



**State of North Carolina
Office of Information Technology Services**

**Pat McCrory
Governor**

**Chris Estes
State Chief Information Officer**

December 3, 2013

Members of Joint Legislative Commission on Governmental Operations
Chairs of the Joint Legislative Oversight Committee on Information Technology
Members of the House Appropriations Subcommittee on Information Technology
Fiscal Research Division

Dear Members of the General Assembly and Staff:

This letter serves as an update to the interim report issued on July 31, 2013, by the State Chief Information Officer regarding the establishment of consistent, fully transparent and understandable rates for services provided by the Office of Information Technology Services (ITS).

We are pleased to report that ITS plans a number of interim changes to its rate-setting methodology for FY14-15 budget. One significant change will be to ensure that true overhead costs, which previously were embedded in for the costs of each service, are segregated and identified as overhead. This will make ITS rates more transparent and easier to understand, and make it easier to manage and constrain overhead expenses.

Additionally, ITS is implementing a new budget and billing system, BRITE (Budget and Reporting IT Expenditures), to provide agencies easier access to more comprehensive consumption and billing data. The system will also give ITS a more robust, automated budgeting tool that tracks expenditures and receipts against the planned budget, as well as provide a more automated rate calculation mechanism.

The BRITE system is in production and running in parallel for all non-telecommunication services. Final adjustments are being made to the application and select agency user personnel have been trained, are using the system and providing feedback. It is anticipated the BRITE will be deployed to all agencies in the first quarter of calendar year 2014. The BRITE system is being used to provide the forecasts and rate analysis for FY 14-15 ITS Budget Analysts have entered FY14-15 plan data into the system and internal reviews are underway.

Benchmark analysis of key ITS services have been performed by a third party and are scheduled to be reviewed by ITS management in December. The analysis was developed by comparing ITS actual costs for IT hardware/software and personnel to industry and peer benchmark data. The review focused on six discrete towers: Distributed Computing, Help Desk, Midrange Servers (Windows), Midrange Servers (Linux), Mainframe Computing, Applications Development and Support. The vendor-provided benchmark database includes between 200-600 peers per tower with data sets which are no more than 18 months old.

We also have issued a Request for Proposals (RFP) for an independent, third-party analysis of our rate development methodology, including our proposed changes. Bids were due December 2, 2013, and we anticipate an award by the end of the calendar year. This effort will provide an independent evaluation of the current ITS rate methodology and recommended changes to ensure rates are developed accurately and appropriately.

In preparation for the RFP engagement, significant consideration has been given to the ITS rate development methodology and options for improving the process. Several significant concepts have been discussed and will be explored further with the vendor during the Rate Review Assessment engagement. Some of the concepts consist of:

- Establishing core services which are funded through direct appropriations to ITS, such as NCID, Active Directory, core network functions and other enterprise IT requirements used by all IT users, and
- Reduction or elimination of cross billing between ITS service units in a way that maintains the integrity and transparency of the cost of the services.

ITS has begun conversations with OSBM regarding these concepts and will include OSBM in the analysis done by the awarded RFP vendor. The expectation is that the agreed upon recommended changes would be implemented with the FY 14-16 biennium budget.

Please let me know if you have any questions or would like to discuss this report in further detail.

Sincerely,



K. Jeffrey King
Deputy State Chief Information Officer



Randy Barnes
Chief Financial Officer, Acting

cc: Art Pope
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