

Department of Information Technology Internal Service Fund Rates

Joint Legislative Oversight Committee on
Information Technology

October 6, 2022

Department Introduction

- The Department of Information Technology (DIT) is the primary IT service provider for North Carolina State government.
- The Department of Information Technology provides a wide range of information technology services to State agencies, as well as some services to local government and educational institutions.
- Core services include:
 - Hosting,
 - Managed desktop services,
 - Project management services,
 - NC Identity Management (NCID),
 - Network Security,
 - Unified communications.
- DIT has a variety of responsibilities in addition to providing these services, ranging from statewide data analytics, procuring IT assets and services, and promoting broadband infrastructure expansion across the state.

Department Introduction Cont'd.

- 1999
 - S.L. 1999-434: Creates Office of Information Technology Services (OITS) within the Department of Commerce.
- 2000-2014
 - Responsibility for information technology in state government is transferred among various State agencies during this time (Department of Administration, Office of the State Controller, Department of Commerce, and the Governor's Office).
- 2015
 - S.L. 2015-241: Eliminates OITS and creates the Cabinet-level Department of Information Technology (DIT).
 - The legislation repeals Article 3D of GS 147 and places most of the state's IT law in a new Article 15 of GS 143B. The department, led by the State CIO, includes all IT functions of Cabinet agencies
 - The State CIO also retains authority over IT procurement, project management and oversight and security for all Executive Branch agencies
- Today, DIT is a cabinet-level department led by the State Chief Information Officer (State CIO) that plans and manages information technology in agencies directly under the control of the governor.

NCDIT's Strategic Plan

Vision

Government that strategically leverages technology for an equitable, prosperous, healthier, and educated North Carolina.

Mission

Enable trusted business-driven solutions that meet the needs of North Carolinians.

Priorities

- Broadband/Connectivity
- Cybersecurity & Privacy
- Digital Transformation

Guiding Principles

- Accountability
- Agility
- Collaboration
- Creativity & Innovation
- Customer Focused
- Integrity
- Transparency

Goals



Foster a connected NC to improve opportunities and outcomes for residents

- Expand broadband and digital inclusion.
- Work with our partners in the private, not-for-profit, and public sectors to expand broadband and increase digital equity.
- Enhance the customer and citizen digital experience.
- Enhance 911 capabilities across the state.
- Increase collaboration among state and local entities.



Promote an inclusive and innovative workforce

- Attract, develop and retain a skilled and diverse workforce.
- Establish a culture of empowerment and collaborative thinking.
- Invest in people through increased training and education opportunities.
- Develop and implement advancement opportunities for our employees.
- Improve communication and transparency with employees.
- Foster an environment that promotes diversity, equity, and inclusion.



Optimize and secure the state's IT and application portfolios

- Implement a whole-of-state approach to cyber and risk management.
- Integrate and operationalize cyber security tools across all state agencies.
- Continue to optimize IT across Cabinet agencies.
- Leverage the Enterprise Portfolio Management Tool to identify critical applications and technology convergence opportunities.
- Implement enterprise IT governance to optimize IT investments.
- Develop an application modernization program.



Leverage data assets and analytics to further advance a data-driven government

- Provide data analytics and insights for more informed decision-making.
- Execute enterprise data governance strategies to promote data sharing while ensuring data privacy and security
- Inventory critical data assets across the enterprise.
- Implement an enterprise data management program that addresses data standards, quality, and accessibility.
- Expand the use of modern data visualization capabilities to track performance and impacts.



Transform the delivery of services

- Enhance the DIT customer experience.
- Develop scalable services that meet the current and emerging needs of our customers.
- Establish service broker model and supporting capabilities.
- Enable a cloud migration strategy.
- Simplify statewide IT procurement.
- Improve the ability to forecast customer needs.
- Transition to a modern authentication services to support the state's current and future needs.
- Invest in secure, scalable infrastructure for data programs.
- Develop and implement a new funding model for IT in the state.

Internal Service Fund

- According to generally accepted accounting principles (GAAP), a governmental internal service fund (ISF) is used to account for the financing of goods or services provided by one government department or agency to other departments or agencies of the government on a cost reimbursement basis.
- N.C.G.S 143B-1333 creates an internal service fund for DIT to provide goods and services to State agencies on a cost-recovery basis.
- The statute establishes a system of cost recovery including fees and rates with several notable requirements, including:
 - Rates that are consistent, fully transparent, and easily understandable
 - Rates that reflect industry standards
 - Proposed rates submitted to OSBM on an agreed upon date
 - Rates approval by OSBM
 - Inclusion of the ISF in the Governor's recommended budget
- Under legislation and regulatory parameters established by the Office of State Budget and Management (OSBM), ISF budgets are tracked within Budget Code 74660.

Activities Tracked Within The ISF

- Telecommunications Services – particularly those detailed in N.C.G.S 143B-1370 and 143B-1371 provided to public sector entities across the State.
- Computing Services – provided to public sector entities across the State, but primarily to State agencies.
- Service Delivery Administration – including administrative costs supporting rated services within the ISF allocated to each service and included in approved rates. This also includes cyber security elements and certain early service adoption activities.
- Optimized Staffing – provided to certain cabinet agencies as detailed in N.C.G.S 143B-1325
- Department-Wide Administration – including administrative costs (excluding the office of the DIT Secretary and State Chief Information Officer) for all DIT and included in the ISF subscription rate; also including Statewide IT Procurement

ISF Cash Balance

Date	Revenue	Expenses	Recovery	Cash Balance	Change in Cash	Exp/Day	Days Cash on Hand
30-Jun-22	374,240,221	357,952,605	16,287,616	50,756,695	16,421,116	980,692	52
30-Jun-21	324,126,770	316,091,473	8,035,297	34,335,579	(716,696)	866,004	40
30-Jun-20	305,411,242	307,778,692	(2,367,450)	35,052,275	(4,615,957)	840,925	42
30-Jun-19	273,085,898	279,064,782	(5,978,884)	39,668,232	(3,886,839)	762,472	52
30-Jun-18	197,842,691	210,911,881	(13,069,190)	43,555,071	(11,508,027)	576,262	76
30-Jun-17	202,942,304	185,601,634	17,340,670	55,063,098	15,729,024	507,108	109
30-Jun-16	184,155,389	173,310,416	10,844,973	39,334,074	14,817,016	473,526	83
30-Jun-15	187,475,282	183,925,144	3,550,138	24,517,058	(1,279,468)	502,528	49
30-Jun-14	177,923,622	172,960,567	4,963,055	25,796,526	-	472,570	55

- From June 30, 2014, through June 30, 2017, the ISF entered a period of sustained over-recovery that resulted in significant levels of cash on hand in budget code 74660.
- DIT concluded that either rates development during this period were inaccurate or spending fell well below targets.

History of ISF Rates

~ 2000 - 2012 Rates:

Majority of IT costs were covered by mainframe rates, seen as the “cash cow” and largely borne by DOT, DHHS, and DOR.

2012 - 2015 Rates:

First attempt to charge for each service according to service budgets. Did not account for consistent application of core administrative functions and allocated costs.

Sept. 18, 2015:

DIT created
by State Budget

2015 - 2017 Rates:

DIT begins to identify and track every dollar. Sustained period of over-recovery that resulted in significant levels of cash on hand.

2017 - 2020 Rates:

Efforts taken to mature ISF accounting and rate development process, with benchmarking of similar IT service rates across the economy. “Hold-harmless” practice towards State Agency impacts.

2020 - 2022 Rates:

Proposed rates included a significant increase as a result of subscription rates being excluded in the proposed rates from 2017-2020.

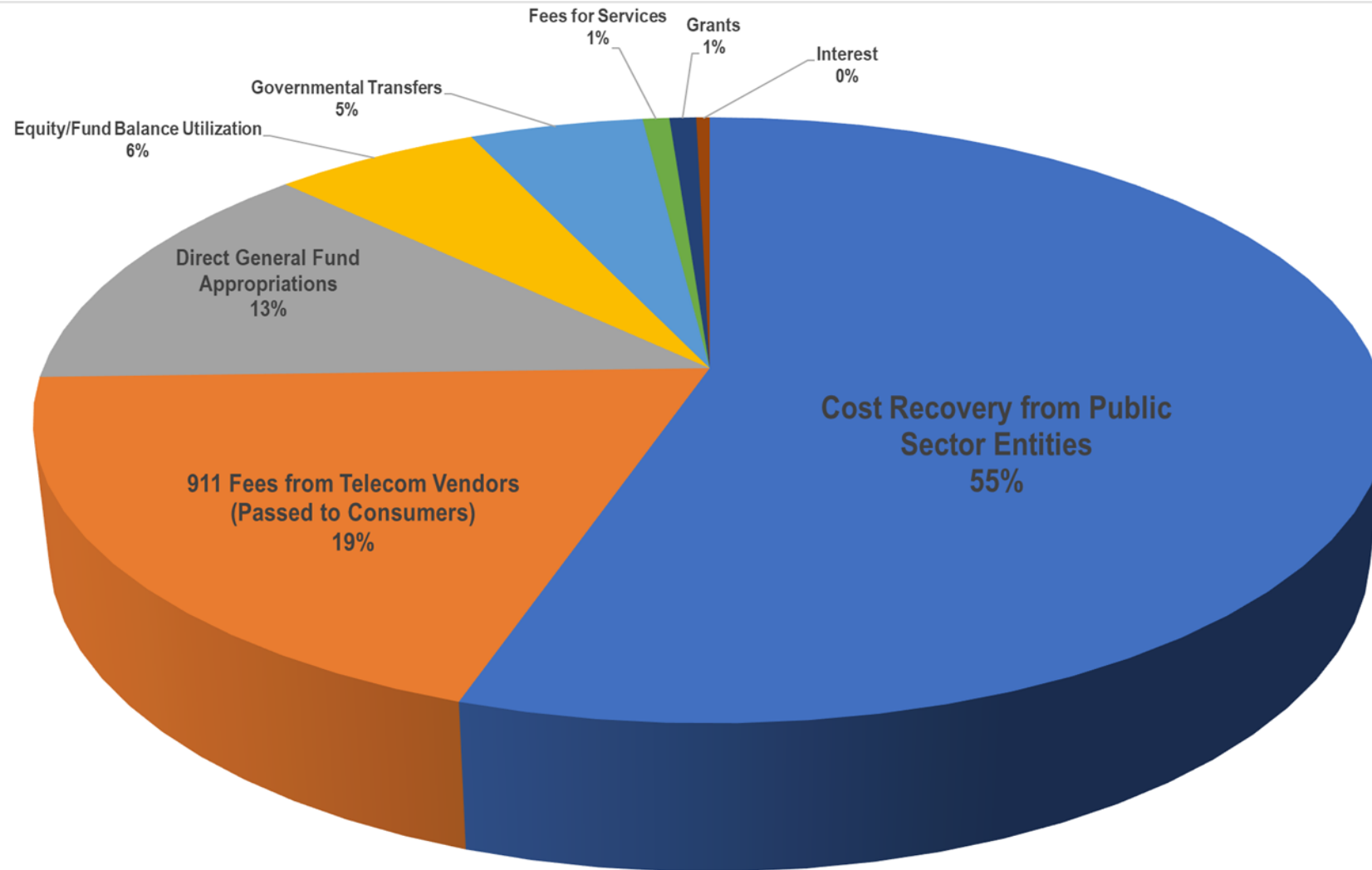
ISF Rate Development

- Rate development methodologies vary, but because each method is designed to recover costs necessary to deliver the appropriate service, the process to develop rates, fees, or other charges is similar in each instance.
- The steps to developing the rates include:
 1. Tracking and accumulation of relevant personnel costs.
 2. Tracking and accumulation of relevant non-personnel costs.
 3. Estimation of applicable administrative and Statewide IT Procurement costs.
 4. Estimation of consumption.
 5. Development of rate, fee, or charge necessary to recover costs.
 6. Analysis of impact to State Agency constituents and potential rate adjustments.
 7. Comparison of DIT rates to similar costs across the economy and potential rate adjustments, with a formal benchmarking study completed every 3 years.

ISF Cost Recovery

- The ISF today is structured to recover costs for the following activities:
 - **Telecommunications Services** – costs are accumulated, and direct rates are established based on projected consumption.
 - **Computing Services** – costs are accumulated, and direct rates are established based on projected consumption.
 - **Service Delivery Administration** – total administrative costs are allocated to rated services and included as a portion of rates.
 - **Optimized Staffing** – personnel costs are recovered via memorandums of understanding (MOUs) with applicable Executive Branch State Agencies. Necessary budget is still allocated to agencies and associated non-personnel costs are supported by agencies.
 - **Department-Wide Administration** – total related costs are accumulated and divided on a pro-rata basis to agencies based on a two-year billing average and charged to State Agencies via a subscription rate. This cost has not traditionally been passed along to non-State Agency users.
 - **Statewide IT Procurement** – N.C.G.S 143B-1333 funds the Statewide IT Procurement Division via both the subscription rate, but also by a fee related to the short-term IT Staffing Contract that is ultimately paid by State Agencies utilizing contract resources.

ISF Cost Recovery - DIT Funding



ISF Rate Factors

- ISF rates are designed to recover costs from State agencies and participating public sector entities. The actual impacts of rate changes on specific users from year to year will vary based on several factors, including:
 - Actual rates
 - Actual consumption
 - Number of users from which costs are recovered
- Other indicators for how rates are constantly evolving:
 - National Consumer Price Index – reflects the general increase in prices across the economy.
 - North Carolina Unemployment Rate – a potential indicator of DIT’s difficulty in hiring staff, upward salary pressure, and cost of contractors.
 - Legislative Salary Increases – an indicator of rising personnel costs within the ISF.
 - DIT Full-Time Equivalent Employees – reflects total personnel costs for the Department and upward pressure on DIT-wide administrative costs.
 - State Government Full-Time Equivalent Employees – reflects State-wide personnel costs and potential increase in the scale and consumption of certain DIT services.
 - State Government Expenditure Budgets – another indicator of growth in State government and potential increase in the scale and consumption of certain DIT services.

ISF Rates for FY 2021-2023

- For unknown reasons subscriptions fees were not included in the proposed rates for fiscal years ending June 30, 2017, through June 30, 2020.
- Subscription rates remained unchanged for this period although costs increased notably due to a dramatic increase in the size of DIT due to optimization and efforts to mature administrative processes. The cost increases were covered by the available cash within the ISF during this time period.
- The oversight was discovered in 2020, resulting in significant increases which were reflected in the proposed rates for the fiscal year 2021-2022 and fiscal year 2022-2023.

	FY2022	FY2021	FY2020	FY2019	FY2018
Admin Subscription	12,452,480.53	10,216,926.77	7,138,585.00	7,138,585.00	7,138,585.00
Procurement Subscription	-	399,452.12	872,795.99	872,795.99	872,795.99
ST Staffing Contract Fee	-	3,033,263.50	2,551,239.76	2,551,239.76	2,551,239.76
Total Subscriptions & Fee	12,452,480.53	13,649,642.39	10,562,620.75	10,562,620.75	10,562,620.75
Change	(1,197,161.85)	3,087,021.64	-	-	

Future of ISF Rates

- DIT has committed to a strategy of maturing revenue cycle processes, understanding risks, implementing effective controls, and maintaining absolute transparency in rate development and accounting for all activities tracked within the ISF, while focusing on cost recovery, cost management, optimization, and federal compliance.
- For many services, participation in the ISF is optional for State entities. As cost recovery is limited to those entities participating in the fund, the fiscal impact to individual users could increase even if total costs to be recovered were to remain stable.

Future of ISF Rates Cont'd.

- S.L. 2021-180, Sec. 38.12, directs the Joint Legislative Oversight Committee on Information Technology (JLOCIT) to conduct a study of best practices and make recommendations for legislative proposals to formulate a new budget and cost accounting model for State information technology goods and services provided to State agencies by DIT.
- This study must evaluate:
 - The current ISF rate structure, focusing on the ISF rates and fees charged by DIT to State agencies;
 - Alternative ways to capture and recover the costs of information technology goods and services that DIT provides to State agencies.
 - How replacement costs are accounted for and built into State agency operating budgets.
 - Should State agencies pay for information technology using the current or a similar rate system, or if information technology charges and costs should be funded differently.

What are our neighbors doing in SC?

- In January 2016, Executive Order 2016–07 was issued requiring cabinet agencies to use shared services to meet agency IT needs through the implementation of the Statewide Strategic Information Technology Plan. The goal of the plan is to enhance the services agencies provide to citizens, through the adoption of more efficient, cost-effective, innovative and secure methods.
- Under this plan the South Carolina Department of Administration’s (Admin) Division of Technology Operations (DTO) serves as the IT shared services organization to ensure reliable IT infrastructure services — such as data center, end-user computing, service desk and network services — are provided on behalf of the state, delivered either through state resources or via an external provider.
- With the implementation of this plan South Carolina’s information technology is more centralized, however, state agencies continue to operate their own individual “islands of computing” separate from mutually beneficial shared services.
- This approach makes it very difficult to understand the State’s true technology costs, and, more importantly, such decentralization increases the State’s information technology security risks and makes economies of scale more challenging to achieve.
- South Carolina appropriates General Fund dollars for the majority of the DTO budget, with the remaining budget being recovered through various rates.

What are our neighbors doing in GA?

- The Georgia Technology Authority (GTA) offers technology services through a public-private partnership which allows for the delivery of services from leading IT companies like AT&T, NTT DATA, Unisys, and others. Georgia follows this model to provide a full range of managed network services and IT infrastructure services to a core set of 14 agencies in the state's executive branch, as well as a la carte services to many other agencies.
- The GTA provides access to a range of managed IT services for Georgia agencies, local governments, public and not-for-profit colleges and universities, and boards of education statewide by providing a pool of qualified vendors and governance over the service contracts, while agencies purchase the services directly from the providers and manage the vendor relationships themselves.

What are our neighbors doing in TN?

- Prior to 2020 IT budgets within Tennessee State Government were handled at the agency level entirely and then submitted for an Enterprise Standards review with the Division of Strategic Technology Solutions (STS). The non-enterprise approach to IT budgeting led to agencies coming in over budget or under budget, but rarely on budget.
- In 2020 STS initiated an IT budget transformation project to partner with agencies to implement and leverage a robust, enterprise-wide budgeting process.
- The culmination of this initiative has helped STS work directly with customers to ensure the alignment of IT spend and effort with the agency's strategic initiatives.
- The STS budget is still funded through an ISF, receiving very minimal direct state appropriations and relying on the majority of the funding to come from billing agency customers for their usage of IT services.

What are our neighbors doing in VA?

- The Virginia Technologies Agency (VITA) resources include appropriations from the following sources:
 - General Fund - appropriation from the state general fund is minimal
 - Internal Service Fund - primary source of revenues and expenses. VITA collects revenue and makes associated expenses for providing information technology infrastructure and telecommunications services to other state agencies, institutions, and local governments. The services furnished are charged to the recipient agency, institution, or local government to recover costs through user charges approved by the Department of Planning and Budget.
 - Dedicated Special Revenue Fund - distribution of receipts generated by the Virginia Geographic Information Services (VGIN) program and the Enhanced Emergency Communications System program (E-911). VITA incurs a limited cost to administer these two programs. Funding for e-government and enterprise collaborative services is also included here.
 - Special Revenue Fund - this is an acquisition services special fund, derived from a surcharge on information technology procurements.
 - Federal Trust Fund (requested as needed)

IT Service-Broker Model

- What is IT service brokering?
 - Flexible business model for IT professionals to procure, deliver, and manage IT resources on behalf of the business or government agency.
 - Provide employees with the technology services they need to perform their day-to-day responsibilities.
 - Assist in negotiating with various sources to create a catalog of useful products and services for their organization to use.
- Rather than mandating a one-size-fits-all solution or requiring cumbersome case-by-case evaluations, service broker organizations allow line-of-business (LoB) managers to select from a range of IT-approved options for their workloads, based on needs for speed-to-market, security, performance, and cost.
- The combination of LoB choice and IT control results in a powerful, collaborative model that can protect IT assets, provide visibility across all IT resources, and rationalize costs, while supporting achievement of goals.
- In 2015 the National Association of Chief State Information Officers conducted a survey of its member states and territories on the future of government IT departments, and it shows that 85% of respondents believe their departments will shift towards becoming service brokers instead of service providers for at least some services.

Contacts

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