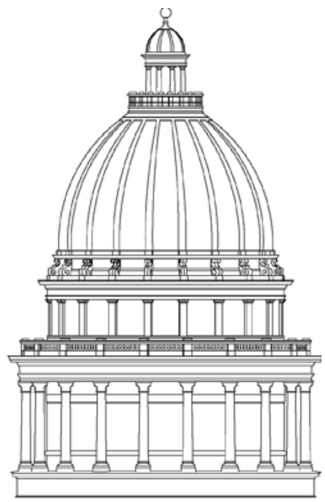
REPORT TO THE

UTAH LEGISLATURE

Number 2014-12



A Performance Audit of Concerns Regarding DTS' Rates, Customer Service, and Staffing

December 2014

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

STATE OF UTAH

Office of the Legislative Auditor General

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AUDITOR GENERAL

December 18, 2014

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of Concerns Regarding DTS' Rates, Customer Service, and Staffing** (Report #2014-12). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of
A Performance Audit of
Concerns Regarding DTS Rates, Customer Service, and Staffing

The Department of Technology Services (DTS) was created under the Information Technology Governance Act in House Bill 109 (H.B. 109) during the 2005 Legislative General Session. Since DTS' consolidation in fiscal year 2007, the department has undergone multiple phases where it has worked to enhance value for its customers. This audit evaluated DTS' initiatives during these phases to improve the services provided to state agencies.

Chapter II
DTS' Management of ISF Rates Can Improve

DTS Management Did Not Reassess Its Rate Goals to Realize Potential Savings. For the past four years, DTS achieved its goal of no services being classified as "less reasonable." Less reasonable means service costs are among the most expensive 25 percent of peers with a similar service. Therefore, DTS' performance is deemed acceptable even if a rate is more expensive than average. DTS reports focus on all services rather than those that are financially the most significant. If DTS ensured its top revenue-generating services had rates as expensive as the average of its peers, DTS could realize up to $4.6 million per year in cost savings.

ISF Rates Did Not Comply with the Full Cost Accounting Requirement. The actual cost of two internal service fund (ISF) services were not accurately reflected in approved rates. Specifically, desktop services expenditures for the past six years contributed to a total deficit of $7.2 million. DTS' practices have not complied with state statute requiring that rates "recover no more or no less than the full cost of each service." In contrast to desktop services, DTS' mainframe service has generated excess reserves for six years, netting a $4.2 million surplus at the end of fiscal year 2014. Federal guidelines regarding DTS reserves changed in November 2012 to align with Utah statute requiring that DTS reserves be tracked on a service-by-service basis, which should encourage future compliance.

Non-Tiered Application Development Rates Are Inequitable. DTS charges a single hourly rate for all staff associated with application development despite differences in total employee compensation. Application development employees assigned to state agencies have varying expertise and corresponding costs. Therefore, some state agencies pay up to $450,000 more of DTS' current and overhead costs than others, which means a more equitable basis for this rate is needed.

Chapter III
DTS Is Engaged in Customer Service Improvements

DTS Is Addressing Customer Service Concerns. In 2013 and 2012, the Legislative Fiscal Analyst's Office conducted customer service reviews of Utah's six ISFs. These reviews identified two areas where DTS' performance was relatively poor when compared to the other ISFs. During this audit, DTS has been engaged in an internal project and various SUCCESS projects with the Governor's Office of Management and Budget that are focused on improving processes that should result in improved customer service. Because the projects are currently ongoing, the completion of these issues should be validated in our scheduled audit follow-up.

Timely Deployment of Computers Is Difficult Due to Cyclical Demand. DTS customers expressed concerns with timely installation of equipment. Based on initial reliable data collected by DTS, on average, wait times for new computer deployment to customers exceed a month. This data reflects DTS performance during the period of the year where computer demand is at its high. Since computer demand nearly triples at fiscal year-end, DTS resources are taxed to meet this elevated demand.

Insufficient Asset Tracking Causes Invoice Accuracy Issues. Since asset records generate charges for desktop and network services, it is important that these records be improved. Three prior audits documented that DTS' current asset tracking process is insufficient. Administrative Rule 895-3-5(4) places responsibility of tracking software inventories on DTS. While DTS systems need improvement, state agencies need to do their part by keeping DTS informed of the identities of their software coordinators.

Chapter IV
Contractors and Other Departments' Staff Supplement Efficient DTS Staffing

DTS Has Improved the Efficiency of Its ISF Services. From fiscal year 2007 through 2014, DTS' total employee compensation growth was 13 percent lower than other executive branch agencies, as a result of FTE reductions through fiscal year 2011. Since fiscal year 2011, DTS has maintained staffing levels but has increased service offerings, especially IT security services. By reducing its staffing size and increasing its IT services provided to customers, DTS has more efficiently delivered the IT services that departments require.

Contractor FTEs Appear to Supplement Rather Than Replace DTS Employees. DTS contractors are hired for limited application development for specific state agency needs. We performed two tests in this area: one validated that the level of DTS' reliance on contractor labor has been relatively consistent, and the other showed that overall growth of contractor FTEs since fiscal year 2007, which is attributed to application development growth, was small relative to DTS' employee FTE reductions.

Agencies Supplement DTS Employees with Staff Possessing IT Knowledge. The Tax Commission hired security staff away from DTS to identify the security needs for the sensitive data the agency collects. Agencies and DTS use business systems analysts to identify and detail their agency's IT needs. DTS has disproportionately assigned more of these business analysts to the Department of Workforce Services (DWS), which annually costs DWS $770,000 more than if the analysts were DWS staff.

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UTAH LEGISLATURE

Report No. 2014-12

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December 2014

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Chapter I
Introduction

The Department of Technology Services (DTS) was created under the Information Technology Governance Act in House Bill 109 (H.B. 109) during the 2005 Legislative General Session. Since DTS' consolidation in fiscal year 2007, the department has undergone multiple phases where it has worked toward reducing costs and enhancing value for its customers. This audit evaluated DTS' initiatives during these phases to identify DTS' success in improving the services it has provided to state agencies.

DTS Emphasized Different Objectives During Three Distinct Phases

Since fiscal year 2007, DTS has undergone three distinct phases during which it has focused heavily on specific improvements. Initially, DTS focused on consolidation efforts, which we assessed in a 2009 audit report. In 2012, a security breach involving Department of Health data placed additional emphasis on improving IT security throughout the state. Currently, DTS appears to be emphasizing improvements to its processes, which ultimately affect customer service. Understanding how DTS' priorities have changed over time helps provide insight into how the department currently operates.

**DTS has undergone three phases:
1) consolidation,
2) IT security enhancement, and
3) customer service improvements.**

DTS' Initial Emphasis Was on Consolidation Efforts

When DTS was created by the passage of H.B. 109 during the Legislature's 2005 General Session, one directive to the department was to "[ensure] that cost-effective, efficient information and communication systems and resources are being used by state agencies to reduce data, hardware, and software redundancy." To deliver on this purpose, DTS worked to streamline its operations, which resulted in the FTE reductions discussed in Chapter IV.

DTS was statutorily created to develop efficient IT systems for state agency use.

In 2009, the Legislature requested that our office review the progress that DTS was making toward consolidating the state's IT resources. Our report, *A Performance Audit of the Department of Technology Services* (released in August 2009), concluded that consolidation of IT resources had been slow and made several recommendations for improvement.

Since our audit in 2009, DTS has taken steps to consolidate Utah's IT resources.

Since the 2009 audit, DTS has taken steps to continue consolidating Utah's IT resources. Our 2011 annual report to the Legislature indicated that four of the report's ten recommendations had been implemented and six were in the process of being implemented. One example of DTS' continued consolidation efforts is its data center consolidation project, initiated in 2010. In 2011, the certified public accounting firm Hansen, Barnett, and Maxwell, P.C. attested to $3.3 million in cost savings from the projects completed since consolidation. Figure 4.4 (see page 35) of this report highlights the cost savings from DTS' consolidation efforts through fiscal year 2011.

2012 Security Breach Made IT Security DTS' Focus

After significant efforts to consolidate Utah's IT resources, the security breach involving Department of Health data in March 2012 shifted DTS' priorities to enhancing the state's IT security. As fallout from the breach, several department staffing changes were initiated.

Following a 2012 security breach, DTS shifted its focus to IT security throughout the state.

Subsequent to the breach, DTS conducted an IT security assessment of state systems. The department also hired a new chief information security officer and allocated additional FTEs to the department's information security group. Led by these key personnel, the department has worked to improve IT security plans throughout the state. In addition, during the 2013 General Session, the Legislature passed Senate Bill 20, requiring an independent third party assessment of security standards adopted by DTS and executive branch agencies every two years.

DTS Is Engaged in SUCCESS Projects to Improve Issue Areas

In addition to ongoing security initiatives, DTS has also collaborated with the Governor's Office of Management and Budget to work on various executive-branch-driven SUCCESS projects. Each project targets specific business processes that SUCCESS program staff have deemed essential for improving the customer service provided to state agencies.

Chapter III highlights concerns about DTS services. As part of that chapter, the SUCCESS projects that target specific concerns are described. It is clear by the number of ongoing DTS projects and initiatives that DTS management is emphasizing improvement in customer service.

DTS is engaged in SUCCESS projects to improve its processes and customer service.

Scope and Objectives

Responding to concerns expressed by its members, the Legislative Audit Subcommittee requested this audit to determine:

- Whether internal service fund (ISF) rates charged by DTS are competitive.
- The extent to which agencies are concerned with customer service associated with DTS services.
- Whether efficiencies have been gained through the consolidation of IT services under DTS.

To address these objectives, we worked with staff from state agencies of varying sizes to identify risk areas with DTS services. Based on our risk assessment, we collected and analyzed information needed to address legislative and user agency concerns. The following areas discuss our findings regarding these concerns within our established scope and objectives.

- Chapter II – DTS' management of ISF rates can improve
- Chapter III – DTS seeks customer service improvements via its ongoing projects
- Chapter IV – Contractors and other departments' staff supplement an efficient DTS staff

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Chapter II
DTS' Management of ISF Rates Can Improve

Each year, the Department of Technology Services (DTS) establishes rates for the services it provides to agencies in state government. Three areas for improvement were identified regarding how rates are developed and how DTS management ensures its rates are competitive. First, DTS management has not periodically revised its rate goals. Loftier goals and reviews of systems in peer states, if implemented, could produce up to $4.6 million in additional cost savings for agencies. Second, DTS did not comply with the full-cost accounting requirement in statute for two service rates when one rate's deficit was covered, in part, by another rate's excess reserves. Third, application development rates have been inequitable because of a non-tiered rate structure that results in current and overhead costs of $236,000 for one agency being distributed and paid for by other agencies. Addressing these issues is essential as DTS management improves its service to state agencies.

DTS rates can be more competitive and equitable for state agencies.

DTS Management Did Not Reassess Its Rate Goals to Realize Additional Savings

If DTS' rates were merely average, DTS could realize up to $4.6 million per year in cost savings from two of its five highest revenue-generating rates. DTS conducts statutory rate comparisons and reports if any rates are "less reasonable," meaning they are among the most expensive 25 percent of peers with a similar service. After achieving its goal of no less reasonable services in four consecutive years, DTS did not seeking improvement by adopting a loftier goal, such as improving its four rates that are more expensive than average. In addition, DTS reports focus on all services rather than the 5 of 62 services that generate 73 percent of revenues. Specifically, DTS' basic telephone service rate and desktop services rate need to be emphasized because they generate significant revenue and are higher than average.

DTS focused on ensuring its rates are not among the most expensive 25 percent of its peers.

DTS has annually compared its rates to a variety of peer organizations and competitors since fiscal year 2008. This audit focuses specifically on the annual comparisons of DTS rates against 17 or 21 states and 3 internal IT organizations within private companies.

DTS compares its rates to IT organizations in 17 to 21 states and 3 private companies.

For each of DTS' rates that have comparable peer services, DTS' consultant assigns one of four assessments of value:

- Best value
- Very reasonable value
- Reasonable value
- Less reasonable value

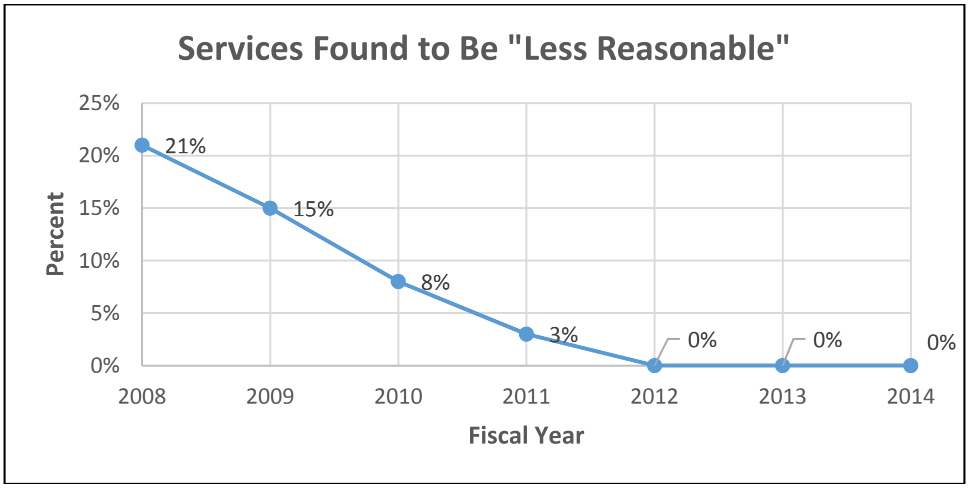
Competitive pricing is the primary basis for these assessments. DTS' consultant also adjusts for the depth and breadth of services offered, which eliminates peers that do not offer similar services.

DTS Emphasizes That Its Rates Avoid Less Reasonable Valuations

DTS annual reports show that it has met its rate goal since fiscal year 2012.

DTS management emphasizes avoiding its services being classified as a less reasonable value. This assessment means that a service offered by an agency is among the most expensive 25 percent of peers' services. This emphasis is represented in DTS' 2014 annual report, which states that the "results of the study indicate that, relative to rates charged by other technology organizations, DTS rates are 100 percent Reasonable to Best Value in fiscal year 2014. Additionally, the percentage of rates found to be Less Reasonable is 0 percent in fiscal year 2014." Figure 2.1 shows DTS' record in achieving its goal of avoiding less reasonable assessments.

Figure 2.1 DTS' 2014 Annual Report Emphasizes Avoiding Less Reasonable Assessments. Less reasonable assessments are given when an organization's rates are in the bottom quartile and lack sufficient "number and breadth of services" to warrant an upgrade.



Source: DTS' 2013 Annual Report

As Figure 2.1 shows, 21 percent of DTS services were a less reasonable value for fiscal year 2008. After a period of improvement, DTS achieved its goal of avoiding less reasonable assessments in fiscal year 2012. In addition, Figure 2.1 shows that DTS was able to maintain this level of performance through fiscal year 2014.

After Achieving Rate Goals, Loftier Goals Were Not Adopted

Since fiscal year 2012, all DTS rates compared against peers have avoided less reasonable valuations. Achieving this significant milestone reflects five years of DTS improvements since consolidation in 2007. However, management's reliance on this goal for four consecutive years after it was achieved is not characteristic of a management team continually seeking improvement.

Since fiscal year 2012, DTS has had rates that were more expensive than its peer average.

Since the less reasonable valuation indicates that a rate is among the most costly 25 percent of comparable rates, a possible loftier goal for DTS would be to ensure all of its rates are less expensive than average. Going back to fiscal year 2012, when DTS initially achieved its goal of no less reasonable rates, Figure 2.2 shows that several rates remained more expensive than average.

Figure 2.2 Some DTS Service Rates Are More Expensive Than Average. To eliminate the bias of outliers, DTS rates were compared against the median rate for its peers with similar services.

Fiscal Year	DTS Rates That Were More Expensive than Average	Total DTS Service Rates Compared
2015	4	31
2014	8	33
2013	10	31
2012	8	31

Source: DTS Rate Comparison Data from FY 2012 to FY 2015.

While most DTS service rates less expensive than average, DTS can still improve four of its fiscal year 2015 rates that are more expensive than average. For fiscal years 2012 through 2015, between 13 and 32 percent of DTS' comparable rates are more expensive than average.

DTS management should demonstrate its desire for improvement by adopting loftier goals.

We recommend that DTS management strive for improvement by adopting a loftier goal regarding how its rates compare to its peers' rates. One option DTS could adopt would be that all service rates be less expensive than the average of its peers (the benchmark for Figure 2.2). Regardless of the goal that is adopted, the key is that DTS management demonstrates its desire for improvement by periodically reassessing its goals.

Management Has Not Emphasized Services Generating Significant Revenues

In addition to loftier goals, DTS management should also focus on their service rates that generate the most revenue. Since DTS' annual reports emphasize how many rates are a less reasonable value, all of the rates in any one year are given equal weighting. However, DTS finances show that each of the service rates generates different amounts of revenue.

Five DTS services generated 73 percent of its fiscal year 2014 revenues.

To illustrate these differences, the revenues generated by each of DTS' service rates were calculated. Figure 2.3 shows the revenues generated for the five largest revenue-generating services in fiscal year 2014. The remaining 57 services, which each generated between $4.4 million and $9,000, were consolidated into a single group.

Figure 2.3 Five of 62 DTS Services Generated 73 Percent of Enterprise Technology Revenues. Revenue variation generated by internal service fund rates during fiscal year 2014 demonstrates the relative importance of each rate area.

DTS Service	Revenue	Percent
Application Support	$ 42,376,361	32.8%
Hosting Services – Processing	15,879,293	12.3
Desktop Services	14,706,675	11.4
Network Services	12,288,460	9.5
Voice Monthly Service (URATE)	8,745,875	6.8
5 Services Listed Above – Total	**$ 93,996,663**	**72.8%**
57 Remaining Services – Total	**35,197,793**	**27.2**

Source: FINET Data Warehouse

As Figure 2.3 shows, 5 of 62 services (8 percent) generate 73 percent of internal service fund revenue for DTS. Even the smallest of the five, Voice Monthly Service (URATE), generated almost twice the revenue of the sixth largest service.

Two of the five high revenue services have rates that are more expensive than their peers' average.

It is important to ensure that these significant revenue-generating service rates are competitive. Two of the five services in Figure 2.3 were part of the four service rates in fiscal year 2014 that were more expensive than the average of DTS peers' rates. Since these rates generate the most revenue, they have the most potential to affect the finances of both DTS and the agencies that receive DTS services.

Management's decision to give equal weight to service rates, as shown in Figure 2.1, clearly does not give adequate attention to services that have the greatest potential to cut costs for state agencies. Therefore, we recommend that DTS management emphasize its services that generate significant revenues when they report the competitiveness of the department's ISF rates.

Two High-Revenue Rates Could Yield Significant Cost Savings

Based on DTS revenues generated and rate comparisons with other states, basic telephone service and desktop services could generate up to $4.6 million in savings annually. Detailed information about other states' rates, which has been collected by DTS' consultant, allows DTS to explore how other states manage their systems. To achieve these savings, DTS should work with its consultant to identify and implement cost-saving strategies and reevaluate costly aspects of DTS' service to ensure they are appropriate.

It is important to note that DTS' consultant attempted to compare Utah's rate only with peers offering a similar service. If services were not similar, then peers were excluded. Consequently, DTS' basic telephone service rate for fiscal year 2015 was compared to 21 of 24 peers. In contrast, DTS' desktop services rate was compared to just 11 peers.

Basic Telephone Service Improvements Could Produce $1.86 Million in Savings for State Agencies. Relative to these peers, Figure 2.4 shows that DTS' rate has typically been between 35 and 39 percent more expensive than average.

DTS' basic phone rate is between 35 and 39 percent more expensive than its peers' average rate.

Figure 2.4 DTS' Basic Telephone Service Rate Is High Relative to Its Peers. The median rate for DTS peers was used as the average to eliminate skewing from outliers for basic telephone services.

Fiscal Year	DTS Rate	Average Rate	DTS Rate's Percent Above Average
2015	$ 28.00	$ 20.15	39%
2014	28.00	22.00	27%
2013	27.00	20.00	35%
2012	27.00	19.54	38%

Source: DTS Market Comparison Reports

While DTS' rate has been either $27 or $28 per basic phone line per month, the average of DTS peers has been significantly lower, between $19.54 and $22. Figure 2.5 shows the annual cost savings that could have been realized if DTS costs were below the average rate. DTS improvement could potentially reduce costs by $1.86 million per year.

Figure 2.5 Cost Savings of $1.86 Million Is Possible if Median Phone Rate Were to Be Achieved. Using service revenues and median price points for phone service in other states, significant cost savings is available through phone service rate reductions.

Fiscal Year	DTS Rate Revenue	Figure 2.4 Percent Above Average	Estimated Cost Savings
2014	$ 8,745,875	27%	$ 1,859,359
2013	8,491,408	35%	2,201,476
2012	9,010,560	38%	2,481,169

Source: Auditor calculations based on FINET revenues and Figure 2.4 data.

DTS could generate around $2 million in annual cost savings for state agencies with a more competitive phone service rate.

Figure 2.5 shows that between $1.8 and $2.5 million per year in cost savings could have been achieved. DTS management said that one reason Utah's rate is high is the existence of state offices in rural areas. However, other peer states with rural regions such as Kansas, North Dakota, South Dakota, and Montana have achieved rates lower than the average despite their geography and population distribution. Therefore, we recommend that DTS management research and adopt cost-saving strategies other states use to reduce DTS' basic telephone service rate.

DTS offers a competitive and comprehensive set of desktop services.

Desktop Services Could Produce $2.75 Million in Savings for State Agencies. DTS' desktop services is a comprehensive service that includes the following:

- Initial setup, configuration, and installation of desktop computer hardware, operating systems, licensed application software, and peripherals
- Troubleshooting of network connectivity from the desktop to ensure access to network file systems and printers
- Troubleshooting and maintenance of desktop equipment that is under warranty
- Operating system support and maintenance, including troubleshooting and installation of software patches and updates

- Technical support for incidents and service requests that cannot be resolved or cannot be facilitated by the DTS Service Desk

Because these desktop services are so extensive, DTS' rate consultant found that only 11 of 24 peers offered comparable services. This ratio is significantly less than the 21 of 24 peers for basic telephone, which illustrates the consultant's emphasis on comparing similar service offerings.

DTS desktop service rate has historically been about 25 percent more expensive than DTS' peer average.

Based on the 11 peers, DTS' rate has historically been about 25 percent more expensive than average, as illustrated in Figure 2.6.

Figure 2.6 DTS Desktop Services Costs Are Considered High Relative to Its Peers. The median rate for DTS peers was used as the average to eliminate skewing from outliers for desktop services.

Fiscal Year	DTS Rate	Average Rate	DTS Rate's Percent Above Average
2015	$ 63.50	$ 59.71	6%
2014	62.85	51.25	23%
2013	63.00	51.25	23%
2012	63.00	48.75	29%

Source: Source: DTS Market Comparison Reports

As Figure 2.6 shows, DTS' rate is more competitive in fiscal year 2015 than in the past, but that improvement was due to significant cost increases realized in peer rates but not by DTS. Based on how much more expensive DTS is than its peers, Figure 2.7 shows the potential cost savings that could be realized if DTS cut its costs and charged the average rate.

Figure 2.7 Cost Savings of $2.75 Million Are Possible if Desktop Services Were Less Expensive than Average. Using service revenues and median price points for desktop services in other states, significant cost savings are available through desktop service rate reductions.

Fiscal Year	DTS Rate Revenue	Figure 2.6 Percent above Average	Estimated Cost Savings
2014	$ 14,706,675	23%	$ 2,750,029
2013	15,936,522	23%	2,980,000
2012	16,053,524	29%	3,608,932

Source: Auditor calculations based on FINET revenues and Figure 2.6 data.

DTS could realize about $2.75 million in annual cost savings if the desktop services rate was less expensive than DTS' peer average.

Based on revenues and the extent that DTS was more expensive than its peers, DTS could save between $2.7 and $3.6 million a year. These savings are in addition to those already achieved by DTS. In 2010, DTS began cost-savings projects that contributed to a reduction in total annual expenditures of $2.6 million from fiscal year 2010 to 2014.

DTS needs to review the cost-saving strategies of other states for their desktop services rate.

DTS management is skeptical about whether additional cost savings are possible. Specifically, management contends that DTS' services are more comprehensive (therefore more expensive) than those offered by the peers they were compared against. Therefore, we recommend that DTS management research and adopt cost-saving strategies used in other states to reduce DTS' desktop services rate. If DTS research shows that their services are more extensive than their peers, then DTS should evaluate whether all elements of its service offering are necessary and worth the additional cost being assessed to state agencies.

ISF Rates Did Not Comply with the Full Cost Accounting Requirement

The actual costs of two internal service fund (ISF) services were not accurately reflected in approved rates. Specifically, desktop services expenditures for the past six years contributed to a total deficit of $7.2 million, which represents 48 percent of fiscal year 2014 expenditures. Since DTS was created with the passage of House Bill 109 during the Legislature's 2005 General Session, statute required that a rate "recovers no more or no less than the full cost of each service." In contrast to desktop services, DTS' mainframe service has generated excess reserves for six years, netting a $4.2 million surplus at the end of fiscal year 2014. DTS' deficit and surplus for these two rates show noncompliance with the full cost accounting requirement in Utah statute. Prior to November 2012, DTS was in compliance with federal guidelines. Those guidelines have since changed to align with Utah statute requiring that DTS reserves be tracked on a service-by-service basis. This change should further encourage future compliance.

Prior Desktop Services Rates Were Too Low to Cover Costs

DTS' rate approved for desktop services was insufficient to cover its expenses.

Prior to fiscal year 2014, rates approved for desktop services were lower than the rate DTS staff calculated to cover costs associated with the service. Consequently, desktop services has suffered revenue shortfalls for the past six years, as shown in Figure 2.8.

Figure 2.8 Revenues for Desktop Services Have Been Insufficient to Cover Costs. Since fiscal year 2009, the rates charged by DTS for desktop services have been too low and resulted in revenue shortfalls every year.

Fiscal Year	Actual Revenues	Actual Expenditures	Revenue Shortfall	Percent of Expenditures
2014	$ 14,706,675	$ 15,027,272	$(320,597)	2.1%
2013	15,936,522	16,642,279	(705,757)	4.2%
2012	16,053,524	16,436,742	(383,218)	2.3%
2011	15,600,158	17,619,643	(2,019,485)	11.5%
2010	15,578,394	17,603,466	(2,025,072)	11.5%
2009	16,599,376	17,826,941	(1,227,565)	6.9%

Source: FINET Data Warehouse

For each year, actual expenditures exceeded actual revenues, resulting in revenue shortfalls. To make up for the revenue shortfalls identified in Figure 2.8, DTS' $63 rate charged for most years would have necessitated around a $2 increase for 2012 through 2014 and about $8 for 2010 and 2011. Since rates were not raised by the required amount, revenue shortfalls for six years have resulted in a $7.2 million deficit for the service, which was 48 percent of fiscal year 2014 expenditures.

Full Cost Accounting of Activities Are Required for Rate Setting

Using reserves from one service to cover revenue shortfalls is not allowed by Utah statute. ***Utah Code*** 63F-1-301(2)(b)(ii) requires that each rate "should be based upon a zero based, full cost accounting of activities necessary to provide each service for which a fee is established." Based on the revenue shortfalls calculated in Figure 2.8, desktop services is a rate that does not reflect full cost accounting.

Statute requires rates to be "based upon a zero based, full cost accounting of activities necessary to provide each service."

Statute also specifies the way that rates should be calculated. Specifically, ***Utah Code*** 63F-1-301(2)(b)(iii) states that the fee "for each service multiplied by the projected consumption of the service recovers no more or less than the full cost of each service." Figure 2.9 shows that compliance with this second requirement has also not occurred as approved rates were less than those calculated by DTS.

Figure 2.9 Rates Approved for Desktop Services Were Historically Below the Calculated Rate. Prior to 2014, the rates approved for desktop services were below those calculated by DTS staff to cover "no more or less than the full cost."

Fiscal Year	Approved Rate	Calculated Rate by DTS	Percent Difference from Calculated
2014	$ 62.85	$ 61.99	1%
2013	63.00	65.32	-4%
2012	63.00	72.46*	-13%
2011	63.00	66.53	-5%
2010	63.00	68.06	-7%
2009	63.00	72.34	-13%

Source: Department of Technology Services
**Hosting costs for the new virtual desktop infrastructure project were allocated to desktop services rather than to hosting services, which became the practice in fiscal years 2013-14.*

Approved rates were below those calculated by DTS' finance staff.

As Figure 2.9 shows, the rates approved for DTS were not intended to cover the full cost of each service. For all fiscal years except 2014, the approved rate was lower than the calculated rate by DTS. The calculated rate was based on prior year expenditures per device multiplied by projected devices for the upcoming year. While this calculation seems reasonable, approved rates were ultimately lower, which reduced desktop services revenue. DTS management stated that the purpose of this reduction was to reduce the desktop services rate because agencies felt that the rate was too high.

Desktop Services Deficit Was Offset By a Surplus in Mainframe Services

DTS used excess revenues from its mainframe services to subsidize the desktop services rate.

In addition to cutting costs for desktop services, additional reductions were facilitated by using reserves generated by another service. Specifically, DTS management states that mainframe services generated revenue that offset the deficit from desktop services at the fund level. While Figure 2.8 shows six years of revenue shortfalls for desktop services, Figure 2.10 shows the opposite for mainframe that generated excess revenues for six years.

Figure 2.10 Each Year, Revenues for Mainframe Charges Exceeded Service Costs. Since fiscal year 2009, the rates charged by DTS for mainframe changes have been too high and resulted in excess revenues.

Fiscal Year	Actual Revenues	Actual Expenditures	Excess Revenues	Percent of Expenditures
2014	$ 4,357,729	$ 4,135,300	$ 222,430	5.4%
2013	5,047,432	3,992,135	1,055,297	26.4%
2012	5,709,915	5,099,262	610,652	12.0%
2011	6,731,379	5,777,441	953,937	16.5%
2010	8,972,568	7,251,609	1,720,959	23.7%
2009	8,810,777	8,607,651	203,126	2.4%

Source: FINET Data Warehouse

As Figure 2.10 shows, mainframe charges were able to generate significant excess revenues (up to 26 percent in some years). While mainframe services generated less than half of the revenues of desktop services, the excess revenues were similar to the desktop services shortfalls noted in Figure 2.8. For example, fiscal year 2010 shows $2 million in shortfalls for desktop services but $1.7 million in excess revenues for mainframe charges. It is clear that the desktop services and mainframe services rates did not reflect the full cost accounting required by statute.

Federal Guidelines Support Full-Cost Accounting by Service Area

Since November 2012, the U.S. Department of Health and Human Services required DTS to report retained earnings on a service-by-service basis. In prior years, the U.S. Department of Health and Human Services required that DTS report retained earnings at the fund level, which combined all services as a single reporting unit. This change has refocused accounting on the revenues and expenditures for individual services, which was also emphasized in DTS' rate-setting statutes. In 2013, the State Auditor's Office performed a statewide federal compliance audit, which included DTS, and identified that DTS' reserves were noncompliant with the federal requirements. While the audit performed by the State Auditor's Office was focused on the federal guidelines, our review is focused on the full cost accounting requirement in state statute since 2005.

Federal guidelines now require DTS to track reserves on a service-by-service basis.

In response to the new federal guidelines and subsequent audit by the State Auditor's Office, DTS management is taking action to become complaint with the new requirement. Since the federal guidelines promote the full-cost accounting requirement in statute, we

DTS is taking the necessary steps to comply with federal rate guidelines.

recommend that DTS management continue implementing federal guidelines that promote Utah statute's full-cost accounting of services by limiting individual service rate reserves. We believe that following these accounting guidelines will have a positive effect on DTS rate setting.

Non-Tiered Application Development Rates Are Inequitable

Current and overhead expenses are inequitably assessed to state agencies because DTS charges a single rate for all staff associated with application development. Application development (AD) staff have varying expertise and costs, but a single rate is charged for all AD employees. The difference between the single AD rate and differing AD staff costs produce different gross margins for each state agency, which means some departments cover more of DTS' current and overhead expenses. Since statute requires that service rates established by DTS should be equitable, DTS should reassess how the application development rate and others are based to ensure rates are equitable for agencies. Some DTS user complaints are related to this inequity issue.

Application Developer Staff Expertise Varies among Agencies

DTS application development staff assigned to state agencies have varying levels of expertise and compensation.

DTS' application development and maintenance service assigns specific staff to departments. The skill levels and corresponding compensation of staff assigned to agencies differ among departments using the service. To illustrate these differences, staff assigned to the Department of Workforce Services (DWS) and the Utah Department of Transportation (UDOT) are compared in Figure 2.11.

Figure 2.11 DTS Staff Assigned to UDOT Are More Expensive Than Those Assigned to DWS. This figure shows the DTS staff that were assigned to the two departments for fiscal year 2014.

	DWS		UDOT	
	FTEs (2080 Hours)	Total Hourly Compensation	FTEs (2080 Hours)	Total Hourly Compensation
IT Manager	4.04	$ 63.93	1.00	$ 63.71
IT Analyst III	12.88	61.61	16.01	58.85
IT Analyst II	40.99	50.23	11.04	49.61
IT Analyst I	1.32	36.95	-	-
Business Analysts	15.26	39.97	-	-
Other IT Staff	1.07	51.95	1.00	71.47
Total	**75.57**	**$ 50.62**	**29.05**	**$ 55.94**

Source: FINET Data Warehouse

As Figure 2.11 shows, there are significant differences in the skill levels of staff assigned to these agencies. First, DWS has more FTEs that cost less than $40 per hour in total compensation than UDOT has. Specifically, DWS has 16.6 business analysts and IT analyst Is (22 percent of total FTEs), and UDOT has none. Second, UDOT has more FTEs near $60 per hour in total compensation than DWS. Specifically, UDOT's IT manager, IT analyst IIIs, and other IT staff account for 18.0 FTEs (62 percent of total FTEs). In contrast, DWS's IT managers and IT analyst IIIs account for 16.9 FTEs (22 percent of total FTEs).

Since the DTS staff assigned to these two departments have significantly different levels of experience, the corresponding costs are significantly different as well. These differences create inequities for agencies because they are assessed a $70.90 hourly rate by DTS for its application development staff, regardless of their level of expertise.

A Single Rate Structure Generates Inequitable Gross Margins

For fiscal year 2014, $70.90 was charged for each hour that a DTS employee maintained an agency's existing applications or developed new applications. With those revenues, DTS covers the direct cost of its employee's compensation as well as other costs, such as overhead and current (equipment and office supplies) expenses.

All agencies are charged the same $70.90 rate for every hour worked by application development staff regardless of expertise or compensation.

Figure 2.12 shows the eight agencies that have assigned DTS application development staff. Due to differences in employee compensation, the portion of the $70.90 rate that pays for compensation versus other expenses differs by agency. The portion of the $70 rate that covers other expenses is referred to as gross margin in this section of the report.

Figure 2.12 Hourly Compensation Differences Affect Gross Margins to Cover Overhead and Current Expenses. The average compensation was calculated for application development staff assigned to each agency in fiscal year 2014. The gross margin represents the portion of the $70.90 fee remaining to cover costs other than developer compensation.

Department	Average Hourly Compensation	Compensation Portion of $70.90 Rate	Gross Margin Portion of $70.90 Rate
Transportation	$ 55.94	78.9%	21.1%
Tax Commission	54.44	76.8%	23.2%
Human Services	53.29	75.2%	24.8%
Corrections	51.68	72.9%	27.1%
Health	51.52	72.7%	27.3%
Agriculture	51.23	72.3%	27.7%
Workforce Services	50.62	71.4%	28.6%
Public Safety	49.48	69.8%	30.2%
Departments' Average	**$ 52.02**	**73.4%**	**26.6%**

Source: FINET Data Warehouse

Differences in hourly compensation leave different amounts for DTS' current and overhead expenses.

As the figure shows, gross margin rates vary between 21 and 30 percent. This means that an agency such as the Department of Transportation's $70.90 AD rate pays more for its assigned DTS employees (79 percent) and a smaller proportion for other costs (21 percent). In contrast, the Department of Workforce Services' $70.90 rate pays less for its application development staff (71 percent) and therefore disproportionately more for other expenses (29 percent).

Since these gross margins are different, the extent to which each department covers the other expenses (current and overhead) is different. To illustrate how each department is affected, Figure 2.13 shows how much higher or lower a department's gross profit is relative to the average for all departments. In addition, the FTEs assigned to each department are included, which enabled us to calculate how much more or less of DTS' other expenses (current and overhead) were covered by each department.

Figure 2.13 Differing Gross Margins Affect Gross Profit Available to Cover Other Costs. This figure shows the additional/(reduced) gross profit each agency pays, which covers DTS' current and overhead expenses.

Department	Gross Profit Difference Per Hour	Assigned FTEs	Additional Other Expenses Paid
Transportation	$ (3.91)	29.05	$ (236,462)
Tax Commission	(2.42)	1.42	(7,156)
Human Services	(1.26)	65.17	(171,021)
Corrections	0.35	14.12	10,247
Health	0.50	48.06	50,126
Agriculture	0.80	16.27	26,977
Workforce Services	1.40	75.57	220,217
Public Safety	2.54	20.25	107,072

Source: Auditor Calculations Based on FINET Data.

As Figure 2.13 shows, the Department of Transportation paid $236,462 less than expected of DTS' other expenses. In contrast, the Department of Workforce Services paid $220,217 more. These differences are the result of DTS charging a single rate for all application development staff, regardless of their expertise and compensation.

DTS shifted up to $236,000 in current and overhead expenses from UDOT to other agencies because of DTS' application development rate.

Since these two departments pay different proportions of their $70.90 application development rate for other expenses, we are concerned about the equity of this rate. According to ***Utah Code*** 63F-1-301 (2)(b)(i), each approved ISF rate "shall be equitable." Based on the differences illustrated in Figure 2.13, the structure of the application development rate should be reconsidered.

The Application Development Rate Structure Should Reflect Services Received

The rate structure adopted for application development is common for DTS. Many rates are not determined by the actual costs incurred by DTS. For example, the desktop services rate covers a state-owned computer for a month, regardless of the actual costs associated with a particular device. Other rates, like wiring materials, are established on a cost plus basis. For these rates, DTS assesses a specific percentage in addition to the actual costs incurred by DTS.

DTS' application development rate should be restructured to a cost plus basis.

Since application development staff are assigned to a specific agency, tracking specific costs for agencies is not as much as an administrative burden as it would be for desktop services.

Consequently, we recommend that DTS management reassess the basis by which application development services are assessed to state agencies. In this particular case, state agencies will receive more equitable charges for the application development service they receive.

Recommendations

1. We recommend that DTS management adopt a loftier goal regarding how competitive its rates are relative to other states providing similar services.

2. We recommend that DTS management emphasize its services that generate significant revenues when they report the competitiveness of the department's ISF rates.

3. We recommend that DTS management research and adopt cost-saving strategies used in other states to reduce DTS' basic telephone service rate.

4. We recommend that DTS management research and adopt cost-saving strategies used in other states to reduce DTS' desktop services rate.

5. We recommend that DTS management continue implementing federal guidelines that promote full-cost accounting of services by limiting individual service rate reserves.

6. We recommend that DTS management reassess the basis by which application development services are assessed to state agencies.

Chapter III
DTS Is Engaged in Customer Service Improvements

Relative to other Utah internal service funds (ISFs), the Department of Technology Services' (DTS) customer service performance was found lacking in two areas. DTS management has responded with ongoing projects that need to eventually lead to verifiable results. The first identified issue was DTS customers citing concerns with lengthy deployment of new computers and invoice accuracy. Timely deployment of computers is difficult because of cyclical demand by state agencies that can result in deployment times exceeding one month. Second, invoice accuracy is a concern due to unreliable asset tracking methods that have resulted in supplier complaints. To ensure DTS' implemented solutions adequately address these issues, we will follow up on the completion of these issues as well as the SUCCESS program results in our scheduled audit follow-up in 2015.

DTS Is Addressing Customer Service Concerns

In 2013 and 2012, the Legislative Fiscal Analyst's Office conducted customer service reviews of six Utah ISFs. These reviews identified two areas where DTS' performance was relatively poor when compared to the other ISFs. During this audit, DTS has been engaged in various projects that are focused on improving processes that should result in improved customer service. Because the projects are currently ongoing, the completion of these issues should be validated in our scheduled audit follow-up.

The Legislative Fiscal Analyst's Office's 2012/2013 ISF evaluation identified three areas needing improved performance.

Relative to Utah's Other ISFs, Aspects of DTS' Customer Service Can Improve

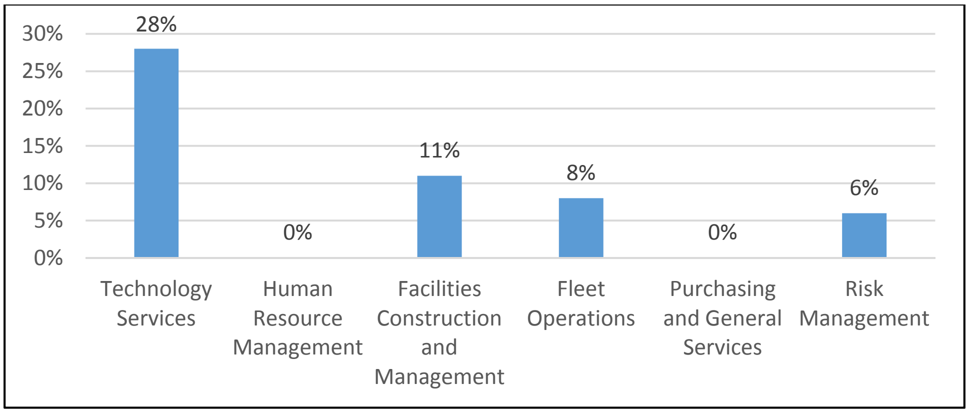
The Legislative Fiscal Analyst's (LFA) Office identified concerns with DTS' customer service during its 2013 customer service survey. The results from this survey identified the same areas for improvement as did the LFA's 2012 survey. Our discussions with user agencies confirmed that existing concerns include the following:

- Lengthy delays for IT equipment deployed by DTS
- Inaccuracies discovered in DTS invoices

Based on the extent that DTS' performance lagged Utah's five other ISFs in these areas, DTS needs to address these deficiencies.

Customers Raised Concerns about Lengthy Times to Deploy IT Equipment. As part of its ISF survey in 2013, the LFA asked executive branch finance personnel "[is equipment] purchased and installed in a timely manner?" Figure 3.1 shows the percent of six ISFs' respondents who disagreed or strongly disagreed with that statement.

Figure 3.1 DTS Customers Were Concerned with Timely Installation of Equipment. This figure shows the percent of customers who strongly disagreed or disagreed that equipment was timely installed.



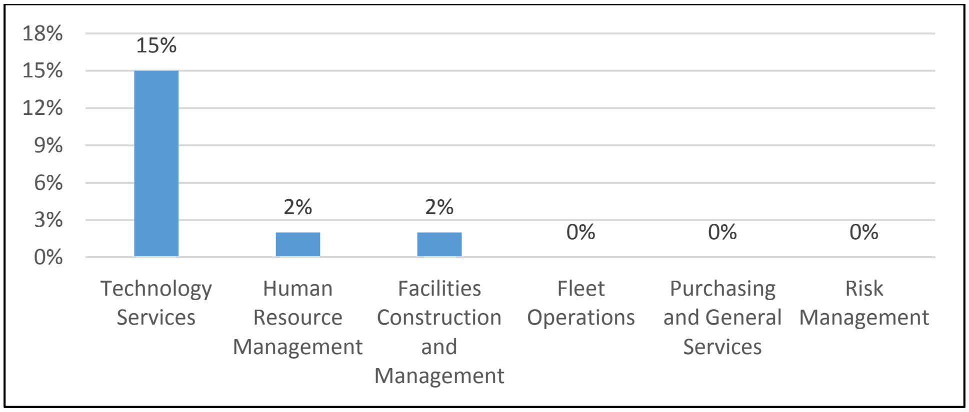
Source: Issue Brief – Internal Service Funds Review Follow-up (2013 Interim) by the Legislative Fiscal Analyst's Office

Concern with DTS' timely installation of equipment was 2.5 times greater than with other service agencies.

DTS had the most negative responses at 28 percent; the Division of Facilities Construction and Management ranked second with 11 percent negative responses. Individual comments to the question elaborated that concerns were focused on waiting multiple months for new computers. DTS data validated the lack of timely installations, which will be discussed with computer deployment later in this chapter.

DTS Invoice Accuracy Raised Concerns. Another question asked in the survey was "[are] the ISF's invoices accurate?" Negative responses to this question are summarized below.

Figure 3.2 DTS Customers Were Concerned with Invoice Accuracy. This figure shows the percent of customers who strongly disagreed or disagreed with the statement that DTS invoices were accurate.



Source: Issue Brief – Internal Service Funds Review Follow-up (2013 Interim) by the Legislative Fiscal Analyst's Office

Concern with DTS' invoice accuracy was 7.5 times greater than other service agencies.

Again, DTS has the most negative responses (15 percent), while two other ISFs were next with 2 percent each. Based on our discussions with state agencies, concerns focused on asset inventory records used to generate network and desktop services charges. These issues will be discussed later in this chapter as they pertain to asset tracking.

New Customer Service Improvements Will Need Validation

DTS is engaged in multiple projects that focus on improving its customer service. DTS has solicited assistance from the Governor's Office of Management and Budget (GOMB) to address issues with purchasing new computers and application development. In addition, DTS has initiated a project within its finance group to improve asset tracking. These projects address issues raised by customers in the Legislative Fiscal Analyst's Office's survey.

DTS initiated three SUCCESS projects with GOMB to improve its customer service.

GOMB has initiated three SUCCESS projects (a set of process improvement tools and concepts) with DTS to improve three processes. The first project, which was initiated in June 2013 and has since been implemented, focused on data security, specifically providing a methodology to evaluate the department's progress on securing hardware assets. The second project is ongoing and focuses on the time required to deploy computer assets, which was the customer concern depicted in Figure 3.1. The third project, also ongoing, focuses on improving the application development process. Since the last two projects were initiated in 2014, it would be premature to try and validate whether improvements have been accomplished. Therefore, we will follow up on the completion of the projects and their results to verify that customer concerns are being addressed in our scheduled audit follow-up in 2015.

DTS initiated an internal project intended to improve the accuracy of asset tracking records.

Another project that we will need to validate in our 2015 audit follow-up is DTS' planned improvements for tracking computer hardware assets. This concern, raised by customers, is depicted in Figure 3.2. Currently, the asset tracking process relies heavily on new asset information manually tracked by DTS desktop services employees. DTS' new process plans to rely heavily on automated information provided by two tools the department already acquired. However, DTS is in the process of enhancing the capabilities of these tools to better populate and update its asset records.

Overall, DTS is actively engaged in multiple projects that DTS management anticipates will improve its customer service. These improvements from these projects cannot yet be measured until sometime in the future. Therefore, we will provide the Legislature with a status update resulting from our annual follow-up in 2015. Based on these results, we may recommend our office do an in-depth follow-up audit to validate asset tracking.

Timely Deployment of Computers Is Difficult Due to Cyclical Demand

As Figure 3.1 showed, DTS customers expressed concerns with timely installation of equipment. Based on initial reliable data collected by DTS, wait times for new computer deployment to customers exceed a month on average. This data reflects DTS performance during the period of the year where computer demand is at its high. Since computer demand nearly triples at fiscal year end, DTS resources are taxed to meet this elevated demand.

Computer Deployment Is Susceptible to Lengthy Delays

GOMB determined that 50 percent of computer deployment in May and June 2014 took 38 days or fewer.

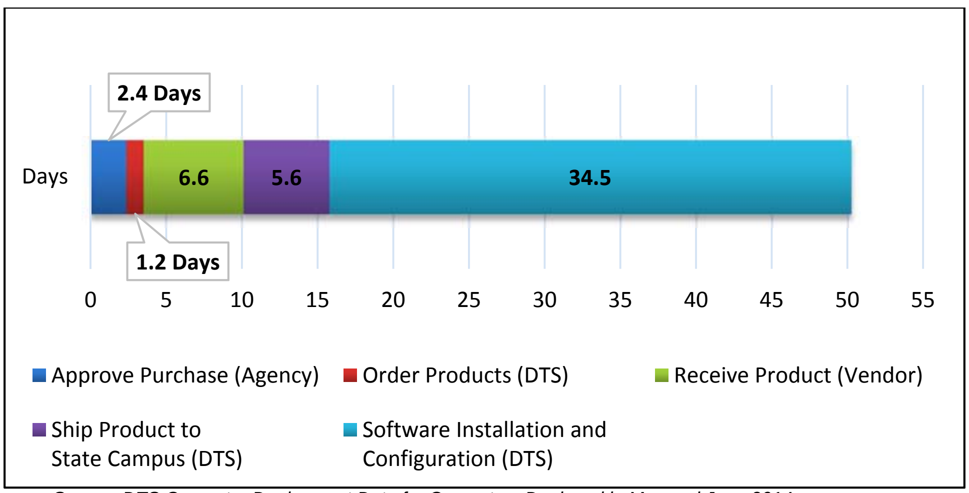
GOMB began analyzing DTS' computer procurement and deployment process by establishing baseline data. The first reliable deployment data was for computers deployed in May and June 2014. GOMB staff found that computer deployment times were lengthy; specifically, the following statistics were observed for May and June:

- 50 percent of computers were deployed in 38 days or less
- 72 percent of computers were deployed in 60 days or less

Based on these figures, 28 percent of computers delivered in May and June 2014 were taking over two months to deliver. While these deployment times appear lengthy, it is important to understand the context of new computer demand from state agencies.

DTS' procurement process for new computers consists of five key steps that, if not performed properly, can slow the entire process. Figure 3.4 outlines the necessary steps, indicates who performs each task, and shows the time necessary to perform the task. To correlate with GOMB's analysis, Figure 3.4 is also limited to computer deployments in May and June 2014.

Figure 3.4 On Average, DTS Took 50 Days to Deploy Computers. This figure shows the number of days that the responsible entity took to complete each major step of computer deployment in May and June 2014.



Source: DTS Computer Deployment Data for Computers Deployed in May and June 2014.

As the figure shows, DTS performs the majority of steps required to deliver a new computer. However, the process relies on agency approvals and vendor delivery that can add significant time to the process depending on product availability and necessary management approvals.

On average, computer delivery to state agencies in May and June took 50 days. The longest step in the process, DTS' installation and

Average time for DTS to load necessary software and encrypt computers was 34.5 days.

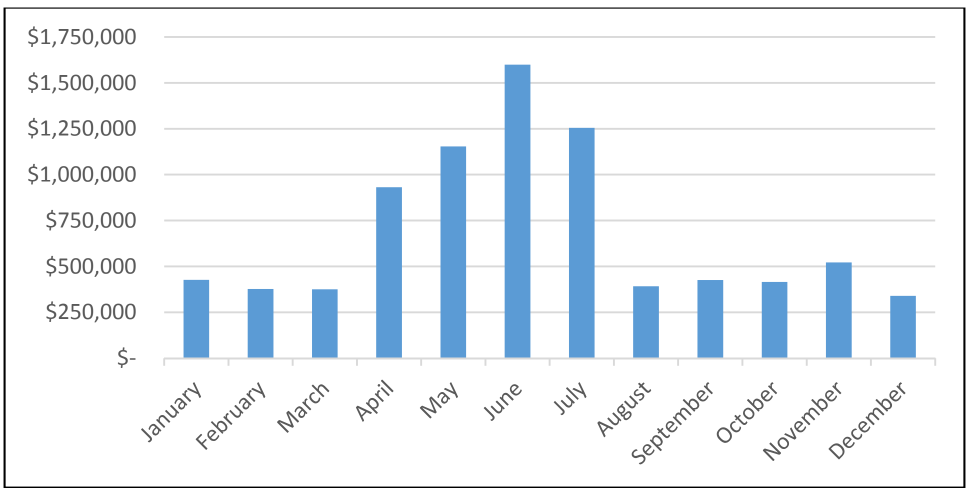
configuration of software, took 34.5 days to complete. During this step, desktop services employees installed required software as well as job-specific software pertinent to the recipient's particular job function. However, a majority of the time spent in this step involved software installation and configuration. This wait time is greatly affected by the number of computers purchased during this time of year, which can fluctuate significantly.

Monthly Demand for New Computers Triples Near Fiscal Year End

Monthly agency demand for computers triples from April through July each year.

In response to concerns with lengthy deployment times, DTS management said that part of the overall problem is that most agencies wait till the end of the fiscal year to make computer purchases. Figure 3.5 shows the trend for monthly computer purchases from fiscal year 2007 through 2014.

Figure 3.5 Computer Purchases Triple for the Four Months at Fiscal Year End. Procurement data in FINET shows the amount of computer purchases that were requested each month from fiscal year 2007 through 2011.



Source: FINET Data Warehouse

Figure 3.5 illustrates the challenge that DTS faces responding to new computer requests from state agencies. For August through March, monthly new computer demand is over $283,000. For the remaining months, April through July, demand spikes to over $750,000 per month, three times the non-peak order value.

Responding to the annual spike in new computer demand is a challenge that DTS is working on. As mentioned earlier in this chapter, DTS has partnered with GOMB on a SUCCESS project intended to help DTS better manage its computer deployment process. In addition, DTS has employed temporary labor to help with setting up computers for deployment and is working with agencies to spread their purchases of IT equipment throughout the year. For example, DTS management told us the Department of Public Safety has recently changed to purchasing computers in January. Frontloading their purchases reduces the amount of time that the Department of Public Safety has to wait for new computers. DTS said if more agencies would spread out their purchases it would greatly help reduce the congestion.

Insufficient Asset Tracking Causes Invoice Accuracy Issues

Since asset records generate charges for desktop and network services, it is important that these records be improved. Three prior audits documented that DTS' current asset tracking process is insufficient. Administrative rule places responsibility of tracking software inventories on DTS. While DTS systems need improvement, state agencies need to do their part by keeping DTS informed of the identities of their software coordinators.

A DWS internal audit identified specific issues with DTS asset tracking that need to be addressed.

Audits Highlight Inadequate Processes to Track IT Assets

Three audits of DTS asset tracking identified deficiencies. In 2012 and 2013, Adobe Systems Inc. performed the first audit. That audit found that the State did not have appropriate licenses for 1,455 Adobe products that were installed on state computers, which was valued at $1,066,000. In addition, Adobe identified six instances where its products were "cracked," which could have resulted in $900,000 in fines. (Software cracking is bypassing measures that prevent illegal copies of the software being made.) By working with Adobe to fix instances where the state was not complaint with software licensing requirements, total costs were reduced to $439,000 from $2.0 million dollars.

An Adobe audit identified $1 million in license shortages and $900,000 in potential fines.

DTS negotiated with Adobe to fix its license shortages, at a cost of $439,161.

In addition to the Adobe audit, in August 2014, the Department of Workforce Services (DWS) completed an internal audit concerning software licensing and device inventory. The audit reviewed software and device inventory along with policies and procedures for installation, management, and disposal of the assets. The main findings of the audit included the following:

- Decommissioned devices remained on inventory records
- Non-DWS devices were included on DWS records
- Devices were assigned to former employees rather than the new employee that replaced them

These examples illustrate concerns about the accuracy of IT asset records maintained by DTS.

In our 2009 audit, *A Performance Audit of the Department of Technology Services of DTS*, Report Number 2009-13, one of the recommendations in the report was for DTS to track IT assets. This recommendation has not been implemented. Accurate DTS records are important because these counts are used to assess charges to state agencies for desktop and network services. State agencies reconcile IT asset reports on a quarterly basis. These quarterly reports are then used for the next three months' invoices. Concerns identified in the DWS internal audit and our 2009 audit are problematic because of their potential to result in inaccurate service charges from DTS.

DTS Is Responsible for Asset Tracking

According to administrative rule, DTS is responsible for tracking software.

According to *Administrative Rule* 895-3-5, DTS is responsible for maintaining accurate inventories of software. Figure 3.6 specifies the responsibilities of the software controller as required by rule.

Figure 3.6 Rule Requires That DTS Accurately Track Software Inventories. *Administrative Rule* 895-3-5(4) specifies that software inventories should be maintained by DTS' software controller.

Utah Administrative Rule 895-3-5:

(4) A state software controller function is established within the Department of Technology Services with the following responsibilities…:

(e) keep and maintain an inventory of all state-owned computer software and software licensing agreements tracked by agency by:

(i) establishing accurate software inventories and maintaining them;

(ii) establishing a baseline inventory of software already purchased;

(iii) maintaining this inventory through annual inventory reviews that reconcile purchases against inventory;

(iv) acquiring and using auditing tools to assist in establishing the inventory baseline and performing the ongoing reconciliation;…

Source: Utah Administrative Code

Administrative rule states that it is DTS' responsibility to keep and maintain records of all state-owned computer licenses. DTS has assigned this responsibility to one of its finance employees, who is also assisting with the project initiated to develop the new asset tracking for DTS.

Some state agencies have not designated a software coordinator to assist with managing licenses.

In addition to DTS' software controller, state agencies are required in *Administrative* Rule 895-3-5(3) to have a software coordinator responsible for managing their agency's software licenses and inventory. The software controller for DTS knew of only three agencies with a designated software coordinator. We contacted four departments that were not on the list; two departments had no software coordinator, while the other two had them. Based on these results, we recommend that DTS update its list of software coordinators for state agencies. In addition, we recommend that state agencies lacking a software coordinator designate someone and communicate who that individual is to DTS' software controller.

DTS' officials acknowledge that they need to improve their asset tracking processes and have initiated a project to better utilize ServiceNow and ZenWorks. Asset tracking is not a new issue for DTS. Since DTS is currently refining its system to track IT assets, we believe that, when results are available, the Legislature should ensure that these results be validated. Using the DWS' internal audit as a template, our office could conduct audit work to verify the accuracy of DTS asset tracking in the future.

Recommendations

1. We recommend that DTS comply with *Administrative Rule* 895-3-5(4) to accurately track and maintain software licenses.

2. We recommend that DTS help state agencies establish software coordinators as required in *Administrative Rule* 895-3-5-(3) to work with its software controller to maintain correct software license records.

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Chapter IV
Contractors and Other Departments' Staff Supplement Efficient DTS Staffing

Acquiring the necessary professionals to meet the state's information technology (IT) needs requires an assortment of talent deployed through the Department of Technology Services (DTS) and state agencies. DTS has increased the efficiency of services provided through its internal service fund (ISF) by reducing staff. When needed, DTS supplements its staff with contractors to develop applications requested and paid for by state agencies. Also, when needed, state agencies acquire staff with IT skill sets to define application development and security requirements.

DTS Has Improved the Efficiency of Its ISF Services

DTS reduced FTE from fiscal year 2007 through 2011, and then increased services since then.

DTS has increased the efficiency of its staff through two phases, initially decreasing staffing costs and subsequently increasing specialized services. Compared to other departments, total compensation for DTS employees has not experienced the same growth since fiscal year 2007, reducing staffing costs by an estimated $10.2 million in fiscal year 2014. Full-time equivalent (FTE) staffing reductions were the largest source of cost savings through fiscal year 2011. Since fiscal year 2011, DTS' service enhancement phase has been characterized by stable staffing levels and increased service offerings, especially IT security services. By reducing its staffing size and increasing its service offerings, DTS has more efficiently delivered IT services to Utah's state agencies.

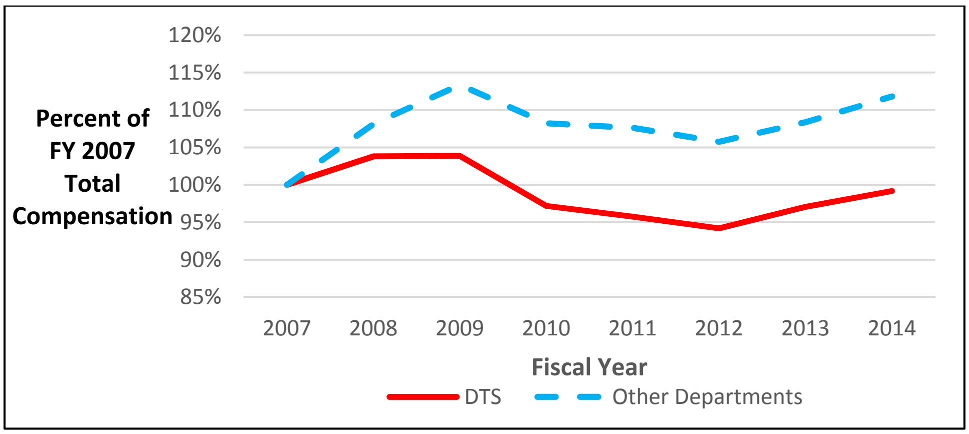
DTS Staffing Costs Have Not Increased Like Other Executive Branch Departments

DTS offset employee compensation increases through FTE reductions.

Relative to other executive branch departments, DTS' employee compensation costs have decreased by 1 percent, while other Utah departments' compensation costs have increased. The differences in total compensation are due to DTS' FTE reductions from fiscal year 2007 through 2011. In contrast, compensation growth per FTE had minimal impact on total compensation. While DTS experienced slower compensation per FTE growth on a percentage basis, average compensation increases paid to DTS employees were actually higher because DTS employees earn a higher average initial compensation.

DTS Staffing Costs Have Decreased While Other Departments' Costs Have Increased. Figure 4.1 shows how total compensation levels for DTS and other executive branch departments have fluctuated over time, but DTS' total compensation costs have remained relatively flat.

Figure 4.1 DTS' Total Employee Compensation Has Lagged behind the Growth of Other State Agencies. From fiscal year 2007 to 2014, DTS total compensation decreased by 1 percent while other departments increased 12 percent.



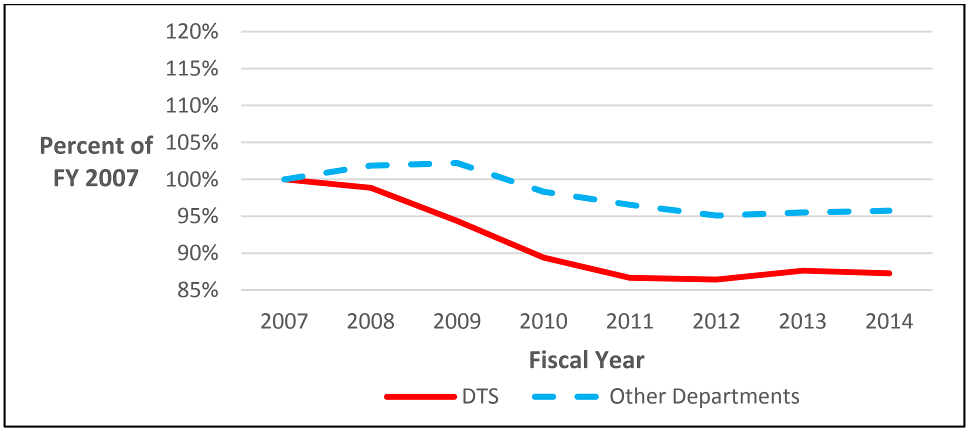
Source: FINET Data Warehouse

While other executive branch agencies have increased total compensation by 12 percent, DTS total compensation dropped by one percent.

DTS employees' 1 percent compensation decline since consolidation represents a $0.67 million reduction in employee compensation for fiscal year 2014. In contrast, other departments total employee compensation grew by 12 percent for the same period. If DTS experienced this same increase rather than a slight reduction, total employee compensation for DTS would have been $10.2 million more in fiscal year 2014. To achieve these results, DTS has relied heavily on FTE reductions.

DTS FTEs Have Decreased Faster Than Other Departments' FTEs. When DTS was created in 2005, ***Utah Code*** 63F-1-104(1)(b) stipulated that the department ensure "that cost-effective, efficient information and communication systems and resources are being used by agencies." To comply with this requirement, Figure 4.2 shows that by fiscal year 2011, DTS reduced its FTEs by 13 percent.

Figure 4.2 DTS Reduced FTEs More Than Other State Agencies. FTE reductions were based on employee hours that were charged to each department for fiscal years 2007 through 2014



Source: FINET Data Warehouse

Relative to other state agencies, DTS reduced its FTEs at a more aggressive rate through fiscal year 2011. Since then, both DTS and other state agencies have held their FTEs relatively consistent. From fiscal year 2007 through 2014, state agencies reduced their FTEs by 4 percent, while DTS reduced its FTEs by 13 percent.

DTS' FTE reductions since fiscal year 2007 exceeded other executive branch agencies by 9 percent.

Higher Initial Compensation Offset DTS' Slower Compensation Growth per FTE. To ensure that cost savings from FTE reductions were realized, evaluating compensation per FTE can be used to verify that savings were not reinvested with remaining employees. To provide this validation, Figure 4.3 shows compensation increases in terms of actual dollars and percent increase from fiscal year 2007 to 2014.

Figure 4.3 DTS Compensation per FTE Increased More on a Dollar Basis, But Less on a Percentage Basis. Compensation per FTE was calculated for each fiscal year from 2007 through 2014. Changes over this period are reflected in both dollar and percentage bases.

	Average Dollar Increase	Average Percent Increase
Department of Technology Services	$ 12,283	13.6%
Other Departments	10,307	16.8%

Source: FINET Data Warehouse

According to Figure 4.3, compensation per FTE increased at a slower rate for DTS employees than for those in other departments. However, DTS employees' higher initial compensation resulted in a greater dollar value increase. DTS' initial compensation per FTE was $90,196 in fiscal year 2007, higher than the $61,413 for other departments.

As the effects of FTE reductions and increases in compensation per FTE were combined, the net result is presented in Figure 4.1. DTS' FTE reductions were largely offset by compensation increases that net a 1 percent reduction in total compensation. In contrast, the smaller reductions in FTEs for other departments were entirely offset by compensation increases per FTE. Based on DTS' results relative to other departments, we conclude that DTS has increased staff efficiency.

DTS' FTE Reductions Were Primary Savings through Fiscal Year 2011

DTS' FTE reductions account for $53 million in cost savings through their FTE reduction phase.

The FTE reductions shown in Figure 4.2 are significant, as they were the largest source of cost savings reported by DTS. In 2011, DTS contracted with Hansen, Barnett & Maxwell, P.C., a certified public accounting firm, to attest to the accuracy of its cost savings schedules for various initiatives. Figure 4.4 shows the cumulative cost savings reported from fiscal years 2007 through 2011.

Figure 4.4 DTS Cost Savings Have Relied Heavily on FTE Reductions. These savings, calculated by DTS, reflect cumulative cost savings fiscal year 2007 through 2011.

Source of Cost Savings	Cost Savings FY 2007-2011	Percent of Cumulative Annual Savings
Reduction in FTEs	$ 52,954,237	71.9%
Desktop Savings through WSCA*	13,701,587	18.6%
Data Center Consolidation	3,346,886	4.5%
Initial Rate Reduction	2,501,200	3.4%
Other Sources	1,177,110	1.6%
Total Cumulative Annual Savings	**$ 73,681,020**	**100.0%**

Source: Report of Independent Public Accounting Firm and Schedules of Cost Savings (January 18, 2011) by Hansen, Barnett & Maxwell, P.C. – Certified Public Accountants
** Western States Contracting Alliance (cooperative purchasing organization)*

FTE reductions account for 72 percent of cost savings from fiscal year 2007 through 2011.

According to this study, DTS' FTE reductions generated 72 percent of cost savings for DTS. While most cost saving initiatives, such as data center consolidation, generate savings for a single year, savings from FTE reductions generated multiple years of savings. FTE reductions were counted for multiple years because the cost savings for each year was based on fiscal year 2006 staffing levels. According to the notes in the attestation report, the FTE reduction cost savings in Figure 4.4 were calculated as follows:

> The calculated savings in the accompanying schedules were based on the total FTE reduction in each of the years examined multiplied by the average annual DTS salary. In addition, the cumulative cost savings were calculated in future years to account for compensation increases that would have been paid to the eliminated positions.

Based on this description, the $4.9 million in savings from FTE reductions in fiscal year 2007 would count toward the cumulative cost savings for fiscal years 2007 through 2011. In addition, the subsequent years of cost savings get an incremental increase for increases paid to remaining employees.

Despite no FTE reductions since 2011, DTS continues to claim cost savings for staff reductions.

While counting an FTE reduction in multiple years provides an accurate assessment of cumulative impact, it raises a question about how long the cost savings should be claimed. For example, DTS cut 172 FTEs by fiscal year 2011. Therefore according to the study, total employee compensation was reduced by $16.9 million, but yielded $53.0 million of cumulative savings impact over five years. Therefore, current year savings are overshadowed by prior year reductions. As Figure 4.5 shows, half of cost savings were from DTS actions during the year actual year and the other half was generated by cost saving actions in prior years.

Figure 4.5 Yearly Costs Savings Account for Less Than Half of Cumulative Cost Savings for Each Fiscal Year. Yearly costs exclude cost savings resulting from DTS management actions in prior years.

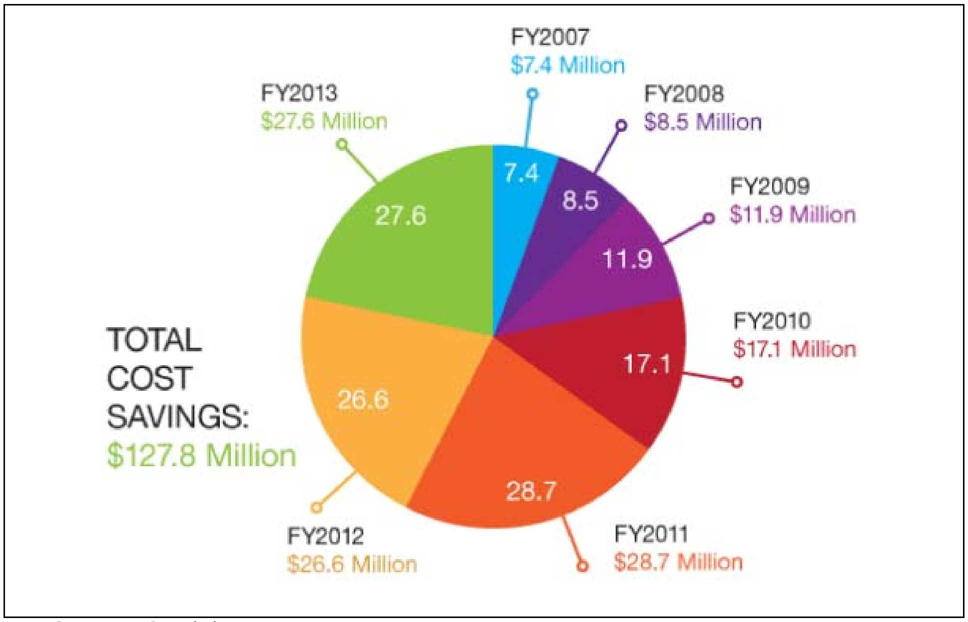
	Annual Savings	Cumulative Savings	Annual as Percent of Cumulative
FY 2007	$ 7,386,188	$ 7,386,188	100%
FY 2008	3,383,446	8,539,306	40%
FY 2009	5,225,214	11,866,911	44%
FY 2010	7,793,651	17,185,447	45%
FY 2011	13,622,687	28,703,168	47%
Total Cost Savings	**$ 37,411,186**	**$ 73,681,020**	**51%**

Source: Report of Independent Public Accounting Firm and Schedules of Cost Savings (January 18, 2011) by Hansen, Barnett & Maxwell, P.C. – Certified Public Accountants

As Figure 4.5 shows, each year since its initial year has generated less than half of the cumulative savings from current year savings. Therefore, DTS relies heavily on cost saving actions in prior years. While this highlights the long-term impact of FTE reductions, it is also important to know what cost savings are generated by the department's improvements each year.

Since fiscal year 2011, DTS has entered another phase and has not made any FTE reductions. However, DTS has continued claiming the cost savings from prior FTE reductions in fiscal years 2012 and 2013, as illustrated by Figure 4.6.

Figure 4.6 Annual Cost Savings on DTS' Website Continue to Rely on Prior FTE Reductions. Annual cost savings figures include current year FTE reductions plus the present value of prior years' reductions.



Source: DTS Website

As Figure 4.6 shows, DTS claimed $26.6 million and $27.6 million for fiscal years 2012 and 2013, respectively. However, DTS made no FTE reductions but still claimed FTE reduction cost savings. Since the department was still below its baseline FTEs (established in fiscal year 2006), DTS continued to cite cost savings despite no additional FTE reductions since fiscal year 2011.

As discussed in the next section, DTS shifted to a new phase of increased efficiencies after fiscal year 2011 by focusing on expanding its outputs rather than reducing its inputs. Consequently, we believe that DTS' first phase of cost savings from FTE reductions should be valued at $16.9 million that generated $53.0 million in cumulative savings from fiscal year 2007 through 2011. Subsequent efficiencies through service enhancements should be accounted for on their own merits and not continue to yield benefits from cost saving initiatives in prior years.

Additional FTEs Assigned to Increase DTS Security

While DTS has not made any FTE reductions since fiscal year 2011, it has increased the services provided to its customers. Most notably, information technology (IT) security has received several

While FTEs remain consistent, DTS has increased and improved IT security services since 2012

enhancements. Continuing the emphasis on FTEs, DTS has made the following staffing changes within the department:

- DTS hired a new Chief Information Security Officer in April 2013.
- After the 2012 data breach, DTS' security group grew from 8 to 18 FTEs.

These security FTE changes clearly demonstrate DTS' movement toward enhanced security. Due to the nature of the security enhancements, the specific outputs from these resources are not discussed in this report. This change is an example of how DTS has shifted its focus to providing enhanced services to other departments.

Contractor FTEs Appear to Supplement Rather Than Replace DTS Employees

Contrary to some concerns, DTS did not offset FTE reductions with contractors.

Concern that DTS' FTE reductions were offset by increases in contractor FTEs does not appear to be valid. DTS contractors cause mostly pass-through expenditures. Specifically, these expenditures are for limited application development for specific state agency needs. They are not costs that DTS incurs to provide IT services through its internal service fund. We performed two additional tests to validate the level of DTS' reliance on contractor labor and the overall growth of contractor FTEs. Based on these tests, DTS' FTE reductions do not appear to have been replaced by contractor FTEs.

Contractors Are Mostly Pass-Through Expenses for Agency Applications

Most DTS contractors are pass-through expenses for agency-specific application development.

During the 2014 General Session, the Legislature passed H.B. 193 that requires the Legislature to "review the number of full-time equivalent contract employees of each internal service fund [ISF] as part of the annual appropriation process" before an ISF agency can bill another department. For fiscal years 2013 and 2014, DTS' finance group tracked contractor billable hours and calculated contractor FTEs. For these two years, contractor FTEs were mostly used for application development for agency-specific projects via pass-through charges that did not incur additional DTS charges.

Figure 4.7 shows the breakdown of contractor FTEs by DTS fund and fiscal year. The enterprise technology fund tracks the finances for the rates DTS charges to state agencies, such as desktop services and basic telephone service that were discussed in Chapter II. The agency services fund accounts for IT expenditures that agencies incur directly.

Figure 4.7 Most Contractor FTEs Are Pass-Through Expenses Charged to State Agencies. Contractors who work on DTS projects are charged to the Enterprise Technology Fund. Contractors who work on projects for other agencies are charged to the Agency Services Fund.

Fund	FY 2014	FY 2013
Enterprise Technology Fund *(Internal Service Fund Revenues and Expenses)*	2.67	3.35
Agency Services Fund *(Pass-Through Expenses)*	103.82	97.81
Total FTEs	**106.49**	**101.16**

Source: DTS Finance

Figure 4.7 shows that DTS hired very few contractors (2.5 percent for fiscal year 2014) to assist with services that DTS provides other state agencies. The preponderance of contractor FTEs were directly charged to state agencies for development of their agency-specific applications. For example, DWS annually hired over 50 FTEs to work on its various IT software systems such as eREP, which is used to determine eligibility for DWS's assistance programs. In addition to the FTEs in Figure 4.7, DTS also hires application contractors on a job basis rather than hourly basis. We estimate that these agreements account for an additional 12 contractor FTEs per year.

Since the contractor FTEs in the agency service fund are pass-through expenses, it is important to clarify that DTS does not place a surcharge on these expenses. If DWS was charged $70.90 per hour for one of its consultants, the contractor receives the full payment and DTS receives none of the $70.90 payment. In contrast, when DTS charges DWS $70.90 per hour for one of its IT analyst IIs, $50.62 goes toward the employee's compensation, and $20.28 goes to cover other DTS expenditures. Therefore, it is important to recognize that application-oriented contractors result in primarily pass-through costs that do not financially benefit DTS.

DTS does not assess a surcharge for pass-through expenses, nor does it benefit financially from contractor services.

DTS' FTE Reductions Do Not Appear To Be Replaced by Contractor FTEs

While concerns were expressed that increased contractor FTEs may have offset DTS' FTE reductions, limited testing suggests that this offset did not happen. From fiscal years 2007 through 2012, DTS finance processed payment for 10,896 invoices submitted by contractors. Two tests were performed using this information that showed that: 1) the number of contractors working on DTS projects has remained relatively constant, and 2) the increase in total contractor FTEs since fiscal year 2007 is minimal.

Contractors for DTS projects have not increased significantly over time.

Contractors Working on DTS Projects Remained Relatively Constant Since Fiscal Year 2007. The 10,896 contractor invoices provided by DTS finance were separated based on the charged fund. For fiscal years 2007 through 2012, 697 invoices were charged to the enterprise technology fund, which DTS uses to provide its rate-based services. Our review of these invoices found that the hours submitted by contractors accounted for 2.25 to 6.50 FTEs each year. These amounts are similar to the 3.35 and 2.67 FTEs reported by DTS finance in fiscal years 2013 and 2014 respectively, and indicate a similar ongoing practice where the majority of contractor expenses have been passed to state agencies since DTS' consolidation.

DTS has not increased its contractor FTEs enough to offset employee FTE reductions.

Increases in Contractor FTEs Since Fiscal Year 2007 Are Minimal. To obtain a baseline of contractor FTEs, all contractor invoices for fiscal year 2007 (1,464 invoices) were reviewed, resulting in a count of 74.4 contractor FTEs for fiscal year 2007. By fiscal year 2012, total contractor FTEs had increased to 101.2, a net increase of 26.8. During this period, DTS employee FTEs decreased by 133 FTEs. DTS management said that these additional contractors did not supplant DTS staff reductions but correspond with changes in the amount of application development work being performed.

Current contractor FTE increases are likely a result of increases in Utah online services.

Significant growth in the state's web applications likely accounts for this increase in contractor FTEs. According to DTS' website, the number of online services in Utah has increased from 688 in fiscal year 2007 to 1,026 in fiscal year 2012. Based on this information, we concur with DTS management that reductions in DTS employees were not offset by contractor FTE increases.

Agencies Supplement DTS Employees With Staff Possessing IT Knowledge

While DTS employees implement IT solutions, state agencies hire additional staff with IT knowledge to define their IT business-related needs. For example, the Tax Commission hired employees who were DTS security staff to develop the security needs for the sensitive data the agency maintains under strict federal rules. Agencies also use business systems analysts to detail their agency's IT business-related needs. DTS does have a limited number of business analysts, but they are disproportionately allocated to one agency, which significantly increased its costs.

Tax Commission Transferred Two Security Professionals from DTS

The Tax Commission hired DTS security personnel to develop security standards for its sensitive data.

Since DTS emphasized IT security in 2012, two DTS information security analysts have transferred to the State Tax Commission. According to the Department of Human Resource Management's job description for this position, the employees were responsible for:

> Perform[ing] working level information security technology-related duties in the areas of cyber security, information security policy, monitoring and compliance/audit, penetration testing, application vulnerability assessments and risk assessments, security education and training, security forensic investigations and incidents response.

After working in DTS' network security unit, the two employees transferred to the tax security management unit within the Tax Commission.

DTS' Chief Information Security Officer stated that DTS management approved these transfers, as they would help the Tax Commission define the security needs for the sensitive data the agency collects. Once these staff defined appropriate security requirements, DTS' employees could then implement appropriate solutions. This example illustrates how greater reliance on IT solutions is requiring agencies to have staff who possess greater levels of IT knowledge.

DTS and State Agencies Both Hire Business Analysts

Business analysts help DTS and agencies determine how IT solutions can improve business processes.

The business analyst title identifies one of the positions used by DTS to define and refine requirements of applications developed by DTS. Within DTS' application development units, 18 of the 260 employees are business analysts. These employees play a critical role in defining how IT solutions can improve existing business processes.

In addition to DTS, state agencies also hire business analysts. For example:

- Two Tax Commission employees in the tax security management unit were business analysts.
- The Tax Commission also has 10 business analysts assigned to units related to tax systems.
- The Utah Department of Transportation retained three business analysts when DTS consolidated in 2007.

These business analysts assist with defining any changes and improvements that may be necessary for applications to improve business processes. Similar to the IT security experts hired by the Tax Commission, these employees play an important interface role, conveying their agencies' needs to DTS' IT professionals who can develop solutions.

DWS Is Charged for More Business Analysts than Other Departments

Lack of clear guidelines allows inequitable allocation of DTS business analysts to state agencies.

Since business analysts have been hired by DTS and state agencies, it is clear that staffing guidelines have yet to be defined for borderline IT staff, such as business analysts. Because no clear guidelines exist, the allocation of DTS business analysts has been inconsistent for the agencies supported by DTS. Figure 4.8 shows the number of business analysts and other application development staff, such as IT analysts and IT managers, which are assigned to each state agency.

Figure 4.8 DWS Has Significantly More DTS Business Systems Analysts than Other Large State Agencies. In June 2014, the following application development staff were assigned to state agencies.

Assigned Department	DTS Business Analysts	DTS Application Developers and Managers
Workforce Services	13	57
Public Safety	2	17
Human Services	1	60
Health	1	50
Agriculture	1	16
Transportation	0	29
Corrections	0	13

Source: FINET Data Warehouse

As Figure 4.8 shows, the Department of Workforce Services (DWS) has thirteen business analysts while others have two or fewer. The Department of Health and Department of Human Services have similar staffing levels as DWS, but have significantly fewer business analysts.

If DWS's staffing level or DTS business analysts were similar to that of other agencies, $770,000 could be saved annually.

As discussed in Chapter II, agencies pay $70.90 per hour for DTS application development employees, which include the business analysts in Figure 4.8. Also discussed in Chapter II, the average compensation for business analysts is $39.97 per hour, which allows DTS to cover its other expenses with the remaining $30.93. If DWS had a single DTS business analyst like other departments, the savings from 12 of these analysts would be about $770,000 annually. Considering the additional costs that DWS incurs by this staffing arrangement, we recommend that DTS work with state agencies to develop a staffing policy that specifies when business analysts should be an employee of DTS or another state agency.

Recommendations

1. We recommend that DTS work with state agencies to develop a staffing policy that specifies when business analysts should be an employee of DTS or another state agency.

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Agency Response

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State of Utah
GARY R. HERBERT
Governor
SPENCER J. COX
Lieutenant Governor

Department of Technology Services
MARK VAN ORDEN
CIO
Executive Director

November 26, 2014

John M. Schaff, CIA
Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114

Dear Mr. Schaff,

The Department of Technology Services (DTS) appreciates the opportunity to review a draft of *A Performance Audit of DTS Rates, Customer Service, and Staffing.* We appreciate the professionalism and cordial manner in which you and your staff conducted the analysis, and welcome the review of the agency. Thank you for examining the Department's initiatives to improve Information Technology services provided to state agencies. We agree with the recommendations of your office, which will allow us to continue to strengthen our processes.

As noted in the Audit report, DTS has undergone multiple phases to reduce costs and enhance value for our customers. The Department of Technology Services operates with the mission to ***enable our partner agencies to securely leverage technology to better serve the residents of the State of Utah.*** Since FY2007, DTS has realized cost savings of $127.8 million, which has been passed on to state agencies. In addition to the savings, services have improved for agencies and the residents of Utah. Utah.gov boasts more than 1,100 online services. The growing portfolio of technological applications is the result of an evolving strategy designed by agencies, working in cooperation with DTS, to keep Utah in the forefront by utilizing IT tools to better serve our business customers and the residents of our State. In 2014 the State of Utah once again received an "A" Grade from the Center for Digital Government, recognizing efforts made to use IT modernization to realize operational efficiencies and achieve strategic priorities.

We appreciate the opportunity to respond to the Audit Recommendations and submit these comments on behalf of the Department of Technology Services.

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Auditors recommend that DTS adopt a loftier goal regarding how competitive rates are relative to other states providing similar services.

DTS agrees that providing competitive rates and excellent customer service to the agencies is imperative for the success of the State. DTS continually evaluates rates to ensure the agencies receive the best service at the lowest possible cost. DTS will continue to review and compare rates, our services provided, and will continue to update our goals.

Auditors recommend that DTS emphasize services that generate significant revenues when reporting the competitiveness of the ISF rates.

DTS agrees with the recommendation and will work to further improve reporting the competitiveness of rates. DTS will focus on services that generate significant revenues.

Auditors recommend that DTS research and adopt cost-saving strategies used in other states to reduce the basic telephone service rate.

DTS agrees that cost-saving strategies are necessary for the success of the State. DTS continually reviews rates to ensure the agencies receive the best service possible at the lowest possible cost. DTS currently provides one telephone service rate for all customers, as opposed to multiple rates or pass through rates similar to other states. DTS feels that this is the best approach for customers, but will continue to research and adopt cost-saving strategies used in other states to ensure customers receive the best service at a competitive rate.

Auditors recommend that DTS research and adopt cost-saving strategies used in other states to reduce the desktop service rate.

DTS agrees that cost-saving strategies are necessary for the success of the State. DTS continually reviews rates to ensure the agencies receive the best service possible at the lowest possible cost. DTS currently provides a fully comprehensive desktop service that is available 24/7 to customers. DTS feels that this is the best approach for customers, but will continue to research and adopt cost-saving strategies used in other states to ensure customers receive the best service at a competitive rate.

Auditors recommend that DTS continue implementing federal guidelines that promote full-cost accounting of services by limiting individual service rate reserves.

DTS agrees with the recommendation. DTS has followed federal and state guidelines for full-cost accounting of services, and has worked to limit individual service rate reserves specifically for desktop and mainframe services. DTS has always set zero-based rates by individual service and will continue to so in the future.

Auditors recommend that DTS reassess the basis by which application development services are assessed to state agencies.

DTS is currently working to develop a proposal for a change in the application development services provided to the agencies. A change was proposed to the DTS Rate Committee in 2012, and DTS plans to propose another change this next year.

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Auditors recommend that DTS comply with Administrative Rule 895-3-5(4) and accurately track and maintain software licenses.

DTS agrees that is imperative to accurately track and maintain software licenses, and this is an area where DTS must work to improve. DTS has implemented a new process and system to assist with the tracking of licenses, and will continue to improve this process in the future.

Auditors recommend that DTS help state agencies establish a software coordinator required in Administrative Rule 895-3-5(3) to work with the software controller to maintain correct software license records.

DTS agrees with the recommendation and will work with the agencies to establish a software coordinator to work with the DTS software controller to maintain correct software license records.

Auditors recommend that DTS work with state agencies to develop a staffing policy that specifies when business analysts should be an employee of DTS or another state agency.

DTS agrees with the recommendation and will work with GOMB to develop a staffing policy that specifies when business analysts should be an employee of DTS or another state agency.

Once again, thank you again for the professional manner in which the audit was conducted and the opportunity to respond to the draft report. DTS has already made efforts to implement procedures in accordance with the audit recommendations and intends to improve processes to continue to improve customer service and increase efficiencies for the state of Utah.

Thank you for the report and the continued excellence of your office.

Mark A VanOrden

Mark VanOrden
CIO and Executive Director
Department of Technology Services

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