F10A04
Information Technology
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
General Fund	$28,312	$43,955	$13,770	-$30,186	-68.7%
Special Fund	3,782	7,601	16,169	8,569	112.7%
Reimbursable Fund	15,403	15,455	16,356	901	5.8%
Total Funds	**$47,498**	**$67,011**	**$46,295**	**-$20,716**	**-30.9%**

- There is a fiscal 2007 deficiency appropriation of just over $1.6 million in order to implement a Federal Vendor Offset Project as authorized by Chapter 557 of 2006.
- The fiscal 2008 allowance for the Office of Information Technology (OIT) falls by just over $20.7 million from the fiscal 2007 working appropriation, 30.9%. This drop is only slightly distorted by the impact of one-time savings in employee and retiree health insurance. Even accounting for that impact, the drop is $20.4 million, 30.6%.
- Funding for major information technology development projects falls sharply (over $22.2 million). Further, all funding for such projects is special funds, a departure from prior years when general funds have been the major funding source.

Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Positions	118.00	119.00	119.00	0.00
Contractual FTEs	4.15	4.00	5.00	1.00
Total Personnel	**122.15**	**123.00**	**124.00**	**1.00**

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	4.84	4.07%
Positions Vacant as of 12/31/06	15.50	13.03%

- Vacancy levels in the Office of Information Technology remain high.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Managing for Results (MFR) Measures Reflect Progress: MFR data reflects effective oversight of major information technology development projects and continued strong growth in utilization of the Maryland Portal.

Digital States Survey: Maryland improved its ranking on the 2006 Digital States Survey.

Issues

The Major IT Development Project Fund and Major IT Expenditures: A review of funding proposals from the Major IT Development Project Fund (MITDPF) and the status of prior year projects also from the MITDPF is provided.

Department of Information Technology: In the State-of-the-State speech, Governor Martin O'Malley called for the establishment of a cabinet-level Department of Information Technology. No details as to what this new agency would look like were available at the time of writing. However, a brief review of how other states organize information technology offices shows little consensus.

Performance-based Contracts: The extent to which the Telecommunications Access of Maryland Program contract incorporates performance elements will be detailed.

July 2006 Audit Follow-up: Among the recommendations of the July 2006 audit of the Department of Budget and Management (DBM) was for DBM to comply with statute and adopt regulations on the procurement of IT services. DBM has indicated that it does not wish to do so.

Recommended Actions

1. Reduce funds for one long-term vacancy and outside consulting services.

2. Add language approving funding for specified projects through the Major Information Technology Development Project Fund.

Updates

Resource-sharing Proposals: Status of Calendar 2006 Submissions to the Legislative Policy Committee: The status of two resource-sharing proposals approved by the Legislative Policy Committee will be provided.

State Data Security Committee: The functions of this committee have been subsumed into OIT, but outdated reporting requirements persist.

F10A04

Information Technology

Department of Budget and Management

Operating Budget Analysis

Program Description

The Office of Information Technology (OIT) is organized as follows:

- **Executive Direction** including the State Chief of Information Technology (CIT).
- **Enterprise Information Systems** including the development of infrastructure and security standards as well as the Help Desk.
- **Applications Systems Management** including the operation of the Financial Management Information System (FMIS), the system created to improve financial and human resources accountability including agency-based accounting, purchasing, budgeting, personnel, and asset management.
- **Networks** including the operation of networkMaryland and the State's wireless system.
- **Strategic Planning** responsible for the oversight of information technology (IT) procurement, project management, and policies and planning.
- **Web Systems** including the operation of the State web portal.
- **Telecommunications Access of Maryland** provides telecommunications relay service for Maryland's hearing and speech disabled citizens.

The mission of OIT is to provide information technology leadership to the Executive Branch in order to effectively manage State IT resources. Key goals are centered on the effective utilization of resources.

Performance Analysis: Managing for Results

OIT's Managing for Results (MFR) data reflect the mission of the office – providing statewide IT oversight as well as providing statewide information systems and networks. **Exhibit 1** details selected performance measures.

Exhibit 1
OIT Selected Performance Measures
Fiscal 2003-2006

	2003	2004	2005	2006
Project Oversight				
New major IT development projects on time, on budget, and meeting identified requirements (%)	67	83	100	100
Statewide IT and Telecommunications Services				
Availability and accuracy of ASM systems rated acceptable or above (%)	82	95	92	89
Routine voice system service requests completed within 72 hours (%)	89	89	95	90
State agency requests for transport or Internet services via networkMaryland (% fulfilled)	39	52	79	100

ASM: Applications Systems Management
DBM: Department of Budget and Management
OIT: Office of Information Technology

Source: Department of Budget and Management

A number of points may be made from the exhibit:

- In terms of oversight of major IT development projects, OIT reports that in fiscal 2006, 100% of projects completed in that year were successful (on-time, on-budget, and meeting the agency's needs). This represented six projects, all in the Maryland Department of Transportation.

- networkMaryland now fulfills all State agency requests for transport or Internet services over the network.

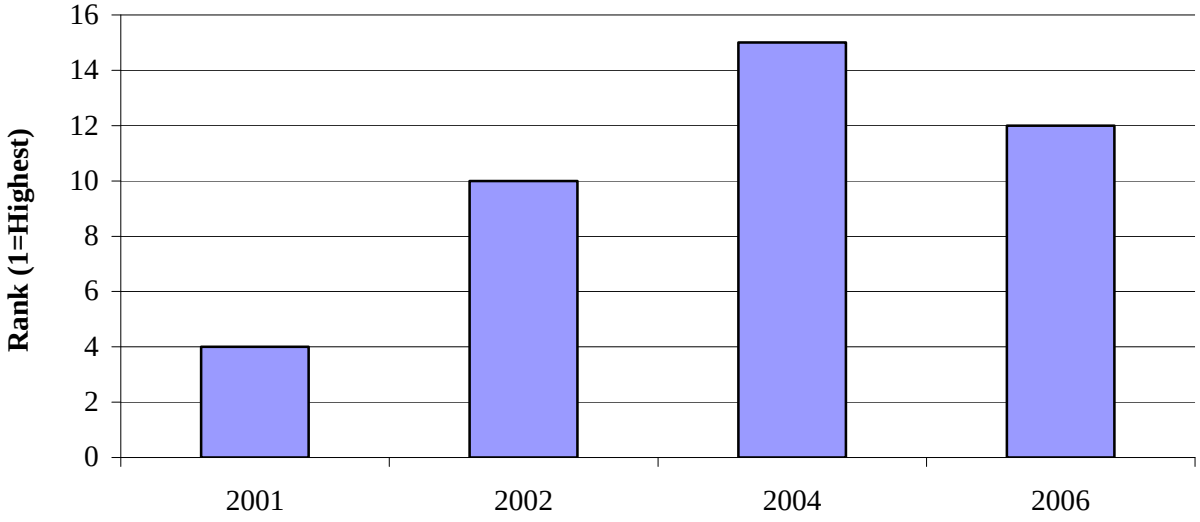
- Two measures actually fall between fiscal 2005 and 2006, the rating of the availability and accuracy of Applications Systems Management systems as acceptable and higher and response to routine voice service requests completed within 72 hours. OIT points to turnover in the unit supporting these functions that has resulted in more inexperienced personnel and slower response times, both of which have combined to slightly erode customer satisfaction. However, neither measure falls below the fiscal 2003 levels.

In other MFR data, satisfaction levels with the Maryland Portal gathered from survey data concerning ease of use and usefulness of information on the Portal home page are high (87% and 91%, respectively) in fiscal 2006 and an improvement over fiscal 2005.

Finally, in terms of performance relative to other states, perhaps the most widely considered ranking is developed by the Center for Digital Government, a private research and advisory institute on IT policies and best practices in state and local government. As shown in **Exhibit 2**, in the most recent survey, Maryland improved its performance over 2004.

Prior to 2004 the survey criteria were based on utilization of technologies and availability of on-line information and assistance. Beginning in 2004 and again in 2006, the ranking is based on markedly different criteria. While continuing to recognize the importance of the availability of on-line services, increased emphasis was put on architecture and infrastructure, collaboration within government and between governments, and leadership. When the 2004 data was presented in the OIT analysis, the State CIT noted that the development of the State's IT Master Plan would speak to many of these newer elements in the Center for Digital Government's survey. It appears that the development and progress in implementation of that Master Plan is somewhat reflected in the newer rankings.

Exhibit 2
Digital States Survey Overall Ranking
Various Years



Note: Ranking is based on 44 states participating in the survey.

Source: Center for Digital Government

Fiscal 2007 Actions

Proposed Deficiency

There is one deficiency request for OIT totaling $1,653,319 (the request is split between OIT proper and the Major Information Technology Development Project Fund (MITDPF) to implement a new Federal Vendor Offset Project as authorized by Chapter 557 of 2006. A discussion of this request is found in Issue 1 which discusses all of the new projects to be funded from the MITDPF.

Governor's Proposed Budget

The Governor's fiscal 2008 allowance for OIT shows a decline of just over $20.7 million, (30.9%) from the fiscal 2007 working appropriation. As shown in **Exhibit 3**, this decline is driven by changes in information technology project funding through the MITDPF (these changes are detailed in Issue 1). Major changes in funding exclusive of the MITDPF are also detailed in Exhibit 3.

Exhibit 3
Governor's Proposed Budget
DBM – Information Technology
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2007 Working Appropriation	$43,955	$7,601	$15,455	$67,011
2008 Governor's Allowance	13,770	16,169	16,356	46,295
Amount Change	-$30,186	$8,569	$901	-$20,716
Percent Change	-68.7%	112.7%	5.8%	-30.9%

Where It Goes:		
Personnel Expenses	**-77**	
Retirement contributions		143
Increments and other compensation		83
Other fringe benefit adjustments		28
Turnover adjustments		-73
Employee and retiree health insurance one-time savings		-258
Office of Information Technology Operations and Core Services	**1,633**	
Outside consulting services		1,068
networkMaryland infrastructure maintenance contracts		692
Central Collection Unit CUBS Replacement		675
Annapolis Data Center charges		553
Various microcomputer, server, printer, and other upgrades		394
Systems software acquisition and maintenance primarily relating to the hosting of the Maryland Portal as well as the development of other statewide web applications		279
Contractual employment (federal vendor offset project)		154
networkMaryland and wireless equipment		150
Applications software acquisition and maintenance		136
Other contractual services		-95
Microcomputer packaged applications		-121
Other outside services		-143
Equipment repairs		-218
Maryland Portal Upgrade		-410
networkMaryland device management		-450
Telecommunications Access of Maryland contract		-1,031
Major Information Technology Development Project Fund	**-22,221**	
Ongoing project development and oversight and new projects		-22,221
Other		**-51**
Total		**-$20,716**

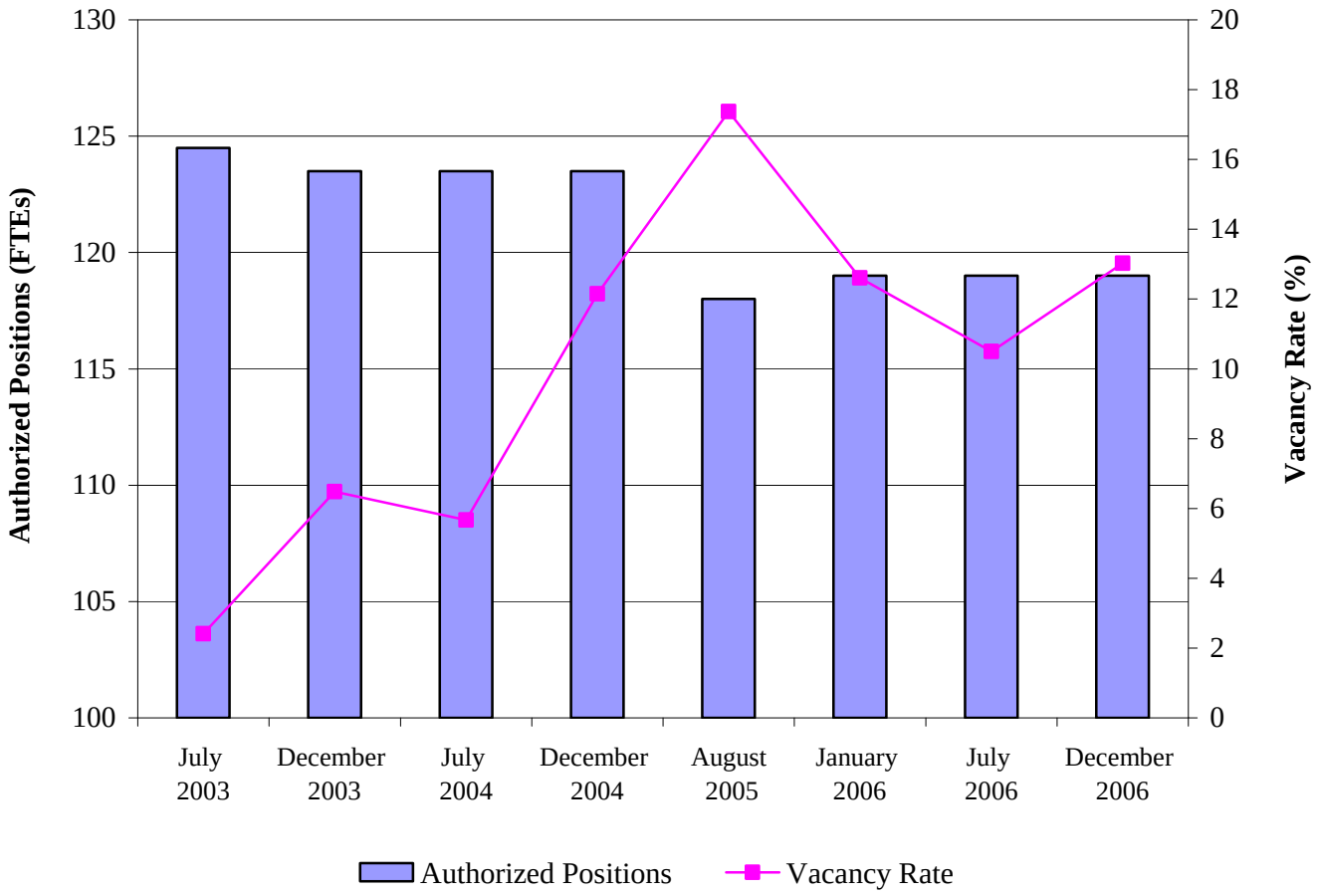
CUBS: Columbia Ultimate Business System

Note: Numbers may not sum to total due to rounding.

Personnel Changes

Personnel funding actually changes very little within OIT. However, as shown in **Exhibit 4,** it should be noted that OIT continues to have a high vacancy rate, averaging over 10% over the past two years, this despite losing authorized positions over the same period. OIT has noted that in some areas, it has had difficulty hiring due to non-competitive compensation.

Exhibit 4
OIT Vacancy Rates
July 2003-December 2006



FTEs: Full-time Equivalent Positions

Source: Department of Budget and Management; Department of Legislative Services

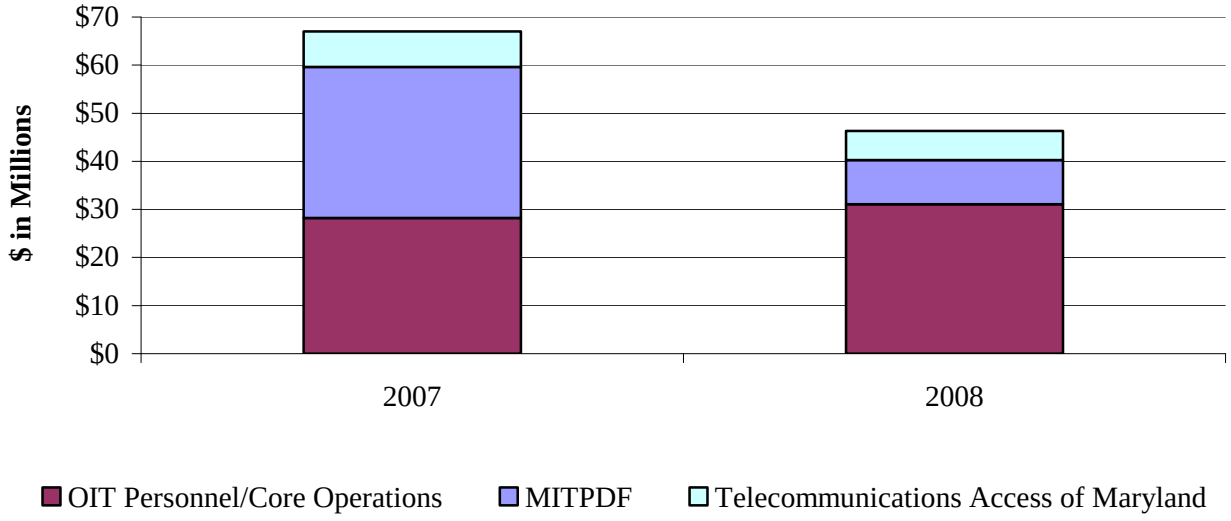
Other Programmatic Changes

As shown in **Exhibit 5**, after adjusting for changes in MITDPF funding and the Telecommunications Access of Maryland (TAM) program contract (TAM provides telephone access and other services for persons with certain disabilities), there is significant growth in OIT expenditures, almost $2.9 million, or 10%. Key areas of growth include:

- **Outside consulting services.** There is an almost $1.1 million increase proposed for outside consulting services. Of this amount, $800,000 is attributable to reimbursable funds from the MITDPF for independent verification and validation (IV&V). Other than IV&V, major contract expenditures include funding for the maintenance and operations of key statewide applications and the Maryland Portal.

- **The replacement of the Central Collection Unit's (CCU) Columbia Ultimate Business System (CUBS).** CUBS is the primary system supporting the CCU's management of funds owed to the State by delinquent debtors. The need for this project was identified during the Department of Budget and Management's assessment of major statewide applications. CUBS was initiated in 1987 as a database on delinquent debtors and has grown into a system managing over 1.4 million debtor accounts.

Exhibit 5
Underlying Growth in OIT Programs
Fiscal 2007-2008



MITPDF: Major Information Technology Development Project Fund
OIT: Office of Information Technology

Source: Department of Budget and Management; Department of Legislative Services

Issues

1. The Major IT Development Project Fund and Major IT Expenditures

Chapter 467 and 468 of 2002 created the MITDPF. The fund replaced the Information Technology Investment Fund (ITIF), preserved the various telecommunications revenue streams that were dedicated to the ITIF for major IT projects, limited the use of the fund for other smaller IT projects, and enhanced the role of the State CIT in approving projects from the fund. Further, in addition to preserving the existing revenue streams, the legislation required all general funds appropriated for major IT projects to be held in the fund.

MITDPF Funded Projects: Fiscal 2007 and 2008

As shown in **Exhibit 6**, in fiscal 2008, funding to support the new projects added in fiscal 2007 and 2008 are all special funds. This is surprising because other than investment income, special funds generated from various telecommunications revenues had been dwindling in recent years. This was due to the State's restructuring of its telecommunications contracts to reduce reliance on rebates because of increasing difficulty in verifying the accuracy of the rebates being received. Ironically, it is this difficulty in verifying rebates that is reflected in an audit finding in July 2006 disclosing $11.3 million in potential recoveries (see Appendix 2 for a full review of the audit findings). According to DBM, final recoveries are expected to be between $11.0 million and $11.5 million, although contingency recovery fees to the audit company will reduce this to $8.9 million.

This unanticipated fund revenue, when added to investment income and other special fund revenues, is more than sufficient to support almost $10.5 million in new funding for projects in fiscal 2007 and 2008.

Exhibit 6
MITDPF Fund Data
Fiscal 2005-2008

	2005	2006	2007	2008
Opening Fund Balance	$4,192,602	$3,911,092	$13,723,903	$2,339,427
Revenues				
General Fund	$5,430,672	$16,569,561	$31,415,000	
Special Fund	498,062	942,757	2,311,127	9,493,000
Abandoned projects from prior years/returned awards	33,863			
Transfers from other agencies	3,326,000			
Total Available Revenues	**$13,481,199**	**$21,423,410**	**$47,450,030**	**$11,832,427**
Expenditures				
Transferred to agencies	-9,570,107	-7,699,507		
Prior and Current Year Commitments (approved by legislature/JCR)				
Prior year obligations			-12,395,603	
Fiscal 2007 obligations			-31,415,000	
Proposed expenditures – 2007 session			-1,300,000	-9,194,230
Fund Balance	**$3,911,092**	**$13,723,903**	**$2,339,427**	**$2,638,197**

Based on actual expenditures, approved commitments, proposed expenditures and other adjustments

JCR: *Joint Chairmen's Report*
MITDPF: Major Information Technology Development Project Fund

Source: Department of Legislative Services; Department of Budget and Management

As detailed in **Exhibit 7**, of the almost $10.5 million in new spending, the bulk of it (just over $8 million, 77%) is for ongoing project oversight and for four projects for which funding has previously been approved by the General Assembly. The remaining just over $2.4 million (23%) is for two new projects.

Exhibit 7
Major IT Development Project Fund
Projects Receiving Fiscal 2007 Deficiency and Fiscal 2008 Funding

Agency	Project Name	Project Description	MITDPF Funding	Comment
Ongoing Oversight/Projects				
SDAT	Assessment Administration and Valuation System	Establishment of single real property database with statewide access	$2,847,230	Contract awarded by BPW on October 16, 2006. Project currently in requirements analysis phase. **DLS recommends approval.**
DBM	Statewide Personnel System	Replacement of existing State personnel management system	$2,150,000	Project still in planning phase. **DLS recommends approval.**
DHMH	HMIS	Replacement of existing HMIS	$2,110,000	RFP process complete. RFP process took longer than anticipated as the initial solicitation for a project manager yielded only one response. Contractor selection made February 2007. **DLS recommends approval.**
MHEC	Student Financial Aid System	Replacement of existing student financial aid system	$650,000	The planning phase of the project is being completed. **DLS recommends approval.**
DJS	Statewide Education Technology Implementation	Add to DJS's existing network a layer dedicated to education units at DJS facilities	$150,000	IV&V only. Project is in the implementation phase. **DLS recommends approval.**
MDE	Enterprise Environmental Management System	Replacement of multiple systems with single system designed to support the business requirements of the agency	$150,000	IV&V only. **DLS recommends approval.**
New Projects				
DBM	Federal Vendor Offset Project	Upgrade R*STARS in order to exhange payment and debtor information with the federal government	$1,300,000	The project was authorized under Chapter 557 of 2006, although the fiscal note did not reflect system change costs. **DLS recommends approval.**

Agency	Project Name	Project Description	MITDPF Funding	Comment
DHMH	Electronic Vital Records System	Replace existing systems in the Division of Vital Records with web-enabled integrated system that will create a paperless system	$1,137,000	The need for a modern vital records system is warranted, especially given the increasing demands for identity authentification for federal programs and documentation. DLS would note, however, that the Governor's budget books indicate that DHMH has $665,000 in general funds in fiscal 2007 for this project, when it does not, nor is the funding in the fiscal 2008 budget. **DLS recommends that the project move forward if DBM can indicate that it intends to fully fund the project cost or otherwise identify a funding source.**
Total	**Fiscal 2007 Deficiency**		**$1,300,000**	
Total	**Fiscal 2008 Allowance**		**$9,194,230**	

DBM: Department of Budget and Management
DHMH: Department of Health and Mental Hygiene
DJS: Department of Juvenile Services
DLS: Department of Legislative Services
HMIS: Hospital Management Information System
IV&V: Independent Verification and Validation
MDE: Maryland Department of the Environment
MHEC: Maryland Higher Education Commission
RFP: Request for Proposal
SDAT: State Department of Assessments and Taxation

Source: Department of Legislative Services; Department of Budget and Management

The Department of Legislative Services (DLS) would make observations about three projects:

- The Federal Vendor Offset Project was authorized by Chapter 557 of 2006. Under the legislation, the Comptroller was authorized to establish a reciprocal agreement with the federal government whereby the State would intercept tax refunds and vendor payments of individuals who have delinquent federal nontax liabilities, and the federal government would in turn intercept federal payments of individuals who have unpaid State debts. The fiscal note on the bill indicated that the fiscal 2008 cost of implementing this agreement would be $56,000 for an additional accountant in the Comptroller's office.

  This fiscal estimate was based on the understanding that most of these reciprocal actions would involve tax returns and that any system alteration costs would be paid for by the federal government. However, when Maryland became one of two pilot states to begin this offset activity, it became apparent that most of the activity would involve vendor payments which would necessitate changes to R*STARS, and the federal government would not be paying for these changes. Thus, the project will be funded from the MITDPF and also from revenues

generated from CCU as DBM believes that unit will also benefit from this reciprocal agreement. DBM average revenue gains could be as high as $12 million in the initial years of the agreement, easily offsetting the upfront investment. At this time, DLS cannot confirm how much additional revenue will be realized from the project.

- The Electronic Vital Records System project assumes $665,000 in general fund expenditures in fiscal 2007. Those funds are neither in the fiscal 2007 or 2008 budget. DLS would note that there is sufficient fund balance in the MITDPF to cover the balance if DBM chooses to move forward with the project.

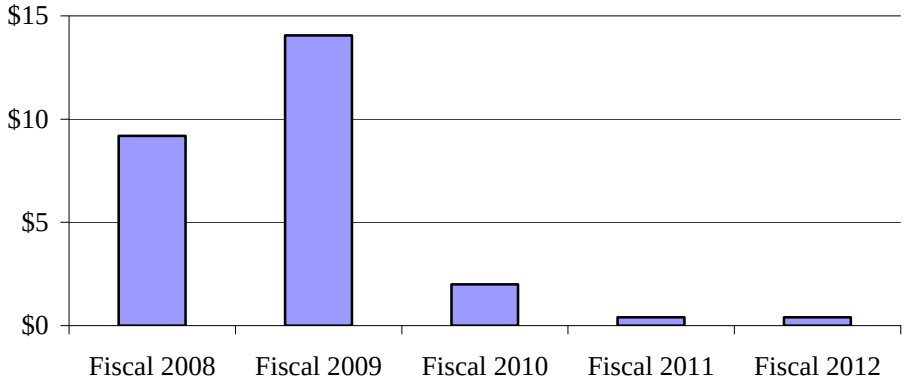
- The Enterprise Environmental Management System has been under development for several years. DLS's only issue with this project is that when it was proposed, the Maryland Department of the Environment (MDE) justified the investment by identifying specific positions that could be abolished as a result of its implementation. MDE has subsequently backed-away from this proposal and indeed has repeatedly indicated that no positions will be abolished. In fact, it appears that MDE is now requesting additional project management support for the project.

These observations notwithstanding, DLS recommends approval of all of the projects and oversight funding. DLS also recommends that language be added to the budget bill detailing the projects approved with MITDPF funding.

MITDPF Out-year Commitments

Based on the current pipeline of projects, as shown in **Exhibit 8,** new development funding required for fiscal 2009 from the MITDPF in order to move forward with existing projects will total just over $14 million. Beyond fiscal 2009, however, there is little ongoing funding commitment for major IT development projects.

Exhibit 8
Major IT Development Project Fund
Fiscal 2008 and Out-year New Funding Commitments
($ in Millions)



Source: Department of Legislative Services; Department of Budget and Management

Status of Prior Year MITDPF Projects

Exhibit 9 details the status of ongoing projects previously funded through the MITDPF but for which no funds were provided in fiscal 2008. It should be noted that a number of the Department of Public Safety and Correctional Services projects have experienced issues affecting project schedule as well as project scope. As a result, DBM has indicated that it has enhanced oversight of these projects.

Exhibit 9
Major IT Development Project Fund
Status of Prior Year Projects
Not Funded in Fiscal 2008 Budget

Agency	Project Name	Project Description	Fiscal Year	MITDPF Funding	Comment
DBM	IV&Vs	Project oversight	Fiscal 2004, 2006, and 2007	$824,812	
DPSCS	NCIC	On-line information service maintained jointly by the FBI and criminal justice agencies.	Fiscal 2004 and 2005	$902,789	Originally scheduled to be completed in fiscal 2006, technical issues and undelivered requirements delayed final roll-out. Those issues have been resolved and project completion is now anticipated in fiscal 2007. Concern over continued schedule slip and additional change orders resulted in enhanced DBM oversight.
DPSCS	Infrastructure stabilization	Ensure the stabilization of mission critical infrastructure	Fiscal 2005 and 2006	$862,400	Originally scheduled to be completed in fiscal 2006, two components (email spam filtering and configuring network storage and router equipment) were delayed. Now expected to be complete in fiscal 2007.
DPSCS	Network Live Scan	Submission of fingerprints, mug shots, and other data to State and FBI databases for rapid identification	Fiscal 2005	$525,583	Project schedule and scope management issues have impacted the project. Project anticipated to be finished in fiscal 2007.

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Agency	Project Name	Project Description	Fiscal Year	MITDPF Funding	Comment
DBM	Statewide Business Processes System Planning	Replace legacy budget, accounting, and personnel systems	Fiscal 2006	$876,816	Risk assessments for all critical State applications and risk mitigation plans for each assessed application are completed. Assessment of CCU's system added. As a result of this assessment, changes are proposed in DBM's fiscal 2008 budget.
DBM	Statewide Radio Systems Planning	Development of a standard enterprise architecture for the statewide interoperable 700 MHz radio system	Fiscal 2006	$1,000,000	Contract was awarded in fiscal 2006. Functional requirements for a collaborative standardization of statewide radio systems in the 700 MHz frequency range targeted for completion in fiscal 2007 with proof of concept site anticipated to begin by the end of fiscal 2007.
DBM	Statewide Disaster Recovery Center Planning	Planning for a State-owned and managed disaster recovery center	Fiscal 2006 and 2007	$1,309,953	Initial deliverables received at the end of fiscal 2006. Planning phase underway.
DPSCS	Offender Case Management System	Plan, develop, and implement a comprehensive offender case management system to manage an individual from pre-trial through release	Fiscal 2006 and 2007	$2,785,592	DPSCS identified a COTS product at the beginning of fiscal 2007, but an analysis of COTS functionality revealed the need for additional enhancements ($2.8 million over fiscal 2006 development costs). DBM has requested additional validation of this figure.
DPSCS	MAFIS	Replacement of existing MAFIS	Fiscal 2006 and 2007	$11,986,871	BPW approval for a contract to replace the current MAFIS system was approved at the beginning of fiscal 2007. Continuing concern over project schedule and scope management has led to enhanced DBM oversight.

Agency	Project Name	Project Description	Fiscal Year	MITDPF Funding	Comment
DHR	MD CHESSIE	Child welfare case management system	Fiscal 2006 and 2007	$4,370,787	Final roll-out recently implemented.
Comptroller	Computer Assisted Collection System	Replacing legacy automated collection system to improve collection of delinquent taxes	Fiscal 2007	$9,065,000	The project is still in its infancy, identifying requirements.
Various		Prior year costs of projects funded in fiscal 2008		$9,300,000	
Total				**$43,810,603**	

BPW: Board of Public Works
CCU: Central Collection Unit
COTS: Commercial off-the-shelf
DBM: Department of Budget and Management
DHR: Department of Human Resources
DPSCS: Department of Public Safety and Correctional Services
IV&V: Independent Verification and Validation Review
MAFIS: Multiple Agency Fingerprint Information System
MD CHESSIE: Maryland Children's Electronic Social Services Information Exchange
NCIC: National Crime Information Center

Source: Department of Budget and Management; Department of Legislative Services

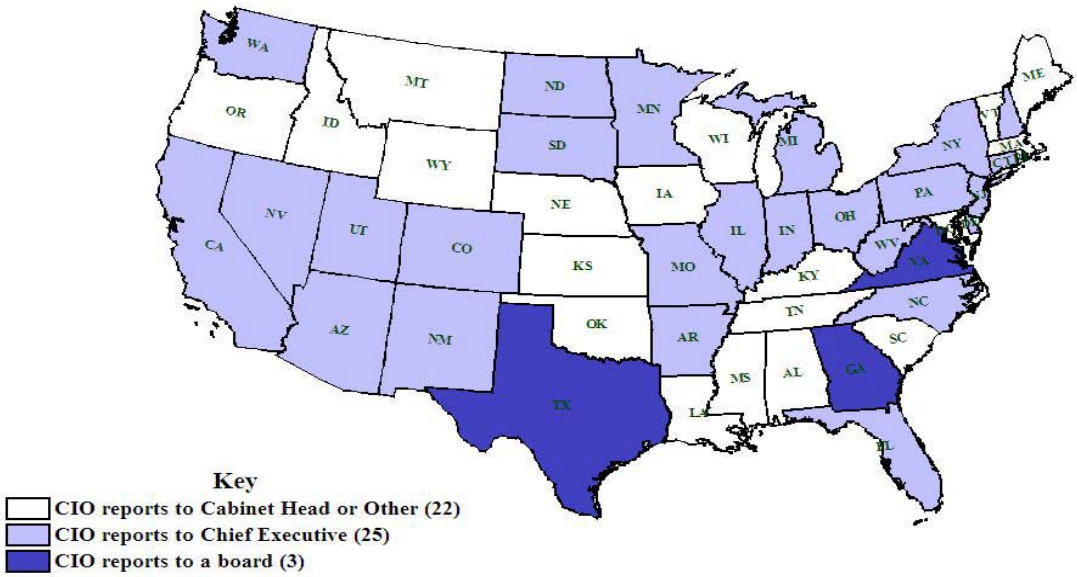
2. Department of Information Technology

In the Governor's State-of-the-State speech, Governor Martin O'Malley announced his intent to create a cabinet-level Department of Information Technology in order to better coordinate IT functions. At the time of writing, no additional information was available about this proposed change.

As shown in **Exhibit 10**, states are fairly evenly split in terms of reporting requirements for the State Chief Information Officer (CIO). Ironically, the National Association of State Chief Information Officers in 2005 reversed its long-standing position of promoting CIOs as cabinet-level positions arguing that:

- what a CIO did on a daily basis in terms of running the business of IT was more important than their position in an organizational chart; and
- removing CIOs from the Governor's cabinet could inject needed stability into the position.

Exhibit 10
CIO Reporting Arrangements
Calendar 2005



Note: In both Alaska and Hawaii, the CIO reports to a cabinet head or other.

CIO: Chief Information Officer

Source: National Association of State Chief Information Officers, as reported in Government Technology July 2005; Department of Legislative Services.

On its face, it would appear that a cabinet-level appointment brings prestige and power, something that may translate into getting authority and control over IT spending and services in other cabinet-level agencies. However, by aligning the CIO with budget and finance secretaries, as is the case in Maryland, it is argued by some that the CIO may actually be more influential.

Nationally, in recent years, states have been moving in a variety of directions:

- some have moved away from the model of the CIO reporting directly to the chief executive to reporting to a cabinet-level authority (for example, in Iowa, Wisconsin, Kentucky, and Nebraska);
- in Virginia, the CIO no longer reports to the Governor but to an IT investment board; but
- in other states, there has been a solidifying of reporting to the chief executive (for example, in Utah, North Carolina, Arkansas, Ohio, New Mexico, Indiana, California, and West Virginia). In other words, there is little consensus about where the best place is for the State CIO.

While there is nothing known about what creating a Department of Information Technology in Maryland would actually involve, DLS would point to Michigan as perhaps the most cited example of a cabinet-level agency. Michigan was in both 2004 and 2006 ranked number one in the Center for Digital Government Digital States survey as well as receiving the only A+ grade in the National Policy Research Council's review of government web sites (the council is a non-partisan think-tank based in Washington, DC). Created in 2001 by executive order, Michigan's Department of Information Technology encompasses all IT personnel in the state (although the individual employees remain attached to individual agencies akin to the Attorney General model here in Maryland) as well as all IT funding ($410 million in fiscal 2008).

Organizationally, the Michigan Department of Information Technology contains virtually the same elements as OIT. The most notable difference is that the office contains agency CIOs within its organizational structure (typically, one person with responsibility for multiple agencies). For Michigan, the consolidation allowed much better oversight of IT contracts for not only major IT project development but also the purchase of all IT products and services. It also made the department a strong control agency for procurement purposes (previously the IT function was not attached to a strong control agency). However, the promise of consolidation and greater oversight took some years to realize because of a poor initial planning process.

In Maryland, the State has developed a model of IT oversight from within DBM and exercises control in a number of ways, for example:

- establishing control over IT procurement through the development of statewide master contracts including the 2020 Desktop Contract, Enterprise License Agreements, Consulting and Technical Services, and various Telecommunications contracts;
- consolidating agency network services through the development of networkMaryland;
- developing a statewide IT master plan to guide agency IT development;
- utilizing the MITDPF to control major IT development projects; and
- using its authority to strategically place resources into agencies where there are identified project management limitations.

Certainly there are still aspects of IT in Maryland that need improvement: for example, problems with hiring IT professionals statewide; the lengthy time taken to go through the Board of Public Works process for contract modifications for ongoing system development; the fact that some agencies are very vendor dependent which may result in a risk exposure that may be difficult to manage; and that in tight budget times, agencies often look to such things as IT operations and maintenance for budget savings even though that may have significant long-term consequences in terms of how long systems last and how well they function. Again, at this point it is not clear if a different structure would address those kinds of issues.

In summary, the State spends in excess of $460 million on IT and telecommunications services and equipment annually (exclusive of personnel costs). Clearly any change in the governance of those resources is potentially significant. **DBM should be prepared to provide any specifics on the Governor's proposal to create a cabinet-level Department of Information Technology.**

3. Performance-based Contracts

In recent years, at all levels of government, greater emphasis has been placed on the effectiveness of government programs. In Maryland State government, this emphasis is best reflected in the MFR process. A natural adjunct of MFR with its development of performance goals and the measurement of outcomes is the concept of performance-based contracting.

Performance-based contracting means different things to different people. However, at its core, performance-based contracting is intended to change the behavior of contractors (and by extension, the agencies overseeing those contracts and contractors) to focus more on performance. Supporters of performance-based contracts point to such potential benefits as the encouragement of contractors to be innovative, increased emphasis on better outcomes and lower costs, and increased accountability (on the part of the contracting agency as well as the contractor). Skeptics note that performance-based contracts are best used for contracts that are well-defined, have accepted metrics, and have a reasonably predicted time frame for achieving the desired outcomes, something often absent.

OIT oversees a number of large statewide contracts. However, this review focused on one specific contract to operate the Telecommunications Access of Maryland program. The following observations may be made based on the review of this contract:

- The contract contains a range of very specific performance requirements, requirements which are guided by the Federal Communications Commission regulations for Telecommunications Relay Services.

- As shown in **Exhibit 11**, performance has generally been high and overall has shown broad improvement over the past three years.

- No incentives were included in the contract. The contract does contain the standard liquidated damages penalty clause, but no specific penalties for failure to perform in certain areas.

- Effective performance-based contracts emphasize the importance of agency oversight of performance. Vendor performance on this particular contract is closely monitored via data reports as well as an independent evaluation. However, it should also be noted that contract monitoring deficiencies have also been noted in OIT's most recent audit (further details of which are provided in **Appendix 2)**.

Exhibit 11
Telecommunications Access of Maryland Program
Selected Performance Measures
2003-2006

	Jun-03	Dec-03	Jun-04	Dec-04	Jun-05	Dec-05	Jun-06
Volume (daily average)							
All Calls	3,854	3,427	3,324	2,750	2,685	2,318	2,302
Maryland Calls	3,746	3,304	3,236	2,684	2,628	2,271	2,195
Percent Maryland Calls	97.17%	96.41%	97.35%	97.60%	97.90%	97.97%	95.35%
Standard							
Process 95% of Maryland traffic in Maryland Center	97.20%	97.91%	97.42%	98.60%	97.95%	98.38%	96.04%
Blockage (no more than 1% receive busy signal)	0.10%	0.22%	0.42%	0.24%	0.22%	0.27%	0.36%
Calls answered with more than 3.3 seconds delay	0	125	225	184	0	111	98
Percent calls answered with more than 3.3 seconds delay	0.00%	3.65%	6.77%	6.69%	0.00%	4.79%	4.26%
Percent calls requiring translator/interpreter with response time over 120 seconds	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Validated by Independent Evaluation							
Spelling accuracy (95%)	84.10%	n/a	87.00%	95.60%	96.50%	97.40%	97.90%
Verbatim (95% of calls relayed verbatim)	88.50%	n/a	91.40%	92.50%	94.40%	95.60%	96.70%
Typing speed (60 words per minute)	59.2	n/a	64.2	64.0	62.6	62.4	62.8

(Independent evaluation not performed in Q4 2003.)

Source: Department of Budget and Management; Department of Legislative Services.

In summary, OIT's oversight of the TAM program appears effective, and the contract is certainly performance-based if not fully utilizing the tools that can be found in performance-based contracts. Interestingly, OIT notes that it does not utilize specific incentives or penalties in its master contracts, relying on liquidated damage and/or invoice retention clauses as a means to encourage positive contractor performance. However, the office has not had to enforce such clauses. Rather it has worked with contractors to resolve problems prior to the need to do so. OIT noted that it does not execute incentive-based contracts because of the additional risk that accrue from those kinds of contracts if they are not properly managed. It also noted potential challenges of receiving higher appropriations to support incentive payments. This latter concern, however, should be easy to counter if an agency can demonstrate higher contractor performance.

4. July 2006 Audit Follow-up

In July 2006, the Office of Legislative Audits (OLA) issued its latest audit report of the DBM Office of the Secretary and Other Units. Details on the report are provided in Appendix 2. Amongst the findings was a recommendation that DBM comply with State Finance and Procurement Article Section 13-402 that states:

> By regulation, the Secretary shall adopt a streamlined procurement process for the procurement of information technology services that provides for the qualifications of an offeror in one or more categories of information technology services.

In its response to the audit, DBM concluded that it did not wish to establish regulations. DBM pointed to the development of statewide master contracts that have provided a flexible and streamlined approach to information technology procurement (including the Technical Services Procurement, Consulting Services Procurement, and Consulting and Technical Services contracts). These contracts offer agencies the ability to access a variety of information technology services from a wide range of pre-qualified vendors.

In response to a follow-up letter from OLA to DBM on this issue, in December 2006 DBM noted that the regulatory process is "cumbersome and lengthy" and adopting regulations to respond to development in the information technology marketplace would provide the department with less flexibility and unnecessarily delay the State's ability to adapt to changes in that marketplace. DBM further stated that it would be submitting legislation to repeal the requirement that it adopt regulations under State Finance and Procurement Article Section 13-402.

At the time of writing, with a new administration, such legislation has not been introduced. While the current master contracts do appear to offer significant flexibility to agencies in terms of contracting for information technology services, State agencies should not arbitrarily choose which sections of the law to follow. Further, the failure to adopt regulations as required by statute could potentially call into question the legality of agency practices in that particular area. **DBM should be prepared to comment if it intends to submit such legislation in the 2007 session as indicated by the prior administration.**

Recommended Actions

1. Add the following section:

   SECTION X. AND BE IT FURTHER ENACTED, That $113,000 in general funds, $220,000 in reimbursable funds, and one position shall be deleted from F10A04 Office of Information Technology. The Governor shall develop a schedule for allocating this reimbursable fund reduction across the various units of State government that receive services from the Office of Information Technology and across all funds based upon agency use of those services. The reduction under this section shall equal at the least the amounts indicated for the budgetary fund types listed:

Fund	Amount
General	$132,000
Special	44,000
Federal	44,000

   Explanation: Reduce funds for one long-term vacancy and outside consulting services. The vacant position (060300) has been vacant for more than 12 months and accounts for $63,000 in reimbursable funds. The reduction in outside consulting services ($113,000 general funds, $157,000 reimbursable funds) leaves the Office of Information Technology with just over $4.2 million for such consulting services. After excluding funding of Independent Verification and Validation, this reduction would level-fund outside consulting contracts from fiscal 2007 to 2008.

2. Add the following language:

   The General Assembly approves the use of the Major Information Technology Development Project Fund to support projects as listed in the 2007 *Joint Chairmen's Report* (JCR). The Office of Information Technology shall submit any projects not listed in the JCR or any projects listed in the JCR for which the proposed funding level increases by more than $250,000 or 5 percent to the budget committees. The committees shall have 30 days to review and comment from the date of receipt of any submittal.

   Explanation: The language notes the approval of the following projects at the specified funding levels to be funded from the Major Information Technology Development Project Fund:

Agency	Project Name	Proposed Funding ($)
Budget and Management	Statewide Personnel System	$2,150,000
Budget and Management	Federal Vendor Offset System	1,300,000
Assessments and Taxation	Assessment Administration and Evaluation System	2,847,230
Health and Mental Hygiene	Electronic Vital Records System	1,137,000
Health and Mental Hygiene	Hospital Management Information System	2,110,000
Maryland Higher Education Commission	Student Financial Aid System	650,000
Environment	Enterprise Environmental Management System IV&V	150,000
Juvenile Services	Statewide Education Technology IV&V	150,000

Information Request	Author	Due Date
Projects that deviate from the 2007 JCR listing of approved projects with funding levels more than $250,000 or 5% above proposed levels as noted in the JCR	Office of Information Technology	30 days prior to expenditure

Updates

1. Resource-sharing Proposals: Status of Calendar 2006 Submissions to the Legislative Policy Committee

The Legislative Policy Committee (LPC) is required by law to review and comment on IT proposals involving resource sharing, that is the exchange of goods and services, or a gift, contribution, or grant of real or personal property with a value in excess of $100,000 [State Finance and Procurement Article, §3-405(c)(3)(ii)]. During calendar 2006, LPC formally considered and approved two different proposals. These proposals, as well as their status, are summarized in **Exhibit 12**.

Exhibit 12
Status of Resource-sharing Proposals Approved by the Legislative Policy Committee in Calendar 2006

Proposal Name	Project Summary	Status
Cingular Wireless	Cingular Wireless proposed to install equipment on an existing communications tower at the Maryland SHA Bridgeport facility in return for providing equipment and monetary compensation to SHA.	Approved by BPW, but no equipment has currently been installed
Bay Country Communications, Inc	Bay Country Communications is proposing to install and maintain fiber optic cable across the Frederick Malkus Bridge in Dorchester County in return for dedicated bandwidth provided to the State to be operated and maintained by Bay Country Communications as well as State access to a communications storage facility.	Awaiting presentation to BPW

BPW: Board of Public Works
SHA: State Highway Administration

Source: Department of Budget and Management; Department of Legislative Services

Resource-sharing proposals involve the State providing some benefit to a private company (for example, use of right-of-way) and in return the private company giving the State a benefit (for example, use of a communications tower that the company intends to construct and maintain on State property). In recent years, the State has forwarded relatively few resource-sharing proposals for LPC consideration. As shown in Exhibit 12, calendar 2006 was no exception.

2. State Data Security Committee

The State Data Security Committee (SDSC) was established by executive order in 1983 to evaluate the security of State IT systems that contained computerized records. The oversight responsibility that was embodied in SDSC has long since been transitioned to OIT and the committee is effectively defunct. However, there remains a reporting requirement that essentially notes that there is nothing to report. **Since the report has no value, DLS recommends that the reporting cease.**

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Office of Information Technology
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$28,809	$7,296	$0	$15,060	$51,165
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-312	161	0	3,079	2,928
Reversions and Cancellations	-185	-3,675	0	-2,735	-6,595
Actual Expenditures	**$28,312**	**$3,782**	**$0**	**$15,403**	**$47,498**
Fiscal 2007					
Legislative Appropriation	$43,834	$7,538	$0	$15,055	$66,427
Budget Amendments	121	63	0	400	584
Working Appropriation	**$43,955**	**$7,601**	**$0**	**$15,455**	**$67,011**

Note: Numbers may not sum to total due to rounding.

Fiscal 2006

The fiscal 2006 legislative appropriation for OIT was reduced by just under $3.7 million. This reduction was derived as follows:

- Budget amendments increased the appropriation by just over $2.9 million. General fund amendments actually reduced the appropriation by $312,000. This reduction was a combination of an increase of $178,000 that represents OIT's share of the fiscal 2006 cost of-living adjustment (COLA) originally budgeted elsewhere in DBM offset by transfers to other units within DBM primarily to cover salaries. Special funds derived from unspent prior year special fund balances increased the appropriation by $161,000 and were used for IV&V. Reimbursable fund budget amendments totaled almost $3.1 million representing transfers from the MITDPF for projects being developed through OIT as well as IV&V.

- The increase in the legislative appropriation resulting from various budget amendments was more than offset by just under $6.6 million in reversions and cancellations. General fund reversions ($185,000) were primarily associated with unspent personnel costs. The major special fund cancellation was in the Telecommunications Access of Maryland program (over $3.1 million) due to lower than anticipated contract costs, consulting and audit services. Reimbursable fund cancellations were spread throughout OIT. Major cancellations included over $953,000 in MITDPF funding for projects within OIT that are currently underway, $625,000 in funding for wide areas network costs that were eliminated through the use of networkMaryland, and $468,000 of funding for PBX maintenance and repairs that were not required. Other reimbursable fund cancellations included funding for personnel and a variety of consulting services.

Fiscal 2007

To date, the fiscal 2007 legislative appropriation for OIT has been increased by $584,000. This increase is derived from:

- general fund budget amendments of $121,000, including $97,000 representing OIT's share of the fiscal 2007 COLA, and $24,000 due to realignment of expenditures within DBM;

- special fund budget amendments of $63,000, including funding transferred from the CCU for the assessment of its CUBS system and OIT'S share of the fiscal 2007 COLA attributed to special funds; and

- reimbursable fund budget amendments of $400,000, transferring funds from the MITDPF into OIT for IV&V.

Appendix 2

Audit Findings

Agency	Department of Budget and Management Office of the Secretary and Other Units
Audit Period for Last Audit:	July 1, 2002 to August 31, 2005
Issue Date:	August 2006
Number of Findings:	8
Number of Repeat Findings:	3
% of Repeat Findings:	38%
Rating: (if applicable)	n/a

Note: These audit findings are specific to OIT and were contained within the larger audit.

Finding 1: DBM did not document their consideration of previous inadequate performance and billing deficiencies when awarding a new contract to the same vendor for a large information technology contract. DBM responded that past performance was a consideration during the competitive procurement of this particular contract. However, the department conceded that it would do a better job documenting this consideration in the future.

Finding 2: **DBM did not effectively monitor departmental and State agency task orders procured under statewide information technology contracts. The audit also recommended that DBM promulgate regulations that address a streamlined procurement process for the procurement of information technology services. DBM concurred with the finding about the need to improve monitoring but disagreed that it should promulgate regulations.**

Finding 3: DBM did not adequately monitor expenditures related to the statewide microcomputer contract. DBM concurred with the finding.

Finding 4: Audits of billings for telecommunications services disclosed $11.3 million in potential recoveries due the State and deficiencies in the oversight of vendors. DBM concurred with the finding.

Finding 5: **DBM did not verify that the State received all payphone commissions to which the State was entitled. DBM concurred with the finding.**

Finding 6: **Delinquent accounts due from State agencies were not adequately pursued for collection. DBM concurred with the finding.**

Finding 7: Controls over access to a critical network device and maintenance of critical network devices were not adequate. DBM concurred with the finding. (This was finding number 9 in the original audit report.)

Finding 8: A disaster recovery plan did not exist at certain networkMaryland locations. DBM concurred with the finding. (This was finding number 10 in the original audit report.)

Agency	Financial Management Information System Centralized Operations
Audit Period for Last Audit:	September 2005 – May 2006
Issue Date:	October 2006
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: Inadequate security access rules existed for certain critical FMIS data files. DBM concurred with the audit that 19 of 6,000 user accounts had unnecessary direct modification access to critical data files. However, the department noted that other security controls would have prevented improper or fraudulent payments. Nevertheless, the department agreed to remove access from those 19 accounts.

*Bold denotes item repeated in full or part from preceding audit report.

Object/Fund Difference Report
DBM - Information Technology

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	118.00	119.00	119.00	0	0%
02 Contractual	4.15	4.00	5.00	1.00	25.0%
Total Positions	**122.15**	**123.00**	**124.00**	**1.00**	**0.8%**
Objects					
01 Salaries and Wages	$ 8,385,255	$ 9,539,135	$ 9,463,491	-$ 75,644	-0.8%
02 Technical and Spec. Fees	152,036	214,394	369,864	155,470	72.5%
03 Communication	7,989,286	8,081,496	8,070,950	-10,546	-0.1%
04 Travel	68,131	86,045	95,500	9,455	11.0%
06 Fuel and Utilities	17,169	20,500	30,500	10,000	48.8%
07 Motor Vehicles	3,405	5,800	7,120	1,320	22.8%
08 Contractual Services	29,280,209	47,933,211	27,452,027	-20,481,184	-42.7%
09 Supplies and Materials	360,053	171,921	2,400	-169,521	-98.6%
10 Equip – Replacement	984,259	71,579	606,440	534,861	747.2%
11 Equip – Additional	116,401	614,349	0	-614,349	-100.0%
12 Grants, Subsidies, and Contributions	0	10,000	10,000	0	0%
13 Fixed Charges	141,491	262,894	186,682	-76,212	-29.0%
Total Objects	**$ 47,497,695**	**$ 67,011,324**	**$ 46,294,974**	**-$ 20,716,350**	**-30.9%**
Funds					
01 General Fund	$ 28,311,980	$ 43,955,230	$ 13,769,718	-$ 30,185,512	-68.7%
03 Special Fund	3,782,449	7,600,777	16,169,380	8,568,603	112.7%
09 Reimbursable Fund	15,403,266	15,455,317	16,355,876	900,559	5.8%
Total Funds	**$ 47,497,695**	**$ 67,011,324**	**$ 46,294,974**	**-$ 20,716,350**	**-30.9%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Fiscal Summary
DBM - Information Technology

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
01 Executive Direction	$ 1,723,805	$ 1,787,972	$ 1,856,966	$ 68,994	3.9%
02 Division of Information Technology Investment Mgmt.	10,312,667	10,505,976	11,417,931	911,955	8.7%
03 Division of Application Systems Management	5,536,208	6,115,176	7,016,956	901,780	14.7%
04 Division of Telecommunications	4,774,776	5,731,076	5,515,990	-215,086	-3.8%
05 Division of Contracts Management	1,984,877	1,963,059	2,831,388	868,329	44.2%
06 Major IT – Office of Information Technology	1,546,919	57,243	675,040	617,797	1079.3%
07 Division of Security and Architecture	1,321,399	2,032,826	1,732,220	-300,606	-14.8%
09 Telecommunications Access of Maryland	3,727,483	7,402,996	6,054,253	-1,348,743	-18.2%
01 Major Information Technology Development Projects	16,569,561	31,415,000	9,194,230	-22,220,770	-70.7%
Total Expenditures	**$ 47,497,695**	**$ 67,011,324**	**$ 46,294,974**	**-$ 20,716,350**	**-30.9%**
General Fund	$ 28,311,980	$ 43,955,230	$ 13,769,718	-$ 30,185,512	-68.7%
Special Fund	3,782,449	7,600,777	16,169,380	8,568,603	112.7%
Total Appropriations	**$ 32,094,429**	**$ 51,556,007**	**$ 29,939,098**	**-$ 21,616,909**	**-41.9%**
Reimbursable Fund	$ 15,403,266	$ 15,455,317	$ 16,355,876	$ 900,559	5.8%
Total Funds	**$ 47,497,695**	**$ 67,011,324**	**$ 46,294,974**	**-$ 20,716,350**	**-30.9%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.