VIRGINIA IT AGENCY

Experience and Transition to a Multisourcing Service Integrator (MSI) Model

ITFMA Conference – Saint Paul, MN

Drew Edmonds and Tom Nikles

May 2025

Agenda

- Introductions
- Formation of VITA and the initial outsourcing model
- Current multisourcing service integrator (MSI) model
- The future
- Cost recovery and chargeback approach

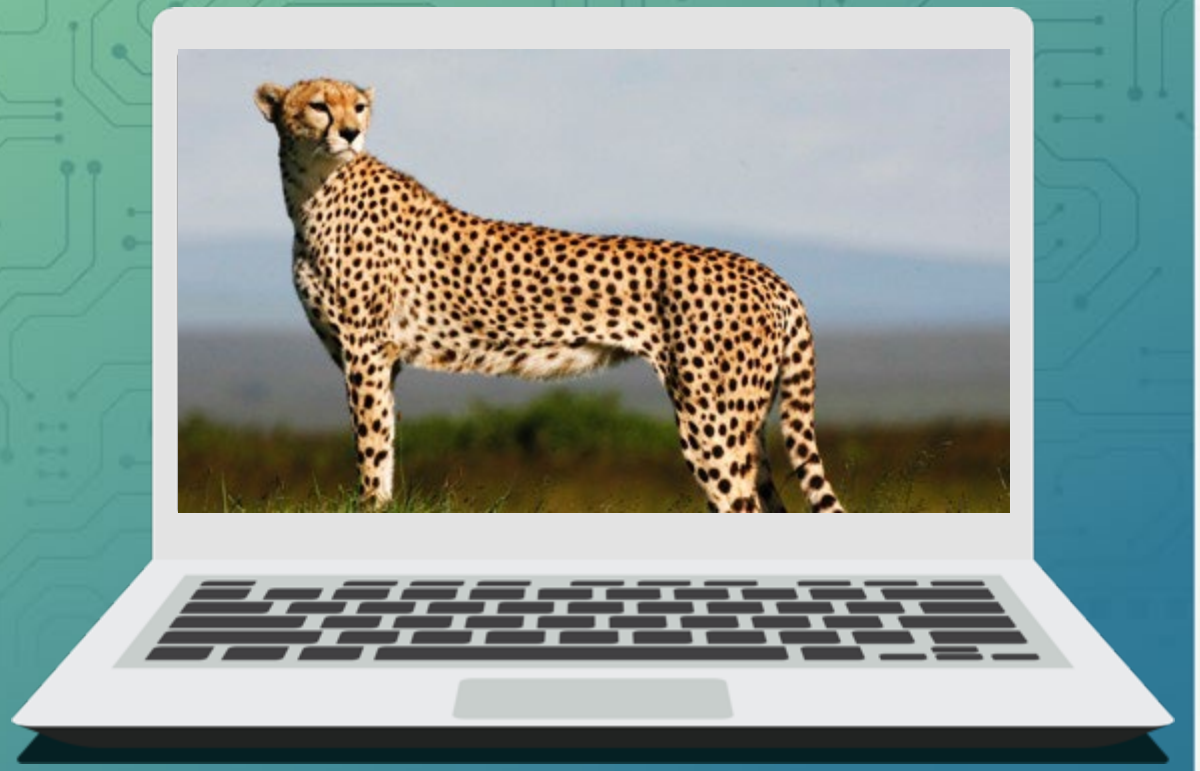
Introductions: Who we are

Drew Edmonds – Financial Systems and Data Manager

- 12 years of government service in accounting/finance
- Responsible for data analysis and automation, governmental accounting standards board (GASB) compliance, system integration, financial reporting

Tom Nikles – Senior Financial Analyst

- 19 years of service with VITA
- Responsible for the development of the IT service budget and chargeback rates



Our name

We are VITA – the Virginia Information Technologies Agency

Pronounced veetah, like cheetah

Who we are and what we do

VITA is comprised of about 300 professionals who connect, protect and innovate for Virginia, as part of four main statutory roles.

We provide services to agencies with General Assembly oversight and reporting.

1. **Cybersecurity:** Protect people, assets and information from loss, damage and misuse
2. **Infrastructure**: Ensure the operating environment is efficient, secure, available, and delivers the best value
3. **Governance**: Provide policy and standards for technology, best practices, cybersecurity, project management, and enterprise optimization
4. **Procurement:** Develop value-driven statewide IT contracts that enable Commonwealth public bodies to obtain the best value for their organizations ($1 billion+ annually with about one-third being used by localities)

Cybersecurity in everything

Data Centers

Physical data centers
QTS Ashburn
QTS Sandston

Virtual data centers
Amazon web services (AWS)
Azure
Oracle cloud infrastructure (OCI)

67

Executive branch agencies

1,700

Locations served in Virginia

Enterprise services and solutions

Microsoft Power Platform

Website modernization tools and contracts

Application integration services

Business process automation/ robotic process automation

Box: enterprise content management

COV Apps and Virginia permit transparency

Managed storage ~66 petabytes

Mainframe
IBM

VITA MANAGES

Computers

66,519 PCs
4,377 Servers

Communications

31,652 VOIP phones
3,200 Circuits
1,406 Managed network devices

Printers

2,410 Network

Mailboxes

72,120 Accounts

Procurements

Over 200 state contracts
8 Suppliers
400 COV Ramp solutions
$1 Billion of contract spending

The first solution

The formation of VITA and the initial outsourcing model

IT environment before VITA

Commonwealth IT environment in mid-2000:

- Agencies managed their IT needs in silos – separate and apart with no shared email or data networking services.
- It was difficult for agencies to securely share information among themselves.
- Standards did not exist for technology or architecture.
- Systems were not secure.
- Software was not kept up to date, with potential license compliance issues.
- Networks were not monitored to prevent or even detect cyber attacks.

In some cases, technology was decades old, neglected and unsecure.

Formation, purpose and initial outsourcing model

- VITA was established by an act of the General Assembly in 2004
- VITA is tasked by statute with managing IT across the enterprise of the Commonwealth
- A public-private partnership with a single supplier was envisioned
  - Competitive request for proposals (RFP) process conducted
- Northrop Grumman was awarded the contract to modernize the IT infrastructure.
  - Contract starting on July 1, 2006

Initial outsourcing challenges

- Nothing like this had ever been attempted before!
- Agency concern with relinquishing control over their IT infrastructure and staff and transition of infrastructure costs to a nondiscretionary expense in their IT budget
- Agency discontent over increased IT costs
- Introduction of chargeback cost recovery model
- Inventory issues
- VITA as a new agency
- Single-supplier outsourcing model
- Unplanned event: the Great Recession and its impact on funding

Initial outsourcing successes

- IT infrastructure and support consolidated under one agency
- IT infrastructure modernized and brought into compliance
- Shared network
- Common email system
- Cybersecurity safeguards and monitoring established
- Common data center established
- IT investment governance and oversight established
- Visibility of IT infrastructure related expenses and budget significantly improved

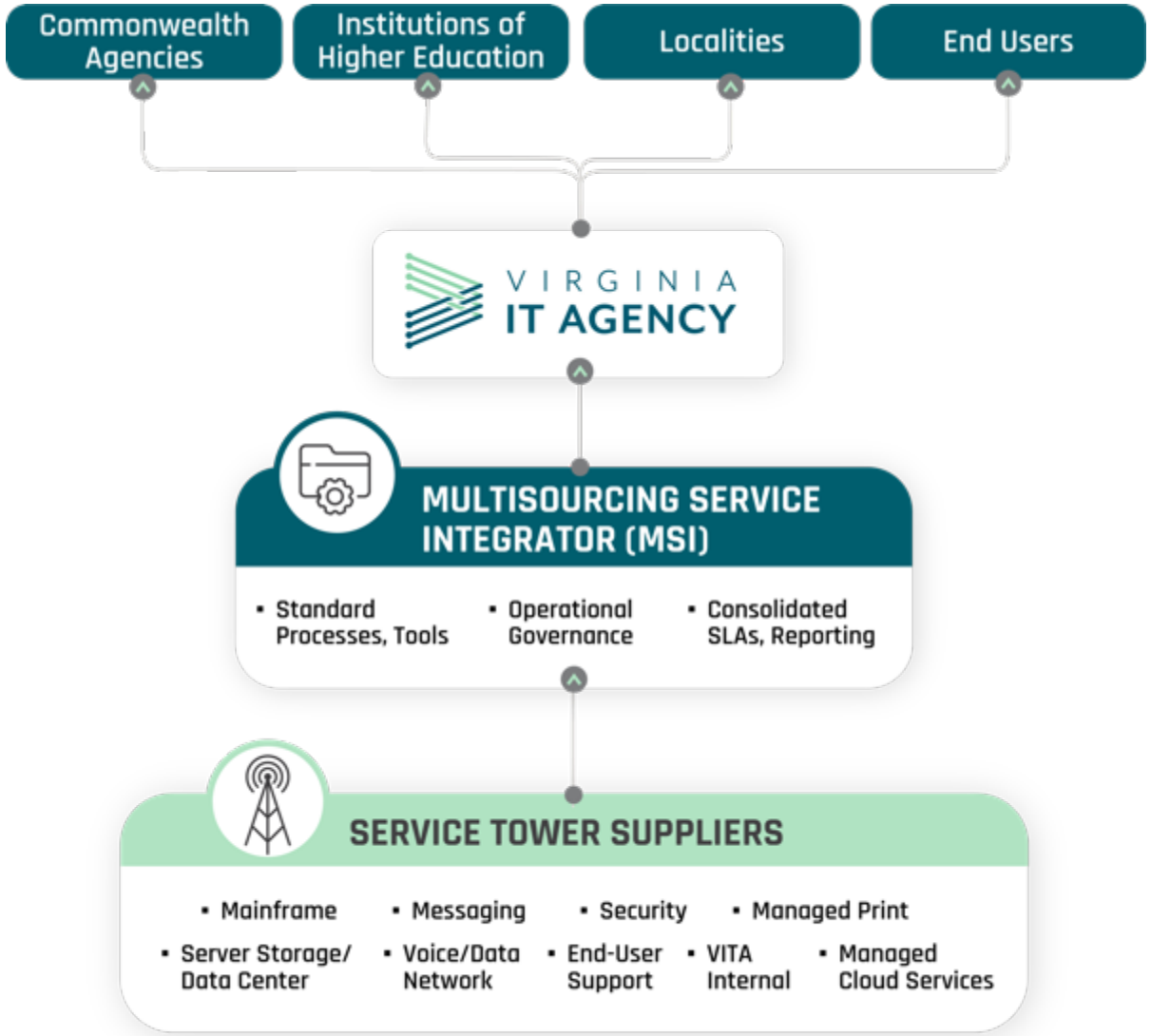
The current model

VITA 2.0 and the MSI model

Transition to the MSI model

- The original contract with Northrop Grumman came to an end in 2018.

- VITA moved to an MSI model
  - MSI (SAIC) – responsible for managing the other suppliers
  - End-user compute (Iron Bow)
  - Managed print (Xerox, ended August 2024)
  - Managed security (Atos)
  - Mainframe (Peraton, both original and recompete)
  - Messaging (Tempus Nova followed by NTT DATA)
  - Server, storage and data center (Unisys with NTT DATA added as a public cloud supplier)
  - Voice and data network (Verizon)
  - VITA (as a supplier of services)



Objectives of the MSI model

Flexibility

- VITA is able to recompete tower suppliers as needed without disruption to other towers
- Typical length of contract is five years with up to two multi-year renewal options
- Supplier contracts for messaging, mainframe and managed print have either been recompeted or ended

Innovation

- Tower-specific contracts with shorter periods allows for recompetes sooner so that changes in technology and costing can be realized

Competition

- Encourages suppliers specialized in their service area to offer cost-effective solutions to win the award

Best-in-class

- Allows suppliers to bid only on the service tower in their field of expertise

MSI model challenges

Supplier management complexity

- VITA must now manage eight suppliers, not one
- Includes contracts, governance, service catalog, billing

Integration

- Suppliers must coordinate and cooperate with each other

Asset inventory

- Asset and license inventory tracking had come a long way but still had a long way to go

Cost recovery model

- Quantity of services increased from several hundred to several thousand, each requiring a defined cost recovery approach and billing trigger

MSI model successes

Modern customer-facing toolsets

- Includes the IT financial management (ITFM) system and service catalog

Competition

- Two supplier towers already recompeted, a new tower created, and two more towers in the process of being recompeted
- Brings value and a fresh look to the service tower

New services

- Enables the evolution of the service delivery model to include new services, such as public cloud

Cybersecurity

- Helps defend the Commonwealth from the latest cybersecurity threats by keeping toolsets current

The future

VITA 3.0 - What’s next?

MSI model evolution

The MSI model is working, and VITA continues to evolve

- The MSI model through continual reassessment of its service delivery approach to drive best practices and value for our customers

Evolution includes:

- Introduction of new family of services and service towers, including public cloud and Microsoft Teams voice
- Insourcing of some functionality to obtain better value and efficiencies
- Enhancement of cybersecurity tools and practices to defend against an ever-changing threat environment
- Leverage consumption and cost data to support agencies in managing their IT costs and reducing waste

Funding the enterprise

Cost recovery and chargeback approach

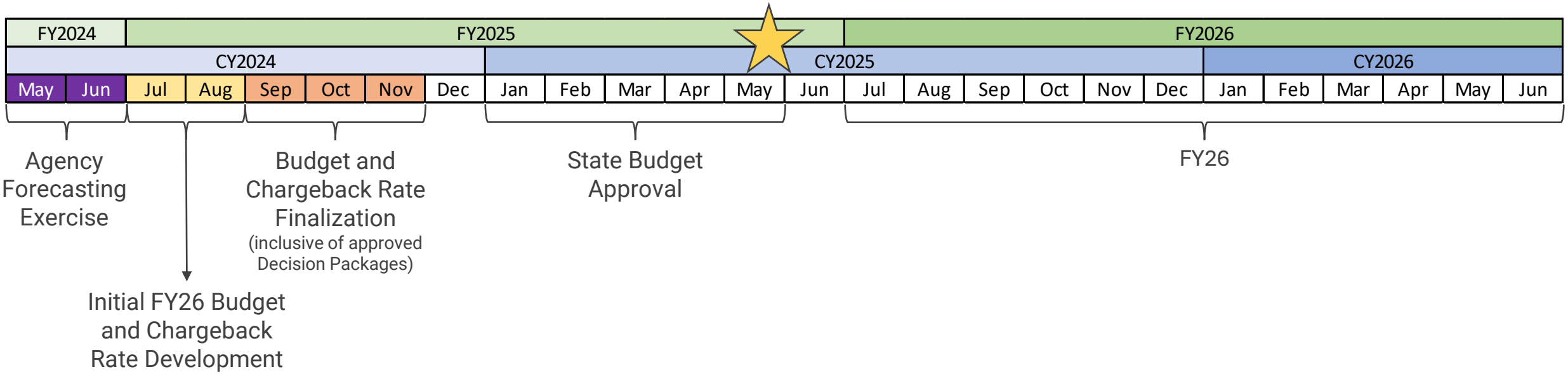
Enterprise IT expense

- VITA is responsible for all IT enterprise infrastructure; therefore, VITA must budget for the expense of that infrastructure.

- VITA recovers all infrastructure related expenses directly from the agencies.
  - VITA does not receive funding from the General Assembly.
  - This recovery model was established in 2006.
  - All supplier- and VITA-related expenses are recovered via a chargeback rate or fixed fees billed to agencies consuming services.

Budget development cycle

- VITA develops a new budget and chargeback rates for each fiscal year.
  - State fiscal year is from July to June
- Development starts 14 months prior to the start of the fiscal year to comply with the legislative process.



How VITA's budget is built

- **VITA's budget is the sum of all expenses.**
  - Expenses are driven by agency and infrastructure consumption plus defined refresh cycles.
  - Expenses are calculated at the individual service level.
  - Expense information comes from supplier contracts, purchase orders and other defined sources.

- **Fiscal year budget**
  - 600+ discrete expense line items (ELI), each with a unique calculation
  - 1,000+ chargeback rates

- **VITA's budget is a calculated amount, not an estimated amount or target.**

Agency input

- An accurate budget and chargeback rate development is not possible without understanding agency consumption.

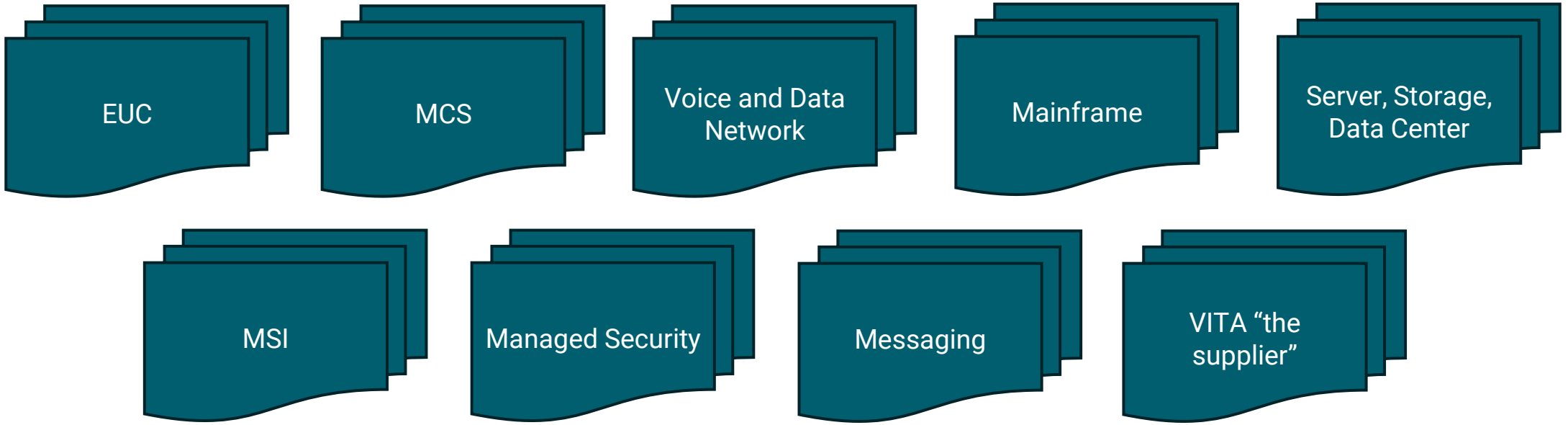
- VITA and the MSI (SAIC) conduct a semi-annual customer-facing forecasting exercise.
  - Agencies are invited to forecast consumption for the upcoming fiscal years.
  - The IT financial management forecasting module in Apptio is used, with each agency having access.
  - Consumption quantities for each service is prepopulated using historical billing information that is extrapolated forward.

- A supplier-facing forecasting exercise is also conducted on alternating quarters.

Source of expenses

Expense information used to develop chargeback rates and fixed fees comes from:

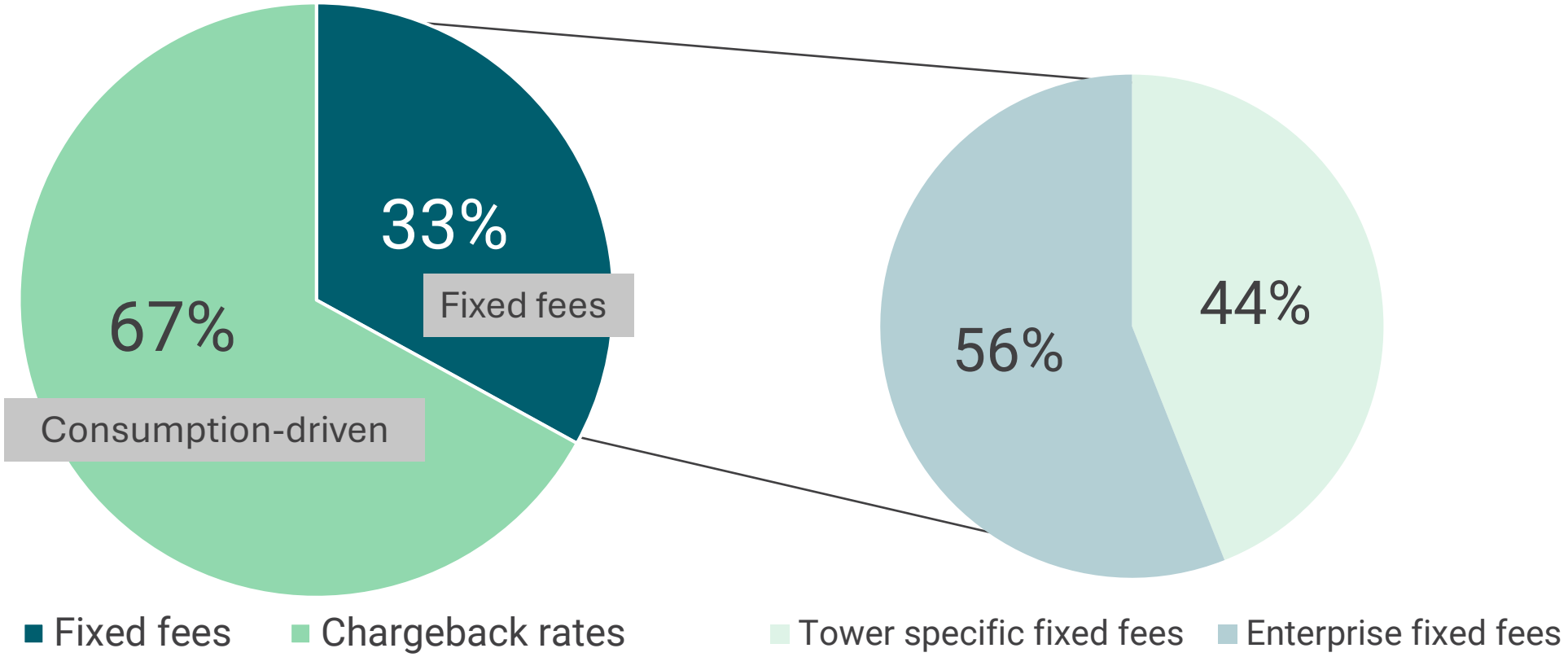
- Supplier contracts
- VITA purchase orders
- Other defined sources



Cost recovery

VITA recovers its infrastructure expenses via two methods:

- Chargeback rates
- Fixed fees



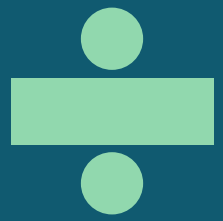
Chargeback rate

The purpose of a chargeback rate is to recover all the expenses related to the service.

- Billing is driven by consumption of services.
- All expenses must be accurately forecasted.
- Customer consumption must be accurately forecasted.
- The unit of measure must be at a level that can be attributable to a specific customer.
- The chargeback rate for a service may not subsidize another unrelated service.
- Over- or under-recoveries must be avoided.

The cost of the service must follow the consumer of the service.

Chargeback rate formula

Annual expenses  **Annual consumption**  **Chargeback rate**

Example:

- The monthly expense for service AAA is $1,000 (annualized at $1,000 * 12 = $12,000)
- Estimated monthly customer consumption is 20 (annualized at 20 * 12 = 240)

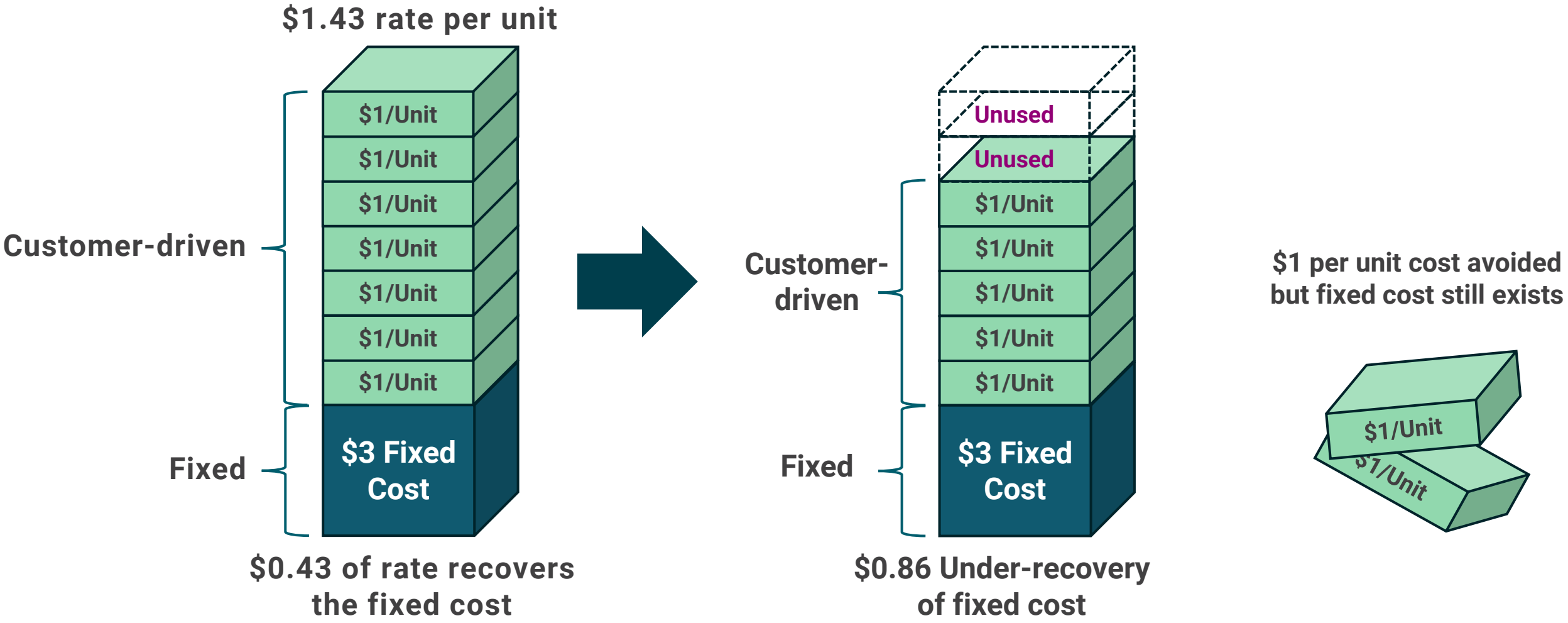
It seems simple, but it is often much more complex.

Fixed fees

- Fixed fees recover expenses that cannot be attributed to a specific customer.
- Fixed amount billed monthly regardless of consumption.
  - This complements (not replaces) the chargeback rate billing approach.
  - The monthly amount is fixed for the entire fiscal year.
  - The monthly amount varies by agency and is determined based on a proportion of the agency's prior year spend compared to the total spend.
- Reasons for change in recovery approach:
  - Customers are dissatisfied with the mark-up on chargeback rates.
  - It avoids significant variations between actual and planned consumption results in over or under-recovery of indirect costs.

Impact of consumption variations without fixed fees

Consumption variations result in over- or under-recoveries if fixed costs are built into the rates



Tools and processes

IT financial management (ITFM)

ITFM tools and processes

- **Effective ITFM tools and processes are necessary to successfully operate an outsourcing and chargeback cost recovery model.**

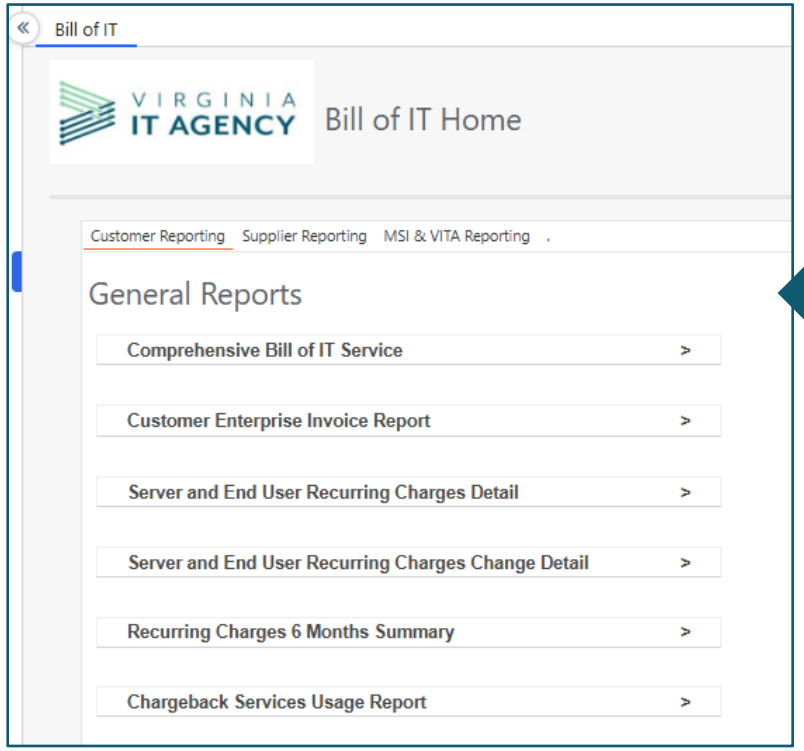
- **Tools – Apptio**
  - Supplier and customer billing
  - Budget and chargeback rates development
  - Customer and supplier consumption forecasting

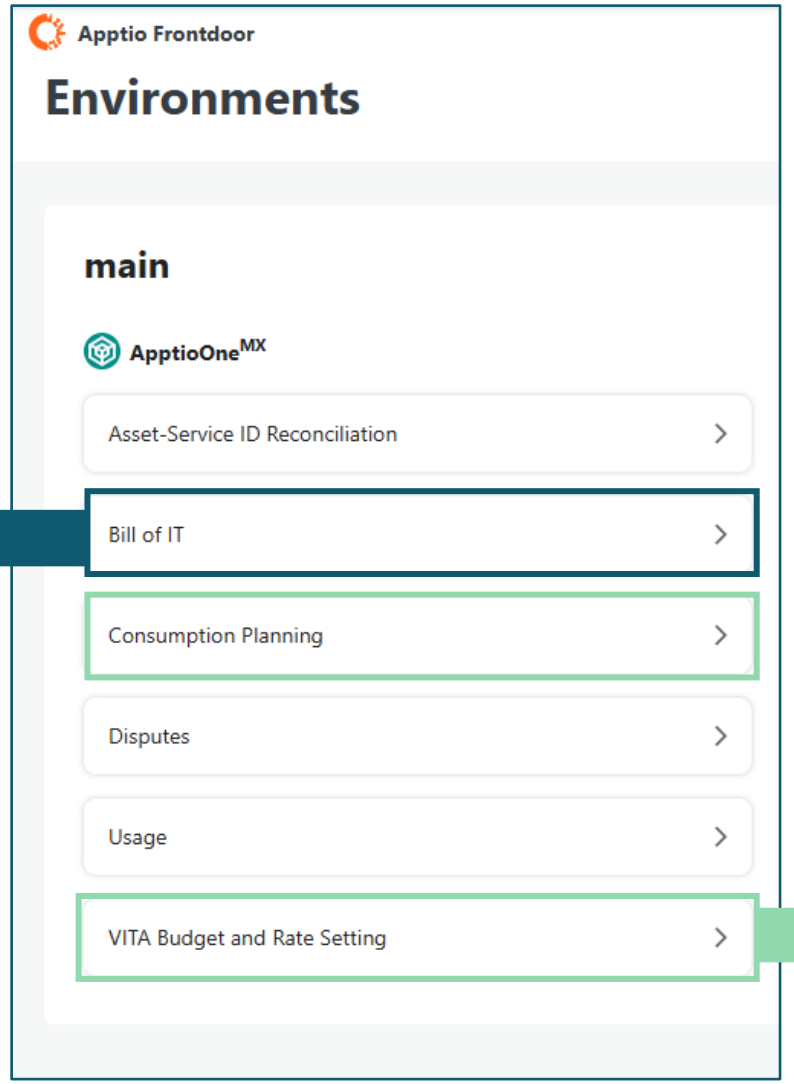
- **Processes**
  - Expenses and revenue tracking
  - Billing triggers

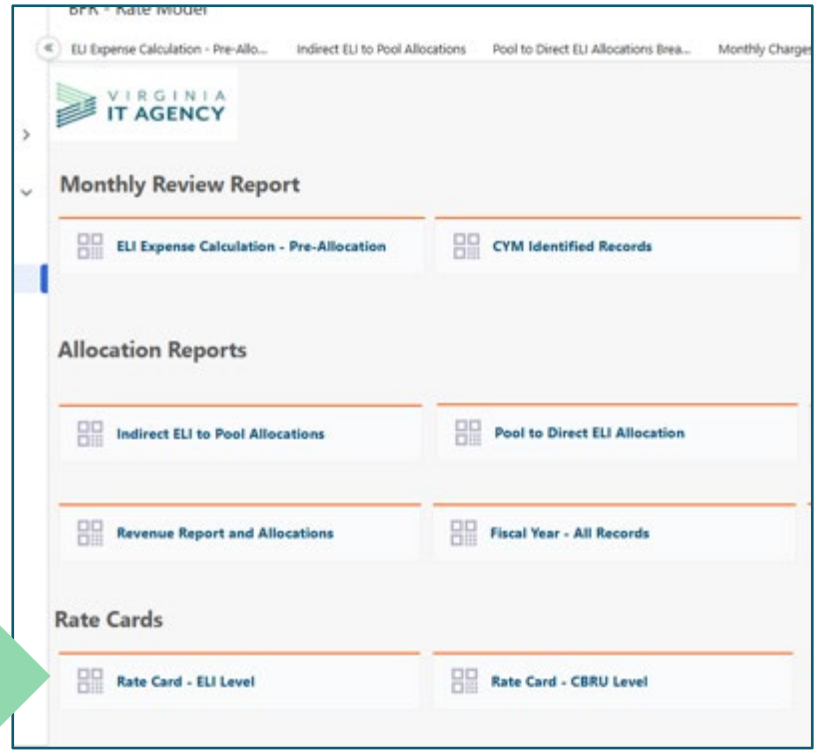
ITFM tools

- **A robust software tool is essential to manage billing and budgeting.**
  - VITA combined three separate billing systems using paper invoices into a single paperless online system.
  - Complex Excel-based budget model converted to a tool that automates the budget and chargeback rates calculations.
- **Apptio**
  - Used for customer and supplier billing of all services except for legacy voice and data
  - **Highly customized** for VITA's purposes
  - Multiple modules in service (billing, budget and forecasting)
- **Telecommunications expense and billing system (TEBS)**
  - Older system used for billing legacy voice and data services

ITFM tools - Apptio







ITFM process

- **VITA is run like a business.**
  - All expenses must be recovered from the users of the services
  - Over- or under-recovery of expenses is not allowed
  - Focus on cost savings opportunities

- **Requires proper association between revenue and expenses**
  - Expenses line item (ELI) number – unique alpha-numeric number assigned to each expense
  - Chargeback rate (CBRU) number – unique alpha-numeric number assigned to each chargeback rate
  - Billing element – unique number assigned to each ELI and CBRU and used to associate expenses and revenue together

- **Billing triggers**
  - Documented trigger that defines when billing of an ELI and CBRU begins and ends

Summary

Everything must end

- We hope you enjoyed this presentation and found it informative.
- There is so much more to share, but we are limited by the length of this session.
- Please ask us questions now or feel free to speak to us afterwards.

Questions?

Thank you for attending

Drew Edmonds

Drew.Edmonds@vita.virginia.gov

Tom Nikles

TNikles@vita.virginia.gov