



## INTERIM ISSUE BRIEF: DEPARTMENT OF TECHNOLOGY SERVICES BUDGET AND OVERSIGHT

EXECUTIVE APPROPRIATIONS COMMITTEE  
STAFF: GARY RICKS AND STEPHEN JARDINE

ISSUE BRIEF

### SUMMARY

Since FY 2007, the Department of Technology Services (DTS) has decreased full-time equivalent employment by 134 FTE. DTS acquires nearly half as much capital as authorized by the Legislature. The Department has operated at a net profit in the past two fiscal years. In his 2009 report "A Performance Audit of the Department of Technology Services (DTS)", the Legislative Auditor General suggested that "enhanced oversight can improve DTS operations." This report identifies short term and long-term actions to improve DTS oversight.

In the short-run, we recommend the Legislature strengthen budgetary accountability by eliminating excess employment and capital acquisition authority. We further advise DTS to revise its financial pro-formas to include contract employment levels. In the longer term, we propose the Executive Appropriations Committee investigate DTS' billing mechanisms, its monopoly protection, operating structure, and enabling statute through an in-depth budget review during the 2012 Interim.

### INTRODUCTION

The Utah Legislature established the Department of Technology Services (DTS) with the passage of the "Information Technology Governance Act" (HB 109) during the 2005 General Session. It did so to consolidate and coordinate information technology (IT) management in the state. It established DTS with a specific statutory structure designed to leverage economies of scale, inspire cross-agency collaboration on technology, and preserve customer service. The Legislature intended that free-market signals like cost-based pricing and direct customer feedback would allow DTS to reduce the state's IT costs and personnel while at the same time improving service delivery.

Most of DTS functions as an internal service fund (ISF). The internal service fund structure is used for entities whose purpose is to provide services to other state agencies on a cost-reimbursement basis. When the Legislature establishes budgets during its annual General Sessions, it appropriates the funding for these services to "customer" agencies. Those customers then consume ISF services and make payments accordingly.

While the Legislature reviews and approves budgets for ISFs, the dollar amount is not controlling. ISFs can spend what they collect. The Legislature limits the size of ISFs through caps on employment, capital acquisition, and rates for services.

**EMPLOYMENT**

When it created the Division of Technology Services, the Legislature provided a structure in which DTS could reduce the state’s information technology costs and personnel. Figure 1 compares full-time equivalent (FTE) staff changes in DTS and other Executive Branch agencies over time. DTS has reduced FTE staff at a greater percentage between FY 2007 and FY 2010 than other Executive Branch agencies.

**Full-time Equivalent (FTE) Staff - DTS Compared to Executive Branch Agencies  
FY 2007 through FY 2010**

Agency	FY07	FY08	FY09	FY10
<b>Executive Branch Agencies:</b>				
Full-time Equivalents (FTEs)	17,801	18,095	18,162	17,473
<i>Percent Change from Previous Year</i>		1.7%	0.4%	-3.8%
<b>Division of Technology Services (DTS):</b>				
Full-time Equivalents (FTEs)	853	842	780	739
<i>Percent Change from Previous Year</i>		-1.3%	-7.4%	-5.3%

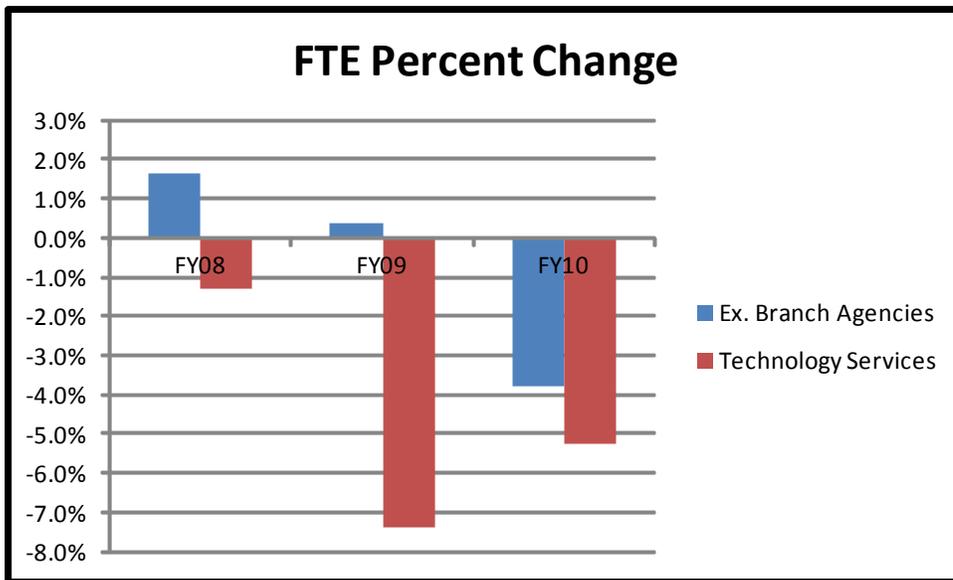
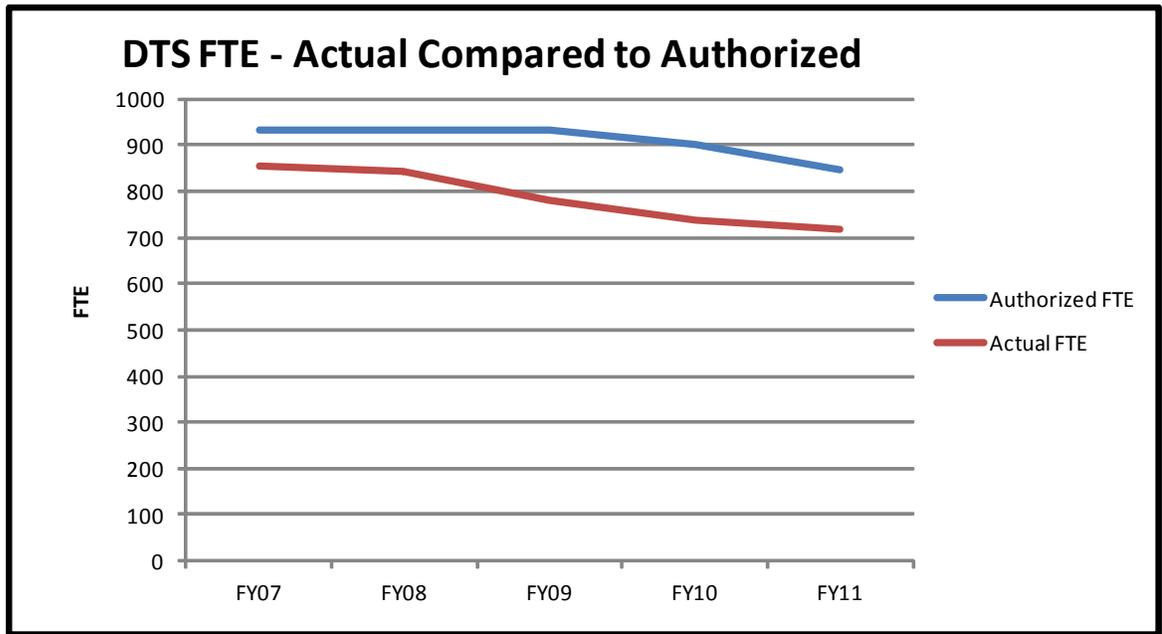


Figure 1

As can be seen in Figure 2, DTS has consistently used less staff than it has requested from the Legislature. DTS had 719 FTE in FY 2011, the most recently completed fiscal year. DTS requested authorization for 847 FTE in FY 2012 and FY 2013, 128 FTE more than it actually utilized in FY 2011.

**DTS Actual FTE Compared to Authorized FTE**

	FY07	FY08	FY09	FY10	FY11
<b>Authorized FTE</b>	933	933	933	903	847
<b>Actual FTE</b>	853	842	780	739	719



**Figure 2**

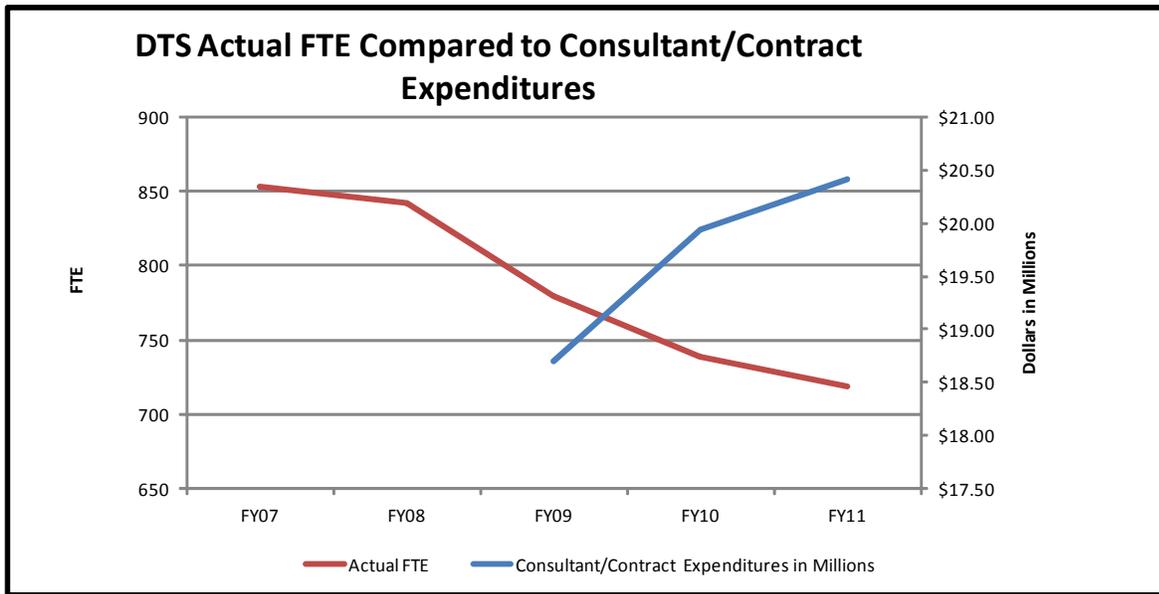
The Legislative Fiscal Analyst recommends that the Legislature reduce DTS FTE authorization by 122 to 725. Lowering the FTE authorization will require DTS to work more closely with the Legislature if the need arises to increase FTEs in the future and thereby increase the Legislature’s involvement in providing oversight to DTS.

**CONTRACT EMPLOYEES**

DTS also contracts for services. The above demonstrated reduction in FTE levels may potentially be offset by contracting for outside employees. In submitting pro-forma financial statements as part of its ISF structure, DTS is required to indicate the number of “Estimated Consultants/Contracts FTE”. The Legislative Fiscal Analyst has observed that DTS is not meeting this requirement. DTS does not have full-time equivalent measures for contract employees readily available, but it did provide data on expenditures for contract employment. That data, juxtaposed against changes in state employee FTEs, is shown in Figure 3.

**DTS Actual FTE Compared to Consultant and Contract Expenditures**

	FY07	FY08	FY09	FY10	FY11
Consultant/Contract Expenditures in Millions			\$ 18.70	\$ 19.94	\$ 20.41
Actual FTE	853	842	780	739	719



**Figure 3**

The Analyst recommends DTS report to the Legislature contract employment estimates for the past three years as well as revise the most recent financial pro-formas submitted with its current budget request.

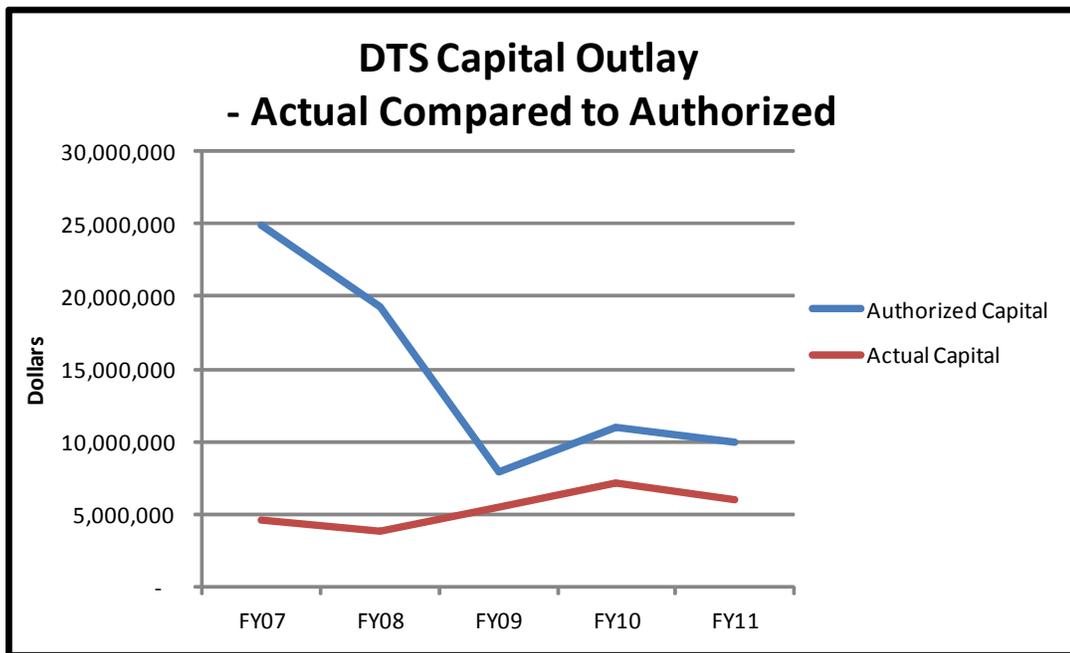
**CAPITAL ACQUISITION**

Capital Outlay is the authority to acquire assets costing more than \$5,000 per unit. DTS and other internal service funds report the cost of depreciation on these assets as part of their operating budgets. DTS and other ISFs are allowed to borrow from the General Fund to acquire these assets - which they often do in a cash deficit position.

In reviewing capital outlay expenditures, DTS has consistently used less capital outlay than it has requested as can be seen Figure 4. DTS utilized \$6,073,895 in capital outlay purchases in FY 2011, the most recently completed fiscal year. In submitting its budget request for the authorized 2012 fiscal year and the 2013 budget request fiscal year, DTS is requesting a total capital outlay authorization of \$9,415,000.

**DTS Actual Capital Outlay Compared to Authorized Capital Outlay**

	FY07	FY08	FY09	FY10	FY11
<b>Authorized Capital</b>	24,877,400	19,307,600	7,961,037	11,000,000	9,967,800
<b>Actual Capital</b>	4,583,507	3,907,377	5,566,546	7,198,635	6,073,895



*Note: Capital Outlay Authorization in FY07 and FY08 included projected agency capital projects which were not included in FY09, FY10, and FY11.*

**Figure 4**

The Legislative Fiscal Analyst is recommending the Legislature establish a FY 2012 and FY 2013 capital outlay authorization at \$6,500,000. Making this change in capital outlay authorization will require DTS to work more closely with the Legislature if the need arises to increase capital expenditures above the authorized level in the future.

**REVENUE AND EXPENDITURES**

As an internal service fund, DTS provides technology services to other state agencies on a cost reimbursement basis. DTS establishes rates that anticipate collecting sufficient funds to cover expenditures. For the past two completed fiscal years (FY 2010 and FY 2011), DTS has collected excess funds from state agencies. DTS has an FY 2011 year-end total of Contributed Capital/Retained Earnings equaling \$15,931,603.

This excess revenue and the size of the Contributed Capital/Retained Earnings balance raised our concerns regarding excess cash balances. However, an analysis of FY 2011 average monthly cash balances, as shown subsequently, indicates that as a result of the constant acquisition in technology equipment and upgrades, DTS does not have excess cash balances on an ongoing basis. The Legislature could consider further limiting DTS capital acquisition allowing time for cash on hand to increase.

**Division of Technology Services - FY 2011 Cash Balances by Month**

As of 8/30/2011

Fiscal	01	02	03	04	05	06	07	08	09	10	11	12	13		FY2011
Month	JUL 2010	AUG 2010	SEP 2010	OCT 2010	NOV 2010	DEC 2010	JAN 2011	FEB 2011	MAR 2011	APR 2011	MAY 2011	JUN 2011	JULY OLD 2011	TOTAL	MONTHLY AVG
FUND	Month End	Month End	Month End	Month End	Month End	Month End	Month End	Month End	Month End	Month End	Month End	Month End	Month End		BALANCE
6680	(\$5,916,391)	(\$9,933,277)	\$3,013,695	(\$197,234)	\$1,932,811	\$1,469,787	\$650,925	\$1,776,585	\$2,439,971	\$2,003,023	\$3,264,648	\$3,333,190	(\$6,397,088)	(\$2,559,355)	(\$196,873)
6690	(\$1,969,991)	(\$2,320,734)	\$422,804	\$415,289	\$244,711	\$352,812	\$261,051	\$331,236	\$370,267	\$353,654	\$326,949	\$349,353	(\$990,111)	(\$1,852,710)	(\$142,516)

Source:  
Access Query ISF Cash Balances on Data Warehouse FINET Database Tables

Note: Funds 6680 and 6690 are the DTS internal service funds.

**STATUTORY ORGANIZATION VS. IMPLEMENTED STRUCTURE**

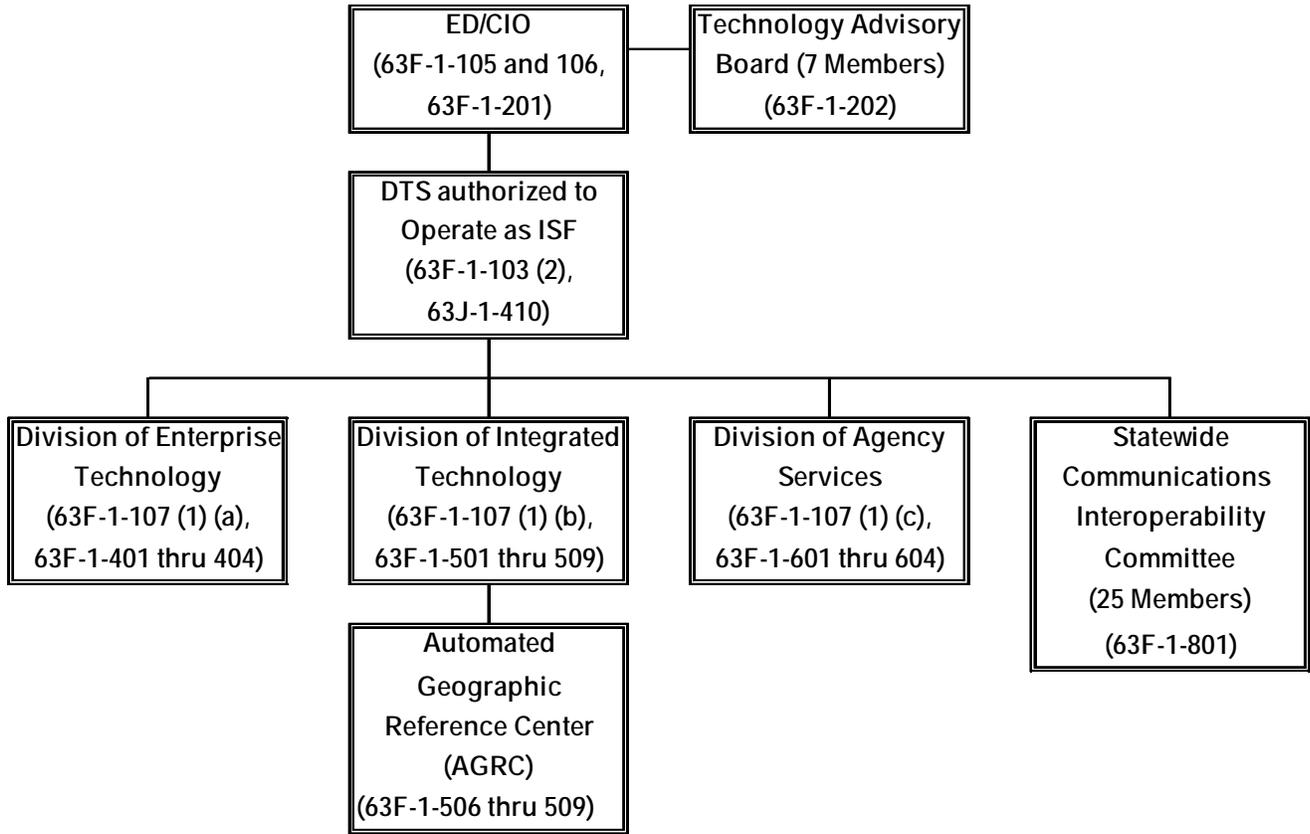
DTS' enabling legislation – the “Utah Technology Governance Act” – prescribes a specific structure for the department. It creates three divisions (63F-1-107):

1. Division of Enterprise Technology;
2. Division of Integrated Technology; and
3. Division of Agency Services.

Each division is statutorily assigned detailed operations requirements and charged to be administered and managed by a division director appointed by the DTS Executive Director/Chief Information Officer (ED/CIO) and approved by the Governor.

Figure 5 shows DTS' organization as contained in statute. See Appendix A for greater detail.

STATE OF UTAH  
 DEPARTMENT OF TECHNOLOGY SERVICES  
 Organization Chart  
 Utah Code Unannotated 2011



Sources: Legislative Fiscal Analyst, Utah Code Unannotated, 2011. (10-17-2011)

Figure 5

The Analyst, working in conjunction with DTS senior managers, developed a current operations organization chart. The current organization differs from statute in that the Agency Services and Integrated Technologies divisions reside within the Division of Enterprise Technology. This allows greater budgetary flexibility for agency managers, and may lead to better coordination. Figure 6 depicts the DTS' current operating environment. See Appendix B for greater detail, including a full description of DTS' current operating environment.

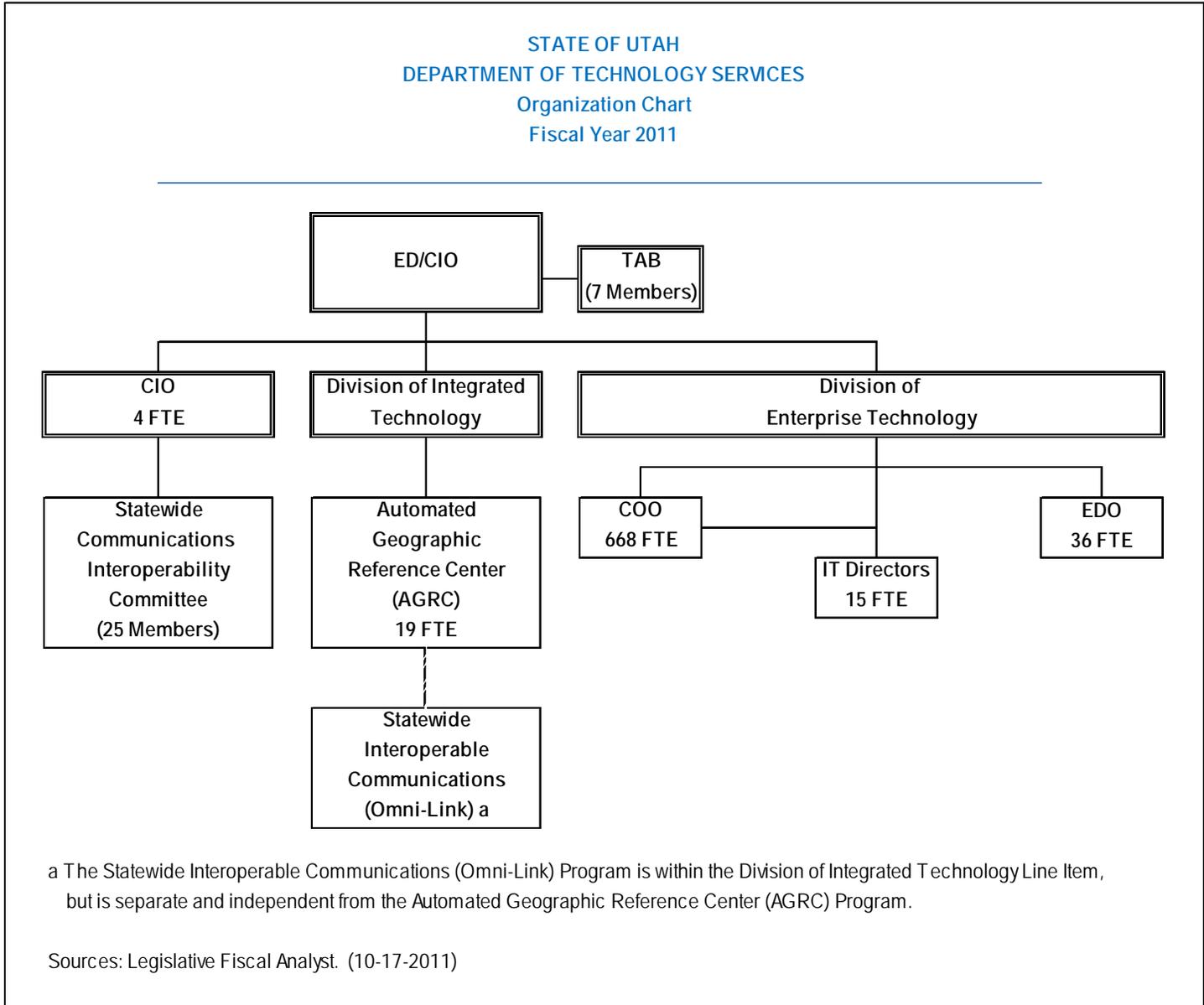


Figure 6

Each year, the Executive Appropriations Committee assigns to the Legislative Fiscal Analyst an in-depth budget review. Given the difference between statutory and practical organization structure at DTS, the Analyst recommends EAC consider DTS as an in-depth review subject for the 2012 interim. We believe that such a study could help improve alignment between the statute and the current operations at DTS, among other things.

**BARRIERS TO MARKET FORCES**

A central tenet behind DTS' creation was injection of market forces into intra-governmental transactions. One such market force is price signals. Policymakers directed that DTS' prices must be sufficient to recover its costs, but not more. Customers paying the prices - user agencies - would act in their own self interest and keep costs down by consuming only at reasonable prices.

In the case of DTS, this market principle is hindered by at least two factors: 1.) customers do not have to actively "pay" DTS; and 2.) agencies must use DTS for IT unless they get a waiver from DTS itself.

As do all ISFs, DTS bills agencies for consumption and automatically deducts payments through interdepartmental transfers. Customer agencies are not required to review and approve payments to DTS. Agencies are supposed to review payments after-the-fact, but must appeal any billing issues after payment has been exacted.

Even when agencies dispute their bills, they have little alternative to DTS. In an attempt to achieve economies of scale, policymakers required agencies to "subscribe to the information technology services provided by the department [of technology services]" (UCA 63F-1-303). Executive agencies may only purchase IT services from providers other than DTS when the Chief Information Officer approves. The CIO is also DTS' Executive Director.

DTS does periodically conduct a market analysis its rates in comparison of the rates of other public or private sector providers where comparable services are reasonably available.

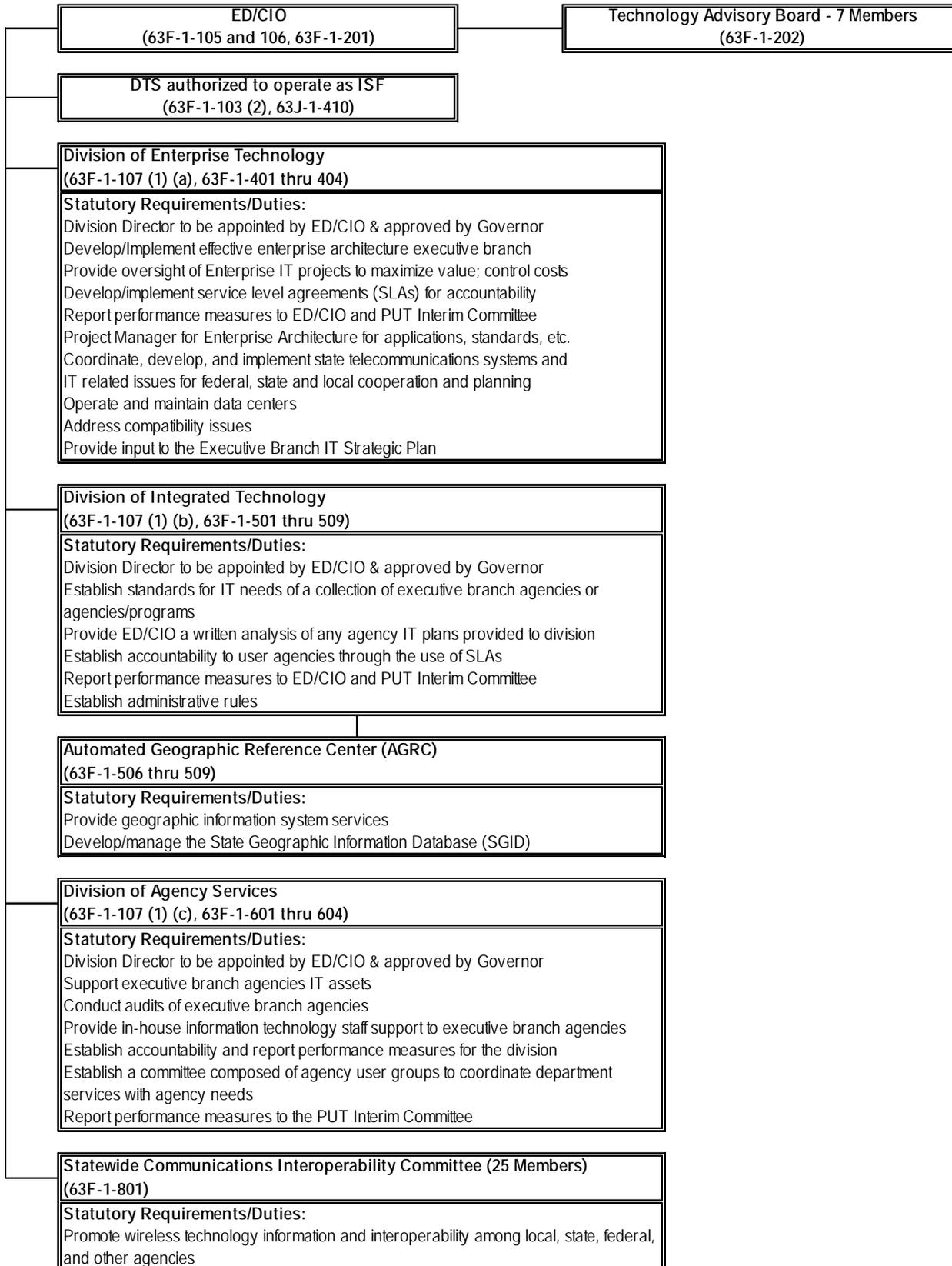
Legislators may choose to revisit these issues as part of the recommended in-depth budget review. Any such analysis would have to avoid agency "cherry-picking" of low cost services. DTS' mission is to consider costs across the state as an enterprise.

**RECOMMENDATIONS**

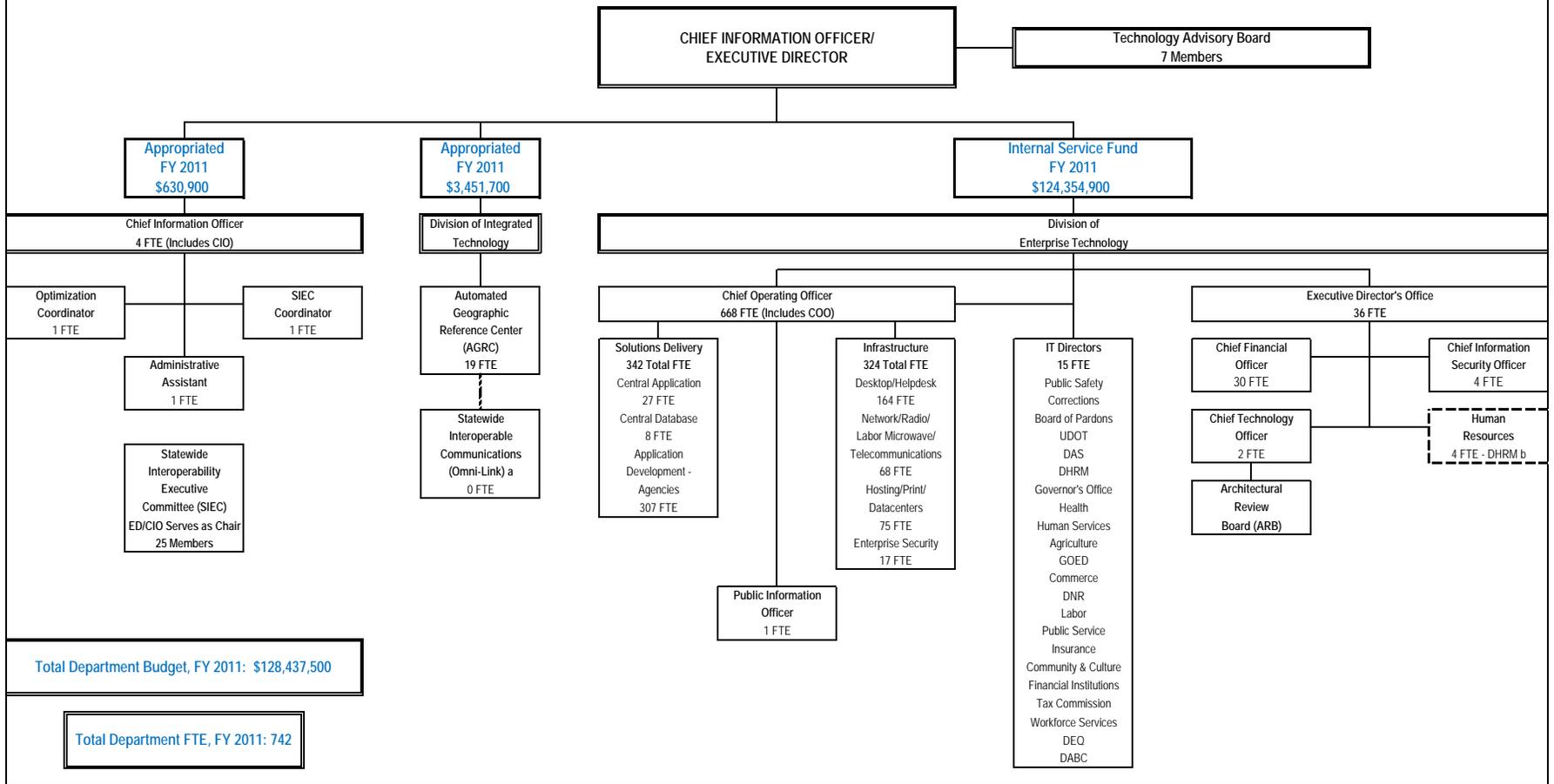
The Analyst recommends:

1. Reducing DTS' Full-time Equivalent Employment appropriation by 122 FTE;
2. Trimming DTS' authorized capital outlay to \$6,500,000;
3. Directing DTS to revise its financial statements to include contract employment counts; and,
4. Conducting an in depth budget review of the department during the 2012 interim to include investigation of:
  - a. differences between DTS' operating structure and its enabling statute;
  - b. mechanisms by which agencies can affirmatively validate DTS charges; and,
  - c. necessity of exclusive relationship between DTS and customer agencies.

APPENDIX A: STATE OF UTAH - DTS  
 Organization Chart - Utah Code Unannotated 2011



**APPENDIX B: STATE OF UTAH  
DEPARTMENT OF TECHNOLOGY SERVICES  
Organization Chart  
Fiscal Year 2011**



a The Statewide Interoperable Communications (Omni-Link) Program is within the Division of Integrated Technology Line Item, but is separate and independent from the Automated Geographic Reference Center (AGRC) Program.

b Human Resources FTE are counted within DHRM.

**OVERVIEW OF DTS STRUCTURE AND OPERATION**

DTS is led by an executive director appointed by the Governor with the consent of the Senate. The executive director also serves as the chief information officer (ED/CIO). There is a Technology Advisory Board which meets at the discretion of the chair and receives a report from the department regarding current operations and issues. The department operations and programs are divided and funded with three line items. They are as follows.

1. The Chief Information Officer Line Item/Program houses the optimization coordinator and the Statewide Interoperability Executive Committee coordinator. The optimization coordinator works on the optimization efforts of the Governor and the Legislature (HB 280, "State Agency Realignment") seeking efficiencies in state government through agency operations, efficiencies, and consolidation.

The Statewide Interoperability Committee was established to leverage existing infrastructure with emerging technologies to create and enhance an interoperable voice and data network that supports the delivery of public safety, homeland security, and other vital services. The coordinator arranges the monthly meetings and discussion items and otherwise assists the committee chair in directing the efforts of the committee. The ED/CIO serves as the committee chair. The committee is made up of 25 members per statute (63F-1-801). Committee members receive no compensation or benefits for their service on the committee.

2. The Division of Integrated Technology houses the Automated Geographic Reference Center (AGRC) and the Statewide Interoperable Communications (Omni-Link) programs. AGRC provides geographic information and systems services to state agencies, the federal government, local political subdivisions and private individuals. The center is not permitted to sell any information obtained from counties. AGRC manages the State Geographic Information Database (SGID). SGID is a standard format for geographic information in use by state agencies. It serves as a central reference for all information contained in any geographic information system database by any state agency. It includes accurate representations of all civil subdivision boundaries of the state.

The Statewide Interoperable Communications (Omni-Link) program is an interoperable communications technology (hardware and software) which connects public safety dispatch centers throughout the state. In the past, the dispatch centers operated as separate regions and could not receive or transmit channels to other channels. Omni-Link allows all connected dispatch centers to monitor, patch, and even directly control radio channels linked with any other connected dispatch center.

3. The Division of Enterprise Technology (DET) is the single largest line item within DTS in terms of funding, FTE count and operations activity. DET is an Internal Service Fund (ISF) and is funded through subscription rates charged for services provided to 22 executive branch agencies and other statutorily approved entities.

Statute requires DTS rates to be equitable and to be set using zero based, full cost accounting of activities necessary to provide each service. Each rate multiplied by the projected consumption of the service must not recover more or less than the full cost of each service.

The ED/CIO submits the proposed rates and cost analysis to the Information Technology Rate Committee for its approval and then must obtain the approval of the Legislature prior to charging the rates. Exception is given for new services and attendant rates created during the interim, which then require approval by the Legislature during the next annual general session.

As part of the rates approval process, the ED/CIO is required to periodically conduct a market analysis of the department's rates with a comparison of the rates of other public or private sector providers where comparable services and rates are reasonably available. The ED/CIO contracts annually with Science Applications International Corporation (SAIC) to provide this market comparison. SAIC determined in its

most recent report (dated 8-8-2011) that 100 percent of the DTS rates were found to be ranked “reasonable to best value”.

In FY 2011 (the most recently completed fiscal year) DET had 719 FTE. DET is principally divided into three groups:

- A. The Chief Operating Officer (COO) oversees Solutions Delivery which includes agencies application development, central application and central database functions. The COO also oversees Infrastructure which is comprised of the desktop/helpdesk functions, network/radio/labor microwave/telecommunications operations, hosting/print/datacenters, and enterprise security. The Public Information Officer also reports to the COO.
- B. The IT Directors work with the executive management teams of the 22 executive branch agencies in identifying and implementing IT solutions to enhance efficiencies and lower operating costs. The IT Directors answer directly to the ED/CIO and the COO.
- C. The Executive Director’s Office provides leadership and administrative support including finance and accounting, human resources, and chief information security. The office also provides the central enterprise architecture standards as established by the Architectural Review Board (ARB) under the chief technology officer and other members of the ARB. The Board members are the chief technology officer (leader of the board), the ED/CIO, and the COO.

#### **OVERSIGHT OF THE DEPARTMENT**

DTS reports or interacts with the following entities:

1. Technology Advisory Board (TAB) Utah Code 63F-1-202 – As previously mentioned, TAB was created to advise the CIO and assist the CIO in working with executive branch agencies toward consensus solutions. Currently, the Technology Advisory Board meets about once annually and receives an information update on the operation of the department.
2. Public Utilities Technology Interim Committee Utah Code 63F-1-104 (9) and 63F-1-201 – Receives the status of existing information technology projects and the Executive Branch Strategic Plan.
3. Information Technology Rate Committee Utah Code 63F-1-301 – Receives information about all rates for the next fiscal year, evaluates and recommends them to the Governor’s Office of Planning and Budget and the Legislative Fiscal Analyst for review and consideration by the Legislature.
4. Governor’s Office – Receives the department’s annual report, approves the rates, budgets, FTE and capital outlay authorization.
5. Infrastructure and General Government Appropriations Subcommittee – Receives department information and approves the rates, budgets, FTE and capital outlay authorization.