Legislative Update on IT Finances, Operations

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House Appropriations Technology Oversight & Government Activities Subcommittee
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Topics for Discussion

- IT Finances
- CoVA IT Rates
- Budget Action
- Working Capital Advance
- Transformation Update
- Operational Improvement Initiative
- Third-Party Audit of DMX-3 Outage

IT Finances - Background

- VITA – primarily Internal Service Funds agency
  - Less than 1% of budget is direct GF
- Under-recovered $56M between FY07-FY10
  - Average $14M per year
- New inventory baseline in Amendment 60 enables VITA to structure rates to recover *all* costs
  - Baseline was delayed two years
- Agency bills now reflect their *total* consumption of IT services
  - 90% of VITA rates are for vendor cost recovery
  - *Impact not reflected in agency FY11 budgets*
- Model only works if agencies have adequate funds to pay their VITA bills

Rates for IT Services

- 7/1/2010 - Significant revision of Commonwealth IT rates

    - Adjusts for re-baselining and revised contract with Northrop Grumman

- Rate structure aligns with vendors' fees for services

- Agencies pay the same rates

- Replaced previous rate structure

- Provided for delivery of tiered services

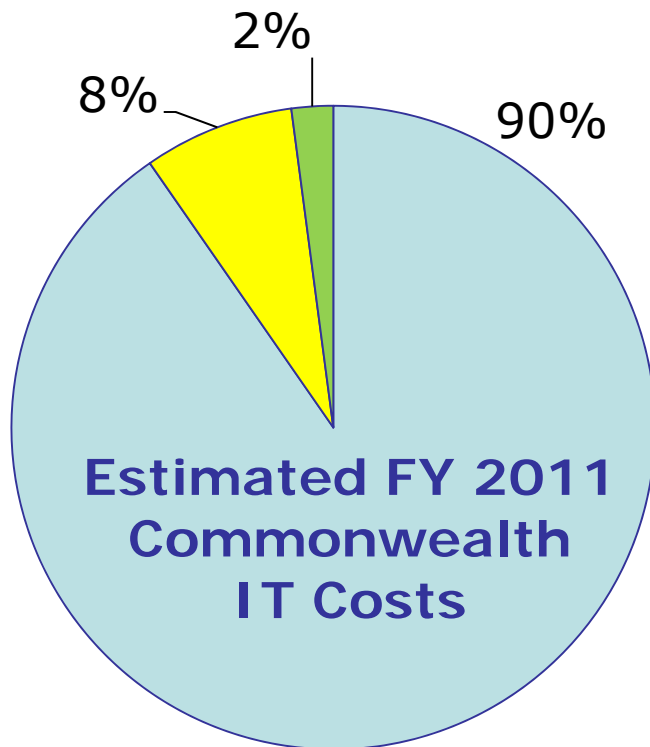- Approved by JLARC, meets State and Federal guidelines

How Does VITA Cost Recovery Work?

Through a series of approximately *300* rates, most constructed as follows:

$$\begin{array}{l} \textit{Vendor per unit charge} \\ + \textit{Vendor fixed fees allocation} \\ + \underline{\textit{VITA services, debt recovery}} \\ = \textit{IT service rate} \end{array}$$

Costs to Recover in FY11

Pie chart: Estimated FY 2011 Commonwealth IT Costs

- 90% — Vendor Expenses (per unit & fixed fees)
- 8% — VITA Services
- 2% — VITA Debt Recovery (Annual share)

Rate Example

Bundled _service_: Laptop computers

Laptop Rate: Service Components	Vendor Per Unit Charge	Allocation of Vendor Fixed Fees	VITA Services	VITA Debt Recovery (Short Term)	Total
Hardware & Software	$35.75	$18.27	$4.67	$1.25	$59.94
E-mail - Messaging	$10.38	$2.86	$1.15	$0.30	$14.69
Technical Support	$21.14	$5.83	$2.33	$0.62	$29.92
Help Desk	$9.48	$2.62	$1.05	$0.28	$13.43
Total Laptop	**$76.75**	**$29.58**	**$9.20**	**$2.45**	**$117.98**
% of Total	_65.1%_	_25.0%_	_7.8%_	_2.1%_	_100.0%_
	Vendor 90.1%		_VITA 9.9%_		

Revenue Variance (FY10 – FY11)

Drivers	Annual Cost ($M)
VITA's annual under recovery (deficit)	~$14.0
Prior losses recovery to get VITA back to $0 (debt)	$6.0
Delta between FY10 & FY11GF Supplemental funding	$9.7
1st Contract COLA (supposed to have occurred 12/08)	$6.7
December 2010 COLA (first 'regular' yearly COLA)	$0.4
New services (disaster recovery storage)	$1.8
Industrial Funding Adjustment (IFA) reduction	$0.9
Storage above the CAP	$3.5
Effects of re-baselining and moving to true usage based billing	$9.4

Total Estimate = $52.4M

Central Appropriations Supplements

- Why is this necessary?
  - Historical underfunding of agencies' IT budgets
  - New inventory baseline established in March 2010
  - Vendor IT charges to Commonwealth reset from new baseline w/consistent Price x Quantity pricing structure
  - New rates for IT services approved by JLARC in July 2010 capture <u>all</u> costs
  - Past supplements one-time only, some underfunded

Central Appropriations Supplements

- How are they calculated?
    - Cost impact projected from agencies' actual IT billings for Jul – Sep (1st qtr FY 2011)

    - New estimates compared to FY 2010 charges - to arrive at delta forwarded to DPB

    - DPB applied current GF/NGF factors to total to arrive at GF share

    - Projections can't account for agencies' changes in IT services use – information not known to VITA or DPB

    - Upon approval and before transfer, supplement amounts may be recalculated based on latest bills

Central Appropriations Supplements

- What are the language conditions?
  - FY 2012 transfers limited to ≤97% of projected impact unless greater need demonstrated
  - Agencies required to complete Comprehensive Information Technology Assessment to receive second year supplement
  - VITA will review assessments and recommend; DPB has final approval authority
    - VITA website to provide IT best practices information
    - VITA is developing service offerings (technology assessment, managed print study) for agencies that request assistance

Budget Action – IT Assessment

- ## Agency IT Assessment:

  - Implement print/paper output reduction program.

  - Limit new laptop computers to mobile workers.

  - Perform cost/benefit analyses of purchasing "standard" vs. "premium" equipment.

  - Implement best practices for wireless device usage.

  - Implement best practices for data storage.

  - Convert long-term (greater than one year), critical-need IT contractor positions to classified employee positions.

  - Consolidate stand-alone data centers to the Commonwealth Enterprise Solutions Center (CESC).

  - Deploy technologies that reduce an agency's total expenses, improve citizen interactions, and improve employee productivity and job satisfaction. Such technologies include, but are not limited to, increased use of electronic forms, electronic signatures and automated workflows.

Working Capital Advance

- Established to pay for needed enterprise applications projects lacking a dedicated funding source

- Appropriation Act Authority:
  - As of July 1, 2008, the working capital advance will cover up to $30,000,000 for expenditures from anticipated revenues from enhanced collections, cost recoveries, inter-agency collaborative projects and other sources. The repayments shall be made from such enhanced collections, cost recoveries, inter-agency collaborative projects and other initiatives.

Working Capital Advance

- Major 'WCA' Projects
  - Phase I of Performance Budgeting system implemented and used for Budget Bill development
  - Phase II of Performance Budgeting system, including agency use and strategic planning capabilities, to be rolled out later this year
  - Phase I (VDOT Implementation) of Financial Management System (Cardinal) scheduled for July 2011
  - Phase II (DOA Implementation) of Cardinal scheduled for July 2012

Working Capital Advance

$30 million authorized; $21.7 million drawn down
- 1st drawdown -- $11.7 million
- 2nd drawdown -- $10.0 million

Of the amount drawn down, $15.5 million spent
- FY09 -- $2.5 million
- FY10 -- $7.4 million
- FY11 -- $5.6 million (thru November 2010)

Primary projects
- Financial Management System (Cardinal) development/rollout
- Performance Budgeting System development/rollout

Transformation – Big Picture

Overall status as of 1/10/2011	
Total	89
Complete	78
Remaining	11
Scheduled, signed	8
Scheduled, not signed est. CY2011	*4
*DMAS, VDEM, VEC, VSP	

Operational Improvement Initiatives

Overall Status					
Initiative	**Implementation Status**	**In Service**	**Presentation**	**Potential Withold**	**Comments**
Rapid Response Team		Y	22-Sep	$0	**VITA approved in September**
Inventory/Billing Disputes		Y	22-Sep	$0	**VITA approved in October**
Laptop/Desktop Depot Service		Y	30-Sep	$0	**VITA approved in October**
Expedited Shipping for Replacement Laptop/Desktop		*	27-Oct	$0	**VITA approved in November**
Work Request Process & Tech Architecture/ Solutioning Re-Design		Y	27-Oct	$0	**VITA approved in November**
Agency Tech Lead Empowerment		Y	17-Nov	$0	**VITA approved in December**
Help Desk Re-Design		Y	10-Nov	$0	**VITA approved in November**
Storage Management		Y	22-Dec	$0	**VITA approved in December**
Inventory Errors			February 2011	$500K	**Data collection and review on-going.**
Work Request and Procurement Processing Times			February 2011	$500K	
				$1M	

Completed & VITA approved
On schedule
Intermediate task delay

New service being offered to VITA

Third-Party Audit of Outage

- Initial failure occurred on Wednesday, August 25
- Initial impact: 26 of 89 agencies (13% servers, 30% data)
  - Significant business impact to DMV, TAX, DSS, DEQ, SBE, DJJ, GOV, VITA, and VITA shared services
- Other services unaffected: network infrastructure, security monitoring, mainframes, email service, phones or desktops
- Governor McDonnell "Independent review of information system failure and contractor response…"
  - Collaboration between Gov Ofc and legislative leaders (JLARC)
  - Paid for by NG ($250K)
- Agilysys, Inc.
  - November 8 - Project kick-Off
  - Final Report due late January