

Information Technology Service Rate Methodology

Introduction

The Department of Information Technology (DoIT) develops information technology (IT) services to align IT investments with business goals and objectives for agencies. In FY20, the department implemented a new billing system (Bill of IT) and cost model module to improve its business processes. The system provides for the development of cost effective service delivery and a chargeback model allowing transparency for agencies to properly allocate federal dollars.

Overview

As an enterprise agency, DoIT provides IT and communication services to state agencies and use of the statewide human resource, accounting, and management reporting system (SHARE). DoIT bills its customers to generate revenue to recover its costs and fund replacement of IT assets. The department is primarily funded through enterprise revenues it receives from state agencies that use its services.

Statutorily, the department is required to develop IT cost recovery mechanisms and service rate and fee structures and make recommendations to the IT Rate Committee. The DoIT Act (9-27-1 through 9-27-10 NMSA 1978) established an IT Rate Committee consisting of seven executive agency members: five appointed by the governor and two designated by statute – the secretary of the Department of Finance and Administration (DFA) as the chair, and the secretary of DoIT. The rate committee reviews the rate and fee schedule proposed by the Secretary each year for the following fiscal year budget cycle. Based on input from the DoIT Secretary and other agencies, implementation of the fee schedule is the responsibility of the IT rate committee. Specifically, the law states the rate committee is to:

- Review the rate and fee schedule proposed by the Secretary;
- Consider for approval an equitable rate and fee schedule based on cost recovery for state agencies that use IT services;
- Ensure that the rate and fee schedule comply with the federal directives;
- Present the proposed rate and fee schedule by June 1 of each year to the Office of the Governor, DFA, and the Legislative Finance Committee; and
- By July 15 of each year, implement a rate and fee schedule based on the committee's recommendations.

While not specifically stated in law, DFA publishes the rates to be used by agencies in preparing budget requests for the next fiscal year.

Federal Requirements

DoIT is required to comply with the federal regulation 2 CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The regulations require that central service costs be identified and assigned to activities on a reasonable, equitable and consistent basis. Several state agencies are reimbursed for central service costs, such as those from DoIT through federal grants and awards.

Identification and recovery of cost of the State’s central services from federally funded programs requires the annual development of a Statewide Cost Allocation Plan (SWCAP). SWCAP is a document that identifies, accumulates, and allocates; or develops billing rates based on allowable costs of services provided by a governmental entity to its departments and agencies. Each year, DoIT submits a schedule of billed service expenses and revenues to DFA for inclusion in the SWCAP for approval by the Division of Cost Allocation of the U.S. Department of Health and Human Services.

Establishing Rates

Based on federal guidelines, DoIT develops service rates for recovery of its costs; direct and indirect costs, including depreciation and amortization of equipment involved in providing DoIT services. Including depreciation expense provides DoIT with a mechanism to replace end-of-life equipment. Direct costs are those specifically associated to providing the service to agencies. DoIT allocates costs assigned to each billed service based on the expense using report categories in SHARE. Annually, allocated costs from the general ledger and total usage data from the billing system is applied to determine the rate for each service.

Due to timing of budget cycle, DoIT uses current fiscal year data to establish rates for the upcoming appropriation request, resulting in a two-year lapse. For example, FY22 data was used to calculate the FY24 rates.

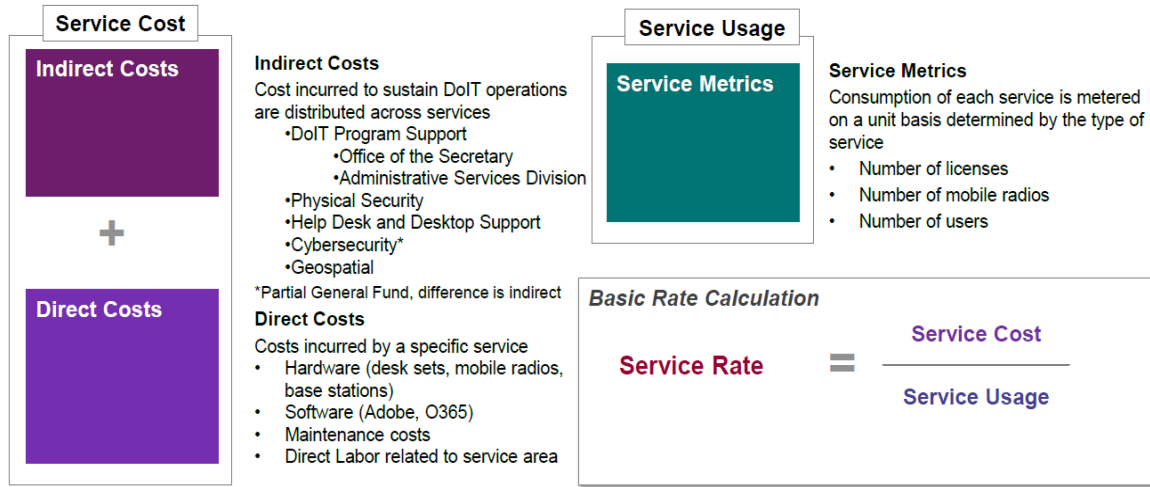
DoIT Rate Components

Criteria used in rate development process:



SERVICE RATE DEVELOPMENT

Service costs and usage provide the basis for how service rates are developed



Federal regulations require a comparison of revenue generated by each billed service to actual allowable costs of the service annually, and an adjustment will be made for the difference between the revenue and allowable costs. DoIT may lower the rates or issue credits if rates initially set for each service are higher than necessary to recover costs. If rates are not adjusted and credits are not issued, DoIT over-recovers its costs which is not allowed by the federal requirements. If the state over recovers costs, then it is required to reimburse the federal government, but if it under recovers costs the federal government does not reimburse the state. DoIT monitors its cost throughout the year, ensuring costs are in alignment with approved rates, breaking even and not over recovering.