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Joint Committee on Finance

Paper #112

Positions for Information Technology Purchasing (Administration -- Transfers)

[LFB 2017-19 Budget Summary: Page 42, #8; Page 93, #4; Page 136, #10;
Page 250, #7; Page 323, #7; Page 456, #8; and Page 490, #6]

CURRENT LAW

Under state statute, the Department of Administration (DOA) is designated as the state's primary purchasing authority for all necessary materials, supplies, equipment, permanent personal property, miscellaneous capital, and contractual services. Base funding appropriated to DOA for IT services to state agencies is \$100,364,800 PR and 214.05 PR positions annually and for procurement services is \$4,235,500 PR and 37.75 PR positions annually.

GOVERNOR

Provide 6.0 PR positions annually to DOA associated with the deletion (or transfer) of 1.0 position from each of the following agencies and delete salaries and fringe benefits associated with the positions: (a) Children and Families (\$99,400 PR annually); (b) Corrections (\$75,100 GPR annually); (c) Health Services (\$72,700 PR annually); (d) Natural Resources (\$73,400 GPR annually); (e) Transportation (\$86,100 SEG annually); and (f) Workforce Development (\$76,600 PR annually).

Provide position authority and funding to the following DOA appropriations: (a) procurement services (3.0 PR positions and \$258,600 PR annually); and (b) printing, mail, communication and information technology services to state agencies (3.0 PR positions and \$266,800 PR annually).

DISCUSSION POINTS

1. The State Bureau of Procurement within DOA manages contracts for products and services commonly purchased across state agencies to ensure lower pricing, standard terms and conditions, and consistent warranties and customer service requirements for purchases. Most statewide procurement contracts, including information technology (IT) contracts, are mandatory. However, agencies may enter into contracts to meet the specific, unique requirements of an agency's mission or programs, such as specialized IT solutions. The administration indicates the purpose of the provision is "to strengthen information technology and services procurement and purchasing."

2. Although DOA is the state's primary purchasing authority, the Department is permitted under statute to delegate such authority to special designated agents. Currently, DOA delegates procurement authority to the following state agencies: (a) Children and Families (DCF); (b) Corrections; (c) Employee Trust Funds; (d) Health Services (DHS); (e) Justice; (f) Natural Resources (DNR); (g) Transportation (DOT); (h) Workforce Development (DWD); (i) University of Wisconsin-Madison; and (j) University of Wisconsin System Administration. Delegated agencies employ a designated purchasing agent and staff to implement procurement laws and conduct agency-specific procurement solicitations. As shown in the list above, the six agencies from which positions would be transferred under the IT procurement proposal are delegated purchasing agencies. The delegation of purchasing authority is based on the demonstrated ability of the agency to perform purchasing duties in compliance with the rules and procedures established under state statute, the administrative code, and state policies and procedures under DOA. Delegation may be modified at any time, when deemed appropriate by DOA.

3. Under the standard delegated purchasing agreement with DOA, a delegated purchasing agency assumes responsibility for: (a) bidding of commodities and printing for any dollar amount unless the purchase is covered by a statewide mandatory contract; (b) bidding of contractual services under \$50,000 unless the services would be covered under a statewide mandatory contract; (c) bidding of contractual services over \$50,000 unless covered by a statewide mandatory contract, following the submittal and approval of a procurement plan; (d) issuing requests for proposals of any dollar amount following the submittal and approval of a procurement plan; (e) waiving the bidding process for commodities and contractual services of \$25,000 or less, except printing, motor vehicle purchases, and legal services; (f) administering the purchasing card program and ensuring proper usage controls, including internal policies and procedures, and monitoring use of the cards; (g) bidding and administering any statewide contract that is mutually agreed upon by DOA and the agency; (h) utilizing optional contracts when applicable; and (i) establishing agency-specific policies and procedures for procurements that meet or exceed those contained in the state procurement manual.

State IT Procurement and Proposal

4. Under the proposal to consolidate IT procurement within DOA, 3.0 positions would work within the Division of Enterprise Technology (DET) and would consult with state agencies to identify which products and contracts would benefit from coordinating purchasing efforts to reduce initial purchase prices and costs of maintenance. According to DOA, combining purchases from agencies would provide the state with "the best opportunity to obtain the best deal due to larger

quantities." The positions in DET would also provide support for administration of DET and statewide IT contracts involving software, hardware, and contractual services.

5. The remaining 3.0 positions would be provided to DOA's State Bureau of Procurement. The Department indicates the positions would: (a) expand capacity of the Bureau's IT sourcing section to manage competitive bidding for IT and telecommunications contracts; (b) analyze state IT procurement needs and trends; (c) analyze agency IT and telecommunications purchasing requests of \$150,000 or more; and (d) support IT and telecommunications procurement alignment across agencies.

6. The positions at DET and the Bureau of Procurement would work collaboratively to expand the capacity and IT expertise of the Bureau, as well as to develop and implement recommendations for IT and telecommunications procurement across agencies. The administration indicates that positions "are associated with large agencies." Based on a review of state accounting system information, the six agencies and DOA appear to be major purchasers of IT services, equipment, and software in comparison to other state agencies. Although position authority would be deleted from six specific agencies and provided to DOA, the positions would provide services to all agencies.

7. In support of the proposal, DOA provided an example of an IT procurement that the agency believes was successfully managed on a centralized basis: the purchase of Microsoft Office 365, a group of software and services subscriptions that provide productivity software and related services to subscribers. The Bureau of Procurement and DET negotiated on behalf of several state agencies that had an enterprise plan agreement with Microsoft to obtain "least-cost pricing" for the group as a whole. Acting as a central purchasing authority in consultation with agencies to determine each agency's needs, DOA can put together a strategic plan or package that together costs less than the sum of the bundled packages that individual agencies might otherwise have available.

8. The Department identified two areas in which improvements could be made: individual agency purchases of the same or similar products at differing prices and costs for maintenance; and variation in the use of tools related to IT security. Asked to provide a specific example, DOA indicated that agencies that purchased Oracle products in the past negotiated their own purchases at such varying purchase prices and annual maintenance agreements that one agency over the course of several years could, in total, pay more than twice what another agency would pay for the same product over the same time period. The Department believes that better planning across multiple agencies would reduce costs of this type. According to DOA, there are also opportunities to improve the standardization in state use of IT security-related tools, such as multi-factor authentication and active directory tools, which is currently varied.

9. The administration argues that if the recommendation is not approved, the result would be "the loss of any potential gained efficiencies in process and in cost savings." Although the Department did not provide an estimate of savings or a detailed analysis of the potential benefits of the proposal, one of the purposes of the recommendation is to provide staff that would perform analyses of procurement needs, trends, and purchasing requests. If additional positions and funding are approved, the ability of staff to provide such estimates in the future and the knowledge of current costs across state agencies could be increased.

Funding and Position Authority

10. Each of the positions identified for deletion or transfer was initially determined to be vacant. The affected agencies did not raise concerns relating to the budget proposal. While the DWD position was filled for a brief period of time between development and introduction of the budget bill, the position is vacant as of May, 2017 (the individual previously occupying the position is still employed with the agency in another position). The administration believes the appropriation from which the position would be deleted will continue to have sufficient position authority if the proposal is approved. The position vacancy of longest duration in the appropriation has been vacant for six months.

11. Table 1 below shows funding and position authority modifications under the proposal by agency, allotment line, and fund source. Funding and position authority modifications under the proposal would result in a net increase in expenditure authority of \$42,100 annually with no net change to positions across agencies. As shown in the table, the reason for the difference in funding between agencies is due to lower fringe benefit rates for agencies other than DOA and an increase of \$10,000 PR annually per transferred position for supplies and services overhead expenses. Deleted funding and position authority would total -\$483,300 and -6.0 positions annually, while funding and position authority provided to DOA would total \$525,400 PR and 6.0 PR positions annually. Total net funding adjustments by fund source would be: (a) -\$148,500 GPR and -2.0 GPR positions annually; (b) \$276,700 PR and 3.0 PR positions annually; and (c) -\$86,100 SEG and -1.0 SEG position annually.

TABLE 1

IT Purchasing Consolidation Funding and Position Modifications

Agency	Fund Source	Expenditure Authority (Annual)				Positions (Annual)
		Salaries	Fringe Benefits	Supplies and Services	Total Funding	
Administration	PR	\$333,500	\$131,900	\$60,000	\$525,400	6.00
Children and Families	PR	-67,900	-31,500	0	-99,400	-1.00
Corrections	GPR	-50,900	-24,200	0	-75,100	-1.00
Health Services	PR	-50,900	-21,800	0	-72,700	-1.00
Natural Resources	GPR	-50,900	-22,500	0	-73,400	-1.00
Transportation	SEG	-59,400	-26,700	0	-86,100	-1.00
Workforce Development	PR	-53,500	-23,100	0	-76,600	-1.00
Total (All Funds)		\$0	-\$17,900	\$60,000	\$42,100	0.00

12. The administration argues that the procurement consolidation proposal would improve the cost and quality of IT procurements for state agencies. With additional funding and position authority, DOA would work to enhance the agency's IT procurement capacity, identify areas of improvement for state agencies relating to matters such as IT security tools and other IT products

that multiple agencies could use, and negotiate on behalf of agencies using purchasing volume to lower IT expenditures over time. Therefore, the Committee could choose to approve the Governor's recommendation. [Alternative 1]

13. Because the Department has authority under statute to engage in oversight of state agency purchasing and can modify a purchasing delegation agreement at any time, DOA has the legal authority to pursue such an initiative and could do so without specific approval by the Committee and the Legislature. However, in practice, the degree to which improvements could be made would be limited without additional resources. If the Committee wishes to provide some number of positions and associated funding for the proposal, but less than what is recommended under the bill, it could choose to provide fewer positions and associated funding.

14. Table 2 below summarizes two alternatives that could be considered for providing different amounts of position authority to DOA's appropriations for IT services to state agencies and procurement services. It is assumed that, due to the different duties that IT services and procurement services positions would perform, equal amounts of position authority for each appropriation would be the most effective combination. Therefore, the alternatives would provide to each appropriation either 2.0 positions or 1.0 position and associated funding. Funding would total approximately \$89,000 annually for each IT services position and \$86,200 annually for each procurement services position, which would include salaries, fringe benefits, and supplies and services. Reductions to bill funding under each alternative would total: (a) \$175,000 PR and 2.0 PR positions annually [Alternative 2a]; and (b) \$350,200 PR and 4.0 PR positions annually [Alternative 2b].

TABLE 2

Alternatives for Funding and Position Authority (Annual)

<u>Alternative</u>	<u>IT Services</u>		<u>Procurement</u>		<u>Total</u>	
	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>
Alternative 1	\$266,800	3.0	\$258,600	3.0	\$525,400	6.0
Alternative 2a	\$178,000	2.0	\$172,400	2.0	\$350,400	4.0
Alternative 2b	\$89,000	1.0	\$86,200	1.0	\$175,200	2.0
Alternative 2a Change to Bill	-\$88,800	-1.0	-\$86,200	-1.0	-\$175,000	-2.0
Alternative 2b Change to Bill	-\$177,800	-2.0	-\$172,400	-2.0	-\$350,200	-4.0

15. Given that the positions provided to DOA would be funded from assessments to state agencies, it could be argued that the agencies from which position authority would be deleted may need to pay increased assessments to DOA in the future associated with services provided for IT procurement. Therefore, the Committee could consider modifying the recommendation to reallocate position funding to supplies and services rather than deleting funding from each agency. Funding of

\$483,300 annually (\$148,500 GPR, \$248,700 PR, and \$86,100 SEG annually) would be restored to the six agencies from which positions are deleted and reallocated from salaries and fringe benefits to supplies and services. [Alternative 3]

16. Several Committee members have expressed an interest in the efficacy of transferring positions to DOA for the purpose of improving efficiency. If the Committee wishes to be provided information relating to the progress of the initiative, it could specify that DOA submit a report to the Committee by August 31, 2018, regarding the activities of the positions performed in the 2017-18 fiscal year, including: (a) any identified accomplishments such as process improvements or major IT procurements that were done efficiently or effectively; (b) any savings that DOA estimates resulted from the initiative; and (c) plans for additional improvements or projects in the 2018-19 fiscal year. [Alternative 4]

17. Finally, if the Committee wishes to maintain current funding and position authority of the agencies, including DOA, it could delete the provision. Under this alternative, DOA would have the legal authority to proceed with its proposal to increase oversight and centralize procurement of IT products and contractual services using base resources. If the Department determines it needs additional PR funding or positions, a passive review request could be submitted to the Committee under s. 16.505/515 of the statutes. [Alternative 5]

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$525,400 PR and 6.0 PR positions annually to DOA and delete funding and position authority from the following agencies: (a) Children and Families (\$99,400 PR annually and 1.0 PR position annually); (b) Corrections (\$75,100 GPR and 1.0 GPR position annually); (c) Health Services (\$72,700 PR and 1.0 PR position annually); (d) Natural Resources (\$73,400 GPR and 1.0 GPR position annually); (e) Transportation (\$86,100 SEG and 1.0 SEG position annually); and (f) Workforce Development (\$76,600 PR and 1.0 PR position annually).

ALT 1	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
<u>DOA</u>				
PR	\$1,050,800	6.00	\$0	0.00
<u>Other Agencies</u>				
GPR	- \$297,000	- 2.00	\$0	0.00
PR	- 497,400	- 3.00	0	0.00
SEG	- 172,200	- 1.00	0	0.00
Total	\$84,200	0.00	\$0	0.00

2. Modify the provision by providing either of the following amounts of funding and position authority to DOA [Alternatives 2a and 2b may not be selected with Alternative 1]:

a. \$178,000 PR and 2.0 PR positions annually for IT services to state agencies; and \$172,400 PR and 2.0 PR positions annually for procurement services.

ALT 2a	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
<u>DOA</u>				
PR	\$700,800	4.00	- \$350,000	- 2.00

b. \$89,000 PR and 1.0 PR position annually for IT services to state agencies; and \$86,200 PR and 1.0 PR position annually for procurement services.

ALT 2b	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
<u>DOA</u>				
PR	\$350,400	2.00	- \$700,400	- 4 .00

3. Modify the provision to restore funding to the six agencies from which position authority would be deleted, and reallocate funding from salaries and fringe benefits to supplies and services. [Alternative 3 may not be selected with Alternative 1.]

ALT 3	Change to	
	Base	Bill
<u>DOC/DNR</u>		
GPR	\$0	\$297,000
<u>DCF/DHS/DWD</u>		
PR	\$0	\$497,400
<u>DOT</u>		
SEG	<u>\$0</u>	<u>\$172,200</u>
Total	\$0	\$966,600

4. Specify that DOA submit a report to the Committee by August 31, 2018, regarding the activities of the positions performed in the 2017-18 fiscal year, including: (a) any identified accomplishments such as process improvements or major IT procurements that were done efficiently or effectively; (b) any savings that DOA estimates resulted from the initiative; and (c) plans for additional improvements or projects in the 2018-19 fiscal year.

5. Delete provision.

ALT 5	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
<u>DOA</u>				
PR	\$0	0.00	- \$1,050,800	- 6.00
<u>Other Agencies</u>				
GPR	\$0	0.00	\$297,000	2.00
PR	0	0.00	497,400	3.00
SEG	<u>0</u>	<u>0.00</u>	<u>172,200</u>	<u>1.00</u>
Total	\$0	0.00	- \$84,200	0.00

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