Report 20-12
September 2020

Master Lease Program

Department of Administration

State of Wisconsin



Legislative Audit Bureau

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Master Lease Program

Department of Administration

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Joe Chrisman
State Auditor

September 18, 2020

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As requested by the Joint Legislative Audit Committee, we have completed an evaluation of the master lease program, which is administered by the Department of Administration (DOA). We completed this evaluation as part of our overall evaluation of the State's information technology (IT) needs assessment and procurement processes (report 20-10 and report 20-11).

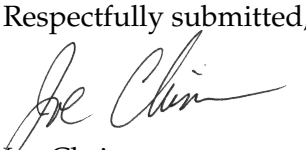
Statutes allow state agencies to use the master lease program to obtain funding to purchase IT systems and certain assets. To obtain this funding, DOA borrows funds from a bank and periodically issues certificates of participation, which are a type of debt instrument similar to bonds. Agencies repay the master lease funding, plus interest and administrative fees, from the amounts appropriated to them.

From fiscal year (FY) 2014-15 through the first half of FY 2019-20, state agencies received DOA's approval to obtain $157.9 million in master lease funding, including $142.1 million for 28 IT projects. DOA approved $118.3 million of the $142.1 million, or 83.3 percent, for projects it managed. During this period, agencies made a total of $154.4 million in master lease payments, including repayment of principal, interest, and administrative fees. As of December 15, 2019, the principal balance of all outstanding certificates of participation totaled $88.6 million.

We found concerns with DOA's program policies, consideration of applications for master lease funding, oversight of the program, and statutorily required reporting to the Joint Committee on Information Policy and Technology. We make recommendations to DOA for improvements, and we provide two issues for legislative consideration.

We appreciate the courtesy and cooperation extended to us by DOA. A response from DOA's secretary follows the Appendix.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/DS/ss

Report Highlights ■

The Board of Regents is statutorily responsible for overseeing IT projects in UW System.

The Board of Regents of the University of Wisconsin (UW) System is statutorily responsible for overseeing information technology (IT) projects in UW System. Statutes permit UW institutions to implement only those IT projects that have been approved by the Board of Regents.

DOA is statutorily responsible for ensuring that executive branch agencies make effective and efficient use of IT resources.

The Department of Administration (DOA) is statutorily responsible for ensuring that executive branch agencies, other than UW System, make effective and efficient use of IT resources. DOA must establish IT policies and procedures, which statutes require agencies to follow. Statutes require DOA to monitor adherence to these policies and procedures.

To complete our audits, we:

- evaluated how 5 UW institutions and 6 state agencies managed their IT needs assessment and procurement processes for IT projects, including projects involving cloud computing services provided by firms;

- surveyed 45 state agencies and 13 UW institutions about IT needs assessment and procurement, cloud computing, and IT security issues; and

- assessed IT security at a different set of 5 UW institutions and 5 state agencies.

A comprehensive evaluation of the costs of IT projects or the management of individual IT projects by UW institutions and state agencies was not in the scope of this evaluation.

Report 20-10 presents the results of our analyses for UW System, and report 20-11 presents the results of our analyses for DOA. Report 20-12 presents the results of our analysis of the master lease program, which DOA administers to provide state agencies, including itself, with funding for IT systems and other projects.

UW System

Statutes require the Board of Regents to promulgate policies for monitoring large, high-risk IT projects.

Statutes require the Board of Regents to promulgate policies for monitoring large, high-risk IT projects. These policies indicate that such projects include those that cost or are expected to cost more than $1.0 million. They also indicate that all such projects are managed and monitored by UW System Administration.

We analyzed how five UW institutions assessed their IT needs and procured goods and services for 10 projects, as well as how they managed data security and other issues for 7 projects that involved cloud computing services provided by firms. These 17 projects included 13 large, high-risk IT projects and were managed by UW System Administration, UW-Eau Claire, UW-Madison, UW-Milwaukee, and UW-Stevens Point.

We found that UW institutions did not consistently comply with various statutes, policies, and best practices, as shown in Table 1.

UW System Administration should address the IT security concerns that we found.

We found IT security concerns in our prior audits of UW System. In our current audit, we reviewed IT security at five UW institutions and found a number of concerns. UW System Administration should address each of the IT security concerns that we found, and it should ensure that all UW institutions, including itself, comply with its policies and procedures.

The Board of Regents needs to improve its oversight of IT projects, including large, high-risk IT projects.

The Board of Regents needs to improve its oversight of IT projects, including large, high-risk IT projects. UW System Administration should work with the Board of Regents to require the Board of Regents to approve all IT contracts that are more than $1.0 million. In addition, UW System Administration should work with the Board of Regents to establish an IT projects committee of the Board of Regents to help oversee IT projects.

Table 1

Key Audit Findings for UW System
Report 20-10

Needs Assessment and Planning UW System Administration did not include all statutorily required information in the IT strategic plan it provided to the Board of Regents for March 2020 *(p. 18)*.
UW institutions did not consistently comply with Board of Regents policies because they did not include all required information in the planning documents for large, high-risk IT projects *(p. 19)*.
Project Approval UW System Administration and UW-Madison implemented IT projects before obtaining the statutorily required approval from the Board of Regents to do so *(p. 20)*.
Procurement UW System Administration did not comply with Board of Regents policies because it did not require UW institutions to submit to it certain information about large, high-risk IT projects *(p. 22)*.
UW-Madison did not review the terms of a consortium's contract through which it purchased services in November 2017 *(p. 23)*.
UW System Administration did not comply with statutes that require it to report each quarter to the Board of Regents on the expenditures of projects with open-ended contracts *(p. 24)*.
UW institutions did not comply with statutes that require them to include in contracts for large, high-risk IT projects a stipulation that the Board of Regents must approve any order or amendment that would change the contract scope and increase the contract price *(p. 25)*.
UW-Madison did not have a contract with a firm over at least a six-month period in 2018 when a project was ongoing. UW-Stevens Point did not contractually require a firm to pay monetary penalties for not completing work on time for a large, high-risk IT project *(p. 26)*.
Project Reporting UW System Administration did not include information about all large, high-risk IT projects in the semiannual reports submitted to the Joint Committee on Information Policy and Technology from March 2014 through March 2020, or accurate and complete information about the projects that were included *(p. 28)*.
Cloud Computing UW institutions did not consistently evaluate in writing the advantages and disadvantages of transitioning to cloud computing services provided by firms *(p. 36)*.
UW institutions did not consistently follow best practices for data security when completing projects involving cloud computing services provided by firms *(p. 37)*.
IT Security UW System Administration did not develop comprehensive IT security policies and procedures, and we found 46 concerns pertaining to IT security at the five UW institutions we reviewed *(pp. 44-45)*.
Board of Regents Oversight Board of Regents policies do not require UW institutions to obtain Board of Regents approval to execute all IT contracts of more than $1.0 million *(p. 48)*.

DOA

Statutes require DOA to adopt policies pertaining to large, high-risk IT projects.

Statutes require DOA to adopt policies pertaining to large, high-risk IT projects. Such projects either exceed $1.0 million or are vital to the functions to executive branch agencies, other than UW System. Statutes indicate that DOA must require each executive branch agency other than UW System to annually submit to it a strategic plan for using IT to carry out the agency's functions in the following fiscal year.

We analyzed how six state agencies assessed their IT needs and procured goods and services for 12 projects, as well as how they managed data security and other issues for 6 projects that involved cloud computing services provided by firms. These 18 projects included 12 large, high-risk IT projects and were managed by one or more of six agencies: DOA; the departments of Children and Families (DCF), Employee Trust Funds (ETF), Health Services (DHS), and Transportation (DOT); and the State of Wisconsin Investment Board (SWIB).

We found that state agencies did not consistently comply with various statutes, policies, and best practices, as shown in Table 2.

DOA should work with state agencies to address the IT security concerns that we found.

We found IT security concerns in prior audits of DOA. In our current audit, we reviewed IT security at five state agencies and found a number of concerns. DOA should work with agencies to address the IT security concerns that we found, and it should ensure that all agencies, including itself, comply with its policies.

DOA needs to improve its oversight of IT projects and IT security.

DOA needs to improve its oversight of IT projects, including large, high-risk IT projects. DOA should consistently comply with statutory requirements pertaining to its oversight of IT projects, including large, high-risk IT projects. DOA should also help state agencies to develop appropriate policies for contracting with firms that provide cloud computing services. If the Joint Committee on Information Policy and Technology met more regularly, it could monitor the status of large, high-risk IT projects.

Table 2

Key Audit Findings for DOA
Report 20-11

Needs Assessment and Planning DOA did not require state agencies to include all statutorily required information in their March 2019 IT strategic plans *(p. 18)*.
DOA did not comply with statutes because it did not submit statewide IT strategic plans to the Joint Committee on Information Policy and Technology in recent years (*p. 19*).
DOA did not comply with its policies because it did not ensure that an interagency committee conducted technical reviews of all large, high-risk IT projects *(p. 20)*.
Procurement DOA did not comply with statutes because it did not review and approve eight contracts, which totaled an estimated $93.5 million and were executed from August 2013 through August 2018, for five large, high-risk IT projects *(p. 20)*.
None of the seven contracts we reviewed, which were executed from August 2013 through August 2018, contained the statutorily required stipulation that DOA must approve certain orders and amendments *(p. 21)*.
Project Reporting State agencies did not consistently provide DOA with accurate and complete information about their large, high-risk IT projects from September 2014 through September 2019 *(p. 22)*.
DOA did not submit the statutorily required semiannual reports to the Joint Committee on Information Policy and Technology from March 2014 through September 2019 *(p. 24)*.
Cloud Computing DOA established few policies that specifically address how state agencies are to acquire cloud computing services from firms *(p. 25)*.
Only 13 state agencies indicated that they had policies and procedures governing the procurement and management of cloud computing services provided by firms *(p. 26)*.
State agencies did not consistently evaluate in writing the advantages and disadvantages of transitioning to cloud computing services provided by firms *(p. 29)*.
Agencies did not consistently follow best practices for data security when completing projects involving cloud computing services provided by firms *(p. 30)*.
IT Security Policies, standards, and procedures at the five state agencies we reviewed did not include all anticipated elements relevant to IT security, and we found 23 concerns pertaining to IT security *(p. 37)*.

Master Lease Program at DOA

Statutes authorize DOA to administer the master lease program, through which state agencies may fund their purchases of IT systems and certain other assets. Statutes also allow UW System, the Legislature, and the courts to use the program to fund purchases.

State agencies apply for master lease funding from DOA, which decides whether to approve their applications. The Legislature is not involved in approving the applications.

To obtain master lease funding, DOA borrows funds from a bank and periodically issues certificates of participation.

To obtain master lease funding, DOA borrows funds from a bank and periodically issues certificates of participation, which are a type of debt instrument similar to bonds. The certificates are not a general obligation debt of the State and are not backed by the full faith and credit of the State. Agencies repay master lease funding, plus interest and administrative fees, from the amounts appropriated to them.

We found concerns with DOA's program policies, consideration of applications for master lease funding, oversight of the program, and statutorily required reporting, as shown in Table 3.

Table 3

Key Audit Findings for the Master Lease Program at DOA
Report 20-12

From FY 2014-15 through the first half of FY 2019-20, $142.1 million of the $157.9 million (90.0 percent) of master lease funding approved by DOA was for 28 IT projects *(p. 13)*.
Projects managed by DOA accounted for $118.3 million of the $142.1 million (83.3 percent) in total master lease funding for IT projects *(p. 14)*.
From FY 2014-15 through the first half of FY 2019-20, state agencies made a total of $154.4 million in master lease payments, including repayment of principal, interest, and administrative fees *(p. 16)*.
As of December 15, 2019, the principal balance of all outstanding certificates of participation totaled $88.6 million *(p. 16)*.
DOA's program policies were incomplete and outdated *(p. 17)*.
DOA did not document the reasons for approving any of the 28 applications for master lease funding for IT projects *(p. 19)*.
DOA permitted state agencies, including itself, to obtain a total of $4.4 million more in master lease funding than the amounts it had approved for eight projects from FY 2014-15 through the first half of FY 2019-20 *(p. 20)*.
From October 2014 through October 2019, DOA did not submit statutorily required annual reports on master lease funding for IT projects *(p. 22)*.

Recommendations

In report 20-10, we include recommendations for UW System Administration to report to the Joint Legislative Audit Committee by January 15, 2021, on efforts to:

- ☑ improve the IT needs assessment and planning processes (*pp. 18* and *19*);
- ☑ improve the IT project approval process (*p. 21*);
- ☑ improve IT procurement (*pp. 22*, *23*, *24*, *25*, *26*, *26*, and *27*);
- ☑ improve project reporting (*p. 29*);
- ☑ improve cloud computing policies (*pp. 32* and *33*);
- ☑ improve cloud computing needs assessment and procurement (*p. 36*);
- ☑ improve data security for cloud computing projects (*p. 39*); and
- ☑ work with the Board of Regents to modify policies (*p. 49*) and create an IT Projects Committee of the Board of Regents (*p. 51*).

In report 20-11, we include recommendations for DOA to report to the Joint Legislative Audit Committee by January 15, 2021, on efforts to:

- ☑ improve the IT needs assessment and planning processes (*pp. 19, 19,* and *20*);
- ☑ improve IT procurement (*pp. 21* and *22*);
- ☑ improve project reporting (*pp. 24* and *24*);
- ☑ improve cloud computing policies (*p. 26*);
- ☑ improve data security for cloud computing projects (*p. 33*); and
- ☑ improve its oversight (*pp. 41* and *42*).

In report 20-10 and report 20-11, we include recommendations for UW System Administration (*p. 45*) and DOA (*p. 37*) to report to the Joint Legislative Audit Committee by November 13, 2020, on their efforts to improve IT security.

In report 20-12, we include recommendations for DOA to report to the Joint Legislative Audit Committee by January 15, 2021, on efforts to:

- ☑ revise its master lease policies (*p. 18*);
- ☑ document its reviews of applications for master lease funding (*p. 20*);
- ☑ ensure state agencies do not obtain more master lease funding than the approved amounts (*p. 21*);
- ☑ establish the maximum length of time that state agencies have to obtain master lease funding (*p. 22*); and
- ☑ annually submit statutorily required reports to the Joint Committee on Information Policy and Technology (*p. 23*).

Issues for Legislative Consideration

In report 20-11, we note that the Legislature could consider modifying statutes to:

- allow governmental bodies to convene in closed session in order to discuss IT security issues *(p. 38);*
- focus DOA's IT oversight duties (*p. 42*); and
- increase the dollar threshold of a large, high-risk IT project (*p. 42*).

In report 20-12, we note that the Legislature could consider modifying statutes to require DOA to:

- obtain its approval before approving certain applications for master lease funding (*p. 23*); and
- report to the Joint Legislative Audit Committee annually on the use of master lease funding (*p. 23*).

■ ■ ■ ■

Introduction ■

1991 Wisconsin Act 39 authorizes DOA to administer the master lease program, through which state agencies may fund their purchases of IT systems and certain other assets.

1991 Wisconsin Act 39, the 1991-93 Biennial Budget Act, authorizes the Department of Administration (DOA) to administer the master lease program, through which state agencies may fund their purchases of information technology (IT) systems and certain other assets. Section 16.74 (4) Wis. Stats., allows University of Wisconsin (UW) institutions, the Legislature, and the courts to use the program. However, statutes do not allow certain authorities, including the UW Hospital and Clinics Authority, the Wisconsin Housing and Economic Development Authority, and the Wisconsin Health and Educational Facilities Authority, to use the program. Statutes do not allow agencies to use the program to obtain a facility for use or occupancy, and DOA indicated that it does not allow the program to be used for the operating and maintenance expenses of assets already owned by the State. State agencies apply for master lease funding from DOA, which decides whether to approve their applications. DOA also uses the program to obtain funding for projects it manages. The Legislature is not involved in the program's application or approval processes.

DOA obtains master lease funding by borrowing from a $35.0 million line of credit with a bank. DOA periodically issues debt instruments known as "certificates of participation" to investors and uses the proceeds to repay the line of credit. These certificates are similar to bonds. DOA withdraws the necessary repayment amounts, which include interest and administrative fees, from the accounts of the agencies and arranges repayments to the investors that purchased the certificates.

The certificates of participation are not a general obligation debt of the State and are not backed by the full faith and credit of the State.

The certificates of participation are not a general obligation debt of the State and are not backed by the full faith and credit of the State. The State is not obligated to levy any tax or pledge any revenue to make the master lease payments. Instead, these payments are made from funds appropriated to state agencies. The assets financed by the program are collateral. Although agencies own the assets, the bank and the investors that provided the master lease funding may take possession of the assets if the required payments are not made.

Questions have been raised about DOA's administration of the program. In addition, questions have been raised about the amounts of master lease funding that DOA has approved in recent years for IT projects, how such funding has been used, and the amount of master lease payments that state agencies have made in recent years, including for IT projects.

To complete this evaluation, we interviewed DOA and reviewed master lease program policies and reports. We determined the extent to which state agencies used the program to finance IT and other projects from fiscal year (FY) 2014-15 through the first half of FY 2019-20. We reviewed DOA's data on the amounts borrowed and payments made under the master lease program. In addition, we reviewed application materials for all 28 IT projects that agencies financed through the program during our audit period, and we assessed how DOA considered these applications.

■ ■ ■ ■

Program Administration ■

From FY 2014-15 through the first half of FY 2019-20, state agencies received DOA's approval to obtain a total of $157.9 million in master lease funding for their projects, including $142.1 million for 28 IT projects. DOA approved $118.3 million of the $142.1 million, or 83.3 percent, for projects it managed. During this period, agencies paid a total of $154.4 million in master lease payments, including repayment of principal, interest, and administrative fees. We found concerns with DOA's program policies, consideration of applications for master lease funding, oversight of the program, and statutorily required reporting to the Joint Committee on Information Policy and Technology. We make recommendations to DOA for improvements, and we provide two issues for legislative consideration.

Approved Funding and Payments

From FY 2014-15 through the first half of FY 2019-20, $142.1 million of the $157.9 million (90.0 percent) of master lease funding approved by DOA was for IT projects.

As shown in Table 4, $142.1 million of the $157.9 million (90.0 percent) of master lease funding approved by DOA from FY 2014-15 through the first half of FY 2019-20 was for IT projects. In FY 2014-15 and FY 2015-16, DOA approved $56.2 million in funding for the State Transforming Agency Resources (STAR) project. In FY 2017-18, the $22.9 million in approved funding for IT projects included $11.7 million for a DOA mainframe computer and related expenses.

Table 4

DOA-Approved Master Lease Funding, by Project Type
(in millions)

Fiscal Year	IT Projects	Other Projects	Total	IT Projects as a Percentage of the Total
2014-15	$ 64.6	$ 2.1	$ 66.7	96.9%
2015-16	36.3	6.2	42.5	85.4
2016-17	9.4	1.8	11.3	83.2
2017-18	22.9	2.2	25.1	91.2
2018-19	8.9	2.9	11.8	75.4
2019-20[1]	0.0	0.5	0.5	0.0
Total	**$142.1**	**$15.8**	**$157.9**	90.0

[1] Through December 2019.

Projects managed by DOA accounted for $118.3 million of the $142.1 million (83.3 percent) in total master lease funding for IT projects.

From FY 2014-15 through the first half of FY 2019-20, DOA approved master lease funding for 28 IT projects at nine state agencies, as shown in Table 5. Projects managed by DOA, including enterprise-wide projects, accounted for $118.3 million of the $142.1 million (83.3 percent) in total master lease funding for IT projects. The Appendix shows the 10 largest IT projects for which DOA approved master lease funding during this time period. DOA managed 7 of these 10 projects.

Table 5

DOA-Approved Master Lease Funding for IT Projects, by State Agency
FY 2014-15 through FY 2019-20[1]
(in millions)

State Agency	Projects	Amount
DOA	13	$118.3
Health Services	1	11.6
Natural Resources	3	4.8
Transportation	2	2.8
Employee Trust Funds	1	2.4
Corrections	1	0.9
UW System	5	0.7
Military Affairs	1	0.5
Workforce Development	1	0.2
Total	**28**	**$142.1**

[1] Through December 2019.

DOA pays ongoing project-related expenses by borrowing from a $35.0 million line of credit with a bank.

After DOA approves master lease funding for a project, it pays ongoing project-related expenses by borrowing from a $35.0 million line of credit with a bank. This line of credit has a variable interest rate, which ranged from 0.5 percent to 3.3 percent from FY 2014-15 through the first half of FY 2019-20. Currently, DOA issues certificates of participation after it has borrowed approximately $25.0 million. These certificates are purchased by investors, and DOA uses the proceeds to repay the bank. Each certificate pays a separate fixed-rate of interest that is generally exempt from federal income taxes. This interest rate is determined by the market for debt securities and the credit ratings assigned by credit rating agencies. These credit ratings reflect assessments of the State's ability to repay the funds.

As shown in Table 6, DOA issued a total of $137.9 million in certificates of participation from FY 2014-15 through the first half of FY 2019-20. The interest rate on these certificates varied between 1.4 percent and 2.6 percent.

Table 6

Certificates of Participation Issued by DOA
FY 2014-15 through FY 2019-20[1]
(in millions)

Issuance Date	Amount	Interest Rate
November 2014	$ 37.6	2.1%
July 2015	40.0	2.6
July 2016	33.6	1.4
September 2018	26.6	2.0
Total	**$137.9**	

[1] Through December 2019.

State agencies repay the master lease funding, plus interest. For master lease funding that DOA approved from FY 2014-15 through the first half of FY 2019-20, the repayment period averaged 5.9 years and ranged from 1.1 years to 14.6 years.

State agencies pay program-related administrative fees. These fees are paid to the State's bank, the bank that provides the $35.0 million line of credit, and sometimes to DOA to cover a portion of its staff costs. These fees are for costs such as those associated with maintaining the line of credit and issuing the certificates of participation.

From FY 2014-15 through the first half of FY 2019-20, state agencies made a total of $154.4 million in master lease payments.

From FY 2014-15 through the first half of FY 2019-20, state agencies made a total of $154.4 million in master lease payments, including $129.2 million in principal, $25.1 million in interest, and $143,000 in administrative fees, as shown in Table 7. These amounts included payments for all certificates of participation, including those issued before FY 2014-15. As of December 15, 2019, the principal balance of all outstanding certificates of participation totaled $88.6 million.

Table 7

Master Lease Payments by State Agencies[1]

Fiscal Year	Principal	Interest	Administrative Fees	Total
2014-15	$ 19,896,300	$ 3,091,900	$ 23,900	$ 23,012,100
2015-16	24,865,900	4,586,000	22,000	29,473,900
2016-17	31,629,600	5,382,000	29,500	37,041,100
2017-18	23,746,800	4,949,400	28,300	28,724,500
2018-19	20,644,100	4,835,100	33,000	25,512,200
2019-20[2]	8,412,800	2,233,500	6,300	10,652,600
Total	**$129,195,500**	**$25,077,900**	**$143,000**	**$154,416,400**

[1] Includes payments on all certificates of participation, including those issued before FY 2014-15.

[2] Through December 2019.

Program Policies

Statutes require DOA to develop policies for using master leases to finance large, high-risk IT projects, which are projects that cost more than $1.0 million or that are vital to the functions of state agencies or UW institutions.

DOA's program policies were incomplete and outdated.

We found that DOA's program policies were incomplete and outdated, in part, because DOA had not updated them since January 2011. In addition, the policies did not specify the process or the criteria that DOA is to use to consider applications for master lease funding, including for large, high-risk IT projects. The policies also referred to WiSMART, which was the State's accounting system until STAR replaced it in 2015.

In April 2007, DOA developed a document that it provides to state agencies and considers to be informal program guidance. This document contains information not in DOA's program policies.

DOA's April 2007 document indicates that state agencies must repay master lease funding before the end of the expected useful life of funded projects. DOA indicated to us that it adheres to this provision but had not developed a method for determining the expected useful life of projects. We found that DOA did not document how it determined the expected useful life of any IT project for which agencies received master lease funding.

DOA's April 2007 document indicates that state agencies generally must repay master lease funding for IT projects within three years, and that they must repay master lease funding for other types of projects within seven years. DOA indicated that it did not document its decisions to allow agencies to repay master lease funding over longer periods of time.

After DOA approves master lease funding for a given project, a state agency may request to receive portions of that funding over time. We found that DOA often allowed agencies to repay master lease funding over longer periods of time than indicated in its April 2007 document. From FY 2014-15 through the first half of FY 2019-20:

- 35 of 161 funding requests (21.7 percent) had repayment terms that exceeded seven years; and

- 95 of 108 funding requests pertaining to IT projects (88.0 percent) had repayment terms that exceeded three years, including 33 requests with repayment terms that exceeded seven years. The repayment terms for all 108 requests averaged 6.4 years.

DOA should revise its master lease policies and consistently follow them.

DOA should revise its master lease program policies, including by specifying the process and criteria it will use to consider applications for master lease funding, specifying how it will determine the expected useful life of funded projects, and requiring state agencies to repay master lease funding before the end of the expected useful life of funded projects. DOA should consistently follow these policies, including for projects it manages, and annually review them to ensure that they remain up-to-date. Doing so will provide greater clarity to agencies about how the program is intended to operate and will help ensure that DOA considers and approves applications in a fair and consistent manner.

☑ Recommendation

We recommend the Department of Administration:

- *revise its master lease policies, including by specifying the process and criteria it will use to consider applications for master lease funding, specifying how it will determine the expected useful life of funded projects, and requiring master lease funding to be repaid before the end of the expected useful life of funded projects;*

- *consistently follow its master lease policies, including for projects it manages;*

- *annually review its master lease policies to ensure that they remain up-to-date; and*

- *report to the Joint Legislative Audit Committee by January 15, 2021, on its efforts to comply with these recommendations.*

Approval Process

DOA indicated that it used a four-step process to consider applications from state agencies for master lease funding. Within DOA, this process involved the Capital Finance Office, the State Budget Office, and the Division of Enterprise Technology. During this process, DOA determined whether the agencies were likely to have sufficient funding to make the required master lease payments over time. The DOA Secretary's Office determined whether to approve the applications.

DOA indicated that it did not deny any applications for master lease funding for IT projects from FY 2014-15 through the first half of FY 2019-20. DOA indicated that it discussed with state agencies whether projects are appropriate for such funding before agencies submitted their applications.

DOA did not document the reasons for approving any of the 28 applications for master lease funding for IT projects.

We reviewed the applications submitted by state agencies for master lease funding for all 28 IT projects for which DOA approved such funding from FY 2014-15 through the first half of FY 2019-20. We found that DOA did not document the reasons for approving these 28 applications. In addition, DOA was unable to provide documentation of the Secretary's approval for 6 of the 28 applications.

When state agencies apply for master lease funding for IT projects, DOA's April 2007 document indicates that they should submit certain information, including a risk identification and mitigation plan, a detailed statement of why a project should be undertaken, the project's benefits, and the return on investment. We found that only 1 of the 28 applications for master lease funding for the IT projects included some of the information indicated in DOA's April 2007 document.

DOA should document its reviews of all applications for master lease funding for IT projects, including the reasons why it approved or rejected each application. Doing so is particularly important when DOA reviews applications for master lease funding for projects it manages. If DOA believes that the information in its April 2007 document is necessary for it to consider applications, it should modify its policies to require submittal of this information and reject any applications that do not contain it. In addition, DOA should ensure that it retains written proof of the Secretary's approval for all applications.

☑ Recommendation

We recommend the Department of Administration:

- *document its reviews of all applications for master lease funding for information technology projects, including those that it submitted for projects it manages, and specify in writing why it approved or rejected each application;*
- *consider requiring state agencies to submit certain information, such as a detailed statement of why a project should be undertaken, when applying for master lease funding;*
- *document the Secretary's approval of all applications; and*
- *report to the Joint Legislative Audit Committee by January 15, 2021, on its efforts to comply with these recommendations.*

Oversight

We found concerns with DOA's oversight of the program. After DOA approves applications for master lease funding, state agencies over time incur project costs that are paid for with the funding.

Although the program's policies did not indicate that state agencies could obtain more master lease funding than DOA had approved for projects, DOA indicated that it allowed them to obtain up to approximately 15.0 percent more in such funding for a given project. DOA indicated that it did so because project costs may not be fully known when agencies apply for master lease funding.

DOA permitted state agencies, including itself, to obtain a total of $4.4 million more in master lease funding than the amounts it had approved for eight projects.

We found that DOA permitted state agencies, including itself, to obtain a total of $4.4 million more in master lease funding than the amounts that it had approved for eight projects from FY 2014-15 through the first half of FY 2019-20. DOA indicated that the Secretary was involved in decisions to approve additional master lease funding only if the additional amounts exceeded the approved amounts by more than 15.0 percent. DOA did not provide documentation that the Secretary had approved any additional amounts.

For three projects, DOA permitted itself and another state agency to obtain master lease funding in amounts considerably greater than the approved amounts. We found that:

- DOA requested $3.0 million in master lease funding for IT hardware in June 2017. DOA approved this amount but subsequently obtained $5.0 million, which was 66.7 percent more than the approved amount.

- DOA requested $1.4 million in master lease funding for IT hardware in December 2015. DOA approved this amount but subsequently obtained $1.9 million, which was 35.7 percent more than the approved amount.

- The Department of Natural Resources (DNR) requested $0.8 million in master lease funding for laptop computers. DOA approved this amount but subsequently permitted DNR to obtain $1.2 million, which was 50.0 percent more than the approved amount.

We found that DOA did not systematically track the extent to which state agencies, including itself, obtained more master lease funding for a given IT project than it had originally approved. As a result, it may have been unaware of the extent to which considerably more funding was obtained than the amounts it had approved.

DOA should ensure that state agencies, including itself, do not obtain more master lease funding than the amounts approved as part of the application process. If agencies, including itself, believe they need additional master lease funding, they should submit new applications.

☑ Recommendation

We recommend the Department of Administration:

- *ensure that state agencies, including itself, do not obtain more master lease funding than the amounts approved as part of the application process; and*

- *report to the Joint Legislative Audit Committee by January 15, 2021, on its efforts to comply with this recommendation.*

We found that DOA's program policies did not specify the maximum length of time that state agencies had to obtain master lease funding after it approved their applications. We found that the Department of Corrections obtained $885,100 in funding in July 2015, which was more than 10 years after DOA had approved its application.

Over time, a given state agency's financial situation may change. As a result, DOA should establish in its policies the maximum length of time that agencies, including itself, have to obtain master lease funding after it approves their applications for master lease funding. If this time limit expires, agencies should submit new applications.

☑ Recommendation

We recommend the Department of Administration:

- *establish in its policies the maximum length of time that state agencies, including itself, have to obtain master lease funding after it approves their applications for master lease funding; and*

- *report to the Joint Legislative Audit Committee by January 15, 2021, on its efforts to comply with this recommendation.*

Reporting

Annually by October 1, statutes require DOA to report to the Governor and the Joint Committee on Information Policy and Technology on the use of master lease funding for IT projects in the previous fiscal year. These reports must specify:

- the total amount paid under master leases for IT projects in the previous fiscal year;

- approved master lease payment amounts for IT projects in future fiscal years;

- the total amount paid for each IT project with outstanding master lease debt, compared to the amount originally approved for each project; and

- a summary of repayments made toward any master lease in the previous fiscal year.

From October 2014 through October 2019, DOA did not submit statutorily required annual reports on master lease funding for IT projects.

From October 2014 through October 2019, DOA did not submit any of these statutorily required annual reports on master lease funding for IT projects. DOA was uncertain which of its divisions or bureaus is responsible for submitting these reports. DOA should comply with statutes by annually submitting reports to the Joint Committee on Information Policy and Technology on the use of master lease funding for IT projects in the previous fiscal year. Without such information, the Committee is unable to monitor the use of the master lease program to finance IT projects.

☑ **Recommendation**

We recommend the Department of Administration:

- *comply with statutes by annually submitting reports to the Joint Committee on Information Policy and Technology on the use of master lease funding for information technology projects in the previous fiscal year; and*

- *report to the Joint Legislative Audit Committee by January 15, 2021, on its efforts to comply with this recommendation.*

Issues for Legislative Consideration

The Legislature could consider modifying statutes to require DOA to obtain its approval before approving certain applications for master lease funding.

As noted, the Legislature is not involved in the program's application or approval processes. However, master lease payments must be made from funds that have been appropriated to state agencies. If sufficient funds were not appropriated to cover these payments, negative consequences would likely occur. For example, the State's credit rating could be downgraded. Therefore, the Legislature could consider modifying statutes to require DOA to obtain its approval before approving applications for master lease funding above a specified amount or for specified projects, such as large, high-risk IT projects.

The Legislature could consider modifying statutes to require DOA to report to the Joint Legislative Audit Committee annually on the use of master lease funding for IT projects.

The Legislature could consider modifying statutes to require DOA to report to the Joint Legislative Audit Committee annually by October 1 on the use of master lease funding for IT projects in the previous fiscal year. Doing so would provide additional legislative oversight. The reported information could include the same information that DOA is statutorily required to report to the Governor and the Joint Committee on Information Policy and Technology.

■ ■ ■ ■

Appendix ■

Appendix

Ten IT Projects for which DOA Approved the Most Master Lease Funding

FY 2014-15 through FY 2019-20[1]
(in millions)

Project	Amount	Approval Date	State Agency
STAR	$ 56.2	Feb. 2013	DOA
Storage Upgrade	19.0	Aug. 2014	DOA
IBM Mainframe	11.7	–[2]	DOA
Electronic Health Records	11.6	June 2017	Health Services
Mainframe and Software	7.2	May 2015	DOA
Genesys	6.7	May 2014	DOA
VMware	6.5	Feb. 2016	DOA
Cisco Refresh	5.0	Aug. 2017	DOA
Point of Sale System	3.3	Oct. 2015	Natural Resources
State Patrol Laptops	2.8	–[2]	Transportation
Total	**$129.9**		

[1] Through December 2019. DOA approved additional master lease funding for some projects before FY 2014-15. For example, DOA approved $92.8 million in such funding for STAR.

[2] DOA was unable to provide information indicating when it approved master lease funding.

Response ■

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
Tony Evers, Governor
Joel Brennan, Secretary

August 28, 2020

Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

On behalf of the Department of Administration (DOA), I wish to thank the Legislative Audit Bureau for its evaluation of the State's master lease program performed as part of the evaluation of the State's information technology (IT) needs assessment and procurement processes. DOA greatly appreciates the work of the Audit Bureau and the consideration provided to us in the development of this report.

The master lease program has provided opportunities for state agencies to cost-effectively finance the purchase of equipment and assets essential to their programs for nearly thirty years. The Department takes seriously its responsibility to appropriately administer the program, acknowledges the findings of the Audit Bureau, and will work to ensure the recommendations made in the report are implemented.

With respect to the legislative considerations suggested by the Audit Bureau, the Department would be pleased to work with the Legislature in an effort to ensure contemplated statutory changes, such as obtaining the Legislature's approval before approving certain applications for master lease funding, do not negate the characteristics of the program that make it a timely and cost-effective financing tool for state agencies and programs, including the Department's continuity of operations plan. Further, that such changes do not raise credit concerns for the master lease program, which could increase the interest rates on the financings.

Thank you again for your time and consideration in completing this report. I appreciate the opportunity to comment on the findings and recommendations and look forward reporting to the Joint Legislative Audit Committee by January 15, 2021, on our efforts to improve administration of the State's master lease program.

Sincerely,

Joel Brennan

Joel T. Brennan
Secretary