

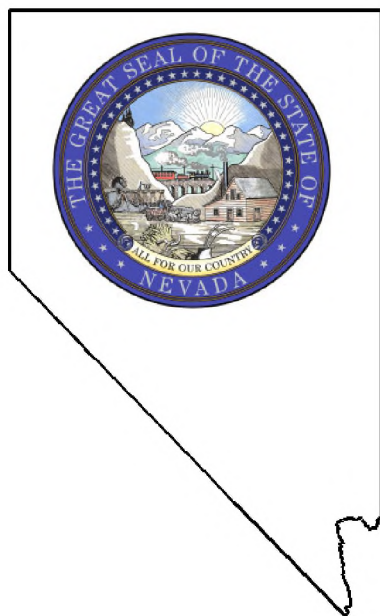
STATE OF NEVADA

Performance Audit

Office of the Governor
Office of the Chief Information Officer

Customer Rate Development and Contracting Practices

2023



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Office of the Governor, Office of the Chief Information Officer issued on September 10, 2024.

Legislative Auditor report # LA24-15.

Background

With legislation in 2023, the Division of Enterprise Information Technology Services name was changed to the Office of the Chief Information Officer (Office) and was transferred from the Department of Administration to the Office of the Governor. The mission of the Office is to provide services to effectively support the technology needs of state agencies and the residents they serve, while ensuring the State's technology infrastructure and security are continually evolving.

The Office consists of the following units: Client Services, Computing Services, Network Services, and Office of Information Security. The Client Services Unit provides information technology support, application development, database administration, and more. Computing Services manages the State Computer Facility. Network Services handles SilverNet, virtual private network, and other wireless technologies. The Office of Information Security provides leadership and oversight for a comprehensive state information security program.

For fiscal year 2023, the Office employed 165 full-time employees statewide.

Purpose of Audit

The purpose of the audit was to evaluate the Office's controls over the development of customer rates, and the monitoring and solicitation of contracts and lease agreements.

The scope of the audit focused on the Office's activities for fiscal years 2022 and 2023.

Audit Recommendations

This audit report contains seven recommendations to improve controls over rate development and contract solicitation and monitoring practices.

The Office accepted the seven recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Customer Rate Development and Contracting Practices

Office of the Chief Information Officer

Summary

The Office lacks adequate controls to properly track its employee labor distribution and to monitor customer utilization of its services in calculating customer rates. Specifically, the Office does not track employee time related to some services and for other services employee time tracking is not accurate. In addition, the Office did not always properly identify customers using its services. Operating as an enterprise fund, the Office is responsible for ensuring its operations are self-supporting through the customer rates it charges using entities. Rates are calculated based on the costs to produce the service and the number of entities using the service. Accurate labor distribution and customer utilization information is needed to ensure proper rate development so the costs of providing services are funded and so appropriate rates are charged to the appropriate users.

The Office did not always use competitive solicitation practices to procure millions of dollars in services. Instead, some procurements were completed as sole source procurements, or contracts were extended for years through amendments. In addition, effective contract monitoring did not take place, resulting in work being performed without appropriate contracts. State laws and policies govern the contracting process for services. When services are procured without competition or written contracts, there is an increased risk the State could overpay for services, fail to procure the best value, or be unable to enforce desired scopes of work.

Key Findings

The Office does not have an established, formalized process for tracking employee time and forecasting labor distribution. Our examination of cost pools revealed substantial deficiencies in labor distribution tracking, with 7 of 10 (70%) lacking thorough tracking of employee time allocation. Information technology services provided by the Office are divided into cost pools for budgetary purposes. A cost pool is a grouping of costs by service activity, and includes costs like direct labor, materials, overhead, and other costs associated with providing a specific service. In most cases, the majority of the expense associated with these cost pools is employee salaries and benefits. Therefore, the proper tracking of employee time associated with cost pools is important. (page 5)

The Office lacks effective controls to monitor customer utilization. For five of eight (63%) cost pools tested, information supporting customer utilization was inaccurate or undocumented. For example, the virtual server cost pool did not include on its 2022 and 2023 utilization list five customers that started using the services in fiscal year 2021. In addition, we observed some customers reported their own utilizations and non-paying customers were utilizing services. Tracking customer utilization is essential for generating accurate service rates and making informed decisions about resource allocation. (page 8)

We tested contracts that were in effect during fiscal years 2022 and 2023, and observed instances where the Office procured services through the questionable use of sole source waivers. For three of the eight (38%) sole source procurements tested, the services procured were offered by more than one vendor. State law, regulation, and policy require agencies to competitively procure goods and services. (page 11)

In some cases, contract amendments were used to expand contract maximums instead of seeking competitive bids. For 2 of 14 contracts tested, \$16.8 million in contract price was added through contract amendments. We found that one vendor's contract increased by \$12.1 million without any solicitation. Another vendor's contract, which began in 2013, was amended four times, with the scope of the contract evolving over the years. However, no solicitations were conducted for these changes. (page 13)

Inadequate contract monitoring resulted in transactions occurring outside the protections of a contract. We tested 15 expense contracts in fiscal year 2022 and 11 in fiscal year 2023. We found two payments totaling \$187,000 were made to vendors without active contracts in place. We also found a lapse in two revenue contracts for billing and payments pertaining to site space (rack rentals), microwave, and digital signal channels. In addition, we found two vendors were not billed for services rendered by the State. When products or services are not procured through a contract, or the contract expires, the State could be subjected to arbitrary price increases, unacceptable changes in products, delays, lack of services, or incorrect payments. (page 14)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Office of the Governor, Office of the Chief Information Officer, Customer Rate Development and Contracting Practices. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes seven recommendations to improve controls over customer rate development and contract solicitation and monitoring practices. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

April 29, 2024
Carson City, Nevada

Customer Rate Development and Contracting Practices

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Introduction

Background

The Division of Enterprise Information Technology Services became the Office of the Chief Information Officer (Office) under the Office of the Governor in 2023, with the passing of Senate Bill 431. The mission of the Office is to provide services to effectively support the technology needs of state agencies and those they serve. The Office consists of the following units:

- Client Services – Provides information technology support for partner agencies in the areas of application development, state website platform management and accessibility initiatives under the Americans with Disabilities Act, database administration, development and hosting, telephone operators, and desktop support.
- Computing Services – Provides computer processing services using a variety of systems and technologies and is responsible for managing, operating, and supporting the State Computer Facility and server environments.
- Network Services – Provides a variety of network-related services, including the state's SilverNet network, virtual private network, telecommunications, microwave, fiber optics, and other wireless technologies.
- Office of Information Security – Provides leadership and oversight for a comprehensive state information security program.

Budget and Staffing

The Office receives the majority of its funding through services and assessments from both public and private entities with the exception of the Office of the Chief Information Officer (CIO) unit,

which receives its funding from an internal cost allocation. Exhibit 1 shows the Office's fiscal year 2023 revenues and expenditures.

**Office Revenues and Expenditures
Fiscal Year 2023**

Exhibit 1

Revenues	Agency IT Services	Office of the CIO	Computer Facility	Data Comm. and Network Engineering	Telecomm.	Network Transport	Security	Totals
Services	\$1,641,980	\$ -	\$18,899,076	\$ 4,708,452	\$2,418,872	\$3,417,359	\$ 187,022	\$31,272,761
Assessments	3,070,418	-	3,233,768	-	-	-	1,899,096	8,203,282
Allocations	4,144,921	1,467,443	116,762	131,484	-	-	-	5,860,610
American Rescue Plan Act	63,551	13,270	69,043	10,472,158	445,498	824,185	13,837	11,901,542
Other Revenues ⁽¹⁾	-	-	234,915	-	944	252,181	-	488,040
Total Revenues	\$8,920,870	\$1,480,713	\$22,553,564	\$15,312,094	\$2,865,314	\$4,493,725	\$2,099,955	\$57,726,235
Expenditures								
Personnel	\$5,739,924	\$1,031,842	\$ 5,411,176	\$ 1,975,418	\$ 743,808	\$1,292,050	\$ 948,457	\$17,142,675
Travel	38,090	11,301	1,674	11,463	3,561	14,066	1,344	81,499
Operating ⁽²⁾	413,634	761,355	517,794	126,306	3,198	1,072,711	21,078	2,916,076
Training	1,149	650	58,921	6,814	100	-	10,791	78,425
Information Services	934,680	128,054	16,213,178	2,467,532	41,392	137,772	886,241	20,808,849
Telephone Services	-	-	-	-	1,709,243	-	-	1,709,243
Microwave Services	-	-	-	-	-	569,105	-	569,105
Allocations	997,068	78,651	841,199	294,350	230,421	387,585	167,358	2,996,632
American Rescue Plan Act	63,551	13,270	69,043	10,472,158	445,498	824,185	13,837	11,901,542
Other Expenditures ⁽³⁾	321,829	12,638	927,019	686,398	30,412	811,946	6,706	2,796,948
Total Expenditures	\$8,509,925	\$2,037,761	\$24,040,004	\$16,040,439	\$3,207,633	\$5,109,420	\$2,055,812	\$61,000,994
Differences	\$ 410,945	(\$ 557,048)	(\$ 1,486,440)	(\$ 728,345)	(\$ 342,319)	(\$ 615,695)	\$ 44,143	(\$3,274,759)
Plus: Beginning Cash	\$5,335,095	\$ 967,838	\$ 9,529,648	\$ 2,684,947	\$ 651,142	\$1,300,798	\$ 990,359	\$21,459,827
Balance Forwards to Fiscal Year 2024	\$5,746,040	\$ 410,790	\$ 8,043,208	\$ 1,956,602	\$ 308,823	\$ 685,103	\$1,034,502	\$18,185,068

Source: State accounting system.

⁽¹⁾ Other revenues include prior year revenue and transfers.

⁽²⁾ Operating includes operating, utilities, infrastructure maintenance, equipment, maintenance and grounds, insurance premiums, and land and building improvement.

⁽³⁾ Other expenditures includes purchasing assessment, state cost recovery plan, general fund payback, debt service, and transfers.

As of December 1, 2023, the Office had 190 authorized positions of which 165 positions were filled (13% vacancy rate). The agency has offices located in Carson City, Elko, and Las Vegas.

Service Rate Development

The Office develops its customer rates every biennium. The process begins roughly 6 months before the start of a legislative session and is a continuous process involving the Office, other state agencies, and the Legislature. In the rate development

process, the Office submits labor distribution and customer utilization information to the Department of Administration, Administrative Services Division, which uses this information to estimate costs and calculate customer rates. The labor distribution projection determines the direct costs of the services as well as the allocation of indirect costs, such as overhead.

While the Administrative Services Division is responsible for the calculation of customer rates, the Office is ultimately responsible for the accuracy of the information used in these calculations. Our audit focused on the Office's role in this process and, as a result, our recommendations are to the Office.

The customer rates for services are determined by dividing the revenue needed by the utilizations. To calculate the total revenue needed for each cost pool, the expenses and target reserves are combined, and the beginning balance is subtracted. This total revenue represents the funding required to cover various costs within each cost pool, such as salaries and fringe benefits, equipment, and other overhead expenses. The customer utilization can be a projected amount, based on historical usage, or combination of projected and historical usage depending on the specific cost pools.

Contract Management

When the demand for services or use of equipment exceeds the capability of the Office, the Office may contract for services. The Office contracts for a variety of services and equipment in the form of service contracts and lease agreements. Services and equipment include their mainframe and storage, information technology security, multifunction devices, server storage, software maintenance, statewide telephone system support, battery systems, as well as many others. The Office also enters into revenue contracts for microwave and digital signal channels as well as rack space server storage at multiple tower sites throughout the State.

Scope and Objectives

The scope of our audit included a review of activities related to the development of customer rates and the monitoring and solicitation of contracts and lease agreements in effect during fiscal years 2022 and 2023. Our audit objectives were to:

- Determine if the Office has adequate controls over the development of customer rates, including an analysis of labor distribution and customer utilization; and
- Determine if the Office has adequate controls over the monitoring and solicitation of contracts and lease agreements.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission and was made pursuant to the provisions of Nevada Revised Statutes (NRS) 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Inadequate Controls to Gather Needed Information for Customer Rate Development

The Office lacks adequate controls to properly track its employee labor distribution and to monitor customer utilization of its services in calculating customer rates. Specifically, the Office does not track employee time related to some services and for other services employee time tracking is not accurate. In addition, the Office did not always properly identify customers using its services. Operating as an enterprise fund, the Office is responsible to ensure its operations are self-supporting through the customer rates it charges using entities. Rates are calculated based on the costs to produce the service and the number of entities using the service. Accurate labor distribution and customer utilization information is needed to ensure proper rate development so the costs of providing services are funded and appropriate rates are charged to the appropriate users.

Tracking of Labor Distribution Not Adequate

The Office does not have an established, formalized process for tracking employee time and forecasting labor distribution. Our examination of cost pools revealed substantial deficiencies in labor distribution tracking. Seven of 10 (70%) tested were lacking thorough tracking of employee time allocation. In addition, when employee time was tracked for some cost pools, it was not always accurate.

Information technology services provided by the Office are divided into cost pools for budgetary purposes. A cost pool is a grouping of costs by service activity, and includes costs like direct labor, materials, overhead, and other costs associated with providing a specific service. In most cases, the majority of the expense associated with these cost pools is employee salaries and

benefits. Therefore, the proper tracking of employee time associated with cost pools is important.

Employee Time Not Tracked

For 7 of 10 (70%) cost pools reviewed, the Office lacked processes for a comprehensive tracking of employee time. The Office uses a report generated from its helpdesk system to estimate its employee labor distribution. However, this report was found to be inadequate as it did not provide the necessary level of detail to accurately determine employee time directed to specific cost pools.

The Office’s system to track user requests for assistance has limited functionality. Reports generated from the system include some general information like which staff are assigned, what is the issue, who requested help, and when the issue was resolved. However, the system does not track the amount of time spent to resolve the issue.

Exhibit 2 shows the seven cost pools and employee costs as a percentage of the estimated revenue needs for the cost pool in fiscal year 2023.

**Employee Costs to Estimated Revenue Needs
Fiscal Year 2023**

Exhibit 2

Service Cost Pools	Salaries and Fringe Benefits	Estimated Revenue Needs	Percents
Expanded Help Desk	\$ 855,611	\$1,065,973	80%
Agency Information Technology Support	986,473	1,391,448	71%
SilverNet	2,122,098	4,834,499	44%
Unix Support	561,017	1,688,784	33%
Microwave Site Space Rent	321,812	986,065	33%
Mainframe Services	1,322,767	7,381,433	18%
Server Hosting – Virtual	\$ 278,287	\$1,670,572	17%

Source: Auditor prepared from agency records.

As shown above, employee costs represent a significant percentage of the estimated revenue needs for some cost pools. The employee costs also determine the allocation of indirect costs, such as overhead.

Implementing accurate and reliable processes to track labor allocations is crucial to achieving operational efficiency and financial stability. The Department of Administration, Administrative Services Division (ASD) has drafted guidance for time studies and labor allocation based on the best practices published by the Government Finance Officers Association. These best practices serve as a benchmark for determining the adequacy of labor distribution policies and procedures. However, the ASD has yet to finalize its guidance and the Office has not developed its own policies and procedures to ensure employee time tracking by cost pool is reliable.

Employee Time Tracking Not Accurate

Our review of the timesheet records for 3 of 10 (30%) cost pools identified inaccuracies. For example, employee hours tracked in a system used by the Office to bill using entities and calculate overhead costs did not always add up to 40 hours a week. Additionally, variances were noted between hours recorded when compared to state payroll records.

Furthermore, we observed issues related to the allocation of full-time equivalents (FTEs) to cost pools. For three cost pools, four FTEs were incorrectly allocated outside their respective cost pools, impacting the calculated rates for others. In other cost pools, labor was evenly distributed despite data indicating a diminished demand, which suggests a reduced need for labor.

It is important to note that projections inherently involve estimates and assumptions. Discrepancies between the projected and actual figures may arise due to unforeseen factors or changing circumstances, emphasizing the importance of maintaining proper and accurate time-tracking records to formulate the projections.

The absence of a comprehensive and detailed tracking mechanism, coupled with inaccuracies in FTE projections and discrepancies in timesheet records, undermines the reliability and accuracy of labor allocation and rate calculations. In addition, this compromises the equitability of customer rates, as inaccurate projections can skew the rates. This could potentially lead to

Ineffective Monitoring of Customer Utilization

customers from one service inadvertently subsidizing the costs for customers of another service.

The Office lacks effective controls to monitor customer utilization. For five of eight (63%) cost pools tested, information supporting customer utilization was inaccurate or undocumented. In addition, we observed some customers reported their own utilizations and non-paying customer were utilizing services. Tracking customer utilization is essential for generating accurate customer rates and making informed decisions about resource allocations.

Inaccurate or Undocumented Utilization Information

The Office needs to enhance its tracking and documentation of customer utilization of services. For three cost pools, the Office did not effectively monitor customer utilization as listed below:

- For the virtual servers cost pool, our analysis identified reporting inadequacies. All utilization activities were not captured on the monthly report, resulting in 328 active virtual servers' segments being overlooked for billing purposes over a 7-month period tested. In addition, five customers that started their service in fiscal year 2021 were not included in the customer utilization list for fiscal years 2022 and 2023 rate calculations.
- For the SilverNet cost pool, a deficiency was identified in maintaining essential usage data. Data usage information was not maintained for fiscal years 2020 and 2021, which served as the source documentation for the development of rates for fiscal years 2022 and 2023. In addition, our testing identified nine consumer budget accounts that recorded usage in fiscal year 2022 but were not charged. Furthermore, 23 agencies were charged for service, but the data usage report indicated no usage.
- For the rack space rental cost pool, issues were noted in inventory records management. A master inventory list of customer utilization was not maintained and periodic inventory counts were not performed. In addition, our reconciliations on rack space rental revealed that four rack

spaces were omitted from the utilization list, and three spaces were incorrectly factored into the rate calculation for fiscal years 2022 and 2023.

Non-Paying Customers Utilizing Services

Our testing identified instances where entities accessed Office services but were not billed for the services. For example, the following was observed:

- Six non-paying agencies utilized information technology support services from July 1, 2021, to May 15, 2023. Erroneously, the Office did not charge them for the services because the agencies did not allocate funds for this expense in their budget for fiscal years 2024 and 2025.
- Twenty-five state agencies used the services of the expanded information technology helpdesk and were not charged for this service. These departments were responsible for 313 of 671 expanded information technology helpdesk tickets from July 1, 2021, to May 15, 2023, constituting 47% of the tickets submitted during non-business hours.

The Office does not have an established, formalized process for monitoring customer utilization and generating comprehensive utilization reports for its various cost pools. For certain cost pools, the Office has reviewed historical usage information and projected future utilization, making recommendations regarding usage to state agencies. However, for other cost pools, the Office has relied on self-reported usage data from entities without performing reconciliation or verification procedures. This inconsistency underscores the need for an established, formalized process to monitor customer utilization and generate comprehensive utilization reports for cost pools.

Maintaining accurate and well-documented records for service utilization is important to help ensure correct information is used when developing customer rates and allocating resources. Inaccurate customer utilization tracking can lead to the

underfunding or overfunding of the Office's operations, the inequitable charging of service rates, and the misallocation of resources.

Customers Self-Reported Utilization

The Office relied on state agencies to self-report utilization of services through the budget process, instead of using internal data to identify utilization. For three cost pools tested, the Office did not reconcile between entities utilizing services and entities that budgeted for the services. For example, state agencies accounted for approximately 51% of the rack space rental usage; however, the Office lacked the utilization information or service-level agreements necessary to verify the usage self-reported by state agencies.

Recommendations:

1. Implement a reliable and comprehensive time tracking process enabling accurate tracking of staff time for labor distribution purposes.
2. Develop policies and procedures to ensure the equitable distribution of staff time among applicable cost pools.
3. Develop policies and procedures to track customer utilization data and to ensure its accuracy.
4. Develop a process to coordinate with the Department of Administration, Administrative Services Division and perform reconciliations during the rate development process to ensure the most accurate utilization data is used.

Contract Solicitation and Monitoring Practices Can Be Strengthened

The Office did not always use competitive solicitation practices to procure millions of dollars in services. Instead, some procurements were completed as sole source procurements, or contracts were extended for years through amendments. In addition, effective contract monitoring did not take place, resulting in work being performed without appropriate contracts. State laws and policies govern the contracting process for services. When services are procured without competition or written contracts, there is an increased risk the State could overpay for services, fail to procure the best value, or be unable to enforce desired scopes of work.

Competitive Solicitation Not Always Used

We tested contracts that were in effect during fiscal years 2022 and 2023 and observed instances where the Office procured services through the questionable use of sole source waivers. For three of eight (38%) sole source procurements tested, the services procured were offered by more than one vendor, but the Office continued to procure the services from the same vendor by using a sole source designation.

Exhibit 3 on the following page shows the three sole source procurements and information related to the timing and financial implications for these procurements.

Questionable Sole Source Procurements

Exhibit 3

Vendor	Original Contract Maximum Amount	Final or Current Contract Maximum Amount	Original Contract / Purchase Date	Final or Current Contract / Purchase Date	Services Provided
Vendor A	\$ 91,036	\$12,244,220	2017	2023	Lease and purchase of disk storage, mainframe server software and operating system, and support.
Vendor B	\$968,497	\$ 5,607,282	2013	2021	Database storage, virtual server equipment, and software.
Vendor C ⁽¹⁾	N/A	N/A	1992	2023	Printing software, report writing, and archiving.

Source: Auditor prepared from the Office's contract documentation.

⁽¹⁾ The Office has not executed a formal contract for these services.

As shown above, several services were questionably deemed sole source and competitive solicitations were not performed. For example, the Office indicated Vendor C's services were sole source because the software provided by the vendor is proprietary. Vendor C provides software used for report archiving and printing. Although the software is proprietary, the services should not be considered sole source as other vendors also provide software that performs a similar function. The Office has used another vendor's software in the past, but prefers Vendor C's product. Since fiscal year 2004, Vendor C has been paid almost \$2.5 million for its services.

For the services shown in Exhibit 3, the Office requested sole source solicitation waivers from the Department of Administration, Purchasing Division. In addition, for some services the same sole source solicitation waiver was used multiple times to continue contracting with the vendor without regard to significant changes made to the scope of work for the contract. Although agencies may obtain sole source solicitation waivers from the Purchasing Division, it is the responsibility of agency management to ensure a sole source vendor designation is legitimate for the services being procured.

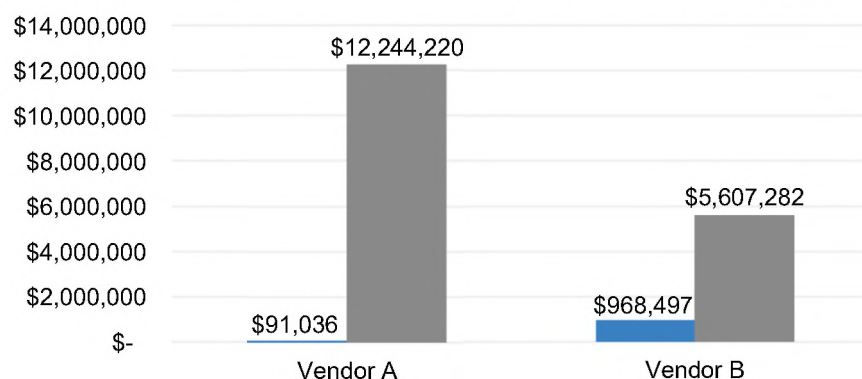
State law, regulation, and policy require agencies to competitively procure goods and services. NRS 333.140 requires the securing of goods and services that are the best value. To receive the best value, agencies are required to solicit bids through a request for proposal process when the estimated value of the contract will exceed \$25,000 per fiscal year. In addition, the State's policy

requires agencies to solicit contracts at least every 4 years. While soliciting contracts every 4 years may not be prudent for some information technology products and services, allowing decades to pass before competitively soliciting bids for those services is not in the best interest of the State.

Contract Amendments Used Instead of Competitive Solicitations

In some cases, contract amendments were used to expand contract maximums instead of seeking competitive bids. For 2 of 14 contracts tested, \$16.8 million in contract price was added through contract amendments. Exhibit 4 shows the magnitude of contract costs increased through contract amendments.

Contract Cost Increased Through Amendments Exhibit 4



Source: Auditor prepared based on review of contracts and amendments.

As shown above, Vendor A's contract increased over \$12.1 million and Vendor B's contract increased by \$4.6 million.

Although it may be prudent to extend some contracts beyond 4 years, attention should be given to ensure the competitive solicitation of services is utilized regularly. In September 2020, the Board of Examiners instructed the Office to pursue other options besides Vendor A and create a request for proposal, as they would not approve any subsequent amendments. In some instances, reluctance to solicit other vendors has allowed the Office to circumvent purchasing best practices.

Contract Monitoring Can Be Improved

Inadequate contract monitoring resulted in transactions occurring outside the protections of a contract. We tested 15 expense contracts in fiscal year 2022 and 11 in fiscal year 2023. We found payments totaling \$187,000 were made to two vendors without active contracts in place. We also found a lapse in two revenue contracts for site space (rack rentals), microwave, and digital signal channels services provided by the Office. In addition, we found two vendors were not billed for services rendered.

State policy requires contracts for services procured by state agencies. Contracts play an important role in procuring goods and services, and revenue collection. They ensure that the agency is properly charged, obligations by the vendor to the agency are timely, and the vendor is paid appropriately within contract terms. The Office does not have policies and procedures related to contract management.

When products or services are not procured through a contract, or the contract expires, the State could be subjected to arbitrary price increases, unacceptable changes in products, delays, lack of service, or incorrect payments. Furthermore, it could be difficult for the State to enforce the terms of an expired agreement and collect revenue owed.

Recommendations:

5. Develop policies and procedures to help ensure services are competitively solicited in accordance with state law and policy.
6. Develop policies and procedures to evaluate existing agreements to determine whether a competitive procurement process should be employed before amending agreements.
7. Develop policies and procedures to help ensure compliance with state law and policy requirements regarding written contracts and to properly monitor performance of applicable contract terms.

Appendix A

Office of the Chief Information Officer Customer Rates Fiscal Years 2022 and 2023

Service	Unit of Measure	FY2022 and 2023 Rate
Client Services		
Personal Computer and Local Area Network Support	Per Full Time Equivalent (FTE)/Per Year	\$ 741.44
Agency Information Technology Support	FTE/Per Year	575.99
Expanded Help Desk Support	FTE/Per Year	630.34
Programmer and Developer	Per Hour/Per Month	87.05
Database Administrator	Per Hour/Per Month	99.56
Database Hosting – Structured Query Language	Per Gigabyte/Per Month	2.00
Computer Facility		
Business Productivity Suite (Office 365)	Per License/Per Month	31.31
Unix Support	Per Partition/Per Year	3,011.55
Mainframe Services	Per Central Processing Unit Minute/Per Month	35.25
Print Management	Per 1,000 Lines/Per Month	1.75
Shared Web Server Hosting	Per Megabyte (MB)/Per Month	
	0 to 999 MBs	39.08
	1,000 MBs to 3,999 MBs	48.19
	4,000 MBs to 14,999 MBs	54.41
	15,000 MBs to 34,999 MBs	59.20
	35,000 MBs and over	65.15
Non-Server Hosting – Basic	Per Server Device/Per Month	49.66
Server Hosting – Basic	Per Server/Per Month	89.07
Server Hosting – Advanced	Per Server/Per Month	270.73
Server Hosting – Virtual	Per Slice/Per Month	43.79
Disk Storage	Per Gigabyte/Per Month	0.05
Data Communications and Network Engineering		
SilverNet	Per Terabyte (TB)/Per Month	
	0.00 to 0.20 TB	100.00
	0.20 to 0.99 TB	175.00
	1.00 TB to 3.99 TB	351.00
	4.00 TB to 6.99 TB	701.00
	7.00 TB to 14.99	1,402.00
	15.00 TB to 49.99 TB	2,805.00
	50.00 TB to 99.99 TB	5,609.00
	100.00 TB to 399 TB	8,975.00
	400 TB and over	\$37,983.00

Appendix A

Office of the Chief Information Officer Customer Rates Fiscal Years 2022 and 2023 (continued)

Service	Unit of Measure	FY2022 and 2023 Rate
<u>Telecommunications</u>		
Phone Line and Voicemail	Per Line/Per Month (Includes Long Distance)	\$ 7.29
Private Branch Exchange Network Access	Per Connection/Per Month	994.84
800 Service – Toll Free	Per Minute	0.20
<u>Network Transport</u>		
Microwave Site Space Rent	Per Rack/Per Year	3,651.51
Microwave Digital Signal 0 Circuit	Per Channel End/Per Year	1,595.69
Microwave Digital Signal 1 Circuit	Per Circuit/Per Month	8,231.12
Microwave Ethernet Transport	Megabytes Per Second Pipe Size/Per Month	223.37
<u>Security</u>		
Nevada Card Access System Card Reader	Per Card Reader/Per Month	9.92
<u>Assessments</u>		
Infrastructure Assessment	FTE/Per Year	315.92
Security Assessment	FTE/Per Year	\$ 93.93

Source: Office of the Chief Information Officer rate information.

Appendix B

Audit Methodology

To gain an understanding of the Office of the Governor, Office of the Chief Information Officer (Office), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the Office's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Office. In addition, we documented and evaluated internal controls related to the Office's processes for developing its service rates and contract management.

Our audit included a review of the Office's internal controls significant to our audit objectives. Internal control is a process effected by an entity's management and other personnel that provides reasonable assurance the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The scope of our work on controls related to rate development and contract solicitation and monitoring practices included the following:

- Establish structure, responsibility, and authority; and evaluate performance and enforce accountability (Control Environment);
- Design of control activities; and implement control activities through policy (Control Activities); and
- Performance of monitoring activities (Monitoring).

Deficiencies and related recommendations to strengthen the Office's internal control systems are discussed in the body of this report. The design, implementation, and ongoing compliance with internal controls are the responsibility of agency management.

To determine if the Office has adequate controls over the development of customer rates, including evaluations of labor distribution and customer utilization, we first identified all the services provided by the Office during fiscal years 2022 and 2023. The Office had 28 cost pools in fiscal years 2022 – 2023 and we judgmentally selected 10 based on our understanding of each cost pool and their potential risks, and our desire to test multiple budget accounts and dollar amounts.

To test cost pool labor distribution, we discussed the existing method for projecting the labor distribution with various managers. We inquired about records for employee time tracking and when applicable analyzed the reasonableness of the existing methodology. For cost pools that used an information system to track employee time, we obtained employee timesheet records as of February 28, 2023, and verified the timesheet records against the system interface to ensure the reliability of the computer generated information. We then compared the available timesheet records against the projected labor distribution used for rate development. We also compared the employees' positions and compensation used in the labor distribution against the legislative approved budget. We discussed the role of the Department of Administration, Administrative Services Division (ASD) in labor distribution and their guidance for internal service funds. For services that did not track employees' time, we also determined whether other records used were sufficient to aid the labor allocation projection.

For customer utilization testing, we selected 8 of the 10 cost pools judgmentally selected above. Our selection included all cost pools that did not use full-time equivalents to measure utilization. To test customer utilization for the eight selected cost pools, we obtained the customer utilization lists used for the fiscal years 2022 and 2023 rate development. We also obtained system reports to evaluate actual usage. To ensure reliability, we verified the system reports against the system interface for completeness and accuracy. In addition, we verified the existence of non-paying customers by reviewing state budgeting and accounting records and usage system reports. We also discussed the role of ASD in customer utilization and the timeline of utilization submission for

the Office. For one service without a system report, we inquired and reviewed the available lease agreement contracts and service-level agreements. We compared the available agreement records to actual usage.

To determine if the Office has adequate controls over the monitoring and solicitation of contracts and lease agreements, we interviewed staff to identify active contracts, service agreements, and leases during fiscal years 2022 and 2023. We obtained access to the State's Contract Entry Tracking System (CETS) to search for and review the contracts and supporting documentation.

For expense contract monitoring, we identified 26 vendors with payments in fiscal years 2022 and 2023 (as of December 31, 2022) that exceeded \$50,000 by downloading the payment data from the State's accounting system. We sorted the payments by vendor and by amount. We then searched CETS to determine if there was a contract in place and if so, which agency was responsible for the agreement. We removed vendors from the list that were considered master service agreements or state contracts (initiated and maintained by the Department of Administration, Purchasing Division). We confirmed with the agency that payments to vendors were made without a formal contract in place.

For contract solicitation, we tested all 14 contracts in effect during fiscal years 2022 and 2023 that were above \$100,000 in value. In CETS, we verified the contract totals, current contract amount, previous contract amount, if any, length of agreement, dates in effect, number of amendments, the scope of work, extension waivers, sole source bid exemptions, and the purpose of the agreements. We discussed amendments and the scope of work with the appropriate managers to understand the goods or services provided and the process involved in initiating and maintaining the agreements.

For revenue contract monitoring, we took the data from the current active revenue contracts provided to us by the Office and compared it to the information found in CETS and to the copies of

the contract information maintained by Legislative Counsel Bureau, Fiscal Division. We verified the current start date and searched CETS for a previous version of the contract. If a previous version existed, we used the end date and last amount to compare to the current contract date and amount to determine the length of time since the last contract adjustment. To review the payments received for the revenue contracts, we judgmentally selected 5 public service and 10 private vendor contracts based on the highest dollar amounts. We did not review state-specific agencies, as they were not listed on the contracts list provided by the Office. We requested billing and payment information from the Office. We compared the amount billed to the amount collected, whether the payment agreed with the contract terms, if the payment was applied to the appropriate cost pool for rate calculation and was comparable to the amount charged to state agencies.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project exceptions to the population.

Our audit work was conducted from July 2020 to September 2023. We paused our audit work for this audit in 2021 to complete other legislative priority audits. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with Nevada Revised Statutes 218G.230, we furnished a copy of our preliminary report to the Office of the Governor, Office of the Chief Information Officer. On April 16, 2024, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C, which begins on page 22.

Contributors to this report included:

Kam Wai Cheung, CPA
Deputy Legislative Auditor

Lori Kroboth, MBA
Deputy Legislative Auditor

Todd Peterson, MPA
Chief Deputy Legislative Auditor

Appendix C

Response From the Office of the Chief Information Officer

Joe Lombardo
Governor



Timothy D. Galluzi
State Chief Information Officer

Darla J. Dodge
Deputy CIO / COO

David Axtell
Deputy CIO / CTO

Bob Dehnhardt
Deputy CIO / CISO

STATE OF NEVADA
GOVERNOR'S OFFICE
Office of the Chief Information Officer
Office of Information Security
100 N. Stewart Street, Suite 100 | Carson City, Nevada 89701
Phone: (775) 684-5800 | it.nv.gov | infosec@it.nv.gov

April 26, 2024

Daniel L. Crossman
Legislative Auditor
Nevada Legislative Counsel Bureau - Audit Division
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Crossman:

We appreciate the opportunity to be part of the audit of The Office of the Chief Information Officer (OCIO) and would like to extend our gratitude to you and your team. The feedback and recommendations from LCB audit staff are highly valued by the agency.

Following the preliminary audit report provided on 04/04/24, covering the Fiscal Year 2022 and 2023 audit period, OCIO acknowledges and accepts all recommendations. We have already commenced the implementation of changes and processes to address several of the recommendations. Below, you will find OCIO's response to each recommendation along with the status of the changes being implemented, either presently or in the near future.

Tracking of labor allocations and monitoring of customer utilizations recommendations

1. Implement a reliable and comprehensive time tracking process enabling accurate tracking of staff time for labor distribution purposes.

Response: The Office of the CIO agrees with this recommendation.

The OCIO has successfully completed one round of time studies and will begin another round in May. These two studies will be averaged and incorporated into the labor allocations update in the upcoming budget build. Additionally, the OCIO is currently rolling out a new IT Service Management (ITSM) platform, equipped with time tracking and reporting capabilities.

2. Develop policies and procedures to ensure the equitable distribution of staff time among applicable cost pools.

Response: The Office of the CIO agrees with this recommendation.

The OCIO will develop policies and procedures on the time study process to be completed in conjunction with each biennium budget build.

3. Develop policies and procedures to track customer utilization data and to ensure its accuracy.

Response: The Office of the CIO agrees with this recommendation.

The OCIO, in collaboration with the Governor's Finance Office, has implemented a new report in NEBS called the NEBS900. This report mandates thorough review and approval of utilizations by both the partner agencies and the OCIO, ensuring complete transparency regarding customer needs and validating projections from customer agencies. This process will provide both the partner agency and OCIO with support for the utilizations being used in the rate building process. Additionally, the OCIO will develop policies and procedures on the NEBS900 report for future budget builds.

4. Develop a process to coordinate with the Department of Administration, Administrative Services Division and perform reconciliations during the rate development process to ensure the most accurate utilization data is used.

Response: The Office of the CIO agrees with this recommendation.

The OCIO has initiated discussions with our partner agency, the Administrative Services Division, regarding the utilizations process. Both agencies are collaborating on a system that provides input from all parties involved that will yield a successful rate build with the partner agency's utilizations. The OCIO will continue collaborations with Administrative Services Division to develop policies and procedures for reconciling utilizations throughout the rate development process.

Contract solicitation and monitoring recommendations.

5. Develop policies and procedures to help ensure services are competitively solicited in accordance with state law and policy.

Response: The Office of the CIO agrees with this recommendation.

The OCIO has transitioned the contract tracking and solicitation management in-house, to be overseen by the fiscal team. Consisting of three management analysts and a CFO, all certified as Contract Managers, this team has devised a tracking system to oversee all contracts and solicitations in compliance with state regulations and policies. Additionally, the OCIO is developing policies and procedures for the tracking and monitoring of contracts and agreements within the agency.

6. Develop policies and procedures to evaluate existing agreements to determine whether a competitive procurement process should be employed before amending agreements.

Response: The Office of the CIO agrees with this recommendation.

As mentioned in #5, the OCIO has transitioned the contract process in-house which has required a full review of every contract the agency has. The OCIO has worked to establish upcoming deadlines for solicitations, amendments, and terminations. This process is monitored regularly and will be part of the policy and procedure mentioned above.

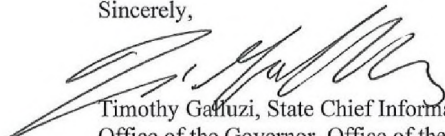
7. Develop policies and procedures to help ensure compliance with state law and policy requirements regarding written contracts and to properly monitor performance of applicable contract terms.

Response: The Office of the CIO agrees with this recommendation.

As mentioned in #5 and #6, the policies and procedures for monitoring written contracts will be pulled together in conjunction with the solicitation and amending contract processes to ensure a full review of all agreements within the agency. The certification of fiscal staff as contract managers will greatly contribute to ensuring the agency's compliance with state laws and policies regarding solicitation and procurement of contracts in the future.

If you have any further question or require any additional information, please do not hesitate to contact Tiffany Morelli, Chief Financial Officer at the OCIO, at tiffanymorelli@it.nv.gov or at 775-531-3078.

Sincerely,



Timothy Gaffuzi, State Chief Information Officer
Office of the Governor, Office of the CIO

Office of the Chief Information Officer's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Implement a reliable and comprehensive time tracking process enabling accurate tracking of staff time for labor distribution purposes.....	<u>X</u>	<u> </u>
2. Develop policies and procedures to ensure the equitable distribution of staff time among applicable cost pools.....	<u>X</u>	<u> </u>
3. Develop policies and procedures to track customer utilization data and to ensure its accuracy	<u>X</u>	<u> </u>
4. Develop a process to coordinate with the Department of Administration, Administrative Services Division and perform reconciliations during the rate development process to ensure the most accurate utilization data is used	<u>X</u>	<u> </u>
5. Develop policies and procedures to help ensure services are competitively solicited in accordance with state law and policy	<u>X</u>	<u> </u>
6. Develop policies and procedures to evaluate existing agreements to determine whether a competitive procurement process should be employed before amending agreements	<u>X</u>	<u> </u>
7. Develop policies and procedures to help ensure compliance with state law and policy requirements regarding written contracts and to properly monitor performance of applicable contract terms	<u>X</u>	<u> </u>
TOTALS	<u>7</u>	<u> </u>