



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: June 13, 2005

On May 26, 2005, the Internal Service Fund Subcommittee of the Joint Legislative Audit and Review Commission met to consider rate requests from the Virginia Information Technologies Agency (VITA) and the Department of General Services (DGS). The subcommittee heard presentations from Mr. Lem Stewart, Chief Information Officer for the Commonwealth, and Mr. James Roberts, Director of the Department of General Services. VITA and DGS staff also answered numerous questions from the members of the subcommittee.

VITA Rate Request

The Virginia Information Technologies Agency has requested approval for six rates, five of which are for new services. Overall, the new rates are expected to generate approximately \$130,000 in revenues on \$193,600 in expenses. According to VITA staff, the rates have been set to under-recover costs in the first year with the expectation that revenues will increase as additional customer agencies use the services.

Two of the rates are for customer agency use of shared servers in which applications are hosted on virtual servers. By configuring multiple virtual servers on a single physical server, the costs for the customer agency are lower. The two rates for the virtual servers cover the different costs for a standard operating system configuration and an enterprise operating system configuration. The current projection is for 22 of the virtual servers. As is the case with all of the submitted rates, the rates are based on projected costs and assumptions about the projected use of the service by customer agencies. Based on the presentation to the subcommittee, the rates appear to be based on reasonable assumptions and the information currently available to VITA.

The third rate is for a similar, shared server arrangement consisting of the shared use of the SQL database engine by multiple customer agencies. As with the first two rates, the shared SQL database rate is for a new service, so the costs and usage by customers are estimated. For example, the estimated revenue from the SQL database rate is based on use by only three customer agencies. As more customer agencies use the service, revenues will increase.

The fourth rate is for shared email service. The obvious advantage for customer agencies using this service is that they do not have to purchase, configure, operate, and maintain their own email servers. By sharing the service with other agencies, costs are lower.

The fifth rate is for shared Blackberry (wireless email) email hosting. This shared service provides the same benefits as shared email service in that customer agencies do not have to bear the full cost of providing the necessary hardware, software, and personnel. It should be noted that this charge is not for the Blackberry service itself. Agencies already will have subscribed for that service. The VITA service is for email hosting which links the customer's email to the wireless service provided by the Blackberry vendor.

The final requested rate is a reduction of a billing charge previously approved by the Commission. Government to Government Enterprise Services (G2G) is the VITA service that hosts an interface between local social services agencies and State databases. The actual service is provided by a vendor, MITEM, at a cost of \$30 per user per month plus \$5 per application. The proposed VITA fee of \$24 per user per month is in addition to the vendor charge and is a reduction of \$10 per month. The VITA charge covers VITA's hardware, software, and personnel costs incurred to host the service and provide connectivity to the State databases. Currently, four local agencies have requested the service for about 185 local workers.

The monthly rates requested by VITA are:

VMWare – Virtual Servers (Standard)	\$250.00 per server
VMWare – Virtual Servers (Enterprise)	\$324.00 per server
Shared SQL Server Database	\$170.00 per server
Shared Email Service	\$ 8.61 per user
Shared Blackberry Service	\$ 4.27 per user
GESI (G2G) – request reduction from \$34.00	\$ 24.00 per user

The subcommittee recommends that the Commission approve the computer services rates proposed by the Virginia Information Technologies Agency.

DGS Rate Request

The Department of General Services (DGS) requested a change in the hourly labor rate it charges agencies for services performed by the Office of Graphic Communications (OGC). This DGS office provides graphic services, publication layouts, web design, and other related services to State agencies at a cost that has been below the private sector. Under the requested rate change, the labor rate charged for design work provided by the office would increase from \$60 per hour in this fiscal year to \$70 per hour in FY 2006. DGS proposes that the labor rate increase take effect on July 1, 2005.

Based on the estimate provided by DGS of the billable hours for the office at current staffing levels (4,810 hours), a labor rate increase is needed to obtain sufficient revenues from customer agencies in FY 2006 to cover the expenses of the office. In the current fiscal year, through March 31, the OGC fund is experiencing a loss at the \$60 per hour rate. In FY 2006, at the same \$60 rate, DGS would obtain an estimated \$288,600 in revenues from customer agencies for the billable hours of the office. This is about \$40,506 less than the amount that DGS projects will need to be recovered by the fund (\$329,106) through labor rates in order to meet the total projected expenses of the office. However, with an increase to a \$70 hourly rate in FY 2006, DGS estimates that the fund would obtain an estimated \$336,700 in labor rate revenues from customer agencies. This would provide a small cushion of \$7,594 above the projected amount for expense recovery.

The subcommittee recommends that the Commission approve the proposed rate revision for the Office of Graphic Communications in the Department of General Services.

Development of an Annual Rate Review Process for VITA Rates

The subcommittee also directed JLARC staff to work with the Auditor of Public Accounts, House Appropriations and Senate Finance staff, the internal service fund agencies, and the Department of Planning and Budget to develop a process for approval of rates on an annual basis. The new process would require VITA to seek approval of rates only once each year and would give that agency more flexibility in developing rates for new services and in adjusting rates on an interim basis. An additional goal is to provide VITA's customer agencies with more certainty about the costs of services during each fiscal year with changes in rates more closely aligned with the annual budgeting process. In developing this new process, the subcommittee will ensure that the Commission can carry out its oversight responsibilities for internal service funds in the most efficient and effective manner. The staff are to have a proposal for the Commission's consideration at the July meeting.