



COMMONWEALTH of VIRGINIA

*Joint Legislative Audit and Review Commission
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November 22, 2005

MEMORANDUM

TO: Internal Service Fund Subcommittee

FROM: Glen S. Tittermary, Deputy Director

SUBJECT: VITA Computer Services Fund Rate Requests

On November 9, 2005, the Virginia Information Technologies Agency (VITA) submitted for Commission approval four proposed internal service fund rates for new computer services and one rate reduction of an existing service. The VITA request is included as Attachment A. The proposed changes to the rates have been approved by the Information Technology Investment Board, with the exception of the requested charge for IT security management, for which the board's action is unclear. JLARC staff have reviewed the information submitted by VITA and have discussed the rate methodologies with VITA staff and with staff of the Auditor of Public Accounts. VITA's proposed rates and JLARC staff concerns about some of the proposals are discussed below.

Rate Reduction for Audio 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.

New Rates for Data and VOIP Services 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 sup-

ported 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.

To date, DGS has not submitted a request to reduce the building rent charges which have recovered these costs in the part. JLARC staff will request a rate submission from DGS.

New Rate for Information Technology 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

There are two concerns regarding these charges. First, the governance portion of the costs would typically be recovered as VITA agency overhead, and not charged to agencies as a separate recoverable item. This type of activity within VITA and its predecessor agency, the Department Information

Technology, has never been a directly billable item because there is no reliable metric on which agencies can be equitably charged. By recovering such governance costs as a part of overhead, these costs are borne by agencies according to their overall use of services. It is not clear why this standard practice was not used for the recovery of these costs. Governance costs associated with IT investment management should be added to general overhead and allocated across all relevant services.

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.

Moreover, 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. For these reasons, this new rate may not be appropriate.

New Rate for Information Technology 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. As with IT investment management, available overhead funds are insufficient over the long term.

There are two concerns relative to this proposed rate. First, the costs associated with this activity are more appropriately charged as overhead. Given the nature of these costs, VITA should have revised its overhead cost allocation to account for this additional security cost. In its submission to the Commission, VITA has not established a compelling case for establishing these services as unique billing elements, as opposed to the continued funding of these services through general overhead.

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Second, the IT Investment Board also 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 was provided by VITA to members of the IT Investment Board's finance subcommittee, but no additional action to approve the specific recovery method has been taken by the Board.

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