

PERFORMANCE AUDIT  
Information Technology Service  
Rate-Setting Process  
Department of Administration  
State Information Technology Services Division

JUNE 2015

14P-01

REPORT SUMMARY

SITSD provides a wide range of information technology services across state government. Based on the rates established by SITSD, about \$38 million in revenues were collected for these services during fiscal year 2014. SITSD can improve its rate-setting model and perform regular benchmarking of its rates in order to identify options for lowering information technology costs for its customers.

## Context

State agencies rely on information technology (IT) systems and services to conduct many of their daily tasks. When provided by the State Information Technology Services Division (SITSD), state agencies pay a predetermined rate per unit of the service used. SITSD provides around 180 different IT services and establishes rates for these services on a biennial basis using a rate-setting model called the Financial Transparency Model (FTM). The overall concept for the calculation of rates within FTM is to determine the total costs of providing a service and to divide these total costs by the expected usage of the service. These rates are meant to reflect the full cost of each individual service and are designed to enable SITSD to recoup all expenses necessary to provide the service without making a profit. Total revenues from all services provided by SITSD were around \$38 million in fiscal year 2014.

## Results

Our audit work resulted in an overall conclusion that implementing FTM is a positive step and is a well-accepted type of methodology for setting rates for IT services. There are a few steps SITSD could take to improve FTM, but once completed, the resulting rates could be a valuable tool for agencies to use when making future IT purchase decisions.

Our audit work also included a benchmarking study which included ten of SITSD's service types and was conducted by a private consultant. While several of the service rates were assessed by the consultant as "best value" or slightly lower or comparable to most benchmarked rates, there were other services that were assessed as "less reasonable value." We determined, through a regular rate analysis, SITSD could identify services that are not competitive with outside rates and

could take steps to improve or discontinue those services.

The audit report makes four recommendations to improve SITSD service and rate development. These recommendations relate to:

- ◆ Selling certain services at “pass-through” rates directly from vendors,
- ◆ Ensuring cost allocations and usage estimates are as accurate as possible,
- ◆ Increasing customer involvement in service development, and
- ◆ Performing a regular review of rates against comparable benchmarks.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (14P-01) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor’s FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).