



Virginia Information Technologies Agency

# Rates Proposals

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Internal Service Fund Subcommittee  
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## Overview of rates proposals

- *Reduced rate* – Audio teleconferencing
- *New rate* – Data and VOIP services on the Campus Network
- *New rate* – Information Technology Investment Management (ITIM)
- *New rate* – Information Technology Security Management (ITSM)



## Reduced rate—Audio teleconferencing

- The vendor (MCI) reduced rates.
- VITA's internal costs have also been reduced.
- The proposed rate reduction = \$.15/minute.
- JLARC staff states that this rate is appropriate given VITA's lower costs in providing the service.



## New rate—Campus Network services

- As a result of transition, VITA is responsible for capitol area agency network support formerly provided by DGS.
- The proposed rate will recover expenses via monthly data and VOIP port charges per device (data=\$8.06; VOIP=\$1.18).
- Rates are based on potential growth to 2,000 phones in the network.
- JLARC staff states that this rate is reasonable in that frequent rate changes can be avoided.



## Background

- VITA proposed decision packages in the FY 2005 budget update for IT investment management and enterprise security.
- Both of these requests addressed (1) Code mandates and (2) deficiencies identified in APA audits of VITA.
- Member amendments in the 2005 GA session requested \$1.6M GF for investment management and \$3.3M GF for security.
- A JLARC staff review of VITA amendments determined the internal service fund (ISF) to be the only appropriate funding mechanism.
- These requests were not recommended for funding by the GA.
- The CIO proposed to the ITIB in June 2005 that ISF rate proposals should mirror the budget amendments.



# New ISF rates presented to ITIB

<u>New Rate Requirement</u>	<u>Total Budget Request</u>
Program Management	\$1,650,000
Database Risk Assessment/Incident Management	\$3,271,000
<b>TOTALS</b>	<b><u>\$4,921,000</u></b>

<u>Projected Agency Impact</u>	
FY 2006	\$4,900,000
FY 2007	\$4,300,000
FY 2008	\$4,300,000



## New rate—Investment Management

- The Code mandates that VITA's Project Management Division (PMD) is responsible for IT major project policy, planning, and oversight.
- PMD's efforts assure that the Commonwealth's overall direction in IT project development and implementation is consistent, technologically sound, customer-driven, and financially responsible.
- The APA has found that PMD is not adequately resourced to effectively perform its mission.



# Investment Mgt rate recoveries and uses

Project/Governance Target	\$1,650,000
<u>Administrative (indirect) expenses</u>	<u>\$91,080</u>
<b>Total Recovery Target</b>	<b>\$1,741,080</b>

Governance %	55%
Project Oversight/Consulting %	<u>45%</u>

Governance Recovery Target	\$957,594
<u>Project Oversight/Consulting Target</u>	<u>\$783,486</u>
	<b>\$1,741,080</b>



# Investment Management Cost Recovery Methodology

- Projects have wide variance in size and complexity.
- PMD provides oversight on procurement efforts as well as projects which also vary in size and complexity.
- The number of projects and procurements varies from year to year, making the establishment of a review fee problematic.
- A fee based on billable hours would be a disincentive to customers, some of whom are already not forthcoming about IT investments subject to VITA oversight.



# Proposed Investment Mgt rate schedule

<u>Customer Category</u>	<u>Annual</u>	<u>Monthly</u>
Small Agency	\$4,153	\$346
Medium Agency	\$16,234	\$1,353
Large Agency	\$52,669	\$4,389
Small Higher Education Institution	\$5,368	\$447
Medium Higher Education Institution	\$23,157	\$1,930
Large Higher Education Institution/System	\$4,511	\$376



## New rate--Security

- The Code mandates that VITA is responsible for IT incident management reporting and resolution and risk assessment of customer databases.
- VITA is unable, due to limited resources, to mount enterprise wide measures to assure information security IAW these mandates.
- Recent events in and outside of government have demonstrated the damage attendant to IT security breaches.



## Security rate recoveries and uses

\$1,760,928	Incremental Risk Management
<u>\$1,509,366</u>	<u>Incremental Incident Management</u>
\$3,270,293	New Services Total
<u>+ 180,520</u>	<u>VITA Indirect Expense</u>
<b>\$3,450,813</b>	<b>Total recovery</b>



## Proposed Security rates

- The fee will be charged to customer agencies based on the number of desktop, laptop, and tablet Personal Computers (PCs) in use by each agency as a proportion of the total number of PCs in use by all VITA customer agencies.
- The monthly fee is \$4.31 per device.
- The annual fee is \$51.67 per device.
- The estimated total number of devices is 66,789.



# Security cost recovery methodology options

METHODOLOGY	RECOMMENDATION	USED BY
Security costs recovered by allocation based on <b>number of eligible devices</b> in each agency.	<b>Recommended.</b> Provides most equitable allocation based on granular gauge of overall agency IT activity, which drives security costs.	
Security costs recovered via <b>activity-based cost recovery</b> .	<i>Not recommended</i> , because Incident Management and Risk Management costs cannot be associated with specific customer agency activities.	Georgia
Security costs recovered by <b>allocation to different cost pools</b> .	<i>Not recommended</i> , because Incident Management and Risk Management costs would be added to general overhead, decreasing cost transparency.	Massachusetts
Security costs recovered by allocation based on <b>headcount</b> in each agency.	<i>Not recommended</i> , because this allocation method would penalize agencies such as VDOT, which have a large number of employees who make little use of computing resources.	Nevada
Security costs recovered by allocation based on <b>agency's VITA billings</b> from previous fiscal year.	<i>Not recommended</i> , because of ongoing changes in level of agency billings. This allocation method would also penalize agencies that incur VITA costs to improve security.	North Carolina
Security costs are allocated based on <b>number of telephone lines</b> in use at each agency.	<i>Not recommended</i> , as this allocation method less accurately associates security expense with the overall agency IT activity that drives these expenses.	Pennsylvania



## Why not use existing OH rates?

- The mandated services represent increases as compared with those previously recovered through General Overhead. Adding the additional expense to General Overhead has these inherent problems:
  - It would be necessary to increase legacy rates to support the increased expenses.
  - Not all consumers of the mandated services are legacy customers, thereby creating a “free ride” for some, and a disproportionate burden for legacy customers—also creating potential federal audit issues.
  - The usage of legacy services does not correlate to the use of ITIM and ITSM-funded services.
  - ***Covering Commonwealth-mandated services through overhead removes their visibility as mandated services. It will be perceived as a VITA rate increase.***