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We have completed an audit of the Department of Information Technology. This audit is part of 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. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Department of Information Technology for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

November 19, 2002
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF INFORMATION TECHNOLOGY

AUDIT REPORT

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EXECUTIVE SUMMARY

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Purpose

The purpose of this audit was to evaluate the Department's financial and administrative practices. Our audit included a review of the Department's financial and administrative activities for the year ended December 31, 2001. These activities included overtime, telephone purchase and use, management information, and billing rates.

Results in Brief

The Department of Information Technology lacks effective financial and administrative controls in several areas. Administrative oversight is not adequate to ensure employee overtime is proper, timesheets are accurate, and telephone charges are appropriate. As a result, the State is subject to unnecessary expenses in these areas. In addition, the Department lacks the information it needs to oversee and coordinate its activities. In several areas information is not available for measuring, reporting, and monitoring performance. Furthermore, the Department continues to have difficulty billing for the cost of its services provided to user agencies. Many of these problems have occurred because management has not enforced existing controls or taken appropriate actions to resolve management information deficiencies.

Principal Findings

- The Department did not properly approve or monitor employee overtime. Of the 20 timesheets with recorded overtime we tested, the Department could not provide evidence that any overtime was approved

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in advance as required by state laws and internal procedures. In addition, 20 of 223 employees accumulated more than 120 hours of overtime without an agreement required by personnel regulations. Without advance approval, overtime can be abused and management may not be appropriately controlling employee workload. In addition, overtime controls are important because employees are paid time and one-half for each hour worked. During calendar year 2001, the Department paid employees about \$333,000 in overtime. (page 9)

- Management provided little oversight to employees in the Web Services unit to ensure timesheets were accurate and overtime was properly controlled. In calendar year 2001, the 5 employees in this unit recorded about 3,260 hours of overtime. As a result, these employees received more than \$131,000 (39%) of the overtime paid by the Department during the year. (page 10)
- Three Web Services employees did not record leave on their timesheets when they took time off to perform volunteer activities for the Nevada Division of Wildlife. We identified 5 instances, totaling 50 hours, where leave was not properly reported. Furthermore, these employees claimed overtime on their timesheets for some volunteer activities. Although these employees indicated they made up their time off by working additional hours at another time, we could not verify these claims because no records were kept. (page 11)
- Web Services employees improperly recorded overtime for working on weekends in all 67 instances we tested. These instances totaled about 133 hours of improper overtime, resulting in about 200 hours of compensatory time. Specifically, we identified 11 instances where overtime was claimed when it was not worked. In addition, we identified 56 instances where Web Services employees recorded more overtime than allowed by state personnel regulations.

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According to management, staff did not understand the state's call back regulations. These regulations allow an employee to be credited with 2 hours of call back at the rate of time and one-half only if the employee is called back to work on an unscheduled basis. (page 12)

- The Department was unable to provide supporting documentation related to the approval and purchase of cell telephones for 10 individuals we selected. In addition, the Department was unable to provide supporting documentation for four of five other cell telephone equipment purchases, totaling about \$1,200. These purchases were charged by employees directly to the Department's telephone account without preparing the required approval forms. (page 15)
- The Department has yet to obtain and analyze appropriate information regarding the decentralization of its programming services. In 2001, a pilot program was established to evaluate the impact of transferring programmer staff to user agencies. Despite a lack of information regarding the results of this pilot program, further decentralization has been proposed for fiscal year 2005. This proposal has serious risks because the pilot program failed to generate adequate information on the costs and benefits of decentralization. Because the financial impact to the State has not been analyzed, some overhead costs currently paid by the Federal Government may be shifted to the State. (page 16)
- The Department lacks readily available information for monitoring the performance of contractors who provide tens of millions of dollars in information services for the State. Therefore, management information is not available to monitor the status of vendor performance throughout the contract. Information regarding a vendor's past performance, timeliness of service, completion of deliverables, and individual programmer performance could help

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prevent problems and identify areas for improvement. (page 18)

- Complete information is not available regarding the Department's performance for the services it provides. In several areas performance measures are incomplete, out-of-date, or do not exist. Performance information is important to monitor operations for efficiency and effectiveness. In addition, government officials need performance information to assess program results, evaluate resource decisions, and communicate program accomplishments. (page 19)
- The Department has had difficulty developing a rate model to bill for the services it provides. Since 1998, seven contracts have been awarded to develop and monitor the rate model and prepare cost allocation plans. Despite these contracts, billing problems continue to occur. Significant variances exist between billed costs and actual costs. For example, 14 of the 35 rates generated billing variances greater than 40% from the cost of providing the service during fiscal year 2001. (page 22)
- Billing variances have created several problems. For example, some agencies have been overcharged for services they received and other agencies undercharged. As of June 30, 2001, Department budget accounts with overcharges totaled about \$5.2 million. In addition, budget accounts with undercharges totaled about \$4.6 million. Because the Department's costs are often charged to federal programs, the Federal Government requires repayment of its share of the overcharges. In August 2002, Department staff indicated the State was negotiating with the government to determine how much of the \$5.2 million must be repaid. (page 23)

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Recommendations

This report contains seven recommendations to improve management controls of the Department of Information Technology. These recommendations include approving overtime in advance and providing adequate supervision and review of work activities to ensure timesheets are accurate. In addition, we recommend cell telephone purchases be approved and procedures be developed to ensure travel reimbursements are appropriate. We also recommend management information be collected, analyzed, and reported to evaluate the decentralization of programming services and to monitor the performance of agency operations. (page 37)

Agency Response

The agency, in its response, accepted all seven recommendations. (page 31)

Introduction

Background

The Department of Information Technology (Department) was created in 1965. NRS 242.071(1) states the creation of the Department of Information Technology is necessary for the coordinated, orderly and economical processing of information in state government, to ensure economical use of information systems and to prevent the unnecessary proliferation of equipment and personnel among the various state agencies. The Department's declared purposes are as follows:

- To perform information services for state agencies.
- To provide technical advice but not administrative control of the information systems within the state agencies, county agencies and governing bodies and agencies of incorporated cities and towns.

The 2001-2003 Executive Budget states the Department is to provide information technology leadership, centralized oversight and delivery of effective and efficient information services to enhance the service provided by Nevada state agencies, while ensuring state agencies employ the most productive and cost effective uses of information technology. The Department is responsible for any application of an information system it furnishes to state agencies and officers, designing and placing those systems in operation, and the writing, testing, and performance of programs. All state agencies and elected officers must use the Department for the design of their information systems, unless exempt by statute. Exempt agencies include, among others, the University and Community College System of Nevada, the Department of Transportation, the Department of Motor Vehicles, and the State Controller.

As of December 2001 the Department had 223 authorized full-time equivalent positions. The Department is organized into the Director's Office; Administration section; the Policy, Planning and Research section; Project Management and Oversight section; and the Technical Operations section. The Director's Office is responsible for the Department's executive leadership. The Administration section is responsible for fiscal services, personnel, quality assurance, contract administration,

security, and support services. The Policy, Planning, and Research section is responsible for information technology planning and research activities. The Project Management and Oversight section is responsible for managing information technology projects. And, the Technical Operations section is responsible for communications, database administration, programming, and the computing group that oversees the state's mainframe computers.

In addition, two committees have been created to assist the Department in fulfilling its duties: the Information Technology Advisory Board and the Governor's Information Technology Oversight Committee. NRS 242.122(1) created the Information Technology Advisory Board (ITAB) to:

- Advise the Department on information technology issues including development and acquisition, and policies and standards.
- Review the Department's strategic plans.
- Review the Department's proposed budget before submission to the Budget Division.

ITAB includes representatives from agencies using the Department's services, local governments, the information technology industry, and the Legislature. In addition, the Director of the Department of Administration and the Superintendent of Public Instruction, or their designees, are members.

The Governor's Information Technology Oversight Committee oversees the Nevada Information Technology Operations Committee (NITOC). NITOC is responsible for reviewing policy proposals from eight committees to ensure they are consistent with each other and generally acceptable to the Nevada information technology community. The eight committees are: Strategic Planning, Security, E-government, Technical Standards and Architecture, IT Project Oversight, IT Workforce, Justice IT Integration, and Electronic Records Management. Policies and procedures that are approved by NITOC are passed to the Governor's committee for final approval.

For fiscal year 2001, expenditures totaled \$35.3 million. The Department is headquartered in Carson City and is funded by fees charged to state agencies using its services.

Scope and Objective

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 NRS 218.737 to 218.893. 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.

This audit included a review of the Department's financial and administrative activities for the year ended December 31, 2001. These activities included overtime, telephone purchase and use, management information, and billing rates. We extended some procedures into 2002 to monitor the Department's reporting requirements related to management information and billing rates. The objective of our audit was to evaluate the Department's financial and administrative practices.

Findings and Recommendations

The Department of Information Technology lacks effective financial and administrative controls in several areas. Administrative oversight is not adequate to ensure employee overtime is proper, timesheets are accurate, and telephone charges are appropriate. As a result, the State is subject to unnecessary expenses in these areas. In addition, the Department lacks the information it needs to oversee and coordinate its activities. In several areas, information is not available for measuring, reporting, and monitoring performance. Furthermore, the Department continues to have difficulty billing for the cost of its services provided to user agencies. Many of these problems have occurred because management has not enforced existing controls or taken appropriate actions to resolve management information deficiencies.

Administrative Oversight Is Not Adequate

The Department has not provided adequate administrative oversight to ensure employee overtime is properly approved, timesheets are accurate, and telephone charges are appropriate. None of the overtime we tested was approved in advance, and overtime balances were not always monitored. In addition, we identified numerous timesheet discrepancies for employees within one unit. Furthermore, several employees purchased their cell telephones without proper approval, and some made personal telephone calls at the State's expense. Most of these problems occurred because management has not enforced existing laws, regulations, and internal policies and procedures. Until adequate management oversight is provided, the State is subject to unnecessary expenses in these areas.

Employee Overtime Not Properly Approved and Monitored

The Department did not properly approve or monitor employee overtime according to state laws and internal procedures. Of the 20 timesheets with recorded overtime we tested, the Department could not provide evidence that any overtime was approved in advance as required by NRS 284.180(10). In addition, the Director did not

approve overtime requests when employee overtime balances would exceed 60 hours. For 19 instances requiring the Director's approval, none were approved as required by the Department's policy. Without advance approval, overtime can be abused and management may not be appropriately controlling employee workload. Enforcement of overtime controls is also important because employees are paid time and one-half for each hour worked. During calendar year 2001, the Department paid employees about \$333,000 in overtime.

We also identified that 20 of 223 employees accumulated more than 120 hours of compensatory time, including 4 employees with balances in excess of 240 hours. NAC 284.250(3) prohibits compensatory time accrual in excess of 120 hours without an agreement, not to exceed 240 hours. However, none of these employees had an overtime agreement as required by personnel regulations. Overtime incurred in excess of these limits creates a liability to the State that must be paid in cash.

Several factors have contributed to overtime problems. In 1998 we reported similar overtime problems and recommended the Department monitor employee overtime. Although procedures were established to control overtime, the Department lacked sustained commitment to ensure its long-term implementation. In addition, the forms used to approve overtime did not require a date indicating if the supervisor approved the overtime in advance. Without an approval date, management cannot ensure overtime controls are working as intended. Finally, our testing identified several instances when the form was not properly completed.

Poor Management Oversight for One Unit's Work Activities

Management provided little oversight to employees in one unit to ensure timesheets were accurate and overtime was properly controlled. In calendar year 2001, the 5 employees in the Web Services unit recorded about 3,260 hours of overtime. As a result, these employees received more than \$131,000 (39%) of the \$333,000 in overtime paid during the year. According to management, they received allegations of falsified timesheets within this unit. Management conducted a limited investigation in July 2001, but did not discover any wrongdoing. Because of these allegations and the significant amount of overtime paid to employees in this unit, we reviewed this unit's timesheets. Although the Department did not maintain detailed

records of work activities, we were able to identify significant timesheet problems using data from other units and state agencies.

Our review of available records identified that (1) time off was not always recorded on timesheets, (2) overtime was improperly recorded, and (3) work activities were not adequately monitored. In addition, the dates on timesheets did not always agree with the dates that employees' claimed travel expenses. Because management controls were not a priority for this unit, we could not verify the propriety of overtime or the accuracy of employee leave balances. As a result, there is little assurance that overtime was kept to a minimum and state resources were properly used.

Time Off Not Recorded on Timesheets

Three employees did not record leave on their timesheets when they took time off to perform volunteer activities for the Nevada Division of Wildlife. We identified 5 instances, totaling about 50 hours, where leave was not properly reported. Furthermore, these employees claimed overtime on their timesheets for some volunteer activities. These activities were performed during the regular workweek and during normal work hours. For example:

- ***Leave Not Recorded for Marlette Lake Fish Spawning*** – On Tuesday, May 29, 2001, two Department employees did not record leave on their timesheets when participating in a fish spawning activity for the Nevada Division of Wildlife. According to the Wildlife Division, these volunteers were met at the Spooner Lake parking lot at approximately 9:00 a.m., driven to Marlette Lake to assist with the activity, and returned to the parking lot around 4:00 p.m. Instead of recording time off, the employees' timesheets indicate they each worked their regular 8-hour shift, plus 1 hour of overtime from 12:00 noon to 1:00 p.m.
- ***Leave Not Recorded for Bighorn Sheep Capture*** – On Monday, October 29, 2001, one Department employee did not record leave on the timesheet when participating in a Desert Bighorn Sheep capture and relocation activity for the Nevada Division of Wildlife. According to the Wildlife Division, work started at first light and capture operations were concluded at about 7:00 p.m. Everyone started their return for home at around 7:45 p.m., arriving in Carson City at about 11:00 p.m. Instead of recording time off, the employee's timesheet indicates 10 hours of work, earning 2 hours of overtime from 7:00 p.m. to 9:00 p.m.

When we asked the Department to explain these timesheet discrepancies, management provided statements from two employees who did not record their time off. According to these employees, they made up their time off by working additional

hours at another time. However, we could not verify these claims because no records were maintained showing the dates and times the hours were made up. In addition, these employees did not have a formal flextime work schedule agreement during our audit period.

Management indicated they are strong advocates of flextime, which was used by employees in the Web Services unit. We agree that flexible work schedules can be important for meeting customer and state needs; however, we identified numerous problems regarding the Department's implementation of flexible work schedules. First, employees did not provide an accurate accounting of the hours worked and leave used on their timesheets, including the specific times at which work shifts started and ended as required by NAC 284.5255(1). Second, NRS 284.180(8) requires overtime after working 40 hours in a workweek. Because flexible work hours were not recorded, overtime calculations may be incorrect. Finally, the Department did not adopt a flexible work schedule policy until June 2002.

Improper Recording of Overtime

Web Services employees improperly recorded overtime for working on weekends in all 67 instances we tested. In some instances, overtime was claimed when it was not worked. In other instances, employees recorded more overtime than allowed by State Personnel regulations. Although the Department did not maintain complete and accurate records of employee work activities for this unit, we identified improper overtime by comparing timesheets to weekend security records for calendar year 2001. We estimate about 133 hours of overtime were improperly recorded for the instances we tested, resulting in about 200 hours of compensatory time.

Specifically, we identified 11 instances where overtime was claimed when it was not worked. This overtime was claimed for working at the state's computer facility on a weekend; however, the Department's automated and manual security systems did not show the employee entering or leaving the facility on the day overtime was claimed. These instances totaled about 22 hours of overtime.

We also identified 56 instances where Web Services employees inappropriately recorded 2 hours of overtime each time they backed up a computer on the weekend. Although we estimate the weekend backups took an average of 18 minutes, staff

believed the overtime was subject to the state's call back regulations. Therefore, staff claimed 2 hours for call back pay at a rate of time and one-half (3 hours), instead of recording the actual time spent on the activity. As a result, we estimate these employees recorded about 111 hours of additional overtime.

According to management, staff did not understand the call back regulations found in NAC 284.214. These regulations allow an employee to be credited with 2 hours of call back pay at the rate of time and one-half if the employee is called back to work on an unscheduled basis. However, these provisions did not apply to this backup activity because these employees were not called back to work on an unscheduled basis. They knew ahead of time of the work to be performed and had the flexibility to complete the work at their discretion.

Work Activities Not Adequately Monitored to Control Overtime

Management did not adequately monitor Web Service's work activities to help control overtime. During calendar year 2001, management did not ensure employees maintained information on how they spent their work time. Therefore, information is not available showing hours worked by agency or project for each employee. Without information on work activities, management cannot adequately monitor operations to identify areas for improvement and help keep overtime to a minimum.

Management indicated that tracking time for Web Services personnel is not critical to the operation of the unit, since services are not billed at an hourly rate to customer agencies. However, we identified several areas where better information could provide accountability for performance and help control overtime:

- ***Performance Information Not Tracked*** – Basic information such as the number of web pages created and the amount of time to create a web page is not available. Therefore, information regarding staff performance is not available to identify areas for improvement.
- ***Training Not Adequately Monitored*** – One employee recorded about 106 hours of overtime for training in calendar year 2001, but the Department was unable to provide records indicating what the training was for. According to this employee, some of the overtime was for reading at home.
- ***Work at Home Not Adequately Monitored*** – Work-at-home activities were not adequately monitored for some Web Services staff. Employees were not required to document work activities conducted at home.

- ***Staggered Schedules Not Used*** – Although the Department advocates the use of flextime and claims Web Services is a 24 hour operation, timesheets indicated staggered work schedules were not used to help minimize overtime.
- ***Computer Backup Duties Not Transferred Timely*** – The Department did not transfer weekend computer backup duties from the Web Services staff to the computer facility staff until late 2001. Overtime could have been reduced if management had monitored overtime and transferred this responsibility at an earlier date.

Although Web Services employees were not required to track their time, management told us that some of these employees used Microsoft Outlook, a computer software application, to record their overtime. However, our review of available records found Microsoft Outlook to be a calendar to help schedule events that may or may not occur. It was not used as a tool to track where work time was spent. Furthermore, supervisors had not reviewed these calendars and were unsure who was using Microsoft Outlook to track overtime.

Timesheet Dates Do Not Agree With Travel Claims

Our comparison of travel claims to timesheets identified several discrepancies between the two records for the Web Services unit. For example, two employees obtained travel reimbursements for mileage on 8 days when their timesheets stated they were sick. In addition, two employees submitted identical travel claims for May 2001, each in the amount of \$50.37. The 22 dates of travel, travel details, and travel times are identical. However, these two employees' timesheets indicate they performed different duties, at different times, and at different locations.

Although the dollar amount of questionable travel claims is small, over reimbursement of travel costs is a waste of state funds. NRS 353A.020(1) requires agencies to have procedures for recordkeeping to effectively control expenses. However, the Department lacks policies and procedures to help ensure travel claims are accurate.

Management Controls Were Not a Priority for the Web Services Unit

According to management, the primary direction given to the Web Services unit was to establish and maintain the Web Services infrastructure. While management acknowledged record keeping in the Web Services unit was "loose," they stated the following:

Overall, DoIT management feels confident that the web services unit has two very dedicated employees who have, at many times, placed their work duties in front of their family obligations and the amount of time actually worked by these individuals far exceeds what has been documented on their timesheets. We also feel there has been no malicious intent by these two individuals in their submitted timesheets or mileage claims where errors have been identified.

Management also indicated customer service is their number one priority, which is particularly important for the Web Services unit. While customer service is important, we believe controls can be implemented while also satisfying customer needs. Without a system of controls, management has little assurance resources are safeguarded, laws are complied with, and programs meet their intended objectives.

Poor Controls Over the Purchase and Use of Telephones

The Department has poor controls over the purchase and use of telephones. For example, the Department was unable to provide supporting documentation for 14 of 15 purchases related to cell telephones that we tested. In addition, we identified over 150 personal cell telephone calls that were not reimbursed.

Management was unable to provide supporting documentation related to the approval and purchase of cell telephones for 10 individuals we selected. In addition, management was unable to provide supporting documentation for four of five other cell telephone equipment purchases, totaling about \$1,200. These purchases were charged by employees directly to the Department's telephone account without preparing the required approval forms. Consequently, cell telephone purchases and related equipment purchases have not been properly approved.

The Department does not have an adequate process to help ensure personal cell telephone calls are reimbursed as required by section 1616 of the State Administrative Manual (SAM). We reviewed 20 cell telephone billing statements for 10 employees and identified over 150 personal calls that were not reimbursed. These calls totaled about \$90.00.

Currently, the Department relies on staff using cell telephones to identify their personal calls and submit a reimbursement. However, reimbursement does not always occur. When we asked management if it had any written policies and procedures regarding reimbursement for personal cell telephone calls, they stated a policy was being prepared. Furthermore, the Department has not provided any written approval

permitting employees to liberally use cell telephones for personal telephone calls as required by SAM 1616.

Recommendations

1. Ensure employee overtime is approved in advance and overtime balances are monitored in accordance with agency policies and procedures.
2. Provide adequate supervision and review of work activities to ensure timesheets accurately report hours worked, overtime earned, and leave used.
3. Develop policies and procedures to help ensure requests for travel reimbursement are appropriate.
4. Ensure cell telephone equipment purchases are approved according to agency policies and develop procedures for the reimbursement of personal calls made at the state's expense.

The Department Lacks Management Information

The Department lacks the information it needs to oversee and coordinate some of its activities. For example, the Department has yet to obtain and analyze appropriate information to measure the success of its pilot program to decentralize programming staff. In addition, the Department lacks readily available information to monitor contractors providing information services to the State. Finally, complete information is not available for measuring, reporting, and monitoring performance. Collecting and reporting management information has been a struggle for the Department since our last audit in 1998.

Information systems for measuring, reporting, and monitoring operations are essential to management controls. A management information system should generate reports that: (1) provide periodic feedback about the quality, cost, and timeliness of services, (2) provide an early warning indicator to correct problems, or show if corrective action is having any effect, and (3) provide input for planning and resource allocation.

To be useful, information should be identified, captured, and distributed in a form and timeframe that enables management and others to carry out their responsibilities.

Programming Services Decentralized Without Adequate Information

The Department has yet to obtain and analyze appropriate information regarding the decentralization of its programming services. In 2001, a pilot program was established to evaluate the impact of transferring programmer staff to user agencies. Despite a lack of information regarding the results of this pilot program, further decentralization has been proposed for fiscal year 2005. This proposal has serious risks because the pilot program failed to generate adequate information on the costs and benefits of decentralization. Because the financial impact to the State has not been analyzed, some overhead costs now paid by the Federal Government may be shifted to the State.

Decentralization of services is a significant change from the efforts to centralize services since 1995. In developing the 1995-1997 biennial budget, an effort was made to consolidate information technology services under the Department, including programmer positions. This effort was in response to Senate Concurrent Resolution No. 5, from the 1993 legislative session, which required the Department to conduct a study of the feasibility of consolidating information technology services.

During the 2001 legislative session, concerns were raised regarding the adequacy of planning for the Department's pilot program to decentralize programming services. Because of these concerns, the Chairmen of the Senate Committee on Finance and the Assembly Committee on Ways and Means issued a letter requesting the Department finalize its decentralization plan and provide sufficient information to adequately evaluate the program. Additionally, the letter requested the Department provide quarterly reports to the Interim Finance Committee detailing the program's performance. This information would be used by the 2003 Legislature to determine whether the program should be continued, expanded, or terminated.

Although some information has been gathered and reported, proper planning and analysis of the decentralization program has yet to be conducted, and quantifiable measures of performance have not been established. As a result, little information is available to make decisions regarding the decentralization of about 20 positions. For

example, in April 2002, the Department reported that agencies claim communication has improved and costs were lower, but no data analysis was provided.

Despite a lack of information, further decentralization of programming services is proposed for the NOMADS system. This proposal is to transfer NOMADS system programmers to the Department of Human Resources in fiscal year 2005. Because the Department billed about \$9.2 million to NOMADS in fiscal year 2002, this request could have a significant impact, including cost increases to other users.

Although this transfer may benefit the Department of Human Resources, it could shift costs to the State that are currently paid by the Federal Government. This may occur because NOMADS is primarily funded by the Federal Government. Currently, NOMADS absorbs a large share of the Department's overhead costs that are built into its rates for programming and other services. Therefore, overhead costs could be shifted to agencies that rely on state funds, increasing the costs to the State.

Because no analysis has been done regarding decentralization, it is unknown how much cost will be shifted between the State and Federal Government. To ensure decentralization is in the best interest of the State, the Department should gather and analyze adequate information regarding the costs and benefits of decentralization. The Department has included in its 2004-2005 budget request \$75,000 for a study beginning July 2003. According to management, the results from this study will be available for the 2006-2007 biennium.

Information on Contractor Performance Not Adequate

The Department lacks readily available information for monitoring the performance of contractors who provide tens of millions of dollars in information services for the State. The Department's Contract Administration unit maintains data related to contracts, work orders, and payments. In addition, it requires project managers to sign-off on deliverables before payment is made. However, this unit does not maintain information on the status of contractor deliverables and performance. Therefore, information is not readily available to monitor the status of vendor performance throughout the contract. Information regarding a vendor's past performance, timeliness of service, completion of deliverables, and individual programmer performance could help prevent problems and identify areas for

improvement.

During 2001, the Legislature expressed concerns regarding the oversight of contractors working under the Master Services Agreement (MSA) with the State. Therefore, the Chairmen of the Senate Committee on Finance and the Assembly Committee on Ways and Means issued a letter requesting the Department to document its process to oversee MSA contractors. In addition, this letter requested the Department provide reports to the Interim Finance Committee detailing the Department's performance regarding the monitoring and managing of MSA contractors. Although procedures were drafted for MSA oversight, as of August 2002 nothing had been finalized and information was not readily available regarding the performance of these contractors.

According to management, an agreement could not be reached with the various parties involved regarding the amount of data to be collected. Although management indicated more resources would be needed, we believe obtaining basic management information such as timeliness of deliverables and vendor performance would not consume a significant amount of resources. To capture this information, the Department could modify its existing database maintained in the Contract Administration unit.

Performance Information Is Incomplete

The Department lacks complete information regarding its performance for the services it provides. In several areas performance measures are incomplete, out-of-date, or do not exist. Performance information is important to monitor operations for efficiency and effectiveness. In addition, government officials need performance information to assess program results, evaluate resource decisions, and communicate program accomplishments. During our audit, we identified several services without adequate measures.

- ***Units Without Performance Measures*** – Performance measures do not exist for several Department functions. For example, the Web Services unit, the Project Management and Oversight section, and the Database Administration unit do not have any performance measures.

- ***Application, Design, and Development Unit (AD&D)*** – The performance measures reported in the Executive Budget do not include the activities of about one half of the positions funded from AD&D’s budget account. This occurred because organizational changes have shifted the supervision of about 25 programmers and Quality Assurance staff to other units.
- ***Policy, Planning, and Research*** – The performance measures for the Policy, Planning, and Research section need revision to reflect the current emphasis on performing Technology Outlooks. Technology Outlooks are high-level assessments to help agencies prioritize their information technology needs.

Performance measures have been a long-standing problem for the Department. In 1998 the Department did not have an adequate information system to track its performance related to the development of information systems. In September 1999, an automated system to generate this information was purchased. However, it was later discovered this system did not have the capabilities to produce performance measures. Finally, in a 2001 audit of the state’s performance measures, the four Department measures selected for testing were found to be unreliable.

In January 2002, the AD&D unit implemented an automated system to better track and measure its programming activities. Although AD&D’s new system should produce more accurate performance measures, better information is needed for other units. According to management, the Department is in the process of reviewing and revising its performance information in many areas.

The Department Has Struggled to Meet Its Information Needs

The Department has struggled to meet its information needs since our last audit. In 1998 we reported that the Department did not have complete, accurate, and timely information regarding the status of its projects. This included unreliable data and the inability to provide accurate performance information to the Legislature. At that time, the Department was attempting to overcome management information problems by manually preparing a monthly activity report called the Project Initiation Team (PIT) report. Management viewed this report as an interim measure to monitor projects while its automated tracking system was redesigned to provide management with better information. However, the Department had difficulties in establishing a management information system. Below are some of the management information systems since our last audit.

- ***Project Initiation Team (PIT)*** – PIT was intended to track various types of activities undertaken by the Department. To a limited extent the PIT report allowed management to see which projects were being worked on and who was assigned to them. However, the report did not always contain information to track project costs, and some projects were missing target and completion dates. The last PIT report was completed in July 2000. According to Department management, the report was not adding any value and was consequently discontinued.
- ***Timesheet Professional (TSP)*** – In September 1999 the Department purchased a software package called TSP. Key features of this system were to include tracking both billable and non-billable hours. In addition, an attempt was made to generate management information contained in the PIT report, and provide performance measure information. However, after working with TSP for some time, the Department concluded it could not adequately produce performance measures and develop the information contained in the PIT report.
- ***Cost/Schedule Performance Evaluation Criteria (CSPEC)*** – The purpose of the CSPEC process is to establish a streamlined procedure for tracking the cost and schedule status of information technology projects costing \$500,000 or more, or that are critical in nature. The use of the CSPEC process was implemented in January 2002. In May 2002, we asked about the status of the CSPEC process. At that time it had only been tested on two projects and the necessary data had not been accurately captured.

In addition, Department units have developed different systems to collect management information for their units. For example, the AD&D unit recently implemented an automated system called ProTrak to help monitor their programming activities. Management indicated ProTrak would be expanded to other units. However, AD&D was the only unit using ProTrak during our audit, and it had not been redesigned for use by other units. Although ProTrak helps capture AD&D's management information, it was not developed to ensure management information is shared with other units.

Because each unit has their own information system, sharing information is difficult. For example, the Department lost track of one project during our audit. Five different divisions and units worked on this project. During the project, the Department transferred its management responsibility back to the agency that had requested assistance. At this point, the Department lost track of the project because it had no system to monitor it. Consequently, staff were unaware of what transpired on the project for several months. In addition, the Department did not complete the tasks they had agreed to perform, did not have good information to review deliverables from the MSA contractor, and was never paid for about \$2,700 of AD&D services.

Recommendations

5. Ensure adequate information is collected, analyzed, and reported to evaluate the decentralization program and to monitor the performance of contractors that provide information services.
6. Evaluate the Department's performance measures and ensure management information is available to monitor operations.

Billing Issues Not Yet Resolved

The Department still has not resolved billing issues regarding the cost of its services provided to user agencies. For many services, significant variances exist between the total amount billed and costs incurred. These variances have resulted in several problems including overcharges that must be repaid to the Federal Government and undercharges that may require increased rates in the future. Although the Department's rate model is intended to recover costs associated with the services provided, better management information is needed to help reduce variances.

Rate Model Development Has Been Difficult

The Department has had difficulty developing a rate model to bill for the services it provides. Since 1998, seven contracts have been awarded to develop and monitor the rate model and prepare cost allocation plans. In addition, the Department developed its own computer spreadsheet to perform rate calculations. However, significant errors occurred when this spreadsheet was used to forecast revenues for the 2002-2003 budget request. According to the Department, the "...spreadsheet mutated into an undesirable form, over-collecting in some cost pools and under-collecting in others." As a result, contracts were secured to review and revise rates and monitor the rate model on a quarterly and annual basis beginning in fiscal year 2002.

Because the Department operates as an internal service fund, it is required to recover its operating costs by billing agencies for the services it provides. Billing rates are intended to recover the actual costs of the services with the smallest amount of rate variation. In order for these billings to be allowable costs for federal programs, the

State must comply with federal cost allocation procedures set forth in the Federal Office of Management and Budget's (OMB) Circular A-87. This Circular establishes the principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with the State.

Significant Billing Variances Have Occurred

Our review of billing rate information prepared by the Department's consultant identified significant differences between billed costs and actual costs. For example, 14 of the 35 rates generated billing variances greater than 40% from the cost of providing the service during fiscal year 2001. Exhibit 1 provides some examples of the amounts billed for services and the variance from actual costs.

Exhibit 1

**Examples of Billing Variances
Fiscal Year 2001**

Service Provided	Amount Billed	Cost	Variance
Phone Repair	\$544,640	\$115,282	372%
Disk Input/Output Access	\$320,947	\$88,159	264%
Print Services (Per Page Charge)	\$141,526	\$44,584	217%
Internet	\$171,399	\$83,351	106%
Interactive Programmer Access (TSO)	\$4,424,899	\$2,316,926	91%
Rent for Communication Equipment Space	\$329,877	\$841,148	-61%
Server Support (i.e. cooling, fire protection, etc.)	\$42,732	\$78,380	-45%
Voice Mail Service	\$65,989	\$116,234	-43%

Source: January 28, 2002, consultant report.

Billing Variances Have Created Problems

Billing variances have created several problems. For example, the variances in Exhibit 1 indicate some agencies have been overcharged for services they received and other agencies undercharged. In addition, state agencies must use forecasted rates to predict their information service costs for their biennial budget. If the Department's rates are incorrect or usage estimates are not accurate, agencies could experience budget difficulties.

Billing variances have also resulted in the accumulation of significant overcharges and undercharges. As of June 30, 2001, Department budget accounts with overcharges totaled about \$5.2 million. In addition, budget accounts with

undercharges totaled about \$4.6 million. Exhibit 2 shows the cumulative overcharges and undercharges by budget account.

Exhibit 2

**Department of Information Technology
Overcharges/Undercharges by Budget Account
As of June 30, 2001**

Budget Account	Overcharge	Undercharge
1373 Director's Office		\$ 17,200
1365 Application, Design, & Development	\$1,867,567	
1370 Planning and Research		3,015,221
1385 Computing Division	1,827,372	
1387 Telecommunications (Telephone Systems)	1,439,616	
1388 Communications (Wireless Communication Services)		1,586,230
1386 Data Communications (Computer Networks)	102,086	
Total	\$5,236,641	\$4,618,651

Note 1: The amounts in this exhibit exclude allowable reserves. OMB Circular A-87 allows a 60-day cash reserve for normal operating expenses.

Source: Fiscal Year 2001 Statewide Cost Allocation Plan revised July 3, 2002.

Because the Department's costs are often charged to federal programs, the Federal Government requires repayment of its share of the overcharges. This repayment can occur by several methods, but the State cannot net the total overcharges and undercharges together according to Department of Administration staff. In August 2002, Department of Information Technology staff indicated the State was negotiating with the Federal Government to determine how much of the \$5.2 million must be repaid. Once a dollar amount is agreed upon, a payback method will be determined.

Better Management Information Needed to Reduce Variances

Better management information is needed to reduce variances between amounts billed and the cost of services. Because the Department's billing rates are based on estimated costs and the projected demand for services by user agencies, management information is essential to minimize variances. If cost estimates are inaccurate or the projected service volume is not realized, variances will occur. In addition, frequent organizational changes make it more difficult to match costs with revenues. Finally, to provide a more meaningful assessment of billing rate variances,

additional data analysis and more accurate reports are needed.

Rates Established Without Adequate Data

Some billing rates were established without adequate data. For example, when the Department started billing for the Web Services unit in July 2001, rates were based primarily on estimates of the number of times a web site was used. However, when utilization was measured in July 2001, staff indicated they found it was far more than projected and some agency budgets could be depleted in just one month. According to staff, this billing methodology was discontinued and agencies were billed on what was budgeted rather than actual utilization. In addition, billing rates for some communication services were based on insufficient data. For example, the Department reported problems with identifying the number of computers connected to the network and identifying the number of telephone lines in use.

Organizational Changes

Organizational changes make it more difficult to set billing rates that will recover the cost of services. During our audit, the Department made several organizational changes. While each change may not have a significant impact, the cumulative effect of the changes makes it more difficult to match costs with revenues. For instance, when explaining variances, the Department reported that decentralization of programmer staff had left AD&D with a workload mix consisting of generally smaller projects, which are less efficient to manage. In another example, the Department paid one employee through one budget account, but revenues to pay this employee were collected through a different budget account. Because of this situation, over \$100,000 in costs were not properly aligned with revenues.

Further Rate Model Analysis Is Needed

Additional analysis is needed to determine if billing rates, set by the rate model, are recovering the actual cost of services. At the time of our audit, fiscal year 2002 billing rate information for each of the 35 service categories was not yet available. Consequently, current data is not available to identify billing variances in each of the 35 service categories and make adjustments if necessary. In addition, Department reports for monitoring billing rates do not accurately identify overcharges and undercharges, according to federal cost allocation procedures. Specifically, these

reports do not account for expenses such as depreciation.

Recommendation

7. Obtain and analyze sufficient information to monitor billing rates, and make rate model adjustments when significant variances are noted.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Department of Information Technology, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Department's financial and administrative practices. We also reviewed financial reports and minutes of legislative committee meetings. Furthermore, we documented and assessed the Department's management controls for several administrative activities.

To accomplish our audit objective we examined state payroll records and reports related to overtime and accrued compensatory time. We also reviewed a judgmental sample of 20 Department timesheets and approval documents for compliance with overtime requirements. In addition, we reviewed timesheets of the Web Services unit and compared them to volunteer work records obtained from the Nevada Division of Wildlife. Furthermore, we interviewed staff and reviewed Department files for documentation of employee flexible work schedule agreements for the Web Services unit.

We also compared timesheets to agency security access logs for several Web Services staff. As part of our audit work, we tested the reliability of the Department's two security access logs used to monitor entrance into the computer facility on weekends. First, we evaluated the computer facility access log that automatically records an individual's name when a unique access code is used. Second, we reviewed the system information log used to manually record who enters the computer facility. We found these security access logs are reliable for identifying individuals entering the computer facility on weekends.

We also reviewed the Department's purchase and use of telephones. Specifically, we judgmentally selected 10 employees having high cell telephone bills and requested the Department provide purchase documentation for their cell phones.

We also asked the Department to provide supporting documentation for five other judgmentally selected cell telephone equipment charges. In addition, we judgmentally selected 20 cell telephone monthly billings, 2 bills each for 10 employees, to determine if personal cell telephone calls were reimbursed. From these billings we selected telephone numbers called four or more times for testing. Furthermore, we judgmentally selected 10 long distance billing statements having significant charges to determine if personal long distance telephone calls were being reimbursed. For the selected cell and long distance telephone calls we asked the Department to verify if they were personal in nature.

To evaluate the adequacy of the Department's management information, we reviewed the Department's performance measures and information available to measure the success of its decentralization project. We also extended certain audit procedures into calendar year 2002 related to obtaining and reporting information. In addition, we identified the types of management information collected by the various units and how it is used. Finally, we documented the Department's various management information systems used since our last audit.

We also extended audit procedures into calendar year 2002 when reviewing billing issues related to the Department's rate model. This included interviewing Department staff and reviewing legislative minutes, rate model contracts, consultant reports, and the Statewide Cost Allocation Plan.

Our audit work was conducted from September 2001 to August 2002 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Information Technology. On November 5, 2002, 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 31.

Contributors to this report include:

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Appendix B

Prior Audit Recommendations

As part of our audit, we requested the Department to determine the status of the 10 recommendations made in our prior audit report. The Department indicated that eight recommendations had been partially implemented and two recommendations have been fully implemented. Four of the 10 recommendations were within the scope of our current audit. These four recommendations related to monitoring overtime, ensuring complete project information is maintained and disclosed in reports, strengthening efforts related to performance measures and data, and reviewing the work of staff. Because these recommendations were not fully implemented, we have modified and repeated them in our current audit report.

Appendix C

Response From the Department of Information Technology

KENNY C. GUINN
Governor

STATE OF NEVADA

TERRY SAVAGE
CIO, Director



DEPARTMENT OF INFORMATION TECHNOLOGY

505 E. King Street, Room 403
Carson City, Nevada 89701-3702
(775) 684-5800

DATE: November 15, 2002

TO: ✓ Paul V. Townsend, CPA, Legislative Auditor
Legislative Counsel Bureau

FROM: Terry Savage, Director and CIO *SP for*
Department of Information Technology

SUBJECT: Written Statement of Explanation to Audit Report

Thank you for meeting with my staff and me on November 5, 2002 to discuss the audit report for DoIT. As you will see from the attached documentation, we have 'accepted' all seven recommendations identified in your report and I have provided a brief statement of explanation for all items.

If you need any further assistance, please feel free to contact Shelly Person at (775) 684-5848 or sperson@doit.state.nv.us.

cc: Mark Blomstrom, Deputy Director, Department of Information Technology
Shelly Person, Chief of Administration, Department of Information Technology

Department of Information Technology
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As indicated later in our response, we have accepted all of the audit recommendations included in the report. In each case, appropriate corrective action will either be implemented, or already has been implemented. However, I need to note for the record that the overall tone of the audit report presents a picture of an operation that is largely out of control. This impression is at complete variance with reality. While I recognize that this is a “report by exception”, and is intended to focus on specific areas needing correction rather than Department operations as a whole, it’s important that the reader not be left with the false impression that the Department has any kind of widespread “out of control” condition.

1) Ensure employee overtime is approved in advance and overtime balances are monitored in accordance with agency policies and procedures.

As a result of the audit, it became apparent that the ‘Overtime or Leave Request’ form must be revised to include a supervisor signature date to designate the actual date of the approval for leave. This date will be used to verify that overtime was approved in advance. There have been occasions in the past where the need for overtime was known and verbal approval was given by a supervisor because the exact amount of overtime could not be predicted. DoIT’s policy will be changed to have employees fill out the ‘Overtime or Leave Request’ form prior to overtime being incurred even if it includes an estimate of the overtime to be incurred.

The area that experienced a high degree of overtime was the newly established ‘Web Services’ unit. This unit supports a growing demand for web services with very limited resources. During the 2001 session, DoIT requested 8 new staff to support the unit but ended up with approval for 4: 2 in FY02 and 2 in FY03. The hiring freeze slowed the hiring process to fill the first 2 vacancies and the existing employees have worked extreme overtime to keep up with service demand. The 2 positions approved for FY03 have not yet been filled, again due to the hiring freeze.

We have taken steps to reduce the amount of overtime, which has resulted in slower customer response and an increase in backlog. Until the staffing level is increased, it’s unlikely that overtime will be entirely eliminated.

2) Provide adequate supervision and review of work activities to ensure timesheets accurately report hours worked, overtime earned, and leave used.

The web unit was cited in several instances for not complying with accurate recording of overtime and leave. This is unacceptable, and corrective action has already been implemented. However, we do not believe that this unacceptable sloppiness resulted in our paying for more work than was actually performed, even though the timing of the work was not correctly recorded.

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DoIT has reorganized the department in order to gain operational efficiencies by placing certain units with other units of similar operations. This reorganization has also enabled DoIT management to split the Web Services unit in order to place the web content development staff with the programming staff and to join the web infrastructure support staff with the Computing facility staff. The main benefit resulting from this reorganization is that similar units operating together can share like job duties and provide backup support for one another thus reducing the need for excessive overtime. An additional benefit has been tighter supervision and oversight over timesheet and leave balance matters. This reorganization has been part of the solution, not part of the problem.

3) Develop policies and procedures to help ensure requests for travel reimbursement are appropriate.

The web unit was sited in several instances for not accurately recording their travel reimbursement claims. The reassignment of the internet services portion of the prior web services unit to report to Computer Facility management has facilitated the appropriate level of supervision and review of such paperwork for compliance to state and departmental policies and procedures.

Travel and training policies and procedures have always been a difficult concept for many employees since most do not travel very often. Approximately one year ago, the Accounting unit reviewed and modified existing departmental policies and procedures for compliance to state policies and also began training departmental staff on these policies and procedures. Staff turnover within the Accounting unit caused the training courses to be placed on hold for several months, but the effort has now resumed.

4) Ensure cell telephone equipment purchases are approved according to agency policies and develop procedures for the reimbursement of personal calls made at the state's expense.

As a result of this audit, the procedure for cell phone purchases has been changed. The prior procedure required an employee to fill out a purchase requisition and acquire proper approval from management and fiscal staff for the purchase. Then the employee could go to AT&T to pick up the equipment. This procedure was prone to errors as AT&T staff did not hold the purchases to the specified dollar amount on the PO. This procedure has been changed. Once approved, purchase requisitions are now kept in the accounting area and the accounting staff actually place the order for the equipment specified and approved for on the PO. This provides two benefits: 1) the equipment identified on the PO is exactly what is ordered and 2) the charges are put on our master account (in the past, AT&T was setting up separate accounts for every cell phone purchased). The phone is then shipped to accounting and then routed to the requestor.

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A new DoIT Cell Phone policy has been drafted which will be signed by all employees assigned a cell phone for work support. This policy is currently being circulated to DoIT management staff for review and will be formally signed within the next few weeks.

5) Ensure adequate information is collected, analyzed, and reported to evaluate the decentralization program and to monitor the performance of contractors that provide information services.

This has now been completed (see attached report for presentation to IFC on November 21, 2002). The Department of Administration contracted the services of a consultant to review the initial fiscal impact of decentralizing NOMADs programming staff to Welfare during the FY04/05 biennium. The results supported a high cost to the state in terms of federal funding, close to \$430K per year. As a result of this initial study, no further decentralization of DoIT staff will take place during the FY04/05 biennium. The Governor's Office, the Department of Human Resources, DoIT, and the Department of Administration have all agreed that a study must be conducted during the next biennium to evaluate whether or not decentralization makes sense. Once the study is complete, then a decision will be made regarding further decentralization and potentially re-centralization. DoIT has requested \$75K for the next biennium to be used for the study that will be conducted by a consultant.

In hindsight, the criteria for evaluating decentralization should have been developed prior to any actual decentralization taking place (UNITY, Taxation, and Secretary of State).

The separation of monitoring of MSA contractors from project management is an artificial distinction that does not add value. All MSAs work on some project. All projects should have a qualified project manager, and that PM will have monitoring of MSA technical performance as one of their standing duties. This is currently the case for NOMADS (by far the largest user of MSA contractors), it works well, and is the proper long term solution.

In the near term, the Master Services Agreement (MSA) review process is currently being refined between DoIT staff, customer agency staff, and LCB. In May of 2002, LCB and DoIT staff agreed to start using the evaluation criteria on new MSA work orders. The refinement currently taking place is the report format to be used for the reporting. The process to collect, analyze, and report the data for both decentralization and MSA technical oversight requires staffing, resources, and time - all of which are difficult to commit at this time with vacant positions and the hiring freeze.

6) Evaluate the Department's performance measures and ensure management information is available to monitor operations.

DoIT management agrees that the performance measures in place during the audit review were outdated and an insufficient means of measuring our efficiency and progress. New

Department of Information Technology
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performance measures have been developed for the upcoming FY04/05 biennium and have already been supplied to the Budget Office as part of our budget submission. Though the new performance measures are an improvement to the prior ones, more time must be spent further developing and refining them for each unit. Development of these measurement items again requires staff and time to accomplish this task, both of which are difficult to provide at this time. During the last legislative session, DoIT requested and was granted approval to hire three CST III positions, specifically for the purpose of tracking performance measures and billing data. These positions remain vacant and have been placed on hold pending the current hiring freeze.

7) Obtain and analyze sufficient information to monitor billing rates, and make rate model adjustments when significant variances are noted.

The rate development process has undergone vast improvement over the past several years and this improvement process will continue. Though the audit report cited an abundance of vendor contracts in the past to develop rates, DoIT has now graduated to a point where rates are developed in-house with the end result being reviewed by an outside consultant for compliance to federal charge back policy. This improvement was facilitated by the purchase of a rate model development application (NGCS2), training to use the application, and the addition of the ASO III position resulting from the 2001 session. Though it might appear beneficial to the state to eventually eliminate the need for vendor contracts to provide oversight to the billing process, DoIT does not recommend this approach. It is important to have continued review of the process by an independent consultant who has expertise in this area. The IT industry changes quickly and for this reason the services and associated rates that DoIT offers to its customer agencies must be reviewed and modified frequently, especially with regard to federal compliance.

Another area of improvement has been the addition of a Capacity Planner to DoIT's staff resulting from the 2001 session. This individual currently works with the computer facility customers to review historical service utilization and to help forecast future usage. We are now projecting computer utilizations very close to actual usage. As the capacity planning is expanded into other areas within DoIT, the aspect of forecasting usage will become more stable. Until then, wide variations between forecasted usage and actual usage will be expected. Of course there may always be unknown circumstances, such as 9-11, that will have adverse affects on customer usage of DoIT services.

At the close of FY02, all DoIT billable services were reviewed against projections. Since long distance utilization was much higher than projected, DoIT over collected in the Telecomm services unit. As a result, revenues received were compared to expenses for that unit and it was determined that the billing rate for Long Distance and Phone Cards will be reduced for FY03.

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All recommendations contained in the October 28, 2002 LCB audit report are accepted by DoIT as desirable, and will be implemented as resources are available to do so. Some issues have already been corrected, and steps are already underway to resolve others.

**Department of Information Technology
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Ensure employee overtime is approved in advance and overtime balances are monitored in accordance with agency policies and procedures	<u> X </u>	<u> </u>
2	Provide adequate supervision and review of work activities to ensure timesheets accurately report hours worked, overtime earned, and leave used	<u> X </u>	<u> </u>
3	Develop policies and procedures to help ensure requests for travel reimbursement are appropriate	<u> X </u>	<u> </u>
4	Ensure cell telephone equipment purchases are approved according to agency policies and develop procedures for the reimbursement of personal calls made at the state's expense.....	<u> X </u>	<u> </u>
5	Ensure adequate information is collected, analyzed, and reported to evaluate the decentralization program and to monitor the performance of contractors that provide information services	<u> X </u>	<u> </u>
6	Evaluate the Department's performance measures and ensure management information is available to monitor operations.....	<u> X </u>	<u> </u>
7	Obtain and analyze sufficient information to monitor billing rates, and make rate model adjustments when significant variances are noted	<u> X </u>	<u> </u>
	TOTALS	<u> 7 </u>	<u> 0 </u>