

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Legislative Audit Committee Members

**FROM:** Amanda Saylor, Information Systems Auditor

**CC:** Sheila Hogan, Director, Department of Administration  
Ron Baldwin, Chief Information Officer, State Information Technology Services Division

**DATE:** September 2016

**RE:** Performance Audit Follow-Up (16SP-20): Information Technology Services Rate-Setting Process (orig. 14P-01)

**ATTACHMENTS:** Original Performance Audit Summary

### Introduction

The *Information Technology Services Rate-Setting Process* (14P-01) report was issued to the Committee in June 2015. The audit included four recommendations to the Department of Administration State Information Technology Services Division. In August 2016, we conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

### **Overview**

Audit work determined the State Information Technology Services Division (SITSD) should obtain more customer input, improve rate-setting transparency and oversight, and acquire benchmarking services. Our performance audit contained four recommendations to the division. SITSD concurred with all recommendations; they have implemented three of them and is currently working to implement the fourth. The division is working towards an IT Convergence, an executive order signed by Governor Bullock, which directs all agencies to fully migrate their information technology assets to the enterprise infrastructure. During this convergence, SITSD improved its rate-setting process.

### Background

Many of the Information Technology (IT) services used by state agencies are provided by the State Information Technology Services Division (SITSD), a division of the Department of Administration. The service providers are bureaus within SITSD that provide different types of IT services. When services are provided by SITSD, state agencies pay a predetermined rate per unit of the service used, as determined by the division's rate-setting model called the Financial Transparency Model (FTM). The rate-setting process involves allocating costs to services and dividing those costs by the expected usage of services by agencies. The objectives of the audit included determining whether the rate-setting model accurately reflects the costs and usage volumes associated with services and whether rates for services are competitive.

## **Audit Follow-Up Results**

The following sections summarize the progress toward implementation of the report recommendations. Audit staff met with the Financial Management Services Bureau (FMSB) personnel, service providers, and key stakeholders within the Information Technology Enterprise. Various services and rates were examined and analyzed as well as pertinent meeting minutes and agendas.

### **RECOMMENDATION #1:**

**We recommend the State Information Technology Services Division:**

- A. **Inform service provider personnel that the Financial Transparency Model recovers costs.**
- B. **Only market services as “pass-through” if vendor charges are, in fact, passed through to customers without a markup.**

### ***Implementation Status – Implemented***

In the original audit report we identified that not all SITSD services advertised as pass-through were actually being passed through to customers without mark-up. As part of the follow-up work conducted, we verified that current pass-through services advertised to customers as pass-through charges do not include additional mark-up. FMSB has established checks and balances throughout the rate-setting process to verify service providers are not adding additional costs to pass-through services, including internal auditor reviews to make sure costs are accurate, transparent, and that mark-up is not added to pass-through services. The internal auditor reviews all the rates iteratively throughout the rate-setting process. During the initial audit, FMSB used minimal verification to ensure cost allocations were accurate. They relied heavily on the service providers entries into FTM.

FMSB has also taken a more active oversight role with service provider personnel. The recovery of costs within FTM is communicated to service providers throughout the stages of the rate-setting process. Additionally, training was provided to the service providers over the course of several weeks related to the rate-setting process, including pass-through charges.

### **RECOMMENDATION #2:**

**We recommend the State Information Technology Services Division enhance its oversight of cost allocations, billable hours allocation, and service usage estimates provided by the service providers for use in the Financial Transparency Model.**

### ***Implementation Status – Implemented***

SITSD has taken several steps to improve its oversight during the rate-setting process. The rate-setting process now includes more iterations of review with agencies that have improved oversight of service usage estimates provided by agencies. FMSB has also actively engaged service providers in providing transparency to agencies by requiring service providers and managers to have monthly meetings with each agency.

Related to the oversight of billable hours allocated to services, FMSB analyzes historical data and reviews reports generated by the SABHRS time code system to track employee time that tie directly back to catalog items and services. The billable hours allocations are then reviewed by the Internal Auditor, FMSB, and service providers to ensure accuracy. As an additional oversight measure, the internal auditor reviews all FTM data entry. Oversight of cost allocations includes reviews and verification between FMSB, service providers, and agencies during each iteration of rate-setting to confirm that costs align appropriately in FTM.

**RECOMMENDATION #3:**

**We recommend the State Information Technology Services Division obtain more input from its customers when making decisions related to service offerings, including the enterprise services rate, by inviting agency participation in the Service Offering Decision process.**

***Implementation Status – Implemented***

Since the audit was completed, SITSD has created a new workgroup, the Enterprise IT Financial Workgroup (EITFW). The EITFW was established as a standing workgroup of the Information Technology Managers Council to discuss and make recommendations regarding the financial impact of existing and proposed Enterprise-based IT solutions for the state of Montana. It has 14 members who represent various agencies throughout the enterprise, including representation from both the financial and IT sectors of the agencies. The group additionally functions as a multi-agency governance forum that establishes policy and procedure for the cost recovery of centralized IT services. By creating this workgroup, SITSD is able to obtain additional input from its customers regarding decisions on enterprise services rates and service offerings.

SITSD changed its service decision brief process to include more agency input. Agencies are now able to more actively participate in changes to services. For example, agencies now have a place to individually provide input when a change in service offerings is being determined. This also allows SITSD management to better take into account the needs of agencies before making decisions related to service offerings.

**RECOMMENDATION #4:**

**We recommend the State Information Technology Services Division:**

- A. Perform a biennial independent analysis of service rates compared to other providers, and**
- B. Develop a plan to reduce the prevalence of noncompetitive rates and make services with noncompetitive rates more efficient or discontinue those services.**

***Implementation Status – Being Implemented***

SITSD has applied the estimated cost of the independent analysis to its rates for the 2019 biennium. SITSD plans to procure a contractor and conduct the independent analysis in 2017 for the 2018-19 biennium. It will use the analysis to address noncompetitive rates and respond to potential discontinuation of services that are not used and/or are less reasonably priced. FMSB also plans to have a benchmarking analysis conducted for every future biennium.