Joint Legislative Audit and Review Commission

Interim Review of the Virginia Information Technologies Agency

House Appropriations Committee

January 26, 2009

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

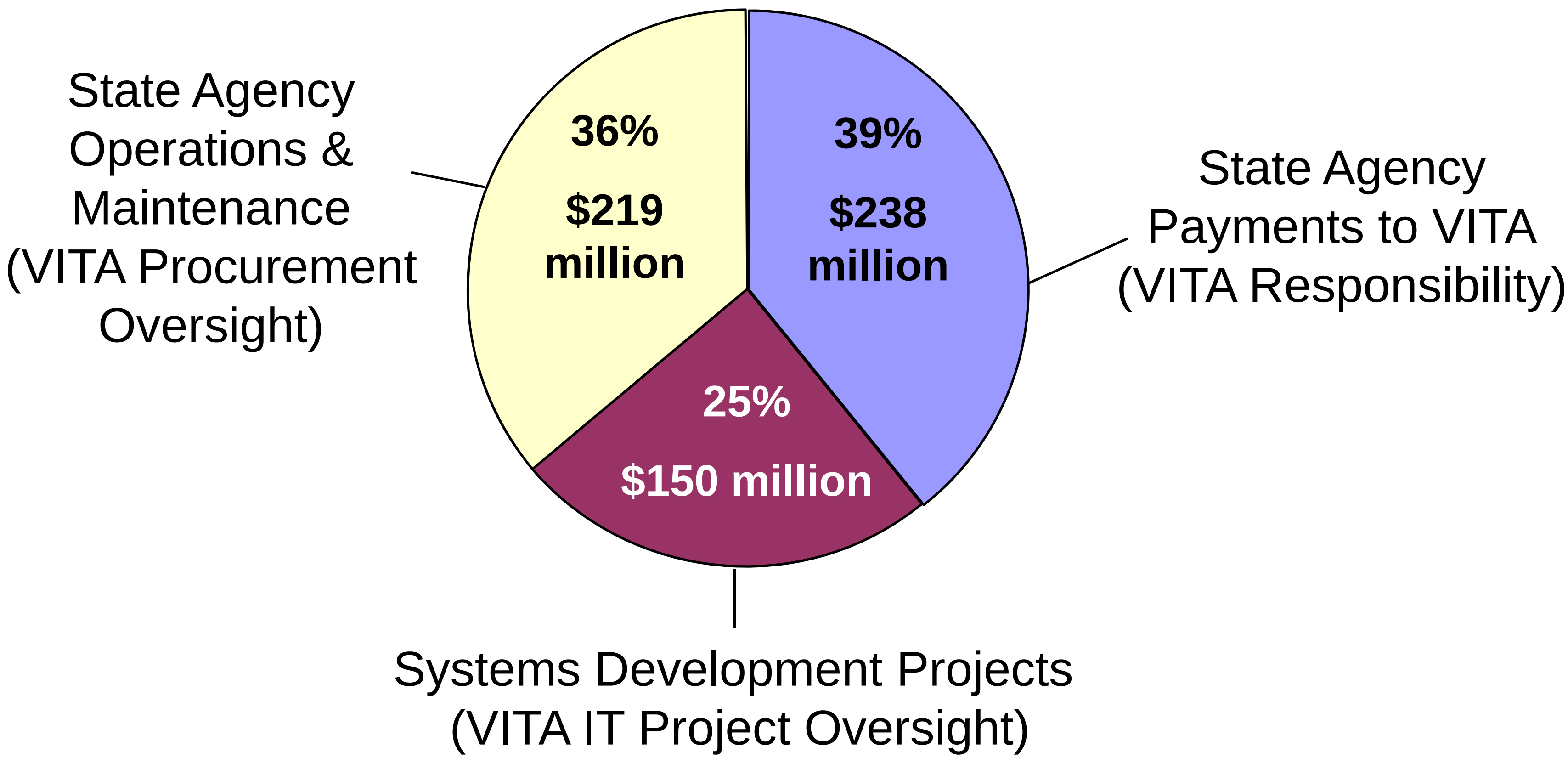
Only Infrastructure Consolidated, Not Applications

- 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

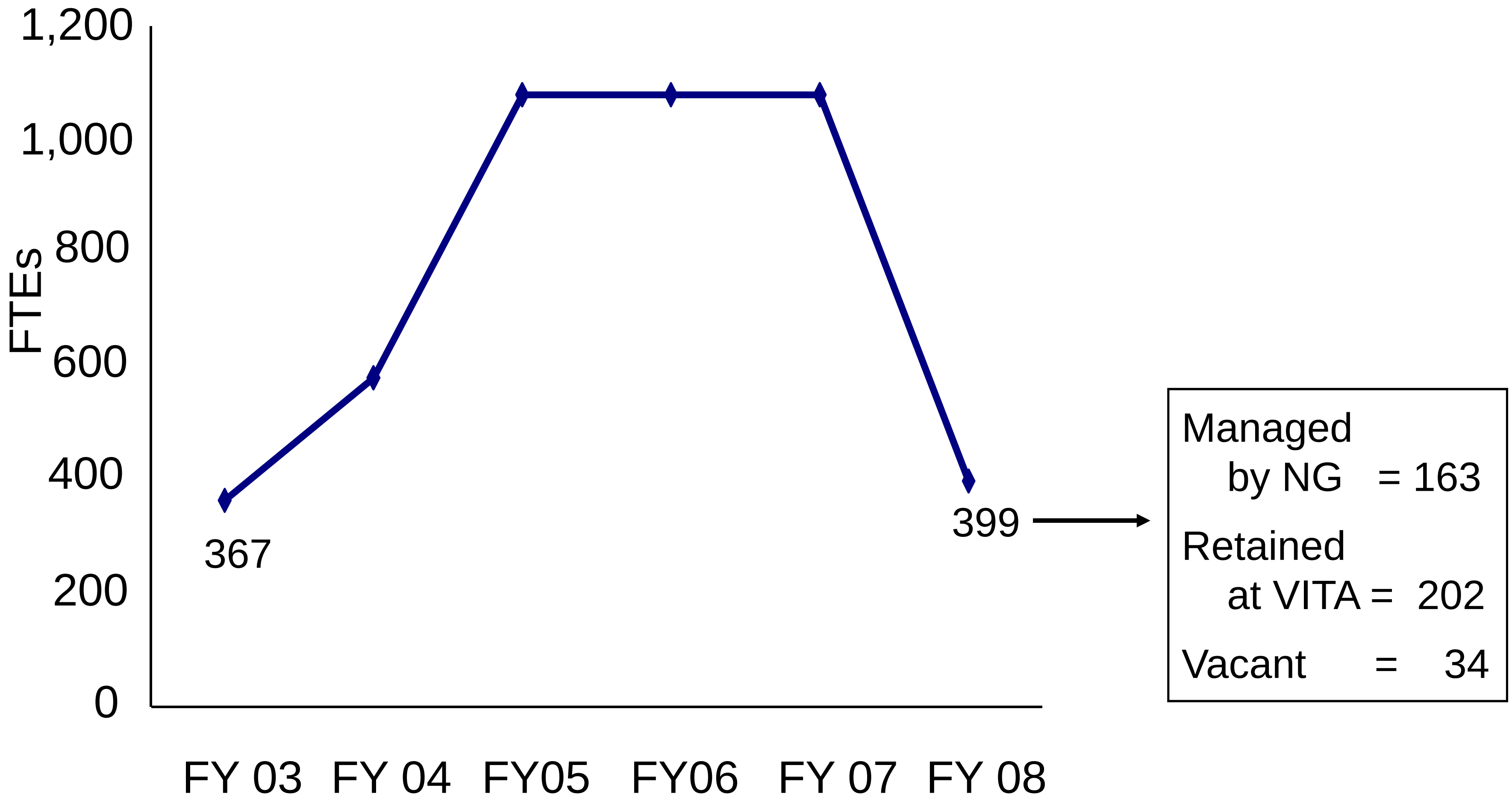
Partnership Is Novel Approach to Modernizing IT

- 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

Division Name	**Number of Staff**
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
Total	**202**

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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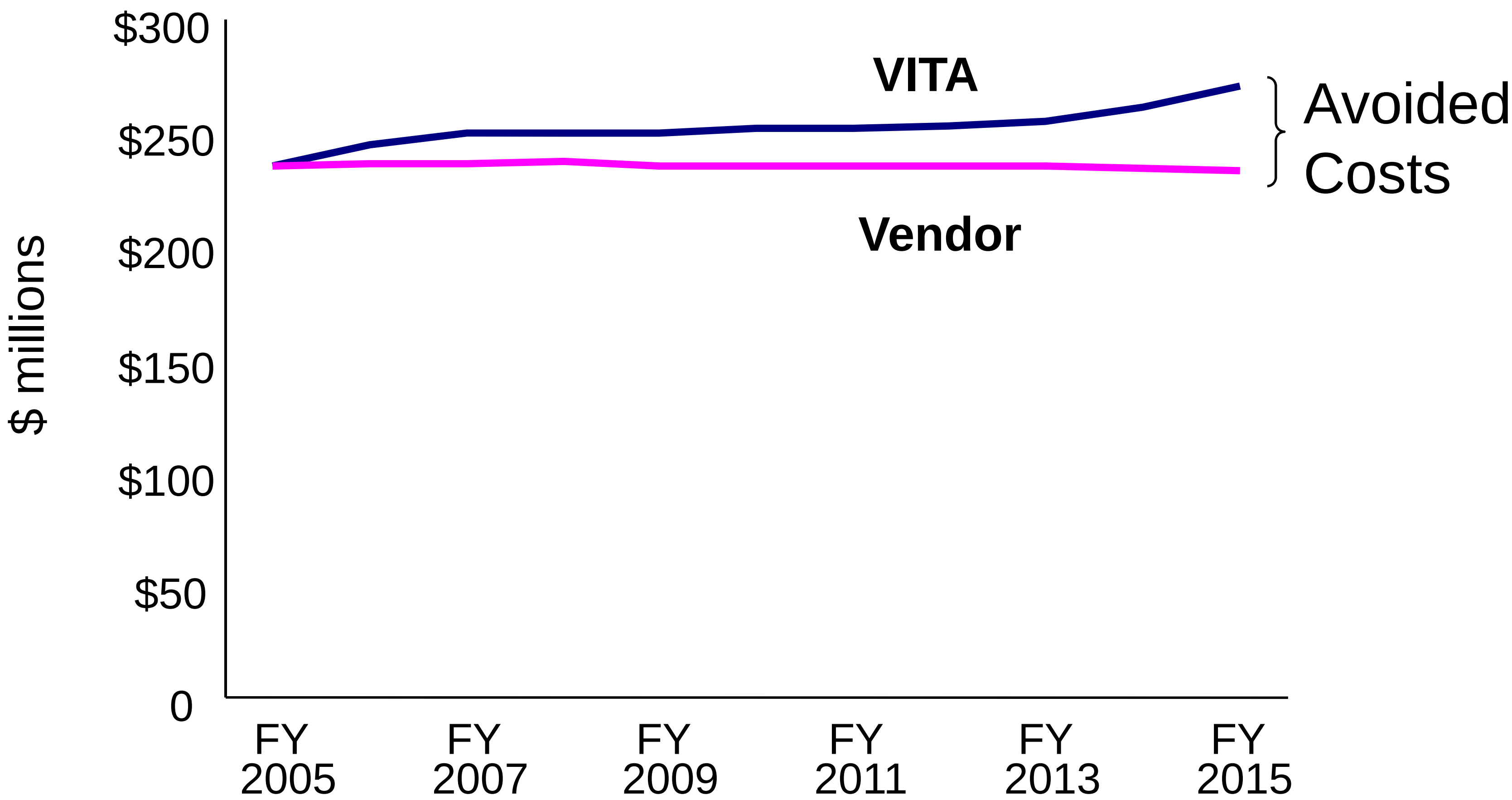
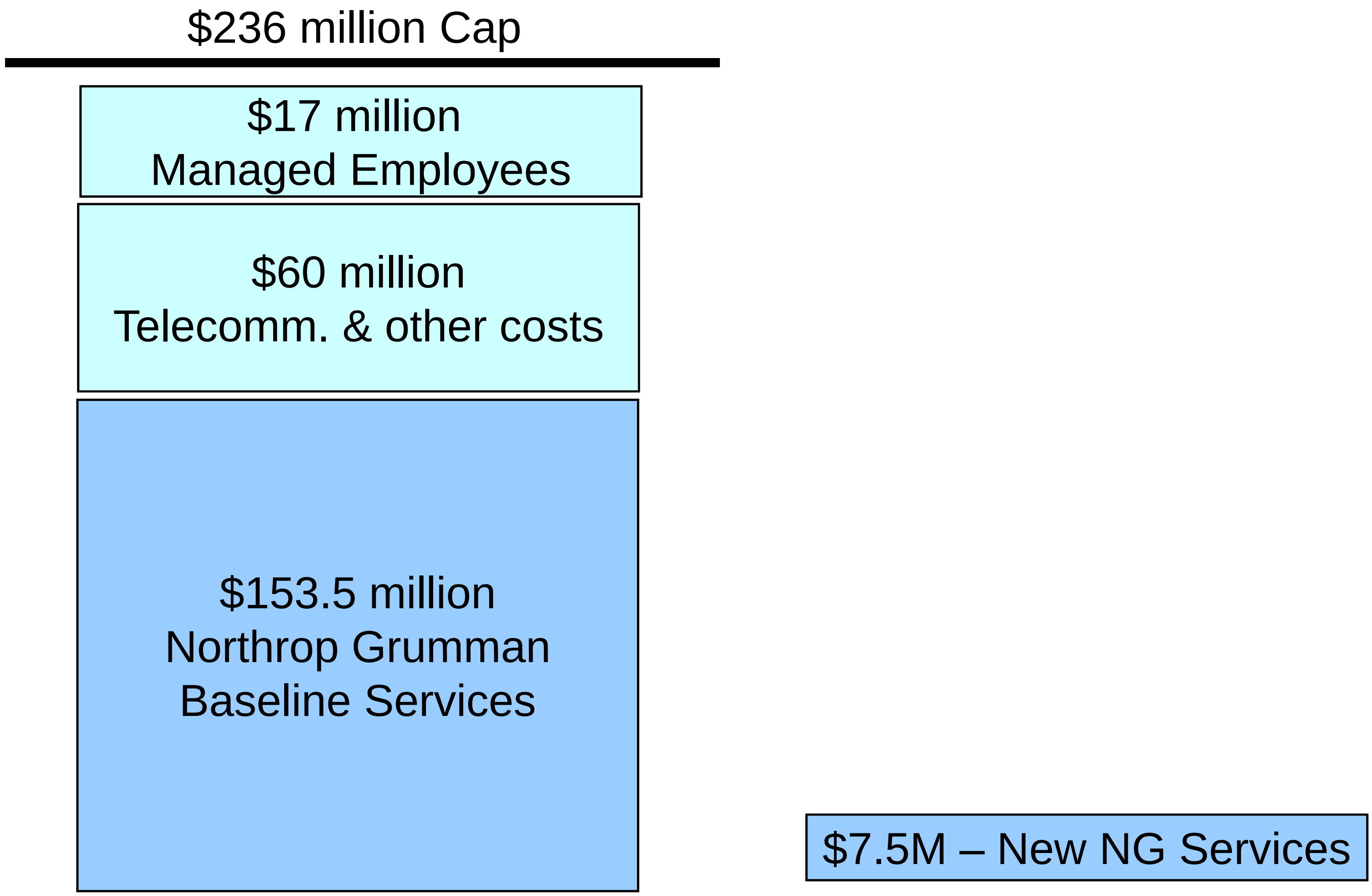
NG Contract Is Based Upon Avoided Costs, Not Savings



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



Contract Allows NG Payments to Increase or Decrease

- Payments to NG can <u>increase</u> 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 <u>decrease</u> 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

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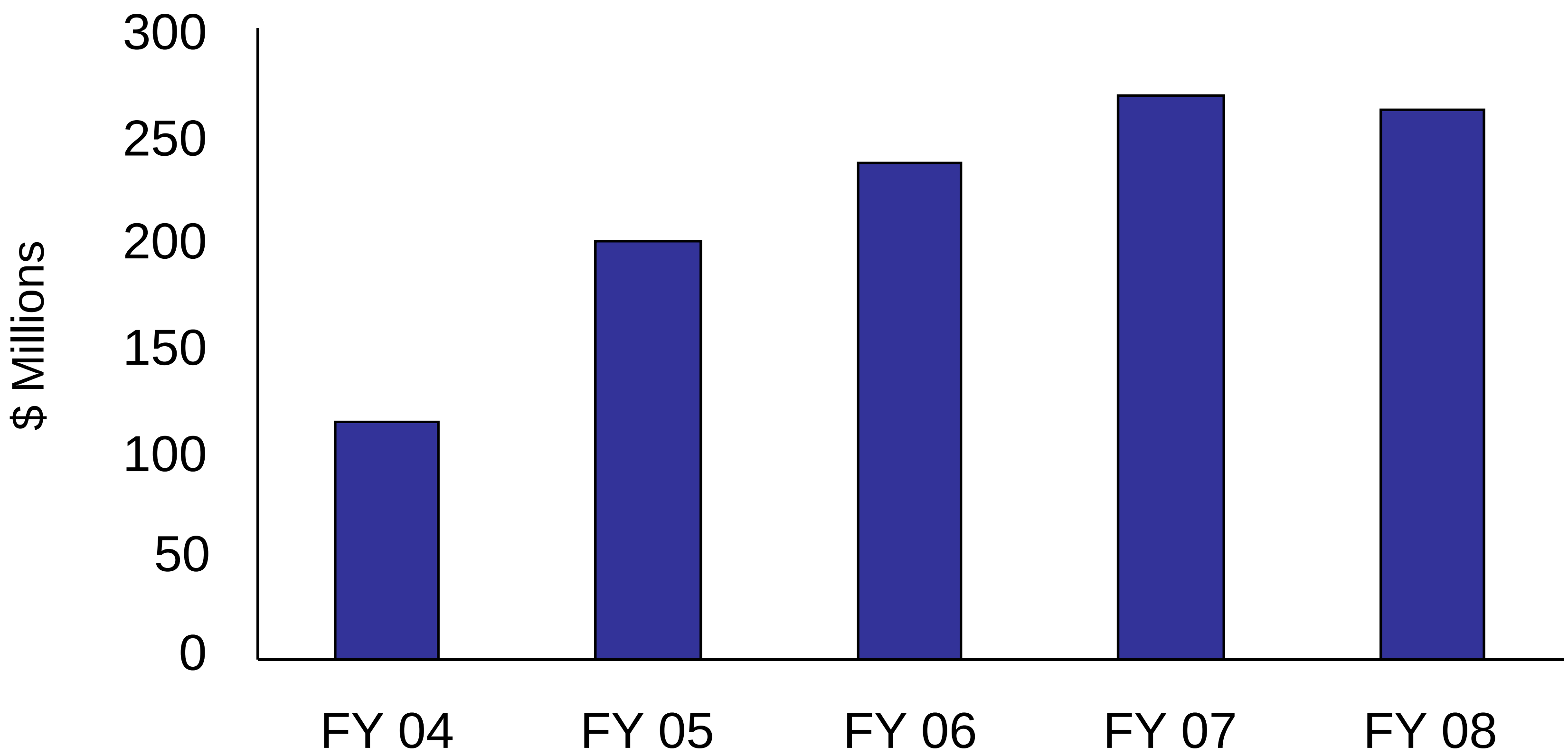
VITA's Revenues and Expenditures Are Primarily From its Internal Service Fund (ISF)

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**

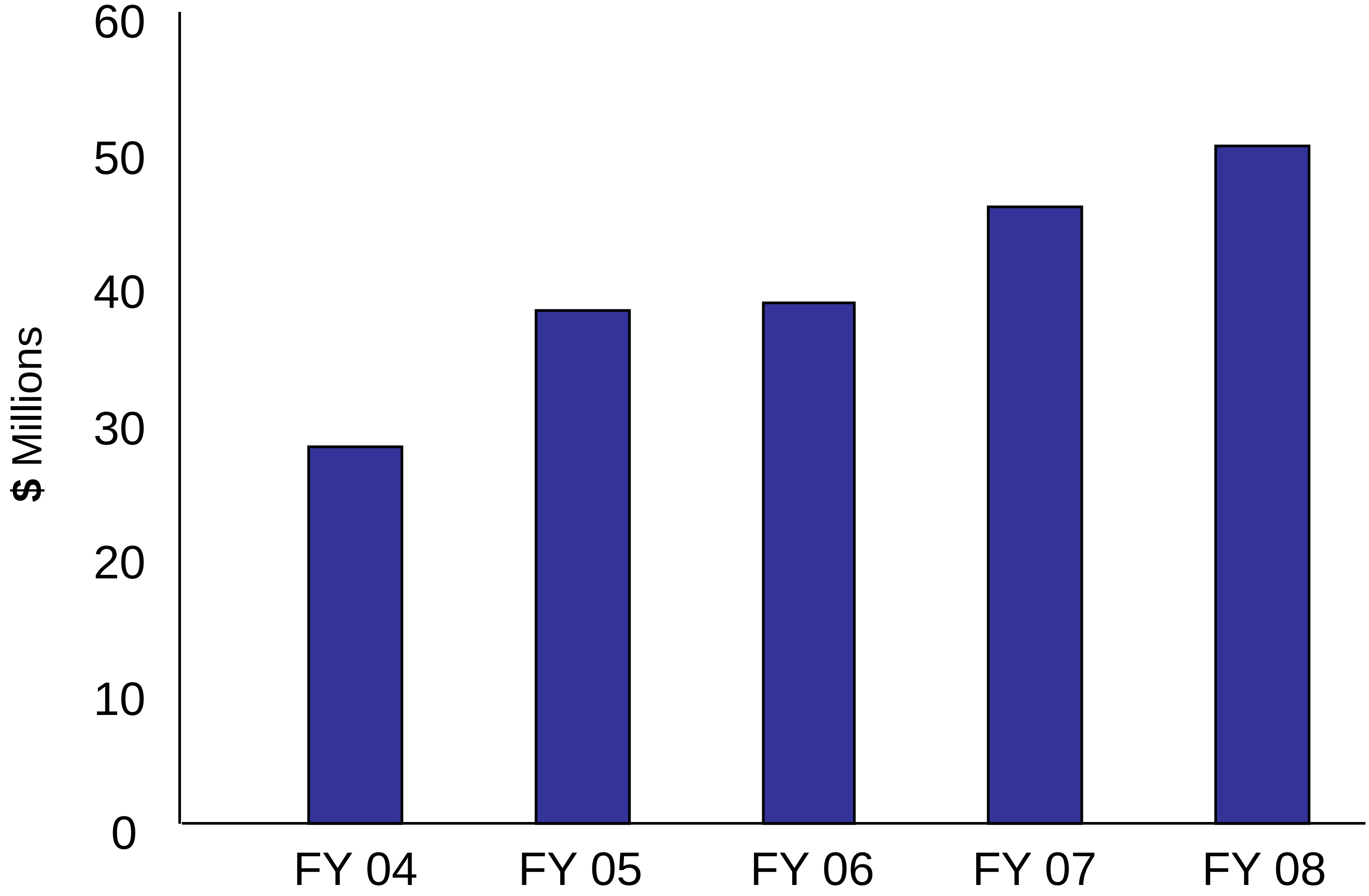
VITA ISF Revenue Increased by 132% from FY 04 to 08



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%**

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

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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

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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

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