

Joint Legislative Audit and Review Commission



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

Senate Finance Committee

June 29, 2009



JLARC

# In This Presentation

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

## Two Reports Recommended IT Reforms in December 2002

- JLARC report on IT projects found \$75 million in failed efforts and \$28 million in cost overruns
  - Recommended creation of Information Technology Investment Board (ITIB) to approve IT projects
  - Full-time Chief Information Officer (CIO), hired by the ITIB, to oversee IT project management
- Governor proposed consolidating all IT services & governance into VITA
  - Secretary of Technology stated Governor's reforms would save \$100 million annually (statewide)

## 2003 General Assembly Enacted Legislation to Create VITA

- Existing IT agencies were consolidated, plus most State agencies
- **Out-of-scope** agencies were not consolidated, including higher education & the Port Authority

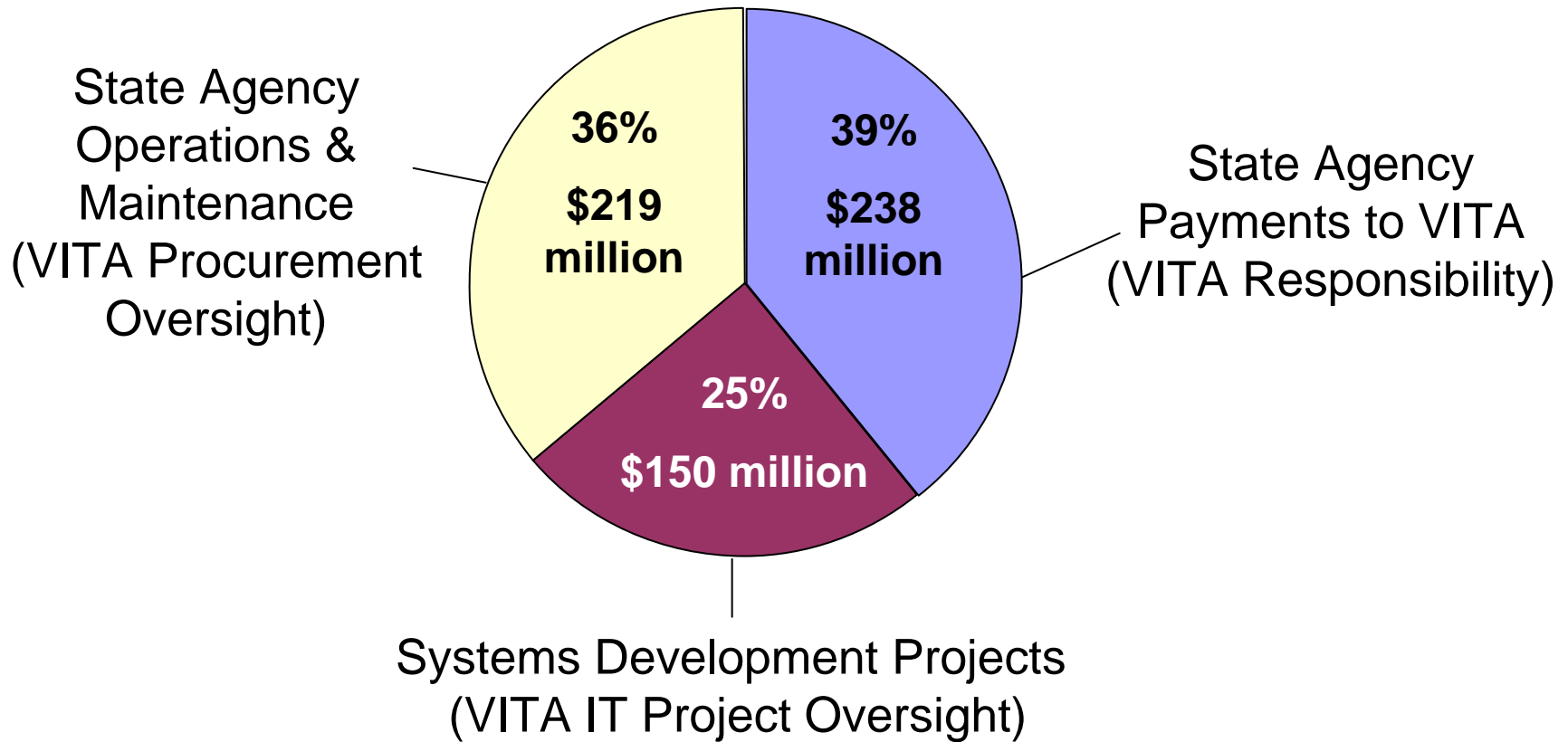
# Only Infrastructure Consolidated, Not Applications

- IT consolidated into VITA
  - **Enterprise** infrastructure (hardware) such as personal computers & servers. Support staff also consolidated
- Operation of all other IT remains with State agencies
  - **Agency-specific** infrastructure such as traffic-light management or point-of-sale systems
  - **Enterprise** applications (software) such as CARS (financial) & CIPPS (payroll)
  - **Agency-specific** applications such as the Medicaid or offender management systems

## 2003 Legislation Also Reformed IT Governance

- Created ITIB, which is statutorily responsible for “planning, budgeting, acquiring, using, disposing, managing, and administering” IT
  - Has 9 voting members plus APA
- CIO is responsible for unified approach to IT
- CIO & VITA have oversight responsibilities
  - Sole statutory authority to procure IT goods & services, and manage IT contracts
  - Project Management Division must provide consulting support & oversight for IT projects

# Responsibility for IT Expenditures Is Diffuse (FY 2007)



## In 2005, VITA Formed a Partnership With Northrop Grumman Information Technology

- 10-year, \$2 billion partnership with subsidiary of NG
- NG provides enterprise infrastructure services formerly provided by VITA
  - Mainframe & server computers
  - Disaster recovery services
  - Personal computer services
  - Data & telecomm. (email, Internet, cell phones)
- VITA continues to provide
  - Supply chain management (procurement)
  - Geographic information systems (GIS)
  - Radio communications engineering for E-911

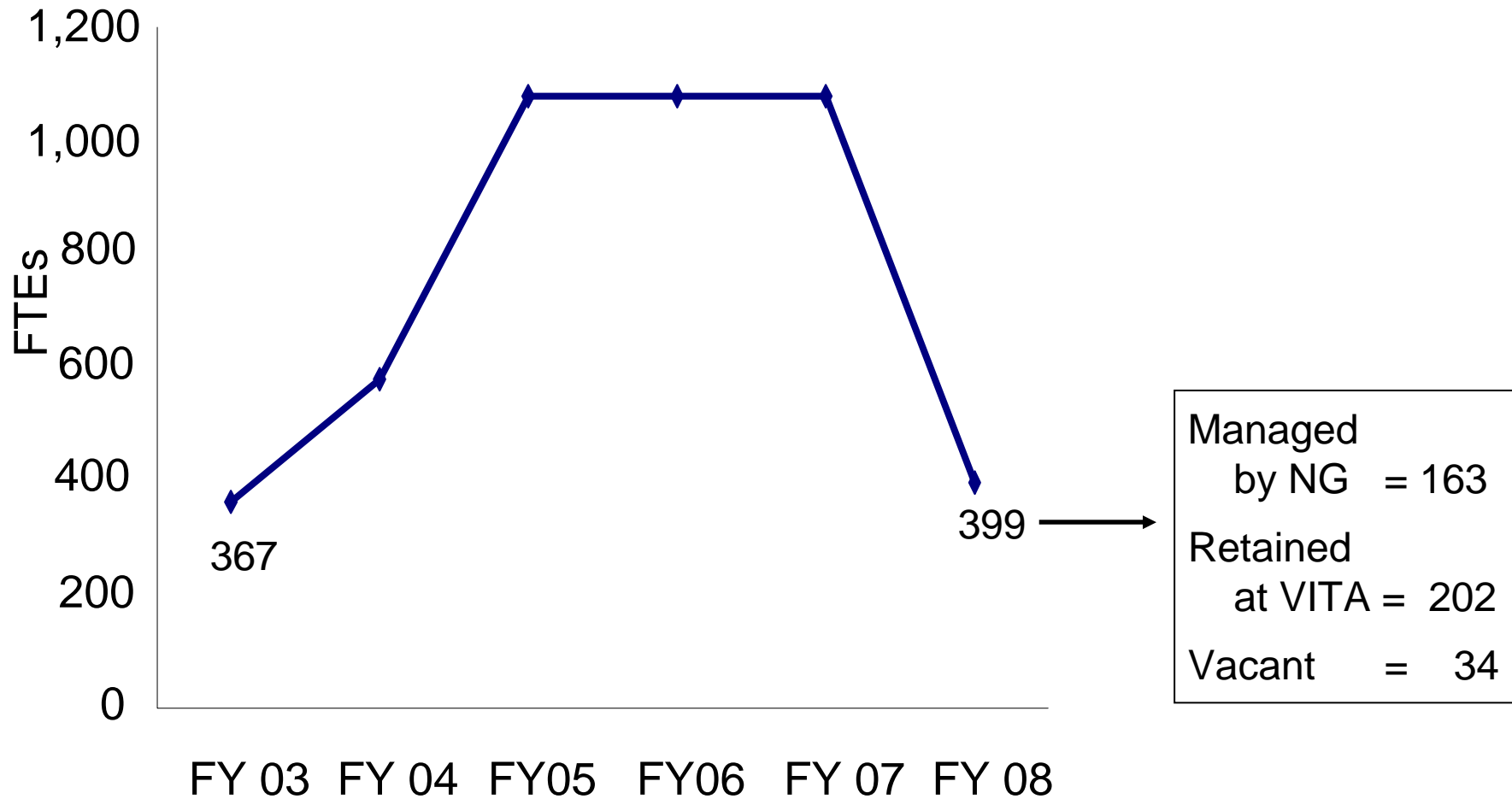
## Partnership Is Novel Approach to Modernizing IT

- IT will now be centrally managed & regularly funded
- Other states have consolidated, but Virginia is on the leading edge of IT outsourcing
  - NG made all upfront capital investments
  - State allowed to use NG data centers in Chesterfield & Russell Counties
  - State purchases services, but does not own assets
- Rights & obligations of each partner are detailed in Comprehensive Infrastructure Agreement (contract)

# 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 Chesterfield County
  
- **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

# VITA's MEL Increased with Consolidation and Decreased with Outsourcing to NG



## VITA Has 202 Retained FTEs

| <b>Division Name</b>                 | <b>Number of Staff</b> |
|--------------------------------------|------------------------|
| Finance & Administration             | 71                     |
| IT Investment & Enterprise Solutions | 66                     |
| Service Management Organization      | 27                     |
| Security & Risk Management           | 14                     |
| Communications and Executive         | 11                     |
| Customer Account Management          | 8                      |
| Internal Audit                       | 5                      |
| <b>Total</b>                         | <b>202</b>             |

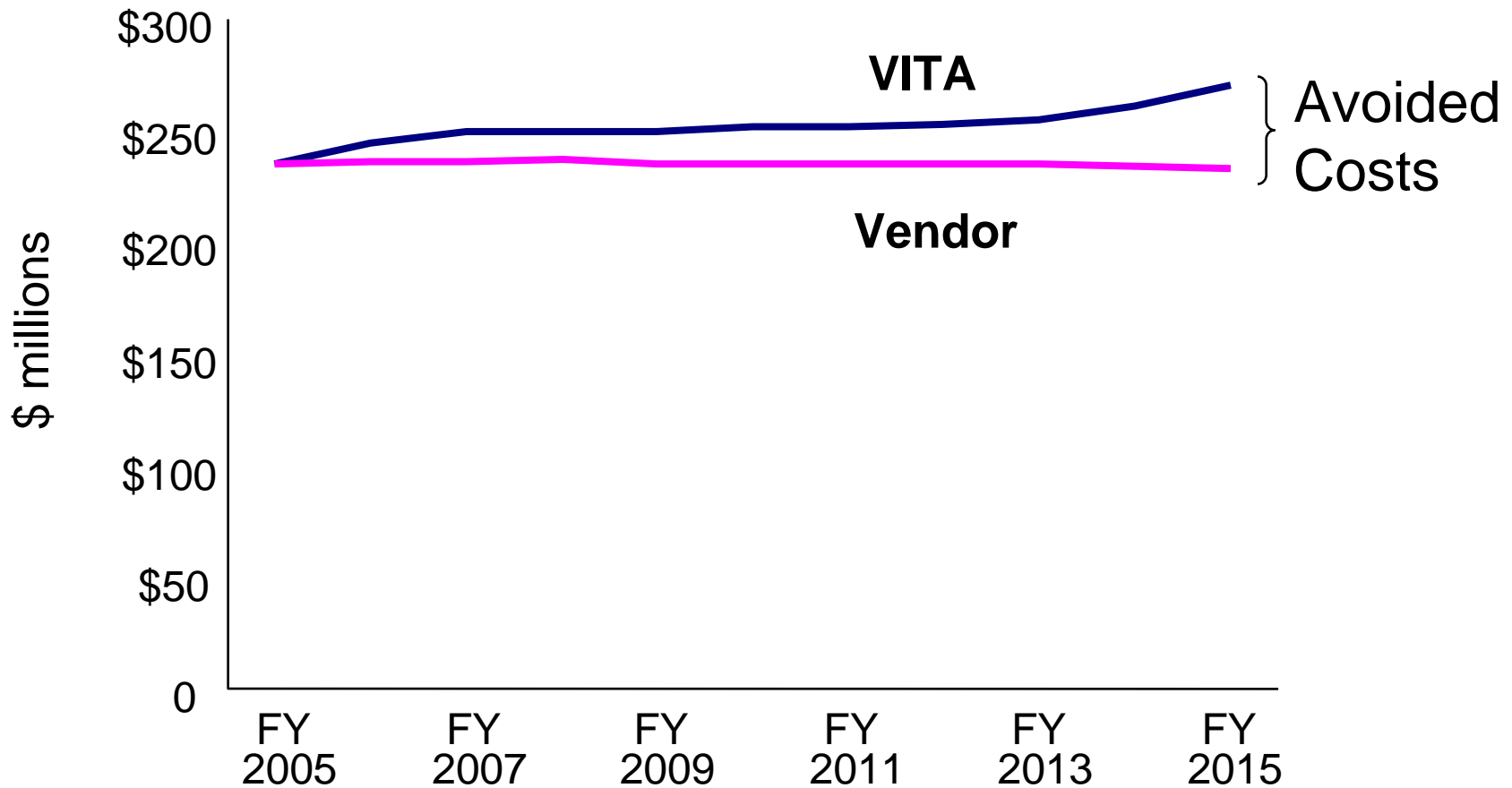
## Virginia Enterprise Applications Program (VEAP) Formed Partnership With CGI

- 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

# In This Presentation

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

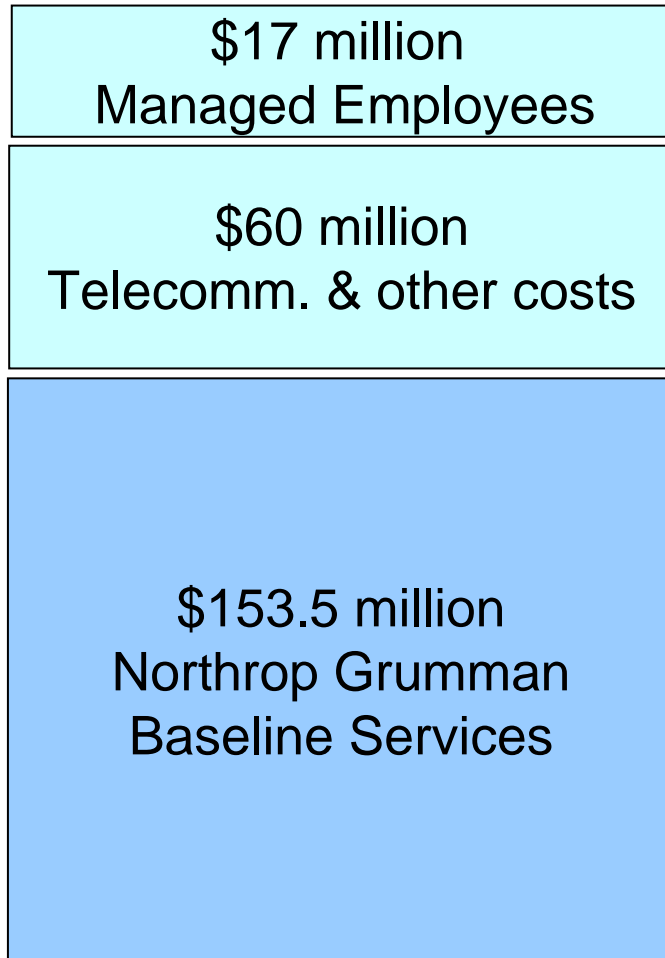
# NG Contract Is Based Upon Avoided Costs, Not Savings



# NG Payments for Some Services Capped at \$236 Million (FY 2008 Payments)

\$236 million Cap

---



\$7.5M – New NG Services



## Contract Allows NG Payments to Increase or Decrease

- Payments to NG 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
- Payments to NG can decrease if
  - State's use of IT services declines, or deflation occurs
  - Best 25% of rates in industry are lower than NG rates
  - Prices & terms offered to other U.S. customers of NG Information Technology are lower

## Contract Includes Other Potential Savings and Benefits

- Savings of \$30 million per year 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

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

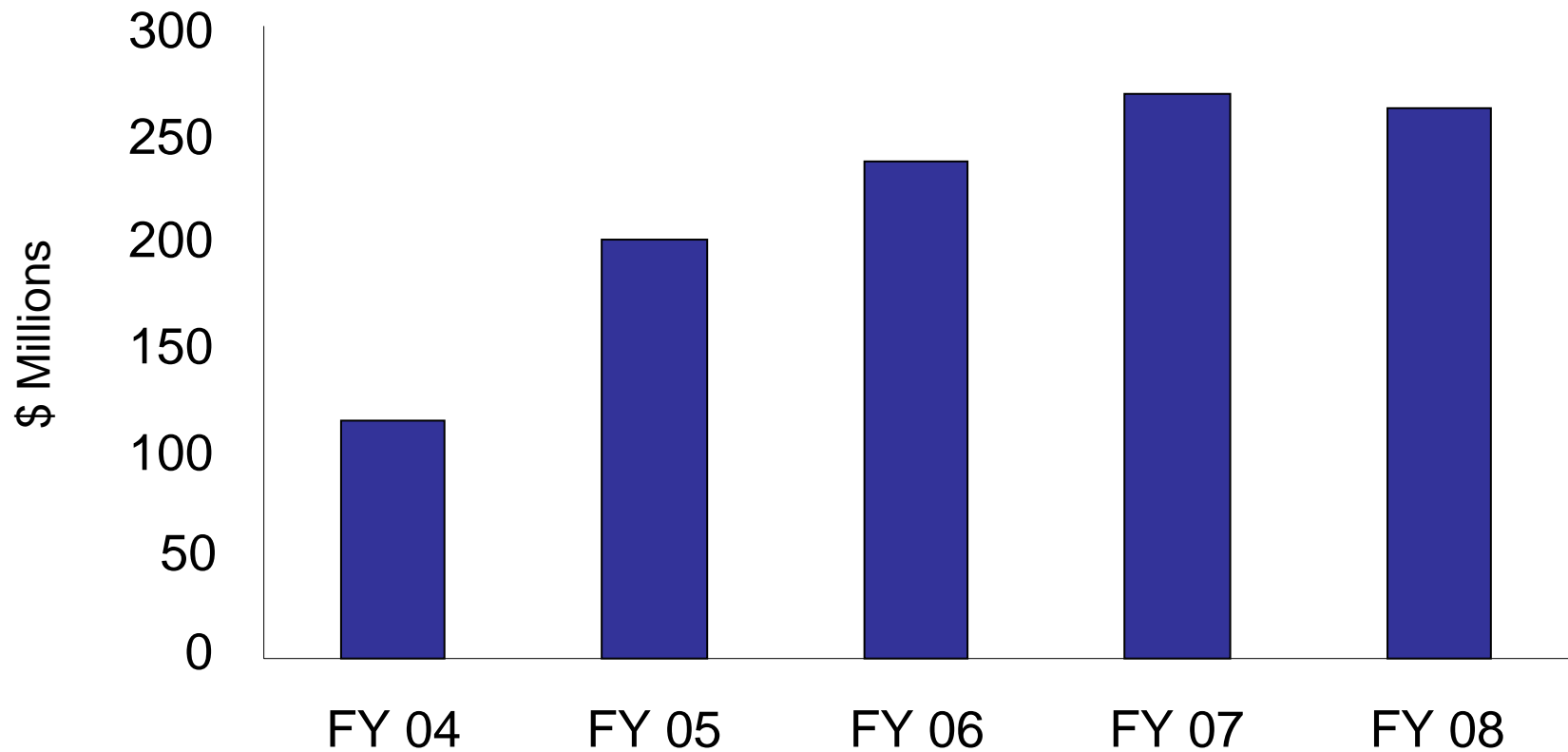
# In This Presentation

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

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

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

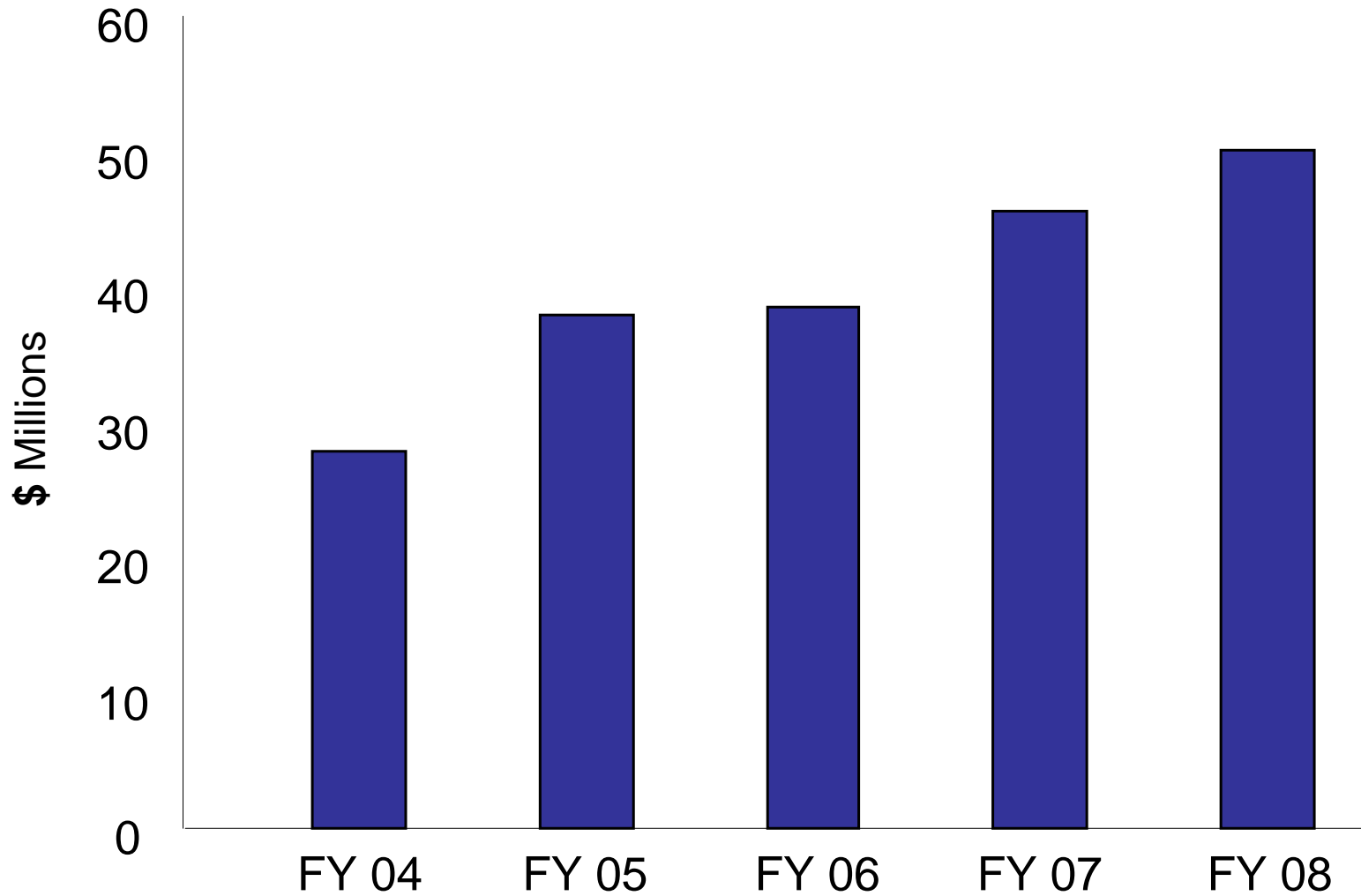
## VITA ISF Revenue Increased by 132% from FY 04 to 08



## Agencies with Ten Highest ISF Charges (FY 2008)

| <b>Agency</b>                                 | <b>ISF Charge (\$ millions)</b> |
|---|---------------------------------|
| 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                               |
| <b>Subtotal</b>                               | <b>\$184</b>                    |
| <b>Percent of Total ISF Revenues</b>          | <b>70.4%</b>                    |

# DSS ISF Charges Increased 81% from FY 04 to FY 08



## VITA's ISF Rates Are Approved by JLARC and U.S. Dept. of Health & Human Services (HHS)

- VITA has over 235 rates, & many include administrative fees
  - 12 to 21% for NG
  - 10% for VITA
- New or modified rates must be approved by JLARC
- Federal regulations require HHS approval, to ensure federally funded agencies pay same rate
  - In Spring 2006, VITA developed rates based on MOUs
  - HHS objected to these rates

## Federal Regulations Require Same Rate for Same Service

- VITA submitted new rates in December 2006
- 2006 rates have three service options:
  - Option 1: includes prepayment of replacement assets & labor for IT support
  - Option 2: **excludes** prepayment of replacement assets
  - Option 3: **excludes** IT support labor

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

- Agencies billed under lower option 2 rate are not paying in advance for their replacement assets
  - \$9.7 million in new annual IT costs once assets are replaced
  - Affects DSS, VDH, VEC, DMV, DRS, DGIF, VDOT, DMME, DOC, & DBVI
- Some agencies still provide their own IT support labor & therefore should be billed under option 3 instead of higher option 1 rate
  - May affect DSS, DMME, & other agencies now billed under option 1

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

- VITA requested reduction of 2006 rate for “standard” computers & creation of separate (higher) rate for “premium” computers
- Concerns regarding VITA’s decision to not implement rate reductions
  - \$2.35 million in higher charges in first half of FY 2009 for users of standard computers, who still subsidize users of premium computers
  - Single rate may be inconsistent with federal regulations
  - VITA should have requested JLARC’s permission

# In This Presentation

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

## Progress Toward Full NG Management Is Mixed

- Starting July 1, 2009, NG will provide & manage all IT staff, hardware, software, & facilities
- NG's fees (& VITA's rates) based on
  - Contract fees
  - Volume of assets & services used by State agencies, as determined by reconciled asset inventory
- 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

## Progress Toward Managed Services Is Mixed

- 39 of 85 agencies may not be ready
- Inventory of IT assets was due by April 2008, but will not be completed until March 2009
- 90% of personal computers must be replaced by March 2009, but less than half have been replaced
  - Replacement varies by agency
    - DOC, DJJ, DMHMRSAS & DRS are 100% complete
    - ABC, DSS, VSP, DMV & DEQ are 0% complete

## 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
- Complexity 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

# In This Presentation

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

## 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

## **JLARC Staff for This Report**

Hal Greer, Division Chief

Ashley Colvin, Project Leader

Jamie Bitz

Mark Gribbin

Massey Whorley

## **For More Information**

<http://jlarc.virginia.gov>

(804) 786-1258



# Completion of Inventory Is Mixed

- “Hard” assets are physical equipment (computers, printers)
  - 104 of 106 agencies have signed off on inventory
  - DSS & DFS remain (19% of all assets)
  - However, APA has raised concern that inventory has errors & changes from month-to-month
- “Soft” assets are intangible (virtual servers, network ports, units of storage)
  - Soft inventory has not been completed & quantity of some items (storage) are disputed

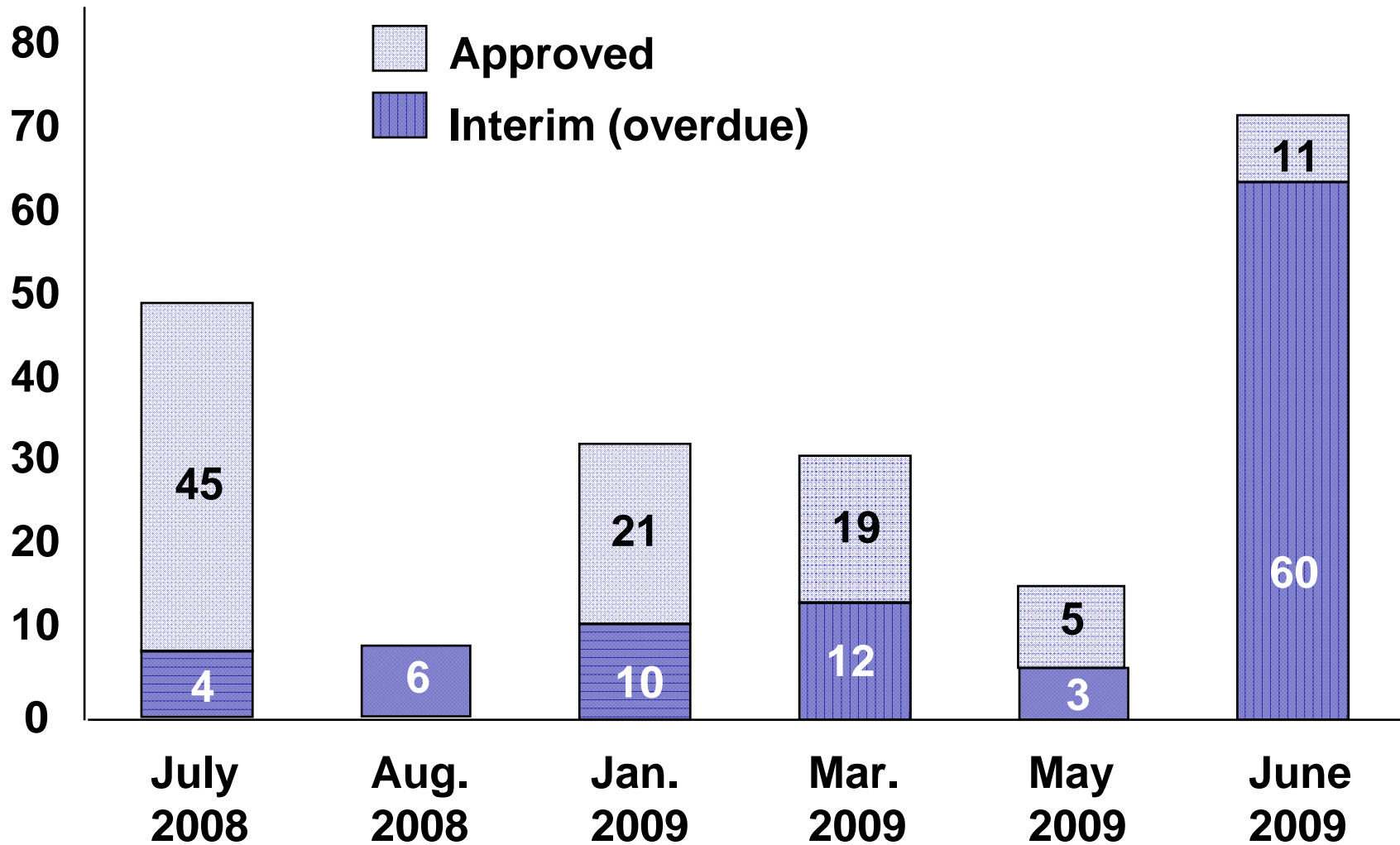
# Progress Toward July 1, 2009 Transformation Deadline Is Mixed

- NG reports % of work completed by task
  - Help Desk 90-95 %
  - Network 91 %
  - Desktop computers 57 %
  - Security 36 %
  - Email 33 %
  
- However, VITA & agencies have not reviewed these percentages
  
- Also, task may be complete but not meet required level of service

## Implementation of 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 discussing measurement of NG’s performance
  - Measurement of SLAs is defined in Data Collection Documents

# 95 of 196 Data Collection Documents for SLAs Are Overdue



# NG's Attainment of SLAs Is Mixed

- SLAs with approved Data Collection Documents
  - Green 94% (met target)
  - Yellow 4% (failed target by less than 10%)
  - Red 2% (failed target by more than 10%)
  
- SLAs with interim Data Collection Documents
  - Green 61% (met target)
  - Yellow 11% (failed target by less than 10%)
  - Red 28% (failed target by more than 10%)

## Contract Negotiations Have Been Underway

- ITIB was briefed on NG's proposals at April 16<sup>th</sup> closed session
- High level discussions have occurred between board members & NG executives
- Talks are also underway between VITA & NG staff
  - Definition of when transformation is complete & plan to achieve new objectives
  - Measurement of SLAs
  - Identification of in-scope vs out-of-scope tasks
  - Adjustments to prices & resource units