State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

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MEMORANDUM

To: Senator John Arthur Smith, Chairman
Representative Luciano "Lucky" Varela, Vice-Chairman

From: Aurora B. Sánchez, IT/Program Evaluations Manager

Subject: Status Review of the Department of Technology Information Technology and Communication Rates (08-06)

EXECUTIVE SUMMARY

The Department of Information Technology (DoIT) provides information technology (IT) and communication services to state agencies and other government entities. The IT Rate Committee (Rate Committee) is responsible for implementing a fee schedule that is equitable and based on cost recovery.

DoIT has an approved fee schedule, but it does not have a service catalog that describes each service provided so that agencies are fully aware of what is included in each service for the fee charged. In June 2008, DoIT hired a contractor to help them define the elements and structure of a service catalog, including a service definition methodology and model". The service catalog methodology and model are based on best practices.

DoIT has continued to honor service level agreements (SLA) that the General Services Department (GSD) signed with agencies when the IT and communication services were under GSD. Instead of entering into individual SLAs with agencies for established services available to all of state government, DoIT has taken a different approach. It is in the process of drafting a "master" SLA that will incorporate all established services. For services outside the rate structure, DoIT uses service requests. The service requests serve as an interim service catalog and SLA until both documents are finalized and approved.

The service request can be used for obtaining services that DoIT can offer, but for which the rate committee has not approved a rate. For example, Network Engineering Services are offered by DoIT and needed by agencies, but the Rate Committee has not approved a rate for that needed service.

The cost allocation methodology used by DoIT's Office of Cost allocation appears reasonable and is verifiable. It takes into consideration actual payroll and expenditures and complies with the federal division of cost allocation with regard to indirect cost rates and cost allocation plans. Attachment 3, Tables 1 and 2 show the recreation of the e-mail and radio service rates.

Agency and Rate Setting Background. The Department of Information Technology Act [Section 9-27-1 NMSA 1978] effective July 1, 2007 created a single, unified executive branch department to administer all laws and exercise all functions formerly administered by the Office of the Chief Information Officer (OCIO), the information technology commission, communications division (CD), information systems division (ISD), radio communications bureau and telecommunications bureau of the General Services Department (GSD).

The statutory purpose of the Department of Information Technology (DoIT) is to consolidate enterprise information technology services duplicated within executive agencies and provide additional information technology services and functionality to improve and streamline the executive branch's information technology systems.

DoIT charges fees to other state agencies for information technology and communications services provided, including voice, data and radio. As the chief information officer of the state, the Secretary of DoIT is mandated to "develop information technology cost recovery mechanisms and information systems rate and fee structures for executive agencies and other public or private sector providers and make recommendations to the information technology rate committee".

The Department of Information Technology Act created the Information Technology Rate Committee (Rate Committee), which is legislated "to propose an equitable rate and fee schedule based on cost recovery for executive agencies that use information technology services and pay rates to an internal service fund, with priority service to public safety agencies". Based on input from the DoIT Secretary and other agencies, implementation of the fee schedule is the responsibility of the Rate Committee. Specifically, the law states that the Rate Committee is to:

- Review the fee schedule proposed by the Secretary of DoIT;
- Propose a fee schedule for IT services;
- Present the proposed fee schedule to the Office of the Governor, the Department of Finance Administration (DFA) and the Legislative Finance Committee (LFC); and
- By July 15 of each year, implement a fee schedule based on the Committee's recommendation and input from the Office of the Governor, DFA and LFC.

Although not specifically stated in the law, the general consensus is that this information is to be used by agencies in preparing their budget requests for the next fiscal year.

Information and Communication Services Catalog. DoIT does not currently have a service catalog that defines each service it provides and the cost that an agency will pay for the service. It does; however, have a defined cost-based rate structure. In June 2008, DoIT entered into a $50 thousand contract to help them "define the elements and structure of a service catalog, including a service definition methodology and model". DoIT can use the service catalog methodology and model into the future since it is based on best practices (Information Technology Infrastructure Library). Developing a catalog will help DoIT determine what services it can reasonably provide its customers with the

resources it has. And it will provide DoIT's customers with a clear definition of what is included in each service.

The proposed model for a service catalog (**Attachment 1**) separates services into the following categories:

- Professional;
- Application;
- Enterprise storage;
- Hosting and desktop;
- Governing;
- Collaboration;
- Security;
- Agency support;
- Availability and capacity;
- Data and radio network;
- Voice communications; and
- Resource management.

Within each of those broad categories are the individual "IT components" that make up the category. For example, e-mail is part of collaboration services.

Service Level Agreements. A service level agreement (SLA) is a master agreement that outlines all the contracted measures that the service recipient will use. Well written SLAs can help transform IT from a reactive operation to one that has clear performance objectives and measurements. Successful SLAs have one or more very clear service level objectives, define the levels of services covered by the overall agreement and defined services levels are measurable and achievable by the IT organization. Common objectives include availability, performance, meantime to repair or address an issue and accuracy.

The 2003 Governor's Performance Review recommends that SLAs be executed for all enterprise services. The SLA should have a broad scope, covering all aspects of service and should address such issues as problem management, compensation, warranties and remedies, resolution of disputes, and legal compliance. It further states the SLA frames the relationship and determines major responsibilities during times of normal operation and emergencies.

When GSD was responsible for information systems and communication services, it had prepared standard SLAs that included e-mail, desktop support and shared and co-located services. The 2006 (LFC) IT Consolidation Review found that final SLAs for those services were not in place for 61 percent of e-mail clients served and 50 percent of shared and co-located service clients. One SLA for shared services was reported as finalized, but was not signed. Many SLAs were still in the process of negotiation or were awaiting agency review or pending signature. There were no SLAs for communication services. Since the transition of the information systems and communications services from GSD to DoIT, there have been no new SLA entered into with individual agencies. The following table shows the current status of those SLAs.

Table 1. Service Level Agreement Status

Service	Signed	Negotiating or Pending Signature	None	total
Email	3%	36%	61%	100%
Desktop Support	100%	0%	0%	100%
Shared and Co-location Services	22%	28%	50%	100%

Source: GSD data

Instead of individual SLAs with services it provides and that are available to all agencies, DoIT has taken a different approach. DoIT is drafting a "master" SLA that will

- Incorporate all services DoIT currently offers,
- Notify agencies about what they can expect to receive,
- Define how incidents will be handled,
- Base approved rates on costs and in accordance with Circular A-87, and
- Describe the escalation process.

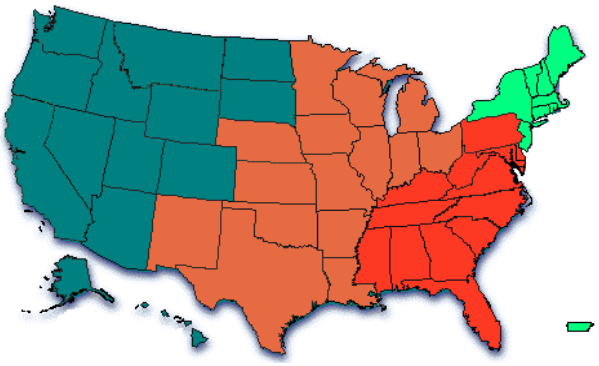
As other enterprise services are developed and offered, those will be incorporated into the master SLA. Indiana uses a similar instrument called an enterprise service level agreement. Along with the information included in DoIT's proposed master SLA, Indiana includes a service measure, a performance target and a service level requirement. For example (see **Attachment 2**), the service measure for the e-mail server is availability (100 percent) with a target of 6 a.m. to 6 p.m. Monday through Friday and a service level requirement of 99.9 percent.

The SLA along with the service catalog is an essential part of providing IS and communication services.

Service Requests. Until DoIT can fully develop its service catalog and has the master SLA in place, it has instituted a service request process so that services can be provided to agencies. Essentially, an agency contacts client services, they define the support/service desired, a cost proposal is developed, if design work is required the technical team is involved and the cost proposal will include the design work, the proposal is sent to the agency and then discussed to ensure the agreed upon services are those in the writing. The service request is most useful for services that DoIT offers and agencies need, but for which the Rate Committee has not approved a rate. For example, DoIT provides network engineering and design services. DoIT is essentially the owner of the network, it has the technical capabilities to offer the services, it is an essential service and agencies need these services, but it has no established rate.

Cost Allocation. New Mexico is part of the central region of the division of cost allocation, the federal agency responsible for reviewing and negotiating statewide cost allocation plans. The indirect cost rates and cost allocation plans are used to charge federal programs for administrative and facility costs. The map below shows the region to which New Mexico belongs.

Figure 1. Cost Allocation Region



Source: US Department of Health and Human Services

In April 2007 the Department of Finance and Administration (DFA) Budget Division signed the cost allocation agreement for fiscal years 2006, 2007 and 2008 for central fixed service costs with no carry forward adjustments between estimated amounts and actual amounts. The cost allocation agreement included services provided by the office of information processing and the office of communications both division within the DoIT, formerly the General Services Department.

The agreement limited the charges to

1. Those that are statutory or administrative;
2. Those that represent cost incurred and allowable under OMB Circular A-87;
3. Indirect costs that are not claimed as direct costs;
4. Similar costs where a consistent accounting treatment is applied; and
5. Information is not later found to be materially incomplete or inaccurate.

The information must come from the accounting system that is in place during the agreement. If fixed amounts are approved, those are based on estimates that can be adjusted based on actual costs for the period. Adjustments will be made to a future year. Charges for services will be based on established rates.

Information and Communication Rates. For this limited review, four services (mainframe, e-mail, voice and radio) were selected to determine if the rates are based on actual cost incurred plus an indirect cost factor; however only two were completed due to time constraints. Only the rates for e-mail and radio services were reviewed. DoIT's Office of Cost Allocation uses actual payroll and expenditure data, depreciation and statewide cost allocation plan charges associated with each service; proportionately allocates costs of enterprise services that provide a benefit to the individual service (e.g. e-mail); and proportionately allocates general overhead to all services to determine the cost of each service offered that has an approved rate. The examples in **Attachment 3, Tables 1 and 2** show how costs for e-mail box and radio services were allocated by month.

The methodology used by the Office of Cost Allocation to allocate costs for services DoIT provides appears reasonable. The allocation of costs can be recreated using expenditure and payroll data and proportionate distribution of indirect costs. The rates that are derived from the cost allocation based on usage are also reasonable and verifiable.

DoIT Service Catalog - Release 1.0

TIER 1	PROFESSIONAL SERVICES	APPLICATION SERVICES	ENTERPRISE STORAGE SERVICES	HOSTING & DESKTOP SERVICES
TIER 2	Application Development	Customer Self Service (IVR)	E-Storage Open Systems	Open Systems Hosting (UNIX & Windows
	Application Maintenance & Support	Help Desk Service	E-Storage Mainframe	Mainframe Hosting
				Managed Desktop Services
				Co-Location Hosting

TIER 1	GOVERNING SERVICES	COLLABORATION SERVICES	SECURITY SERVICES	AGENCY SUPPORT SERVICES
TIER 2	Project Certification	E-Mail	Firewall Service	Customer Relationship Service
	Strategic Planning Service	Blackberry Enterprise Server	Virtual Private Network	Administration & Finance Service
	OCIO Services & Support		Security Audit	Cost Recovery & Allocation Service
			Physical Facility/Building Security	

TIER 1	AVAILABILITY & CAPACITY SERVICES	DATA & RADIO NETWORK SERVICES	VOICE COMMUNICATIONS SERVICES	RESOURCE MANAGEMENT SERVICES
TIER 2	E-Mail Monitoring	Internet Access	Desktop Telephony	UNIX Administration & Management
	MS Windows Monitoring	Wide Area Network	Long-Distance & Toll-Free	MS Windows Server Administration & Management
	UNIX Monitoring	Local Area Network		Database Administration & Management (SQL)
	Mainframe Monitoring	Radio Communication		Distributed Database Administration & Management
	Network Monitoring			
	Telephony Monitoring			
	Business Continuity Service			
	Business Service Monitoring			

ATTACHMENT 2

Indiana Service Catalog Example

E-Mail

Stand alone e-mail is for customers that do not have "basic network SEAT" service but still desire e-mail access.

I. Include with this service
   a. E-mail configuration setup and access
   b. 100 MB mailbox w/managed storage include in SEAT cost
      i. Monthly fee charged for each additional MB used (Product ID#1143)
   c. 50 MB public folder
   d. All required resource accounts
   e. Daily full backup of all e-mail files/documents
   f. Archival of e-mail files 6 months and older to less expensive, slower online storage systems
   g. E-mail recovery services (up to 60 days w/o tape, 1 year w/tape)
   h. Anti-virus software on all Exchange servers
   i. Administration of all 15 Exchange servers associated SAN storage and tape backup systems.
   j. Administration of all public folders and public distribution lists
   k. Web mail sites

      Employees of the State of Indiana are able to access their e-mail from outside the stat campus network via remote browser-based mail client interfaces

IOT will provide secure connectivity for remote email users, over the Internet, to their respective mail servers located on the state of Indiana campus network through the use of the new "Web mail" server, located on the IOT-managed state of Indiana extranet network.

Performance Metrics

Customer Service Response Time SLR			
Definition	Response time is the number of seconds or cycles it takes a Customer Service representative of IOT Delivery Services to connect with users seeking services.		
Availability	**Service Measure**	**Performance Target**	**SLR**
E-Mail response rate (via Helpdesk Assistant)	Online response time	<1 hour	98%
Formula		Number of events per event type per target/total.	
Measure Interval		Measure daily, report monthly	
Measurement Tool		Provide auditing, monitoring, and reporting utilizing Altris and ACD. Time to answer and call volume statistics are tracked via the ACD and reported to Customer Service manager.	
Server/Mainframe Availability SLR			
Definition	Systems availability is defined as the server (CPU, system memory, disks, and peripherals) up to the connection to the network. All prescheduled systems downtime, unless otherwise agreed upon in advance by the Deliver Services, will occur: 1. For systems with 24x7x365 requirements, maintenance shall be performed between 6:00 am and 10:00 am Sunday. 2. For systems having non 24x7x365 requirements, maintenance shall be performed outside the normal system availability guidelines of 6:00 am and 6:00 pm five days per week, or at the same time as the systems listed in (1) above.		
System Server	**Service Measure**	**Performance Target**	**SLR**
Citrix Servers	Availability	Mon – Fri 6:00 am -6:00 pm	99.9%
Email Servers	Availability	Mon – Fri 6:00 am -6:00 pm	99.9%
Mainframe - IBM	Availability	Mon – Fri 6:00 am -6:00 pm	99.9%
Formula	Availability (%) = 100% - Unavailability (%) Where unavailability is defined as: (Outage Duration x 100%) / (Scheduled Time – Planned Outage)		
Measure Interval	Measure daily, report monthly		
Measurement Tool	Windows based Server availability is monitored through NetIQ and MS Server 2000/2003 Admin Tools		

Source: http://IN.gov/IOT

ATTACHMENT 3

Table 1. E-Mail Box Services Cost Allocation
July 2007

Direct Costs		
Payroll	$14,687.15	
Vendors	$102,585.55	
Equipment Depreciation	$1,843.44	
Total Direct Costs		**$119,116.14**
Indirect Costs		
Open Systems Data Center		
Equipment Depreciation	$5,030.58	
Total Network Services Proportionate Share		**$5,030.58**
Enterprise Data Center		
Payroll	$2,680.12	
Vendors	$22.13	
Total Enterprise Data Center		**$2,702.26**
Enterprise Architecture Services		
Capital Acquisitions	$2.18	**$2.18**
General Overhead		
Payroll	$21,885.38	
Vendors	$1,257.01	
Depreciation	$443.74	
Statewide Cost Allocation Plan	$3,565.66	
Total General Overhead Proportionate Share		**$27,151.78**
Total Indirect Costs		**$34,886.79**
Grand Total July 2007 e-mail Costs		**$154,002.93**
Reported Usage		**19,256**
Cost per box		**$8.00**
FY08 e-mail box rate (1)		**$8.34**

(1) The e-mail box rate is derived from the average annual cost divided by the annual average usage. The monthly rate compared to the average annual rate may be higher or lower depending on the costs incurred and number of users.

Table 2. Radio Services Cost Allocation

Direct Costs		
Payroll	$177,028.94	
Vendors	$32,654.59	
Equipment Depreciation	$127,201.60	
Capital Acquisitions	$202.70	
Statewide Cost Allocation Plan	$5,959.67	
Total Direct Costs		**$343,047.49**
Indirect Costs		
Enterprise Network Services		
Payroll	$10,095.15	
Vendors	$102.66	
Equipment Depreciation	$43,341.07	
Statewide Cost Allocation Plan	$1,038.59	
Total Enterprise Network Services Proportionate Share		**$54,577.47**
Enterprise Architecture Services		
Capital Acquisitions	$6.83	**$6.83**
General Overhead		
Payroll	$68,601.95	
Vendors	$3,940.23	
Depreciation	$1,390.93	
Statewide Cost Allocation Plan	$11,176.91	
Total General Overhead Proportionate Share		**$85,110.02**
Grand Total July 2007 Radio Costs		**$482,741.82**

Source: LFC Analysis