

**MINUTES OF THE
JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT
OF THE SENATE COMMITTEE ON FINANCE
AND THE ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**Seventy-third Session
February 22, 2005**

The Joint Subcommittee on General Government of the Senate Committee on Finance and the Assembly Committee on Ways and Means was called to order at 8:00 a.m. on Tuesday, February 22, 2005. Chair Bob Beers presided in Room 2134 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

SENATE COMMITTEE MEMBERS PRESENT:

Senator Bob Beers, Chair
Senator Dean A. Rhoads
Senator Bob Coffin

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Ms. Kathy A. McClain, Chair
Mr. Morse Arberry Jr.
Mr. Lynn C. Hettrick
Mr. Joseph M. Hogan
Mrs. Ellen M. Koivisto
Mr. Bob Seale

STAFF MEMBERS PRESENT:

Bob Guernsey, Principal Deputy Fiscal Analyst
Tracy Raxter, Program Analyst
Mark W. Stevens, Assembly Fiscal Analyst
Jo Greenslate, Committee Secretary

OTHERS PRESENT:

Terry Savage, Director, Chief Information Officer, Department of Information Technology
Chris L. Apple, Administrative Services Officer, Department of Information Technology
Shelly Person, Chief of Administration, Department of Information Technology
Randy Potts, Manager, Chief Information Security Officer, Department of Information Technology
Kathy Ryan, Deputy Chief, Planning and Programming Division, Department of Information Technology
Dave McTeer, Department of Administration, Information Technology Advisory Board
Mark Blomstrom, Deputy Director, Communication and Computing Division, Department of Information Technology
Daniel Goggiano, Deputy Chief Computing, Technical Operations Division, Department of Information Technology
Daniel H. Stockwell, Information Systems Manager, Technical Operations Division, Department of Information Technology

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CHAIR BEERS:

This morning we will hear the budget for the Department of Information Technology (DoIT).

INFORMATION TECHNOLOGY

DoIT Director's Office – Page DOIT-1 (Volume I)
Budget Account 721-1373

TERRY SAVAGE (Director, Chief Information Officer, Department of Information Technology):

I will start with a general overview and review of our budget. You have before you the "Department of Information Technology, Budget Hearing Agenda, February 22, 2005," ([Exhibit C](#), original is on file at the Research Library). There are three main thrusts in our budget request. First, we want to optimize the use of personnel. In the 2003 Legislative Session, we reviewed information technology (IT) services to determine the best way to provide IT services economically. First, we can outsource by hiring someone else to provide the services. Second, we can provide internally centralized services. That would represent the services provided by my office and DoIT. Third, we can provide services internal to the state, but decentralized to the agencies. The best way to provide IT services from an economic standpoint is not necessarily obvious in advance.

Mr. David McTeer from the Department of Administration ably conducted an optimization study to determine the best way to provide IT services. I was not personally involved in the study because I did not want the results tainted by my known biases on the issue. The perspective for the study was there are 3 ways to provide IT services, with 43 different services available for approximately 187 agencies in the state. There are almost 25,000 different points to review in terms of which services the agency should provide and how best to provide them. The optimization study could not look at all the points. The study was a follow-on to the ill-fated decentralization pilot that did not produce helpful data. Consequently, the optimization study focused on the question of programmer centralization versus decentralization. The recommendation from the study, which we accepted, was to decentralize most of the programmers.

The strategy we are using going forward is to move away from providing hourly services and toward managing the infrastructure of the state through microwave radio, the computer facility, the networks and providing oversight to the agencies that are managing their own IT services. My philosophy is not that DoIT has to provide all the IT services. Information technology services should be performed according to established policies and standards, and it is our job to ensure that happens. We are proposing to downsize our Department. We are adding some staff, but are eliminating more staff than we are adding. Our Department will grow at a smaller rate and it may even shrink relative to IT production. Personnel will generally be at a higher level with management and oversight responsibilities rather than production tasks.

On page 12 in section 4 of [Exhibit C](#), the "x" axis shows the project life cycle. The project need is identified and a more detailed definition of the requirements is determined. Assuming we are outsourcing the task, we request proposals from outside vendors and award a contract to the successful bidder. That is followed by the design process, a cooperative process between the vendor and the state, the development process and production. Good practice is to include a retirement planning process from the outset. Software is not like a refrigerator that will run for 20 years. A decision must be made to either maintain and upgrade the software, or to replace it at some point. Currently the planning group does a good job of identifying the need across the board.

The IT project oversight committee started three or four years ago, and it covers the \$500,000-and-above projects, except for the retirement planning issue that we have not reviewed. For example, the tax project meets regularly with the project oversight committee. At this point, due to a resource problem, we do not cover smaller projects beyond identifying the need. We do not ignore them; we merely do not have the capability to give serious project oversight to all projects. That is the intent of our oversight request.

There was contention regarding security during the 2003 Legislative Session; there is less contention this Session. We specifically outlined, task by task, each of the security positions requested in the overview meeting. Our other big project is Microwave Phase IV which we will talk about later. That project is not a change in direction, but completion of an existing project started in 1997.

Moving personnel, project oversight and decentralization, and the security initiative are the main things we plan to change significantly in the coming biennium.

CHRIS L. APPLE (Administrative Services Officer, Department of Information Technology):

Since September 2004, I have been the rate development manager for services offered by DoIT. In the past, there has been concern about DoIT's rate development. Today I hope to demonstrate we have a sound methodology for this process. Page 2, section 2 of [Exhibit C](#), demonstrates that, unlike several other state agencies, DoIT does not receive any direct funding. In accordance with *Nevada Revised Statutes* (NRS) 242.211, DoIT is required to operate as an internal service fund. Agencies using IT services shall pay DoIT for those services, and all DoIT costs shall be recovered from fees charged for services provided to the other agencies.

Since several of DoIT's customers receive federal matching funds, our rate development methodology must comply with the United States Government, Office of Management and Budget (OMB) Circular A-87, the Cost Principles for State, Local and Indian Tribal Governments. One requirement of OMB Circular A-87 is that we charge the same rate to all customers for the same services. We receive no direct General Funds to cover the costs we incur, nor may DoIT produce a profit for these services. However, in accordance with the circular, we are authorized to maintain funding for 60 days in reserve to cover operating costs. Page 4 of [Exhibit C](#) lists the budget accounts within DoIT.

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CHAIR BEERS:

Had you been performing cost allocation work before you came to DoIT?

MR. APPLE:

I have done cost allocation work in the past. In my prior career, I was a Supply Corps Officer in the Navy for 29 years and retired as a Captain. One of the areas in which I worked was selling services to other agencies, so I have experience. My background is in business where I have quite a bit of education in cost accounting and a Master of Science degree in operations research which I used to build models based on forecasting using historical information.

CHAIR BEERS:

You will find we are in favor of complying with OMB Circular A-87 and stretching it to its maximum limits. Has Mr. Savage had this discussion with you?

MR. APPLE:

We have had discussions to ensure we live within the limits of the law; however, if there is room for interpretation, we will interpret it as it serves us best as long as we are complying with policy.

MR. SAVAGE:

Our objective is to maximize federal funding within the constraints of the law.

MR. APPLE:

Listed on page 5, section 2 of [Exhibit C](#), are various services and methodologies for billing those services, including the hourly billable services we have had in the past and some we will continue in the future. Starting on page 28 is a detailed description of each of the various services listed, and pages 26 and 27 list rates we are using for fiscal year (FY) 2005. Page 6 lists the computing services we provide. Most of these are billed based on central processing unit per-minute charges. At the bottom of the page are a couple of services we provide based on the number of transactions. Page 7 shows a number of transactions billed similarly. Page 8 depicts wide area service networks which are mostly services billed based on the number of connections or channels.

Page 9 lists our telecommunications services, billed similarly to the services received from the private sector at home, whether it is by minutes or number of instruments. Some of our network services listed on page 10 are based on numbers of racks, channels or circuits per month for each agency. Finally, on page 11 are some of our assessments. These are areas in which we provide a service that benefits all of the agencies we serve and where it is enterprise accessed. For example, the Governor's Web site, the State telephone operators, contract services, security or planning. These are billed based on the number of full-time equivalency (FTE) of agencies we service.

Page 12, section 2 of [Exhibit C](#), explains the actual rate development methodology we use. In accordance with the *Nevada Revised Statutes* (NRS), we are an internal service fund and must recuperate all our costs based on the services we provide. Therefore, we have to look at direct costs and indirect costs for a particular function. We use an accepted methodology as to how we

parse out indirect costs to the functions provided, whether based on the size of the budget or FTE.

Page 13, section 2 of [Exhibit C](#), provides a page from CAP 95 software that we use to perform the cost allocation part of rate development. We use cost allocations and utilizations to develop costs for each service we provide. In the cost allocation model, we divide costs by total utilization to develop the rate. Page 13, section 2 of [Exhibit C](#), shows the different expense elements. Across the top of page 13 are the functions that make up the various services. The costs are distributed among the categories depending on whether the salaries are distributed as a percentage or an actual number provided by the manager of that particular unit. There are a few disallowed costs. In this particular case, we cannot include General Fund payback in the rate model as part of the costs we recuperate. That cost is picked up through depreciation and brought back into the model.

We strive to set up the payback in the same increments and time frame as the depreciation of the equipment we purchased. That gives us a counterbalance. We bring in the cost by bringing in the depreciation included in the rate and paying it out as part of the General Fund payback. My goal is to have those two match to ensure we are offsetting them.

CHAIR BEERS:
Have you succeeded?

MR. APPLE:
I am working on doing that this year. What I have looked at indicates we are bringing in sufficient money to make the General Fund paybacks.

CHAIR BEERS:
Will the difference end up as an adjustment to your reserve from year to year?

MR. APPLE:
It will go into the reserve, but we have to make sure we are not exceeding the 60-day maximum allowed by the federal government.

ASSEMBLYMAN SEALE:
The depreciation is generally on equipment. Is that correct?

MR. APPLE:
It is on anything we purchase over \$5,000, whether it is equipment or software.

ASSEMBLYMAN SEALE:
If it is under \$5,000, are you expensing it?

MR. APPLE:
Yes, we are. It is an expense item during that particular fiscal year. On page 14, section 2 of [Exhibit C](#), are the results of the applications from the prior page and the way they apply to each particular category. The costs for software and hardware greater than \$5,000 are disallowed. On page 15, after allocating those expenses across the various categories, the categories are totaled into the

particular service areas. In the prior cost allocation, we were taking the expenses into the categories. Now we are taking the categories into the services. Some of the services under the different budget accounts are shown; for example, PC/LAN technicians and dial-up access. Also shown are the functional components of those costs. For example, 25 percent of data communication overhead goes into these four services to distribute indirect costs. At the bottom of the page are the results of the way the math works out on the costs that went into those services.

On page 16, section 2 of [Exhibit C](#), are the total costs that go into the Grantee Department for the actual services provided. If you take Silvernet Access, for example, the total cost is not comprised exclusively of data communication costs; some of the costs are from network transport services. Across some of the budget accounts, there is sharing of costs that go into particular service areas. That would go into computing the rate. Once we have received the revenue from Silvernet Access, we will redistribute that back as a revenue source to the budget account in which the cost was incurred.

On page 16, section 2 of [Exhibit C](#), you will find the total cost for each of these particular service areas. This is only a representative sample from the entire schedule from the rate model. On page 17, the costs from page 16 are listed under the heading Budget Cost, and under the Quantity column is the utilization we receive from the Nevada Executive Budget System (NEBS) in the budget office, whom we work with to verify total utilization for each customer. The budgeted cost divided by the utilization gives us the particular rate we will charge for that service for all customers throughout the biennium. We monitor that process on an ongoing basis and make corrections if it gets off track. Our goal is to ensure we have a stable rate throughout the biennium.

MR. SAVAGE:

For a historical perspective, five years ago there were rates that changed every month, computer facility rates as well as others. As you might imagine, that created havoc with the budget of the individual agencies. Once the new system was implemented, my view was that unless the rate got too far out of line, we would not change the rate more often than once a year. We want to keep them as reasonably close in the second year of the biennium to what was forecast since significant changes in the rates impact the agency budgets. We have been successful at keeping the rates stable on an annual basis. We maintain stability by using the reserve to balance rates when there are variations either in utilization or in cost fluctuation. When we rerun the rate calculation, we adjust the reserve to the 60-day level.

MR. APPLE:

On page 17, section 2 of [Exhibit C](#), we have developed rates using a tier model as opposed to exact utilization. In this particular case, the rates are for wide-area networks. Studies have determined into which tier, or band, a particular customer would fall. We assign the customer to that tier, and they pay that rate for the entire biennium. We monitor their rates from biennium to biennium and move them from tier to tier depending on the customer's amount of traffic.

Please refer to page 18, section 2 of [Exhibit C](#). Now that I have given you an example, I will give you the theory. The package we use is a software package called CAP 95. We have had this Windows version for a couple of years. One thing we do in preparation of putting the cost into the CAP 95 model is set up an Excel spreadsheet. We review every position in DoIT, the budget account it is in and distribute the salary across the functions the position serves. One of the requirements of OMB Circular A-87 is to demonstrate salary costs have been allocated in this manner. Likewise, we bring in the various other expenses, such as CAT 01, CAT 02, CAT 03, and finally, the depreciation expense.

Page 19 contains the costs allocated to functions by salary across the various functions, using the same ratio. The costs can be designated as a percentage or as an actual dollar value. I will reemphasize there are some exceptions in which costs are not included in the cost for rate consideration. Those are costs for capital expenditures that are \$5,000 and over, General Fund payback, debt services or the reserve amount. We can adjust the reserve. However, the actual 60-day reserve, if what we bring in from a carried-forward point of view equals the reserve, would be excluded. The software runs the computations to determine the total cost of each service.

Page 21 outlines how we work with the budget office from NEBS to determine utilizations for the different services. Our managers look at the utilizations and, if errors are found, they are brought to the attention of the budget office. The budget office goes back to the budget analysts to have the errors corrected. We also factor in utilizations for non-state agencies using our services, for example, a number of boards and commissions. Otherwise, we would be over collecting because if we excluded utilization of non-state agencies, the rate would be inflated.

On page 22, section 2 of [Exhibit C](#), the total projected utilizations for each service for the year are computed; the rate is the total cost divided by total utilization. In some cases, we use tiers, or bands, of levels of service. For assessments, we have historically levied those assessments based on numbers of FTE for each of the agencies that benefit from those services. We work with the budget office to ensure each agency receives adequate funding to pay for the services we provide throughout the biennium. Our rates go into the rate model containing the utilization for each particular customer's services in NEBS. From fiscal year to fiscal year, there may be different costs and the rate could differ. Those different rates go into NEBS for each fiscal year ensuring they receive the proper funding to pay for the services they will be buying from DoIT.

It is essential our costs are adequately defined, identified and controlled. Likewise, it is critical the utilizations are completely identified. If either of these are out of line, the agencies will not receive adequate funding and we will not be able to cover our costs. Our rate development timeline is on page 24. We work with the Budget Division to develop the Governor's recommended phase of the budget by the end of December 2004. Finally, as the Legislative-approved version of the budget is completed, we work to ensure those rates are incorporated into the Legislative-approved budget by May 31, 2005.

MR. SAVAGE:

We cannot prepare the numbers in advance because, hypothetically, if you were to approve our budget today, and if you changed what was authorized from any of the agencies in terms of utilization, we could not calculate the rates until the utilizations were finalized.

MR. APPLE:

Page 25, section 2 of [Exhibit C](#), depicts the goals toward which I work. The total cost of each service represents only the direct cost for providing the service and the fair share of the indirect, or overhead, cost. The rates are sufficient to recuperate all of our costs and do not result in inflated reserves. Rates are stable and consistent and are not adjusted midyear. The following pages in this section are copies of the FY 2005 rates and a more detailed description of each of the services we provide.

CHAIR MCCLAIN:

Regarding the rates you developed for FY 2006-2007, I am looking at a chart, supplied by staff, on which there are significant differences in the actual of FY 2004. How were the rates developed in FY 2004? Are you confident your new calculation method is reflecting true costs compared to the way costs were calculated in the past?

MR. SAVAGE:

For the 2001 Legislative Session, the rates were not accurate. In the 2003 Legislative Session, we had improved software, the DOS-based version that Mr. Apple referred to, and the rates were significantly better. Since the 2003 Legislative Session, we have upgraded the software substantially. We have invested funds to be used for software training. We have also increased the amount of time we spent forecasting utilizations with the agencies. In addition to DoIT estimating rates based on the past, we met with the agencies and requested they provide their anticipated needs. Additionally, we have upgraded personnel responsible for these tasks.

CHAIR BEERS:

We incorporated some enhancements to NEBS over the last interim to facilitate rapid deployment of allocated overhead items. It sounds like this is an extra NEBS system of allocating overhead. I am curious as to how it interfaces with the state's budgeting systems. Does somebody have to key in your Department's output?

MR. SAVAGE:

It is currently a manual, rather than an automated, interface. I have been reviewing ways to patch the two systems together, either directly or conceivably. Mr. David McTeer is probably better equipped to answer your question. Eventually, there may be a way to perform the interface entirely in NEBS, but that is not currently an option.

CHAIR BEERS:

We will likely make changes to your budget. How much time will you need to rerun your numbers for the Legislative Counsel Bureau and the Department of Administration?

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MR. APPLE:

In some instances, I have to go back to the managers and ask how they want to distribute those dollars. Normally, if it is straightforward in terms of inputting different dollar values, and if the costs are distributed based on either salary or percentages, it takes approximately one day to input the figures, run it through the model and determine new rates.

CHAIR BEERS:

We were pleased to receive your draft procedures on overhead rate development. We were disappointed to see there was insufficient information to use to develop a rate model, in order to monitor and adjust it to manage the reserve levels.

MR. APPLE:

The draft includes a section about quarterly monitoring and, based on the quarterly review, determining a need for rate adjustment.

MR. SAVAGE:

If I understand your request, you would like to see more detail about our reserve level monitoring process. Is that what you are looking for?

CHAIR BEERS:

Yes, it is. Quarterly rate adjustments would be fine. You sounded as though you were concerned about making quarterly adjustments.

MR. SAVAGE:

I am not philosophically opposed to quarterly rate adjustments, but we are currently unable to deal with the ripple effect of those adjustments on all the other department budgets.

CHAIR BEERS:

It ripples into the other departments' actual figures. The budgets are the amount we plan to spend, and we count the actual figures against the budget amounts. Neither you nor I can correctly project the gigabits of Web utilization of the Welfare Division's Web site in the third quarter of 2006, for example. We are looking for policy detail on that review process. Did you miss Mr. Edward Perry this year? We had dollars for consulting oversight of this function, but you had taken care of that function?

MR. SAVAGE:

Yes, we did. However, we did use Mr. Perry for another purpose. He was a consultant on the optimization study. Did you get the copy of the optimization study we sent you?

CHAIR BEERS:

Yes, we did.

SHELLY PERSON (Chief of Administration, Department of Information Technology):
We did not use the funds for Mr. Perry in FY 2004. However, we utilized the services of another consultant to this point in FY 2005 for a similar purpose. We utilized the services of the company from which we bought the CAP 95 software. In December 2004, the consultant reviewed our current rate model

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and the manner in which we incorporated our detail into their software. We plan to use that company, or Mr. Perry, again to finish the funding for this fiscal year.

CHAIR BEERS:
Did the company give you a written report?

MS. PERSON:
The company has not given us a written report; it was verbal. I realized, after the fact, we should have requested a written report. The consultant provided detailed training to my new staff for the CAP 95 software. At the end of FY 2004, we utilized some of the training funds for that purpose.

CHAIR BEERS:
We would like to see the written report.

MS. PERSON:
We will provide that to you.

CHAIR BEERS:
During this discussion, I heard no process to stop crunching numbers and ask whether it is reasonable to charge \$7 each month for an e-mail account.

MR. SAVAGE:
I alluded to that briefly in the overview. The optimization study should be viewed as an optimization process. With approximately 25,000 different combinations, we cannot incorporate them all at once. We have not yet studied e-mail. Part of the problem is our inability to make an apples-to-apples comparison. I will explain decentralization and outsourcing separately. In the case of decentralization, because of our tracking requirements for OMB A-87, we have a good handle on our costs, as you can see from our rate model development process. We only produce approximately 45 percent of the IT services in the state. The remaining 55 percent is produced by other agencies. Some agencies have reasonably good cost data tracking methods. Other agencies have no idea of what it costs to produce IT services because they have never been required to track them. Therefore, it is difficult to compare our cost provisions to those of other agencies.

In terms of outsourcing, and I will use e-mail as an example, Charter Communications will provide free e-mail as long as I continue to pay for their \$80 per month entertainment package.

CHAIR BEERS:
Let me revise your allegory slightly. I am currently working on the Web site NVtabor.com. It will provide 500 e-mail accounts free of charge as long as I continue paying the \$8 per month charge for the Web site hosting and Domain Name System combined. That brings the price up to \$80 each year.

MR. SAVAGE:
What I am concerned about is ensuring it is an apples-to-apples comparison. That almost invariably requires an additional analysis. There are soft costs that are real, but hard to account for. For example, we currently utilize approximately

12 different e-mail systems within the state. The optimization study showed that the internal e-mail service that DoIT provides is one of the least expensive within the state which is not surprising due to economy of scale. There are additional problems with having multiple systems. Sometimes the addresses do not resolve properly. Everyone is not in the same tree which limits access by some employees to others in the State system. Another problem is scheduling. If everybody is on a single tree in Outlook, it is not necessary for secretaries and assistants to schedule meetings because the computer schedules them. As resources permit, we will research individual services. Given your interest, we will look at e-mail specifically as well as digital subscriber line service.

CHAIR BEERS:

Our concern is that many of the services you provide are becoming technologically easier to provide with less cost and human investment, and it might be your tendency to try to find other things for people to do once their functionality is no longer required. That is an ongoing characterization of technology.

MR. SAVAGE:

That is true. In the last couple of years, we have had several small employee layoffs. Given the way the process works in the state, laying off even three people is painful. To lay off three people took approximately 250 hours of my staff time. We try to re-deploy people if they have skill sets that meet the new requirements. I have not made this case to the Budget Division or the Governor, but the case could be made that a full-time economist, earning a \$100,000 salary, tracking the rapid changes in IT and re-deploying personnel to meet the new needs, could save the state at least \$500,000 each year.

ASSEMBLYMAN SEALE:

Could you explain what criteria you use for determining a direct cost and an indirect cost?

MR. APPLE:

I ask if the cost contributes directly to the service we provide. For example, a programmer is a direct cost for creating programs. Whereas, the manager of that programmer would be an indirect function of providing programs. The overhead salary for the manager may be distributed across the various services provided within that budget account.

ASSEMBLYMAN SEALE:

If the programmer is working on multiple programs across multiple projects, how would you divide that equitably?

MR. APPLE:

We have a time tracking system into which the programmers input their work hours for the accounts on which they are working. On a monthly basis, we bill each customer based on the amount of time spent on the customer's projects.

ASSEMBLYMAN HOGAN:

Do you see the application of this new system resolving the problems we had with the federal government on what they claim to have been large over-recoveries? Have we headed that off in future years?

MR. APPLE:

Yes, we have. Part of the confusion is if, for example, we set a rate for computing services for central processing unit time and the agencies use significantly more than they had forecast, we will bill them at the established rate. The way we head off that type of problem is by the increased effort we put into working with the agencies to understand their anticipated utilizations in advance. As Chair Beers pointed out, we are never going to get it exactly right, but since we are now sufficiently patched in with the agencies and the new system, we are in good condition with the federal government.

CHAIR BEERS:

Does the federal government review us annually?

MS. PERSON:

I believe they do. They work through the Department of Administration. The federal negotiators were here in April 2004 and requested billing claims, samples from a federally-funded program and a nonfederally-funded program to verify that we were charging the same rate for the same service. They were satisfied with the information we supplied, but I would have to defer the question of whether it is an annual or bi-annual review to the Department of Administration.

CHAIR BEERS:

Overall, across all your budget accounts, how many new positions do you have related to billing, rate determination, collections and monitoring?

MS. PERSON:

For rate development, we have Mr. Apple and one other staff member. The other staff member performs various tasks to support other functions within the DoIT fiscal group. I have a staff of five to incorporate the billings, collections and other tasks related to DoIT fiscal activities.

CHAIR BEERS:

You currently have 6.5 positions. Is that correct?

MS. PERSON:

For rate development, I would say 1.5 positions.

CHAIR BEERS:

You have five positions for implementing the developed rates, sending out bills, correcting them when required and making sure the agencies are willing to sign off?

MS. PERSON:

Yes, that is correct.

CHAIR BEERS:

How many new positions in the budget are being added to those two combined functions?

MS. PERSON:

We are requesting one additional position, a management analyst (MA) II to supplement the rate development unit. With current staff, we may be unable to implement all the documented policies and procedures to make this complete and whole. Mr. Apple has made significant strides, but we have depreciation schedules and a massive amount of infrastructure to track for which we need additional support.

CHAIR BEERS:

How about sending out billings, tracking down problems and complaints, and executing payments from customers?

MS. PERSON:

We are doing well on those tasks. We have taken our outstanding receivables from a high-dollar amount down to an insignificant amount.

CHAIR BEERS:

Was your performance indicator on collections at 99 percent for FY 2004?

MS. PERSON:

Yes, we exceeded our projection.

MR. SAVAGE:

Another reason for the additional position in the rate development area is for a disaster recovery type of approach. If Mr. Apple is hit by a bus, we still want that part of our operation to function.

CHAIR BEERS:

I guess the definition of hubris is setting yourself up for a 99 percent of billings collected projected performance indicator for FY 2006-2007.

MR. SAVAGE:

We have that process under control. There are two parts to that: the improvements we have made to our processes and the improvement we have made in interacting with the other agencies. We are more proactive with the other agencies. One year ago, when the optimization study began, the consultant met with the agencies regarding the IT services they receive and their opinion of our services. Some customers thought we were doing a good job, while a number of them were annoyed with us. I took that to heart. We set up a formal customer service system for identifying, tracking and resolving all customer concerns. It has had a dramatic effect. Between improving our processes and our customer relationships, it has brought us to a 99 percent performance indicator.

MS. PERSON:

In addition to what Mr. Savage has mentioned, we have increased communications with the customer agencies in regard to our billings. After the last two Sessions, we have held an informational workshop with all the agencies. We told them what was approved in the budget, what the billing claims looked like, provided samples and introduced them to our unit managers. Taking the mystery out of the billings and showing customers how they would

appear up front has reduced confusion and has facilitated receiving payments in a timely manner.

RANDY POTTS (Manager, Chief Information Security Officer, Department of Information Technology):

I was hired in September 2003 to review and implement the development of the office of information security. Several tasks I have accomplished involved developing the response plan to the Legislative Counsel Bureau (LCB) audit, as well as reviewing a National Security Agency assessment that was cured through the Office of the Military in the State of Nevada. In addition, I spent time reviewing prior LCB audits and an LCB study conducted in 1988. We hired an additional staff member in April 2004, and together a comprehensive plan on the strategic direction the Department should be taking, as well as the state, to deal with cyber security.

Fundamentally, we have come up with four components that comprise information security. They are disaster recovery, assessments, technical implementation standards and accreditation. We are requesting a staff of nine new security professionals to enable us to become subject matter experts in each of those areas and to ensure we have a living program, reflected in prior audits as well as the assessment that we only accomplish point-in-time fixes. We do not currently have a living program within the state. Additionally, we want to be able to move into the area of facilitating each agency to more effectively administer their own IT programs, for those with a significant IT infrastructure.

One of our internal and external challenges is to ensure people and the agencies' technical staffs, as well as the commercial entities, abide by our policies, standards and procedures. Without clear oversight of those areas, we are unsure of compliance. Because every one of those agencies directly connects to the backbone of everyone else, the entire state could be at risk for security breaches due to agencies' lack of resources to protect themselves or because they may not have followed good practices.

Page 6, section 3 of [Exhibit C](#), begins the breakdowns for security enhancements, units for disaster recovery, assessments and awareness, technical implementation and accreditation. It also includes the resources to address those units. The other addition we have requested is a security awareness application to enhance into Phase Two of the Federal Homeland Security Grant money we received from FY 2004. This request is to provide information security training to agencies, cities and counties for every user of computers and technology in order to expand the fabric of our security. Our plan is to stop losses at the beginning and to ensure computer users have an awareness of security breaches, know how to react and who to speak to in the event of a security breach.

MR. SAVAGE:

It is not commonly recognized how essential internal awareness is to security. Statistics indicate that 75 percent of security breaches are from internal, authorized users. In some cases, it is malicious; in other cases, it is employees being unaware of the right thing to do. If they do not know they should use a strong password, they will not use one. Another example of awareness is what

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is called social hacking. In Alaska, an individual was sweet-talked into giving another person his password. If people are more aware of the security risks, there will be fewer security problems.

CHAIR BEERS:

You are requesting five new security personnel in the first year of the biennium and four in the second year. Did you request more and have the number reduced by the Governor's Office?

MR. SAVAGE:

Yes, we did. When established, the security committee developed a list of processes and procedures. In preparation for the 2003 Legislative Session budget request, I asked my security officer to estimate the cost of labor to implement every one of the policies listed statewide. She recommended 40 employees. I decided to request ten. The whole posture has changed in the last few years. We went back and forth with the Governor's Office and Budget Division, and the number we came to you with was four. The final number that actually passed was two. In this case, we requested more than nine, but we concur with the Governor's recommendation because cultural changes cannot be rushed. We believe nine is the optimal balance between what needs to be done and what we can realistically accomplish within the next two years.

CHAIR McCLAIN:

Are you aware of the Legislative audit released in June 2004? It maintained you could implement all the recommendations with existing resources.

MR. POTTS:

I was aware of that, and I worked with both Mr. Doug Peterson and Mr. Paul Townsend when we developed our corrective action plan. They did not know we were considering an ongoing program since, in the past, most of our fixes were point-in-time. This was only a minute portion of the technical umbrella within the state and DoIT, and they only looked at the e-commerce servers and Web servers. In order to be able to expand the corrective action plan to the entire mainframe, the internal network and things of that nature, Mr. Peterson agreed he would monitor those things, but we did not have appropriate labor to address all the needs.

MR. SAVAGE:

To elaborate, there is a lot more security work that needs to be done than those items identified in the audit.

CHAIR McCLAIN:

It is difficult to believe we went from a recommendation to use existing personnel to needing from 9 to 40 people.

MR. POTTS:

One of the key components of our ability to use existing staff was to have the fox watching the henhouse. Unfortunately, we need a separation of function when dealing with the high-level security needs illuminated by the audit.

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CHAIR McCLAIN:

I would disagree with that statement. These are professional people; it is not the fox watching the henhouse.

MR. POTTS:

It is an internal control mechanism, similar to our DoIT fiscal budgeting process. The agency is aware of the rules involved in the budgeting process. However, we still have a budget office to ensure those are in alignment and that we adhere to the standards and policies. The same is true of security.

CHAIR BEERS:

The audit is now two years old. The response your Department gave to the Legislative auditor differs substantially from the response you just gave us. As far as the additional security requirements, could you draft an updated response to our Legislative auditor and put into the context of your response your thoughts today? Two years is a long time in the evolution of the delivery of information technology services.

MR. SAVAGE:

Certainly, we will provide you with an update.

SENATOR COFFIN:

The results of the Legislative audit concerned our own Information Systems employees in the area of security. I can see where the audit recommendations do not match your requests today. I agree that DoIT should supply new information, but we should not be surprised by the differences in requirements due to the number of changes in the two years since the audit was published.

MR. POTTS:

The Governor signed an Executive Order on February 7, 2005, to require all agencies to implement system security plans as well as critical business application recovery plans. That was a step in the right direction.

CHAIR BEERS:

In this budget, are you requesting a new management analyst (MA) for your DoIT fiscal unit?

MS. PERSON:

Yes, this is for an MA II to support the rate development unit within the DoIT fiscal unit. We have stated some of the duties of the position, and I will add a few additional ones. I mentioned educating the customer agencies on billing claims processing and the appearance of the billing claims at the close of each Session. We have had several informational workshops in the past on various topics. One we would like to add is rate development, as Mr. Apple presented earlier in this hearing. Attendance of the workshops and coordination between the customer agencies would be beneficial in understanding our rate development methodology.

CHAIR BEERS:

Your budget shows a request for two people.

MS. PERSON:

Yes, but not in the rate development unit. The other position requested was a personnel analyst that was not recommended by the Governor.

CHAIR MCCLAIN:

In previous budget years, you requested an MA and an administrative services officer (ASO) for rate development. What are those people doing? I am assuming Mr. Apple is the ASO.

MS. PERSON:

Yes, he is.

CHAIR MCCLAIN:

You had an MA in the reclassification also.

MS. PERSON:

At least five years ago, the MA III that currently supports Mr. Apple was added to our staff. The ASO III position was approved in the 2001 Legislative Session when we had one position, a chief accountant, performing all the duties. Through the help of Mr. Perry and our internal analysis, it was determined to be too much work for one person. We proposed to split the duties and add one additional position. We reclassified a vacant position in another area to support that need.

CHAIR MCCLAIN:

Are you saying the MA III is not working on the rates?

MS. PERSON:

Our current MA III spends at least one-half of her time supporting Mr. Apple, our ASO III, in the rate development unit. The other tasks performed by the MA III, in addition to rate development, are tracking spreadsheets, receivables, depreciation schedules and things of that nature.

CHAIR BEERS:

We rejected the suggestion made two years ago for a Chief Information Officer (CIO) assessment to reallocate existing expenses. That appears to be, as large organizations want to do, renamed and reincarnated. It is now the enterprise IT assessment. Is it any different from what we discussed during the 2003 Legislative Session on the CIO assessment, and is it still a good idea, since times have changed?

MS. PERSON:

It contains the same components as we proposed during the 2003 Legislative Session for the CIO assessment. We have performed a more thorough analysis to allocate specific staff members who support the CIO function with regard to the committees. According to the optimization study, it was identified that the costs should be charged more appropriately to all of the using agencies and not merged into an existing assessment which has happened during the current biennium. The costs have been placed in the Director's allocation, and the Director's budget is allocated to our other six accounts.

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MR. SAVAGE:

It was a good idea during the 2003 Legislative Session. The difference this Session is the disparity you heard Mr. Apple talk about in that currently we have a good handle on which costs ought to go where. To the extent there is a CIO function being performed, the costs associated should be allocated to that function as OMB A-87 requires. The committees are now more mature, producing a more visible product. The security committee, the project oversight committee and the enterprise architecture committee has now kicked off as well. Since we have a clean handle on the costs, it is appropriate to change the name and perform the enterprise IT assessment at this time.

CHAIR BEERS:

Our staff would like to see a document that clearly defines the roles, responsibilities and authority of the CIO.

MR. SAVAGE:

We will provide that.

CHAIR BEERS:

We have additional enhancement units regarding equipment. Could you explain the commercial accounting software package?

MS. PERSON:

That is from the optimization study. Currently, we have a variety of interfaces from our other units into our fiscal unit for monthly billings, and our accounts receivable is a spreadsheet. A recommendation came out of the optimization study to invest in a commercial, off-the-shelf package to better track the accounts receivable. Therefore, we requested that software package.

CHAIR BEERS:

How many users would be using the software?

MS. PERSON:

If you are talking about internal users, approximately five people.

CHAIR BEERS:

Why would customer agencies be accessing the package?

MS. PERSON:

To check their outstanding balances.

CHAIR BEERS:

Typically, the off-the-shelf accounting system would be able to print statements on demand. That is how external users would be accessing your accounting package. I hope you are not buying the seat option for external agencies to access your accounts receivable information.

MS. PERSON:

No, that is not our intent.

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CHAIR BEERS:

I will close the hearing on budget account 721-1373 and open the hearing on 721-1370.

DoIT Planning and Research Unit – Page DOIT-11 (Volume I)
Budget Account 721-1370

MR. SAVAGE:

We plan to expand the level of project oversight for projects of \$500,000 and above, down to the majority of State IT projects that are smaller. Some are managed well and some are not. We will set a threshold of \$2,000 for a project that does not need much oversight. Tab 4, page 11 of [Exhibit C](#), illustrates a typical result of an IT project across the industry, that people do not spend enough money up front. They do not define the requirements clearly enough, do not plan well enough and, consequently, they find themselves making changes in development or in production. The changes in production are more expensive than if it was planned well initially. We have moved in the direction of the proposed line on the chart at the bottom of the page for large projects. However, the cumulative amount of the small and midsize projects in the state is substantial. We estimated a modest increase in expenditure of 1.5 percent of total project cost for oversight purposes.

KATHY RYAN (Deputy Chief, Planning and Programming Division, Department of Information Technology):

I will begin by talking about the four enhancement modules for the project oversight unit. Currently we have two people in our project oversight unit, and we would like to utilize two vacant positions to complete that unit. One is a vacant position already in our budget account. The other one would be a transfer from budget account 721-1365.

DoIT Application Design and Development Unit – Page DOIT-19 (Volume I)
Budget Account 721-1365

We would like the project oversight unit to provide support to the IT project oversight committee. Currently there are nine committee members, representing different agencies from the Executive Branch, who meet monthly to provide oversight of ten projects.

We are able to provide a high level of oversight. We review monthly reports and meet with the project managers to ask questions, highlight areas where there appears to be risk and offer help and mentoring. However, we are unable to provide the type of oversight we would like to provide in the State of Nevada. There is not a standard way of managing state projects. We would like to develop an IT project delivery framework similar to what other states have done, such as Kansas, Texas and Missouri. We would like to be able to provide information to the agencies so that when they complete their technology investment requests (TIRs) and receive their funding, they would be able to adequately plan their projects. We are seeing mixed results with current projects. Some agencies start requests for proposals before defining their requirements, or their requirements have changed from the time they submitted a TIR. We need more interactive participation with the agencies to help them.

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We requested six positions from the Budget Division and the Governor's Office. We now have two in our budget, for a total of four, to provide the support I just mentioned.

MR. SAVAGE:

The chart on page 12, under tab 4 of [Exhibit C](#), shows how the change from our original request to the Governor's request determines how much of the blank space we will be able to fill in. With two additional people rather than four, we will not be able to provide this service. We should be able to capture the \$300,000 and \$200,000 projects. Additionally, we should be able to address project retirement planning. As mentioned by Ms. Ryan, the real function of the project oversight unit is to support the project oversight committee. The committee consists of senior IT people from various agencies who will ask questions of the project oversight unit staff. The staff would research the questions, work on the individual projects and come back with the answers. Currently, nobody is assigned full time to support those functions.

MS. RYAN:

We are currently working on a guide for the agencies to use in selecting a project manager for the different project levels. More experienced project managers are necessary as projects increase in dollar value. A certified project manager currently heads our project oversight unit. Our other position is working toward certification, and we will require the other two to be certified as well to assist the Executive Branch agencies. Our intent is to provide a framework with control gates and produce guides and templates to help the agencies as they go from one phase in a project to another. They will work through the checklist to ensure they have accomplished everything on it before going forward.

CHAIR BEERS:

One of our concerns is the lack of clarity between direct project oversight and indirect project oversight and planning. This is a shift in function. There is still some direct project management activity for the Department of Taxation in this budget account. I am wondering if it would be appropriate to have two budget accounts because these are two significant changes in strategic direction.

MR. SAVAGE:

Both the quality assurance person and the project manager in the Department of Taxation are in budget account 721-1365. This is the account containing all the remaining hourly people. You are right; this is a change in direction. These are the on-the-ground people who are managing the project and performing quality assurance review of the deliverables every day, and that is a distinct function from what we are now discussing.

CHAIR BEERS:

How will the project oversight planning be allocated? Will it be on an FTE basis? I imagine you will have people in 12 months who did not anticipate wanting to use this service today and would not have any direct charge expenses in their budgets.

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MR. SAVAGE:

The intent is to allocate the cost based on project expense. If somebody has a \$1 million project, 1.5 percent of \$1 million would be allocated to the project oversight function.

CHAIR BEERS:

Part of this is planning in advance of the next biennium's projects. Is that correct?

MS. RYAN:

The planning group in our Division provides planning to the agencies, and that is paid for by an assessment based on FTE. Once the project is funded, it would transition to the project oversight unit.

E-250 Working Environment and Wage – Page DOIT-13

Enhancement 250 (E-250) is for a current vacant position in budget account 721-1370. This was originally for a project for the Health Division. We were asking to keep that position and make it part of the project oversight unit.

E-805 Classified Position Reclassifications – Page DOIT-15

Enhancement module 805 is a reclassification. That is for my position, currently an information systems manager II. With the increased responsibility, it is a request to reclassify it to an information systems manager III.

E-902 Transfer from BA 1365 – DoIT Application, Design, Development – Page DOIT-16

This is the transfer of a vacant database administrator position from budget account 721-1365 to budget account 721-1370. This is the fourth position in the project oversight unit.

E-912 Transfers from BA 1365 – Replacement Equipment – Page DOIT-16

Enhancement 912 is a request for a personal computer (PC) and office furniture for the fourth position.

E-276 Maximize Internet and Technology – Page DOIT-14

This is for a repository, basically, a database for the enterprise architecture in the planning and research group. We not only perform planning and research, but strategic planning, capacity planning and enterprise architecture as well. We hired an enterprise architect approximately one year ago. Although the architecture committee is functional, he is still in the beginning stages of developing an architecture for the state. That will be helpful in identifying commonalities in the different agencies for their technology needs. Instead of each agency developing a solution independently, the architecture committee will explore solutions that will benefit the entire state. An example is the e-payment initiative headed up by Mr. David McTeer. That will consist of an e-payment engine that can be used by different state agencies. The repository

will have a database containing all the information the enterprise architect is collecting rather than it being kept on his desktop.

E-277 Maximize Internet and Technology – Page DOIT-14

Enhancement module 277 is a request for an MA III position. Currently, all the support for the different committees under the CIOs is provided for by the staff who attend those meetings. For instance, I take the meeting minutes and coordinate the meetings for the IT project oversight committee. We would like an MA to provide that type of support to all the committees. This position could provide coordination and follow-up, as needed, such as collecting the monthly reports from the project manager. This position would also provide support to the research function. We currently have only one person in research and she is extremely busy.

Additionally, we need support for the planning unit, especially when all the agencies are budgeting and producing their TIRs. Currently, we use planners in that capacity.

MR. SAVAGE:

We will include a complete description of the committee process, the existing structure and the CIO director distinction. We started this process in 2001, and at that point, the IT departments were siloed and not talking to each other. Now, the major IT shops within the state all communicate on virtually every significant issue. One of the best examples of the results of that communication is the IT strategic planning committee. I call it the “big dog” committee because it consists of either the directors or deputy directors of the various departments. It is well represented and attended. The current chair of the committee is Mr. Michael Hillerby, Chief of Staff in the Office of the Governor. The cochair is Mr. John P. Comeaux, Director, Department of Administration.

In June 2004, for the first time all the TIRs came in and each of the departments submitting a TIR for a large project briefed the cabinet on what they wanted to do and why. Due to time constraints, we only looked at projects in the \$500,000 and above range. We had a formalized quantified evaluation and ranking process for the projects. We ended up with a ranked list of the major requested IT projects. Historically, Mr. Comeaux and his predecessors have had to struggle with this at the end of the budget process because there was no up-front coordination and visibility. This time, no one in attendance had a disagreement with the list content. That shows that people were taking an enterprising look at the issue rather than just looking at their narrow silo. The project that came out on top was for the Department of Taxation, because if Mr. Chuck Chinook, Executive Director, Department of Taxation, cannot bring the money in, none of the rest of us can do anything else we believe important.

DAVE McTEER (Department of Administration, Information Technology Advisory Board):

I was responsible for running the IT optimization study. There was a lack of cooperation during the first two or three meetings, but after that, everyone started to look at things for the good of the enterprise.

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CHAIR BEERS:

You are going to end this biennium with approximately five months of operating expenses in your reserve. Why is that?

MS. PERSON:

Through the Governor's recommended budget, we do the best we can with last-minute changes from other agencies and our own agency, but when it comes to closing the Legislative-approved budget, we refine this so that we end up with a 60-day reserve. It is not our intention to have a five-month reserve.

MR. SAVAGE:

We will look at that and give you a better answer.

CHAIR McCLAIN:

Should your rate model take care of that so that you do not have excess reserves?

MR. SAVAGE:

If, in fact, the closing balance is that high from this biennium, we will adjust the rates for that unit downward to bring the reserves into line during the next biennium.

CHAIR McCLAIN:

If it ends being that high, will you adjust the rates for the next biennium?

MR. SAVAGE:

That is correct. We will fund part of the operations of that unit out of that reserve money as opposed to new charges to the agency.

CHAIR McCLAIN:

How much of that is federal funds? Will you have to repay the federal government?

MR. SAVAGE:

The intent is not to. The federal government does recognize the process in which expenses and revenues fluctuate. What they look for is if there is a discrepancy such as this one, how fast we correct it.

CHAIR McCLAIN:

That is the reason for recommending a 60-day reserve. We are talking about 240 days on this number.

MR. SAVAGE:

I understand, and that is why I want to look into this. It does not seem right, and I do not have a good, clean answer.

CHAIR BEERS:

I will close the hearing on budget account 721-1370 and open the hearing on budget account 721-1365.

DoIT Application Design and Development Unit – Page DOIT-19 (Volume I)
Budget Account 721-1365

MR. SAVAGE:

For the remainder of the presentation, we will be looking at the various components of the technical operations division.

MARK BLOMSTROM (Deputy Director, Communication and Computing Division, Department of Information Technology):

I will start with tab 5 of [Exhibit C](#) and walk through an overview of the following five budget accounts. You will see, in the decision modules for budget accounts 721-1365 and 721-1385, the personnel transfer modules which have come about as a function of the IT optimization study. Consistent with both our strategic direction and the IT optimization study recommendations, we are moving away from providing hourly services and substituting either decentralization to Nevada Operations Multi-Automated Data Systems (NOMADS) and Unified Nevada Information Technology for Youth (UNITY), or the use of outside contractors.

We have also developed, in cooperation with the Budget Division, a roll-forward billing methodology. We will be using this for hourly services in budget account 721-1365 for FY 2006-2007. Agencies will pay us what they have projected in their budgets for the services we have calculated. The actual use in the two fiscal years will be tracked, and any over- or underutilization will be reconciled in subsequent budget cycles. We intend to move one vacant programmer and data base administrator (DBA) position to the project oversight unit.

Budget account 721-1365, the application design and development unit, provides development and maintenance support services in three main cost pool areas: programming services, the DBA services and Web page development services. The budget for FY 2005 is \$6.7 million, and we are requesting for FY 2006 and FY 2007, \$2.8 million and \$2.9 million, respectively. This large decrease reflects the decentralization transfer of the positions I mentioned earlier from the DoIT Communication and Computing Division to NOMADS and the Division of Child and Family Services for UNITY. Currently, there are 59 FTEs; 36 will be moved out, resulting in 23 FTE positions for the upcoming biennium.

In terms of utilization and performance, the programming group supports 15 major agencies. This breaks out into more agencies and applications than that, but the unit services 15 major agencies supporting 11 different languages and 4 major platforms. The DBA group supports three major database technologies: Oracle, SQL Server and DB/2, representing the small, medium and large platforms we have in use today. The four platforms consist of the large IBM mainframe, two medium IBM RISC 6000 servers, the Sun mid-range boxes and the PC server level or Wintel boxes. The DBA group supports five different systems: the z/OS, previously the OS/390 operating system, AIX/Solaris and Linux, variations on UNIX and Windows.

The Web group provides support for 97 Web sites in the state, or approximately 42 percent of all the Web sites the state currently operates. The state actually operates about 239 Web sites. They also process an average of 105 help desk

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tickets each month associated with the 97 Web sites and approximately 300 guest book queries and requests for assistance from the public at large.

I would like to mention a couple of achievements. The programming group last biennium developed the Health Insurance for Work Advancement program as part of Medical Assistance for the Aged, Blind and Disabled. This interfaces into the new premium payment system in conjunction with the NOMADS group. Our DBA group performed the upgrade to the NEBS database. This rewrite has resulted in the ability to recalculate the NEBS database in a matter of hours rather than days or weeks. The Web page group is providing 24-hour Web and list serve support for the Governor's Office, as well as the Division of Emergency Management and Homeland Security. In other words, we have taken this type of support to a 24 hours a day, 7 days a week (24/7) level in order to have information posted as quickly as we can within state and local government.

The biggest problem we are facing in budget account 721-1365 will be stabilizing its workforce as we move forward to support the existing customer base. The direction we are taking will be decentralizing the NOMADS and UNITY groups, transferring 33 FTEs to NOMADS and 2 FTEs to UNITY. The remaining 23 FTEs will become part of the cost pool in setting a new direction in roles and responsibilities. We anticipate this budget account will be driven by the NEBS request for services. As I mentioned earlier, it will put on a roll-forward methodology that will be used to guarantee support and availability in stabilizing this unit. The emphasis will be placed on maintenance of existing Legacy-type systems, upgrading and implementation of commercial off-the-shelf or COTS types of programs where appropriate.

SENATOR COFFIN:

Are you permitting any form of instant messaging through the system because it is an efficient way to get word around; is it faster than e-mail for instance?

MR. SAVAGE:

It is a trade-off between convenience and security.

DANIEL GOGGIANO (Deputy Chief Computing, Technical Operations Division, Department of Information Technology):

The answer on the instant messaging side is that we allow instant messaging, but only as part of the internally provided e-mail service. It is an add-on incorporated into that service at no additional cost. As far as external instant messaging, we strongly oppose using that internally because of security risks.

SENATOR COFFIN:

That is probably one of the outcomes of the audit. I guess we cannot support Yahoo or AOL instant messaging in our system.

CHAIR BEERS:

I believe we have a package, unfamiliar to me, that we can use inside the building for those of you protected by the firewall. I am not protected by the firewall.

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SENATOR COFFIN:

Apparently, we are all outside the firewall currently.

CHAIR BEERS:

It depends. I can transmit instant messages to my home, but I cannot send an instant message to my attaché.

SENATOR COFFIN:

We should find a way to resolve that because I rely on instant messaging to keep in touch with my family. I have my own machine, too, which is outside the firewall.

CHAIR BEERS:

That can also be used to bring in files, which is a security risk. Not all of the files that come in can be checked.

We will return to discussing the budget. I am confused about the specific criteria used to decide to put the programmers into the various agencies for which they work.

MR. McTEER:

The criteria was for those programmers, or DBAs funded full time, to be used as an FTE in one of the agencies. The exception was the Integrated Financial System (IFS) group because one of the other constraints was that the IT staff should work for an IT manager. We have individuals in DoIT that work for the Department of Personnel on the IFS system, but Personnel does not have an IT manager. The second alternative was for the programmers to work in the Department of Administration since I also oversee NEBS. It would have required development of an internal service fund in order to allocate the cost to Personnel, budget and planning and my own Division. It did not make sense to form another mini Application, Design and Development unit in the Department of Administration.

CHAIR BEERS:

Staff has concerns about the billing methodology and the roll-forward process. We are concerned that underutilization of your services is going to create a revenue shortfall in the next biennium.

MR. BLOMSTROM:

We are currently looking at this in a fashion that meets the requirements of OMB A-87. We have interviewed 25 different agencies using the programming and DBA requirements as a specific vehicle. These interviews were performed by a team comprised of Mr. David McTeer, Mr. Daniel Stockwell and Ms. Deanna Bjork, our budget analyst. The team met with the administrators of the various agencies who use programming or DBA services. The team identified the agencies' utilization as best they could with the understanding they were not using a figure that was a safeguard against anything that might happen. The orientation was to closely identify their utilization. Those figures have been placed in the budget at this point. In turn, DoIT will collect those figures on a one-year and then next-year basis. In the meantime, we will carefully track the actual utilization and reconcile those figures later.

CHAIR BEERS:

I am concerned about the potential for delaying recognition that we are overstaffed.

MR. BLOMSTROM:

Our current figures indicate we are close to where we should be in terms of staffing in the programming and DBA area.

DANIEL H. STOCKWELL (Information Systems Manager, Technical Operations Division, Department of Information Technology):

We met with 25 agencies representing 55 different departments, boards and commissions over a three-month period. During the course of each meeting, the agency was represented by the director, an administrator or an ASO and an IT person, if available. The agency's budget analyst met with us as well. The meetings lasted from one-half hour to two hours depending upon the size of the agency and the complexity of the software applications we supported. There are 2,080 billable hours in a normal year. Of that 2,080, we can bill approximately 1,450 hours per year for each employee. The remaining hours are dedicated to sick leave, annual leave, holiday, training and so forth.

We totaled the DBA services and programming services hours, a total of 69 individual requests from 55 agencies. Once those hours were reconciled through the NEBS process, it gave us the equation for the required number of full-time employees to complete the requests. There was no flexibility in that figure. It was based on the number of full-time employees, and the number of hours for each fiscal year. Service level agreements will also be developed with each one of those agencies prior to the start of the fiscal year. The agreements will denote when they will have those services, how those services will be used and quarterly tracking to keep them on target. This process will keep us on target and ensure we have no revenue shortfalls or they do not miss the amount of time they have dedicated.

That covers not only ongoing maintenance, but new developments and abnormal developments as well, such as a failure within the system. The majority of these systems are Legacy; some are over 20 years old. Staff who work on these systems will perform the maintenance duties. It is even more important these systems continue to run than in a new development environment where a programmer works on one application, one language and one platform. Our staff must multitask every day on a myriad of systems. In cases where there is no systems design or development flowcharting available, they must look at a specific portion of the system and try to correct the problem as quickly as possible.

CHAIR BEERS:

In FY 2004, you billed \$5.4 million in services, but you had been budgeted for \$5.9 million and in that year of the biennium had a \$1 million deficit.

MR. STOCKWELL:

That is true. In the last 2.5 years, we have had 24 reassignments, transfers, layoffs and Base Budget cuts because the projection was not, in some instances, what was estimated. Some of that was used as placeholders. We had a rude awakening, not only at the department level, but also within DoIT,

that the current practice would have to change. It created a problem with the stability of budget account 721-1365 and with being able to provide those services. That is why we spent time for the upcoming biennium to meet with each agency and stress the importance of projecting their needs correctly. Because our budget is revenue-driven, those inaccurate projections led to employee layoffs. We do not want that to happen in the future; we need to be able to provide services for each application.

CHAIR BEERS:

In the FY 2007 budget, you are projecting 15,228 hours of utilization, but on the other agency side of the ledger, there are only 13,465 hours. We need to review that over the next few weeks as we refine the rate model.

MR. BLOMSTROM:

Those look suspiciously similar to the FY 2006 and FY 2007 hours.

MR. STOCKWELL:

On the other side of that is just the programming hours you mentioned, not the DBAs. Those are added in as well. Within the group that will be remaining, there will be ten programmers and three DBAs to provide those services.

CHAIR BEERS:

Can you work with our staff to correct those numbers?

MR. STOCKWELL:

Yes, we will.

CHAIR BEERS:

We are showing a reserve of \$732,641 at the end of FY 2007.

MR. BLOMSTROM:

In building our budget through the Legislative process, we will adjust our reserve in the rate model and expect to have a 60-day reserve by the end of the process.

CHAIR BEERS:

We will close the hearing on budget account 721-1365 and open the hearing on budget account 721-1385.

DoIT Computing Division – Page DOIT-30 (Volume I)
Budget Account 721-1385

The new data redundancy and disaster recovery plans are the first issues on our agenda. My understanding of your disaster recovery plan is that we are budgeting approximately \$200,000 each year for services of an off-site disaster recovery subcontractor. In the event of a disaster, at the flip of a switch, we would start running our lives on their long-distance system.

MR. GOGGIANO:

One correction is that the contract only provides backup for our mainframe and some of our e-mail and Web services. The flip of a switch is an understatement.

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In actuality, we would have to carry tapes to the disaster recovery site, load the data there and begin running the program at the site.

CHAIR BEERS:

We would take a day or two to get backup and we would lose a day's work because we would be operating from the previous night's backup.

MR. GOGGIANO:

Off-site backups are typically sent out on a weekly basis and it takes approximately 24 hours to restore the operating system for the mainframe. I am talking about travel and loading the system. Application recovery takes days to weeks depending upon the criticality of the application. We are currently planning that aspect to determine the priorities for recovery.

CHAIR BEERS:

In addition to that backup system, you want to spend \$2 million each year of the biennium in ongoing costs. What will that provide?

MR. GOGGIANO:

That would provide real-time data protection for the environment. It would provide duplicated tape and disk environments in southern Nevada. Essentially, synchronization would occur between northern and southern Nevada on an ongoing basis. There would be no data loss and no returning to last week's backup. We would be able to pick up right from the point in time where we lost processing, for instance, and be able to recover the state computing platforms. The contract includes those currently not on the contract, for instance, the IFS system. The new duplicated tape and disk environment would include IFS, NEBS, Nevada Employee Action and Timekeeping System and all of the e-mail and Web environments.

CHAIR BEERS:

We budgeted for someone to test the system twice a year at the off-site location we currently contract. How did those tests go?

MR. GOGGIANO:

They have gone well. During the first test, we were able to recover the operating system. Our mainframe is composed of two separate images. During our second test, we brought both images back up and they were functional. On the third test in October 2004, we were able to inter-network between the recovery site and the State network and tie those together to bring applications and users back online. Our plans for the fourth test are for this spring when we will actually recover user data.

CHAIR BEERS:

If we went forward with the new proposal, why would we need the old backup?

MR. BLOMSTROM:

Awhile ago, we identified three phases in a long-term disaster recovery and business continuity plan. Phase One was implementation of the off-site contractor services you are looking at now. We have tested it, and it will bring back critical applications on the mainframe. One big current drawback is that it

requires a team from the State of Nevada to travel to Denver, Colorado and take not only the operating system, but also the data tapes. It also requires follow up and establishment of connectivity between that location and Nevada. This works for the moment, and it works well in a piecemeal situation, especially where we can plan to have somebody travel to Denver, Colorado.

In a circumstance in which a disaster might hit, the question is if we could get personnel to Colorado quickly and how long it would take to bring up the system and the individual applications. Additionally, we would have to ask what type of data loss we would have in the meantime. Phase Two, for which we are currently requesting funding, creates an online near real time, in most cases, data storage point to be located in southern Nevada. The purpose of the storage point is to prevent toting around tapes and other archival-type hard copy forms of data. Phase Three, in the future, would be to improve the data storage and to begin processing at the same in-state location. At that point, we would no longer use the contractor. Our plan would be to contain the system within the State of Nevada for two purposes. First, we would have online data storage at a remote point where it would not be affected by a disaster at one place or the other. Second, we would have personnel located at that point who could not only attend to our data needs, but our future processing needs as well.

MR. SAVAGE:

If I understood your question correctly, Chair Beers, you asked at what point in time we would delete the contractor.

MR. GOGGIANO:

We would delete the contractor during Phase Three, midway through the biennium, FY 2008-2009.

CHAIR BEERS:

Our staff finds your proposal vague for Phase Two of the next biennium. Is this going to be a state-owned or a leased facility? What will be the impact on your personnel requirements? How is data backup going to be integrated into the recovery process with the out-of-state site which you just addressed?

MR. BLOMSTROM:

We have talked with both the University and Community College System of Southern Nevada (UCCSN) and Clark County regarding the possibility of an exchange of space in their facilities for similar space in our facilities in northern Nevada. They operate a 24/7 facility. Mr. Rod Massey, the CIO for Clark County, has indicated a high degree of interest in this, as has Ms. Roberta Roth of UCCSN, and we will be moving forward to put a finer point on those agreements with an approval to move forward on this process.

CHAIR BEERS:

We will address upgrading the mainframe.

MR. SAVAGE:

With our last upgrade, we made it easy to increase capacity without having to perform additional upgrades in the sense of a new operating system or new machine. As we did with the programming group, we talked to all the users and got a good read on the capacity they will need. The capacity is already in the

machine. The money we need to access the additional capacity is included in the rate calculation going forward.

MR. BLOMSTROM:

This would be a capacity expansion as opposed to an upgrade. We have already upgraded the equipment and are in good shape for the upcoming biennium and probably into the following biennium. When we get to the point where we need additional capacity, it will incur additional costs to bring the additional processor online. We will have increased software costs, but they are offset by the increased demand and utilization for capacity.

CHAIR BEERS:

The single sign-on application would certainly remove some of the barriers to solicit the passwords from the users for nefarious purposes, since you would only have to secure one password.

MR. BLOMSTROM:

This has been requested by the mainframe users, especially NOMADS, who access many platforms and many different applications. It is, in one sense, a security move.

MR. GOGGIANO:

There are several facets to this project. First, the security allows us to use more complex mechanisms. For instance, multi-factor authentication or biometric information, in addition to a password, can be used for security. Additionally, it provides audit and reporting for various existing federal mandates, such as the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

CHAIR BEERS:

I am not following how a single sign-on system assists HIPAA.

MR. GOGGIANO:

It will log an authentication and an authorization. We are reviewing those two components at this point. When a user tries to access a piece of data or an application, that authentication request will get bounced off the central server, and that server will record and either grant the authorization to proceed or deny the authorization.

CHAIR BEERS:

Is this actually in HIPAA or is this in someone's interpretation of HIPAA that seems to be driving the majority of HIPAA implementation these days?

MR. SAVAGE:

There is a lot of uncertainty in terms of the HIPAA requirements. Explicit is the fact that you need to keep track of who accesses certain types of health-related information.

CHAIR BEERS:

Does our new Microsoft Identity Integration Server (MIIS) not log this?

MR. SAVAGE:

Actually, MIIS is already HIPAA-compliant and is not housed in the facility.

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CHAIR BEERS:
Is it not one of the nine applications?

MR. SAVAGE:
No, it is entirely off the system.

CHAIR BEERS:
The information staff has is that we have 10,000 users accessing a combination of nine applications. Could you get back to the Committee with statistics indicating, out of the 10,000 users, how many access nine applications? How many access eight applications, seven, six, five, four and so forth? That information would be helpful for us in making our decision.

MR. SAVAGE:
Yes, we will do that.

E-275 Maximize Internet and Technology – Page DOIT-32

CHAIR BEERS:
Regarding the requested new computer systems programmer positions in enhancement 275, can the UNIX personnel program Linux?

MR. BLOMSTROM:
We have two computer systems programmer IIs requested. One has to do with workload in the server hosting and e-mail area. The second one is in virtual machine and is primarily oriented toward developing Linux service.

MR. GOGGIANO:
To clarify, the actual complex portion of that task is the virtual machine aspect. We are running that on the mainframe hardware. It has a dedicated environment to run on, but it is primarily used for server consolidation and infrastructure servers for different agencies. Currently, we do not have many servers deployed there, but we anticipate receiving an increase in requests. We have had requests from the Welfare Division as well as internally using it for planning applications.

CHAIR BEERS:
Will this set a precedent for other agencies?

MR. GOGGIANO:
On that note, we have increased our service offerings in almost every area. Our e-mail accounts exceeded projections. This year we have 64 servers hosted in our facility. We expect 101 for next biennium. Mainframe utilization is up by 43 percent. Customers are driving their business to the computer facility.

MR. BLOMSTROM:
Mr. Goggiano has been key in not only operating and cleaning up the help desk, but in adding a tier that directly addresses customer relationship issues. It is a tier we have not previously had in the help desk. We are directly addressing our customer relationship issues at this point. We are currently seeing a better relationship with customers across the board. We are clearly seeing an increase

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in many of our services which go beyond simple capacity or marginal increase in the use of certain services.

CHAIR McCLAIN:

If you are providing more services, why are we not benefiting from an economy of scale? Can you justify the recommendation to increase the billing rate for e-mail service from \$1.99 each month to \$7.00?

MR. GOGGIANO:

Regarding economy of scale, we are reaping some of those benefits. The costs for server hosting are decreasing, as are the costs for Web services. The cost for mainframe will probably remain the same even though we are significantly increasing the capacity. Regarding your question on e-mail services, over the last couple of years we have increased the number of user accounts, but have had problems within the licensing area that have affected the rate at this point.

CHAIR McCLAIN:

That should be a onetime increase, but the price for e-mail services is not decreasing. It is \$7.01 in FY 2006 and \$6.99 in FY 2007.

MR. GOGGIANO:

That is correct. We tried to balance those two rates so we would not have a huge rate during the first year and a small rate during the second year of the biennium. We anticipate lowering that rate in future biennia.

CHAIR McCLAIN:

Why are we suddenly trying to recapture losses now instead of paying a higher rate all along?

MR. GOGGIANO:

It was an oversight from a technological perspective.

CHAIR BEERS:

Are we cost benefiting the various e-mail systems available and pricing them competitively? At one time, I could buy a technological argument for GroupWise instead of Outlook. At this point, I cannot buy a technological argument for either of those over Eudora.

MR. GOGGIANO:

We are looking at different software. There are competitive offerings from different vendors. We are investigating different e-mail services being offered in the open market and comparing them to what we are currently using. We will provide our findings to your staff.

CHAIR BEERS:

Are you saying \$120 over the biennium for each user, the \$5 increment each month times 24, is substantially the cost for licensing fees?

MR. GOGGIANO:

Yes, sir.

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CHAIR BEERS:

Are we currently using unlicensed e-mail services?

MR. BLOMSTROM:

Currently, our costs reflect the cost for both licensing and technology. We were at a point in the immediate past where our e-mail costs were artificially low. One of the pieces of licensing included in the costs is for security licensing. We are spending a fair amount on scrutinizing incoming and outgoing mail messages on a regular basis, not just for viruses, but also for spam.

CHAIR MCCLAIN:

We are not doing a good job in keeping our e-mail costs at an economical level.

MR. SAVAGE:

We will provide you with a more detailed breakdown of what goes into those costs. I agree that we need to make an apples-to-apples comparison. If we are performing substantially more security screening than the Eudora program provides, for example, we should compare the costs of various services to ensure we are receiving the best price for quality services. We have not yet performed that analysis. We will supply that to you when we have obtained the information.

CHAIR BEERS:

Is E-280 doubling our storage capacity?

E-280 Maximize Internet and Technology – Page DOIT-34

MR. GOGGIANO:

In this case, E-280 is a request to replace an older piece of hardware and increase its capacity. Our current capacity is 6.4 terabytes, and we will bring it to a total of 9.4 terabytes. We are projecting a 47-percent growth rate for data storage.

CHAIR BEERS:

Is it faster?

MR. GOGGIANO:

Yes, the disk storage will be faster. It is newer technology and is capable of long-term capacity increase in the event of that need.

CHAIR BEERS:

E-279 Maximize Internet and Technology – Page DOIT-34

In E-279, our concern with increasing the standby pay to \$70,000 a year is that it was \$5,000 in FY 2004.

MR. GOGGIANO:

That is correct.

MR. BLOMSTROM:

We recognize we are moving more services and operations into a 24/7 environment, including a need to keep the services operational and, in many

cases, restarted. We are calling people back to work. In the past, much of what went unseen was addressed informally and was based on the goodwill and the fortitude of state employees. As we have increased the overall amount of callback and a 24/7 environment, we are moving into an area in which we need to pay for those services.

CHAIR BEERS:

Can we cut this amount by one-half by taking your 8 a.m. to 5 p.m. workforce and leaving one-half of them on the 8 a.m. to 5 p.m. shift and placing the other one-half on a 5 p.m. to 12 a.m. shift?

MR. GOGGIANO:

Technically, you could do that. However, project oversight would suffer, and it would be difficult to manage ongoing maintenance on a daily basis. It would impact our ability to handle the technology change and customer needs that occur day-to-day which we are currently staffed to do.

CHAIR BEERS:

Does this include the two hours of regular pay you receive for being called back?

MR. GOGGIANO:

In the case of standby pay, we do not receive two hours of regular pay; we only receive pay for actual time worked to resolve the problem. The minimum two-hour callback pay is eliminated for a person who is not on standby.

CHAIR BEERS:

If you do not have standby pay and are called back, is there a two-hour minimum charge? If you do have standby pay, checking a Caps Lock key on the computer, for example, would earn \$1 in salary?

MR. GOGGIANO:

That is correct.

MR. BLOMSTROM:

In fact, an employee could be calling in and checking your Caps Lock key remotely.

CHAIR BEERS:

Is there a comparison we can review between what you have spent on callback pay versus what you are proposing to spend on standby pay?

MR. GOGGIANO:

No, we do not currently have that information. We could certainly provide that comparison. This is not simply a cost savings approach. Currently, programmers are on call on a voluntary basis, and generally they respond. We would like to formalize the process and make them accountable for being available during off hours.

CHAIR MCCLAIN:

If you are on standby duty, you do not receive any money unless you are actually called in to work. Is that correct?

MR. SAVAGE:

There are two different scenarios; there is callback and there is standby. On callback, if you tell the user to check his Caps Lock key and it takes two seconds, you are paid for a two-hour minimum. If you work longer than two hours, you are paid for the actual time worked. On standby, you are paid a certain amount, 5 percent of your normal pay, whether you work or not. If you do work, you are only paid for the actual time worked.

CHAIR MCCLAIN:

According to my calculations, you could pay 25 hours of standby pay each week to each person. Do you have that many people on standby?

MR. GOGGIANO:

We have seven critical functions we would like covered by standby pay. This provides standby for those on a 24/7 basis.

CHAIR BEERS:

I will close the hearing on budget account 721-1385 and open the hearing on budget account 721-1386.

DoIT Data Communications and Technical Services – Page DOIT-45 (Volume I)
Budget Account 721-1386

Our first issue is the new MA III position, funded one-half in this budget and one-half in the Communication and Computing Division. It looks suspiciously like another person for the allocation methodology.

MR. BLOMSTROM:

Budget account 721-1386 is our Wide Area Network (WAN) account, and the MA III position would be used for cost tracking and also to put together service level agreements with customers. We have found we have technical people operating in these budget accounts, and we have finance personnel in the finance and accounting area. What we do not have is good translation of data between the two. That is part of what this is oriented towards, both in budget accounts 721-1385 and 721-1386. The position would be shared one-half by each budget account.

CHAIR BEERS:

Who is performing this function in the other budgets?

MR. BLOMSTROM:

Budget account 721-1385 is our single most complicated budget, technically. Budget account 721-1386 is similar in that sense. In budget account 721-1387, we have a straightforward business model, and budget account 721-1388 is also straightforward. Budget account 721-1386, with the PC technicians, the time there with the WAN, the equipment and the derivation of many of the costing of parts spread out all over the state, it is a bit more complex, as is budget account 721-1385.

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CHAIR BEERS:
We will resume this budget next time we meet and continue with budget accounts 721-1387 and 721-1388 at that time. We will also revisit the issues pending on the budget accounts we already discussed today.

There being no further business to come before the Committee, the meeting is adjourned at 10:57 a.m.

RESPECTFULLY SUBMITTED:

Jo Greenslate,
Committee Secretary

APPROVED BY:

Senator Bob Beers, Chair

DATE: _____

Assemblywoman Kathy A. McClain, Chair

DATE: _____