Legislative Council Staff

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Memorandum

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January 19, 2022

TO: Joint Technology Committee Members

FROM: Luisa Altmann, Senior Research Analyst, 303-866-3518
           Joint Technology Committee Staff

SUBJECT: JTC Staff Analysis of JBC-Referred FY 2022-23 Operating Budget Request
           Colorado Department of the Treasury
           R-03 Departmental Technology

Summary of Request

The Department of the Treasury is requesting $517,067 total funds, of which $451,256 is General Fund and $65,811 is cash funds spending authority, for FY 2022-23 and $442,567 in total funds ongoing, to address various technology needs of the department. The Joint Budget Committee (JBC) has asked the Joint Technology Committee (JTC) to provide a technical review of this request.

Request Details

The requested funds will be used for the following:

Department hardware and software needs. The department is requesting an additional $18,000 annually to increase funding for hardware and software licenses. According to the department, the current amount of funding of $12,568 per year has been the same for at least 18 years and is inadequate to meet the current needs of the department, and does not reflect the overall shift to department employees working more on laptops due to work from home policies.

Investment Division and Unclaimed Property Division technology. The department has received authorization to use one-time American Rescue Plan Act (ARPA) funds for the following efforts for FY 2021-22, but is requesting ongoing state funding for the following items for the Investment Division, which invests an approximately $18 billion portfolio:

• $352,500, of which $20,000 is one-time for asset and investment management (AIM) software licensing, which provides automated trade order execution, integration with custodial services, and pre and post trade investment compliance;

- $45,000 for an ESG software subscription, which is an analytical tool that enables the division to review current and potential holdings to best determine a security's risk profile; and
- $26,040 for a new Bloomberg terminal, which are used by the department's investment officers to gather critical information related to the trading of investment securities.

The request also includes the following costs for the Unclaimed Property Division:

- $31,095 to implement Fastrack, an electronic review system, to increase the speed of responding to unclaimed property claims;
- $4,500 in one-time funds for a new scanner; and
- $2,500 for 1099 IRS software, which will allow the division to issue 1099-DIV and 1099-INTs to claimants of securities holdings.

Security penetration audit. Finally, the department is requesting $50,000 in one-time funds for a penetration audit of department practices and processes in order to establish a baseline of cybersecurity and identify additional security needs. The department has been collaborating with the Governor's Office of Information Technology in the development of this request and plans to continue collaborative efforts with OIT throughout this process.

Options for Committee Action

The JTC has three options for committee action when it provides a technical review of an operating budget request to the JBC. The JTC can:

- recommend the request to the JBC for funding with no concerns;
- recommend the request to the JBC for funding with concerns; or
- not recommend the request for funding with concerns.

Question Responses Provided by the Department

1. **Is the department planning to take advantage of any OIT Statewide Pricing Agreements for the hardware that is being requested? Has the department evaluated leasing options for this hardware versus purchasing?**

   The Department currently shares an OIT representative with the Governor's Office. The Department follows that representative's guidance when ordering general Department hardware (i.e., laptops).

   Our general department hardware request is for a $5,432 increase in the annual department appropriation for hardware replacement – from $12,568 to $18,000. The current appropriation has been unchanged for almost two decades and has not kept pace with 21st century digitization, nor with department growth. This requested increase allows the department to stay on a recommended replacement schedule of one-third of the department per year. Additionally, the pandemic provided the opportunity for the department to evaluate remote employee options, and

to shift certain employees to long-term remote status, enabling greater department efficiency. This is significantly hampered by older, outdated technology. The Department did not evaluate leasing options, but is not opposed to doing so, if OIT determines this to be advantageous.

Second, the Department has requested a one-time outlay of $4,500 for a scanner for its Unclaimed Property Division. The current scanner being used is at the end of its useful life, and the Division runs hundreds of pages on a daily basis, in order to keep up with claimant submissions. The Department is open to leasing options but did not pursue those in making this request.

In addition, the Department has made requests for $31,095 for Fastracks software related to its Unclaimed Property Division. This is software the Division currently uses to expedite the return of claims. The requested appropriation increase reflects the Department's efforts to return funds more quickly to claimants and to keep up with the current volume of requests. The Division has also requested $2,500 for an ongoing appropriation for IRS pro-software, which allows for the Division to issue 1099s to claimants with securities holdings.

The Department has also made a specialized request for software and hardware for a Bloomberg terminal for a fourth investment officer. The FTE request has been approved. Each investment officer uses Bloomberg equipment for daily investment activities. The $26,040 requested is pursuant to the agreement between Bloomberg and the Department, and the software and hardware would be leased to the Department from Bloomberg, as is the case for the three terminals the Investment Division currently utilizes.

2. **Has the department considered using federal partners, OIT, or nonprofit organizations, such as the Multi-State Information Sharing & Analysis Center, to conduct the cybersecurity audit? Has the department received guidance from these or other cybersecurity experts to help establish the scope of the cybersecurity audit and cybersecurity needs of the department? Is the department anticipating requesting additional funding to remediate any findings and recommendations from the cybersecurity audit?**

    The Department met over the summer and fall with OIT representatives to determine the best way to proceed with cyber-penetration testing. Those meetings resulted in the Department's current budget request of an appropriation for a penetration test. The request was based on those in-depth conversations with OIT, and OIT's recommendations. The Department anticipates the possibility of requesting additional funds for remediation, but as yet, has no indication that will be the result of the findings. The penetration test will provide greater clarity as to whether there is a need for further action.

3. **How does department staff currently analyze the information that would be analyzed with the ESG software?**

    ESG risk factors have a high degree of specificity at both industry and company levels, and the data relevant to those factors is neither standardized nor widely available. Until recently, the

Department's assessment of ESG risks has been limited to tracking negative news headlines and monitoring tangentially related metrics for ESG factors in the Bloomberg terminal. The MSCI ESG service provides both industry- and company-specific data and analysis that should vastly improve our ability to assess ESG risks for an investment. The Department received approval for ARPA funding for a one-year contract with MSCI. That contract began at the start of 2022.

The Department is also requesting $352,000 in asset and investment management (AIM) software, of which $20,000 is a one-time cost. This software, distinct from the ESG software mentioned above, is a technology platform for the Department's Investment Division. It is designed to automate trade orders and execution of those orders for all investment trades. In addition, it provides pre-trade and post-trade investment compliance review, and integrates information flows on trades and investments from the Investment Division to Wells Fargo, which provides custody services for the state's investment funds.

The current trade order and compliance process is inefficient, and is an extremely labor intensive process that requires daily uploads and tracking on Department spreadsheets to monitor investment compliance guidelines. The AIM software automates the information flow on accounting and investment trading, and allows for immediate and instant investment compliance assurance.

4. **How much has the department used in ARPA funds for FY 2021-22 for these technologies?**

The Department has used for $45,000 for the MSCI ESG contract, as mentioned above.