



THE OFFICE OF
ENTERPRISE TECHNOLOGY
STATE OF MINNESOTA

Legislative Report

Consolidation of Information Technology Systems and Services

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PROVIDING THE LEADERSHIP AND SERVICES THAT IMPROVE GOVERNMENT THROUGH THE EFFECTIVE USE OF INFORMATION TECHNOLOGY.

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Introduction

Laws of Minnesota 2011, First Special Session chapter 10, article 4 mandates the consolidation of Minnesota executive branch information technology (IT) under the State Chief Information Officer (CIO.)

The intent of the Legislature and the Governor was to bring all the IT resources of the State under the authority and direction of a single entity in order to 1) increase accountability for the efficient and effective management of IT through a single view; 2) improve IT's effectiveness in meeting the business needs of state government and increase the potential for technology-driven improvements to government service; 3) foster collaboration and shared service opportunities; and 4) find and capitalize on opportunities for efficiencies.

The IT Consolidation Act called for:

Powers, duties, responsibilities, personnel, and assets relating to functions assigned to the chief information officer...are transferred to the Office of Enterprise Technology from all other state agencies... by October 1, 2011, with the exception of state agency chief information officers which are transferred 30 days after final enactment.¹

By July 1, 2013, the state chief information officer shall control and direct all information and telecommunication technology spending authorized under Minnesota Statutes, section 16E.016.²

As part of the IT consolidation law, the Office of Enterprise Technology (OET) is required to submit a report to the legislature regarding any statutory changes needed to implement the transfer of agencies' IT resources to OET. The law states:

By January 15, 2012, the chief information officer shall submit to the legislature any statutory changes needed to complete implementation of any transfer in this section.³

The following report provides some background on the current status of executive branch IT consolidation and outlines both specific and potential changes to legislation that will help in the implementation of the law to meet its full intent.

Overall, the most important recommendation in this report is to maintain the current scope of the 2011 language for, we believe, it clearly identifies the intent and sets the stage for cohesive and coherent reform across the entire executive branch. Changes and/or deconstruction should be minimal particularly at a time when we are formulating the strategies and mechanisms to successfully implement the law.

Specific change recommendations in this report are relatively minor and focus on clarifying statutory language to better meet the goals.

This report also identifies some risks that, though very real, do not yet rise to the level of needing legislative intervention, but, understanding the law's intent, are important to outline now, at the earliest stage of consolidation.

It is the common intent of this administration, the State CIO and agency leadership not only to meet the requirements of the law but to take advantage of the opportunity to reform and improve the delivery of information technology through the tools afforded the executive branch through this legislation.

¹ Laws of Minnesota 2011, First Special Session chapter 10, article 4, section 6, paragraph a

² Laws of Minnesota 2011, First Special Session chapter 10, article 4, section 6, paragraph c

³ Laws of Minnesota 2011, First Special Session chapter 10, article 4, section 6, paragraph b

OET achieved the transfer of IT resources as laid out in law, and continues to work to build the framework of a new paradigm in Minnesota. It is clear this initiative is fundamentally shifting how state government is organized. The State did not have the financial, accounting, and human resources tools in place to fully facilitate a central agency to have full control over resources previously held by agencies, and provide services back to the agencies. OET, Minnesota Management and Budget (MMB), agency commissioners, deputy commissioners, chief financial officers, human resources directors, and chief information officers developed a temporary system to achieve the mandate. The temporary system is working within the language of the IT Consolidation Act and other current state statutes. However, OET is currently in a discovery and analysis phase to determine what structural changes to IT will be necessary. As the State develops permanent systems to facilitate such a structure, statutory changes will likely be necessary in the future.

This report contains issues OET is aware of through early analysis, but that do not require any statutory change at this time. To the contrary, it is critical that the language and intent of the Act remain “as is.” The current balance of authority between OET, agencies, and MMB, the scope of executive branch entities, and the scope of IT resources included are the right components to achieve the goals of IT consolidation.

Background: Status of IT Consolidation

Phase One: The law mandating the consolidation of executive branch IT was passed in July 2011 and contained some very aggressive early deadlines. For that reason, implementation was segmented into four phases, the first of which focused on transferring the authority for and the management of all IT resources – dollars, people and assets – to the Office of Enterprise Technology.

- In order to minimize disruption to government functions and services, this transfer of authority was implemented through interagency agreements (signed on October 3, 2011) and did not include the physical or transactional transfer of IT staff to OET. Instead, the interagency agreements identified and confirmed all IT resources necessary for continued current levels of IT support through FY12 and transferred the authority for these agency resources to the State CIO.
- Authority for the management of individual agency resources and activity was then delegated by the State CIO to each individual agency CIO. This has allowed for the creation of a “virtual” state IT organization under the direction of the State CIO in compliance with the deadline set in law, in a manner that sets the stage for more integrated consolidation and collaboration in the months and years ahead.

The success of the first phase of IT consolidation is entirely attributable to the hard work and collaboration of state business and IT leadership. The Governor, MMB, Commissioners, OET and state IT management worked diligently and quickly to identify issues, find workable solutions, and take the first, difficult leap of faith together in what amounts to the largest government reform effort most have seen in their careers at the State. At the time of this report, many at both the leadership and employee levels are seeing beyond the logistics of consolidation to the potential for improved government that this effort represents.

Phases Two and Three: Phases two and three - concurrently underway – focus on two important elements that were not possible in phase one: analysis of the current state and planning for the future. Within these phases we have defined seven distinct projects that, upon completion, will result in the following:

- **Agency Centralization:** All agency IT will have a common definition of services, common functional constructs for management and accounting, common employee policies and management discipline designed to improve services and minimize costs
- **Central Organization Planning:** The central organization will be prepared to manage its increased role and responsibilities through careful planning and resource management
- **Enterprise Human Resources:** Standard enterprise employee policies and a redefined internal HR function will facilitate a smooth transition from a virtual organization to an integrated one

- **Finance:** There will be a single view into state IT spending that leads to better decisions and economies of scale, through standard accounting and financial planning procedures
- **Service Level Agreements:** Agency IT services – both local and centralized – will be managed through standard service level agreements
- **State IT Governance:** The State CIO will manage her mandated duties through appropriate governance that includes both business input and operational management
- **Strategic Planning:** State IT will operate through strategies and tactics that stem from the construct of a five-year vision for how information technology serves the business of the State

Phase Four: The fourth phase will be a multi-year effort to optimize the opportunities for collaboration, economies of scale, process improvement, redundancy avoidance, etc., that will result in more efficient IT and realize the true intention of the law.

Critical Success Factor: Preserve the Integrity of the IT Consolidation Law

Priority: High

Request: Do not modify OET statutes or the IT consolidation law without full consultation with OET on the means and effects of changes.

Meeting the legislative intent and realizing the full benefits of consolidation is a multi-year proposition that depends on consistency of direction and purpose. A strategy is in now in place for that multi-year effort and investments in time, dollars and buy-in are being made on a daily basis. Changing the scope, parameters and investment would diffuse the law's potential and break momentum and the good will and cooperation that have already been generated.

The following components are paramount to the initiative's success.

- First, the current scope and definition of IT in the law is the appropriate scope and the only way to achieve the goals of having all the State's IT resources in one view and ultimately optimizing the state's technology operations.
- Second, the current scope of authority - all executive branch agencies - ensures that the cooperation and collaboration across state government can be maximized and the entire state environment can be standardized. Granting any additional exceptions to this could disrupt and set back the months of planning that has already occurred and by definition ensure that certain executive branch agencies remain IT silos.
- Third, it is crucial that the State CIO retains the authority to determine the meaning of the IT consolidation law and to implement policies and standards to achieve this. This sets appropriate authority and accountability for key decision-making while laying the groundwork for a governance that include and respects the role of the government business "customer." The legislation's inclusion of the Technology Advisory Committee and the consultative role of MMB have helped to ensure that the State CIO has adequate counsel in making decisions related to consolidation that are in the best interests of the State. Changing authorities and governance would undermine the successful implementation of the law and the growing confidence by all parties that consolidation is in the best interests of the State.

Recommended OET Statute Changes

The Office of Enterprise Technology - the organization designated to govern the new, consolidated state IT environment - is undergoing a significant transition. As a direct result of this legislation, OET is growing 600% to one of the largest agencies in state government, expanding from about 300 employees to over 1800.

When, in 2005, state law created the agency, its mandated functions was as an oversight agency and a service provider, not the centralized management of all state IT resources. To accommodate and clarify its new role, OET anticipates the need for a few changes to its statute. As analysis continues on the current state of IT practices and resources, further changes may be requested/recommended.

IT Project Oversight

Priority: Moderate

Request: Make changes to portfolio and project management statutes in 16E to remedy inconsistencies in reporting and oversight.

Since its creation, numerous elements of OET's enabling legislation have been adopted and/or modified to require OET's oversight of agencies' IT projects to ensure their successful completion and avoid the fate of projects such as HealthMatch. These functions are commonly referred to as portfolio and project management and are implemented through OET's Project Management Office.

The statutory requirements, however, are inconsistent, often overlapping and conflicting with each other. Consequently, this makes them difficult for OET to implement and creates confusion among the agencies as to their responsibilities.

A 2009 report from the Legislative Auditor recommended that OET suggest clarifying changes to these statutes. Specific areas with inconsistencies include project risk management and the thresholds that trigger specific oversight. Clarity in this area is even more important in light of IT consolidation and what is expected of OET as the accountable agency for the management and investment of IT resources.

OET Name Change

Priority: Low

Request: Amend Minnesota Statutes 16E to reflect name change if deemed beneficial.

With the enactment of IT consolidation, a new central IT organization has been, for all intents and purposes, formed that merges both the resources and the identity of individual agency and central IT. In light of that change – and the necessary cultural and practical identity shifts that go along with it – a new name that signifies the intent to merge rather than “take over” may be appropriate and would help to build a sense of inclusion for state employees. We do not expect that a name change would significantly alter the cost of rebranding the agency IT operations that will be necessary whether the central organization undergoes a name change or not. We are still in discussions weighing the costs and benefits of changing the agency's name. We are requesting a name change be granted legislatively should it be deemed to be beneficial to the identity of the new consolidated organization.

Identified Risk Factors

The following significant risk factors are of concern to OET in its present understanding of what will be required to meet the intent of the law over the coming few years. These risk factors, however, have not risen to the level of concern or specificity that would require legislative attention. We anticipate that as we complete the extensive analysis and planning activity now underway (pages 3 and 4), we will better be able to identify which of these risk factors need mandated change or assistance.

The purpose of this section is to share the early warning signs that are arising from our initial discovery and planning phase. Our intent is to work, as much as possible, within the granted authority and partnerships to address them systematically as they are better understood.

Cost of IT Consolidation – Ability to Capture Savings

It has been pointed out that the IT consolidation effort prescribed by this legislation is the largest reorganization of Minnesota state government in decades. Yet there has, to date, been no funding designated in legislation or elsewhere for implementation. Although OET has been able to initiate the preliminary stages through the re-purposing of internal funds, there is no clear path forward for funding those activities and investments that will lead to real reform and efficiencies during the next stage of consolidation and into the future. This is a critical risk factor.

To date, OET has absorbed the early costs for planning, finance, accounting, communication, human resources, legal, etc., at the enterprise level, and has asked agencies – through an interagency agreement – to absorb the administrative costs of consolidation at the local level. However, this model is unsustainable. As IT moves from a virtually consolidated to a single organization, the means to manage that change must be addressed or both agency IT and central IT will falter. Once the IT departments merge, if there is no money to invest in efficient operations, processes and/or systems that will realize the potential long-term efficiencies implied by consolidation, the legislation's intent cannot be realized.

It is evident that the Legislature understood the risk and anticipated the need for utilizing captured savings:

The chief information officer may implement expansion, relocation, or consolidation to the extent feasible and desirable with existing resources, or to the extent that savings resulting from the expansions or consolidations will pay for the costs associated with these activities during the biennium ending June 30, 2013.[1]

However, without a clear mechanism for identifying, capturing and investing the savings attributable to consolidation, the risk of failure remains.

The good news is twofold:

- 1) OET and Minnesota Management and Budget (MMB) are working together to identify and actualize the necessary mechanisms for capturing savings for IT reinvestment in a manner that requires no further legislative changes, and that is fair and equitable to both IT and state government programs. We will advance legislation if we determine we need it.
- 2) We are optimistic about the opportunities for savings even in the early stages that, with the appropriate mechanisms in place, will help cover costs of the transition and address the mitigation of some of the risks outlined below. Investment is needed, but we believe that it will lead to further efficiencies down the road. A mechanism designed to capture savings can contribute to the long-term health of the State's IT

[1] Minnesota Statutes, Chapter 16E.016, paragraph b

infrastructure by making it possible to reinvest in information technology priorities, including replacement of legacy systems, investment in new, effective technologies, and shared technology systems and solutions.

Our goal, over the coming months, is to continue work with MMB on funding solutions available within the current scope of the law that can, over the long term, realize the legislation's intent and promise even as it maintains (and improves) the health of the information technology that serves the business of the State. Together, the two agencies will determine whether the risk can be mitigated without additional legislative clarification and/or specific, mandated mechanisms.

Human Resources

The state IT workforce is key not only to the success of this initiative, but also to finding innovative solutions to carry out the business of the state. State IT employees are an important resource and the State has a challenge in the coming years retain its quality workforce and attract new staff. A number of human resource challenges are coming to light as we prepare for the eventual move of agency-based IT employees to the central organization (regardless of their ultimate physical location). Because of the existing diversity of agency IT organizational structures and different ways of defining IT work, we must establish consistent functional definitions and reporting relationships, standardize work and classifications, and resolve inequities in compensation. An expected increase in retirements among highly proficient technical specialists and managers in agencies make these changes particularly difficult and important, as we strive to build an agile and equitable workforce environment that attracts talented workers and builds strong information technology careers.

OET is currently working with MMB and the agency HR community to identify issues and manage solutions that meet the challenge of this significant shift in workforce deployment.

Prior Investment in IT

As the economic downturn has forced the cutting of agency budgets, IT budgets have suffered along with the programs they serve. Not unexpectedly, OET has found a substantial gap between the "have" and "have-nots" in agency technology environments, precipitated by the disproportionate and disparate IT investments made by various agencies over the past few years. Such discrepancies leave some state IT operations underfunded and thus unable to provide the most efficient and effective solution for state business. As the State's IT budgets and expenditures come into a single view and operations and service expectations become standardized, there may be agencies that will find it difficult to provide standard IT services to their agency customers with their current systems and/or levels of support. Current discovery and analysis activity will shed further light on the issue.

Of particular concern is the age of "legacy" systems and infrastructure in the State, including some major systems upon which the public depends. This is a result, primarily, of investments being delayed in times of tight budgets. An alarming amount of State IT equipment has completed normal lifecycles and carries security and business continuity risks to operate. These assets need to be refreshed in order to maintain effectiveness and provide further efficiencies for state government.

Investment in IT can never stop. As systems reach the end of life or as new technologies that can improve government service become cost effective, the State will always need to refresh and reinvest. It is our expectation that the consolidation of IT will allow the State to better track and evaluate the necessary investments on an enterprise level. However, it is our fear that in the next few years, the cost of "catching" up on investments will take a significant toll (and create a certain "sticker shock") on limited state IT resources.

Security and Risk

There is a widespread lack of risk mitigation in state IT today. While OET has previously been charged with providing leadership, standards, and policies on IT security, disaster recovery, and business continuity; there was no mechanism to require that agencies invest in IT security. With all the IT resources now being under the

authority of OET, the risks and vulnerabilities are in full view. This area will need major investments in the coming months and years.

The Enterprise Security Program is still relatively new and much work needs to be done to adequately address complex cyber threats for across state government. Presently, the State faces a high level of risk due to lax security controls and an inadequate investment in people, tools, and processes. In OET's March 2010 Comprehensive Information Security Funding Strategy Report, it was pointed out that the State's investment in security stands at 2 percent of its total IT budget, compared to an industry standard of 5.4 percent to 6.2 percent. There has never been adequate funding for security controls in state agencies. Since the date when the report was published, budget cuts have further eroded investments in risk mitigation both for the Enterprise Security Program and individual agencies.

Consolidation of IT services will significantly improve the security profile of the State and make the achievement of an appropriate level of risk more affordable. However, even with consolidation, information security is one area where the State will need to invest significantly more. Preservation of OET's remaining General Fund base will be vital, particularly as the organization works to build out and advance the capabilities of the new Enterprise Security Program. In addition, leaders across the executive branch will need to be prepared to pay more for necessary cyber security services, such as advanced security monitoring of state systems and networks.

Procurement

As the state IT community begins the process of self-analysis, and as contracts and funding come under a single view, opportunities are evident for additional savings in the procurement of IT hardware and software, above and beyond the current standards program that has been in effect for several years. OET and the Department of Administration are close partners in IT procurement activities and will be looking at these activities in an entirely new light. With consolidation, the opportunity is there for the State to collapse hardware and software purchases and licensing in a manner that may well bring down the total cost of IT. It will be important to maximize procurement processes and avoid barriers in order to realize significant savings and cost avoidance in this area.

Additional Documentation

Additional documentation regarding the management of IT consolidation can be found on the OET website: <http://mn.gov/oet/governance/initiatives/index.jsp>

- [State IT Strategic Planning Summary](#), December 9, 2011
An outline of the planning process for the State IT Master Plan and State IT Strategic Plan.
- [Phases Two and Three Tactical Plan](#), October 28, 2011
This plan identifies the steps for Phases Two and Three of IT consolidation, with a focus on the immediate Phase Two tasks. It also provides a high-level strategy for the overall two-year milestones. Note: this plan is subject to change as Phase Two gets underway.
- [Phase One Tactical Plan](#), August 17, 2011
This plan outlines the overall strategy and approach for IT consolidation, and provides planning details for Phase One. This version 1.0 may be updated through the months of August and September.