

Department of Technology Services

LEGISLATIVE ANALYST'S OFFICE

Presented To:
Little Hoover Commission





Overview of State Information Technology

- State spends about \$2 billion annually on information technology (IT).
 - About \$300 million on telecommunications services.
 - Over \$400 million in purchases of IT goods and services.
 - Over \$200 million in operating the state's data centers.
 - Remaining \$1 billion for developing and maintaining departmental systems.



IT Governance

- Since the sunset of the Department of Information Technology in 2002, the state has had an interim IT governance structure.



State's Interim IT Governance Structure

- Most of the interim structure was implemented through Executive Order and the *2002-03 Budget Act*.

State Chief Information Officer

- Provides general guidance and performs some coordination activities.

Department of Finance (DOF)

- Develops policies for review, approval, oversight, and security of state IT systems.
- Rates projects on risk—evaluating factors such as cost, activities, and staff experience.
- Reviews project proposals and oversees medium to high-risk projects.

Department of General Services (DGS)

- Develops procurement policies.
- Reviews and monitors state procurements.

Data Centers

- Operate shared computer systems and networks.
- Operate large departmental systems.

Departments

- Manage IT projects.
- Maintain departmental hardware and software.



Department of Technology Services

- Proposal consolidates:
 - Stephen P. Teale Data Center.
 - Health and Human Services Agency Data Center (HHSDC).
 - Portion of DGS' Telecommunications Division (TD).
- Department of Technology Services (DTS) would:
 - Install and maintain small, medium, and large computer hardware and software systems.
 - Implement and maintain the state's telecommunications network and services.
 - Implement information security practices to prevent computer hacking and protect the state's information systems.
 - Assist departments in defining their technology needs.
 - Develop state-level computer systems.
- DTS would be overseen by Technology Services Board (TSB).
 - Composed of a Governor's designee, DOF, the State Controller, Cabinet Secretaries, and the Director of the Office of Emergency Services.
 - TSB would meet quarterly and comply with the Bagley-Keene Open Meeting Act.
 - TSB would assist in the development of a data center operations plan, hire an independent audit to conduct annual financial audit, and approve the annual DTS budget and rates.



Department of Technology Services

(Continued)

- DTS would have a revolving fund.
 - Fund would be continuously appropriated, but the administration has indicated it supports changes to the budget bill.
 - If the fund reserve exceeds 25 percent in the current year, the excess amount would be used to reduce the DTS rates in the budget year.
- Consolidation should improve services and reduce costs:
 - Provide one executive and administrative structure.
 - Improve use of excess hardware and software.
 - Reduce hardware and software costs.
 - Reduce impact of pending retirements.
 - Increase efficiencies in supporting existing computer systems.
 - Data center consolidation is consistent with prior legislative direction.
 - Consolidation of DGS TD services is consistent with other DTS services.
 - Review of rates and an annual external financial audit would provide additional information to the Legislature.



LAO Recommendations



TSB

- Concerns regarding board's composition.
- Composition of TSB should include more IT expertise and perspectives outside of the administration.



Permanent Governance Structure Needed

- Current structure is temporary.
- The state needs a permanent solution to effectively manage IT.
- DTS proposal does not resolve governance structure issue.



Permanent governance structure should be based on key objectives.

■ Leadership

- Provides direction and guidance.
- Sets goals and priorities.
- Develops plans and policies.

■ Accountability

- Defines roles and responsibilities
- Designates specific authority and powers.
- Helps the public hold government responsible.



LAO Recommendations

(Continued)

■ Oversight

- Monitors IT projects and expenditures.
- Directs corrective actions to problematic IT projects.
- Provides information for budget and policy decisions.



Improvements Needed in Procurements

- Streamline the protest process, including allowing for voluntary, binding arbitration of protests.
- Use computers instead of paper to facilitate transactions with vendors.
- Require independent evaluations of proposals.
- Improve the quality of departmental bid specifications and contract management.
- Provide effective evaluations of contractor performance and sanction poor-performing contractors.

DEPARTMENT OF TECHNOLOGY SERVICES (1955)

The budget proposes the creation of the Department of Technology Services (DTS) to be the state's general-purpose information technology (IT) department. The DTS would consolidate the state's two largest data centers—Stephen P. Teale Data Center (TDC) and the Health and Human Services Agency Data Center (HHSDC)—and a portion of the Department of General Services' (DGS) Telecommunications Division (TD). The HHSDC management of several large IT projects is being proposed to be transferred to the Health and Human Services Agency (please see the "Health and Social Services" Chapter for a discussion of this proposal). Under the proposal, DTS would provide IT and telecommunication services to most state agencies and various local jurisdictions. The DTS would reside within the State and Consumer Services Agency and its operational costs would be fully reimbursed by its client agencies. The administration proposes \$235 million in expenditures from a new DTS Revolving Fund. We discuss the proposed department and other issues below.

CREATION OF NEW DEPARTMENT

The proposed consolidation would likely improve the state's technology services and reduce costs to departments. For these reasons and consistent with prior legislative direction, we recommend that the Legislature approve the consolidation. We, however, raise a number of significant issues related to the administration's proposed implementation. To improve oversight, we recommend that the Legislature (1) amend the budget bill to include a revolving fund appropriation for the Department of Technology Services (DTS) consistent with current practice for data centers, (2) revise the responsibilities of the proposed Technology Services Board, and (3) allow the Governor to appoint the DTS director subject to Senate confirmation.

Background

Over the last two years, a number of steps have been taken by the Legislature and administration to consolidate the state's data centers. We discuss these steps below.

Legislature Directs Administration to Begin Consolidation Process. In order to increase the efficiency of the state's technology services, the 2003-04 budget began the process of consolidating TDC and HHSDC. (Please see the *2003-04 Analysis*, pages F-47 to F-52, for a detailed discussion of the benefits of this approach. For instance, a consolidated data center would result in increased efficiencies in supporting existing computer systems and reduce some hardware and software costs.) As required by Chapter 225, Statutes of 2003 (AB 1752, Oropeza), in May 2004 the Department of Finance (DOF) provided a conceptual plan to the Legislature for a consolidated data center. Specifically, the plan identified the goals, organizational structure, and areas of potential savings that a consolidated data center would provide to the state. The plan also identified a number of additional steps that the state would need to take—such as the creation of a consolidation planning team—to successfully complete the consolidation effort.

2004-05 Budget Act Assumes Data Center Consolidation. The state budget for 2004-05 assumes that data center consolidation will occur during the current year. In addition, the *2004-05 Budget Act* requires DOF to transfer \$3.5 million from the TDC Revolving Fund to the General Fund to reflect savings from the data center consolidation.

Governor Requires Plan on Data Center Consolidation. In September 2004, the Governor issued an executive order directing TDC's Director to prepare a plan to reorganize and consolidate the state's two data centers. In January 2005, the plan was submitted to the Governor. The plan provides a general overview of the proposed DTS, its goals and functions, and a proposed governance structure. According to the plan and the newly proposed budget, it is now the intent of the administration to consolidate the data centers in 2005-06. The *Governor's Budget Summary* also states that the administration will prepare a Governor's reorganization plan to create DTS. It is unknown when that reorganization plan will be presented to the Legislature.

Administration's DTS Proposal

As proposed in DOF's 2004 conceptual plan, TDC and HHSDC staff have been working over the past year on various planning teams to implement the consolidated data center. According to the January 2005 data center consolidation plan and the budget, the DTS reorganization proposal will contain three major components (discussed below). Since a for-

mal reorganization plan had yet to be submitted to the Legislature at the time this analysis was prepared, many details regarding the consolidation are still lacking.

DTS Services. By consolidating TDC, HHSDC, and a portion of DGS, DTS will provide five major services to departments:

- Install and maintain small, medium, and large computer hardware and software systems.
- Implement and maintain the state's telecommunications network and services.
- Implement information security practices to prevent computer hacking and protect the state's information systems.
- Assist departments in defining their technology needs.
- Develop state-level computer systems.

Technology Services Board (TSB). The DTS would be governed by the TSB, which would include the state Chief Information Officer (CIO), DOF's Director, State Controller, and the Governor's cabinet secretaries. The TSB would be responsible for (1) reviewing and approving the DTS' annual budget and rates, (2) appointing the director, (3) setting salaries of the director and five executive officers, and (4) approving the department's plan of operations. In addition, TSB would be required to hire an independent auditor to conduct an annual DTS financial audit.

Continuously Appropriated DTS Revolving Fund. The administration proposes to establish a continuously appropriated revolving fund that the department would use to pay its expenses. The fund would be established from the unexpended balances of the TDC and HHSDC Revolving Funds and a portion of the DGS Service Revolving Fund. Continuously appropriated funds are considered "off budget"—meaning that an appropriation for the fund does not appear in the budget bill and the Legislature does not annually review appropriations. (Under current law, both the TDC and HHSDC Revolving Funds are continuously appropriated. The budget act, however, has historically included data center expenditure authorities in lieu of continuous appropriations.)

Consolidation Should Improve Services and Reduce Costs...

As noted above, the administration's proposal to consolidate the state's data centers is consistent with previous legislative direction and should ultimately result in improved services and reduced costs. In addition, we agree with the administration's proposal to consolidate a portion of DGS with the consolidated data centers. Many of the DGS TD services—such as

voice and data transmissions—are consistent with other services proposed to be offered by DTS. We also concur with the advisability of a review of DTS rates and an annual external financial audit. These two activities would provide additional information to the Legislature on DTS rates and financial stability.

... But Proposal Would Shut Down Legislative Oversight

Despite several promising elements, our review found a number of significant flaws with the remainder of the proposal. These concerns are discussed in detail below.

Continuously Appropriated Revolving Fund Inconsistent With Current Practice. Under current practice, the TDC, HHSDC, and DGS Revolving Funds are all appropriated by the Legislature on an annual basis. These revolving funds have been in place since the early 1970s. The administration has not identified any problems that the annual appropriations have caused for department operations. Yet, the administration proposes to switch from annual to continuous appropriations. Continuous appropriations should be used only when there is no legislative discretion in the payment amounts. The DTS expenses are primarily for hardware and software purchases and employee costs and, therefore, the Legislature has significant discretion over them.

Legislature's Appropriation and Oversight Roles Would Be Limited. For most departments, the Legislature makes annual appropriations and reviews departmental operations. This process is consistent with the Legislature's constitutional responsibilities to fund, oversee, and monitor the activities of the executive branch. The administration, however, proposes to limit the Legislature's budget and oversight roles for DTS. Specifically, the Legislature's budgetary oversight role would be limited to (1) receiving the annual financial audit and (2) approving those DTS expenditures embedded within other department's project budget requests. Since DTS would be off budget, the Legislature would not review the DTS annual budget and its proposed expenditure increases. This role would be fulfilled instead by the TSB. In recent years, the Legislature has taken a number of actions to reduce data center expenditure authorities. For example, the Legislature has reduced HHSDC positions and directed it to lower rates in order to improve its efficiency. Under the administration's proposal, the Legislature would no longer be in a position to take these types of actions.

In addition, as noted above, the DTS Revolving Fund would contain revenues from many different fund sources, including General Fund monies. As a result, TSB decisions regarding the department's expenditures

could place financial pressure on a number of funds (including the General Fund)—without legislative approval.

Legislature Would Not Confirm DTS Director. Under current law, the Governor selects the TDC Director, and the California Health and Human Services Agency Secretary selects the HHSDC Director. In addition, the TDC Director must be confirmed by the Senate. For TDC, the process allows the Governor to select a management team while allowing legislative oversight. According to the DTS proposal, TSB would select and appoint the director and the position would not require Senate confirmation. This means that the Legislature would not be able to approve the selection of the DTS Director—reducing the accountability of the department to the legislative branch.

DTS Executive Salaries Would Not Be Reviewed by the Legislature. Under the administration's proposal, TSB would set the salaries of the DTS Director and five executive officers. According to the state CIO, the reason for this TSB salary-setting role is because standard state salaries are not competitive with local government salaries and, therefore, the state is losing staff to these other agencies. According to a 1999 California Research Bureau report, some state IT salaries are lower than comparable local government salaries. We agree with the administration that there may be a salary problem for some state IT positions. We do not, however, agree with the administration's approach to solving the problem. Under current law, the administration can propose salary levels in the annual budget. This allows the Legislature to review proposed salaries to ensure they are adequate to provide the necessary quality of personnel. Since there would be no annual legislative review of the DTS budget, the Legislature would be prevented from reviewing and adjusting DTS executive salaries.

Responsibilities and Composition of TSB Should Be Modified. We do, however, see some value in creating an oversight board for the consolidated data center. Specifically, a board could review the department's operational policies and review its proposed rates and annual expenditure plan before submittal to the Legislature. In addition, a board could monitor the data center's consolidation efforts to ensure minimal disruption to services. For the board to provide good oversight value, the board's composition should include more IT expertise and perspectives outside of the administration.

Recommended Changes to Administration's Plan

Since the consolidation of TDC, HHSDC, and a portion of DGS would improve the state's technology operations and is consistent with previous legislative direction, we recommend that the Legislature approve the consolidation. To address the proposal's significant flaws, we recommend a

number of changes (summarized in Figure 1). Specifically, we recommend that the Legislature reject the proposed continuously appropriated DTS Revolving Fund. Instead, we recommend that the Legislature amend the budget to include a DTS appropriation consistent with current practice for the TDC and HHSDC Revolving Funds. The amount for the appropriation for the DTS Revolving Fund should be \$235 million. In addition, we recommend that the Legislature revise the role of TSB by eliminating its salary-setting and budget responsibilities and, instead, require TSB to monitor the consolidation effort and review annual rate and expenditure proposals and data center policies. The composition of the board should be modified to emphasize more IT expertise and nonadministration members. To provide legislative review of proposed DTS executive salaries, we recommend that the Legislature direct the administration to include DTS executive salaries in the annual budget. In addition, to ensure legislative and executive branch accountability, we also recommend that the Legislature require the Governor to select TSD’s Director subject to Senate confirmation.

Figure 1 LAO Recommendations to Solve Flaws In Proposed Consolidation	
Problem	Recommended Solution
<ul style="list-style-type: none"> Continuously appropriated revolving fund inconsistent with current practice and would limit legislative oversight. 	<ul style="list-style-type: none"> Establish an annually appropriated revolving fund.
<ul style="list-style-type: none"> Legislature’s budgetary and oversight role would be limited. 	<ul style="list-style-type: none"> Eliminate TSB budgetary role. Establish an annually appropriated revolving fund.
<ul style="list-style-type: none"> Legislature would not confirm DTS Director. 	<ul style="list-style-type: none"> Allow Governor to select DTS Director, with Senate confirmation.
<ul style="list-style-type: none"> DTS executive salaries would not be reviewed by the Legislature. 	<ul style="list-style-type: none"> Eliminate TSB salary setting role. Require administration to include executive salaries at the proposed levels in the annual DTS budget.
<ul style="list-style-type: none"> Concerns regarding responsibilities and composition of TSB. 	<ul style="list-style-type: none"> Change TSB responsibilities from budgetary to oversight. Change composition of TSB to include more IT expertise and perspectives outside of the administration.