



Legislative Fiscal Bureau

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April 23, 2003

Joint Committee on Finance

Paper #645

Information Technology Funding (R&L)

[LFB 2003-05 Budget Summary: Page 368, #4]

CURRENT LAW

The Department of Regulation and Licensing (R&L) has an information technology (IT) section under its Division of Management Services. Currently, 8.0 PR positions are authorized under this unit. Base level salary and fringe benefits funding for these positions is \$460,400 PR annually. In addition, the base level supplies and services funding under the agency's general program operations appropriation is \$2,285,700 PR annually. The agency indicates that \$228,900 PR annually is budgeted for IT activities.

GOVERNOR

Provide \$543,400 PR annually budgeted to supplies and services under the agency's general program operations appropriation to fund activities associated with the improvement of the Department's IT environment. Salary and fringe benefits funding reductions associated with a separate recommendation to delete 10.0 PR base level positions in the agency are reallocated to the supplies and services line to fund these IT initiatives. The amount of the salary and fringe benefits reduction would be fully offset by the costs of these initiatives, and the net fiscal effect of both recommendations on the agency's budget is \$0.

DISCUSSION POINTS

1. The Department's IT strategic plan, submitted as part of its 2003-05 biennial budget request, included a synopsis of the agency's IT infrastructure needs for the biennium. These projects included server replacements and upgrades, software and hardware replacement for the agency's interactive voice response system, implementation of a call distribution system, desktop computer

upgrades, printer replacements and networking equipment upgrades.

2. The agency's strategic plan also identified a number of future IT project applications that the agency intended to pursue, including an expansion of the capability for on-line renewals of professional licenses (such that up to 30% of credential holders could be renewed on-line by the end of 2004-05), implementation of the nursing licensure verification system, provision of certain examinations on-line, development of a secure fee payment capability, expansion of the agency's complaint tracking system and enhancement of regulatory board member information databases.

3. Agency IT strategic plans are intended to be guideposts for orderly, long-term fiscal and project development planning for state agencies.

4. In connection with routine hardware and software replacements and upgrades, agencies are currently budgeted with the expectation that these types of expenditures will be phased over three to four years and will be funded from base level resources.

5. With respect to new or expanded projects included in the agency's IT strategic plan submission for which additional funding might be required, R&L did not request any increased expenditure authority for IT-related initiatives as part of its 2003-05 biennial budget submission.

Recent Funding Decisions Related to Agency IT Initiatives

6. Under 1999 Wisconsin Act 9 (the 1999-01 biennial budget), R&L was provided with additional funding of \$58,300 PR in 1999-00 and \$21,000 PR in 2000-01 for a variety of IT projects (installation of the agency's interactive voice response system, hardware and software improvements for the agency's complaint processing system, and monthly user charge cost increases).

7. Funding of \$72,000 PR annually had originally been proposed for a consultant to study the feasibility of Internet technologies that R&L could apply to its regulatory mission. Some of the funding would also have been available to implement those projects found to be appropriate and cost-effective. During the Finance Committee's review of the funding proposal for consultant services, concerns were raised about the purposes of the request. The Committee ultimately chose to place the \$72,000 PR annually for consultant services in the Committee's PR supplemental appropriation where it would be available for possible release to the Department under a 14-day passive review process, once R&L had developed and submitted a more detailed expenditure plan and justification for using the funds.

8. Although the Department subsequently sought the release of these funds in each fiscal year of the 1999-01 biennium, it was determined that, in each instance, the agency had already engaged the consultant and had spent or committed the requested funding amounts in advance of their release. Consequently, the releases were objected to and the Department subsequently withdrew each one. No supplements were ever provided from the Committee's appropriation in either case.

9. As part of the Governor's 2001-03 biennial budget recommendations for R&L, a total of \$716,400 PR in 2001-02 and \$582,800 PR in 2002-03 was proposed for a variety of IT initiatives. These proposals included: (a) \$264,100 PR in 2001-02 and \$193,700 PR in 2002-03 for equipment upgrades and replacement; (b) \$96,900 PR in 2001-02 and \$121,700 PR in 2002-03 for 2.0 PR in-house IT staff positions; and (c) \$355,400 PR in 2001-02 and \$267,400 PR in 2002-03 for consultant services related to documentation of the agency's data standards, upgrade of its interactive voice response system, and a variety of applications development projects primarily relating to the delivery of agency services through the Internet.

10. With respect to the first two recommendations, the Committee approved the increased funding for routine IT equipment replacement and upgrades but denied the additional funding for the in-house IT staff.

11. With respect to the proposed consultant funding, the Committee considered the results of a June, 2000, assessment of the agency's IT function undertaken by DOA's performance evaluation unit. Among other findings, that evaluation found that a number of R&L's recent individual IT initiatives and enhancements had been subject to "false starts and inadequate resources to fully support and complete the initiatives." Questions were also raised about the agency's IT goals and priorities, as well as the process for setting them. Finally the evaluation unit recommended that the agency "stop work on any new information technology initiatives, modifications to existing systems or contracts with external vendors" until a new strategic planning document was developed and put in place.

12. These considerations and the Committee's experiences with the agency's funding release requests raised concerns with respect to: (a) the ability of the agency to simultaneously undertake and effectively oversee such a variety of consultant services; (b) the cost projections that had been developed with respect to each of the initiatives; and (c) whether other staffing or funding options could be pursued in order to address the proposed service enhancements.

13. As a result, the Committee deleted the proposed \$355,400 PR in 2001-02 and \$267,400 PR in 2002-03 from the agency's budget for the consultant services initiatives. Instead, a reduced level of funding of \$170,800 PR in 2001-02 and \$150,800 PR in 2002-03 was reserved in the Committee's PR-funded supplementation appropriation for the following potential uses: (a) \$20,000 PR in 2001-02 for documentation of the agency's data standards; (b) \$33,800 PR annually for a study of improvements to the distribution of telephone inquiries through R&L's existing interactive voice response system; and (c) \$117,000 PR annually for a more modest level of consultant services.

14. The Committee was authorized to release some or all of these funds under existing 14-day passive review procedures once R&L had developed and submitted a detailed expenditure plan containing an analysis of the following: (a) the degree to which the requested IT enhancements could be provided in a more cost-effective manner by existing agency staff; (b) the degree to which the requested IT enhancements could be provided in a more cost-effective manner by Department of Electronic Government (DEG) staff; (c) the degree to which it would be more cost-effective to use the reserved funds to support an additional agency position rather than engage additional consultant

services; and (d) detailed cost projections for each proposed IT enhancement project for which funding was requested. All of the Committee's modifications to R&L's IT-related budget initiatives for the 2001-03 biennium were enacted as part of 2001 Wisconsin Act 16.

15. Subsequently, R&L submitted the required expenditure plan requested the release of all of the reserved funds for their original purposes, except that the consultant services would be provided by DEG, rather than by a consultant. The proposal was objected to and held over for later consideration by the Committee.

16. In late 2002, R&L developed revised expenditure estimates to substitute for its original request. These revised estimates would have resulted in the expenditure: (a) \$8,000 PR in 2002-03 for documentation of the agency's IT policies and procedures; (b) \$7,000 PR in 2002-03 for a consultant to identify and design upgrades to R&L's interactive voice response system; and (c) \$50,000 PR in 2002-03 for the purchase of additional programming staff time from DEG for the purpose of converting additional professional credential renewals to an on-line format. It was suggested that the agency submit this revised expenditure proposal to the Committee under s. 16.515/16.505(2) procedures for possible approval and release to the agency. However, the proposal was not submitted.

Current IT Funding Initiatives

17. Inasmuch as neither the agency's 2003-05 biennial budget request nor its 2003-05 strategic plan update included a formal proposal for additional IT-related expenditures, the agency was asked to provide information on the types of initiatives that are being contemplated under the Governor's budget recommendation. The agency was also asked to provide cost details with respect to how the \$543,400 PR annually proposed for these undertakings would actually be expended.

18. The Department indicates that the recommended funding would be utilized for the following three types of projects:

- *On-Line Licensing.* This initiative would expand the number of on-line transactions available to credential holders. Enhancements would include the ability to apply on-line for initial or renewal licenses, request duplicate licenses, update personal information, pay required fees, and submit continuing education information. The agency believes that it would also realize postage, printing, data entry and error reduction cost savings following the implementation of these enhancements.

- *Intranet Development.* This initiative would create an intranet site that would allow the agency to manage most of its administrative, clerical and technical transactions internally using electronic systems. The agency believes that program managers could better oversee their budgets and that it would realize improved purchase order processing, automated error-checking and cost-avoidance due to more efficient in-house data entry transactions.

- *Support for Licensing Boards.* This initiative would create a secured electronic "extranet" system to distribute documents, agendas and meeting minutes to licensing board

members, council members, and board advisors. The agency believes that this initiative would result in better communication with licensing board members and could assist in a faster resolution of complaints by improving board members' access to complain investigation information. The agency also believes that it would realize printing and mailing cost savings.

19. The Department proposes to follow the same general approach with respect to implementing each of the above IT initiatives. Initially, the Department would contract with DEG (or DOA) consultants to conduct a thorough business analysis of the project. Based on the results of that analysis, the agency (with the assistance of consultants) would select the appropriate technology solution. That solution, in turn, would be implemented in phases, as determined by the initial business analysis (and as necessary, with the input of "stakeholder focus groups"). Implementation and performance measures would be established for each of the initiatives to ensure that the consultant services and project development activities were being provided in a timely and cost-effective manner.

20. The agency anticipates that the on-line licensing initiative and the intranet development initiative would proceed concurrently, with the initial business analysis of the former expected to be completed by November 1, 2003, and the initial business analysis of the latter expected to be completed by December 1, 2003. The initial business analysis phase of the support for licensing boards initiative would not be completed until April 1, 2004. Finally, it is anticipated that the on-line licensing project would be completed by June 30, 2005; the intranet development project would be completed by April 30, 2005; and the support for licensing boards project would be completed by November 30, 2004.

21. Although the agency must first conduct a thorough business analysis of each of the proposed IT initiatives, and then, based on the results of each such analysis, select an appropriate technology solution, agency staff have, nonetheless, developed cost details for these three projects. These cost projections are characterized as "high level estimated" total project costs. R&L further advises that the hourly consultant rates are estimates and that the agency will negotiate the hourly rates to insure the best price. The following table summarizes these cost projections.

Cost Projections for R&L's IT Initiatives

(Biennial Totals)

<u>Cost Item</u>	<u>On Line Licensing</u>	<u>Intranet Development</u>	<u>Support for Licensing Boards</u>
Consultants (Estimated Rate per Hour)			
Business Analysis (\$60/hour)	\$18,000 [300 hours]	\$15,000 [250 hours]	\$12,000 [200 hours]
Project Management (\$55/hour)	82,500 [1,500 hours]	57,750 [1,050 hours]	18,425 [335 hours]
Application Development (\$55/hour)	179,300 [3,260 hours]	99,000 [1,800 hours]	21,450 [390 hours]
Application Interface and Integration (\$55/hour)	11,000 [200 hours]	11,000 [200 hours]	3,300 [60 hours]
Application Customization (\$55/hour)	0	5,500 [[100 hours]	0
Database Design and Development (\$55/hour)	75,350 [1,370 hours]	44,000 [800 hours]	13,200 [240 hours]
Technical System Documentation (\$45/hour)	4,500 [100 hours]	0	0
Testing (\$55/hour)	23,925 [435 hours]	29,700 [540 hours]	12,100 [220 hours]
Implementation (\$55/hour)	18,425 [335 hours]	35,750 [650 hours]	7,425 [135 hours]
Post-Development Maintenance (\$55/hour)	<u>39,875</u> [725 hours]	<u>0</u>	<u>0</u>
Consultants Subtotal	\$452,875 [8,225 hours]	\$297,700 [5,390 hours]	\$87,900 [1,580 hours]
Software Development Tools	101,000	0	0
Server Hosting Fees	60,000	15,000	5,000
Credit Card/Security System Integration (\$75/hour programming costs)	10,500 [140 Hours]	0	0
Stakeholder Focus Groups (\$5,000 per group)	20,000	0	5,000
Maintain Passwords and User IDs (\$45/hour)	4,500 [100 hours]	1,800 [40 hours]	1,800 [40 hours]
Training, Testing and User Manuals (\$45/hour)	9,000 [200 hours]	3,600 [80 hours]	3,600 [80 hours]
Marketing Materials	<u>15,000</u>	<u>0</u>	<u>5,000</u>
TOTAL	\$672,875 [8,665 hours]	\$318,100 [5,510 hours]	\$108,300 [1,700 hours]

22. While it is not yet known which business solution will be chosen for each initiative or how those choices might affect either project costs or the sequencing of project development activities, the Department has provided the following estimates of how costs under the three projects will likely be incurred during each fiscal year of the next biennium. The Department indicates that projected costs in any fiscal year that exceed the amounts reallocated to the agency's supplies and services line (\$543,400 PR annually) will be funded from the agency's base. Estimated project expenditures by fiscal year are as follows:

<u>IT Project</u>	<u>2003-04</u>	<u>2004-05</u>
On-Line Licensing	\$455,375	\$217,500
Intranet Development	79,600	238,500
Support for Licensing Boards	<u>15,300</u>	<u>93,000</u>
TOTAL	\$550,275	\$549,000

23. Several observations may be made concerning the detailed cost projections presented above. First, the total funding recommended for the three IT initiatives significantly exceeds the level of funding provided to the agency in recent biennial budgets for these types of IT projects. Second, all three projects will be undertaken during the course of the biennium with at least two of the projects running concurrently for most of the two-year period and the third project overlapping the other two for at least six months. A significant amount of the funding (\$838,475 PR) would be budgeted for an estimated 15,195 hours of consultant services.

24. In the past, the Finance Committee has raised concerns with respect to the agency's ability to simultaneously undertake several major IT enhancement projects and its ability to monitor and control consultant costs. However, these concerns may be mitigated to some extent with respect to the current projects, since R&L plans to utilize DEG staff (or DOA staff, if DEG is eliminated, as proposed under the bill) for project monitoring and consultant services.

25. Of additional concern, however, is the fact that it would be expected that the agency would develop detailed cost projections after the initial, basic business analysis phase of each project had been undertaken and the appropriate IT solution has been identified, selected and subjected to an implementation cost analysis.

26. In light of the Committee's history of concerns with respect to the agency's past IT projects and the likelihood that the current cost detail prepared by the agency for each of the three IT initiatives will change further once the initial business analysis phase of each has been completed, the Committee may conclude that initially providing the agency with a reduced level funding for the purpose of conducting the prerequisite business analyses is a more prudent course of action at this time.

27. The Committee could consider initially providing a reduced funding level of \$45,000 PR in 2003-04 to the agency for the purpose of undertaking the initial business analysis phases of each of the three proposed IT initiatives. The remaining \$498,400 PR in 2003-04 and \$543,400 PR in 2004-05 recommended by the Governor could either be deleted at this time or placed in the Committee's PR-funded supplemental appropriation. Under these alternatives, the \$45,000 PR in 2003-04 would be provided with the understanding that the agency could return to the Committee with a request for additional project implementation funding, or for the transfer of the reserved implementation funding, based on the findings of the business analysis phase, the subsequent development of detailed cost projections for each IT project enhancement, and a demonstration that the agency will have sufficient revenues available to support the increased IT-related expenditures.

28. The question of the availability of sufficient agency revenues during the next biennium to support these IT initiatives and other costs of agency operations funded from R&L's credential fee-supported general program operations appropriation is a matter of concern. In a separate budget paper (Paper #646), it is estimated that R&L's general program operations appropriation account will end the 2004-05 fiscal year with a deficit of \$1,622,400. Thus, in the absence of other offsetting agency cost reductions or across-the-board credential fee increases, the agency may have insufficient revenues available to fully fund these IT initiatives, even after the

additional cost detail has been developed. Further, in light of this projected revenue insufficiency, the Committee could conclude that no new IT initiatives should be undertaken at this time and could delete \$543,400 PR annually.

29. Finally, the agency has indicated that "it is anticipated that maintenance and upgrades for equipment, software, on-going training costs and technology knowledge transfer will be paid from budget resources allocated from efficiencies achieved through these project innovations. [The agency] fully understands that the proposal is to cut \$543,400 from the base at the end of the biennium." The budget bill actually provides funding for the recommended IT initiatives as base level funding under the agency's supplies and services line. Since the agency anticipates that these funds would be removed at the conclusion of the biennium, the Committee may wish to appropriate any funding provided for these IT initiatives as one-time funding.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$543,400 PR annually budgeted to supplies and services under the agency's general program operations appropriation to fund activities associated with the improvement of the Department's IT environment.

2. Modify the Governor's recommendation by transferring \$498,400 PR in 2003-04 and \$543,400 PR in 2004-05 budgeted to supplies and services under the agency's general program operations appropriation to the Committee's PR supplemental appropriation to fund activities associated with the improvement of the Department's IT environment. Provide the remaining \$45,000 PR in 2003-04 with the understanding that the agency could return to the Committee with a request to transfer the reserved project implementation funding, based on the findings of the business analysis phase, the subsequent development of detailed cost projections for each IT project enhancement, and a demonstration that the agency will have sufficient revenues available during the biennium to support the increased IT-related expenditures.

3. Modify the Governor's recommendation by deleting \$498,400 PR in 2003-04 and \$543,400 PR in 2004-05 budgeted to supplies and services under the agency's general program operations appropriation to fund activities associated with the improvement of the Department's IT environment. Provide the remaining \$45,000 PR in 2003-04 with the understanding that the agency could return to the Committee with a s. 16.515/16.505(2) request for additional project implementation funding, based on the findings of the business analysis phase, the subsequent development of detailed cost projections for each IT project enhancement, and a demonstration that the agency will have sufficient revenues available during the biennium to support the increased IT-related expenditures.

Alternative 3	PR
2003-05 FUNDING (Change to Bill)	- \$1,041,800

4. *In addition to either Alternative 1, Alternative 2, or Alternative 3, provide the IT funding as one-time financing.*

5. Delete provision.

Alternative 5	PR
2003-05 FUNDING (Change to Bill)	- \$1,086,800

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