Audit Highlights

Highlights of performance audit report on the Office of the Governor, Office of the Chief Information Officer issued on September 10, 2024.

Legislative Auditor report # LA24-15.

Background

With legislation in 2023, the Division of Enterprise Information Technology Services name was changed to the Office of the Chief Information Officer (Office) and was transferred from the Department of Administration to the Office of the Governor. The mission of the Office is to provide services to effectively support the technology needs of state agencies and the residents they serve, while ensuring the State's technology infrastructure and security are continually evolving.

The Office consists of the following units: Client Services, Computing Services, Network Services, and Office of Information Security. The Client Services Unit provides information technology support, application development, database administration, and more. Computing Services manages the State Computer Facility. Network Services handles SilverNet, virtual private network, and other wireless technologies. The Office of Information Security provides leadership and oversight for a comprehensive state information security program.

For fiscal year 2023, the Office employed 165 full-time employees statewide.

Purpose of Audit

The purpose of the audit was to evaluate the Office's controls over the development of customer rates, and the monitoring and solicitation of contracts and lease agreements.

The scope of the audit focused on the Office's activities for fiscal years 2022 and 2023.

Audit Recommendations

This audit report contains seven recommendations to improve controls over rate development and contract solicitation and monitoring practices.

The Office accepted the seven recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

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Customer Rate Development and Contracting Practices

Office of the Chief Information Officer

Summary

The Office lacks adequate controls to properly track its employee labor distribution and to monitor customer utilization of its services in calculating customer rates. Specifically, the Office does not track employee time related to some services and for other services employee time tracking is not accurate. In addition, the Office did not always properly identify customers using its services. Operating as an enterprise fund, the Office is responsible for ensuring its operations are self-supporting through the customer rates it charges using entities. Rates are calculated based on the costs to produce the service and the number of entities using the service. Accurate labor distribution and customer utilization information is needed to ensure proper rate development so the costs of providing services are funded and so appropriate rates are charged to the appropriate users.

The Office did not always use competitive solicitation practices to procure millions of dollars in services. Instead, some procurements were completed as sole source procurements, or contracts were extended for years through amendments. In addition, effective contract monitoring did not take place, resulting in work being performed without appropriate contracts. State laws and policies govern the contracting process for services. When services are procured without competition or written contracts, there is an increased risk the State could overpay for services, fail to procure the best value, or be unable to enforce desired scopes of work.

Key Findings

The Office does not have an established, formalized process for tracking employee time and forecasting labor distribution. Our examination of cost pools revealed substantial deficiencies in labor distribution tracking, with 7 of 10 (70%) lacking thorough tracking of employee time allocation. Information technology services provided by the Office are divided into cost pools for budgetary purposes. A cost pool is a grouping of costs by service activity, and includes costs like direct labor, materials, overhead, and other costs associated with providing a specific service. In most cases, the majority of the expense associated with these cost pools is employee salaries and benefits. Therefore, the proper tracking of employee time associated with cost pools is important. (page 5)

The Office lacks effective controls to monitor customer utilization. For five of eight (63%) cost pools tested, information supporting customer utilization was inaccurate or undocumented. For example, the virtual server cost pool did not include on its 2022 and 2023 utilization list five customers that started using the services in fiscal year 2021. In addition, we observed some customers reported their own utilizations and non-paying customers were utilizing services. Tracking customer utilization is essential for generating accurate service rates and making informed decisions about resource allocation. (page 8)

We tested contracts that were in effect during fiscal years 2022 and 2023, and observed instances where the Office procured services through the questionable use of sole source waivers. For three of the eight (38%) sole source procurements tested, the services procured were offered by more than one vendor. State law, regulation, and policy require agencies to competitively procure goods and services. (page 11)

In some cases, contract amendments were used to expand contract maximums instead of seeking competitive bids. For 2 of 14 contracts tested, $16.8 million in contract price was added through contract amendments. We found that one vendor's contract increased by $12.1 million without any solicitation. Another vendor's contract, which began in 2013, was amended four times, with the scope of the contract evolving over the years. However, no solicitations were conducted for these changes. (page 13)

Inadequate contract monitoring resulted in transactions occurring outside the protections of a contract. We tested 15 expense contracts in fiscal year 2022 and 11 in fiscal year 2023. We found two payments totaling $187,000 were made to vendors without active contracts in place. We also found a lapse in two revenue contracts for billing and payments pertaining to site space (rack rentals), microwave, and digital signal channels. In addition, we found two vendors were not billed for services rendered by the State. When products or services are not procured through a contract, or the contract expires, the State could be subjected to arbitrary price increases, unacceptable changes in products, delays, lack of services, or incorrect payments. (page 14)