

Joint Legislative Audit and Review Commission



**Interim Review of the
Virginia Information Technologies Agency**

Commission Briefing

December 8, 2008



JLARC

Study Mandate

- Senate Joint Resolution 129 (2008) & Item 29 E of the 2008 Appropriation Act direct JLARC to examine VITA
 - Impact on agencies from partnership with Northrop Grumman
 - Relationship between VITA & its oversight body
 - VITA's exercise of its statutory procurement authority
 - Management of IT systems development projects by VITA's Project Management Division
 - Potential for VITA to play a greater role governing expenditures & functions now performed by agencies

In This Presentation

- Background
- Savings from Partnership Are Not Anticipated
- VITA's Implementation of Rates May Increase Costs
- Progress Toward Managed Services Is Mixed
- Contract Provides Several Grounds for Termination
- Emerging Management & Governance Issues

IT Includes Infrastructure and Applications

- Infrastructure is the physical hardware
 - Enterprise infrastructure includes widely used assets, such as personal computers & servers
 - Agency-specific infrastructure includes unique devices such as traffic-light management or point-of-sale systems
- Applications are programs that run on infrastructure
 - Enterprise applications used by the State include CARS (financial) & CIPPS (payroll)
 - Agency-specific applications include unique programs such as the Medicaid or offender management systems

JLARC Report Recommended Reforms to Systems Development Oversight

- December 2002 JLARC report on systems development found that the State wasted
 - \$75 million on failed efforts
 - \$28 million in cost overruns
- Report recommended
 - Information Technology Investment Board (ITIB) to approve projects
 - Chief information officer (CIO), hired by the ITIB, to oversee project management

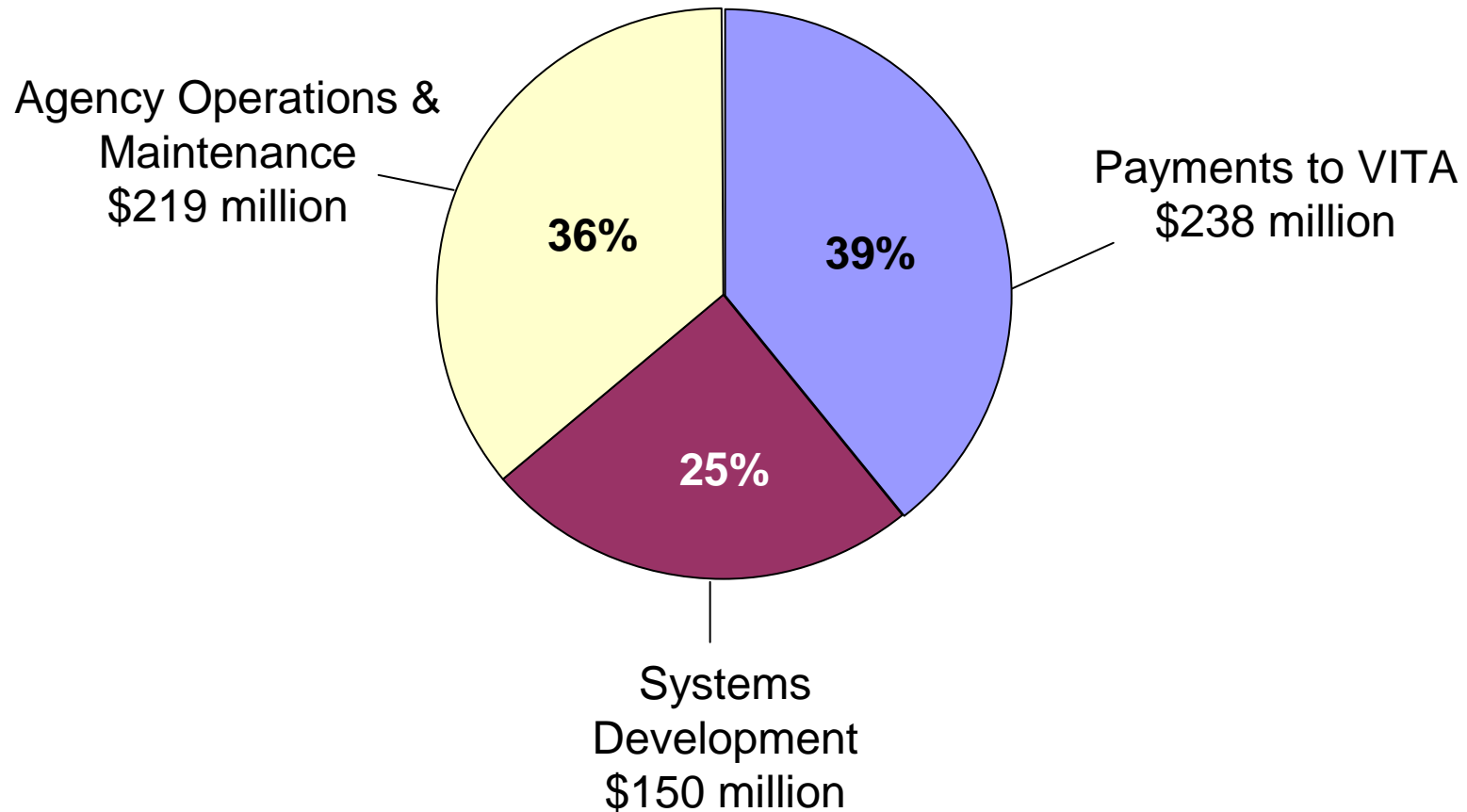
Governor Proposed Consolidating All IT in VITA

- Consolidation of infrastructure & applications to improve IT & reduce costs
 - Improve management of IT resources
 - Leverage the State's buying power
 - Replace unique IT with standard infrastructure & applications
- Reforms were part of the Secretary of Technology's effort to save \$100 million annually on IT

2003 General Assembly Enacted Legislation to Create VITA

- Previous IT agencies were consolidated, plus certain IT staff at in-scope State agencies
 - Out-of-scope agencies included higher education
- Consolidation was limited to enterprise infrastructure
 - Agency-specific infrastructure & all applications were deemed out-of-scope

Responsibility for IT Is Diffuse



ITIB Supervises Information Technology

- Statutorily responsible for “planning, budgeting, acquiring, using, disposing, managing, and administering” IT
 - Hires & manages the CIO
 - Approves major systems development projects
- Has nine voting members
 - Secretary of Technology
 - Four citizens appointed by the Governor
 - Four citizens appointed by the General Assembly
 - Auditor of Public Accounts (non-voting)

VITA and CIO Share Duties

- CIO is responsible for unified approach to IT
 - Promulgates IT policies, guidelines, and standards
 - Reviews systems development projects
 - Provides for security of electronic information
- VITA has additional oversight responsibilities
 - Sole statutory authority to procure IT goods & services
 - Project Management Division must provide consulting support & oversight for systems development projects

VITA Formed a Partnership With Northrop Grumman

- In 2003, VITA determined cost savings depended upon a cohesive enterprise IT infrastructure, but capital was lacking
- VITA received five unsolicited proposals to modernize & standardize IT
 - Proposals were for enterprise infrastructure & applications
- In 2005, VITA formed 10-year, \$2 billion partnership with Northrop Grumman (NG)

Comprehensive Infrastructure Agreement Governs the IT Partnership

- IT Partnership is a novel approach to modernizing IT
 - NG is responsible for all upfront capital investments
 - IT will now be centrally managed & regularly funded
- Rights & obligations of each partner are detailed in Comprehensive Infrastructure Agreement (contract)
- Contract consists of 151-page agreement, 55 amendments, 29 schedules, 17 appendices, 17 addendums, and 6 attachments
 - <http://www.vita.virginia.gov/itpartnership/default.aspx?id=451>

NG Is Modernizing the IT Infrastructure

- Standardization and consolidation of assets
- Use of NG data centers in Chesterfield & Russell Counties



NG & VITA Share Provision of IT Services

- NG provides enterprise infrastructure services formerly provided by VITA
 - Mainframe & server computers
 - Disaster recovery
 - Personal computer services
 - Data & telecomm. (email, Internet, cell phones)
- VITA provides
 - Supply chain management (procurement)
 - Geographic information systems
 - Radio communications engineering for E-911

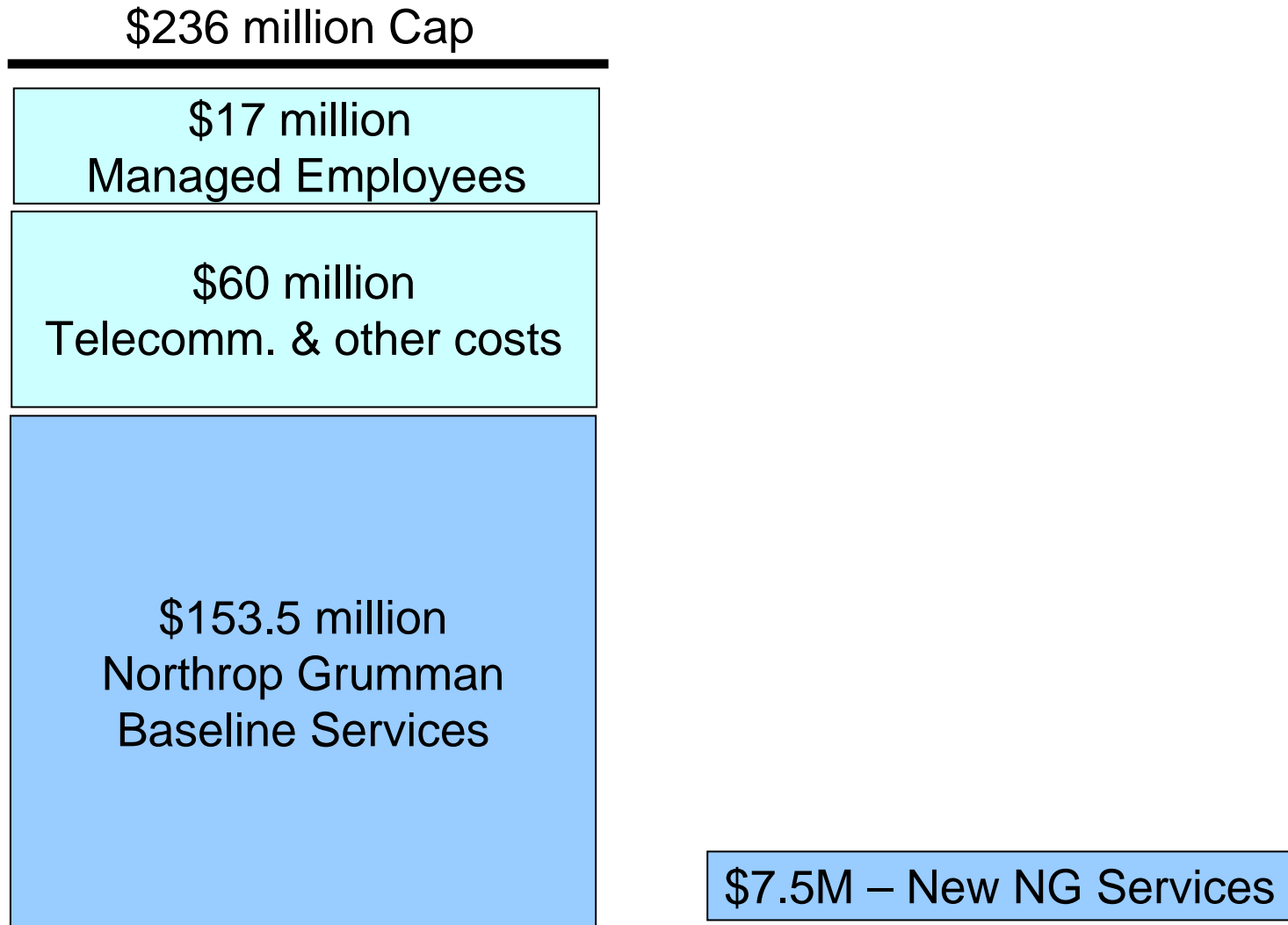
Virginia Enterprise Applications Program (VEAP) Formed Partnership With CGI

- Partnership governed by 7-year, \$300 million contract to modernize enterprise applications
- Director of VEAP reports to Chief of Staff but ITIB approves all VEAP expenditures
- Governor designated VEAP's director as Chief Applications Officer (CAO) in January 2008
- CAO exercises CIO's statutory authority for strategic planning, data standards, & enterprise project management

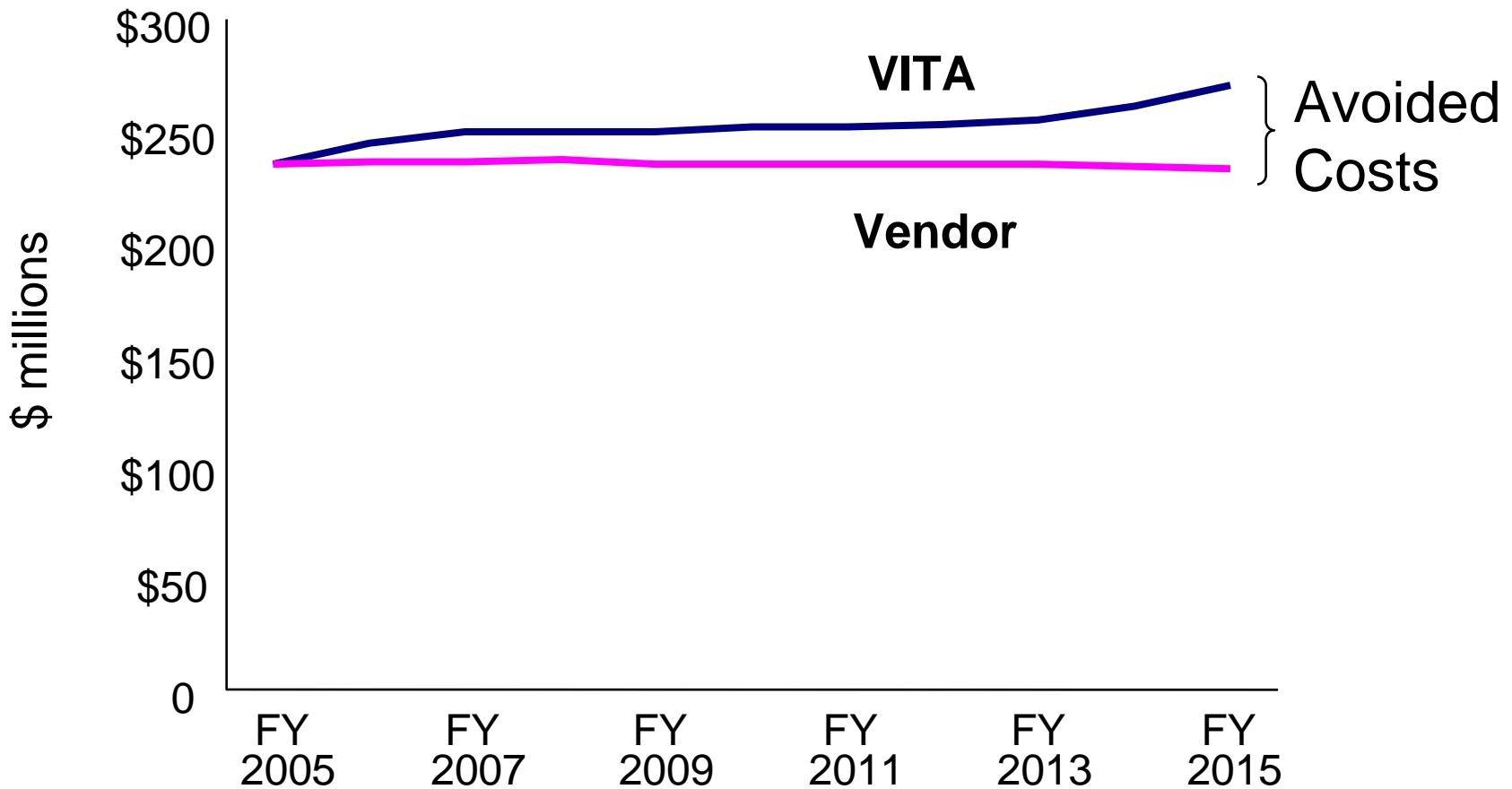
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NG Payments for Some Services Capped at \$236 Million



Contract Is Not Based Upon Savings, but Avoided Costs



Contract Allows Payments to Increase Beyond Cap

- Payments can increase beyond cap
 - Agencies request additional services
 - NG requests inflation adjustment
- Basis for calculating avoided costs may no longer be applicable if inflation adjustments are granted

Contract Allows Payments to NG to Decrease

- State's use of IT services declines or deflation occurs
- NG must match best 25% of rates in industry
- NG must match best prices & terms offered to other U.S. customers

Contract Includes Other Potential Savings and Benefits

- Savings may occur if contract is extended beyond initial 10-year term
- If NG can provide services at lower cost, without affecting service levels, then both partners receive a portion of the savings
- NG is required to improve service levels at no additional cost
 - Continuous improvement over time
 - Must keep pace with technological improvements

NG Is Guaranteed Minimum Annual Payment Equal to 85% of Fees for Baseline Services

Fiscal Year	Projected Annual Payment (\$ millions)	Minimum Annual Payment (\$ millions)
2009	\$208	\$177
2010	\$214	\$182
2011 - 2016	\$203	\$173
2017 - 2019	\$176	\$149



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VITA's Revenues and Expenditures Are Primarily From its Internal Service Fund (ISF)

Fund	FY 2008 Revenues (\$ millions)	FY 2008 Expenditures (\$ millions)
Internal Service	\$262	\$278
Enterprise	51	49
Special Revenue	9	10
General	3	3
Federal	0.5	1
Total	\$325	\$342

Most ISF Expenditures Pay for Contracted Services (FY 2008)

- NG paid \$161 million
 - Baseline IT infrastructure services (\$153.5 million)
 - New IT infrastructure services (\$7.5 million)
- VITA's total expenditures for services under the cap (\$230.5 million) also included
 - Telecommunications & other services (\$60.4 million)
 - VITA employees managed by NG (\$16.6 million)

Agencies with Ten Highest ISF Charges (FY 2008)

Agency	ISF Charge (\$ millions)
Department of Social Services	\$50
Department of Transportation - Central Office	39
Department of Corrections	21
Department of Health	19
Department of Motor Vehicles	19
Department of Taxation	12
Virginia Employment Commission	8
Department of Alcoholic Beverage Control	6
Department of Juvenile Justice	5
Department of State Police	5
Subtotal	\$184
Percent of Total ISF Revenues	70.4%

VITA's ISF Rates Are Approved by JLARC but Not the ITIB

- VITA has over 235 rates, and each has several parts
 - Direct costs (capital, labor)
 - Indirect costs (security, help desk)
- Many rates also include administrative fees
 - 12 – 21% for Northrop Grumman
 - 10% for VITA
- ITIB formally approved rates until December 2004, when authority was delegated to the CIO
- New or modified rates must still be approved by JLARC, pursuant to statute

Federal Regulations Require Same Rate for Same Service

- U.S. Department of Health & Human Services objected to VITA's 2006 rates
 - Were based upon individual memoranda of understanding (MOUs) with State agencies
 - Concern that federally funded agencies were paying different rate for same service
- VITA developed new rates which JLARC approved in December 2006

VITA's Approach to Implementing Rates May Increase IT Costs for Some Agencies

- 2006 rates have three service options:
 - Option 1: includes prepayment of replacement asset & direct labor for IT support
 - Option 2: Excludes prepayment of replacement asset
 - Option 3: Excludes direct labor
- Agencies billed under option 2 may have to pay another \$9.7 million cumulatively each year as assets are replaced
- Some agencies are paying for their own labor, but are being billed under option 1 instead of 3

VITA Has Not Implemented Rate Reductions Approved by JLARC in December 2007

- VITA requested reduction of 2006 rate for “standard” computers & new higher rate for “premium” computers
- Four concerns regarding decision to not implement rate reductions
 - \$2.35 million in higher charges in first half of FY 2009
 - Users of standard computers subsidize users of premium computers
 - Single rate may be inconsistent with federal regulations
 - VITA should have requested JLARC’s permission

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IT Partnership Will Enter Managed Services Environment on July 1, 2009

- NG will provide & manage key IT staff, hardware, software, and facilities
- 196 service level agreements (SLAs) will let VITA measure NG's performance
 - Based on data NG reports
- NG's fees (& VITA's rates) based on
 - Volume of assets & services used by State agencies
 - Contract fees
 - Reconciled asset inventory

Progress Toward Managed Services Is Mixed

- Progress has been made for some tasks
 - Disaster recovery & helpdesk are at Russell center
 - 1,000 locations connected to new data network
 - New email being implemented
- However, 39 of 85 agencies at some risk of not completing transformation
 - 12 agencies “unlikely” to be on-time
- Some tasks are behind schedule
 - Reconciliation of IT assets due by April 2008 will not be completed until March 2009

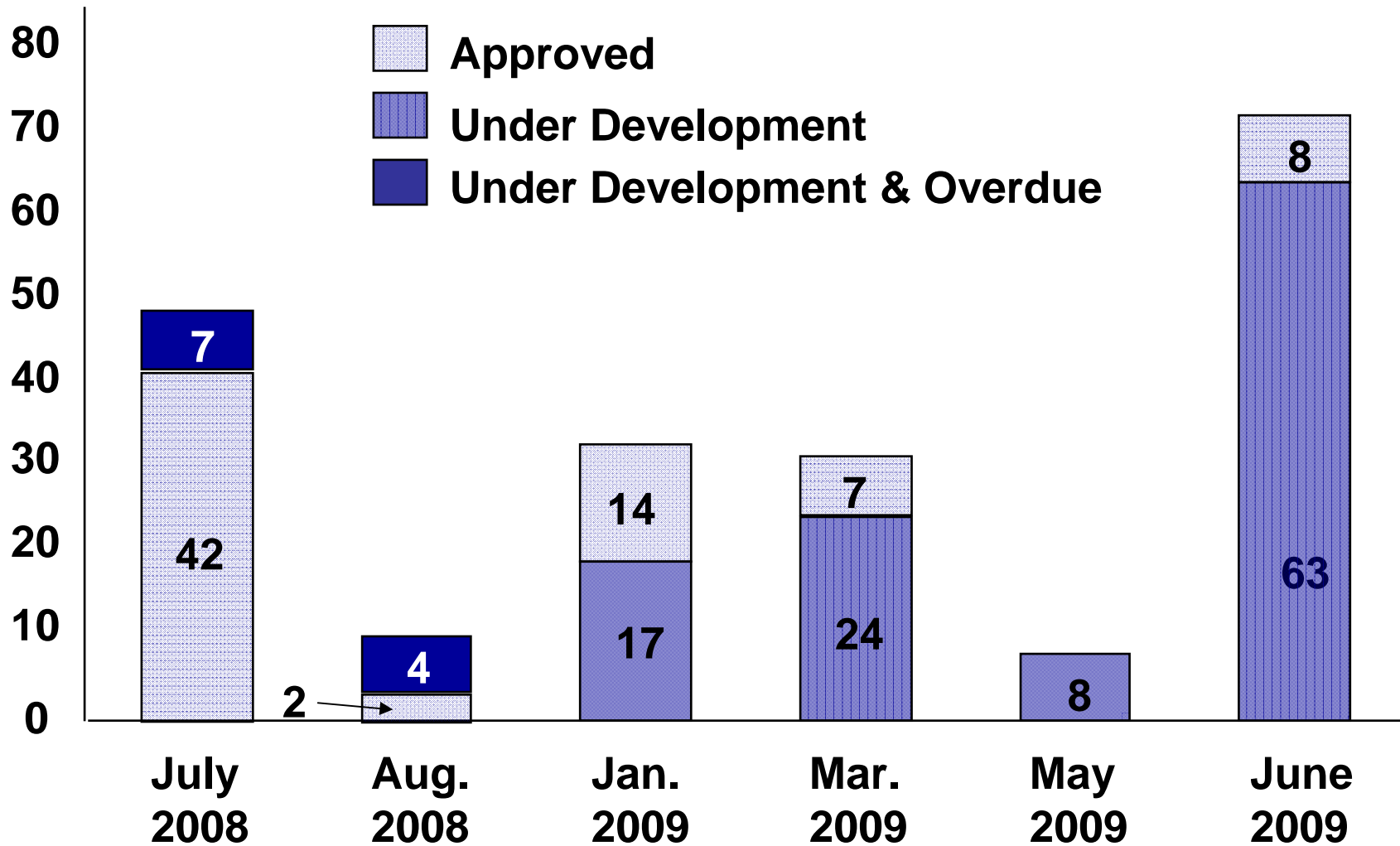
Replacement of Personal Computers (PCs) Is Behind Schedule

- Per contract, 90% of PCs must be replaced by March 2009
- Progress toward meeting deadline is uncertain
 - NG's transformation plan says replacement is 83% complete, but less than half of PCs have been replaced
- Status varies by agency
 - DOC, DJJ, DMHMRSAS & DRS are 100% complete
 - ABC, DSS, VSP, DMV & DEQ are 0% complete

Implementation of Some Service Level Agreements (SLAs) Is Behind Schedule

- If SLAs are not met, VITA will earn “performance credits” to offset NG’s fees
 - Maximum of 20 SLAs are eligible each month
- NG required to report data for all SLAs by June 2009
- However, NG & VITA are still negotiating performance measurement
 - 11 of 55 data collection documents are overdue
 - Interim data reporting is behind schedule

11 of 55 Data Collection Documents for SLAs Are Currently Overdue



VITA Has Identified Other Problems With NG's Planning

- Original approach focused on tasks, but was unworkable. New approach focuses on agencies
- Overall transformation plan from June 2006 not updated
- Agency-specific transformation plans not provided
 - Plans would allow agencies to coordinate transformation activities with daily business operations
- Complexities of some State agencies becoming more apparent
 - Agencies have limited control over local agencies
 - Agencies may rely heavily on federal & grant funding

State Agencies Have Delayed Key Elements of Transformation Process

- Agencies have cited concerns with Northrop Grumman's monitoring software (Altiris)
 - Altiris used to remotely manage IT infrastructure
 - Agencies fear confidential data will be compromised
- Agencies have delayed transformation activities over errors in asset inventory & billing overcharges
- VITA reports some agencies are reluctant to cooperate with transformation for other reasons
 - Move toward standardization means IT services at some agencies may decline

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State's Ownership of Assets Depends Upon How Contract Ends

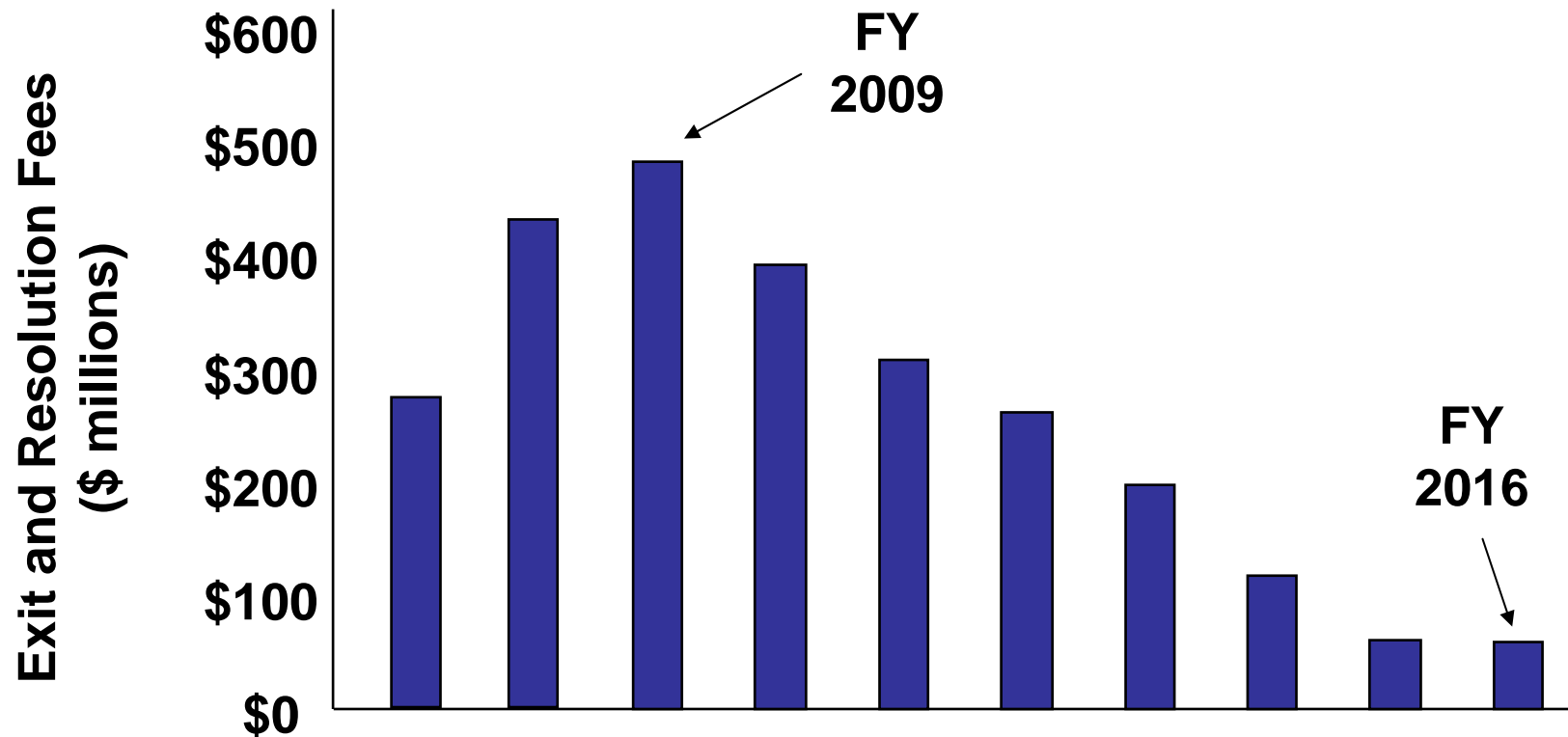
- **Will** own most IT assets at end of full contract term
 - State will own desktops, laptops, servers, & other equipment at no additional cost
 - State must negotiate purchase price for primary data center in Chester
- **Will not** own IT assets if contract is terminated
 - State has option to purchase assets at cost plus markup specified in contract
 - Required resolution fees include cost of leasing IT assets & data centers for remainder of Term

State Has Six Grounds for Terminating Contract

Means of Termination	Cost to State (FY 2009)
Default by NG	\$0
Commonwealth's Lack of Funds	\$0
Incurred Liability by NG	\$0
Change in Control of NG	\$468 million
Force Majeure Events	\$474 million
Convenience of Commonwealth	\$474 million

- NG can terminate only if State owes more than \$100 million in unpaid fees

Cost to State of Terminating Contract Declines Substantially Over Time



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Partnership Has Provided Benefits but Challenges Remain

- Creation of VITA, followed by two contracts to modernize IT, is a tremendous undertaking
- Partnership has achieved successes
 - Data centers have created new jobs, allowed consolidation of servers, & improved security
 - Some agencies note that modernized IT has produced many benefits
- However, tension exists between centralization & State agency autonomy

Agencies Cite Concerns With Services Provided by VITA & NG

- VITA has not provided services promised in 2006 MOU
- VITA is reported to not understand business needs of agencies
- Delays in procurement process reported to hinder business functions
- Partnership has not provided necessary services

Potential Shortcomings May Limit Effectiveness of Current Governance Structure

- Agencies state that business operations require CIO to be accountable to Governor
- Project Management Division may be focused more on project oversight than support. Also, some agencies are evading its oversight
- Recommended Technology Investment Projects (RTIP) process may not adequately prioritize systems development projects
- Chief Application Officer's role and reporting relationship have been questioned

Summary

- Despite successes, tension exists between centralization and agency autonomy
- VITA has cited problems with NG's planning, & agencies have delayed transformation for several reasons
- State agencies raise concerns about adequacy of NG's services
- IT governance structure may not be meeting its intended objectives

Summary (continued)

- Payment cap of \$236 million can be exceeded if inflation occurs or agencies request new services
- No additional savings are expected during initial contract term
- VITA's implementation of rates may increase IT costs for some agencies
- Transformation is a very complex undertaking, and progress toward July 1, 2009, deadline is mixed

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