



COMMONWEALTH of VIRGINIA

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INTERNAL SERVICE FUNDS SUBCOMMITTEE REPORT

TO: Delegate Lacey E. Putney, Chair
Members, Joint Legislative Audit and Review Commission

FROM: Delegate Leo C. Wardrup, Subcommittee Chair

DATE: December 12, 2005

On December 1, 2005, the Internal Service Fund Subcommittee of the Joint Legislative Audit and Review Commission (JLARC) met to consider rate requests from the Department of General Services (DGS) and the Virginia Information Technologies Agency (VITA). The Subcommittee heard presentations from Mr. James Roberts, Director of the Department of General Services and Mr. Lem Stewart, Chief Information Officer for the Commonwealth. DGS, VITA, and JLARC staff also answered numerous questions from the members of the Subcommittee.

DGS Fleet Management Request

The Department of General Services has requested approval of a revision of the rate structure for its fleet management fund, which recovers costs for more than 3,700 motor vehicles in the centralized fleet. The fleet management rates were last revised in 1999. The current rate for motor vehicles consists of two components: (1) an operating component to recover the costs of maintenance, administration, and fuel, and (2) a capital component to recover the costs for replacing vehicles. Different rates are charged for compact, mid-size, and full-size sedans, and SUVs.

Operating Rate. DGS has proposed that the operating rate be reduced, with fuel charged directly to user agencies as a separate amount. The costs recovered from the operating rate include maintenance on the vehicles, administration of the fleet, and fuel. Because of the variability of fuel prices, the fixed per-mile operating rate does not properly recover these costs. The DGS proposal would recover the more stable components of operating costs through a lower charge per-mile, with the customer agency paying the direct cost of fuel.

After reviewing the DGS proposal, JLARC staff offered an alternative method for calculating the operating rates. The alternative method was agreed to by DGS, and the rates brought to the Subcommittee for its consideration were those developed by the JLARC staff. The current and proposed rates for operating are shown in the table below.

Fleet Management Operating Rates

<u>Vehicle Class</u>	<u>Current Rate</u>	<u>DGS Proposal</u>	<u>JLARC Alternative</u>
Compact	\$.07	\$.035 plus fuel	\$.042 plus fuel
Mid-Size	.08	.045 plus fuel	.048 plus fuel
Full Size	.09	.055 plus fuel	.054 plus fuel
SUV	.19	.155 plus fuel	.114 plus fuel

Capital Rate. In addition, DGS has proposed a simplified rate structure and a 4.1 percent increase in the capital recovery rate. The primary change in the capital rate is the elimination of the per mile charge. Thus, the new rates are a flat rate per month. The flat rates, which vary by vehicle class, are designed to recover the revenues necessary to replace the vehicles in the fleet by increasing the flat rate amount by the equivalent amount of the per-mile charges. The new flat rate also includes an increase of 4.1 percent to account for the increases in the purchase prices of vehicles since the last rate revision in 1999.

After reviewing the DGS proposal, JLARC staff offered an alternative method for calculating the capital rates. The alternative method was agreed to by DGS, and the rates brought to the Subcommittee for its consideration were those developed by the JLARC staff. The current and proposed capital rates are shown in the table below.

Fleet Management Capital Recovery Rates

<u>Vehicle Class</u>	<u>DGS Proposed</u>		<u>JLARC Alternative</u>	
	<u>Monthly Rate</u>	<u>Daily Rate</u>	<u>Monthly Rate</u>	<u>Daily Rate</u>
Compact Sedan	\$172	\$ 8.18	\$169	\$ 9.21
Mid-Size Sedan	198	9.45	197	10.75
Full Size Sedan	237	11.28	238	13.05
SUV	222	10.58	225	12.28

Maintenance Call Center Fee. Finally, DGS has recently contracted with a private firm to implement a vehicle maintenance call center to handle all scheduled and unscheduled maintenance for the 3,700 vehicles in the central fleet. This initiative is in response to a recommendation from a JLARC report on fleet man-

agement. Other State agencies which own vehicle fleets have expressed interest in having the DGS contractor manage the maintenance of their vehicles through this new system. More than 6,000 vehicles are in these agency-owned fleets. To accommodate the requests from other agencies, DGS has proposed a service fee to recover the costs it will be billed by the contractor for managing these additional vehicles. The service fee varies by the number of vehicles to be managed for an agency. The fees are shown in the table below.

Fleet Management Call Center Fee for Non-Central Fleet Vehicles

<u>Number of Vehicles Served</u>	<u>Monthly Fee, Per Vehicle</u>
1 – 25	\$5.00
26 – 100	\$3.50
100 or more	\$2.00

Recommendation. The Subcommittee recommends that the Commission approve the proposed JLARC alternative rates for the Division of Fleet Management in the Department of General Services.

VITA Rate Requests

The Virginia Information Technologies Agency (VITA) has proposed internal service fund rates for three new categories of computer services and one rate reduction of an existing service. The proposed rates include: (1) data and voice over internet protocol (VOIP) services on the "Campus Network," (2) IT investment management, and (3) IT security management. The rate reduction is for toll-free connection to audio teleconferences. Each of these proposed rates is discussed below.

Toll-Free Audio for Teleconferencing. The reduction of the rate for toll-free service as a part of VITA's audio teleconferencing is the result of a reduction in rates from the vendor (MCI) and from reduced internal VITA costs. The reduction in this rate is appropriate given VITA's lower costs in providing the service. This rate reduction was approved by the IT Investment Board on June 20, 2005.

Data and VOIP Service on the Campus Network. As part of the transition of agency IT operations into VITA, VITA is now responsible for the Campus Network that provides network support for agencies in the downtown Richmond area. This network was previously supported by the Department of General Services (DGS), which recovered costs through building rent charges to agencies. VITA proposes instituting a monthly data port and voice over internet protocol (VOIP) charge applied per device or phone attached to the network, to recover expenses.

The proposed rate for VOIP services is based on an assumption of 2,000 phones, although fewer than 800 phones currently exist on the Campus Network. In general, the proposed VOIP rate appears to under-recover the costs of services in the first year of the biennium. This is a reasonable approach to permit expected growth in the use of the service without frequent changes to the rate charged. These rates were approved by the IT Investment Board at on June 20, 2005.

IT Security Management. In general, IT security management services are those services designed to protect the Commonwealth's technology infrastructure from external risks. VITA has proposed a flat rate of \$4.31 per personal computing device (including desktop, laptop, and tablet computers) assigned to each agency to recover an estimated \$3.4 million in annual expenses. VITA's security services division currently provides these services funded through general overhead recoveries. Available overhead funds are insufficient over the long term.

The Subcommittee expressed some concern that the costs associated with this activity might be more appropriately charged as overhead. After considerable discussion, the Subcommittee determined that the proposed charges for IT security management were acceptable as an interim approach for recovery of security costs.

It was also noted in the Subcommittee meeting that the IT Investment Board raised concerns about the recovery method for this rate, and at its October 25, 2005, meeting, directed VITA staff to develop alternatives for review by the Board. Additional information has been provided by VITA to members of the IT Investment Board, which is expected to take final action on the rates at its December 8, 2005, meeting.

The IT Investment Board approved the rate on December 8, and the Subcommittee confirmed its earlier approval at its meeting on December 12, 2005. VITA noted that the charge is to be based on the number of PCs and other devices, but will be billed to agencies as a lump-sum on a monthly basis.

IT Investment Management. Managing technology investments throughout a project lifecycle is the responsibility of the VITA project management division (PMD). VITA has proposed the IT investment management service fee as a means of recovering expenses for these services. Currently, there is no specific recovery of these costs, so expenses have been paid for from VITA's available general overhead funds. Over the long term, this situation is not viable since the funds currently used will be inadequate to cover the costs. These services are mandated by statute, so VITA must have a reliable source of revenue to pay for expenditures totaling about \$1.7 million.

VITA has identified two general components to IT investment management: (1) Commonwealth governance and (2) agency oversight and consulting. The proposed VITA rate would recover both types of costs in a single, three-tiered monthly charge for small, medium, and large agencies:

Small Agencies – \$370 per month
Medium Agencies – \$1,409 per month
Large Agencies – \$4,389 per month

The Subcommittee raised several concerns about the IT investment management charges. First, the governance portion of the costs should be recovered as VITA agency overhead, and not charged to agencies as a separate recoverable item. Second, the oversight and consulting component could be charged to agencies actually submitting projects, with VITA capturing actual hours of consulting and the use of other resources for chargeback to agencies. This would avoid charging small agencies for costs to which they do not contribute because they do not typically submit projects to PMD for review. Finally, it is not clear from the VITA submission how the specific rates were calculated, whether the relative amounts in the three tiers are appropriate, or what specific costs are to be recovered from the charges.

As a result of these concerns, there was no motion to recommend approval of these rates by the Commission. Instead, the Subcommittee requested that VITA develop an alternative rate that would charge agencies directly, on an hourly basis, for the direct costs associated with investment management services, such as approval of procurements and consulting on major project reviews. The governance portion of costs would be covered as VITA overhead. VITA agreed to develop and present such an alternative to the IT Investment Board at its December 8, 2005 meeting.

On December 7, 2005, VITA re-submitted its request for the approval of the IT investment management rate, with a new methodology as requested by the Subcommittee. The alternative proposal includes (1) an indirect expense charge for governance for customers other than higher education, and (2) two hourly rates for oversight (one for executive agencies, one for institutions of higher education that captures governance costs). No rate increases are sought as a result of the additional indirect expense allocations. The two rates are: \$74.74 per hour for executive agencies and \$155.30 for institutions of higher education. These rates were approved by the IT Investment Board on December 8, 2005. The Board also authorized the CIO to offer an alternative annual charge for institutions of higher education.

The Subcommittee considered the proposed alternatives at its meeting on December 12, 2005. VITA proposed that a single hourly rate of \$74.74 be charged for agencies and higher education institutions, with a single annual fee to recover governance costs from the higher education institutions. The annual fee is \$1,322

for small schools, \$3,368 for medium schools, and \$16,472 for the large schools (except the three schools exempt under the management agreements). The subcommittee voted to recommend approval of the alternative charges.

Recommendations. The Subcommittee recommends that the Commission approve the proposed rates for (1) toll-free audio conferencing, (2) data and voice over internet protocol services on the Campus Network, and (3) IT security management. The Subcommittee also recommends that the Commission approve the alternative rates for IT investment governance and consulting for agencies and institutions of higher education as presented to the Subcommittee on December 12, 2005.