

**EVALUATION OF
BUDGET PROCESS
FOR INFORMATION
TECHNOLOGY
PROJECTS**

REPORT 06-4

REPORT DIGEST

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STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT AND
REVIEW COMMITTEE

STUDY TEAM

Karen Barrett, Analyst

LEGISLATIVE AUDITOR

Ruta Fanning

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available on the JLARC website at:

<http://jlarc.leg.wa.gov>

or contact

Joint Legislative Audit & Review
Committee
506 16th Avenue SE
Olympia, WA 98501-2323
(360) 786-5171
(360) 786-5180 FAX

STUDY BACKGROUND

In the 2005 Operating Budget, the Legislature directed JLARC to evaluate the review and funding processes for state agency information technology (IT) projects. Our assignment has three major parts: (1) a report on IT funding and expenditures across state agencies; (2) an appraisal of the state's current processes for review and funding of state agency IT projects; and (3) a look at the practices of private firms and other governments to see if there are lessons to be learned that could improve Washington's IT processes.

To complete this study, we examined applicable technology laws and policies, and we conducted focus groups and individual interviews with current or former process participants. We also hired an IT consulting firm to support this work and to research industry best management practices.

Information on State Agency IT Expenditures

Within state statute, there is a structure in place that calls for regular reporting of state agency IT expenses and budgets to the Department of Information Services (DIS). It also calls for regular DIS reporting of aggregated IT information to the Legislature and the Governor. However, this reporting is not taking place as envisioned by statute.

Using incomplete information, state agency direct technology program expenses and IT contracts total more than \$1.4 billion for Fiscal Year 2004 and projected for Fiscal Year 2005. Without greater compliance and consistency in state agency and DIS reporting, the state does not have the information to assemble a more reliable estimate.

The State's IT Project Review and Budget Processes

State agencies work through a project review process designed by DIS and the Information Services Board (ISB). Under this process, higher risk project proposals undergo additional scrutiny by DIS and the ISB, while lower risk projects may often proceed at the agency's discretion.

As a result of the overlay of the legislative budget process with the project review process, the Legislature may be asked to make significant funding commitments for IT projects at a time when the uncertainty about IT project cost and time estimates are the highest. Agencies may be asking the Legislature for IT project funding before the agency has prepared a detailed investment plan and before the project proposal has received a rigorous evaluation by DIS staff.

This study identifies two shortcomings with the current IT review and funding processes: (1) a need for improved coordination of IT project reviews, especially with regard to the timing of the Legislature's evaluation and funding of state agency IT projects, and (2) a need for greater reliability in the first planning estimates that come forward about IT projects. An additional concern is the ability of the DIS staff unit that supports these processes to meet all of its obligations at its current level of staffing.

Lessons from Others' Approaches

It is difficult to conclude whether private companies perform better than state governments with managing IT initiatives. Our consultant contacted several large private corporations, but found them reluctant to disclose details on their specific IT practices. Comparisons of Washington's performance to that of other jurisdictions should be viewed with some caution; only a higher-risk subset of Washington's state agency IT projects is being included in national benchmarking studies.

Other states provided some alternative processes Washington may wish to consider. Some other states, such as Illinois, New York, and Pennsylvania, structure the timing of their IT project review and funding decisions to maintain a closer link between financial decisions and technical evaluations. The state of Tennessee also has this closer link, and has a more coordinated review between its equivalent of Washington's Office of Financial Management (OFM) and DIS as well. The state of Victoria, Australia, offers a contract model including hired "scope managers" to help estimate budgets, monitor performance, and arbitrate contract disputes for agency IT projects. Washington's own capital budget processes provide lessons that could carry over to IT projects, such as phased funding, earlier introduction of the project architect, and additional guidance to agencies as they prepare their early cost estimates.

Recommendations

1. The Information Services Board should require all agencies to submit IT project expenses and budgets in complete and consistent portfolio reports.
2. The Department of Information Services should resume submitting a statewide IT performance report biennially to the Governor and to the Legislature, engaging the Office of Financial Management and lawmakers in a review of the content and basis for analysis.
3. The Department of Information Services should undertake a workload study to identify potential gaps in its ability to provide adequate decision support for its various IT project review, funding, and oversight responsibilities, as well as for the state's biennial budget process.
4. The Legislature should consider ways to time funding actions so that they are closer to when the cost and time estimates for IT projects are more reliable.
5. The Information Services Board should investigate other methods to help agencies improve their early IT project cost estimates.