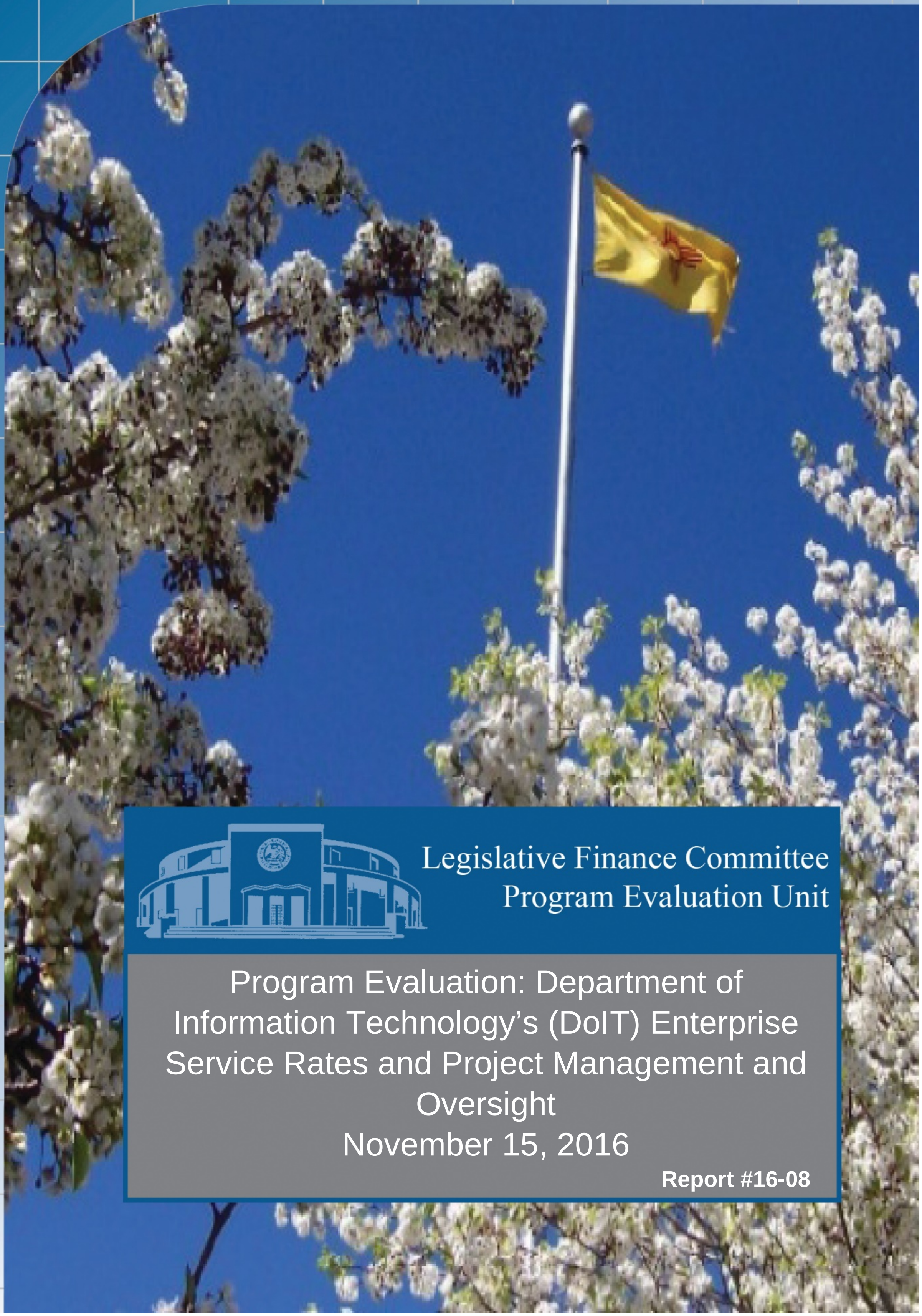

Legislative Finance Committee
Program Evaluation Unit

Program Evaluation: Department of Information Technology’s (DoIT) Enterprise Service Rates and Project Management and Oversight

November 15, 2016

Report #16-08

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Table of Contents

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David Abbey
Director

November 15, 2016

Darryl Ackley, Secretary
Department of Information Technology
P. O. Box 22550
Santa Fe, New Mexico 87102-2550

Dear Secretary Ackley:

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the program evaluation of the Department of Information Technology's (DoIT) enterprise service rates and project management and oversight. The objectives of the evaluation were to assess DoIT's information technology (IT) rate development and methodology, project management and oversight, and the status of key findings from Legislative Finance Committee's 2010 program evaluation of IT and telecommunication services.

The report will be presented to the Committee on November 15, 2016. An exit conference was held on November 8, 2016, with the Department of Information Technology to discuss the contents of this report. The Committee would like a plan to address recommendations in this report within 30 days of the release of the report.

I believe this report addresses issues the Committee asked us to review and hope your department will benefit from our efforts. We appreciate the cooperation and assistance we received from your staff.

Sincerely,

David Abbey, Director

Cc: Senator John Arthur Smith, Chairman, Legislative Finance Committee
Representative Jimmie C. Hall, Vice-Chairman, Legislative Finance Committee
Ms. Duffy Rodriguez, Secretary-Designate, Department of Finance and Administration
Keith Gardner, Chief of Staff, Office of the Governor
Timothy Keller, State Auditor

DoIT Has Made Significant Improvements Since 2010, But Issues Remain With Unspent Revenue, Rates, and Oversight

The Department of Information Technology (DoIT) was created to improve state information technology (IT) systems and provide core technical infrastructure. As an enterprise agency, DoIT charges agencies for IT and telecommunication services and use of SHARE to generate revenue to recover its costs, and to fund replacements of IT assets.

This evaluation assessed IT rate development and methodology, project management and oversight responsibilities, and the status of key findings and recommendations from the Legislative Finance Committee's (LFC) 2010 program evaluation of IT and telecommunication services. The evaluation found while some recommendations from the LFC's 2010 program evaluation have been implemented, issues remain involving how DoIT charges agencies for equipment replacement, the rate setting process and service delivery, and oversight and governance.

DoIT's financial statements continually show operating deficits despite increases in cash balances and rates. Cash balances have nearly doubled since FY12 from nearly $23 million to $41 million in FY16. The cash balances are, in part, driven by collection of revenue built into service rates for equipment replacement, as allowed by federal and state law. However, large IT assets are historically not paid for through equipment replacement funds but rather by general funds appropriated by the Legislature or federal funds. State law requires DoIT to have a plan for how to spend equipment replacement funds collected from allocated depreciation, but it does not. Lack of planning has led to equipment replacement fund revenues outpacing expenditures.

DoIT needs improvement in rate setting and service delivery. According to DoIT, rates are set based on historical service cost and use by agencies. However, rate setting is not always substantiated by a documented process, and rates are subject to adjustment from other factors such as budget constraints. Additionally, best practices such as having service level agreements with agencies are not followed. Over half of surveyed agency IT lead staff, do not believe DoIT provides adequate IT services and over 80 percent report DoIT service rates are not fair or transparent.

Recent enterprise project management office (EPMO) initiatives under direction of the state chief information officer (CIO) have improved processes, but more work is needed. Restructuring the compliance and project management program may allow its functions to be funded though enterprise funds, creating general fund savings, with minimal impact to DoIT's rates.

The report makes recommendations for the Legislature and DoIT to improve oversight, service delivery, and gain efficiencies through better resource use.

KEY FINDINGS AND RECOMMENDATIONS

DoIT reports operating losses despite increased cash balances and rates.

The Department of Information Technology (DoIT) is primarily funded through enterprise revenues it receives from state agencies that use its services. DoIT's Enterprise Services Program provides core technical infrastructure for the state supporting agency information technology (IT) and communications systems. As an enterprise agency, DoIT must charge agencies for IT and telecommunication services and use of SHARE to generate revenue to recover its costs. To improve accountability and reporting, the Legislature established a subcategory within the General Appropriation Act reflecting expenditures from the equipment replacement revolving funds. The equipment replacement fund (ERF) program provides a funding mechanism to replace aging equipment. The equipment replacement program includes two funds, the Enterprise ERF and the SHARE ERF.

Historically, overall DoIT expenditures exceed revenues, reflect large budget adjustments and do not reach legislative appropriation levels. DoIT has built up significant cash balances over the last five years. Cash balances have nearly doubled, increasing from $22.7 million in FY12 to $41 million in FY16. Cash balances are allowed for two purposes, for a 60 day working capital reserve, and equipment replacement typically built with revenue from allocation of depreciation to the service rates. DoIT can allocate up to the full amount of asset depreciation expense annually to service rates. This allocation has allowed DoIT to build up large cash balances in the equipment replacement revolving funds.

DoIT is building equipment replacement reserves for SHARE and other assets despite the fact these initiatives are historically funded by general fund or federal funds. For example, in the FY14 budget the Legislature appropriated $5 million to DoIT to stabilize and upgrade the SHARE system. The $5 million appropriation was from the general fund and not the equipment replacement fund, therefore previous revenue collected for equipment replacement is supplemented or possibly duplicated by the legislative general fund appropriation.

DoIT has not met its statutory obligation to establish and maintain annual equipment replacement plans for each of its enterprise functions. Without an annual plan and reconciliation report, there is reduced accountability for how state taxpayer dollars are spent on replacing information technology. DoIT has made expenditures from the equipment replacement revolving funds without submitting a plan, as required by statute. As a result, ERF revenues continually exceed ERF expenditures.

DoIT needs improvement in rate setting and service delivery.

DoIT established a new tool to improve its ability to make decisions related to its rate model, but risks remain. Rate setting is subject to adjustment factors other than historical costs. In June 2016, the IT rate committee approved DoIT proposed new service rates for FY18 to take effect July 1, 2017. However, due to current budget constraints, DoIT reduced the majority of the FY18 rates to reflect the FY17 rates, with DFA concurrence, effective August 4, 2016.

Rate setting is not always substantiated by a documented process. The department is at risk of having a single point of failure, having one individual responsible for its cost allocation and rate model, and lacking adequate documentation of rate development. Without documentation and cross-training, details of the methodology, including the elements of IT rate calculations and the accuracy of the rates remains uncertain.

DoIT does not sufficiently use service level agreements (SLA) which are essential for management and IT service delivery. SLAs between DoIT and agencies are needed for effective management, communication, and to follow best practices. A SLA is a contract between a service provider and its customers that documents what services the provider will furnish and defines the performance standards the provider is obligated to meet.

Recent Enterprise Project Management Office initiatives enhance its processes, but improvements are still needed.

DoIT's compliance and project management program serves as the state's Enterprise Project Management Office (EPMO). Under the direction of the state CIO, EPMO provides IT project management guidance and oversight to state agencies and supports the state CIO's responsibilities in managing the state's IT portfolio and monitoring agencies compliance with the state's IT strategic plan. Tasks range from preparing and guiding the project certification committee (PCC) in its oversight role to reviewing IT procurement.

Restructuring the compliance and project management program may allow its functions to be funded through enterprise funds, creating general fund savings. DoIT's FY18 strategic plan included in its budget request indicates a reorganization that would consolidate EPMO, strategic planning, investment oversight, and IT security. Many of these functions historically have been funded through enterprise funds. Given the compliance and program management enterprise oversight duties, could also be funded in this manner.

The Information Technology Commission (ITC) has not fully functioned since 2011, resulting in a lack of accountability and transparency when making significant IT decisions. Several of DoIT's responsibilities involve the ITC. As the state's CIO the DoIT Secretary is responsible for making recommendations to the ITC regarding procedures and rules to improve oversight of IT procurement and to monitor agency compliance and report to the ITC and agency management on noncompliance.

DoIT implemented some key recommendations for the LFC's 2010 program evaluation.

DoIT has improved IT financial management by implementing the SHARE Accounts Receivable and Assets Management modules. By implementing the accounts receivable module, data generated by DoIT's new billing system can be imported to SHARE, improving the reconciliation process and reporting capabilities. DoIT's accounts receivable collections have increased, minimizing the impact to the department's cash flow. To continue the success with its new billing system, in FY14 DoIT initiated the telecommunication expense management system project and recently completed implementation of the system, PINNACLE. The system will provide DoIT the ability to maintain an accurate inventory of phone usage and other telecommunications data and identify and recover charges.

DoIT has demonstrated progress with consolidation efforts and virtualization, and as a result the state data center has excess capacity. DoIT indicated Santa Fe County is currently in the state data center and the City of Santa Fe has expressed an interest to co-locate with the data center.

Key Recommendations

The Legislature should consider:
Not making appropriations to or from the enterprise replacement fund until DoIT provides the Department of Finance and Administration, Information Technology Commission and the Legislature an equipment replacement fund plan and reporting is performed as required by statute;

Eliminating appropriations from the general fund for the compliance and project management program and direct DoIT to build the cost of IT oversight into its rates; and

Revising the information technology commission membership and clarify its duties in statute.

The Information Technology Commission should meet as statutorily required to review and approve:
A state IT strategic plan developed and proposed by DoIT;

Critical IT initiatives for the state;

Information technology needs of state agencies;

Strategies for identifying IT projects that affect multiple agencies; and

The state information architecture and state IT strategic plans for updates and compliance by executive agencies.

The Department of Information Technology should:
Develop an equipment replacement plan as required in statute and provide it to the ITC, DFA, and the Legislature;

Provide annual equipment replacement fund reconciliation to the Legislature as required by statue and include it in its annual budget submission to the DFA and LFC;

When establishing rates, consider other sources of revenue for equipment replacement to decrease funding impact on agency budgets;

Develop a detailed project plan and estimated cost for replacing or continuing to upgrade SHARE specific to potential use of the SHARE enterprise replacement fund and provide the detailed plan to LFC;

Document and publish the methodology for rate setting;

Ensure IT costs and cost recovery methods are transparent and clearly communicated;

Establish service level agreements with state agencies, its customers in line with IT service management best practices guided by IT Infrastructure Library framework; and

Update administrative rules for information technology and project certification of technology projects to reflect the DoIT Act and current practices.

DoIT was Created to Improve State Information Technology Systems and Provide Core Technical Infrastructure for the State

Overview

The Department of Information Technology (DoIT) is authorized pursuant to Section 9-27-1 through 9-27-10 NMSA 1978 (DoIT Act) as a single, unified executive branch agency intended to streamline and improve state information technology (IT) systems. DoIT's mission is to provide cost-effective and efficient enterprise products, services and solutions within a secure and reliable environment for its customers through leadership, strategic planning, standards and policy, architecture, and oversight.

The department consists of three authorized programs: Program Support, Compliance and Project Management, and Enterprise Services. The department administers the equipment replacement fund, funded through internal transfers, which it uses to replace or upgrade equipment and software.

The DoIT Act established an IT rate committee consisting of seven executive agency members: five appointed by the governor and two designated by statute -- the secretary of the Department of Finance and Administration (DFA), the statutorily designated chair, and the secretary of DoIT. The committee reviews the rate and fee schedule proposed by DoIT of each year for the following fiscal year budget cycle. Based on input from the DoIT Secretary and other agencies, implementation of the fee schedule is the responsibility of the IT rate committee. Specifically, the law states the rate committee is to:

- Review the fee schedule proposed by the Secretary of DoIT;
- Propose a fee schedule for IT services;
- Present the proposed fee schedule by June 1 of each year to the Office of the Governor, DFA and the Legislative Finance Committee (LFC);
- By July 15 of each year, implement a fee schedule based on the Committee's recommendation and input from the Office of the Governor, DFA and LFC.

Although not specifically stated in the law, the general consensus is that this information is to be used by agencies in preparing their budget requests for the next fiscal year.

The Information Technology Commission

The DoIT Act also established the Information Technology Commission (ITC), making it responsible for setting the strategic direction for statewide IT initiatives. The ITC serves as the oversight and approval body for DoIT initiatives and for IT rules affecting state agencies. The commission consists of 15 voting members, 10 who are governor-appointed, and five non-voting members. The commission is required to convene at least quarterly to meet its statutory responsibilities. Since 2011, the ITC has met only four times and has not met at all since October 2014. Between 2011 and 2013, ITC membership did not exist and when it reconvened, governor appointed membership was incomplete. Available information on ITC membership is outdated and therefore current membership is unclear.

ITC is an independent body, representing a range of stakeholders, acting in an oversight capacity to guide a strategic IT plan for the state. The state IT plan includes identifying key IT initiatives for the state and key projects for state agencies. In addition, ITC responsibilities include approving critical IT initiatives for the state; strategies for identifying IT projects affecting multiple agencies; the state information architecture and the state IT strategic plan for updates and compliance by executive agencies; and proposed rules by the secretary.

Statute requires the Secretary of DoIT to report to the ITC projects that have been certified. Project certification is a process to release IT project funds in phases, to ensure each project is consistent with its agency IT plan and the state's technical architectural standards. All IT projects are required to follow the certification process for each project phase in order for IT projects funds to be released, regardless of the source of those funds.

Information Technology Services

DoIT is an enterprise agency, which means it charges for services and must generate sufficient revenue to be self-supporting. DoIT operates internal service programs charging fees to other state agencies for IT and telecommunication services and for the use of the statewide human resource, accounting, and management reporting system (SHARE). DoIT is required to comply with federal Office of Management and Budget's Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." OMB A-87 is now incorporated into the Code of Federal Regulations (CFR) as 2 CFR Chapter 2, Part 200, which provides guidelines for the recovery of indirect costs, including depreciation and amortization of equipment involved in providing DoIT services.

Table 1. Department of Information Technology Services

Enterprise Application and Desktop	Hosting and Storage
E-mail	Mainframe
Application Maintenance	Application and Static Web
Software Application Design and Development	Equipment
Managed Desktop	Server Administration
File and Print	Data Storage and Backup
Data Network and Internet	**Voice Communication**
Wide Area Network (WAN)	Desktop Telephony
Wireless Local Area Network (WLAN)	Toll Services
Local Area Network (LAN)	Microwave Radio Network
Network Engineering and Design	Wireless Voice and Data
	Audio Conferencing

Source: DoIT Website

Program Funding and Expenditures

DoIT is primarily funded from fees charged to other state agencies for IT and telecommunication services and assessments for the use of SHARE. The appropriation history by program is shown in Table 2.

Table 2. Department of Information Technology
Appropriations by Program, FY12 – FY16
(in thousands)

Fiscal Year	2012	2013	2014	2015	2016
Program Support (P771)	$3,253	$3,613	$3,294	$3,171	$3,168
Compliance and Project Management (P772)	$485	$845	$856	$866	$977
Enterprise Services (P773)	$48,422	$48,428	$51,941	$51,970	$56,141
Equipment Replacement Fund (P784)	$3,712	$3,862	$5,825	$7,049	$8,411
Total All Programs	**$55,870**	**$56,748**	**$61,915**	**$63,055**	**$68,697**
Percent Change		1.6%	9.1%	1.8%	8.9%

Source: General Appropriation Acts

Since FY13, the department's expenditures have increased 9 percent from $55 million to $60 million in FY16. DoIT may only spend monies received as revenues for its services. Therefore, when the department is under budget signifies estimated revenues may have been not realized. Actual expenditures by program are in the following table.

Table 3. Department of Information Technology
Summary of Expenditures by Program, FY12 – FY16
(in thousands)

Description	FY12	FY13	FY14	FY15	FY16*
Enterprise Services (P773)	$44,175	$46,434	$57,551	$54,967	$51,810
Compliance and Project Management (P772)	$476	$749	$817	$826	$932
Program Support (P771)	$3,335	$3,124	$2,598	$2,781	$2,634
Equipment Replacement Fund (P784)	$3,826	$4,790	$9,077	$2,672	$4,763
Total	**$51,812**	**$55,098**	**$70,042**	**$61,246**	**$60,139**
Percentage Change		*6.3%*	*27.2%*	*-12.6%*	*-1.8%*

Source: SHARE and FY16 Operating Budget

* Unaudited

Compliance and Project Management

The compliance and project management program is responsible for providing information technology strategic planning, oversight and consulting services to state agencies to improve services provided to New Mexico citizens. The compliance and project management program, established in FY11, is funded 100 percent by general fund revenues that have increased 101 percent since FY12, from $485 thousand to $977 thousand in FY16. While the increase is driven primarily by personnel expenses including one instance of a 16 percent salary increase in FY14, authorized staffing levels have not changed.

Table 4. Department of Information Technology
Compliance and Project Management Program
Appropriation History FY12 – FY16
(in thousands)

	FY12	FY13	FY14	FY15	FY16
Personnel Services & Employee Benefits	$381.5	$669.8	$686.4	$706.2	$805.8
Contractual Services	$0.0	$0.0	$0.0	$32.4	$0.0
Other	$0.0	$17.3	$43.4	$42.2	$45.7
Other Finance Uses	$103.2	$157.4	$126.0	$84.7	$125.9
Total	**$484.7**	**$844.5**	**$855.8**	**$865.5**	**$977.4**
Annual Percentage Change		74.2%	1.3%	1.1%	12.9%
Authorized FTE*	7	7	7	7	7
Filled Positions	7	7	7	7	5

Source: General Appropriation Acts and DoIT

* Authorized FTE for FY15 and FY16 not included in the General Appropriation Act

The DoIT Act establishes the compliance and project management program. However, in its FY18 strategic plan included with its budget request, DoIT is now referencing the compliance and project management program as the Office of Chief Information Officer (OCIO). This is an initiative to reorganize the department and will incorporate guidance and oversight functions for all state information technology. OCIO will include the enterprise project management office (EPMO), IT strategic planning, IT investment oversight, and the Chief Information Security Officer (CISO).

DoIT's website states the compliance and project management program is the state's Enterprise Project Management Office (EPMO) and performs the following functions:

- Provide IT management lifecycle policies, methodologies and templates for IT initiatives to promote quality and success and report regularly to Executive, Legislative, and ITC on the status of the state's IT project portfolio;
- Provide support, guidance and oversight on IT projects and procurements (including promulgation of rules) to promote improved outcomes;
- Review executive agency IT plans for prudent allocation of IT resources and monitor compliance of projects with agency plan and the state IT strategic plan;
- Review appropriation requests and legislation related to IT and make recommendations to the DFA, and Legislative Finance Committee (LFC) for formal approval by the Legislature and the Governor; and
- Provide senior project management for enterprise projects.

Statewide Cost Allocation Plan

The U.S. Department of Health and Human Services (DHHS) is designated by the Office of Management and Budget (OMB) as the cognizant federal agency for reviewing and negotiating facility and administrative (indirect) cost rates, fringe benefit rates, and statewide cost allocation plans (SWCAP) and public assistance cost allocation plans.

SWCAP is a required document that identifies, accumulates, and allocates; or develops billing rates based on the allowable costs of services provided by a governmental unit to its departments and agencies. The costs of these services may be allocated or billed to benefiting agencies. Billed central service costs are billed to benefiting departments and agencies on an individual fee-for-service or similar basis. The billed rates are usually based on the estimated costs for providing the services.

OMB Circular A-87 (2 CFR Chapter 2, Part 200) requires an annual comparison of revenue generated by each billed service to actual allowable costs of the service, along with an adjustment for the difference between the revenue and the allowable costs.

In November 2015, the Department of Finance and Administration (DFA) signed the cost allocation agreement for fiscal year 2014 for central service costs on a fixed basis. The cost allocation agreement includes DoIT's services for enterprise applications, hosting and storage, data network, internet, communications and SHARE. The agreement limits charges to:

1. Those that are statutory or administrative;
2. Costs incurred which are legal obligations and allowable under OMB A-87 (2 CFR Chapter 2, Part 200);
3. Indirect costs not claimed as direct costs;
4. Similar costs where a consistent accounting treatment is applied; and
5. Information provided is not later found to be materially incomplete or inaccurate.

DFA has submitted the FY15, FY16, and FY17 SWCAP's; however they are pending federal approval. The federal government is responsible for reviewing the state's SWCAP within six months of its submission. If the review is not conducted in a timely manner, each agency that claims indirect costs from its federal grantees must use the last approved SWCAP.

LFC 2010 Review of DoIT's IT and Telecommunication Services

In August 2010, LFC issued a report on its review of DoIT's information technology (IT) and telecommunication services. The review focused on the department's compliance with its statutory requirements and provision of IT and telecommunication services, including cost of the services and rates charged. LFC did not include the review of DoIT's IT oversight program at the time.

The objectives of the current evaluation are to assess the status of selected key findings and recommendations from the 2010 review, and the DoIT project management and oversight program. Because DoIT's enterprise rates have not been reviewed since the LFC's 2010 evaluation, this evaluation also focuses on DoIT's IT rate development and methodology.

DoIT's 2016 Supplemental Request

DoIT requested a $6.6 million supplemental request for FY16 to allow the department to address the shortfall within the enterprise services program affecting telecommunications, radio and data network. According to DoIT, the shortfall resulted from approved rates not generating projected revenue due to increased costs from vendors and a decrease in consumption by client agencies. Enterprise rates are established 12 – 18 months in advance and do not always reflect cost or changes in service demand. The Legislature appropriated $1.2 million.

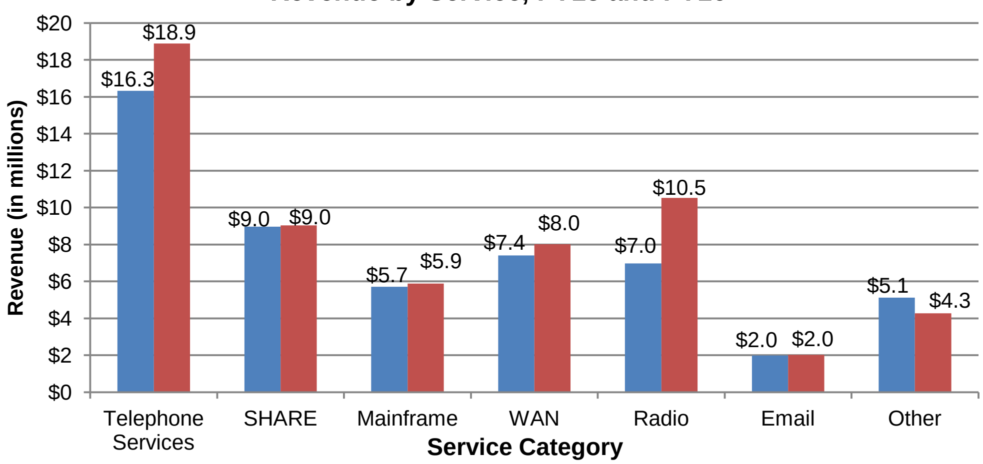
DoIT Reports Operating Losses Despite Increases in Cash Balances and Rates

DoIT's Enterprise Services Program provides core technical infrastructure for the state supporting agency IT and communications systems.

The enterprise services program is responsible for infrastructure services which include the state's telecommunications system, two-way radio communication, digital microwave, data communication networks, and the state's data center. The state's data center provides a secure facility with redundant power and cooling which houses many of state's critical IT systems including the state's email, SHARE and mainframe servers. The program also provides other services including the technical design, architecture, engineering, implementation and administration for the state's networks and data center servers.

DoIT is primarily funded through enterprise revenues it receives from state agencies that use its services. As an enterprise agency DoIT must charge agencies for its services to generate revenue to recover its costs. DoIT charges agencies for services though rates for different services. Although over 60 rates exist they can be categorized into eight service areas. A summary of revenues by service area for FY15 and FY16 are shown in the chart below.

Chart 1. Department of Information Technology Revenue by Service, FY15 and FY16



Source: DoIT Files
*FY16 revenues are estimates

Historically DoIT expenditures exceed revenues, reflect large budget adjustments and do not reach legislative appropriation levels.

For example, in the most recent audit available, FY15 appropriations were $63 million, total expenditures were $55 million and revenue collected was $53 million. According to DoIT's submission for the federal statewide cost allocation plan it transferred money out of the equipment replacement fund for capital assets. Additionally, the legislature has historically given broad budget adjustment request (BAR) authority to DoIT. DoIT has used this BAR authority including authority to increase the DoIT budget. For example, in FY13, there were over $3 million in budget adjustments from DoIT, the same year DoIT outspent their original budget request and appropriation.

DoIT reported increase in expenditures over the years is due to additional costs to provide services, increases in service utilization and investment in new services. DoIT may only spend monies received as revenues for its services.

DoIT budget requests consistently overestimate revenue. DoIT budget requests typically overestimate the amount of revenue the enterprise fund will generate. When the department is under budget it signifies estimated revenues may have been not realized, in part due to timing of when the annual service rates established. Over the last five years, the total budget request from DoIT has overestimated actual revenue collected by an average of $9.2 million per year for a total of $46.2 million in the five year period.

Table 5. Department of Information Technology Enterprise Services Summary of Budget Requests, Appropriations, and Revenue
(in millions)

	FY12	FY13	FY14	FY15	FY16	TOTAL
Total Budget Request	$64.6	$55.9	$61.1	$62.3	$68.7	**$312.6**
Total GAA Appropriation	$55.4	$55.9	$61.1	$62.2	$67.7	**$302.3**
Total Revenue Collected	$45.2	$53.6	$54.6	$52.6	$60.4	**$266.4**

Source: GAA, DoIT Audits, DoIT

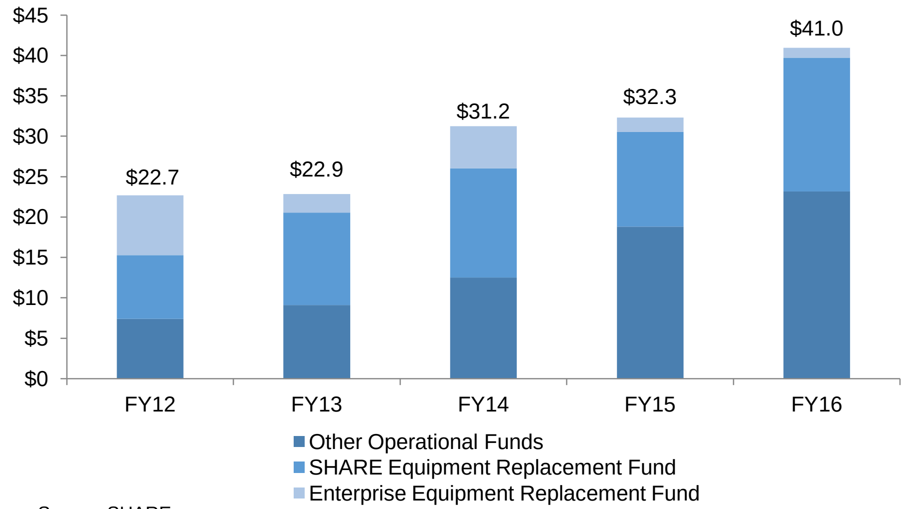
Note: Does not include Compliance and Project Management Program

DoIT has built up cash balances over the last five years. Cash balances have nearly doubled, increasing from $22.7 million in FY12 to $41 million in FY16. Cash balances are allowed for two purposes, for a 60 day working capital reserve, and allocation of depreciation to the service rates in order to collect revenue for equipment replacement. According to the federal government, DoIT is allowed to carry a working capital reserve to operate from one billing cycle to the next. Reserve is defined as "up to 60 days cash expenses for normal operating purposes." A working capital reserve exceeding 60 days may be approved by the federal government in exceptional cases.

Part of DoIT's enterprise revenue is for replacing equipment, as the agency can allocate up to the full amount of asset depreciation expense annually to service rates. This has allowed DoIT to build cash balances in equipment replacement revolving funds, which are held as part of the state general fund investment pool at the State Treasurer's Office. The equipment replacement fund (ERF) program provides a funding mechanism to replace aging equipment (Section 9-27-11 NMSA 1978). The equipment replacement program includes two funds, the Enterprise ERF and the SHARE ERF. The primary purpose of the program is to provide a funding mechanism for IT equipment needing replacement or updating and replacing capital equipment and associated software used by the department's enterprise program to provide enterprise services to its customers. The federal government allows DoIT to charge agencies for replacing IT assets based on depreciation of software, buildings, furniture, and other capital assets. The revenues are transferred to one of the two ERFs. Historically, DoIT has used equipment replacement funds for replacing network equipment, radios and servers, and implementing upgrades, such as for the email system. In addition, DoIT has replaced switches, firewalls, and routers for the state's core network and improved database storage to support various enterprise services.

In FY14, DoIT successfully moved the SHARE system to new hardware.

Chart 2. DoIT Cash Balance Summary by Fiscal Year
(in millions)



Source: SHARE

DoIT's financial statements continually show operating deficits despite collecting millions in revenue for equipment replacement, leading to high cash balances. DoIT audits show operating losses for the last four years. These losses are primarily driven by depreciation expense for aging assets. Overspending in some service areas is also a contributing factor. Also, large set-asides for equipment replacement from enterprise funds, calculated based on depreciation, have resulted in sizeable cash balances in the ERFs.

Table 6. Department of Information Technology Enterprise Services Summary of Appropriations, Expenditures, and Revenue for DoIT
(in millions)

	FY12	FY13	FY14	FY15
Personnel services	$13.6	$13.1	$15.1	$15.7
Contractual Services	$7.2	$7.8	$8.5	$7.2
Other costs	$23.2	$24.6	$22.7	$21.7
Depreciation	*$10.3*	*$13.8*	*$11.3*	*$10.0*
Total Revenue Collected	**$46.2**	**$53.6**	**$54.6**	**$52.7**
Total Expenditures	**$54.3**	**$59.4**	**$57.6**	**$54.7**
Operating (loss) income	**-$8.1**	**-$5.8**	**-$3.0**	**-$2.0**

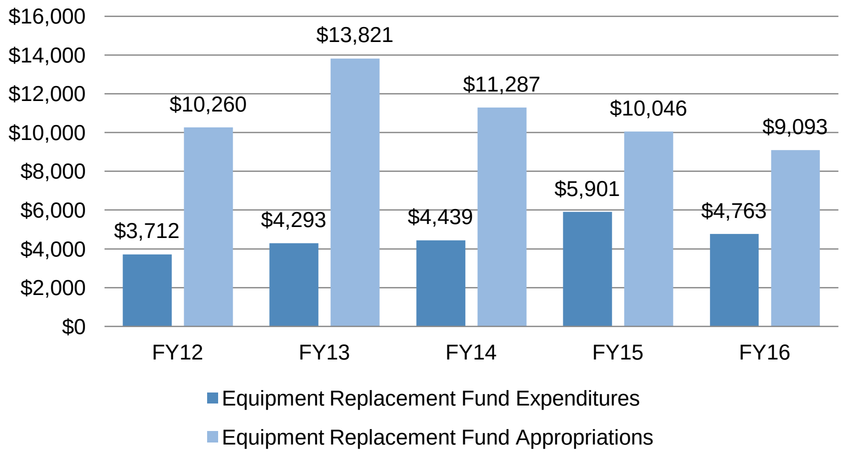
Source: GAA, DoIT Audits

Note: Does not include Compliance and Project Management Program

DoIT may record amounts due to the equipment replacement revolving funds each fiscal year, based on the calculation of amortization and depreciation applicable to each enterprise service. Despite reporting operating losses in their annual audits, the amount of equipment replacement revenue DoIT collects consistently outpaces the amount spent from the ERFs each year, leading to increased cash balances previously cited.

On average the ERF funds combined collect $6.3 million more than they spend every year. The difference ranges from $4.1 million to as much as $9.5 million. By law, the funds are restricted and can only be spent through an appropriation made by the Legislature and must be spent according to equipment replacement plans.

Chart 3. Equipment Replacement Fund Expenditures and Transfers Into Fund FY12 - FY16
(in thousands)

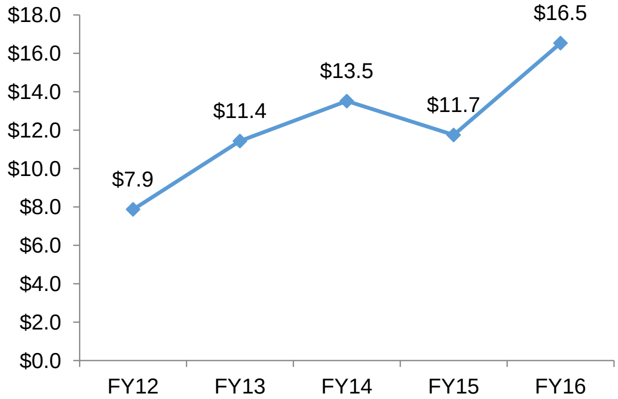


Source: DoIT and LFC Volume II's

DoIT provided LFC staff a document on the FY16 rate analysis and rate recommendations stating it will have a 4 percent shortfall and faces significant under recovery from prior years. DoIT also indicates the under recovery impairs the equipment replacement fund and has severely depleted the department's cash reserves. Again, shortfalls and under recovery are in part driven by depreciation charged to agencies which is build into service rates.

DoIT's SHARE ERF balance is currently $16.5 million, yet rates have remained consistent or risen. DoIT has stated the SHARE equipment replacement funds are needed to upgrade the system. Ongoing goals of the SHARE upgrade project are to standardize business processes and eliminate agency customizations. DoIT's current project dashboard shows $17 million as the total cost of the SHARE upgrade. LFC has requested but DoIT has yet to provide a detailed project plan and budget for the SHARE upgrade project.

Graph 1. SHARE Equipment Replacement Fund Cash Balance
(in millions)



Source: SHARE Cash Balance Report

In general, SHARE expenses are primarily for payroll, contractual services, replacing database software and other finance uses that include depreciation, with annual depreciation around $3 million. The FY14 increase is due to the transfer of 10 FTE from DFA which consolidated all SHARE positions in the enterprise services program.

Table 7. Department of Information Technology SHARE Expenditures (Fund 20360) by Account Category
(in thousands)

Description	FY12	FY13	FY14	FY15	FY16
200 - Personnel & Employee Benefits	$874.2	$862.2	$1,762.1	$1,707.4	$1,660.5
300 - Contractual Services	$1,300.1	$1,674.1	$2,511.8	$1,785.5	$1,585.5
400 - Other	$579.8	$596.8	$1,209.2	$1,147.1	$950.8
500 - Other Finance Uses	$4,538.7	$4,420.4	$4,421.8	$3,561.8	$4,383.5
Total	**$7,292.8**	**$7,553.5**	**$9,904.9**	**$8,201.8**	**$8,580.3**

Source: SHARE and DoIT Profit and Loss Reconciliation to Audit

DoIT has increased the SHARE subscription rate three times since FY12. In FY14, the rate increased from $310 per FTE to $350 per FTE. Revenues exceeded expenses in FY15 and FY16, yet DoIT increased the rate in FY17. DoIT stated the increase is due to the negative balance with the federal government and to provide funding for the SHARE upgrade. Initially DoIT increased the SHARE rate for FY17 by 10 percent to $385 per FTE. However as of October 2016, DoIT reduced the rate back to the FY16 level $350, reducing the estimated revenue by $750 thousand.

Table 8. Department of Information Technology SHARE Subscription Fees (Fund 20360)

Fiscal Year	Expense	Revenue	Over/(Under)	Rate per FTE
2012	$7,292,813	$6,449,125	($843,688)	$250
2013	$7,553,500	$7,892,532	$339,031	$310
2014	$9,904,954	$8,873,588	($1,031,367)	$350
2015	$8,201,789	$8,966,453	$764,664	$350
2016*	$8,580,321	$9,026,308	$445,987	$350
Total	**$41,533,377**	**$41,208,005**	**($325,373)**	

Source: DoIT Financial Audits and Profit and Loss Statements

* Unaudited Amount

Collecting revenue from depreciation for large IT assets such as SHARE causes an undue burden on agencies as these assets are typically funded by other sources of state revenue or federal funds. DoIT is building equipment replacement reserves for SHARE and other assets despite the fact these initiatives are historically funded by general fund or federal funds. For example, in the FY14 budget the Legislature appropriated $5 million to DoIT to stabilize and upgrade the SHARE system. The $5 million appropriation was from the general fund and not the equipment replacement fund; therefore, previous revenue collected is supplemented or possibly duplicated by the legislative general fund appropriation. The $5 million appropriation was reauthorized and extended in the FY16 budget through FY17. Along these lines, federally funded assets are also charged depreciation when it is possible such assets will be partly or wholly funded by federal sources rather than ERF fund balances.

DoIT has not met its statutory obligation to establish and maintain annual equipment replacement plans.

Statute (Section 9-27-11 NMSA 1978) requires DoIT to submit equipment replacement plans no later than September 1 of each year to DFA, ITC and the Legislature, accompanied by a reconciliation report of the preceding fiscal year reflecting financial activity in each of the equipment replacement revolving funds. Without an annual plan and reconciliation report, there is reduced accountability for how state taxpayer dollars are spent on replacing information technology.

DoIT has not submitted an ERF plan from 2012 to present. Other than meeting notes from November 2015, primarily for FY16 ERF expenditures, DoIT could not provide any details for determining ERF expenditures for prior years. DoIT has an ERF charter, however, it appears it has not been consistently followed and it is outdated. The charter describes the components of the ERF plan, and usage policies and procedures. The charter states ERF expenditures should be used on a planned basis, and by establishing a planning process, needs per service, and department, priorities for the fiscal year can be determined. It also establishes an executive steering committee responsible for the review and approval of equipment replacement requests. The steering committee members are not current, listing the prior state CIO, previous deputy secretaries, the former administrative services director and another employee who retired. DoIT service managers are responsible for submitting equipment replacement requests for committee review. Then ERF plans are to be submitted by service managers on an annual basis by December 15th as part of the planning for the subsequent fiscal year. While DoIT staff has made reference to the charter and committee, it is not clear to what extent DoIT is following the ERF charter and if ERF expenditures were appropriate and necessary.

DoIT has made expenditures from the equipment replacement revolving funds without an equipment replacement plan. Expenditures from the equipment replacement revolving funds "shall only be made pursuant to an appropriation from the Legislature and only for the purpose of acquiring and replacing capital equipment and associated software used to provide enterprise services pursuant to the department's equipment replacement plans (Section 9-27-11.B. NMSA 1978)." As previously mentioned, DoIT has not formulated equipment replacement plans as required by law.

Table 9. Equipment Replacement Fund Expenditure Details FY12 – FY16
(in thousands)

Expenditure Description	FY12	FY13	FY14	FY15	FY16	Total
Professional Services		$34	$802	$1,752	$2,384	$4,971
Other Services			$96		$64	$160
IT Supply Inventory			$42			$42
IT Equipment	$544	$3,222	$3,452	$1,656	$2,098	$10,972
Other Equipment	$3,231	$1,143		$1,819	$217	$6,409
Building & Structures			$68			$68
Communications			$0	$62		$62
Request to pay prior year		$21		$614		$635
LFC Reconciliation Item	($63)	($127)	($21)			($210)
Total	**$3,712**	**$4,293**	**$4,439**	**$5,901**	**$4,763**	**$23,108**

Source: Sunshine Portal and LFC Analysis

Without a plan as required by statute, ERF revenues continually exceed ERF expenditures. As previously mentioned, ERF revenues from depreciation built into service rates exceed ERF expenditures each year. Over the last five years DoIT increased revenue by including $54.5 million of depreciation in its service rates, yet DoIT has spent less than half of the ERF revenue ($23.1 million).

Table 10. Department of Information Technology ERF Revenue and Expenditures FY12 – FY16
(in thousands)

Equipment Replacement Fund Revenue	$54,508
Equipment Replacement Fund Expenditures	$23,108
Difference	$31,400

Source: DoIT Financial Audits and DoIT

Recommendations

The Legislature should

Consider not making appropriations to or from the enterprise replacement fund until DoIT provides an equipment replacement fund plan and reporting is performed as required by statute.

Department of Information Technology should:

Develop an equipment replacement plan as provided in statute and provide it to the Information Technology Commission, the Department of Finance and Administration, and the Legislature;

Provide annual equipment replacement fund reconciliation to the Legislature as required by statute and include it in its annual budget submission to the Department of Finance and Administration and Legislative Finance Committee;

When developing rates, consider other sources of revenue for equipment replacement to decrease funding impact on agency budgets; and

Develop a detailed project plan and estimated cost for replacing or continuing to upgrade SHARE specific to potential use of the SHARE enterprise replacement fund and provide the plan to LFC.

DoIT Needs Improvement in Rate Setting and Service Delivery

As an enterprise agency, DoIT rate charges are designed to recover its cost of providing each service and replace equipment.

DoIT rates include direct costs for providing the services and overhead costs of running the agency. Direct costs include the salaries and benefits of the technical staff delivering the service, equipment used in providing the services and outside vendors costs directly associated with the service. Rates must not result in a profit beyond its operating budget, or conversely result in a substantial under-recovery, with the objective to break even. Overhead costs are not directly attributed to a service but necessary to run the agency, for example, data center security costs, program support, including billing and accounting systems and services, and the office of the Chief Information Officer (CIO).

"Cost recovery should be used with great care and is part of the chargeback [rate model] policy decision. Cost recovery too can be contentious, so there needs to be a fair and transparent approach to implementation."
Chargeback – How far should you go? - Gartner

In addition, enabling legislation allows DoIT to include depreciation expenses in the rate structure to provide funding for replacing aging infrastructure and equipment, and enhancing services over time. Depreciation expense, although not a true cash expenditure, is a reduction in the value of DoIT's IT assets. Federal guidance indicates that depreciation is to be based on the acquisition cost of assets involved over a set period of time (e.g. four years for data processing equipment and software).

In setting its rates, DoIT is required to follow federal regulations and guidelines outlined in OMB Circular A-87. The guidelines provide for the recovery of indirect costs, including depreciation and amortization of equipment involved in providing DoIT services. DoIT is allowed to set its rates at a level that recovers its costs, including overhead and depreciation, but cannot generate profits to help fund other IT services. While DoIT rate setting is guided by OMB Circular A-87, the federal government does not approve or audit the rates. Instead, the federal government reviews and approves the methodology for allocating costs.

DoIT's Office of Cost Recovery and Allocation is responsible for reviewing actual month-to-month expenditures for fluctuations that may require rate adjustments. Although rates are set using estimates, when actual unit costs are known, DoIT has the opportunity to adjust the rates.

DoIT's cost-allocation and recovery model tracks direct and indirect costs for each service by reporting category in the general ledger. To determine actual unit costs and profit and loss by service, DoIT uses:

- SHARE expenditure data;
- Depreciation and statewide cost allocation plan charges for each service;
- Indirect cost allocation on a percentage basis for services that provide a benefit to each individual service;
- Audited financial statement adjustments; and
- Service units (usage) from the billing system.

Of the amounts DoIT collects, LFC staff estimates 56 percent is general fund revenue, with the remaining from other state funds and federal funds. When state agency budgets are held flat and DoIT increases its rates, there is a direct impact to the general fund, reducing dollars available for other program areas. As a result, agencies have to absorb rate increases in their operating budgets.

Rate setting is subject to adjustment from factors other than historical service cost and use. For example, in June 2016, the IT rate committee approved DoIT proposed new service rates for FY18 to take effect July 1, 2017. However, due to current budget constraints, DoIT reduced the majority of the FY18 rates to reflect the FY17 rates, with DFA concurrence, effective August 4, 2016. As a result, DoIT reduced its FY18 projected revenue for enterprise service assessments by 5.9 percent or $3.3 million from $56.1 million to $52.8 million. See **Appendix B** for the approved enterprise billing rates for FY16, FY17 and FY18.

Rate setting, including increases is not always substantiated by a documented process. Approved rates for budgetary purposes are based on an estimate prepared 12 to 18 months before the fiscal year starts. Because of the timing difference actual unit cost is not always in line with the approved rates. In general, estimated rates are developed by dividing the average annual cost by the annual average usage in addition taking into consideration other variables such as new initiatives.

DoIT did not demonstrate it has a documented process for determining when a rate should be increased or decreased by a certain percentage or remain unchanged.

The department is at risk of having a single point of failure, having one individual responsible for its cost allocation and rate model and lacking adequate documentation for rate development. Prior to FY14, DoIT's Office of Cost Recovery and Allocation had two staff assigned to develop and maintain the cost allocation methodology used to develop its IT service rates. DoIT's documentation for the IT rate development process is limited to a general overview and a hierarchical flowchart of the rate model. The individual responsible for the rate model maintains notes, but does not have detailed documentation of the process. As a result, timely completion of the appropriate tasks associated with the rate development would be difficult. Without documentation and cross-training another individual, details of the methodology, including the elements of IT rate calculations and the accuracy of the rates remains uncertain. To ensure transparency in the rate development process DoIT needs to maintain adequate documentation.

DoIT has not taken action to train staff on how IT service rates are constructed as recommended in the LFC's 2010 program evaluation report. Although the IT Rate committee includes cabinet secretaries from the Taxation and Revenue Department, Human Services Department, Regulation and Licensing Department and Department of Public Safety, DoIT could not demonstrate it has communicated with state agencies on how rates are constructed.

Note LFC's 2010 program evaluation report recommended DoIT establish a single point-of-contact for state agencies which DoIT has accomplished. DoIT has assigned a team of service managers to actively engage with agencies and to provide a central point-of-contact for the department.

Efforts to accelerate rates to offset historical under recovery due to depreciation need to be re-examined. DFA's statewide cost allocation plan submission states any over or under recovery of costs may be included in subsequent rate calculations. DoIT reported it adjusts the rates due to increased costs to provide a service, to replenish the equipment replacement fund, and to reduce the cumulative negative federal balances.

These negative balances existed prior to establishing DoIT primarily due to large outstanding account receivables. After establishing the equipment replacement revolving funds, the negative balances have grown due to accounting for depreciation. However, it is not clear if the guidance in OMB A-87 requires DoIT to offset the cumulative negative balances by increasing the rates beyond actual costs. Given the amounts of the cumulative negative balances shown in Table 11 it is likely it will take DoIT several years and considerable cost to agencies to net the balances to zero. In the June 2016 rate committee meeting minutes DoIT discusses a strategy to recover the last three years of underpayments and noted DoIT will not set a rate to recover large amounts such as the $13 million WAN service.

Table 11. Summary of Federal Balances
(in millions)

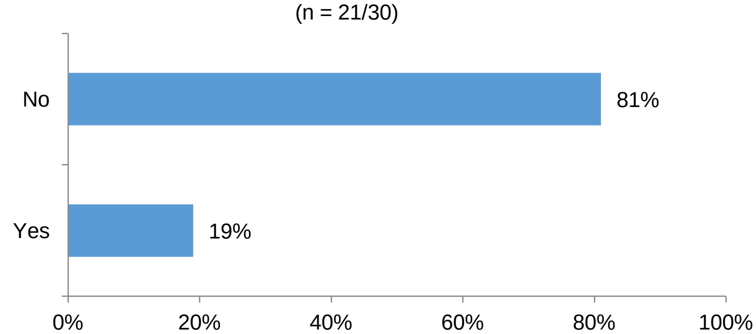
Billed Service Summary	Cumulative Federal Balances through FY15
Information System Services	($13.1)
Communications Services:	
Voice & Data Communications	($28.6)
2-Way Radio & Microwave	($4.5)
Communications Subtotal	*($33.1)*
Total (Fund 20310)	**($46.2)**
SHARE Services **(Fund 20360)**	($1.7)
Total	**($47.9)**

Source: DFA Federal Balances and DoIT Profit and Loss Analysis

Technology and associated costs can change rapidly resulting in the current methodology for generating equipment replacement revenues based on current asset depreciation to potentially be outdated. For example, the capacity and cost for servers has resulted in changes to how many the state will need in the future. Also, with the expansion to cloud based services the state or an agency may avoid needing to purchase servers all together. As a result, building in large depreciation costs for outdated assets that may never be replaced causes undo financial hardship, especially now with budget constraints.

State agency staff does not believe service rates are fair or transparent. Agency CIOs and IT leads were asked if they believed DoIT IT service rates are fair and transparent. Approximately 4 out of 5 respondents (81 percent) indicated they did not believe DoIT IT service rates are fair and transparent.

Chart 4. Are DoIT IT service rates fair and transparent?
(n = 21/30)



Source: LFC Survey

It should be noted the IT rate committee is responsible for implementing the fee schedule and approving the rates proposed by the Secretary of DoIT.

DoIT established a new tool to improve its ability to make decisions related to its rate model, but risks remain.

Beginning spring 2015, DoIT recognized the need for a new internal budget model, with the absence of any mechanism to model expense and revenue across service cost centers timely and transparently. With the service area budget and executive reporting (SABER) tool, management is able to review costs and revenues by service area. The department is currently assessing and formalizing inputs for the tool. When the assessment is complete SABER will provide benefits and have additional value as the model matures. Some examples include:

- Service area orientation of a working budget;
- Delegation of budget management to service owners;
- Revenue projections based on historic utilization and potential changes;
- Functional model to perform "what if" scenarios;
- Identification of key decision points and improvements to the cost recovery model; and
- Timely reporting based on real-time data.

SABER supports a consistent approach to validate costs by service area and ultimately DoIT's ability to improve its enterprise rate development. However, DoIT has yet to develop a strategic business plan that defines the vision for services and revenues over a five-year period. Development of a long term plan for services with projected revenues will mitigate the development of these same services within each organization and lower the total cost of ownership. Without a long-term plan, updated on an ongoing basis, the state is not able to make effective decisions on investments and acquisition of applications and products.

DoIT has improved its collections for billed services.

DoIT has consistently collected more revenue than billings each fiscal year since 2012. This indicates the department has made progress recovering previously outstanding amounts owed.

Table 12. Department of Information Technology
Billing and Revenue Summary by Fiscal Year
(in thousands)

	FY12	FY13	FY14	FY15	FY16*	Total
Total Billed	$46,167	$52,671	$53,548	$52,549	$59,026	**$263,961**
Total Revenue Collected	$45,239	$53,579	$54,578	$52,645	$60,395	**$266,436**
Percentage Collected	98.0%	101.7%	101.9%	100%	102%	**100.9%**

Source: DoIT General Ledger Financial Audit Reconciliations

*Unaudited amount

While DoIT's accounts receivables have improved since FY13, its recent aging report for greater than 60 days shows $4.5 million in uncollected revenue. A summary by agency is shown in the table below.

Table 13. Accounts Receivable Aging Summary by Agency
(as of 9/30/16)

DoIT Customer Name	Sum > 60 Days
Corrections Department	$3,061,651
Department of Transportation	$283,231
Department of Public Safety	$278,183
General Services Department	$206,623
State Treasurer	$203,886
Department of Information Technology	$90,278
Public Education Department	$64,980
Public Defender Department	$64,647
New Mexico Health Policy Commission	$35,580
Department Of Health	$32,511
Board Of Nursing	$31,728
Department Of Environment	$27,585
Energy Minerals & Natural Res	$26,447
5th Judicial District Attorney	$23,100
United States Customs Service	$22,612
ONGARD	$37,772
Developmental Disabilities	$18,844
Department Of Military Affairs	$16,608
Total	**$4,526,265**

Source: DoIT

Agencies that receive an invoice from DoIT for services have thirty days from receipt of the invoice to pay the department or to notify the department if the amount of the invoice is in dispute. In addition, if the agency has not paid DoIT or notified the department of a dispute within thirty days of receipt of an invoice, DoIT notifies DFA and requests DFA transfer funds from the agency to DoIT to satisfy the agency's obligation. Although DoIT's billing policy is in line with statute, it appears DoIT has not imposed the requirement to notify DFA.

The Corrections Department anticipates a large increase in DoIT radio fees, from $319 thousand per year to $4 million per year. The Corrections Department (Corrections) purchased its own radios a few years ago and did not use DoIT to maintain them. In FY14, when DoIT changed the frequency of public safety radio waves to comply with federal mandates, Correction's radios were not operable at full capacity. Since Correction's radios were not part of DoIT's inventory, the equipment was never modified or updated to support the new frequency. In FY15, DoIT replaced all of Correction's radios and did not charge for the service, but expected Corrections to pay the FY16 bill and all future bills. DoIT believes there was a breakdown in communication, leading to the increased cost not being budgeted for and likely resulting in Corrections past due account. The optimal number of radios Corrections needs is not clear and it appears there are an excess number of radios contributing to Corrections increased radio fees. The Corrections department is planning to conduct an audit to determine: 1) the appropriate number of radios and 2) what equipment needs to be standardized across its facilities to decrease its costs. Corrections underlying concern is whether DoIT has the capacity overall to support its radio service needs.

The optimal number of radios Corrections needs is not clear and it appears there are an excess number of radios contributing to Corrections increased radio fees.

Statute states DoIT shall have supervisory control over all mobile or fixed radio equipment now owned or subsequently acquired by the executive branch or any state officer, department, other agency, board, commission. Supervisory control includes the determination of the need for, purchase, repair, maintenance, combination or disposition of radio equipment.

DoIT does not sufficiently use service level agreements which are essential for management and IT service delivery.

Service level agreements between DoIT and agencies are needed for effective management, communication, and to follow best practices. A service-level agreement (SLA) is a contract between a service provider and its customers that documents what services the provider will furnish and defines the performance standards the provider is obligated to meet. SLAs may also serve as a management tool to measure how effectively DoIT is providing services to its customers, state agencies.

SLAs dictate the quality and type of service that will be provided to the customer in exchange for a fee. SLAs also provide the remedy, such as a reduced fee structure, that will apply in the case of a service outage. SLA’s and performance agreements are essential to effective management of IT resources and good customer relationships. Good SLAs balance customer needs with the IT department’s capabilities, and customer expectations with the IT department’s commitments. Best practices for SLAs include:

- Limited technical jargon and services expressed in business terms,
- Definitions of terminology,
- Formal approvals from all parties,
- Clear service level objectives (e.g. availability, reliability, performance) and corresponding measures,
- Nonperformance clauses defining consequences of unfulfilled commitments (i.e. warnings, escalation procedures, financial penalties), and
- Limitations and customer responsibilities.

An SLA can also report on performance metrics specified in the agreement. Overall, IT service level management provides the verification that what is delivered conforms to user expectations and identifies the areas to be improved for a better service. IT service management should be more than a monitoring and reporting tool; it must also be used to identify and remedy process problems in service delivery. Best practices for service management include:

- Designating a service level manager who is responsible for monitoring and reporting on the status and achievement of the SLA’s performance criteria,
- Conducting service level satisfaction surveys to expose customer perceptions of performance,
- Continuously evaluating SLAs to ensure the alignment of IT and agency objectives.

Establishing SLAs could help overcome issues with agency communication cited by DoIT. In its FY16 budget request for enterprise services, DoIT cites lack of communication with agency customers as creating problems with cost recovery and use and service delivery. DoIT reports "Lack of effective communication has led to perception issues on DoIT's chargeback model, plans for existing and new services and ineffective utilization of certain services."

Existing SLAs with DoIT are problematic. While DoIT stated it does not execute SLAs with agencies, there may be established SLA's with a DoIT vendor which provides services to an agency. For example, there is a SLA in place with Centurylink for the hosted interactive voice response (IVR) service provided to the Workforce Solutions Department. In addition, HSD has a SLA executed with DoIT that is outdated and does not include what SLAs typically contain. For example, DoIT did not agree to specific targets for service delivery. The Centers for Medicaid and Medicare Services (CMS) requires HSD to have an executed SLA. HSD recently initiated communication with DoIT to update their agreement and make it more meaningful.

DoIT staff also reported that its service catalog, including service levels, is included on its website. However, in many cases service level is limited to standard language which states "This service is available to customers 24 × 7, excluding planned outages, maintenance windows and unavoidable events. Maintenance windows are used only when needed for scheduled changes." In addition, the website states service level objectives are "to be determined." This does not conform to SLA best practices.

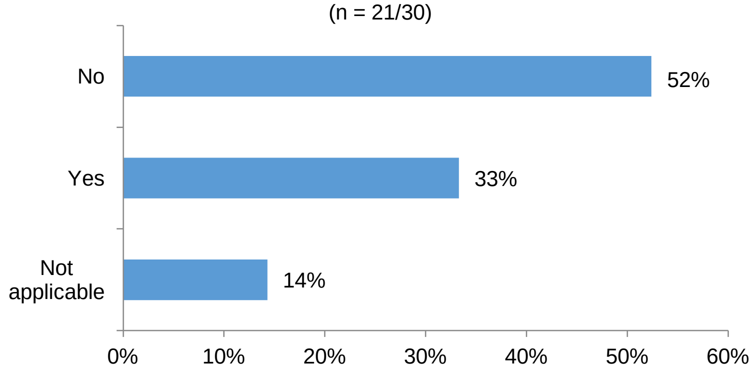
SLAs would help to ensure accountability. For example, the Taxation and Revenue Department (TRD) IT systems associated with one of its call centers is hampering its effectiveness and productivity. DoIT provides TRD automated call distribution services, including an interactive voice response (IVR) system and reporting system. The IVR system does not meet security standards, does not offer flexibility such as customers being able to select an option for Spanish, and is generally outdated. In addition, an $800 thousand predictive dialer upgrade installed at TRD in 2013 to gain efficiency through automated outbound calls, remains inoperable. If operable the predictive dialer would call numbers until a person is reached and then transfer the call to an agent, eliminating unproductive agent time.

An $800 thousand predictive dialer upgrade installed at TRD in 2013 to gain efficiently through automated outbound calls, remains inoperable.

Without a SLA in place, LFC staff could not determine if DoIT or the vendor is responsible for the system inoperability. Furthermore, TRD cannot monitor productivity because the reporting system generates inaccurate data on call metrics. TRD has requested to migrate to another DoIT call management system since June. Although DoIT confirmed TRD is a priority customer for the migration, as of October, TRD has not received an update since July, on the status of implementation

According to agency CIOs and IT leads, DoIT does not provide adequate IT services. LFC staff conducted a survey of agency CIOs and IT leads receiving a very high response rate of 70 percent (21/30). Over half of agency CIOs and IT leads indicated DoIT does not provide adequate IT services. This evidence converges with concerns previously discussed around a lack of communication between DoIT and agency staff, along with issues of DoIT having a lack of planning around ERF funding and not following SLA best practices.

Chart 4. Does DoIT Provide Adequate IT Services to Meet Your Agency Needs?
(n = 21/30)



Source: LFC Survey

DoIT recently sent out a customer satisfaction survey to help provide its customers with the best possible service. As of this writing, results of the survey are not known. LFC staff has requested DoIT conduct an annual customer survey to be included with its performance measures. Customer service satisfaction surveys and customer input are important tools for evaluating IT staff performance and identifying under-performing processes and staff. Clear communication with IT customers allows DoIT to predict demand for services and receive input on possible improvement to processes.

To improve its IT service delivery model, DoIT established the IT Service Management Office (ITSMO) committee.

The ITSMO committee improves DoIT's management of defining, delivering and supporting IT services through the use of a documented process. DoIT's goal is to improve the delivery of existing services and deploy additional IT services aligned with business needs, in a cost-efficient manner. With the ITSMO committee in place as of February 2015, DoIT's service design process is now documented. Service design ensures new and changed services are designed effectively to meet customer expectations. The technology and architecture required to meet customer needs cost-effectively are an integral part of service design, as are the processes required to manage the services. Prior to February 2015, DoIT did not have a documented process for establishing new services or discontinuing services. As a result, DoIT would invest in service without knowing if there was an adequate customer base to recover costs.

IT service management is guided by the IT Infrastructure Library (ITIL), a globally recognized collection of best practices.

ITIL framework is designed to standardize the selection, planning, delivery and support of IT services to a business. The goal is to improve efficiency and achieve predictable service levels. The ITIL framework enables IT to be a business service partner, rather than just back-end support. ITIL guidelines and best practices align IT actions and expenses to business needs and change them as the business grows or shifts direction. DoIT is committed to continue making improvements by adopting the ITIL framework however it is lacking key components, such as service level agreements, previously discussed.

While DoIT has discontinued and combined some services, its customer base for some services may not warrant the expense. For example, Exadata has one customer, the Human Services Department (HSD). In FY11, DoIT purchased Exadata at a cost of $407 thousand, initially to be used for SHARE. However, at the time because of the status the SHARE system, it was not feasible. Exadata is a combined compute and storage system optimized for running Oracle database software. Therefore, DoIT recognized HSD was a potential customer with its implementation of the ASPEN system, which uses Oracle databases. In January 2013, HSD purchased its own licenses for Exadata. As a result, DoIT gave HSD credit for the licenses, and started full billing in November 2013.

Currently, DoIT does not have the in-house capability to support Exadata, therefore contracts with a vendor. The vendor costs have increased 55 percent from $194 thousand in FY16 to $300 thousand in FY17. In addition the cost of Exadata continues to increase from $48 thousand per instance in FY15 to $70 thousand for FY17. Therefore, DoIT is considering requesting HSD to take over the service because it would be more cost effective since HSD can better leverage federal funds.

Recommendations

Department of Information Technology should:

Document and publish the methodology for rate setting;

Continue to use the service area budget and executive reporting tool to review costs and revenues by service area and improve decisions related to the rate model;

Ensure IT costs and cost recovery methods are transparent and clearly communicated; and

Establish service level agreements with state agencies, its customers, in line with IT service management best practices guided by IT Infrastructure Library framework.

Recent Enterprise Project Management Office Initiatives Enhance Its Processes, but Improvements Are Still Needed

DoIT's compliance and project management program serves as the state's Enterprise Project Management office (EPMO).

EPMO helps the Secretary of DoIT fulfill its duties as the state's Chief Information Officer.

EPMO provides IT project management guidance and oversight to state agencies and supports the state's chief information officer (CIO) responsibilities in managing the state's IT portfolio and monitoring agencies compliance with the state's IT strategic plan. Tasks range from preparing and guiding the project certification committee (PCC) in its oversight role to reviewing IT procurement. EPMO is also responsible for compiling DoIT's quarterly performance reports and providing guidance to state agencies on the annual IT special appropriation request. EPMO currently has five staff with an adjusted FY17 budget of $885 thousand, all from general fund revenues.

Currently the state's IT project portfolio includes 67 projects totaling $409 million. In overseeing the portfolio, the five EPMO staff attend agency project meetings and executive steering committee meetings and hold periodic project check-in meetings with agencies. In supporting the state CIO, EPMO provides additional oversight for expensive or high risk projects and those designated by the Secretary of DoIT. A dashboard report on these projects called the *Focus Portfolio,* is submitted to the LFC and DFA each quarter and also provided to the Science, Technology and Telecommunication Committee.

EPMO recently published "PM Express" as a quick reference guide on its website to provide agencies a better understanding of its roles and responsibilities.

DoIT publishes annual guidance for agency IT plans and funding requests. To improve the process for FY18, DoIT held a round table discussion with agencies for the IT special appropriations request process to include business case guidance and best practices. A subsequent forum was held to provide agencies business case examples and the opportunity to ask questions. EPMO also provided agencies the opportunity to meet to assist in improving their IT business case submissions. In addition, EPMO developed a quick reference sheet for agencies to develop IT business cases.

Restructuring the compliance and project management program may allow EPMO functions to be funded through enterprise funds, creating general fund savings.

EPMO was featured as a case study for best practices during Gartner's 2016 Project Portfolio Management and IT Governance Summit.

Prior to FY11, the EPMO function was included in enterprise services, but shifted when the compliance and project management program was established, with general fund revenues. EPMO provides standardized oversight and operates similar to program support and other enterprise functions.

In its FY18 strategic plan included with the budget request, DoIT has indicated the compliance and project management program is to be reorganized. The reorganization would consolidate EPMO, strategic planning, investment oversight, and IT security into the office of the CIO. Many of these functions historically have been funded through enterprise funds. EPMO, given its enterprise oversight duties, could also be funded in this manner. Including the compliance and project management program in enterprise service rates is appropriate as it supports state agency IT projects. Moreover, including the compliance and project management program in the enterprise rates would save almost a million dollars in general fund revenue as other state funds and federal funds would pick up the rest in the rates. This would likely have 1 percent to 2 percent impact on the rates.

DoIT recently launched a new project dashboard portal on its website, providing project schedule and budget status for the state's key IT projects.

DoIT is responsible for tracking statewide IT projects and publishes its reports on quarterly basis to its website. The quarterly dashboard reporting provides information about the status of the state's largest and most critical IT projects. DoIT reported the new portal is an attempt to make the information more relevant, viable, and transparent. Project dashboards stemmed from a common need to deliver vital project information in a snapshot view, with key performance indicators such as project schedule and budget status. The dashboard reports institute the "red, yellow, green" rating for agency IT projects.

To support the state CIO, one of EPMO's key responsibilities is to review and approve all IT procurements.

DoIT requires agencies to electronically submit, early in the process, any IT requests for proposals (RFP), contracts, agreements, and contract amendments. Agencies are responsible for managing their IT contracts to ensure timely award and renewal of the same. Sufficient time must be allocated for each step of the approval processes to ensure it reaches the DoIT with sufficient time for review and comment prior to the proposed date of execution of the contract. DoIT guidance states EPMO will provide comments to the agencies for consideration and incorporation into the final contract or agreement before final submission to the DoIT.

DoIT maintains a contracts tracking database that provides a snap shot on the status of the procurement reviews which also produces a contract data sheet to track details of the review process.

DoIT has updated its IT procurement approval processes and defined oversight of IT procurement for state agencies.

EPMO has found agency RFP submissions inadequate; lacking a proper scope of work and specific deliverables and as a result the review process is delayed. There also are indications agencies send incomplete procurement documents and do not follow DoIT's guidance for use of its templates. This may indicate a training issue. Occasionally when EPMO returns documents to agencies with changes and comment, state agencies delay returning the contract documents to DoIT for final review and approval. In some instances, agencies took up to two months to return the documents to DoIT. Reasons for agency delays were not assessed.

It is not clear why EPMO's review of certain types of procurements, such as IT professional services statewide price agreements takes up to a month to approve. Statewide price agreements terms and conditions have been vetted and approved through the RFP process. In addition, reviews of contract amendments to extend the due date for a deliverable or extend the term date by exercising an option can also take a month or longer. The approval process for these types of amendments may be inefficient, but DoIT lacks a performance standard to measure expected versus actual turnaround time.

EPMO's IT procurement reviews include oversight and approval by DoIT's general counsel as part of program support. Since February 2015, through a memorandum of understanding, the general counsel's time is split between DoIT and the Tourism Department, with 75 percent dedicated to DoIT and 25 percent to the Tourism Department. With the general counsel's divided responsibilities progress in contract approvals may be impacted and ultimately impact timely completion of the approvals.

The National Association of State Chief Information Officers (NASCIO) 2015 survey on IT procurement indicated almost 50 percent of its members had negative opinions about the process and 70 percent of vendor partners were moderately to very dissatisfied with state IT procurement processes.

IT contract terms and conditions have not been revised to accommodate cloud services or improve other key clauses. This could cause delays in contract negotiations and agency progress, having potential to impact IT project schedules. DoIT reported that updates to IT contract terms and conditions have been limited to changing the dollar thresholds to be in line with the procurement code, adding the administrative fees clause for statewide price agreements and termination language when there are insufficient appropriations.

LFC previously recommended DoIT in conjunction with State Purchasing Division conduct an analysis of the state's IT procurement methodology and strategies in comparison to other states for identification of best practices in the areas of warranties, indemnification, liability, and insurance. During the evaluation, DoIT reported vendors take exception typically to the same three articles in its standard terms and conditions – Termination Management, Indemnification and Liability.

The LFC also recommended DoIT ensure procurements of cloud computing solutions are in compliance with state information architecture plan and the state IT strategic plan and develop specialized templates with IT-specific terms and conditions for cloud service providers in line with best practices.

Both Delaware and California use contract checklists and specialized contract terms and conditions. Delaware uses an actual set of cloud computing terms and conditions that are included in all it cloud computing contracts. These include a set of public data and non-public data requirements. California has a cloud first policy as well as Cloud Computing Special Provisions for Software as a Service (SaaS). Virginia has a new cloud security policy currently under review, and along with it, strict audit and contractual controls.

While the project certification committee meets monthly, DoIT does not provide stakeholders notification of agendas and access to agency certification documents on a timely basis.

The compliance and project management program needs improvement in certain areas to ensure effective oversight.

DoIT requests agency information two weeks in advance of the project certification committee meetings. This allows staff time to review for technical sufficiency and provide agencies feedback if the documentation needs improvement. However, DoIT provides PCC members access to the information the day before the meeting. This does not always allow PCC members and stakeholders adequate time to review the documentation.

Additionally, it appears DoIT staff review does not validate the content of the certification documents. As a result, errors and omissions may not be identified until after the certification process is complete. For example, LFC staff determined certification amounts in the documentation for the Taxation and Revenue Department (TRD) ONGARD modernization project was not accurate after the March PCC meeting. TRD requested $1.9 million of the planning certification and the PCC approved. The certification documentation did not include all the amounts previously certified and as a result the total certified amount of $7.4 million exceeded the $6 million appropriation. By LFC staff identifying the error, TRD reconciled its project expenditures and determined it did not have adequate funding to proceed with its vendor contract and updated the project certification documents during a subsequent PCC meeting.

While DoIT regulations require IV&V for all certified IT projects, it has yet to establish criteria for granting IV&V waivers. Administrative rule requires all projects subject to oversight to engage an independent verification and validation contractor unless waived by the secretary of DoIT. DoIT reported it grants IV&V waivers using an outdated rule (NMAC 1.12.1.9) with broad parameters for exceptions that do not readily apply to oversight of an IT project. According to DoIT, IV&V waivers are primarily granted because IV&V would result in significant increase in agency costs or compromise essential service attributes critical to agency success.

The purpose of IV&V is to obtain an objective assessment, ensure compliance with specified requirements, and provide early detection of risks and issues to ensure a project's compliance with performance, schedule, and budget requirements.

DoIT granted 16 waivers and denied at least two requests from FY12 through FY16 without established criteria. Supporting documentation does not include the rationale for the approval or denial tied to administrative rule and indicates there is a lack of standardization in agency requests. DoIT does not appear to apply a risk assessment to the project in waiving IV&V requirements. In addition, DoIT's tracking sheet for IV&V waiver requests appears incomplete. For example, GSD requested an IV&V waiver for its 2012 paperless procurement project and it is not included in DoIT's list.

Since 2013, the LFC has twice recommended DoIT establish criteria for granting IV&V waivers. The lack of standardized criteria for granting IV&V waivers provides potential for inconsistencies and risks without standard measures to evaluate the waiver requests.

IT governance is a framework for implementing policies, business processes, and internal controls to effectively support all the services that an IT department provides.

IT governance seeks to improve the value of business operations, rationally prioritize project requests, and measure the IT department's performance. IT governance is an ongoing activity to ensure IT resources are used effectively and efficiently. Best practices indicate successful IT governance is best accomplished through the establishment of a formal governance committee made up of key individuals from all major areas of the business working closely with IT leadership to establish and monitor alignment to goals and strategies.

As a best practice in the technology industry, IV&V activities should be performed by an entity technically, managerially and financially independent from project developers and project managers.

DoIT's program management and oversight program operates in an outdated and not fully functioning oversight framework.

State law provides a clear governance and oversight structure for information technology in state government. The ITC was established as a multi-branch, multi-agency organization tasked with oversight of IT initiatives having statewide impact and developing a strategic IT plan for the state. The commission is also tasked to review and approve IT plans and projects. The PCC is tasked to do a more in-depth review of IT projects and track project progression. As the state's CIO, the Secretary of DoIT proposes rules and IT plans and recommends IT projects for funding and administers IT day-to-day oversight.

ITC has not fully functioned since 2011, resulting in a lack of accountability and transparency when making significant IT decisions. Several of DoIT's responsibilities involve the ITC. As the state's CIO the DoIT Secretary is responsible for making recommendations to the ITC regarding prudent allocation of IT resources, reduction of redundant data, hardware, and software, and improve interoperability and data accessibility between agencies. The secretary is suppose to recommend procedures and rules to the ITC to improve oversight of IT procurement and to monitor agency compliance and report to the ITC and agency management on noncompliance. In addition, the CIO is to conduct reviews of IT projects and provide written reports to the ITC and appropriate legislative oversight bodies and submit IT project portfolio status reports to the ITC. Other duties include monitoring compliance with strategies recommended by the ITC for information technology projects that affect multiple agencies. Finally, the secretary provides the ITC a written recommendation related to executive agency IT appropriation requests.

Accountability is essential to successful implementation of DoIT's strategic plan. DoIT's secretary is required to prepare a state IT strategic plan for the executive branch and update it at least once every three years. The ITC has not approved an IT strategic plan since July 2010. While there is no record of an ITC meeting, DoIT indicated its FY14 – FY16 IT strategic plan was preapproved. With the July 2015 resignation of the chairman of the ITC, progress on ITC goals, such as the development of a new state IT strategic plan, was not accomplished. Ongoing concerns regarding the lack of strategic planning and robust and transparent oversight of state IT projects continue to persist.

Secretary of DoIT has not brought forward proposals for modernizing the state IT plan; institute new IT policies, updating administrative rule or changes to ensure the ITC can function. Since DoIT is the agency tasked with providing DoIT employees, state agencies and vendors IT policy and guidance, it is vital to consistently review and update IT policies to ensure the state's IT assets are protected and agencies are effectively informed.

The secretary of DoIT is required to report projects that have been certified to the Information Technology Commission.

Finally, without a functioning ITC, the state does not have a strategic direction impacting information technology and services.

PCC operates primarily with DoIT staff, a designee from the State Purchasing Division, a designee from the nonfunctioning ITC and two advisory members, one from the DFA and one from LFC. The secretary of DoIT is responsible to provide oversight of IT projects and statute requires the secretary to report on projects that have been certified to the ITC. The PCC has the authority to recommend certification of IT projects to the Secretary of DoIT. At a minimum, project certification shall be required at a project's initiation, during its implementation and closeout. Project certification provides a staged review and is required before funds can be released for any of the project phases. While PCC membership includes a designee from the ITC, the designee is not always present at PCC meetings.

DoIT has not updated rule and developed current procedural requirements for the PCC nor updated its 2010 policy memorandum to conform to current practices. Although PCC responsibilities are defined in an outdated rule, and with its 2010 policy in place, PCC business is not always conducted accordingly. The policy memorandum states for DoIT project certifications, the DoIT Secretary shall recuse itself for the certification vote, and DFA deputy secretary shall stand in his place. Throughout LFC's participation in the PCC, DFA's deputy secretary has yet to stand in for DoIT's secretary for a DoIT project certification. In most cases DoIT has relied on the ITC designee; however as previously stated the ITC designee does not always attend the PCC meetings. For example, during the August PCC meeting, DoIT presented its Broadband Study project for certification and was approved without the proper PCC membership. This was also the case for another prior PCC meeting. In both instances because the ITC designee was not available DoIT's deputy secretary chaired the PCC during DoIT's certification request.

Recommendations

The Legislature should consider:

Eliminating appropriations from general fund for the compliance and project management program and direct DoIT to build the cost of IT oversight into its rates; and

Revising the information technology commission membership and clarify its duties in statute.

The Information Technology Commission should meet as statutorily required to review and approve:

A state information technology (IT) strategic plan developed and proposed by DoIT;

Critical IT initiatives for the state;

Information technology needs of state agencies;

Strategies for identifying IT projects that affect multiple agencies; and

The state information architecture and state IT strategic plans for updates and compliance by executive agencies.

The Department of Information Technology should:

Include the compliance and project management program in its enterprise rates;

Update administrative rules for information technology, including the project certification committee and provide to the Information Technology Commission for review and approval;

Develop comprehensive policies and procedures for the compliance and project management program's roles and responsibilities and provide to the Information Technology Commission for review and approval;

Develop specialized templates with IT-specific terms and conditions for cloud service providers in line with best practices; and

In conjunction with State Purchasing Division conduct an analysis of the state's IT procurement methodology and strategies in comparison to other states for identification of best practices in the areas of warranties, indemnification and liability.

DoIT Implemented Some Key Recommendations from the LFC's 2010 Program Evaluation

DoIT has realized IT financial management improvements by implementing the SHARE Accounts Receivable and Assets Management modules.

Timely collection of payments for services is crucial to maintain DoIT's operations. By implementing the accounts receivable module, data generated by DoIT's new billing system can be imported to SHARE, making the reconciliation process easier and improves reporting capabilities. DoIT's accounts receivable collections have increased, minimizing the impact to the department's cash flow.

In FY14 and FY15, collections within 60 days of the invoice due date exceeded the performance target of 75 percent.

At a cost of $421 thousand, in FY13, DoIT implemented a new web-based billing system, consolidating several documents into one invoice, eliminating paper invoices and manual processes, streamlining the billing process, and improving reporting capabilities. Prior to the implementation, customer agencies could only review billing information manually, and often without much itemization or detail. In addition to the implementation, DoIT performed an agency-by-agency service review which ensured account codes for invoices were aligned with agency funding sources, and that sufficient detail was being provided in account statements. The new system, Tivoli Usage and Account Manager (TUAM) is an IBM solution designed to collect, analyze, invoice and bill customers based on usage and costs of computing resources. TUAM provides agencies on-line access to their monthly invoices with drill-down capability for detail information. DoIT implemented the project successfully on-time and on budget by piloting several agencies prior to full roll-out of the system. TUAM's annual maintenance cost is $7 thousand.

To continue the success with its new billing system, in FY14 DoIT initiated the telecommunication expense management system project and recently completed implementation of the system, PINNACLE. At a cost of $20 thousand, the system will provide DoIT the ability to maintain an accurate inventory of phone usage and other telecommunications data and identify and recover charges. PINNACLE will provide visibility into telecommunication expenses across all carriers for voice, and data. Any telephone service changes made by DoIT staff will be recorded in PINNACLE.

In FY15, with a $38 million federal grant, DoIT completed the upgrade of over 68 of 110 radio sites statewide, improving public safety communications.

In addition, Century Link and Windstream are providing DoIT an electronic invoice directly into PINNACLE. PINNACLE will feed required data to the billing system for an integrated customer invoice produced monthly. This will increase the ease and accuracy of monthly billing, a benefit to both DoIT staff and its customers. DoIT intends to initiate planning for Verizon in January 2017. LFC recommended in its 2010 report that DoIT require the large telecommunication vendors to submit electronic invoices that can be compared to inventory of active telephone numbers and contract terms.

To facilitate the management of Fixed Assets, the Department implemented the Asset Management module in the state's SHARE system. Prior to implementation DoIT used manual processes and off-line spreadsheets instead of the SHARE to handle the recording, tracking, depreciation and retirement of fixed assets. The Asset Management module streamlines the processing related to fixed assets while improving accuracy, timeliness and data integrity. As inventory is completed, the Asset Management module is updated to reflect the current inventory. As a result, the prior audit finding for capital asset management and tracking was resolved.

DoIT has the responsibility to develop and maintain a statewide IT security program to ensure state networks, data and information systems are protected.

DoIT's website indicates the security policy was last updated January 2010, and its physical access policy in March 2012. In addition, the website indicates it has an Office of Security however DoIT has yet to hire a Chief Security Officer (CSO). In its FY18 budget request DoIT states the Office of Chief Security Officer is under development. Further stating the CSO identifies, evaluates, and reports State information security risks, works with agencies to identify and implement solutions, and promulgates and enforces State cyber security policy and standards. In the mean time DoIT established a strategic action group comprised of security subject matter experts from some state agencies and a security users group made of agency IT leads to ensure security threats and intrusions are addressed in a collaborative manner. Also, DoIT required all state agencies to provide them with an IT security point of contact.

The National Association of State Chief Information Officers (NASCIO) 2016 survey reported the most pressing policy concern for CIOs is securing IT networks against outside threats. It is not clear if DoIT has established an enterprise cyber security framework that includes policies, control objectives, practices, standards and compliance. However, DoIT is participating in the Multi-State Information Sharing and Analysis Center (MS-ISAC) and publishing the cyber alert level on its website.

State CIOs ranked cybersecurity as their top priority in 2014, 2015 and 2016.
NASCIO

MS-ISAC is a focal point for cyber threat prevention, protection, response and recovery for the nation's state, local and tribal governments. MS-ISAC cybersecurity operations center (24x7) provides real-time network monitoring, early cyber threat warnings and advisories, vulnerability identification, and mitigation and incident response. The mission of the MS-ISAC is to improve the overall cybersecurity posture of state, local, tribal and territorial governments. Collaboration and information sharing among members, private sector partners and the U.S. Department of Homeland Security are the keys to success.

DoIT indicated to continue educating agencies on the need for technical security and reporting it purchased "SANS Securing the Human Training" available for all state employees. However, details of how many individual have taken the training were not made available to LFC staff during the evaluation.

DoIT requires state agencies to have annual security assessments, however, DoIT relies on state agency federal

partner audits for its annual IT security assessments, instead of an external third party. Federal partners include the Internal Revenue Service (IRS) for the Taxation and Revenue Department and the CMS for Department of Health and the Human Services Department. The IRS and CMS security audit scope may be limited to compliance for securing and managing business data and customer information and may not be comprehensive for all IT systems and processes in DoIT's purview. Having an independent third party do security assessments is a check and balance to ensure checks and balances themselves are in place and are, in fact, working.

Security assessments are processes that proactively identify computer security vulnerabilities in operating systems, network components, evaluate security base line of systems and assist to mitigate risks in a timely and effective manner. Security assessments are to include scans and penetration testing at least annually, depending on the criticality and sensitivity of the information on the systems. Penetration testing emulates an outsider attempting to hack the network from the outside the internal network.

DOIT has demonstrated progress with consolidation efforts and virtualization, and as a result the state data center has excess capacity.

DoIT indicated Santa Fe County is currently in the state data center at the Simms Building and the City of Santa Fe has expressed an interest in co-locating to the data center. In addition, in DoIT's agreement with New Mexico State University, the university is co-located at the state data center. There is potential for other entities to take advantage of the excess capacity, likely resulting in overall cost savings to the state.

STATE OF NEW MEXICO
DEPARTMENT OF INFORMATION TECHNOLOGY

SUSANA MARTINEZ
Governor

DARRYL ACKLEY
Cabinet Secretary
ESTEVAN LUJAN
Deputy Secretary

November 14, 2016

David Abbey, Director
Legislative Finance Committee
325 Don Gaspar, Suite 200
Santa Fe, NM 87501

Dear Mr. Abbey,

This letter serves as the Department of Information Technology's (DoIT) response to the Legislative Finance Committee's (LFC) program evaluation final revised report, provided to DoIT on November 14th, 2016.

The Department appreciates the opportunity to have conjunctively reviewed its operations with the LFC program evaluation staff. There are a number of findings in this report that DOIT agrees are opportunities for growth and improvement. As a service provider to the State, improvements in these areas not only improve the Department, but the operation of the state overall. The Department thus looks forward to continuing to improve its operations, and in some cases, has already made significant progress in addressing some of the findings.

There are also several areas in which the Department would like to provide additional commentary and/or clarification. Indeed, DOIT's operations are inherently complex, not just due the technical nature of its mission, but also because of the challenges of operating what is essentially a cash-for-services business inside of a state-agency shell. Toward that end, this response is structured to address five key points. It is hoped that these points will provide a collaborative framework from which the Department can continue to improve its operations, even as the demands for Information Technology (IT) leadership continue to grow rapidly. The five key points are:

1. Cash balances and accounting practices of the Department, including an explanation of Generally Accepted Accounting Practices and OMB-A87;
2. Deprecation of capital assets;

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3. Opportunities for the Information Technology Commission (ITC) and strategic oversight of the statewide IT fabric;
4. The reorganization of the Office of the State Chief Information Office (OCIO);
5. Equipment Replacement Fund (ERF) planning and management; and,
6. Cost saving initiatives the agency is undertaking in light of the current budget environment.

The last evaluation report of DoIT was completed in 2011 when the Department had been in existence for only a few years; since that time the Department has undergone significant changes and has grown in its maturity. In addition, and as expected, the business of IT and providing IT services has changed and evolved considerably, in both tactical and strategic ways.

Although the majority of DoIT's funding is not from the State's General Fund, as the enterprise provider of IT services for the State, and the statutorily responsible agency for oversight of IT expenditures, the current fiscal challenges the General Fund faces directly impact the day to day operation and strategic direction of DoIT. In the current fiscal environment, it is even more critical that DoIT act as a strategic business partner to state Agencies, not merely as a provider of commodity IT services. Effective performance evaluation of this business strategy requires a thorough understanding of DoIT's funding model and a collaborative approach to problem solving. For example, while the Department has an opportunity to better set and meet service expectations with Agencies, this is intertwined with multiple financial factors such as cost recovery formulas, rate forecasting, and effective receivables, as well as the need to align with larger strategic goals set by the Administration, the Legislature, and individual agencies.

However, the discussion to date has been hampered by a persistent misunderstanding among stakeholders regarding subtleties of the complex funding model in place for the Department. While the main scope of the evaluation had to do with DOIT's rate models, a proper treatment of those models is beyond the scope of this document. Rather, nearly all of the six issues addressed below should be understood as being systemic with respect to the way the Department currently operates (and presents its services and operating costs to its customers and stakeholders).

Cash Balances and Accounting Practices

Given that DoIT's enterprise financial structure is much more complicated than directly funded agencies, there are several common misconceptions about DoIT's budget that are easy to make. One such issue is the subtle difference between Fund Balance and Cash Balance.

The Department follows Generally Accounting Standards Board (GASB) Statement 4, Elements of Financial Statements to calculate the Net Position or Operating Profit/Loss. The Statement establishes definitions for the elements in determining the financial position of state and local governments. Essentially, Assets (cash balances and accounts receivables) = Liabilities + Net Position (fund balance). DoIT's most recent financial statements reflect a loss because its liabilities exceed assets, including any cash balances. This is reflected in the tables found in **Attachment 1**.

The cash balance in the Enterprise Service fund is used for two purposes: 1) to pay liabilities that are non-negotiable, and 2) to pay for on-going operations, which is calculated in the Statewide Cost Allocation Plan (SWCAP) submitted by DFA and in accordance with OMB Circular A-87.

DoIT currently does not have the cash balance to fully fund both the ERF and pay for on-going operations. Cash balances or any other balances cannot be comingled. Funds are separate accounting entities used to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that are imposed, such as the requirements to transfer or establish a "Due to ERF" in the amount of the depreciation on annual basis.

Depreciation of Capital Assets

Depreciation is an accounting method used to allocate the cost of a capital asset over its useful life. Indeed, the operations, liabilities, and fund balances of DOIT's ERF are completely derived from depreciation calculations. A key point of depreciation is that federal guidelines references above permit the allocation of depreciation to the rate model used in providing services, in theory making these funds self-replacing. However, DOIT has traditionally under recovered in almost all service categories when compared with total depreciation costs. Otherwise, DOIT's rates would have been higher than could be sustained by many of its agencies, despite the costs being very real. As such, DOIT has already had to strike a balance between total cost-allocation for depreciation and the use of other capital funds for IT infrastructure. It is important to note, however, that DOIT must still book the total depreciation expense of its assets, which will almost always lead to a 'due-to' ERF greater than DOIT's ability to transfer cash based on its revenues.

Opportunities for the ITC

DoIT is in complete agreement with the LFC recommendation of revision the ITC statute, including the membership and duties. DoIT has presented to the Science, Technology, and Telecommunications Committee (STTC) several options to revise the statutory language, with the shared goal of creating an effective mechanism for providing strategic thought and direction of IT for the State.

DoIT has proposed replacing the Information Technology Commission with an IT Advisory Board (ITAB). The ITAB would allow members to offer advice on issues such as (but not limited to): over-the-horizon technology issues; industry best practices; guidance on the preparation of the State's three-year IT strategic plan; and, opportunities for cross-jurisdictional collaboration. It is asserted that this change would be entirely complementary with the current governance as defined throughout this document.

The responsibility of the above recommend board is limited to set strategic direction and advice with a statewide perspective, not to fulfill a significant oversight role. As DoIT has testified at multiple hearings, there are already a number of IT oversight bodies in place such that the ITC is redundant and duplicative as currently chartered:

- The Project Certification Committee (PCC);
- The Technical Architecture Review Committee (TARC);
- The Science, Technology, and Telecommunications Committee (STTC);
- The Information Technology Rate Committee;

- The House Appropriations and Finance Committee's IT Subcommittee;
- The Legislative Finance Committee's IT Program Evaluation Team; and
- The statutory oversight role afforded the State CIO via the Project Oversight and Compliance Division (POCD).

For this reason DoIT would support progress towards the ITAB concept.

EPMO/Office of the CIO

LFC's report included a number of recommendations related to the Enterprise Project Management Office (EPMO) and to the ITC. As noted in the report, DoIT is implementing a new Office of the CIO (OCIO) organization to lead the EPMO and to develop a number of other functions such as IT investment management (ITIM), cybersecurity, and strategic planning. DoIT's vision for the OCIO includes the addition of staff and functions to address enterprise architecture and enterprise data. Additionally, DoIT recently implemented two dashboards – the Project Portfolio Dashboard and the C2 Dashboard – that synthesize critical data and present it in a user-friendly graphical format for users across the State.

Regarding LFC recommendations for the EPMO, the OCIO team is identifying and prioritizing a number of improvement opportunities, including those listed in the report. The current list includes:

- Establishing and communicating criteria for IV&V waivers, procurement-related reviews, and other functions as needed;
- Reviewing existing policies related to OCIO functions and updating or developing draft policies as appropriate;
- Developing and/or documenting existing processes to guide each OCIO function (including but not limited to those currently performed by EPMO staff);
- Identifying and implementing appropriate tools to enable faster, more efficient and consistent processing;
- Reviewing and updating DoIT-provided templates related to project management, procurement, system development documentation, and strategic planning; and
- Updating the overall approach the EPMO is taking to project oversight and to procurement review to enhance the value provided to agencies and to effectively support insightful ITIM.

Full implementation of the new OCIO organization – and realization of the desired improvements and added capabilities – will require time, as well as additional resource commitments and skill development.

ERF Planning and Management

As pointed out in the report, DoIT does not have a formal ERF plan. DoIT's current ERF management is largely informal due in great part to the fact that the ERF has not been fully funded for many fiscal years due to budget challenges as made clear in DoIT's financial statements.

DoIT is working toward formalizing an ERF and technology asset management plan as part of an holistic capital investment strategy that aligns with service roadmaps. There is considerable work that needs to be done in this area and will take time due to limited resources.

Although the current process is informal, investments are being made in alignment with the specific needs of the department and focused on avoiding technology obsolescence and mitigating risk of aging technology. For example, in FY15 the Exchange Infrastructure was upgraded based on the end of life status of the storage, and aging server technology. At the same time, Exchange was upgraded from version 2010 to 2013 to provide additional functionality to the State.

The ERF remains an important source of funding for technology modernization and future technology initiatives. An effective IT organization requires IT capital investment to align with service roadmaps, which in turn align with Agency business goals and investments.

Cost Saving Initiatives

Given the current budget shortfall, DoIT has instituted several cost saving initiatives, which include decommissioning orphaned wireless devices, evaluating and consolidating data circuits, renegotiating telecommunication contracts with new lower tariffs, renegotiating support renewal contracts, and implementing new telecommunication technologies that lower overall voice telecommunication transport costs. This exercise has been very helpful in two areas: 1) lowering overall operational costs, and 2) to establish a baseline service inventory from which to build service roadmaps to include technology refresh cycles and strategies.

Lastly, DoIT has included in **Attachment 2** the results of a customer survey undertaken this fiscal year, as part of our ongoing commitment to meaningful customer service. The results are illuminating, and provide insight into the customer relationship across several dimensions. We will continue to undertake this and additional efforts as we evolve our maturity as a strategic business partner for state Agencies.

Again, DoIT appreciates this opportunity to review its operations, and to present some of the many ways it is working strenuously meet and excel in its mission.

Sincerely,

Darryl M. Ackley
Cabinet Secretary and State CIO
Department of Information Technology

ATTACHMENT 1: DOIT Financial Position, End of FY2016

Department of Information Technology Enterprise Services Fund 20310 Cash Balance and Operating Loss as of 6/30/2015	
Assets	
Cash	12,176,277
Accounts Receivable	9,138,079
Capital Assets	25,523,386
Total Assets	46,837,742
Liabilities	
Accounts Payable	2,065,702
Due to Other Funds (ERF)	24,106,053
Total Liabilities	26,171,755
Net Position(Operating Profit/(Loss)	
Investment in Capital Assets	25,523,386
Restricted for toll-free phone	145,203
Unrestricted Profit/(Loss)	(5,002,602)
Total Net Position	20,665,987
Total Liabilities and Net Position	46,837,742

Source: DoIT Audited Financial Statements

Department of Information Technology Enterprise Services Fund 20310 Cash Balance, 60 Day Reserve and Liabilities 6/30/2015	
Cash	12,176,277.00
60 Day Reserve	(6,977,231.00)
Due to Other Funds (ERF)	(24,106,053.00)
Cash Shortfall	(18,907,007.00)

Source: SWCAP and DoIT Financial Statements

ATTACHMENT 2: DOIT FY16 Satisfaction Survey Results

How satisfied are you with the following DOIT services provided to your agency?

	Extremely Satisfied	Very Satisfied	Moderately Satisfied	Slightly Satisfied	*Not at all Satisfied
E-mail	8/24	9/24	6/24	1/24	0/24
SHARE	3/23	7/23	12/23	1/23	0/23
Network	4/22	5/22	9/22	3/22	1/22
Telecommunications (Land line telephones)	4/23	5/23	6/23	5/23	3/23
Mobile Devices (cell phones, tablets etc.)	8/21	9/21	3/21	1/21	0/21
ISP	3/19	6/19	8/19	1/19	1/19

How satisfied are you with our billing process?

	Extremely Satisfied	Very Satisfied	Moderately Satisfied	Slightly Satisfied	Not at all Satisfied
Accuracy	5/23	5/23	6/23	2/23	5/23
Timely	5/22	6/22	7/22	2/22	2/22
Communication	4/22	7/22	7/22	2/22	2/22

Please indicate your level of satisfaction with the following aspects of the Enterprise Support Desk.

	Extremely Satisfied	Very Satisfied	Moderately Satisfied	Slightly Satisfied	Not at all Satisfied
Communication	5/24	11/24	7/24	1/24	0/24
Responsiveness	6/24	10/24	5/24	1/24	2/24
Support	6/24	9/24	8/24	1/24	0/24

Which communication channel would you most likely use to stay informed about changes at DOIT?

	Extremely Useful	Very Useful	Moderately Useful	Slightly Useful	Not at all Useful
Newsletter	4/22	3/22	6/22	6/22	3/22
Website	9/24	5/24	6/24	4/24	0/24
E-mail	11/24	11/24	0/24	2/24	0/24
Social Media (Facebook, Twitter, etc.)	3/22	0/22	3/22	7/22	9/22

Appendix A: Evaluation Scope and Methodology

Evaluation Objectives.
The objectives of the evaluation are to assess:

- IT rate development and methodology,
- Project management and oversight responsibilities, staffing and budget, and
- Status of selected key findings and recommendations from the LFC's 2010 program evaluation of IT and Telecommunication Services.

Scope and Methodology.

- Review applicable laws and regulations;
- Review prior LFC reports;
- Review agency policies and procedures;
- Review DoIT annual financial audits, strategic plans and other related documents;
- Conduct interviews with the Department of Information Technology Secretary, the department's Deputy Secretary, General Counsel, Administrative Services Director and other key personnel;
- Interview staff responsible for developing the cost allocation model and rates;
- Review cost allocation model and verify methodology;
- Obtain approved rates for FY12 through FY18;
- Review agency budgets and financial data; and
- Identify tools used for monitoring agencies IT projects.

Evaluation Team.
Brenda Fresquez, Program Evaluator

Authority for Evaluation. LFC is authorized under the provisions of Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political subdivisions; the effects of laws on the proper functioning of these governmental units; and the policies and costs. LFC is also authorized to make recommendations for change to the Legislature. In furtherance of its statutory responsibility, LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with state laws.

Exit Conferences. The contents of this report were discussed with the Secretary of the Department of Information Technology and staff on November 8, 2016.

Report Distribution. This report is intended for the information of the Office of the Governor, the Department of Information Technology, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Charles Sallee
Deputy Director for Program Evaluation

Appendix B: FY16, FY17 and FY18 Approved Billing Rates

ENTERPRISE SERVICE TITLE	MEASURE	FY16	FY17	FY18
SHARE				
SHARE SUBSCRIPTION FEE	FTE / year	$350.00	$350.00	$385.00
SHARE AGENCY-SPECIFIC AP DEV/MAINT	per hour + materials	$150.00 +	$150.00 +	$150.00 +
MAINFRAME				
SY-GENERAL CPU	CPU second	$0.35	$0.35	$0.35
ST-DISK OCCUPANCY	GB / Day	$0.61	$0.61	$0.61
ST-TAPE OCCUPANCY	Dataset	$0.004	$0.004	$0.004
OP-PRINT PAGES	Page	$0.08	$0.12	$0.12
CLOUD SERVICES / OPEN SYSTEMS				
VS- CLOUD SERVER CPUs	CPU/month	$75.00	$86.63	$86.63
VS-CLOUD SERVER MEMORY	GB of RAM / month	$20.00	$23.10	$23.10
VS-CLOUD SERVER STORAGE	GB of STORAGE / month	$0.50	$0.58	$0.58
ADOBE LICENSE	User / month	$1.40	$1.47	$1.47
EA-APPLICATION HOSTING SERVICE	Application / month	$235.06	$235.06	$235.06
EA-WEB HOSTING SERVICE FEE	site/mo.	$50.00	$50.00	$50.00
DC-RACK UNIT FEE	Rack Unit / month	$32.00	$32.00	$32.00
CS-FILE & PRINT SERVICE	User / month	$49.00	$55.00	$55.00
OS-WINDOWS SERVER ADMIN	Server / month	$450.00	$450.00	$450.00
SS-WINSERVER DEDICATED	Server / month	$550.00	$550.00	$550.00
DATA MANAGEMENT				
DM-ENTERPRISE STORAGE	GB / month	$0.50	$0.58	$0.58
DM-OPEN SYSTEMS BACKUP	GB / month	$2.39	$2.39	$2.39
EMAIL				
EM-MAILBOX FEE	Mailbox / month	$8.50	$8.50	$8.50
EM-MAILBOX EXTRA STORAGE	1 GB additional storage/ mo.	$7.50	$7.50	$7.50
EM-EMAIL ENCRYPTION	Mailbox / month	$1.50	$1.50	$1.50
BROADBAND/WAN				
NS-INTERNET ACCESS SERVICES	FTE / month	$1.00	$1.20	$1.14
NS-WIRELESS LAN	connection point / month	$52.00	$62.40	$62.40
MANAGED ETHERNET SERVICE				
NS-WAN	ACTUAL COST			
NS-WAN 1-3 MEG	/month	$475.00	$475.00	$475.00
NS-WAN 5-7 MEG	/month	$575.00	$575.00	$575.00
NS-WAN MES CORE	/month	$743.00	$743.00	$743.00
NS-WAN MES CORE SHARED	/month	$371.00	$371.00	$371.00
NS-WAN MES 10 MEG	/month	$57.00	$57.00	$57.00
NS-WAN MES 100 MEG	/month	$373.00	$373.00	$373.00
NS-WAN GIGABIT	/month	$1,172.00	$1,172.00	$1,172.00
NS-WAN GIG CORE	/month	$3,658.00	$3,658.00	$3,658.00
NS-WAN GIG CORE SHARED	/month	$1,830.00	$1,830.00	$1,830.00
TELEPHONE				
NI-DIALTONE	/month	$27.30	$30.00	$30.00
NI-BASIC DESKSET	Desk telephone / month	$32.55	$35.50	$35.50
NI-RECEPTION PHONE	Device /month	$52.50	$57.75	$57.75
VA-VOICEMAIL	Mail box / month	$9.98	$11.00	$11.00
VA-AUTO CALL DISTRIBUTION	Agent / month	$36.00	$36.00	$36.00
VA-IVR	per call	$0.08	$0.08	$0.08
VA-TEXT2SPEECH	per minute	$0.04	$0.04	$0.04
TELEPHONE DATA SERVICE	per month	$15.00	$15.00	$15.00
VA-VOICE RECORDING	per month	$15.00	$15.00	$15.00
NI-MOVE, ADDS, CHANGES	per hour		$117.00	$117.00

ENTERPRISE SERVICE TITLE	MEASURE	FY16	FY17	FY18
VOICE TOLL				
TS-LONG DISTANCE	per Minute	$0.04	$0.05	$0.05
TS-TOLL FREE SERVICE	per Minute	$0.04	$0.05	$0.05
VALUE ADDED SERVICES				
VA-CONFERENCE CALLING - STANDARD	port / Minute	$0.15	$0.15	$0.15
VA-CONFERENCE CALLING MISC	ACTUAL COST			
VA-CONF CALLING INSTANT	port / Minute	$0.09	$0.09	$0.09
DESKTOP SUPPORT SERVICES	per Hour	$47.00	$47.00	$47.00
EA-AGENCY APPL SYS DEVELOPMENT	per Hour + materials	$95.00	$133.00	$133.00
EA-AGENCY APPL SYS MAINTENANCE	ACTUAL COST			
NETWORK ENGINEERING SERVICE	per Hour	$88.00	$88.00	$88.00
TRAINING	ACTUAL COST			
EA-EXADATA	per Instance	$48,000.00	$70,000.00	$70,000.00
VICTIM NOTIFICATION SERVICE	ACTUAL COST			
RADIO/MICROWAVE				
RS-LOCAL BASE	Device / month	$237.00	N/A	N/A
RS-REMOTE BASE	Device / month	$905.00	N/A	N/A
RS-BASE STATION	Device / month		$576.50	$576.50
RS-SINGLE CHANNEL CONSOLE	Device / month	$540.00	$594.00	$594.00
RS-MULTI CHANNEL CONSOLE	Device / month	$1,405.00	$1,545.50	$1,545.50
RS-MOBILE RADIO	Device / month	$69.00	$75.90	$75.90
RS-MOBILE RADIO WITH REPEATER	Device / month	$342.00	$376.20	$376.20
RS-MOBILE REPEATER ONLY	Device / month		$154.00	$161.70
RS-PORTABLE RADIO	Device / month	$133.00	$146.30	$146.30
RS-TELEMOTES	Device / month	$69.00	$75.90	$75.90
RS-MAINTENANCE	ACTUAL COST			
WIRELESS TELEPHONE				
WS-BASIC ACCESS FEE	Line / month	$35.00	$35.00	$35.00
WS-ENHANCED ACCESS FEE	Line / month	$49.00	$49.00	$49.00
WS-SMART PHONE (PDA ACCESS FEE)	Line / month	$67.00	$67.00	$67.00
WS-BROADBAND ACCESS FEE	Line / month	$42.00	$42.00	$42.00
WS-MOBILE HOT SPOT (DATA TETHERING SERVICE)	Line / month	$10.00	$10.00	$10.00
WS-WIRELESS EQUIPMENT AND MISC	ACTUAL COST			

Source: DoIT