversight. The remaining 20% will remain spread across rates as KITO does provide services and support to agencies that do not have any KITO reportable projects.

Our State Geographic Information Officer has been researching methodologies for allocating costs associated with GIS with our intent to implement a GIS rate back to agencies beginning in FY15.

Upon the formation of OITS in early 2012, we did a break-even analysis for the Professional Services Unit (EIS) and determined that their current bill rate was not adequate to fully cover the costs of operation. Our calculations indicated that rates would need to rise approximately 40% to reach break-even. We did an environmental scan of other states and found the vast majority of states had bill rates in the neighborhood of our recalculated rates. Because budgets for FY13 had already been set, we didn't feel comfortable pushing the full rate increase into effect immediately so we phased-in 20% in FY13 and the final 20% in FY14. We have stressed with this unit the importance of accurately tracking their time and fully billing agencies for ALL the time they spend on assignments.

OITS has had discussions with Maximus, the accounting firm on state contract hired to provide SWCAP support, about the tracking of P/L across OITS services. One of the major hurdles we have had is that SMART revenue codes do not correspond to SMART cost center codes. And in some cases, OITS services do not even correspond to revenue codes. Absent that alignment, tracking of P/L becomes problematic without operating a shadow general ledger system internally to OITS.

To address these tracking issues, OITS has taken a number of steps. We hired a CFO internal to OITS who is also a CPA that can assist us with our financial reporting. The CFO has been working with individuals within the Department of Administration and we are getting ready to implement a completely new set of revenue codes and cost center codes that align 1-to-1 with the offerings in our service catalog. These new codes will be implemented along with our new OITS billing system beginning in the January 2014 time-frame. Once fully implemented, we should be able to report detailed P/L from our billing system for each of our services.

OITS has also conducted several proof-of-concepts with vendors around being able to create viable rate models around metering-based utilization of our network and internet resources. Our new billing system will also implement this new rate model that can be run in parallel to our existing rate model so as to provide agencies with projected costs under the new metered model.

To ensure OITS is properly reporting profits and losses as required by federal regulation, OITS should: a.) work with the U.S. Department of Health and Human Services to resolve all reporting issues identified in this report, b) cease making adjustments to avoid reporting profits for specific services.

Our discussions with Maximus have also included discussions of appropriate cost-allocation models for new services and how we might be able to modify our existing model. We will re-engage them to assist in reviewing our proposed model revisions and running them by HHS for approval. We will, at that time, engage HHS in a discussion of the rate cross-subsidization that has occurred in the past and how we plan on addressing it in the future.

We would like to take exception to the wording used in (b) of this finding. While we don't deny that in the past there have been transfers of overages from some rates to make up for deficits in other rates, we don't believe it was done to avoid reporting profits in those rates, but rather to solve the more immediate problem of having to balance the budget of DISC and OITS.

Since OITS is 100% fee funded, a net deficit in OITS falls upon the Budget Director to find the available funds to balance the budget. This would, invariably, roll back to the agencies. To avoid doing so, overages were used to cover deficits elsewhere.

That said, OITS whole-heartedly agrees that this practice of cross-subsidization of rates should cease for three key reasons. First, it deviates from the SWCAP – the plan we have committed to follow with our Federal partners. Second, it makes TCO comparisons to third-party offerings extremely difficult and potentially inaccurate and could have unintended consequences if these services are ever out-sourced. Third, it creates an imbalance between the actual cost to provide a service and the perceived cost by our consumers. That imbalance affects utilization patterns and system architecture decisions that can either compound the funding-gap problem or in some cases lead an agency to make ill-informed decisions that make it even more painful when the imbalance is ultimately addressed.

As we mentioned in our introductory remarks, finding (b) by LPA will give us a stronger mandate when we encounter opposition to our rate normalization efforts, particularly from parties that have previously had their rates subsidized by others and are looking at a net rate increase.

To reduce state IT costs OITS should continue to evaluate which services are most suitable for outsourcing, cloud computing, and consolidation and create appropriate strategies for transitioning each service.

Since the founding of OITS in early 2012, we have been committed to critically evaluating the sourcing options for each of our services. This can be shown in our

decision to migrate into a SAAS offering for our consolidated service desk, our recommendation to migrate state email to a SAAS cloud-based collaboration platform, and our decision to outsource more of our network infrastructure to commercial carriers. We will continue to evaluate sourcing options looking for where the state can acquire the best service at the best price and use a fact-based approach to this decision making.

To better assess the agency's efficiency, OITS should implement an efficiency management process that includes: a) compiling data such as costs or other measures, b) comparing those measures to other states, the private sector, or other benchmarks, c) identifying reasons for any costs that seem significantly out of line, d) making appropriate changes, based on that information to improve efficiency.

We are actively engaged in revising our cost center codes along with our budgeting and billing practices that will allow us to compile cost data in a manner that we can better assess our agency's effectiveness in rendering our services.

We are committed to providing an annual benchmark to our rates with comparable services, when and where we can find them. As attested to in the audit report, finding comparable service offerings by other states is problematic as all states engage to some degree in cost-allocation of administrative functions across rates. Without knowing exactly what has been included or excluded from their rates, an apples-to-apples comparison can't be made.

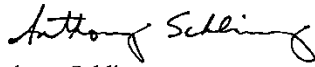
Comparisons to private sector offerings will be much easier post-implementation of our new billing system as the expenses associated with any administrative cost-allocation will be available to normalize our rates. And as mentioned before, OITS has promised agencies to take a fact-based approach to decisions around sourcing options and when truly cheaper options exist that meet the security and other requirements related to the system(s) in question, we won't hesitate making changes.

In general, I would like to personally thank the staff of the Legislative Post Audit for their work on this subject. The accounting issues are complex and the ramifications associated with changes to cost allocation models need to be clearly understood. We do wish more attention had been spent in documenting the measures OITS is currently undertaking to address these issues. Lastly, we are confident that the legislature will continue to see significant progress in these areas over the next 12 months. Regular updates of our progress will be provided to the JCIT.

Scott Frank
Page 6 of 6
October 28, 2013

With regards to the Legislative Post Audit Committee meeting that is scheduled on this audit on December 3rd, I plan on personally attending to present our response and address any questions the committee may have. If you need any additional clarification or information, please don't hesitate contacting me at 296-3463. Thank you.

Respectfully,



Anthony Schlinsog
Chief Information Technology Officer, Executive Branch
Office of Information Technology Services

cc: OITS Central Office Directors
OITS Agency Chief Information Officers

Itemized Response to LPA Recommendations

Audit Title: Office of Information Technology Services: Reviewing the Office's Service Rates and Viable Alternatives for Its Services

Agency: Office of Information Technology Services (OITS)

LPA Recommendation		Agency Action Plan
Question 1		
1.	To ensure rates reflect actual costs OITS should:	
	a. Adjust rates based on its rate model calculations to ensure that individual service rates reflect actual costs for those services.	OITS officials agree, and are working to find a better and more equitable way to fund services and ensure costs are tied to the actual service provided.
	b. Establish billing rates for direct services such as KITO, GIS, and EIS services that ensure agencies are billed according to how much they use the service.	Beginning FY2014 OITS implemented a separate KITO rate for new projects. It will take approximately three years for the rate to be fully phased in, at which time it will fund 80% of the KITO operations. The remaining 20% will continue to be spread across rates as KITO provides services and support to agencies that do not have any KITO reportable projects. OITS is currently researching methodologies for allocating costs associated with GIS and intends to implement a GIS specific rate beginning in fiscal year 2015. OITS had conducted a break-even analysis and determined the EIS unit was not fully recovering the costs of operations. It would require about a 40% rate increase for this service to break even. OITS decided to phase the full rate in through a 20% increase in fiscal year 2013 and 20% increase in fiscal year 2014.
	c. Properly track all unbilled or discounted services so they can be properly accounted for.	OITS hired a new Chief Financial Officer with a CPA certification that can assist with all financial reporting and code alignment issues. OITS is also implementing a new billing system that should allow tracking of all services and provide a more accurate profit and loss calculation for each service.
2.	To ensure OITS is properly reporting profits and losses as required by federal regulation, OITS should:	
	a. Work with the U.S. Department of Health and Human Services to resolve all reporting issues identified in this report.	OITS will have Maximus assist in reviewing proposed cost model revisions. OITS will also work with the U.S. Department of Health and Human Services to resolve the rate cross-subsidization that has occurred in the past.
	b. Should cease making adjustments to avoid reporting profits for specific services.	OITS agrees the practice of cross-subsidization of rates should cease. However, OITS officials contended that these adjustments were not made to avoid reporting profits, but rather to balance the agency's budget.
Question 2		
1.	To reduce state IT costs OITS should continue to evaluate which services are most suitable for outsourcing, cloud computing, and consolidation and create appropriate strategies for transitioning each service.	OITS will continue to critically evaluate sourcing options for each of its services.
2.	To better assess the agency's efficiency, OITS should implement an efficiency management process that includes:	OITS is actively revising its cost center codes along with its budgeting and billing practices to help compile cost data in a manner that can better assess the agency's effectiveness in rendering services.
	a. Compiling data such as costs or other measures	OIT is committed to providing an annual benchmark to our rates with comparable services, when and where we can find them. Comparisons to private sector offerings will be easier after the implementation of the new billing systems.
	b. Comparing those measures to other states, the private sector, or other benchmarks	
	c. Identifying reasons for any costs that seem significantly out of line	OITS will not hesitate to make changes when truly cheaper options exist that meet the security and other requirements of the state.
	d. Making appropriate changes, based on that information to improve efficiency	