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# **Government Operations Appropriations Subcommittee**

**Tuesday, January 14, 2014  
9:00 AM – 11:00 AM  
Morris Hall (17 HOB)**

**MEETING PACKET**

**Will Weatherford  
Speaker**

**Clay Ingram  
Chair**



**The Florida House of Representatives**  
**Appropriations Committee**  
**Government Operations Appropriations Subcommittee**

**Will Weatherford**  
Speaker

**Clay Ingram**  
Chair

January 14, 2014

AGENDA  
9:00 AM – 11:00 AM  
Morris Hall

- I. Call to Order/Roll Call
- II. Presentations on  
FY 2014-15 Legislative Budget Requests & Possible Reduction Issues  
Northwood Shared Resource Center  
*Curtis Unruh, Executive Director*  
Southwood Shared Resource Center  
*Tony Powell, Executive Director*
- III. Report 2014-005 Primary Data Centers Cost Allocation Processes  
*Lisa Norman, Audit Manager, Florida Auditor General*
- IV. Staff Update on State Primary Data Centers
- V. Closing Remarks/Adjourn





Northwood Shared Resource Center

# **Budget, LBR & Schedule VIII-B Brief**

January 2014



Curtis R. Unruh, MPA, PMP,  
Executive Director





## Agency History

The Northwood Shared Resource Center (NSRC) was established in 2009 as one of the State of Florida's Primary Data Centers providing utility computing services to state agencies.

The NSRC is a 24x7x365 data center.

## Agency Goal

*“The goal of the NSRC is to provide cost effective and efficient enterprise data processing services that are reliable and secure to our customer agencies that provide core state business functions directly to the citizens of the state or agencies that support the citizens.”*



## ***FY Budget Component Comparison***

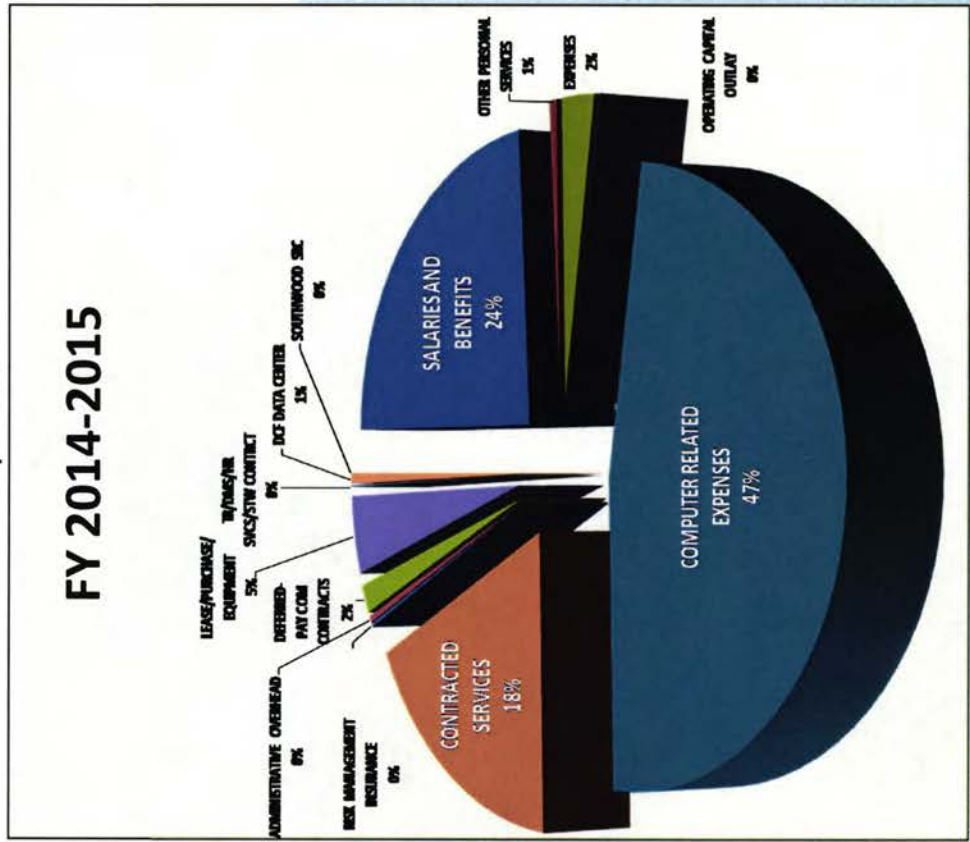
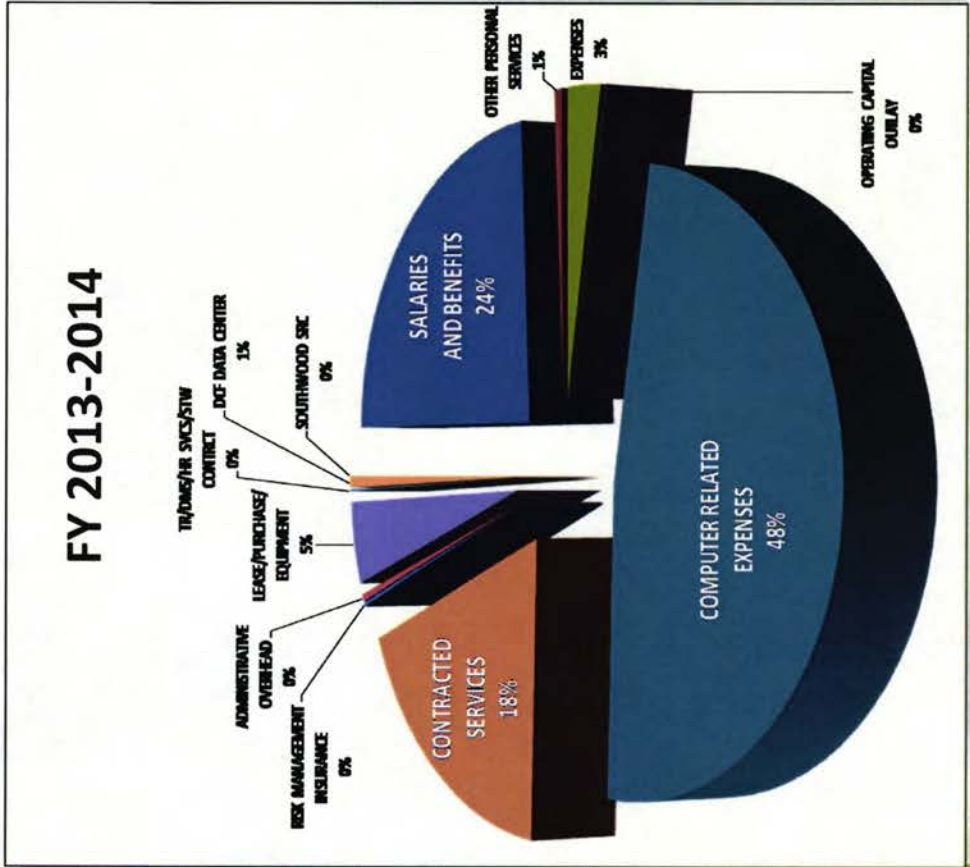
Fiscal year

<b>APPROPRIATION CATEGORY</b>	<b>2013-14</b>	Requested <b>2014-15</b>
SALARIES AND BENEFITS	\$7,262,066	\$7,474,702
OTHER PERSONAL SERVICES	\$197,967	\$197,967
EXPENSES	\$814,935	\$814,935
OPERATING CAPITAL OUTLAY	\$24,084	\$24,084
COMPUTER RELATED EXPENSES	\$14,312,841	\$14,671,816
CONTRACTED SERVICES	\$5,482,459	\$5,482,459
RISK MANAGEMENT INSURANCE	\$66,454	\$66,454
ADMINISTRATIVE OVERHEAD	\$125,000	\$125,000
DEFERRED-PAY COM CONTRACTS		\$523,914
LEASE/PURCHASE/EQUIPMENT	\$1,465,100	\$1,465,100
TR/DMS/HR SVCS/STW CONTRACT	\$33,991	\$33,991
DCF DATA CENTER	\$198,551	\$198,551
SOUTHWOOD SRC	\$540	\$544
	<b>\$29,983,988</b>	<b>\$31,079,517</b>



## Budget by Category (%)

Requested





## **FY 2014-15 Agency Legislative Budget Requests**

VNX ARRAY	\$92,977
BLADE SERVERS FOR VIRTUAL INFRASTRUCTURE EXPANSION	\$44,000
EXPANSION OF ENTERPRISE BACKUP	\$588,632
SQLSVR 2012 LICENSES	\$775,108
ADDITIONAL WINDOWS SYSTEM MANAGEMENT SOFTWARE LICENCES	\$76,350
SYSTEM MONITORING SOFTWARE LICENSES	\$23,000
NETWORK MONITORING TOOL	\$99,581
DATA CENTER ADMINISTRATIVE TOOL	\$250,000
FOGLIGHT LICENSES	\$222,800
VBLOCK FLORIDA SYSTEM	\$83,790
ARCHIVE SOLUTION FOR EXCHANGE	\$15,000
DISASTER RECOVERY - BUDGET AUTHORITY ALIGNMENT	\$749,914
<b>Total Requested FY 2014-2015 Agency LBR Issues</b>	<b>\$3,021,152</b>





### **FY 2014-15 Agency Requests on Current Budget Authority**

Total FY 2014-15 Agency Legislative Budget Requests	\$3,021,152
Reduction in budget authority – transfer to DCF	<u>(\$2,300,000)</u>
<i>Net Increase in Budget Authority</i>	\$ 721,152



## VNX Arrays (storage)

This request is to add two additional VNX arrays to the existing environment (of 6). Current storage is over 90% of available capacity and additional storage is required to support known growth and outstanding customer requirements . The request will add approximately 120 TBs of usable storage, licensed appropriately and with 5-years of maintenance.

- \$92,997 Supports all customers.

## Blade Servers / Virtual Infrastructure Expansion

New customer agency projects and operational computing needs outstrip the NSRC's ability to provide capacity.

This request is to add one additional chassis populated with 16 server blades licensed to run VMware and Windows virtual servers.

- \$44,000 Supports all customers.





## Expansion of Enterprise Backup

As a result of Data Center Consolidation (DCC), the NSRC inherited the backup responsibilities, practices, and technologies for eleven agencies (56 different backup drives, 8 different systems with 13 versions of those systems).

With the reality of DCC, this non-enterprise approach has become problematic in terms of staff efficiency, training, and service levels.

Request adds additional capacity to realize full consolidation of the environment, achieve the greatest efficiencies, and accommodate forecasted storage growth rates. Over 5 years.

- \$588,632

Supports all customers.



## Software Licences

**SQL Server** - As a result of DCC, the NSRC inherited hundreds of SQL Server databases of which 73% are so old as to no longer be supported by Microsoft.

Supports all customers. \$775,108

**Tivoli End-point Manager** – the tool used to automate the monthly patching of servers and provide antivirus protection.

Supports all customers - \$76,350

**Solarwinds** - monitors the health and availability of systems under Data Center responsibility. Additional licenses are required.

Supports all customers - \$23,000





## Software Licences (Continued)

**Data Center Administrative Tool** - An enterprise-class tool is needed to support and track customer's incidents, problems, and change requests. Supports all customers - \$250,000

**Foglight Database Environment Monitoring** - NSRC does not have a comprehensive database performance and monitoring tool to proactively identify issues at the database level. Supports all customers - \$222,800

**Network Monitoring** - the NSRC does not have a monitoring tool for TCP/IP network traffic. Supports all customers - \$99,581





## Vblock Environment support – (DCF Affordable Health Care Act)

The requested budget authority will provide for data center support for the Vblock, which provides a rules solution for Medicaid Eligibility.

- \$83,790

## Disaster Recovery - ACHA

The NSRC has assumed contracts for disaster recovery for AHCA in Fiscal Year 2013-2014 without any additional budget authority. Both contracts are through DSM located in Winter Haven, Florida.

- \$749,914

## Archive Solution for Exchange (NSRC)

The proposed solution will enable automated message archiving to an independent system

- \$15,000





## Schedule VIII B-2



### Proposed Reductions in the Fiscal Year 2014-15 LBR

Priority	Item	Issue Number	Fund	Amount	FTE	Status of Reduction in FY 2014-15 GAA	
1	REDUCE MAINFRAME SUPPORT	33V0130	WORKING CAPITAL TRUST FUND	(102,960)	0.00	Not Picked Up in FY 2014-15 GAA	This reduction is specifically targeted to the Mainframe Processing area. Hours will be reduced for a contract position and the current work assignments will be reassigned to other mainframe team members.
2	REDUCTION FOR MAINFRAME CONSOLIDATION	33V0140	WORKING CAPITAL TRUST FUND	(230,284)	0.00	Not Picked Up in FY 2014-15 GAA	The amount is an estimate of the savings that will realized with the merger of the elimination of the mainframe development hardware.
3	REDUCTION OF PRINT SERVICES	XXXXXXX	WORKING CAPITAL TRUST FUND	(200,000)	0.00	New Reduction Issue	Currently the NSRC manages the contract for Pitney Bowes for the Department of Children and Families. The contract is for print services related to the processing of applications for the Supplemental Nutrition Assistance Program, Medicaid and the Temporary Assistance for Needy Families Program. The NSRC is proposing to transfer management of the Pitney Bowes contract to the Department of Children in Families. This result in an administrative savings.
4	REDUCE MAINFRAME COST	XXXXXXX	WORKING CAPITAL TRUST FUND	(472,921)	0.00	New Reduction Issue	The Department of Health will be removing the Women, Infants and Children (WIC) application and data base from the mainframe, which result in a reduction of cost to the NSRC.
5	REDUCTION OF DATA CENTER SERVICES	XXXXXXX	WORKING CAPITAL TRUST FUND	(104,604)	0.00	New Reduction Issue	This platform reduction is related to the Department of State transferring data center services to a cloud solution.
6	REDUCTION OF DATA CENTER SUPPORT	XXXXXXX	WORKING CAPITAL TRUST FUND	(63,886)	0.00	New Reduction Issue	Currently the NSRC has a contract for Premier support through Microsoft that provides 24 hour assistance with Microsoft applications. This contract will not be renewed and support through Microsoft will be paid based on actual usage of support services.
7	REDUCE EQUIPMENT MAINTENANCE COVERAGE	XXXXXXX	WORKING CAPITAL TRUST FUND	(44,841)	0.00	New Reduction Issue	This reduction is due to equipment that no longer needs maintenance coverage.
8	REDUCE CONTRACTOR HOURS	XXXXXXX	WORKING CAPITAL TRUST FUND	(263,943)	0.00	New Reduction Issue	Currently, the NSRC supplements its staff with contractors who perform advanced critical information technology functions. This reduction issue would reduce the contracted staff hours. This would have a direct impact on data processing services and increase the amount of time to complete projects. This would be an 8% reduction of contracted employee hours. Resulting in contracted staff not being available 6 weeks of the year.





## 2014 Goals

Cost Efficiencies – the requested LBR's will allow the NSRC to:

- Continue consolidation efforts, establish supported platforms, maximize resources, lower costs, and gain contract efficiencies.
- Continue to leverage virtualization in server and storage environments
- Expand enterprise solutions for backup and disaster recovery
- Reduce overhead costs





<https://www.nsrc.myflorida.com>

Questions?





# Southwood Shared Resource Center

House of Representatives  
Government Operations

Appropriations Subcommittee Meeting LBR – 8B  
FY 2014-2015 – FY 2018-2019



**SSRC**  
SOUTHWOOD SHARED RESOURCE CENTER



January 14, 2014

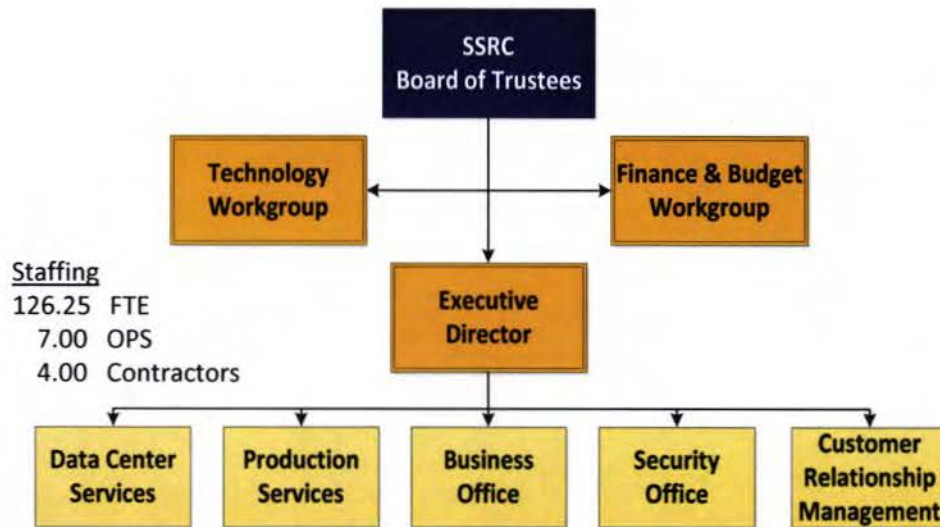




# Organizational Chart

## MISSION

"In accordance with Chapter 2008-116, Laws of Florida, the mission of the Southwood Shared Resource Center Board of Trustees ("SSRC") is to manage the provision of the data center services to State Agencies in Florida on a cost-recovery basis in order to provide a more efficient and cost effective utilization of computer and telecommunication network resources utilized by State Government."



FY 2013-2014 Operating Budget		
010000	Salaries & Benefits	\$ 9,038,588
030000	Other Personal Services	\$ 295,600
040000	Expenses	\$ 3,458,236
060000	OCO	\$ 114,250
100777	Contracted Services	\$ 16,380,790
103241	Risk Management Insurance	\$ 19,156
105002	Administrative Overhead	\$ 125,000
105241	Contracted Services	\$ 808,150
105280	Deferred Payment Commodities (CEFP)	\$ 1,423,187
105281	Lease/Purchase/Equipment	\$ 1,280,528
107040	HR Transfer to DMS	\$ 42,871
	<b>Total</b>	<b>\$ 32,986,356</b>
Administrative Funds (GR)		
	Contract Services (Disaster Recovery)	\$ 250,000
	Settlement for Enterprise Email	\$ 5,000,000
	<b>Total</b>	<b>\$ 38,236,356</b>

**"The SSRC was the first of only two governmental Tier III-certified constructed facilities in the world."**

[www.uptimeinstitute.com](http://www.uptimeinstitute.com), last assessed May 2012

# SSRC Customer Overview

State Agency Customers	
Agency for Healthcare Administration	Department of Military Affairs
Agency for Persons with Disabilities	Department of Revenue
Department of Business and Professional Regulation	Department of State
Department of Children and Families	Department of Transportation
Department of Citrus	Department of Veterans' Affairs
Department of Corrections	Executive Office of the Governor
Department of Economic Opportunity	Florida Commission on Human Relations
Department of Education	Florida Fish and Wildlife Conservation Commission
Department of Elder Affairs	Florida Legislature
Department of Financial Services	Justice Administrative Commission
Department of Health	Office of Early Learning
Department of Highway Safety and Motor Vehicles	Public Employees Relations Commission
Department of Juvenile Justice	Public Service Commission
Department of Lottery	State Attorney 14th Circuit
Department of Management Services	Statewide Guardian Ad Litem
Non-State Agency Customers	
Children's Home Society	Santa Rosa County
Community Based Care of Brevard	Greater Orlando Aviation Authority
Community Based Care of Seminole	Miami-Dade Expressway Authority
Cope Center	Water Management District - Northwest Florida
Water Management District - Suwannee River	
Critical Applications	
Medicare/Medicaid Patient Assessment (AHCA)	Statewide HR/Payroll, People First (DMS)
Computer Assisted Reception Process (DC)	Roster Management System (DC)
Offender Based Information System (DC)	Florida Medical Quality Assurance (DOH)
Public Offender Search (DC)	Florida Shots (DOH)
Childcare Website (DCF)	Health Management System (DOH)
Unemployment Compensation (DEO)	Web InfoStruct (DOL)
D. A. V. I. D. Web Database (DHSMV)	SUNTAX (DOR)
Florida Retirement System (DMS)	State Courts (GAL)
Statewide Purchasing, My Florida Market Place (DMS)	Public Services, utilities, phone, water (PSC)

## Objectives:

- Equipment replacement/refresh to maintain production.
- Acquisitions and upgrades to support required mandates.
- Consolidation, expansion, and improvements to operational management and processes.

The SSRC provides critical application support to over 35 agencies, boards, commissions, cities, counties, municipalities, and not-for-profit organizations.



# Legislative Budget Requests

- **Base Budget - \$31,731,717 and 126.25 FTE**
  
- **14 LBR Issues - \$4,438,377**
  - (36160C0) Oracle Server Database Hardware Refresh - \$200,000
  - (36161C0) Oracle Shared Application Hardware Refresh - \$60,000
  - (36162C0) Backup Expansion - \$669,400
  - (36163C0) SAN Consolidation - \$371,890
  - (36164C0) Server Equipment - \$400,000
  - (36165C0) Server Monitoring Tools/Licenses - \$173,000
  - (36166C0) Security Penetration Testing - \$100,000
  - (36167C0) Windows Enterprise Agreement Expansion - \$150,000
  - (36168C0) SQL Server Licenses - \$175,000
  - (36169C0) VMware with Enterprise Suite - \$444,687
  - (36170C0) Citrix Licenses - \$226,400
  - (36171C0) Enterprise Vault Cloud Service - \$468,000
  - (3D01000 THRU 3D03010) Appropriation Realignment - \$0
  - (36174C0) WCTF Cash Deposit - \$1,000,000
  
- **Total SSRC Budget with LBR Requests = \$36,170,094 and 126.25 FTE**



# Legislative Budget Requests

- The following LBR's are in support of the Data Center Consolidation legislation of 2008, F.S. 282.201. In an effort to replace approximately 30% of the hardware greater than 5 years old and software consolidated by agency customers the data center requests the following 8 LBR's. The risk of not replacing this hardware will likely result in outages and will result in poor services being provided by the SSRC and an impaired operation of the missions of Agency customers.
- **8 LBR Issues - \$2,199,290**
  - (36160C0) Oracle Server Database Hardware Refresh - \$200,000
  - (36161C0) Oracle Shared Application Hardware Refresh - \$60,000
  - (36162C0) Backup Expansion - \$669,400
  - (36163C0) SAN Consolidation - \$371,890
  - (36164C0) Server Equipment - \$400,000
  - (36165C0) Server Monitoring Tools/Licenses - \$173,000
  - (36167C0) Windows Enterprise Agreement Expansion - \$150,000
  - (36168C0) SQL Server Licenses - \$175,000

# Legislative Budget Requests

- The following LBR is in support of the Data Center Consolidation legislation of 2008, F.S. 282.201. In an effort to remain a CJIS Certified agency the Federal Bureau of Investigations (FBI) require this facility to perform a Security Penetration test annually.
- **1 LBR Issues - \$100,000**
  - (36166C0) Security Penetration Testing - \$100,000
- The following LBR are in support of services requested by the SSRC Board of Trustees.
- **3 LBR Issues - \$1,139,087**
  - (36169C0) VMware with Enterprise Suite - \$444,687
  - (36170C0) Citrix Licenses - \$226,400
  - (36171C0) Enterprise Vault Cloud Service - \$468,000
- The SSRC utilizes Working Capital Trust Fund (WCTF) to remain solvent in the later months of the fiscal year.
- **1 LBR Issues - \$1,000,000**
  - (3D01000 THRU 3D03010) Appropriation Realignment - \$0 (Aligning Appropriation Category to Expenditure)
  - (36174C0) WCTF Cash Deposit - \$1,000,000
- **Base Budget - \$31,731,717**
- **Total LBR Requests = \$4,438,377**
- **Total SSRC Budget with LBR Requests = \$36,170,094 and 126.25 FTE**

# Schedule VIII-B Proposed Reductions

- **Target LBR Reductions = \$1,564,063 and 4.0 FTE**
  
- **Positions Reduction – Minimal Impact**
  - This reduction would have minimal impact on SSRC's ability to provide enterprise information technology services.
  - 4.0 FTE
  - \$122,084
  
- **Expenses Reduction – Significant Impact**
  - This reduction would have *significant* impact on SSRC's ability to provide enterprise information technology services.
  - \$300,000
  
- **Contracted Services Reduction – Significant Impact**
  - This reduction would have *significant* impact on SSRC's ability to provide enterprise information technology services.
  - \$1,141,979
  
- **Total LBR Reductions = \$1,564,063 and 4.0 FTE**





# Q&A

## Questions & Answers

1/14/2014







# Primary Data Centers Cost Allocation Processes Operational Audit Report No. 2014-005



# Primary Data Centers Cost Allocation Processes

- Our audit included an evaluation of cost allocation processes at the following primary data centers:
  - Northwest Regional Data Center (NWRDC)
  - Northwood Shared Resource Center (NSRC)
  - Southwood Shared Resource Center (SSRC)



# Primary Data Centers

## Cost Allocation Processes

- The objectives of the audit included, at each of the primary data centers:
  - A determination of data center compliance with applicable laws, rules, and guidelines;
  - An evaluation of the methodology used to allocate data center costs to each State agency;
  - An examination of the data center billings and expenditures and the process used to reconcile total actual costs to the amounts billed.



# Primary Data Centers

- Operate on a cost-recovery basis whereby the primary data centers bill customers for the portion of operating costs associated with the specific services provided to each customer.
- The majority of customers pay for services with State and Federal funds.



# Primary Data Centers

- As customers pay for services, in part, with Federal funds, the data centers must comply with applicable Federal guidelines.
- Among other Federal requirements, each data center is to annually submit a reconciliation of revenues to expenses to be included in the Statewide Cost Allocation Plan (SWCAP).



# **COST ALLOCATION METHODOLOGY**

Florida Auditor General



# Finding 1: NSRC Cost of Services Documentation

- The NSRC did not maintain documentation to demonstrate how the final estimated costs of the various NSRC services had been determined and allocated. These cost estimates, along with utilization estimates, formed the basis for the billing rates applied to NSRC customers.
  - Support required by Florida Statutes and Federal Cost Principles.



# Finding 1: NSRC Cost of Services Documentation

- Recommendation:
  - To demonstrate compliance with State law and Federal guidelines and the appropriateness and equity of customer billings, we recommend that the NSRC maintain documentation to support the estimated costs and the allocation used to calculate the billing rates applied to customers.



## Finding 2: SSRC Cost Allocation Methodology

- The SSRC's Board of Trustees did not timely submit a plan for Legislative Budget Commission (LBC) consideration when a new cost allocation methodology that increased some State agencies' costs was implemented after the start of the 2012-13 fiscal year.



# Finding 2: SSRC Cost Allocation Methodology

- Recommendations:
  - We recommend that the SSRC Board comply with the requirements of State law and promptly provide a plan to the LBC for consideration when State agency customer costs will be increased by proposed billing rate changes.



# RECONCILIATION OF TOTAL ACTUAL COSTS TO AMOUNTS BILLED



# Finding 3: NWRDC Determination of Total Actual Costs

- The NWRDC made adjustments to customer accounts that were not based solely on the actual allowable costs of the services provided, contrary to State law.



# Finding 3: NWRDC Determination of Total Actual Costs

- Recommendation:
  - We recommend that the NWRDC ensure that adjustments to customer accounts are made in accordance with the requirements of State law. Additionally, we recommend that the NWRDC seek legislative clarification regarding the allowability of the maintenance of a reserve account.



## Finding 4: Documentation and Allocation of Personnel Costs

- SSRC personnel costs used in the calculation of customer account adjustments based on total actual costs were not always based on actual activity or appropriately allocated.
  - Required by Federal Cost Principles.



# Finding 4: Documentation and Allocation of Personnel Costs

- Recommendation:
  - To demonstrate the appropriateness of amounts billed to customers, we recommend that the SSRC allocate unused leave payments as a general administrative cost to all activities.



# Finding 4: Documentation and Allocation of Personnel Costs

- Recommendation: (Continued)
  - Additionally, we recommend that the SSRC utilize personnel activity reports or equivalent documentation that reflects actual employee activity to support the allocations of salaries and benefits used in the calculations of customer account adjustments based on the total actual costs.



# POLICIES AND PROCEDURES

# Finding 5: Policies and Procedures

- The NSRC and the SSRC had not established cost-recovery methodology policies and procedures.
  - Required by Florida Statutes.
  - Noted in prior audits of the NSRC and the SSRC.



# Finding 5: Policies and Procedures

- Recommendation:
  - We again recommend the NSRC and the SSRC establish written policies and procedures. Such policies and procedures should ensure that cost-recovery methodologies are developed in compliance with applicable laws, rules, and Federal guidelines and adequately documented.



# Contact Information

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Florida Auditor General Web Site:

[www.myflorida.com/audgen](http://www.myflorida.com/audgen)



**PRIMARY DATA CENTERS**  
**COST ALLOCATION PROCESSES**

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**Operational Audit**



## EXECUTIVE DIRECTORS OF THE PRIMARY DATA CENTERS

Pursuant to Section 1004.649, Florida Statutes, the Northwest Regional Data Center (NWRDC) at Florida State University is designated as a primary data center. The NWRDC Charter establishes a Policy Board as the governing body for the NWRDC. The Executive Director, who is selected by the Policy Board, is responsible for the overall administration of the NWRDC.

Sections 282.204 and 282.205, Florida Statutes, establish the Northwood Shared Resource Center (NSRC) and Southwood Shared Resource Center (SSRC), respectively, as primary data centers. The NSRC and the SSRC are established within the Department of Management Services (DMS) for administrative purposes only and are separate budget entities not subject to the control, supervision, or direction of the DMS in any manner. Pursuant to Section 282.203(2), Florida Statutes, the NSRC and the SSRC are each headed by a Board of Trustees (Board), composed of customer representatives. The Executive Directors of the NSRC and the SSRC are employed by and serve at the pleasure of their respective Boards.

For the period July 2011 through December 2012, the Board members who served are shown in **EXHIBIT A** of this report and the Executive Directors who served were:

Northwest Regional Data Center:	Tim Brown, Executive Director
Northwood Shared Resource Center:	James Stewart, Interim Executive Director
Southwood Shared Resource Center:	Robert Poston, Interim Executive Director from December 2012 John Wade, Executive Director through November 2012

The audit team leader was Rachel Price, CPA, and the audit was supervised by Janet Bentley, CPA. Please address inquiries regarding this report to Lisa Norman, CPA, Audit Manager, by e-mail at [lisanorman@aud.state.fl.us](mailto:lisanorman@aud.state.fl.us) or by telephone at (850) 412-2831.

This report and other reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



## PRIMARY DATA CENTERS

### Cost Allocation Processes

#### SUMMARY

State law<sup>1</sup> establishes the Northwest Regional Data Center (NWRDC), Northwood Shared Resource Center (NSRC), and Southwood Shared Resource Center (SSRC) as primary data centers (PDCs) to serve as information system utilities for customers. This operational audit of the PDCs focused on the PDCs' compliance with the applicable laws, rules, and guidelines for capturing costs, billing customers, and establishing cost-recovery methodologies and also included a follow-up on selected findings included in our report Nos. 2013-012, 2012-189, and 2011-082. Our audit disclosed the following deficiencies:

#### COST ALLOCATION METHODOLOGY

**Finding No. 1:** The NSRC did not maintain documentation to demonstrate how the final estimated costs of the various NSRC services had been determined and allocated. These cost estimates, along with utilization estimates, formed the basis for the billing rates applied to NSRC customers.

**Finding No. 2:** The SSRC's Board of Trustees did not timely submit a plan for Legislative Budget Commission consideration when a new cost allocation methodology that increased some State agencies' costs was implemented after the start of the 2012-13 fiscal year.

#### RECONCILIATION OF TOTAL ACTUAL COSTS TO AMOUNTS BILLED

**Finding No. 3:** The NWRDC made adjustments to customer accounts that were not based solely on the actual allowable costs of the services provided, contrary to State law.

**Finding No. 4:** SSRC personnel costs used in the calculation of customer account adjustments based on total actual costs were not always based on actual activity or appropriately allocated.

#### POLICIES AND PROCEDURES

**Finding No. 5:** The NSRC and the SSRC had not established cost-recovery methodology policies and procedures.

#### BACKGROUND

The Legislature determined that the most efficient and effective means of providing quality utility data processing services to State agencies requires that computing resources be concentrated in quality facilities that provide the proper security, infrastructure, and staff resources to ensure that the State's data is maintained reliably and safely, and is recoverable in the event of a disaster.<sup>2</sup> At December 2012, three primary data centers (PDCs) had been established as information systems utilities for customers: Northwest Regional Data Center (NWRDC), Northwood Shared Resource Center (NSRC), and Southwood Shared Resource Center (SSRC). PDC customers include, but are not limited to, State agencies, local governments, and water management districts. Each PDC is headed by a board of trustees (Board) which employs an executive director who is responsible for daily operations.

The PDCs operate on a cost-recovery basis whereby the PDCs bill customers for the portion of operating costs associated with the specific services provided to each customer. The PDCs are part of the State's financial reporting entity, and the majority of PDC customers pay for services with State and Federal funds. As PDC customers pay for services, in part, with Federal funds, the PDCs must comply with applicable Federal guidelines, including Office of Management and Budget (OMB) Circular A-87. To ensure compliance with OMB Circular A-87, each PDC must,

<sup>1</sup> Sections 1004.649, 282.204, and 282.205, Florida Statutes.

<sup>2</sup> Section 282.201(1), Florida Statutes.

among other things, annually submit to the Department of Financial Services (DFS) a reconciliation of revenue to expenses for inclusion in the Statewide Cost Allocation Plan (SWCAP).

## FINDINGS AND RECOMMENDATIONS

### Cost Allocation Methodology

State law<sup>3</sup> requires that the NSRC and the SSRC Boards establish procedures to ensure that budgeting and accounting procedures, cost-recovery methodologies, and operating procedures comply with applicable laws, rules, and Federal guidelines. Pursuant to State law,<sup>4</sup> the NSRC and the SSRC Boards are to ensure the sufficiency and transparency of PDC financial information by, among other things, establishing policies that ensure that cost-recovery methodologies, billings, receivables, expenditure, budgeting, and accounting data are captured and reported timely, consistently, accurately, and transparently. In addition, State law<sup>5</sup> requires that the NWRDC maintain an appropriate cost-allocation methodology which accurately bills State agency customers based solely on the actual direct and indirect costs of the services provided to State agency customers and prohibits the subsidization of non-State agency customers' costs by State agency customers.

#### Finding No. 1: NSRC Cost of Services Documentation

To fully recover the costs of NSRC services, the NSRC established billing rates for each service provided to customers. The billing rates were calculated based on the estimated cost and utilization of the various NSRC services. Our audit disclosed that, for the 2012-13 fiscal year billing rates, the NSRC could not, upon audit request, provide documentation supporting the estimated costs or the allocation of those costs used in the calculation of the final billing rates. In response to our audit inquiry, NSRC management indicated that, inadvertently, the worksheet containing the estimated costs used to calculate the final billing rates was not saved. NSRC management provided documentation supporting estimated costs totaling \$19,273,274 used in a preliminary calculation of the billing rates. However, the NSRC had subsequently identified additional costs totaling \$491,408 and those costs, along with the costs from the preliminary calculation, were allocated and used in the calculation of the final billing rates.

State law<sup>6</sup> requires the NSRC Board to ensure the sufficiency and transparency of the PDC's financial information. Additionally, as PDC activities are supported in part by Federal funds, Federal guidelines<sup>7</sup> require that all costs and data used to distribute costs be supported by formal accounting and other records that support the propriety of the costs assigned to Federal awards. Absent documentation of the estimated costs and the allocation used to calculate the final billing rates applied to customers, the NSRC could not demonstrate that the established rates were appropriate, equitable, and supported in accordance with the requirements of State law and Federal guidelines.

**Recommendation:** To demonstrate compliance with State law and Federal guidelines and the appropriateness and equity of customer billings, we recommend that the NSRC maintain documentation to support the estimated costs and the allocation used to calculate the billing rates applied to customers.

<sup>3</sup> Section 282.203(3)(b), Florida Statutes.

<sup>4</sup> Section 282.203(3)(e)1., Florida Statutes.

<sup>5</sup> Section 1004.649(1)(b), Florida Statutes.

<sup>6</sup> Section 282.203(3)(e), Florida Statutes.

<sup>7</sup> OMB Circular A-87, Attachment C, State/Local Wide Central Service Cost Allocation Plans.



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**Finding No. 2: SSRC Cost Allocation Methodology**


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To fully recover the costs of SSRC services, the SSRC established billing rates for each service provided to customers. The SSRC billing rates were historically calculated based on the estimated costs and estimated customer utilization of the various SSRC services. However, after the start of the 2012-13 fiscal year, SSRC staff developed a new cost allocation methodology which charged customers based on estimated costs and actual utilization, rather than estimated utilization. The change in methodology was made retroactive to July 2012 and, on March 8, 2013, the SSRC sent invoices to customers that reflected the change in the billing rates charged for services for the period July 2012 through December 2012 based on the new methodology.

State law<sup>8</sup> requires each PDC Board to provide a plan for consideration by the Legislative Budget Commission (LBC) if, after the start of a fiscal year, a billing rate schedule is used that increases any agency's costs for that fiscal year. In response to our audit inquiry, SSRC management indicated on April 5, 2013, that meetings were held with Executive Office of the Governor, Office of Policy and Budget staff; House of Representatives and Senate staff; and each SSRC Board member before the SSRC implemented the new cost allocation methodology. While SSRC management indicated that these meetings met the statutory requirement and that the Board was in favor of the new cost allocation methodology, evidence that a plan had been submitted to the LBC could not be provided. Subsequent to our audit inquiry, the SSRC submitted a plan to the LBC on April 11, 2013, indicating that the change in methodology increased the costs for some State entities to amounts exceeding their respective data processing appropriations.

**EXHIBIT B** of this report shows a comparison of the original SSRC customer service costs under the prior cost allocation methodology, projected to the entire 2012-13 fiscal year, to the revised SSRC customer service costs projected to the entire fiscal year. The Exhibit also identifies those State entity customers for whom billed amounts, based on projections, will exceed the applicable appropriated data processing amounts. As reflected in **EXHIBIT B**, after the change in methodology, the costs for 14 State entities could exceed the amounts appropriated to cover SSRC costs by a total of \$2.5 million for the 2012-13 fiscal year. The SSRC's retroactive application of adjustments to its cost allocation methodology could result in customers having insufficient time to make the necessary budgetary adjustments to pay for the increased SSRC service costs.

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**Recommendation:** We recommend that the SSRC Board comply with the requirements of State law and promptly provide a plan to the LBC for consideration when State agency customer costs will be increased by proposed billing rate changes.

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<b>Reconciliation of Total Actual Costs to Amounts Billed</b>
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State law<sup>9</sup> provides that the NSRC and SSRC Boards of Trustees must ensure the sufficiency and transparency of PDC financial information by requiring cost recovery for the full cost of services, including direct and indirect costs. The cost-recovery methodology must ensure that no service is subsidizing another service without an affirmative vote of approval by the customer entity providing the subsidy. In addition, effective with the 2011-12 fiscal year, State law<sup>10</sup> requires that the NWRDC maintain an appropriate cost-allocation methodology which accurately bills State agency customers based solely on the actual direct and indirect costs of the services provided to State agency customers and prohibits the subsidization of non-State agency customers' costs by State agency customers. To calculate the amount of any adjustments needed to match expenditures by customer account to amounts billed, each

<sup>8</sup> Section 282.203(3)(e)8., Florida Statutes.

<sup>9</sup> Section 282.203(3)(e)3., Florida Statutes.

<sup>10</sup> Section 1004.649(1)(b), Florida Statutes.

PDC performs an annual reconciliation of actual costs to amounts billed. The PDCs are then to make any necessary adjustments to customer accounts to ensure that amounts billed to each customer are reasonable and necessary and do not result in the subsidization of one customer by another.

Our review of the reconciliation processes used by the PDCs disclosed that, in some instances, costs used in the reconciliations were not supported by accounting or other records, such as time and effort reports, and customer accounts were not always adjusted in accordance with State law and Federal guidelines.

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**Finding No. 3: NWRDC Determination of Total Actual Costs**

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Our review of the NWRDC's reconciliation process for the 2011-12 fiscal year disclosed that the adjustment amounts and costs, including personnel costs, used in the reconciliations were not calculated in compliance with State law. Specifically, we noted that:

- The NWRDC's reconciliation for the 2011-12 fiscal year indicated that adjustments were necessary to balance customer accounts and comply with State law. However, when calculating the adjustments, the NWRDC utilized a schedule which compared total revenue, adjusted by a replacement reserve fee,<sup>11</sup> to total costs which included capital outlay costs and excluded depreciation. While the method used by the NWRDC to adjust the customer accounts may not have resulted in overbillings for the 2011-12 fiscal year, adjusting for a replacement reserve fee and including capital outlay costs in the period they were incurred, rather than allocating those costs over the periods in which the assets are used, could result in the inequitable and inconsistent distribution of costs to State agency customers in the future.
- The NWRDC utilized estimates of staff effort determined through discussions with staff when calculating customer account adjustments based on its total costs for the 2011-12 fiscal year. Therefore, salaries and benefits totaling \$3,326,786 were incorporated into the calculation based on estimated rather than actual activity.

Consequently, the NWRDC could not demonstrate that adjustments for the fiscal year ended June 30, 2012, were appropriately made to customer accounts based solely on actual allowable direct and indirect costs in accordance with State law.

We also noted that the NWRDC maintained a reserve account that totaled approximately \$2 million as of June 30, 2012. As State law, effective for the 2011-12 fiscal year, does not specifically authorize the maintenance and use of a reserve account and requires the NWRDC to accurately bill State agency customers based solely on the costs of the services provided, the allowability of the reserve account is unclear. In response to our audit inquiry, NWRDC management stated that the NWRDC Board had previously approved a 3-month reserve.

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**Recommendation:** We recommend that the NWRDC ensure that adjustments to customer accounts are made in accordance with the requirements of State law. Additionally, we recommend that the NWRDC seek legislative clarification regarding the allowability of the maintenance of a reserve account.

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**Finding No. 4: Documentation and Allocation of Personnel Costs**

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Federal guidelines<sup>12</sup> provide that, where employees work on multiple activities or cost objectives, a distribution of their salaries, including benefits, is to be supported by personnel activity reports, or equivalent documentation, prepared at least monthly, and signed by the employee. Federal guidelines<sup>13</sup> also provide that, when an employee

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<sup>11</sup> A fee charged to each type of service.

<sup>12</sup> OMB Circular A-87, Attachment B, Section 8.h.

<sup>13</sup> OMB Circular A-87, Attachment B, Section 8.d.(3).



retires or terminates employment, payments for unused leave are allowable in the year of payment provided they are allocated as a general administrative cost to all activities of the governmental unit or component.

As part of our audit, we reviewed PDC documentation supporting the 2011-12 fiscal year total actual costs, including personnel costs, used in the reconciliation to amounts billed and in the calculation of customer account adjustments. We found that SSRC personnel costs included in the 2011-12 fiscal year total actual costs were not always based on actual activity or appropriately allocated. Specifically:

- As similarly noted in our report No. 2012-189, finding No. 8, the SSRC did not maintain personnel activity reports reflecting the actual activity of its employees for the 2011-12 fiscal year. Instead, a contractor prepared staff effort analyses which were used in calculating the customer account adjustments based on the SSRC's total actual costs for the 2011-12 fiscal year. The contractor based the staff effort analyses on estimates of staff effort obtained through interviews with SSRC management. Salaries and benefits included in the SSRC's 2011-12 fiscal year total actual costs totaled \$6,873,327, and represented 39 percent of the total costs allocated.
- Our analysis of the SSRC's 2011-12 fiscal year reconciliation identified unused leave payments totaling \$36,338 that were not allocated as a general administrative cost to all activities. In response to our audit inquiry, SSRC management stated that the contractor who assisted with the reconciliation did not separately identify the unused leave payments and SSRC management did not detect the error.

As a result of not distributing employee salaries, including benefits, based on reports of actual activity, the SSRC could not demonstrate that costs related to salaries and benefits had been appropriately and equitably allocated and that customer accounts had been properly adjusted. Further, while the effect on the customer account adjustments was not significant for the 2011-12 fiscal year, the SSRC's use of an allocation methodology that does not conform to the requirements of OMB Circular A-87 could result in significant differences in future periods.

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**Recommendation:** To demonstrate the appropriateness of amounts billed to customers, we recommend that the SSRC allocate unused leave payments as a general administrative cost to all activities. Additionally, we recommend that the SSRC utilize personnel activity reports or equivalent documentation that reflects actual employee activity to support the allocations of salaries and benefits used in the calculations of customer account adjustments based on the total actual costs.

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<b>Policies and Procedures</b>
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**Finding No. 5: Policies and Procedures**

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As discussed in the **BACKGROUND** section of this report, State law<sup>14</sup> requires that the NSRC and SSRC Boards establish procedures to ensure that budgeting and accounting procedures, cost-recovery methodologies, and operating procedures comply with applicable laws, rules, and Federal guidelines. Additionally, State law<sup>15</sup> requires that the Boards ensure the sufficiency and transparency of PDC financial information by, among other things, establishing policies that ensure that cost-recovery methodologies, billings, receivables, expenditure, budgeting, and accounting data are captured and reported timely, consistently, accurately, and transparently.

Our audit disclosed that, contrary to State law, the NSRC and the SSRC had not established policies and procedures for ensuring that cost-recovery methodologies comply with applicable laws, rules, and Federal guidelines. In response to our audit inquiry, NSRC and SSRC management indicated that policies and procedures had not been drafted or established due to workload priorities. Similar findings were noted in our report No. 2012-189, finding No. 10, and

<sup>14</sup> Section 282.203(3)(b), Florida Statutes.

<sup>15</sup> Section 282.203(3)(c)(1), Florida Statutes.

our report No. 2011-082, finding No. 4. Absent written policies and procedures, the risk is increased that PDC cost-recovery, billing, and accounts receivable functions may not be performed in accordance with the requirements of State law and Federal guidelines.

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**Recommendation:** We again recommend that the NSRC and the SSRC establish written policies and procedures. Such policies and procedures should ensure that cost-recovery methodologies are developed in compliance with applicable laws, rules, and Federal guidelines and adequately documented.

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### PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the PDCs had taken corrective actions to address the following audit findings: report No. 2013-012, finding No. 9; report No. 2012-189, finding Nos. 9 and 10; and report No. 2011-082, finding Nos. 1, 3, and 4 (2<sup>nd</sup> bullet).

### OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2013 to April 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the PDCs' compliance with applicable laws, rules, and guidelines for capturing costs, billing customers, and establishing cost-recovery methodologies. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, applicable deficiencies disclosed in our report Nos. 2013-012, 2012-189, and 2011-082.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.



As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Obtained an understanding of internal controls and evaluated the effectiveness of key processes and procedures related to the PDCs' cost allocation, billing, and accounts receivable processes.
- Determined whether the PDCs had established cost allocation process procedures that allowed for an equitable distribution of costs among activities and customers, in accordance with the requirements of OMB Circular A-87 and Sections 282.203(3)(b) and 1004.649, Florida Statutes.
- Reviewed PDC documentation related to the 2012-13 fiscal year cost allocation plans to determine whether the costs and utilization rates were appropriate and properly classified and supported.
- Reviewed the PDCs' comparisons between total revenue and total actual costs of providing services to determine whether once actual costs were known, adjustments were made to base customer billings solely on the actual costs of the services provided in accordance with the requirements of OMB Circular A-87 and Sections 282.203 and 1004.649, Florida Statutes.
- Determined whether the PDCs had developed procedures for billing customers and recording revenue that provided for the proper billing, receipting, and recording of customer accounts and payments in accordance with the requirements of Sections 282.203 and 1004.649, Florida Statutes.
- Examined documentation related to 60 customer payments (20 at each PDC) totaling \$4,807,892 to determine whether customer payments were properly received, recorded, and reflected approved rates. The NSRC and SSRC payments examined were received during the period July 2011 through December 2012 and the NWRDC payments examined were received during the period October 2011 through December 2012.
- Determined whether the PDCs had developed procedures for recording costs in accordance with the requirements of OMB Circular A-87 and Section 282.203(3)(b), Florida Statutes.
- Examined documentation related to 60 transactions (20 at each PDC) occurring during the period July 2011 through December 2012 and totaling \$505,882 to determine whether costs were properly recorded by the PDCs.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.

- Prepared and submitted for management responses the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

**AUTHORITY**

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSES**

In letters dated June 13, 2013, and July 8, 2013, the Executive Directors of the Primary Data Centers provided responses to our audit findings and recommendations. The response letters are included as **EXHIBIT C**.



**EXHIBIT A**  
**PRIMARY DATA CENTER BOARD MEMBERS**  
**WHO SERVED DURING THE PERIOD JULY 2011 THROUGH DECEMBER 2012**

**BOARD MEMBER****CUSTOMER REPRESENTED****Northwest Regional Data Center:**

**Mehran Basiratmand, Chair**  
**Michael Barrett, Vice Chair**

Ted Duncan from February 2012  
 Keith Goodner  
 Levis Hughes to February 2012 and from July 2012  
 Gene Kovacs  
 Tony Powell  
 Henry Martin from July 2012  
 Steve Bowen through June 2012  
 Michael James  
 Peter Taylor  
 Randy McCausland  
 George Ellis through June 2012  
 Michael Dieckmann

Florida Atlantic University  
 Florida State University  
  
 Department of Education  
 Department of Education  
 Department of Education  
 Department of Education  
 Department of Revenue  
 K-12 Representative  
 K-12 Representative  
 Florida A&M University  
 Florida International University  
 Florida State University  
 University of South Florida  
 University of West Florida

**Northwood Shared Resource Center:**

**Grant Sellars, Chair from July 2012**  
**Ann Coffin, Chair through June 2012**  
**Denise Rodenbough, Alternate Chair from July 2012**  
**David Taylor, Vice Chair from July 2012 to December 2012**  
**John Boynton, Vice Chair through June 2012**

Don Sherman from January 2012  
 Otto Hough to January 2012  
 Dan Johnson, Alternate from January 2012  
 Vicki Bradford, from August 2012  
 Warren Sponholtz, Alternate from November 2012  
 Juan Mestre through June 2012  
 Sandy Barnes, Alternate from July 2012  
 James Deadman, Alternate through June 2012  
 Scott Ward from July 2012  
 Michael Magnuson, Alternate from July 2012  
 Fred Schuknecht  
 Oscar Gertsch, Alternate

Department of Highway Safety and Motor Vehicles  
 Department of Revenue  
 Department of Highway Safety and Motor Vehicles  
 Department of Children and Families  
 Department of State

Department of Children and Families  
 Department of Children and Families  
 Department of Children and Families  
 Department of Environmental Protection  
 Department of Environmental Protection  
 Department of Health  
 Department of Health  
 Department of Health  
 Agency for Health Care Administration  
 Agency for Health Care Administration  
 Member at Large  
 Member at Large

**Southwood Shared Resource Center:**

**Kevin Patten, Chair from July 2012**  
**Tony Powell, Chair through June 2012**  
**Douglas Smith, Vice Chair from July 2012**  
**Joe Wright, Vice Chair through June 2012**

Tony Lloyd from July 2012  
 Dean Izzo, Alternate from November 2011  
 Angie Robertson from November 2011 through June 2012  
 Kevin Thompson through October 2011  
 Robert Dillenschneider  
 Denise Rodenbough  
 Nelson Hill

Fish and Wildlife Conservation Commission  
 Department of Revenue  
 Department of Corrections  
 Department of Management Services

Department of Economic Opportunity  
 Department of Economic Opportunity  
 Department of Economic Opportunity  
 Department of Economic Opportunity  
 Department of Health  
 Department of Highway Safety and Motor Vehicles  
 Department of Transportation

**EXHIBIT B**  
**SOUTHWOOD SHARED RESOURCE CENTER**  
**COMPARISON OF COST ALLOCATION METHODOLOGIES**  
**FOR THE 2012-13 FISCAL YEAR**

<b>SSRC Customers</b>	<b>Prior Cost Allocation Methodology Projected Service Costs</b>	<b>New Cost Allocation Methodology Projected Service Costs</b>	<b>2012-13 Fiscal Year Data Processing Appropriation for SSRC</b>	<b>New Cost Allocation Methodology Projected Service Costs Exceeding Appropriation</b>
<b>State Agencies</b>				
Department of Business and Professional Regulation	\$ 20,629	\$ 37,781	\$ 2,417	\$ 35,364 <sup>a</sup>
Department of Children and Families	48,824	115,433	48,824	66,609
Department of Citrus	1,478	1,712	1,478	234
Department of Corrections	6,780,168	8,070,320	6,780,168	1,290,152
Department of Economic Opportunity	3,190,110	2,593,498	3,189,825	- <sup>b</sup>
Office of Early Learning	5,494	64,898	-	-
Department of Education	301,220	313,767	398,070	-
Department of Elder Affairs	607,879	521,078	607,879	-
Department of Financial Services	1,478	1,712	1,478	234
Fish and Wildlife Conservation Commission	133,018	130,861	133,018	-
Executive Office of the Governor	314,834	406,695	315,645	91,050
Department of Health	4,064,499	4,792,695	4,064,499	728,196
Agency for Health Care Administration	13,297	18,722	13,297	5,425
Department of Highway Safety and Motor Vehicles	1,516,397	1,136,141	1,539,498	-
Department of Juvenile Justice	8,169	7,906	8,169	-
Department of the Lottery	98,390	18,741	98,390	-
Department of Management Services	1,150,218	1,320,279	1,114,602	205,677 <sup>a</sup>
Department of Military Affairs	985	1,141	985	156
Agency for Persons with Disabilities	118,233	95,493	118,233	-
Department of Revenue	3,180,030	2,809,246	3,394,950	-
Department of State	74,569	92,890	74,569	18,321
Department of Transportation	7,471,637	6,667,379	7,471,637	-
Department of Veterans' Affairs	12,504	11,611	12,504	-
<b>State Entities, Local Governments, and Non-Profit Organizations</b>				
Counties	9,081	13,311	-	-
Florida Commission on Human Relations	4,605	4,960	24,657	-
Florida Legislature	493	571	-	-
Guardian Ad Litem Program – State Courts	118,165	155,465	118,165	37,300
Justice Administration Commission	14,973	6,437	14,973	-
Local Agencies	985	1,141	-	-
Non-Profit Organizations	32,036	37,350	-	-
Northwood Shared Resource Center	-	8,966	-	-
Public Employees Relations Commission	21,096	21,364	9,262	12,102 <sup>a</sup>
Public Service Commission	7,856	10,467	7,856	2,611
State Attorney – 14 <sup>th</sup> Circuit	2,436	2,133	-	-
State Board of Administration	32,121	1,406	-	-
Water Management Districts	5,488	6,064	-	-
<b>Totals</b>	<b>\$29,363,395</b>	<b>\$29,499,634</b>	<b>\$29,565,048</b>	<b>\$2,493,431</b>

<sup>a</sup> Projected service costs using the prior cost allocation methodology also resulted in costs exceeding the entity's appropriation for SSRC costs.

<sup>b</sup> Projected service costs using the prior cost allocation methodology resulted in costs exceeding the entity's appropriation for SSRC costs; however, the new methodology lowered the entity's costs to an amount below their appropriation.

Source: SSRC management.



EXHIBIT C  
MANAGEMENT'S RESPONSES

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NORTHWOOD SHARED RESOURCE CENTER .....	14
SOUTHWOOD SHARED RESOURCE CENTER .....	16

EXHIBIT C (CONTINUED)  
MANAGEMENT'S RESPONSES



2048 East Paul Dirac Drive  
Tallahassee, FL 32310-3752  
850.245.3500 Phone  
850.245.3570 Fax

David W. Martin  
Auditor General  
State of Florida  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450  
July 8, 2013

Dear Mr. Martin,

Please find attached Florida State University's response to your June 7<sup>th</sup> letter regarding the recent audit of the Northwest Regional Data Center. As always, please let us know if there are any questions or if we can be of any assistance. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim Brown', with a long horizontal flourish extending to the right.

Tim Brown  
Executive Director, Northwest Regional Data Center  
Florida State University

Cc:

Sam McCall, Chief Audit Officer, Florida State University  
Michael Barrett, Assoc. VP and CIO, Florida State University; Vice-Chair of NWRDC Policy Board  
Mehran Basiratmand, CTO, Florida Atlantic University; Chair of NWRDC Policy Board



EXHIBIT C (CONTINUED)  
MANAGEMENT'S RESPONSES

**Finding #3:** The NWRDC made adjustments to customer accounts that were not based solely on the actual allowable costs of the services provided, contrary to State law.

**Recommendation:** We recommend that the NWRDC ensure that adjustments to customer accounts are made in accordance with the requirements of State law. Additionally, we recommend that the NWRDC seek legislative clarification regarding the allowability of the maintenance of a reserve account.

**Response:** FSU agrees with these recommendations:

- As was discussed during the audit, NWRDC no longer uses the reserve fee as of June 30<sup>th</sup>, 2012. All overbillings for that period were appropriately credited or returned back to the customer after the end of the fiscal year.
- While FSU agrees with this, only \$1,159,846 of the \$3, 326,786 mentioned in the audit finding were split among multiple funding sources. All excess charges received were appropriately credited or returned back to the customer after the end of the fiscal year.
- While FSU agrees with the recommendation, we believe we were able to demonstrate that adjustments were made based on allowable costs in accordance with State law. Per its Charter, NWRDC is required to keep an operating reserve on hand. FSU, of which NWRDC is a part, has a policy that all auxiliaries must maintain an operating reserve. NWRDC's Policy Board further defined that operating reserve to be equal to 90 days of NWRDC's operating costs. Section 1004.649, Florida Statutes governs NWRDC's operation as a primary data center and states NWRDC shall

*Maintain an appropriate cost-allocation methodology that accurately bills state agency customers based solely on the actual direct and indirect costs of the services provided to state agency customers, and prohibits the subsidization of nonstate agency customers' costs by state agency customers.*

This statute does not prohibit the use of an operating reserve. Federal guidelines for allowable costs allow for an operating reserve. Both FSU and NWRDC's Policy Board require NWRDC to keep an operating reserve, which is not in violation of Florida statute. Therefore, the operating reserve is an allowable part of NWRDC's actual direct and indirect cost structure. FSU agrees to seek further clarification on the allowability of a reserve.

EXHIBIT C (CONTINUED)  
MANAGEMENT'S RESPONSES



State of Florida  
Northwood Shared Resource Center

*Rick Scott*  
Governor

*James Stewart, Interim,*  
Executive Director

June 13, 2013

Mr. David W. Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, this is our response to your report, Primary Data Centers Cost Allocation Processes. Our response corresponds with the order of your preliminary and tentative findings and recommendations

**Finding No. 1: NSRC Cost of Services Documentation**

The NSRC did not maintain documentation to demonstrate how the final estimated costs of the various NSRC services had been determined and allocated. These cost estimates, along with utilization estimates, formed the basis for the billing rates applied to NSRC customers.

**Recommendation**

To demonstrate compliance with State law and Federal guidelines and the appropriateness and equity of customer billings, we recommend that the NSRC maintain documentation to support the estimated costs and the allocation used to calculate the billing rates applied to customers.

**Response**

The NSRC concurs with this recommendation.

**Finding No. 5: Policies and Procedures**

The NSRC had not established cost-recovery methodology policies and procedures.

**Recommendation**

We again recommend that the NSRC establish written policies and procedures. Such policies and procedures should ensure that cost-recovery methodologies are developed in compliance with applicable laws, rules, and Federal guidelines and adequately documented.

1940 North Monroe Street, Suite 80 Tallahassee, Florida 32399

Mission: To provide customers with consistent and secure computing power, expert support, creative technology solutions, and continuity of service.



EXHIBIT C (CONTINUED)  
MANAGEMENT'S RESPONSES

**Response**

The NSRC concurs with this recommendation and will establish the recommended policies and procedures. The NSRC anticipates this documentation being fully implemented by the end of fiscal year 2013/2014.

Sincerely,



James Stewart  
Interim Executive Director

EXHIBIT C (CONTINUED)  
MANAGEMENT'S RESPONSES

State of Florida  
Southwood Shared Resource Center  
2585 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0950



Phone: 850-413-9300  
Fax: 850-921-8343  
<http://SSRC.myflorida.com>

Governor Rick Scott

Robert E. Poston, Interim Executive Director

July 8, 2013

Mr. David W. Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, this is our response to your report, *Primary Data Centers Cost Allocation Processes*. Our response corresponds with the order of your preliminary and tentative findings and recommendations.

**Finding No. 2: SSRC Cost Allocation Methodology**

The SSRC's Board of Trustees did not timely submit a plan for Legislative Budget Commission consideration when a new cost allocation methodology that increased some State agencies' costs was implemented after the start of the 2012-13 fiscal year.

**Recommendation**

We recommend that the SSRC Board comply with the requirements of State law and promptly provide a plan to the LBC for consideration when State agency customer costs will be increased by proposed billing rate changes.

**Response**

The SSRC concurs and notes that the agency has had numerous discussions with the Executive Office of the Governor, House and Senate legislative staff with regard to the provision of statutes this finding speaks to. To this date, there isn't a consistent interpretation of the statutes as to when a primary data center has to submit a plan for LBC consideration.

**Finding No. 4: Documentation and Allocation of Personnel Costs**

SSRC personnel costs used in the calculation of customer account adjustments based on total actual costs were not always based on actual activity or appropriately allocated.



EXHIBIT C (CONTINUED)  
MANAGEMENT'S RESPONSES

**Primary Data Centers Cost Allocation Processes - SSRC**

**July 8, 2013**

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**Recommendation**

1. To demonstrate the appropriateness of amounts billed to customers, we recommend that the SSRC allocate unused leave payments as a general administrative cost to all activities.
2. Additionally, we recommend that the SSRC utilize personal activity reports or equivalent documentation that reflects actual employee activity to support the allocations of salaries and benefits used in the calculations of customer account adjustments based on the total actual costs.

**Response**

Recommendation 1. The SSRC concurs.

Recommendation 2. The SSRC will continue to explore opportunities to capture employee activity reports.

**Finding No. 5: Policies and Procedures**

The SSRC had not established cost-recovery methodology policies and procedures.

**Recommendation**

We again recommend that the SSRC establish written policies and procedures. Such policies and procedures should ensure that cost-recovery methodologies are developed in compliance with applicable laws, rules, and Federal guidelines and adequately documented.

**Response**

The SSRC concurs with the recommendation. The SSRC previously used informal written procedures for the cost-recovery methodology. As a result of the audit recommendation, the SSRC on (June 21, 2013) has formalized these written procedures into an agency directive.

Sincerely,



Robert E. Poston, CISA, ITIL  
Interim Executive Director

REP/rah





# **Primary Data Center (PDC) Consolidation Update**

**House Government Operations  
Appropriations Subcommittee**

**January 14, 2014**

# Background - Legislation

- ▶ **2008** Legislature established state data center system law:
  - Created two primary data centers (PDC):
    - Southwood Shared Resource Center (former Shared Resource Center managed by DMS)
    - Northwood Shared Resource Center (former Northwood Data Center managed by DCF).
  - Established governing boards for both PDCs & defined board duties; boards comprised of customer agencies.
  - Required all agency computing facilities and data centers to be consolidated into a PDC by 2019.



# Background - Legislation

- ▶ **2011** Legislature amended state data center system law:
  - Established Northwest Regional Data Center as a PDC for its state agency customers.
  - Established agency data center consolidation schedule in law & defined consolidation planning and transition process.
- ▶ **2012** Legislature amended state center data system law:
  - Modified agency data center consolidation schedule & authorized certain agencies to be exempt from consolidation.
  - Modified certain duties of a PDC & aligned their cost projection schedule with state budget process and schedule.

# Consolidations Thru FY 2013-14

## ▶ FY 2009-10

- Full service transfer – transfer of resources (primarily staff) for those agencies with data center equipment already located at a PDC.
- Cost savings = **(\$1,673,000)**

## ▶ FYs 2010-11 thru 2013-14

- 20 agency data centers (Tallahassee location only) consolidated into a PDC.
- 4 agencies consolidating in FY 2013-14 (all have consolidated except DOEA – 3/31/14).
- **(\$13.1 million)** in total cost savings resulting from consolidations.



# Consolidations Thru FY 2013-14

	Department	FY10-11	FY11-12	FY12-13	FY13-14	General Revenue	Trust Funds	Agency Total
<b>Reductions</b>	AGENCY/PERSONS WITH DISABL	(\$68,037)	(\$1,195,132)	(\$266,080)		(\$1,269,441)	(\$259,808)	(\$1,529,249)
	AGENCY/WORKFORCE INNOVATN		(\$529,795)			\$0	(\$529,795)	(\$529,795)
	BUSINESS/PROFESSIONAL REG		(\$118,180)	(\$406,317)		\$0	(\$524,497)	(\$524,497)
	CHILDREN & FAMILIES	(\$384,006)	(\$4,780,655)			(\$1,719,420)	(\$3,445,241)	(\$5,164,661)
	CITRUS, DEPT OF	(\$17,721)		(\$33,819)		\$0	(\$51,540)	(\$51,540)
	COMMUNITY AFFAIRS, DEPT OF	(\$50,409)				\$0	(\$50,409)	(\$50,409)
	CORRECTIONS, DEPT OF	(\$114)	(\$145,910)			(\$145,984)	(\$40)	(\$146,024)
	ECONOMIC OPPORTUNITY				(\$471,554)	(\$4,976)	(\$466,578)	(\$471,554)
	EDUCATION, DEPT OF		(\$781,362)	(\$7,091)	(\$38,313)	(\$304,219)	(\$522,547)	(\$826,766)
	ENVIR PROTECTION, DEPT OF			(\$63,111)		\$0	(\$63,111)	(\$63,111)
	FISH/WILDLIFE CONSERV COMM	(\$2,767)	(\$17,611)			(\$609)	(\$19,769)	(\$20,378)
	GOVERNOR, EXECUTIVE OFFICE	(\$313)		(\$29,416)		(\$1,129)	(\$28,600)	(\$29,729)
	HEALTH, DEPT OF			(\$15,749)		\$0	(\$15,749)	(\$15,749)
	HIWAY SAFETY/MTR VEH, DEPT	(\$15,737)		(\$200,608)		\$0	(\$216,345)	(\$216,345)
	JUSTICE ADMINISTRATION	(\$4,544)				(\$4,544)	\$0	(\$4,544)
	JUVENILE JUSTICE, DEPT OF	(\$175,930)		(\$175,011)		(\$350,941)	\$0	(\$350,941)
	MANAGEMENT SRVCS, DEPT OF	(\$21,190)	(\$1,799,955)			(\$10,639)	(\$1,810,506)	(\$1,821,145)
	PRG: SOUTHWOOD RES CENTER		(\$2,026,421)			\$0	(\$2,026,421)	(\$2,026,421)
	PUBLIC SERVICE COMMISSION	(\$4,537)				\$0	(\$4,537)	(\$4,537)
	REVENUE, DEPARTMENT OF	(\$148,111)	(\$76,035)	(\$178,093)		(\$145,053)	(\$257,186)	(\$402,239)
	STATE, DEPT OF	(\$187,018)				(\$187,018)	\$0	(\$187,018)
	TRANSPORTATION, DEPT OF	(\$5,115)	(\$145,225)	(\$711,799)		\$0	(\$862,139)	(\$862,139)
	UNIVERSITIES, DIVISION OF				(\$38,313)	(\$38,313)	\$0	(\$38,313)
<b>Reduction Total</b>		<b>(\$1,085,549)</b>	<b>(\$11,616,281)</b>	<b>(\$2,087,094)</b>	<b>(\$548,180)</b>	<b>(\$4,182,286)</b>	<b>(\$11,154,818)</b>	<b>(\$15,337,104)</b>
<b>Increases</b>	AGENCY/PERSONS WITH DISABL	\$320,404				\$0	\$320,404	\$320,404
	AGENCY/WORKFORCE INNOVATN	\$11,793				\$0	\$11,793	\$11,793
	BUSINESS/PROFESSIONAL REG	\$173,345				\$0	\$173,345	\$173,345
	ECONOMIC OPPORTUNITY				\$185,000	\$0	\$185,000	\$185,000
	EDUCATION, DEPT OF	\$66,996				\$0	\$66,996	\$66,996
	ELDER AFFAIRS, DEPT OF				\$11,024	\$0	\$11,024	\$11,024
	ENVIR PROTECTION, DEPT OF			\$242,315		\$0	\$242,315	\$242,315
	FISH/WILDLIFE CONSERV COMM				\$238,508	\$0	\$238,508	\$238,508
	HEALTH, DEPT OF	\$21,250				\$0	\$21,250	\$21,250
	HIWAY SAFETY/MTR VEH, DEPT		\$701,487			\$0	\$701,487	\$701,487
	TRANSPORTATION, DEPT OF		\$289,985			\$0	\$289,985	\$289,985
<b>Increase Total</b>		<b>\$593,788</b>	<b>\$991,472</b>	<b>\$242,315</b>	<b>\$434,532</b>	<b>\$0</b>	<b>\$2,262,107</b>	<b>\$2,262,107</b>
<b>Grand Total</b>		<b>(\$491,761)</b>	<b>(\$10,624,809)</b>	<b>(\$1,844,779)</b>	<b>(\$113,648)</b>	<b>(\$4,182,286)</b>	<b>(\$8,892,711)</b>	<b>(\$13,074,997)</b>

# Initial Lessons Learned

- ▶ PDCs must receive accurate and complete agency data center inventory information.
- ▶ Agencies scheduled for consolidation should work with their planned PDC and only purchase hardware and software that complies with that primary data center's standards.
- ▶ Full cost savings can only be realized once PDCs have standardized and consolidated within their facilities.



# Core IT Issues

- ▶ House Appropriations Committee presentation (11/7/13).
  - Four core IT issues could be positively impacted by an effective enterprise IT governance structure.
  - One issue – ineffective governance & management structure of the PDCs.
- ▶ Unused floor space at SSRC & NSRC still an issue
  - SSRC – 74% of “fault tolerant” space is unused & 47% of “high availability space is unused.
  - NSRC – 71% of floor space is unused.
  - Equipment footprint (physical data center space) will continue to shrink.
  - Unclear if either SSRC or NSRC have developed plans to address unused floor space.
- ▶ Study authorized in FY 2013-14 GAA to identify options to address unused floor space at NSRC.
  - Study concluded there are no cost savings for leasing the NSRC space to other state agencies.

# Core IT Issues

- ▶ House mission-critical applications in “high availability” area at SSRC.
  - “High availability” has two levels of redundancy (versus one level of redundancy in “fault tolerant” area).
  - Any non-mission critical applications in SSRC’s “high availability” area should be housed in “fault tolerant” area.
- ▶ Disaster recovery (DR) is required by law to be provided by a PDC; however, former enterprise IT agency failed to establish required standard for its statewide provision.
  - Agencies have been required to acquire their own DR service.
  - SSRC – over 30 different DR plans to simultaneously execute.
  - NSRC – some agencies have not transferred their disaster recovery service upon their consolidation.



# Questions?

