



Legislative Audit Division

Performance Audit Summary

Examination of the Delivery of E-Government Services June 2006

Introduction

Government information and services are increasingly being made available via the Internet. This concept is termed e-Government. The Governor requested, and the Legislative Audit Committee approved, an audit of Montana's e-Government services, also known as e-services. The state's primary method for developing and maintaining e-services is through a self-funded contract with a third party contractor. The contract is administered by the Department of Administration (DofA). Audit work primarily focused on state e-services from 2001 to present.

Our audit objectives were to:

- Identify the methods used by the state and/or state agencies to provide e-services.
- Determine the processes and criteria established to identify, evaluate, and prioritize the development and implementation of e-services.
- Review the methodologies used to determine the fees used to pay for e-services.
- Determine if controls are in place to measure the success of e-services.

Background

Montana Interactive (MI) has provided services for the development, implementation, and maintenance of state e-services since 2001 with 81 projects in existence and 30 more projects in development. A few examples of Montana e-services are the Department of Correction's Correctional Offender Network, the Department of Revenue's Income Tax Express, and the Department of Fish, Wildlife, and Parks Online Licensing System.

Agencies are not required to use MI for e-services. The current e-services model allows agencies the flexibility to use other contractors, develop e-services internally, or negotiate options with MI. *We conclude DofA has a process and criteria in place to identify, evaluate, and prioritize the development and implementation of e-services. The e-services determination and development process allows agencies flexibility to negotiate terms with MI, as well as use other options.*

E-Service Fees

There are two types of fees associated with an e-service: convenience fees and electronic payment fees. A

convenience fee is a dollar amount added to a transaction. In general, any e-service that collects money has a convenience fee added. The other fee associated with e-services is a fee charged for acceptance of electronic forms of payment. All state agencies and private companies involved agree to fee amounts and negotiate the terms. Agencies also have the option to absorb the fees into their budgets or pass the fees on to the customer. *We conclude e-service fee determination methodologies are in place, consistently applied, and appear to be equitably assessed.*

Flow of State Funds

Revenue collected by MI from e-service customers goes into an MI bank account and is remitted back to the State as frequently as requested by each agency with some exceptions. Revenue generated from e-services and put into MI's account is termed collectively as the Transaction Revenue Fund. We found the way the state funds e-services is comparable with other states' funding models. Other funding models are state-supported or a combination of state and convenience/transaction fee funded. However, other states' revenue collection processes and controls regarding the approach used to provide e-services differ compared to Montana.

The following table depicts total revenue amounts resulting from the 32 revenue-generating e-services and highlights the most used e-services in the transaction column. Many agencies have multiple e-services and all figures listed in the table are cumulative.

Agency	Transactions	E-Service Payments Processed
Justice	1,722,898	\$3,396,139
FWP	56,765	9,713,831
Sec. of State	47,633	611,019
Revenue	18,015	87,011,394
U of M	17,984	32,216,321
Labor and Industry	9,084	1,025,175
Virtual Cashier (All)	5,508	866,597
OPI	1,197	41,988
Historical Society	337	20,256
Administration	301	65,820
Corrections	58	58,527
Totals	1,879,780	\$135,027,067

Management Controls Could Be Enhanced

Based on our analysis of e-services, DofA is meeting the requirements of the Montana Electronic Government Services Act (sections 2-17-1101 and 1103, MCA). However, DofA management controls of e-services and the contractual relationship with MI could be enhanced.

We found several management control areas for e-services could be improved. E-services are a relatively new concept and strengthening controls should be viewed as an enhancement. The following items illustrated the need for such enhancement:

- Existing controls include only part of DofA's oversight responsibilities over state revenue and do not include direct monitoring of e-service transaction revenue activities.
- Some agency accounting records do not accurately reflect expenditures.
- MI has varied access to agency databases that may or may not be logged.
- Montana does not have comprehensive assurance regarding the e-service provider's financial and information system controls.
- The potential exists for lost or unrealized interest on state revenue.
- Guidance on e-service revenue collections by a third party contractor is not comprehensive.

We recommend DofA strengthen management controls over the provision of e-services by:

- *Increasing monitoring of related revenue activities,*
- *Standardizing the revenue remittance frequency to the State Treasury for all affected agencies,*
- *Obtaining assurance contractor financial and information system controls are in place, and*
- *Providing comprehensive guidance to agencies regarding e-service operations in areas such as proper recording of e-service expenditures.*

Project Risk Management

E-Government project risk management identifies the state's risks related to the provision of e-services and minimizes the impacts associated with those risks. To ensure the success and continuity of e-services, and to protect Montana's investment in e-Government, DofA should apply additional project risk management practices. The development of a comprehensive formal plan is needed. This type of plan should contain components of both contingency planning and business continuity planning since a range of risks exist from possible e-service interruption factors to reliance of the entire project on a limited number of revenue sources. *We recommend DofA develop a formal e-Government services project risk management plan that incorporates elements of both contingency and business continuity plans.*

Measuring the Success of E-Government Services

Due to the growing importance and role of e-services in relation to all government practices, there is need to evaluate the way the state provides existing e-services by measuring their success. As e-services become the primary way government delivers services, this information becomes critical to evaluating this method of service provision and overall agency operations.

Currently, there is limited or no information regarding the impacts or potential future impacts of e-services on agency resources. As part of legislative decision-making on policy and appropriations, legislators should have information regarding agency resources needed for e-services and how these services affect state agency operations.

We believe the Governor could improve future services by requiring agencies provide more comprehensive analysis of e-Government. A more comprehensive view would include monitoring/evaluating agency business practices to reflect the impacts of e-service implementation and an on-going analysis of how e-services are currently provided versus other options. *We recommend the Governor require agencies to report more detailed analysis of e-Government services impacts on agency resources to the Legislature.*

A Business Case Analysis is Needed

While the relationship with the current e-service contractor has been successful, e-services are growing, technology is improving, and the availability of alternative approaches to provide e-services is increasing. It is time for a business case analysis of the provision of e-services to examine:

- Alternative provision of e-services possibilities,
- On-going initiation and utilization of e-services, and
- The funding of e-services.

We believe a business case analysis that incorporates these elements has not been feasible to develop up to this point because the state's focus has been on establishing the existing e-services. Now with at least five years of usage trends and financial information available on e-services, the Governor could direct an analysis to determine whether the existing business arrangement used to provide e-services remains the best value for the state and the most efficient and effective option for future e-services. *We recommend the Governor initiate the development of a business case analysis regarding the state's options for providing future e-Government services.*

For a complete copy of the report (06P-08) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/css/audit/>