VIRGINIA INFORMATION TECHNOLOGIES AGENCY

SPECIAL REPORT

JANUARY 2004

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA
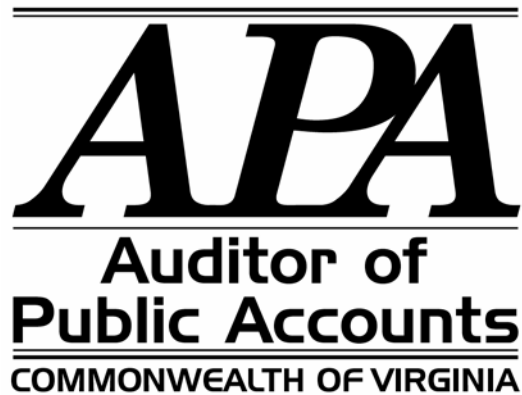
Executive Summary

For Virginia Information Technologies Agency (VITA) to continue its operations, it is essential that the organization have appropriate methodologies to set rates, bill services, and account for both revenues and expenses of operations. Further, VITA needs to have a mechanism to control and monitor service costs as the agency transfers take place over the next eighteen months.

Successfully transitioning VITA requires the creation and maintenance of a well-defined business plan. VITA's business plan consists of a variety of documents such as the operating plan, service delivery customer workbook, and a consultant's report. However, we also found that VITA's business plan documents do not provide many of the characteristics found in a well-written business plan.

VITA's business plan documents are insufficient and do not meet best practices. However, for VITA to complete a business plan for all operations is neither practical nor feasible at this point. However, continuing to operate without a usable business plan is also neither practical nor feasible.

Since the legacy operations have existing policies and procedures, we would recommend that VITA's senior management and Chief Information Officer (CIO) complete a business plan for all of the new services. The report contains the details of the business plan requirements.

The Secretary of Technology has taken an active role in the early start up of VITA, and now the Board needs to also develop and build a working relationship with VITA management, including the permanent CIO when hired. The Board has an independent role within State government and a number of issues in this report will require that both the Board and VITA management work together to find the best solutions. To elicit the Board's active participation will require a shift in how VITA management interacts with the Board.

Effective January 1, 2004, the Board appointed the Deputy CIO as acting until a permanent CIO is hired. To begin developing a working relationship, we recommend that the Board meet with the acting CIO to explain its expectations, including how to resolve the issues contained within this report. We recommend that the Board conduct a similar meeting with the permanent CIO once an individual is hired.

The Board should require that VITA management address our report findings, develop recommended policies and procedures, and complete a business plan for new services. The new services business plan should describe the development strategy VITA intends to use to implement new services and cost savings initiatives. With the business plan complete, the CIO and VITA management should present this information to the Board to gain their concurrence.

- T A B L E   O F   C O N T E N T S -

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
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December 15, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
  and Review Commission
General Assembly Building
Richmond, Virginia

We have completed a review of the internal controls and automated systems within the **Virginia Information Technologies Agency (VITA)** to determine if they are sufficient to provide the Information Technology Investment Board and the Chief Information Officer with timely and accurate financial information.

Objectives

We had the following objectives for our review:

- VITA's services are outlined in a business plan in sufficient detail to be used by divisions as their guiding principles;

- Business directorates are supported by automated systems required to perform the business functions;

- Business processes have adequate internal controls to protect the assets of the Commonwealth;

- VITA makes business decisions based on valid and reliable data in conformity with their business plan;

- Increases or decreases in VITA operating costs, especially overhead, compared to pre-VITA costs are reasonable; and,

- VITA is complying with State and Federal laws and regulations.

Scope

In performing our work, we reviewed VITA's operating plan, customer delivery workbook, and other financial, procedural, and operating documentation. We also conducted formal interviews and meetings with all senior and many middle managers of VITA.

We discussed this report with VITA management at an exit conference on December 29, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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REASON FOR REVIEW

During 2003, the General Assembly adopted legislation that created the position of Chief Information Officer, consolidated the Commonwealth's information technology agencies into the Virginia Information Technologies Agency (VITA), and transferred personnel, equipment and technology infrastructure from individual executive branch agencies to VITA. In addition, this legislation created an Information Technology Investment Board (Board) to provide oversight of VITA and the Chief Information Officer, to have the power to recommend information technology projects to both the Governor and General Assembly, and to provide oversight to these projects, including having the power to discontinue them.

Having systems and internal controls to meet and expand with VITA's rapid growth are essential to VITA's success. The systems will need to expand with the transfers of equipment and personnel and, more importantly, the Board and CIO will need timely and accurate financial information.

Because of the anticipated growth of VITA, we have undertaken a review of the accounting systems and internal controls. This review has the following objectives:

- VITA's services are outlined in a business plan in sufficient detail to be used by divisions as their guiding principles;

- Business directorates are supported by automated systems required to perform the business functions;

- Business processes have adequate internal controls to protect the assets of the Commonwealth;

- VITA makes business decisions based on valid and reliable data in conformity with their business plan;

- Increases or decreases in VITA operating costs, especially overhead, compared to pre-VITA costs are reasonable; and,

- VITA is complying with State and Federal laws and regulations.

DESCRIPTION OF ORGANIZATION

Information Technology Investment Board

The Board is a supervisory board, as defined by Section 2.2-2100 of the Code of Virginia. A supervisory board has responsibility for agency operations, including approval of requests for appropriations. A supervisory board appoints the agency director, in this case the Chief Information Officer, and ensures that the agency director complies with all board and statutory directives. The agency director is subordinate to the board. Additionally, the Board's responsibilities include the following duties:

1. Approve or disapprove the development of all major information technology projects and terminate any major information technology project recommended for termination by the Chief Information Officer.

2. Approve the strategies, standards, and priorities recommended by the Chief Information Officer concerning the use of information technology by state agencies in the executive branch of state government.

3. Approve a four-year plan for information technology projects.

4. Approve the statewide technical, data information, and information technology architecture standards and those standards for related systems and networks as proposed by the Chief Information Officer.

5. Approve criteria for the review and approval of the planning, scheduling and tracking of major information technology projects.

6. Submit, by September 1 of each year, a list of recommended technology investment projects and priorities for funding such projects to the Governor and the General Assembly.

Chief Information Officer

The Chief Information Officer (CIO) serves as the administrative head of the consolidated agency, VITA, which came into existence on July 1, 2003. As shown above, the CIO assists the Board in a number of areas concerning system development, project oversight, and providing staff to develop and set information technology standards.

As VITA's agency head, the CIO is responsible for completing the consolidation of the former state information technology agencies: the Departments of Information Technology and Technology Planning, and the Virginia Information Providers Network. Additionally, the CIO oversees the implementation of the consolidation plan set forth in the legislation for state network management, servers, and other operation functions, including personnel. The legislation envisions a transfer of information technology assets and personnel from individual executive branch agencies to VITA over an eighteen-month period. The consolidation plan has the following schedule.

- By January 1, 2004, agencies with positions levels of 100 or less
- By July 1, 2004, agencies with position levels of 100-400
- By January 1, 2005, agencies with position levels of more than 400

The legislation provides that the Secretary of Technology will serve as the CIO until the Board employs a CIO or until January 1, 2004. As of December 15, 2003, the Board has not employed a CIO and the Secretary of Technology continues to serve in an acting capacity. Effective January 1, 2004, the Board has appointed the Deputy Chief Information Officer as acting CIO until the Board can select a permanent CIO.

The Board and VITA Management

Upon passage of the VITA legislation in April 2003, the Secretary of Technology began organizing VITA's management and started the development of the business plan. Under the direction of the Secretary, VITA began operations on July 1, 2003. The Secretary of Technology was the Commonwealth's CIO until the VITA legislation became effective, and he will continue to hold that role in an acting capacity until December 31, 2003, under the VITA legislation.

With the appointment of the Board and at its first meeting on August 5, 2003, the Board elected the Secretary as Board Chairman. As both Board Chairman and CIO, the Secretary has had direct influence over VITA management as well as the direction and relationship of VITA management to the Board.

The Secretary's involvement with the VITA staff by acting as VITA's Director, the lack of an independent CIO hired by the Board, and the Secretary's role as the Board's Chairman has deferred the Board's establishment of VITA's oversight. While the Secretary has done a good job of organizing and establishing VITA, executive management looks to the Secretary for leadership rather than to the Board.

The Board also looks to the Secretary for guidance and is subject to the Secretary's control of information. As an example, the Board does not set the meeting agendas, has no standard agenda, and does not receive adequate advance meeting materials in sufficient time to review and understand the information before the meeting.

While it understandable that the Secretary has taken an active role in the early start up of VITA, the Board needs to also develop and build a working relationship with VITA management, including the CIO. The Board needs to establish a level of trust with VITA management and gain an understanding as to how VITA operates and how each of the key managers operates within the organization.

The Board has an independent role within State government and a number of issues in this report will require that both the Board and VITA management work together to find the best solution to an issue; not necessarily a solution proposed by the Administration. To elicit the Board's active participation will require a shift in how VITA management interacts with the Board.

Starting on January 1, 2004, the Secretary will no longer serve as CIO. If the Board has not hired a permanent CIO by that date, the Deputy CIO will serve as the acting CIO. At its first meeting in January 2004, the Board should meet with the acting CIO, explain its expectations, and establish how the Board will consider and resolve policy issues.

Recommendation

The Board should work with the Chief Information Officer to explain its expectations on the consideration and deliberation of policy matters. The Board and the CIO should also establish how and when the individual Board committees will receive and consider information and how the Board committees will report to the full Board. Additionally, the Board should establish a mechanism whereby Board members may participate in developing meeting agendas along with governing rules that provide sufficient information and time to consider any proposals and recommendations.

In VITA's independent status, management will be working regularly with the Administration, the Legislature and the customer agencies. To exercise and effectively accomplish the task before it, VITA management and the CIO will need to work closely with the Board to develop and maintain these relationships. Key to these relationships is that VITA management have some sense of how much they can commit the Board to do. Also, the Board will need to have some measure against which to oversee and provide management guidance.

In both the short and long term, one of the Board's best mechanisms to oversee VITA would be taking over responsibility for VITA's business plan and adoption of the plan for future operations.

Recommendation

By the Board using VITA's business plan as its initial tool, we believe the Board can strike a balance between exercising its supervisory duties and overseeing VITA without becoming overly involved in VITA's daily operations. Prior to adopting the business plan, the Board should require VITA management to address the findings in this report and develop some of the policies and procedures that will affect operations, such as the guidelines for considering privatization proposals.

VITA management should also provide the Board a summary of its performance compared to the business plan and, at least twice a year, indicate issues or matters that the Board should consider adopting within the business plan. Finally, the Board and management should develop a regular cycle to review and update the business plan on a more permanent basis, such as once every three to five years.

Further, we recommend that the Board should not approve VITA to accelerate the consolidation of any large agencies until they have a business plan, policies and procedures, and have adequately addressed the findings in this report. The purpose of the incremental consolidation of agencies into VITA was to give VITA the time required to build their controls and systems and test them on the small, then medium and finally large agencies. There was a recognized risk of failure from implementing the large agencies before processes, controls, and underlying systems were in place.

Finally, the Board needs to consider and incorporate into the business plan some long term goals and objectives concerning technology in the Commonwealth. This last consideration should elicit the advice and opinions of state agencies and institutions, the Administration, Legislature and public concerning what systems and technologies would best serve the Commonwealth.

Virginia Information Technologies Agency

VITA has begun operations and continues to provide services from the consolidation of the three existing information technology agencies: the Departments of Information Technology and Technology Planning, and the Virginia Information Providers Network. Additionally, VITA began offering new services to agencies that it was transferring in, in accordance with the legislation.

Before consolidating any agencies, VITA identified what they must provide under the legislation and had agencies report an inventory of existing hardware, software and staff that perform work related to the new VITA services. VITA used this information to review anticipated services it would be providing, to determine staffing needs and rates. VITA will require a service level agreement with each agency before it transfers the agency's information technology function to VITA.

The consolidated agencies initially creating VITA already provided telecommunication and networking and computer services. To a smaller degree, these agencies also provided some Business System Services. However, over the next eighteen months, the transfer of equipment, personnel and other functions will significantly expand these services beyond those previously offered. Below is a description of the four main service divisions at VITA:

Business System Services – provides application support to agencies including e-government services, application development management, database administration, data warehousing, and knowledge system services.

Computer Services – provides services generally considered part of traditional data center operations including mainframes, servers, systems software, and capacity planning.

Customer Support Services – interfaces with VITA's customers to provide help desk operations, desktop support, service level agreement maintenance, and performance monitoring.

Telecommunications and Networking – provides voice and data telecommunication services to include local area and wide area network support.

These four divisions provide the VITA services included in the service matrix located at Appendix A. Only eight of the 41 services in the matrix are new services not offered by the former information technology agencies.

Most of the new services occur in Customer Support, which will absorb much of the equipment and related services from the transferring agencies. The new services primarily involve the acquisition and support of desktops and servers, along with network equipment such as routers, hubs, and firewalls for about 91 executive branch agencies.

Financially, VITA operates as a business enterprise which bills agencies for its services to pay for the cost of operation. Although the number of new services does not appear significant compared to the number of legacy services, by the end of Fiscal 2006 these services will generate about $155 million in revenue, or roughly 56 percent of VITA's total revenue.

During Fiscal 2004, VITA has received some General Fund support to defer the cost of transferring operations from the agencies to VITA. Although the Board has requested the Governor and General Assembly to continue some support for Fiscal 2005, there is no guarantee that VITA will receive this support and currently there are no requests for any General Fund support for Fiscal 2006.

Governments use internal service funds to account for business enterprises in government, such as VITA. The concept of an internal service fund is to provide the management of a government the means to provide a service and, at the same time, allow management the on-going opportunity to determine if cheaper methods of providing the services exist.

This approach also allows a government to act as a business and recover the cost of providing the service from other parties who may directly or indirectly use the service. In the case of the Commonwealth, this approach allows agencies to recover the cost of services from the Federal government and establish a charge if a local government uses some of VITA's services.

In the Commonwealth, VITA bills an agency who then must use its existing resources to pay VITA. Rate setting and cost control within VITA are essential, since agencies may not have the funds to pay for VITA services except by reducing other program costs. Also, if VITA does not set the rate appropriately, they could incur a deficit, which the Board would need to address. Sound accounting systems and internal controls are therefore essential.

AREAS OF REVIEW

Introduction

For VITA to continue its operations, it is essential that the organization have appropriate methodologies to set rates, bill services, and account for both revenues and expenses of operations. Further, VITA needs to have a mechanism to control and monitor service costs as the agency transfers take place over the next eighteen months.

The following sections describe the work we performed and our findings. In some areas, such as business planning, we provide an explanation of the type and nature of information we anticipate finding at an agency and use it to compare to VITA's information.

Business Planning

A business plan has three primary functions: to break problems into smaller units, to provide a road map, and to convince others that the service is valuable. Writing a business plan helps to break down into manageable units the overwhelming task of starting a business. A business plan helps management address smaller work units related to starting a business and examines each work unit by itself. By examining each unit, the job of creating the business is more manageable.

As a road map, the business plan provides focus and helps management keep on track in moving the business in the right direction. A business plan can also help others to understand the business vision. In the case of VITA, this includes the Board, Governor, Legislature, agencies, and citizens. Finally, a business plan can help convince others to use the service and to invest in the business.

We performed research about business plans using information obtained from the Virginia Department of Business Assistance, along with other academia sources. All of the information we reviewed provided similar descriptions of the characteristics included in a well-developed business plan. We found the University of Colorado had the most easily understood description and have used this to outline a model of a typical business plan as follows:

- An organization overview that includes the business mission statement, history, and current status and a general discussion of the market and services.

- Service information such as what exactly the business services are and what they are not, the features and benefits of using these services, and the pricing strategy.

- An industry and marketplace analysis that includes a description of the industry and the marketplace in which the business will compete. This analysis should identify the current trends, important developments, and national and international events that are influencing the industry. It should describe the other companies that currently service the market, how the market is segmented, and in what ways customers are dissatisfied with what the other companies are offering.

- A marketing strategy that describes how the business fits into the market structure just described. It should address things such as the unmet needs in the marketplace and how the business is going to fill them, how the business will differentiate its services from the competitors, and who are the customers. Further, the marketing strategy should describe how the business designed and tailored its services to meet the needs of the customers, and how the business will compete in the market. This section should include an explanation of the pricing strategy, why it will be effective with the customers, how the pricing strategy compares with the competition, and the evidence collected to show that the customer will accept or be able to pay the price.

- A description of operations that outlines how the business will run. It should discuss the scope of operations, describe how the business will deliver the service, describe what the business will do in-house versus what it will outsource and why

this makes sense, and explain how the business will compete in the areas of cost, quality, timeliness, and flexibility. Finally, this section should also describe the kind of people the business needs to hire, how it will operate on an ongoing basis, and describe the operating costs and assumptions that appear in the financial information.

- A development strategy with timelines and initial development costs to include an outline of how the business intends to evolve. The development strategy is a road map of how the business is going to get from where it is now to where it wants to be in the future. It should describe all of the steps needed to get the business up and running and can be as routine as securing office space, or as critical as developing underlying systems to support the business. It should also include what factors need to come together to make the business concept work and what the business is doing to bring them together. It should include a timeline for implementing the business and go as far out in the future as the business has plans. Finally, the development strategy should describe the costs associated with the development timeline and discuss assumptions made in determining those costs.

- A description of how the business is organized to include a discussion of the role of the board of directors, key managers and their duties and responsibilities, other additions to the management team that are planned in the future, and administrative expenses related to the management team.

- Financial analysis and assumptions should begin with the development and operations plans to create a schedule or timetable of development and operational activities. From these development activities, the business can then create cash-flow projections, income statements, and balance sheets for at least three years into the future, or until a point where the business is expected to achieve stable operations. The first year projections should be month-by-month since cash flows are critical in the early stages of any startup.

Successfully transitioning VITA requires the creation and maintenance of a well-defined business plan. VITA's business plan consists of a variety of documents such as the operating plan, service delivery customer workbook, and a consultant's report. We reviewed the business plan documents compared to characteristics commonly present in successful business plans as described above. We found that VITA's business plan contains the following characteristics of a business plan:

- A chart showing the management and organizational structure;
- A general description of the services it will provide;
- An identification of which agencies will use VITA and whether they are a small, medium, or large agency;
- A description of the responsibilities of the IT Investment Board;
- Pricing rates for legacy services assumed from the Department of Information Technology and new services created by VITA; and,
- A projected profit and loss statement for internal service funds.

However, we also found that VITA's business plan documents do not provide many of the characteristics found in a well-written business plan. Specifically, it does not contain:

- A clear and concise mission statement;

- A market comparison;
- A customer analysis that identifies VITA customer needs;
- A pricing strategy that includes a description of how VITA calculated their new rates and assumptions made;
- A description of operations that outlines the scope of VITA's operations, how it will deliver their services, what services VITA plans to perform in-house versus outsourcing. Further, the plan does not provide the costs of operating new services;
- A development strategy that describes what work remains to launch VITA's new services, i.e. what are all of the steps that VITA needs to accomplish to get the new services up and running. This strategy is most critical because it provides the road map of how VITA is going to get from where it is now to where it wants to be in the future. It should include a timeline and milestones for implementing the business, which will serve to identify the critical path; and,
- A financial section that includes new services and consists of well-constructed financial information including cash flow projections, a discussion of financial assumptions and funding requirements.

The business plan documents provide a general description of VITA's Directorates and we met with each Service Director to discuss their operations in more detail. Some of the Directorates, such as Human Services, provide support services to other Directorates and its employees. Directorates such as Computing Services work directly with agencies and bill for their services using the internal service fund.

The services VITA will provide are listed in their VITA Service Delivery Customer Workbook. We used the Workbook to prepare a service matrix and supplemented the matrix with information we gained during our Service Director meetings. We identified those services previously performed by the former information technology agencies as legacy services, and those created since July 1, 2003, as new services. Appendix A contains the complete matrix. Below is a portion of the Customer Support Services and Business System Services sections of the matrix.

Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
E-mail & Office Applications	New	Provide provisioning and support for email and office application software to the desktop.	✘	✘	✘	✘
Wireless Handheld Services	New	Provide provisioning and support for wireless handheld PDAs and office connection.	✘	✘	✘	✘
Desktop & On-site Support	New	Provide provisioning and onsite support for desktop equipment. Providing seat management and coordination of service.	✘	✘	✘	✓
LAN Services	New	Provide LAN/WAN equipment provisioning and connectivity within the agency and to the VITA network. The Network Services Directorate will define the platform standards for this new service while Customer Care Services will monitor the LAN/WAN and manage the on-site resources.	✘	✘	✘	✓
Web Portal Management	Legacy	Coordination of VIPNet Service to maintain website portal for the agency.	✓	✓	✓	✓
Web Content Management Support	Legacy	Coordination of VIPNet Web Content Management Service. Providing content management of agency website.	✓	✓	✓	✓
Customer Web Development & Maintenance	Legacy	Coordination of VIPNet service to provide website development, hosting, and maintenance. Providing web access to agency application store through the Internet.	✓	✓	✓	✓

✓ - Fully Exists   ✘ - Partial or Nonexistent

The service matrix demonstrates that VITA has defined standards, operating procedures, and supporting systems for their legacy services. New services are in their initial stages whereby standards, operating procedures, and supporting systems, are generally incomplete or non-existent.

However, we would expect that the new services would have better defined standards, operating procedures and supporting systems since eight months have passed since the enactment of the VITA legislation. For example, VITA just began actively working on the new services billing system design requirements in mid-November after we inquired about how they would handle billing for new services. Although we believe VITA recognized that they would bill for new services, there was no group assigned the specific task of designing and implementing a solution until recently.

Some Directors stated, they have a clear vision of where VITA will be five years from now, but there is no set of planning documents establishing goals, expectations, and task deadlines in achieving this long-term vision. Meanwhile, agencies are consolidating into VITA on schedule; however, none of the initiatives expected to generate significant savings, such as server consolidation, are occurring incrementally.

As an example, VITA has presented to the Board and others that they can achieve significant savings through initiatives that involve the consolidation of agency servers and e-mail systems. We reviewed documents showing that VITA has decided to defer these initiatives and does not plan to begin them until after Fiscal 2006. However, VITA's business plan does not provide this information or timeframes identifying when they expect to implement initiatives. Additionally, we are concerned that VITA management did not involve or inform the Board of their decision to defer initiatives.

This lack of intermediate goals, expectations, and task deadlines tends to slow progress, gives the impression of disorder and increases the risk of implementation problems within VITA. While there is some organization-wide confusion on the general direction of VITA, many of the general concerns are typical of any organization undergoing change.

The legacy services for the most part are initially unaffected by the changes brought about by VITA. If they continue to operate under their existing processes, the legacy services can meet most of VITA's service delivery objectives without much change. However, the new services clearly suffer from a lack of intermediate goals, expectations and task deadlines.

Not only does the business plan have inadequate details for the new services, but it also lacks sound and reliable customer information which impacts VITA's vision and the level of their services. In summary, an inadequate business plan has created internal control risks, left standards incomplete and makes it difficult to reasonably evaluate alternative service delivery means.

Recommendation

VITA's business plan documents are insufficient and do not meet best practices. However, for VITA to complete a business plan for all operations is neither practical nor feasible at this point. Continuing to operate without a usable business plan is also neither practical nor feasible.

Since the legacy operations have existing policies and procedures, we would recommend that VITA's senior management and the CIO complete a business plan for all of the new services.

This business plan should incorporate the following items for the new services;

1. *A market comparison;*

2. *A customer analysis that identifies VITA's customer needs;*

3. *A pricing strategy that includes a description of VITA's new service rates and how they are calculated;*

*4.	A description of operations that outlines the scope of VITA's operations, how it will deliver their service, and what services VITA plans to perform in-house versus outsourcing;*

*5.	A development strategy that describes what work remains to complete and implement VITA's new services, i.e. what are all of the steps that VITA needs to accomplish to get the new services up and running; and,*

*6.	A financial section that includes new services and consists of well-constructed financial information including cash flow projections, a discussion of financial assumptions and funding requirements.*

Of the items listed above, Item 5 is the most critical because it provides the road map of how VITA is going to get from where it is now to where it wants to be in the future. Many of the items above represent work in progress; however, the lack of a clear road map and articulation of the plan to the agencies and legislature adds to the apprehension of where VITA is going.

The CIO and senior management should take the information it has developed, update the plan, and forecast that information forward. With the business plan complete, the CIO and VITA management should present this information to the Board to gain their concurrence.

The Board should receive the business plan and a briefing on all of the critical factors in the plan, along with management's business risk assessment of potential issues. Once adopted, the Board should view the business plan as a way to measure the CIO and management's ability to successfully implement VITA and to hold them accountable.

Supporting Automated Systems

Creating an organization the size of VITA, which expands over time, makes it necessary to have the supporting automated systems in place to provide timely and accurate information to management and, in turn, the Board. Since a clear business plan did not exist, we approached our review of automated systems by again using the service matrix discussed earlier and included in Appendix A. Additionally, we examined all existing administrative systems within the former Department of Information Technology to determine if they had the capability and capacity to support the expanded VITA operations.

Generally, we found that the legacy services have adequate systems to support their operations and bill for services. Administrative systems, with the exception of the budgeting system, have both the capability and capacity to support the VITA operations. However, there is a general lack of supporting systems for new services and, until November 2003, plans to modify existing systems or acquire new systems had not actively started.

VITA bills agencies for the use of legacy services through several billing systems that have existed for many years. The Telecommunications and Networking Directorate uses the TEAMS and TIBS systems to allocate and bill agencies for the use of telephone and long-distance services. The Computer Services Directorate uses the Computer Services Billing System to bill for services such as data center mainframe computing. Our annual financial audit of the former Department of Information Technology tested the internal controls surrounding the generation of bills using these systems and found the controls to be adequate.

As shown in the service matrix in Appendix A, VITA does not have the systems it needs to support many of its new services. For example, desktop computer services will require an inventory tracking of

desktop computers at the various agencies to generate a monthly bill based on established rates. Since VITA has never billed for this service, they must develop a billing system that tracks the location of the asset and applies the proper rate. The tracking system, known as the Asset Management System, will also need to interface to VITA's help desk so that they can track problems to a specific piece of equipment and its related maintenance contract.

For small agencies, VITA can use Microsoft Excel to track agency assets and calculate a monthly bill. However, using Excel to prepare bills for medium and large agencies is not a practical or efficient solution.

Since beginning our review in November 2003, VITA started a project to review solutions that would enable them to bill medium and large agencies. We are concerned that VITA delayed addressing the billing system problem even though they have known for eight months that they would bill for new services. Billing did not become a VITA priority until we raised questions and concerns in this area.

VITA has prepared a high level project plan that includes the general tasks they need to do, along with deadlines, in order to have their asset management and billing systems developed by February 2004. VITA hired a project manager to oversee this project in December 2003 and we have asked to receive the detailed project plan and system requirements once they are available. In addition, we have requested VITA's billing policies and procedures so we can ensure the new system considers them; however, VITA has not finalized their policies and procedures.

We are concerned that VITA is developing systems without defined business rules. This leaves the development team to use their judgment of how the system should work and what business rules to apply. For example, the high level project plan for the asset management system shows the finalization of system requirements in mid-November 2003. However, we found that these requirements did not consider how the system would track and bill for equipment credits, which will be given to agencies for new equipment they have recently purchased.

Senior management has known they would give equipment credits, but never adopted a formal policy of how to calculate the amount and how to apply it to future bills. After we addressed this issue with VITA management, they are now working on a formal policy, but the billing and asset management system requirements must be reviewed and modified based on their decisions. We will discuss VITA's need to adopt formal policies and procedures later in this report.

Below is a discussion of VITA's system needs in more detail:

Asset Management System

VITA needs an Asset Management System with the ability to provide asset life cycle management such as tracking the refresh cycle, maintenance contracts, scheduled maintenance, and repair information. This system needs to interface with new Customer Care system (help desk) so staff can monitor equipment location, and it must also interface with VITA's billing system so that VITA can charge agencies for the equipment use. VITA has an Asset Portfolio System, but it primarily provides an inventory of equipment that resides at agencies and does not capture all of the needed data elements.

Billing System

VITA bills legacy services through several legacy billing systems. VITA is planning to modify the telecommunications billing system as an interim solution for new services and is exploring a long-term solution for a new billing system sometime in the future. Management has scheduled the telecommunication billing system modification for completion in February 2004.

At the December 1, 2003, Board meeting, the Department of Transportation requested that the Board consider allowing them to consolidate into VITA ahead of schedule. The Board agreed to discuss the acceleration at a future board meeting when VITA and Transportation staff had resolved a number of outstanding issues such as how VITA would calculate the equipment credits and whether the Joint Legislative Audit and Review Commission (JLARC) would approve VITA's new service rates. JLARC approved the new service rates with conditions at their December 8, 2003, meeting. Conditions include that VITA must develop equipment and saving credits policies by January 15, 2004, and they must receive the Auditor of Public Accounts' approval of their billing system before accelerating any agencies. The Auditor of Public Accounts has committed to working cooperatively with VITA throughout the systems development life cycle as to minimize any delays in approving the billing system. The acceleration of Transportation cannot occur without the approval of the billing system and the Board's approval; however, VITA's staff is working in hope of approval for consolidation by February or March 2004.

Recommendation

VITA's senior management needs to complete the development of a billing system and ensure that the system can appropriately account for the equipment and saving credits required by the JLARC approval of the rates.

Budgeting System

VITA needs a budgeting system that interfaces with their accounting system, payroll system, and the Asset Management System. The existing budget system, called BERT, is non-operational and VITA does not have in-house staff with the knowledge to support its programming language. VITA's accounting system allows VITA to budget at a high-level; however, it cannot facilitate multi-year budgets or budgeting at the level of detail used by VITA in evaluating and monitoring their billing rates. For example, the Budget Branch uses data at a detailed level to run models that project the impact of increases and decreases to components of the billing rates.

Staff have historically developed the budget in BERT and up-loaded it into the accounting system in summary. Subsequent changes to the budget resulted in staff making changes manually in both systems. The last budget prepared included only the consolidation of the former information technology agencies. Since the BERT system is broken, VITA has not been performing any detailed monitoring or analytics on the current year budget-to-actual or the rates for old and new services. In addition, VITA has not budgeted the cost of consolidating agencies.

As an interim solution VITA has hired a contractor to fix BERT and is in the beginning phase of developing new system requirements. Without a functioning budget system, VITA cannot properly develop budgets that coincide with expected revenue, perform thorough rate analysis, or monitor expenses at the required level of detail.

Recommendation

VITA should continue to focus efforts on fixing BERT quickly so VITA will have the required information to make informed recommendations regarding funding needs to the Board and JLARC. Without this information, everyone is forced to make decisions based on data that does not contain the level of reliability and precision they need.

VITA should also continue their effort to develop a new budgeting system based on a modern programming language that is not difficult to support. The new budgeting system should interface

with VITA's accounting system to allow for monitoring of detailed budgets by managers, to use electronic triggers for overspending against a budget, and improve efficiency and reduce the likelihood of errors caused by the double keying of subsequent budget adjustments.

The new budgeting system should allow for downloading prior year transaction summaries to use in future budget development. Further, it should interface with the Asset Management System to allow for the budgeting of equipment refreshing, license renewal, and equipment maintenance expenses. An interface with the payroll system is also necessary in order to obtain detailed salary and wage information by employee, billing element, and cost center.

Internal Controls Over Business Processes

Internal controls are the policies and procedures that an organization has to protect and safeguard its assets. In governmental entities, these internal controls extend into stewardship and accountability for the use of resources provided either directly or indirectly to an organization. The ultimate steward at VITA is the Board.

We did not have the time during this review to audit and test VITA's internal control structure. For purposes of this report, we reviewed the internal controls over the various business processes by using the service matrix in Appendix A, the anticipated processes and controls within the administrative functions and a general assessment of risks to VITA and the Board.

General Observation about Internal Controls

Good systems of internal control have the following three components.

1. Management attitudes and actions;

2. Policies and procedures, based on risk to the organization and the costs of implementing those controls; and,

3. Formal and informal reviews, enforcement and improvement.

Rapidly growing organizations often must depend on using existing personnel to achieve internal control and set the organization's expectations on how new employees should act within their new environment. Further, these types of organizations depend heavily on senior management to set the tone for how management and the organization expect employees to act.

All of management's expectations should center on core policies and procedures that are fundamental to the organization's objectives and goals. Management must articulate and consistently follow and enforce these expectations and train new personnel about the expectations.

Finally, as with any organization, management must inform its governing body of not only the actions it has taken to provide sound and effective internal controls, but what risks or problems the organization faces. The governing body should be an active participant in the development and consideration of how the organization addresses these risks and challenges.

Observations about VITA's Internal Control

Generally within the existing VITA structure there are sound internal controls over the existing administrative and legacy service systems. While we believe the administrative systems can expand to absorb additional personnel and transactions, without an effective business plan, we cannot predict if the staffing levels are sufficient, particularly in the areas of finance and accounting.

Because of the lack of systems and policies and procedures, it is also not possible to evaluate the adequacy of internal controls for new systems. However, the adoption and modification of an existing billing system should allow management to structure controls around that system using existing policies and procedures and incorporate only those new policies and procedures that are required for the new services.

In addition to normal operating processes, the Board needs to directly address the internal controls over two areas that can immediately affect the Board and, more importantly, VITA's methods of operation. The first area involves the method and procedures that the Board and staff will use to evaluate proposals submitted under the Public-Private Education Facilities and Infrastructure Act. The second area involves the method that VITA will use to determine and account for savings that go into the Virginia Technology Infrastructure Fund.

Public-Private Education Facilities and Infrastructure Act

The Private-Public Educational Act (PPEA) allows private companies to submit unsolicited proposals to provide services to state agencies. VITA has already received and begun reviewing several of these proposals to outsource services VITA provides to state agencies. The Board should be an integral part of setting the review criteria for PPEA's. Several other governing boards, including the Commonwealth Transportation Board, have already directed the development of criteria for review of these proposals at their agencies.

The Board needs to consider how a proposal fits into VITA's business plan and the impact of some of the existing criteria, such as the "no net lay-off policy" applicable to employees transferring to VITA. Public-private partnerships offer the Commonwealth and VITA a number of important options; however, the Board and not the VITA staff or CIO should identify those options within the criteria they set.

Virginia Technology Infrastructure Fund

The VITA legislation created the Virginia Technology Infrastructure Fund where VITA will deposit savings from initiatives for use on other information technology projects as the Board deems appropriate. The Board has made no decision regarding how it will establish a baseline to define and measure savings. However, according to the legislation, the Board and the Secretary of Finance shall approve the methodology.

Fundamental to the Board's operation is capitalizing and recognizing savings to fund the Virginia Technology Infrastructure Fund. The VITA billing process and cost containment opportunities could provide the Commonwealth with needed capital for systems and the technology infrastructure. The Board needs to have staff develop and implement policies and procedures to capture and set aside these savings to fund these needs.

Recommendation

The Board should direct the CIO and VITA staff to begin developing the criteria and process for reviewing and considering proposals under the Public-Private Education Facilities and Infrastructure Act. VITA staff should show how their process compares to other existing criteria used

by other boards and agencies and how any and all operating constraints are part of the consideration. Finally, the Board along with VITA staff should develop a mechanism to consider PPEA's within VITA's business plan.

In addition, the Board should direct VITA staff to develop a methodology for calculating savings to fund the Virginia Technology Infrastructure Fund. After it is developed, the Board should review and approve the methodology.

Providing Internal Control Oversight

VITA has included a Director of Audit and Management Services in their operating plan, which will report directly to the CIO. Since audit reports may contain criticism of management, this organizational structure may stifle the communication of this information to the Board. The Audit Director should report to the Board in order to eliminate this independence issue. The CIO can request the Audit group to perform special projects, but the CIO should not be able to control the communication of findings and results to the Board.

Recommendation

The Board should hire an Audit Director as soon as possible and require him to report directly to the Board. The Board should also be responsible for approving the audit work plan. If the organizational structure is modified as we recommend, the audit function will be able to provide the Board unbiased updates on the VITA implementation and will also be able to provide constructive feedback to VITA management concerning implementation and internal control issues.

Impact of Data Reliability

Data reliability is an issue at VITA. Estimates, forecasts, and rates prepared by VITA use information collected from state agencies under a process VITA has termed "due diligence." VITA obtained this due diligence data by sending surveys to agencies requesting they provide certain information.

The surveys identified hardware, software, and potential employees; however, VITA did not inform the agencies of the data's use or its importance. When VITA prepared the survey, VITA management had not determined what services VITA would provide, nor determine what data would be necessary to prepare rate projections and perform accounting transactions.

VITA used these surveys to determine which employees would transfer from the agencies to VITA. VITA is operating under a no net lay-off policy, which will require VITA to transfer about 890 information technology employees from executive agencies over the next year. VITA assigned these transition employees to a division cost center corresponding to their job duties as reported in the due diligence data. Of the approximately 890 employees, 278 remain unassigned to a division mostly because VITA could not determine where the employees spent the majority of their time.

The data reliability problems have resulted in VITA having to spend significant resources to validate the information. For example, some agencies only listed equipment purchased within the last 3 years, while others included all equipment. Also, one agency reported a server bought in 1992 for $41 million and another agency reported peripheral expenses of $28 million, which really should have been $500,000. While VITA staff can easily correct the blatantly wrong information, a complete validation of the data has been slow and sporadic. Despite the fact that the data is incomplete and unreliable, it has been the best source VITA has to compute their operating expenses and set rates. The data's unreliability results in questionable estimates, forecasts, and rates.

Impact on Rate Development

Service rates were developed using the due diligence data to project future expenses for each service. JLARC approved these rates on December 8, 2003. Because of the unreliability of the underlying data used for these rates and their effect on the profit and loss projections, JLARC approved the rates with the following conditions:

1. The rates shall be effective from November 1, 2003, to September 30, 2004;

2. VITA shall develop and promulgate a policy for implementation of equipment and savings credits by January 15, 2004;

3. VITA shall not negotiate reduced rates, discounts, or variations from the approved rates with individual agencies;

4. VITA shall not accelerate from the statutory schedule the consolidation of any agencies prior to the development and deployment of a billing system that has been certified by the Auditor of Public Accounts to have appropriate audit systems and internal controls; and

5. VITA shall provide each month to the Joint Legislative Audit and Review Commission and the Auditor of Public Accounts a report on profit and loss showing actual retained earnings.

Recommendation

Since VITA will need to obtain JLARC's approval for rates by September 30, 2004, VITA management should develop a process to review and correct the "due diligence" information by March 31, 2004. While a complete detailed review is not practical, management should determine what key information is necessary to provide the most accurate rate information, which should carry VITA into and through the large agency transfers.

Impact on Profit and Loss Projections

After setting the rates for new services, VITA prepared a profit and loss projection for their internal service funds to show the impact of the new services on their retained earnings. We reviewed the projection to assist JLARC in approving the new service rates. A summary of this projection is below.

	Fiscal 04	Fiscal 05	Fiscal 06
Revenue:			
Current services	$ 117,498,286	$ 119,999,314	$ 123,207,291
New services	22,396,854	129,271,584	155,140,602
Total revenue	139,895,141	249,270,898	278,347,893
Expenses:			
Current services direct expenses	105,255,368	106,251,573	107,868,841
New services direct expenses	19,337,453	111,663,719	134,016,367
Indirect expenses	23,631,107	29,507,661	33,046,486
Total expenses	148,223,927	247,422,954	274,931,694
Profit/(loss)	(8,328,787)	1,847,944	3,416,199
Start-up costs	(3,950,000)	-	-
Retained earnings, July 1	26,362,876	14,084,089	15,932,033
Retained earnings, June 30	$ 14,084,089	$ 15,932,033	$ 19,348,232

As shown in this profit and loss schedule, management is projecting a decrease in retained earnings from $26 million to $19 million over the next biennium. Historically VITA has required no less than 60 days worth of revenue in retained earnings in order to pay large bills, such as the state phone bill, as they become due. At the end of Fiscal 2003, VITA had about 70 days of revenue in retained earnings. However, by Fiscal 2006, VITA projects having only about 20 days in retained earnings. We have concerns that VITA will experience significant cash flow problems by Fiscal 2005 and may need to request a treasury loan of $25 million. We cannot determine how VITA would repay the treasury loan.

Additionally, we have concerns about the accuracy of the profit and loss projection. There are two assumptions in the profit and loss information, which could result in lower retained earnings and the need for an increased treasury loan:

- The projected revenue appears overstated by approximately $3 million in Fiscal 2005 and $5 million in Fiscal 2006. The overstatement occurs by including telecommunication service revenue as both old and new services. Under VITA's structure, this legacy service is now a new service.

- VITA has potentially underestimated expenses by up to $18 million for Fiscal 2004 through Fiscal 2006 because VITA assumes they will receive General Fund appropriations for some of its expenses. VITA is currently incurring operating costs for items covered by this General Fund amount such as its help desk software. VITA has not included these costs in either their rates or the expenses shown in the profit and loss information.

While VITA has only requested General Fund appropriations to cover $8 million of this $18 million in Fiscal 2005, until the Governor and the General Assembly act on the budget there is no guarantee that VITA will receive any General Funds or the full amount requested. Even if VITA does receive its requested funding for Fiscal 2005, there has been no funding request for an additional $7 million in Fiscal 2006.

Recommendation

The Board should have the VITA staff provide a revised profit and loss projection, which corrects the assumptions discussed above. The Board should also have the staff begin preparing and providing the Board with monthly financial information that includes not only the internal service fund information shown in the profit and loss projection, but the entire funding of VITA. These projections and monthly financial information should show the effects of not receiving future funding.

The Board should have VITA staff modify the projections to reflect any future budget adjustments as they occur. Also, since the profit and loss projection coupled with the due diligence information will form the core data for the revised service rate requests, VITA staff should provide the Finance Committee and potentially the entire Board a briefing on VITA's financial status.

Impact on Privatization Evaluations

Private-Public Educational Act (PPEA) allows private companies to submit unsolicited proposals to provide services to state agencies. VITA has already received several of these proposals to outsource services VITA provides to state agencies. Without reliable data, VITA cannot properly develop rates and forecasts to evaluate the financial impact of a PPEA proposal versus providing similar services in-house. Also, VITA will be unable to compare proposed services in a PPEA proposal to services VITA intends to provide since, as mentioned previously in the report, VITA does not have a sufficient business plan, policies and procedures, and standards. If VITA accepts a PPEA proposal, they run the risk of contracting for services that appear reasonable, but that in reality VITA may be able to provide at less cost.

Recommendation

We recommend that the Board direct the CIO and VITA staff to obtain accurate and reliable financial information for use in comparing PPEA proposals to VITA's cost of providing the services in-house. VITA and the Board must implement this recommendation in conjunction with the previous recommendation concerning PPEAs. If VITA staff base their PPEA evaluations on the current data, they may accept proposals that are not financially advantageous to the Commonwealth.

Impact on Saving for the Technology Infrastructure Fund

The VITA legislation created the Virginia Technology Infrastructure Fund where VITA will deposit savings from initiatives for use on other information technology projects as the Board deems appropriate. The Board has made no decision regarding how it will establish a baseline to define and measure savings. The VITA legislation requires VITA to develop a methodology for identifying savings. According to the legislation, the Board and the Secretary of Finance shall approve the methodology. VITA has not developed this methodology; however, they reported projected savings to the Department of Planning and Budget related to nine initiatives of approximately $10 million for Fiscal 2004 and projected savings of approximately $16 million in Fiscal 2005 and 2006. Planning and Budget may use these projected savings to reduce appropriations of agencies that will benefit from the savings. If reported savings are inaccurate or not realized, agencies may have to cut program activity because they have lost appropriations.

VITA has developed a Cost Savings Tracking Tool, which is an excel spreadsheet, to track savings generated from VITA. The spreadsheet identifies potential cost savings initiatives and their initial costs, on-going investment costs, gross savings, net savings for Fiscal 2004 through 2006, and on-going savings. Staff have also classified the initiatives as to whether it is a cost savings, cost avoidance, or productivity gain. The tool includes 49 initiatives, of which 12 have been terminated, 28 have been deferred due to the initiative either not being started or not having enough information, and nine are currently being reported as providing

savings. This tool shows savings related to the nine reportable initiatives at $8.9 million for Fiscal 2004 and $13.5 million in Fiscal 2005 and 2006.

VITA has not developed policies and procedures to determine how cost savings initiatives are analyzed or tracked. VITA assigned each of the initiatives an operational manager who is responsible for reporting on their initiative to the tracking tool; however, VITA has not given guidance to the managers on how to monitor or track savings. We also found that VITA is not analyzing initiatives to determine whether reported estimated savings amounts are reasonable before moving forward with implementation of the initiative or reporting the savings.

We could not confirm whether all of the projected savings reported to Planning and Budget or in the cost savings tracking tools are correct. Given our concerns over the accuracy of due diligence data, we are skeptical about any of VITA's claimed savings. Further, VITA has claimed estimated savings in the past and agencies have had their appropriations reduced as a result of the claims. VITA must now develop a process to return appropriations to agencies as a condition of JLARC's rate approval.

Recommendation

VITA staff should develop a methodology to include policies and procedures to analyze costs and proposed savings before placing an initiative into development and to monitor on-going costs and savings during implementation. After developing a methodology, VITA staff should obtain approval for the methodology from the Board and the Secretary of Finance. VITA should also develop a method to monitor the true on-going savings and costs throughout the implementation of the initiative to ensure VITA realizes and captures the projected cost savings.

Further, until the Board approves a methodology and VITA validates due diligence data, both the Administration and the Legislature should exercise professional skepticism of any projected savings provided by VITA before using them as a basis to reduce agencies appropriations.

Controlling Overhead Costs

We have compared the overhead for VITA's first four months of operations to overhead for the three former information technology agencies last year. Overhead represents shared costs between all cost centers and it has an impact on the rate calculations. Overhead costs include costs that are not directly attributable to a service. Examples of overhead include costs related to procurement, finance, administrative, and executive staff including their salaries and benefits, their computers and office furniture, and rent for their office space. VITA estimated that new services will cost about $21 million in overhead when consolidation is complete in Fiscal 2006 and they used this amount in calculating their service rates. However, VITA was unable to provide details of the types of items included in this amount, and therefore, we do not know whether it is accurate or reliable.

By the end of Fiscal 2004 we expect VITA's overhead to increase between $2.4 million to $2.9 million over last year, depending on when VITA fills open executive level positions. Nearly $1 million of the overhead increase is attributable to new executive level positions that the legislation and VITA created. These positions include the new Chief Information Officer, Chief Security Officer, and Chief Financial Officer, to name a few. There are also overhead increases associated with office space and furnishings for the executive positions at the new VITA headquarters.

As mentioned earlier, VITA is operating under a no net layoff policy and has currently identified 890 staff that will transfer to VITA as agency consolidations occur. If VITA is unable to use some of these staff to work directly on services, they will absorb the excess staff into their overhead, which results in higher

service rates. As VITA begins the consolidation of medium size agencies in January and possibly the Department of Transportation ahead of schedule, there is the potential that unassigned staff could emerge as a major overhead issue during fiscal year 2004. If VITA does not change their no net layoff policy or find alternative uses to make excess staff productive, we believe the $2.9 million annualized increase in overhead could grow significantly higher.

Recommendation

In an effort to provide services to agencies at the lowest possible prices, the Board should re-evaluate the no reduction in force policy. The Board should direct VITA to only absorb additional staff when specifically needed and also identify opportunities for staff reductions as part of their detailed business plan development. Further, VITA should work with the Department of Human Resource Management to find alternatives to layoffs for staff VITA identifies as unnecessary. Personnel expense is one of the largest components of VITA's service rates and is controllable. VITA must be innovative in identifying alternatives to deliver services while keeping the personnel expense component as low as possible.

Further, the Board should direct VITA staff to provide details of the components of their overhead and develop plans to control or reduce these costs in an effort to reduce service rates. Without knowing what makes up the overhead amounts, it is impossible for VITA or the Board to identify ways they can reduce them. VITA should closely monitor the increases in overhead and recommend actions to the Board to reduce these costs if the service revenue is insufficient.

Complying with Federal and State Rules, Regulations and Statutes

A significant portion of the Commonwealth's overall funding comes from Federal grants and contracts. During Fiscal 2004, Federal grants and contracts will amount to $3.7 billion of operations or about 15 percent of the total budget. The Federal government places restrictions on how the Commonwealth can use these resources and what constitutes a proper charge against a grant or contract.

Several of the Commonwealth's larger agencies receive an even more significant portion of their funding from Federal grants and contracts. These agencies will also be some of VITA's largest customers in the future. One of the Federal spending regulations is that all internal service funds uniformly charge their customers for the same services. While internal service funds may have different service levels and related rates, the Federal government places the burden of showing that there is a difference of service on the internal service fund; otherwise, the lowest rate charged is the amount the Federal government pays.

Our review found several areas where VITA, if not cognizant and diligent, could jeopardize the Commonwealth's Federal funds. Many agencies use Federal matching funds to pay their operating costs and VITA's services represent a typical expense for which these funds are used. The Federal government has issued strict guidelines regarding the use of the funds designed to protect the Federal government and ensure they pay only their fair share of costs. Specific areas where VITA must be attentive include: rate setting and billing, equipment credits, savings credits, and remediation costs.

VITA received approved rates for new services on December 8th and will begin charging agencies. Since VITA is an internal service fund, the rates represent VITA's cost of providing services to all participating agencies and the rates are the same for all users. The Department of Social Services, a recipient of significant Federal funds, recently compared the cost of VITA services to their annual in-house cost of operations. Social Services expects that VITA will cost them $10 million more annually than providing the services in-house. This increase is partially because VITA intends to purchase higher grade computers than Social Services typically needs and also replenish the computers more often.

We have two concerns. First, Social Services may need to justify the increased cost of computing to Federal program managers; whereas, in the past they determined that the computing platform was adequate. The Federal government could potentially refuse to incur the additional VITA expenses unless it is demonstrated that it improves delivery of the services or improves security that could not be obtained using the existing computing platform. Second, Social Services has previously determined that their computer platform is adequate using computers for five years, and now they must justify that a four year replenishment cycle is required.

VITA staff said that they may need to negotiate a separate rate for Social Services using a less advanced computer and a longer replenishment cycle. However, VITA cannot negotiate a separate rate for agencies because they must use the JLARC approved rates. Another option would be to exempt Social Services from using VITA services and continue to operate in-house. Charging agencies different rates or allowing agencies to be exempt affects the cost sharing of other agencies and may result in questioned Federal costs that could jeopardize the Commonwealth's receipt of Federal funds.

Further, if VITA granted one exemption then they would need to develop a policy whereby other agencies could receive a similar exemption. This would result in the need to increase rates for agencies that use VITA because there would be fewer agencies participating in the cost sharing of certain fixed costs, such as VITA overhead.

Recommendation

We recommend that the Board require VITA to use only the JLARC approved rates and to refuse to grant agency exemptions. Instead, VITA should work to identify ways to reduce the cost of their operations so the rates are competitive, meet the needs of the majority of Commonwealth agencies, and are not more sophisticated than necessary to get the work done efficiently. VITA should evaluate the level of computing sophistication needed by agencies and establish a computing standard. They should also study the optimum replenish cycle necessary to satisfy agency needs and determine if revising the current four year cycle is appropriate.

As mentioned earlier in this report, VITA does not have policies and procedures related to billing for new services. Specifically, they have not finalized the following areas:

- How they will bill for new services;

- How they will give agencies credit for equipment that was purchased within the past 3 years and will be used by VITA;

- How they will give agencies credit for estimated VITA savings taken from agency budgets during fiscal year 2004 but that never materialized; and,

- How they consistently identify and track expenses incurred to bring agencies up to a minimum standard before consolidating into VITA. This policy should also include a definition of the standard for each piece of equipment so the policy can be consistently applied by the staff performing remediation work.

Each of these policies and procedures could impact Federal funds since they all affect what amount agencies will pay. We have discussed with VITA staff the need for policies and procedures in each of these areas and that the need to consistently apply the policies. Failure to develop fair and equitable policies could affect Federal funds and result in agencies having questioned costs.

Recommendation

We recommend that VITA consistently apply their policies and procedures relative to billing, equipment credits, savings credits and remediation costs once they are developed. Granting agency exceptions or inconsistent application of their policies could jeopardize Federal funds.

As noted in previous JLARC reports, the Department of Transportation (VDOT) has been augmenting VITA staff for several months to perform due diligence verification, small agency remediation, and help desk services. VDOT has a statewide presence due to their regional offices and can assist small agencies located outside of Richmond. Both JLARC and the APA have raised concerns about the use of transportation funds for VITA's implementation and recommended that VITA pay VDOT for expenses they incur. VITA staff has assured both JLARC and the APA that VITA will repay VDOT; however, we found no payments to date. VITA has indicated that VDOT is working on their billing process and we can discuss it with them in the near future. We are concerned that this issue remains unresolved.

Recommendation

We recommend that the Board require VITA staff to vigorously pursue and resolve the repayment of VDOT for the use of their staff and resources. VDOT has limited financial resources and the Code of Virginia is very specific about the use of these funds. Inappropriate use could result in state compliance issues.

Appendix A – VITA Service Matrix

Directorate	Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
Business Services	Enterprise Application Development & Maintenance	New	Assist to provide business goals and business solutions to meet those goals.	✗	n/a	n/a	✗
	Strategic Development Services	New	Assist in development of IT Strategic goals, assist in the management of major IT projects, and conduct Total Cost of Ownership (TCO) studies. This group coordinates VITA's strategic plan.	✗	n/a	n/a	✗
	Customer Application Development & Maintenance	Legacy	Provide custom full life cycle systems development and provide production maintenance.	✓	✓	n/a	✓
	Customer Billing Services	Legacy	Assist agency customers with billing issues and requests, setup accounts, handle credit adjustments to standard bill.	✓	✓	n/a	✓
	System Integration Services	Legacy	Provide integration services to meet agency goals and Commonwealth strategic goals.	✓	n/a	n/a	✓
Computing Platform Services	Server Support	New	Provide Agency with UNIX and Windows operating system administrative support, including deployment, security, server management, and VITA infrastructure connectivity. This could be done through managing servers at agency sites or by moving servers to a central data center. Agencies will be billed a flat rate per server.	✗	✗	✗	✗
	Enterprise Backup & Recovery	Legacy	Provide backup and recovery services for Commonwealth of Virginia agencies to backup and restore crucial data for open systems servers that are supported by the VITA Data Center. Data is backed up to a dedicated centralized and secure tape storage library and enables both onsite and offsite storage services.	✓	✓	✓	✓

✓ - Fully Exists   ✗ - Partial or Nonexistent   n/a - not applicable

Directorate	Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
	Mainframe Services	Legacy	Provides mainframe and server operations and monitoring, scheduling, tape handling, and performing customer service for Commonwealth of Virginia agencies. Billing per established rate of CPU time for processing or space for tape and disk storage. This rate has not changed	✓	✓	✓	✓
Computing Platform Services - continued	Print Services	Legacy	Provide print service requirements from mainframe resources through data center high volume printers and low volume agency directed local printers. Although this service is not new, VITA will be taking over operations, and possibly centralizing the individual agency print shop activities related to mainframe printing. A set rate is charged per 1,000 lines of printing. Rate has not changed.	✓	✓	✓	✓
	Enterprise Storage	Legacy	Provide server network and array storage access and availability on an agency requested basis.	✓	✓	✓	✓
Network Services	VITA Data Center Access	Legacy	Provide connectivity for access to VITA data center and other State entities through frame relay, ATM, SNA, dial-up, and dedicated services using TCP/IP protocol. This is done by managing a contract with MCI to provide the wide area connectivity to the data center. VITA determines which service is appropriate and then orders the service and manages the billing for the service.	✓	✓	✓	✓
	Internet	Legacy	Provide Internet access through competitive bid State contract with MCI and VISINET. VITA manages the contracts by ordering the appropriate service (dial-up, dedicated line, WAN), with the most cost effective vendor meeting the customer's needs. There is no charge for Internet service to telecommunications customers.	✓	✓	✓	✓

✓ - Fully Exists   ✗ - Partial or Nonexistent   n/a - not applicable

Appendix A – VITA Service Matrix

Directorate	Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
	WAN Equipment & Services	Legacy	Provide WAN equipment through contract or lease and provide connectivity through MCI or Verizon. The wide area network equipment is provided through contract and VITA leases the equipment back to the agency. Installation and maintenance are included in these contracts. VITA manages the contracts by ordering the appropriate service. Most network connections are charged the vendor charge plus an established percent for overhead. COVANET is a flat rate service available across the State of Virginia. Equipment rates are set based on the vendor charge for the equipment plus an established percent for overhead. No change in rates.	✓	✓	✓	✓
Network Services - continued	Virtual Private Network (VPN)	Legacy	Provide statewide connectivity with triple DES encryption capability. VITA holds a managed VPN through MCI and it can be either dial-up or branch-to-branch. MCI has partnered with Nortel to provide the connectivity network equipment.	✓	✓	✓	✓
	Consulting and Engineering Services	Legacy	Network (Data) consulting and engineering services are user support services offered by VITA to provide analysis and design of proposed data network communications system for wire line and wireless. VITA engineers perform research to develop recommendations for enhancements, expansions and consolidations of data network communications systems.	✓	✓	n/a	n/a
Video Services	Satellite Services	Legacy	Provide satellite space on a per hour basis rate for video events. Scheduling is through VITA Help Desk. The satellite service provides discounted rates for satellite space segment for video events. VITA holds several contracts with satellite space segment re-sellers. VITA manages the contracts by scheduling satellite events for customers with the appropriate, most cost-effective vendor. Satellite services are sold to customers, billed on a per hour basis. Nationwide and international coverage.	✓	✓	✓	✓

✓ - Fully Exists   ✗ - Partial or Nonexistent   n/a - not applicable

Appendix A – VITA Service Matrix

Directorate	Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
	Audio Visual Aids	Legacy	Provide audio visual equipment on a scheduling basis for meetings and conferences. Provide the following services: electronic white board, overhead projectors, PC LCD projectors, TV's and VCR's, flip chart stands, and speaker phones.	✓	✓	✓	✓
	Video Bridging Equipment Services	Legacy	Provide video bridging for regional or statewide video conferencing and broadcasting. Video bridging services provide connectivity for multipoint video conferencing among end-user video facilities statewide. Transmission technologies may include COVANET ATM, Network Virginia, IDS, and video over IP, all using video bridging equipment.	✓	✓	✓	✓
Video Services - continued	Video Production	Legacy	Provides all resources for producing video tapes for training, education and information dissemination, including staff, equipment, materials, and editing capability. Video production services support customer needs for videotape products, and can use the Executive Teleconference Center (ETC) as a studio for video taping elements of a video project. If appropriate for a project, staff will go into the field with video equipment to gather video components, then compile the components into a finished product for the customer using video editing equipment. Services and costs will be defined through a customized Memorandom of Agreement. This service currently brings in a minimal amount of revenue.	✓	✓	✓	✓
	Video Conferencing	Legacy	Provide video conferencing and broadcasting services through the Executive Teleconferencing Center (ETC) generally via satellite. A successful video conference takes a little more time and effort to arrange than an audio conference. VITA staff provide help and advice on all of the different available options. Video meeting services include: video origination, TV studio, satellite network coordination, receive site facilitation, desktop video meeting room, video bridging service, and video services consultation.	✓	✓	✓	✓

✓ - Fully Exists   ✗ - Partial or Nonexistent   n/a - not applicable

Appendix A – VITA Service Matrix

Directorate	Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
Desktop & End-User Services	E-mail & Office Applications	New	Provide provisioning and support for email and office application software to the desktop.	✗	✗	✗	✗
	Wireless Handheld Services	New	Provide provisioning and support for wireless handheld PDAs and office connection.	✗	✗	✗	✗
	Desktop & On-site Support	New	Provide provisioning and onsite support for desktop equipment. Providing seat management and coordination of service.	✗	✗	✗	✓
	LAN Services	New	Provide LAN/WAN equipment provisioning and connectivity within the agency and to the VITA network. The Network Services Directorate will define the platform standards for this new service while Customer Care Services will monitor the LAN/WAN and manage the on-site resources.	✗	✗	✗	✓
e-Government Services	Web Portal Management	Legacy	Coordination of VIPNet Service to maintain website portal for the agency.	✓	✓	✓	✓
	Web Content Management Support	Legacy	Coordination of VIPNet Web Content Management Service. Providing content management of agency website.	✓	✓	✓	✓
e-Government Services - continued	Customer Web Development & Maintenance	Legacy	Coordination of VIPNet service to provide website development, hosting, and maintenance. Providing web access to agency application store through the Internet.	✓	✓	✓	✓
Knowledge Systems Services	Geographic Information Systems (GIS)	New	Provide data information repository about data maintained by numerous sources. Providing location of data about municipal boundaries, geographic layers, natural resources, etc.	✗	✗	✗	✗
Voice Services	Cellular Services	Legacy	Provide wireless telephone service throughout a majority of the Commonwealth. Providing regional and nationwide service plans and support.	✓	✓	✓	✓
	Audio Bridging	Legacy	Provide premise based audio conferencing equipment in support of telephone conferencing.	✓	✓	✓	✓
	Local Access Services	Legacy	Provide wire line telephone service throughout the majority of the Commonwealth. Providing analog and digital service and support.	✓	✓	✓	✓
	ISDN & Key System Services	Legacy	Provide telephone equipment to support service throughout the Commonwealth. Providing key systems, ISDN, and ISDN Centrex equipment service and support.	✓	✓	✓	✓

✓ - Fully Exists   ✗ - Partial or Nonexistent   n/a - not applicable

Appendix A – VITA Service Matrix

Directorate	Service Name	Legacy or New	Description	Polices and Procedures	Support Systems	Platform Standards	Performance Standards
	Long Distance Service	Legacy	Provide inbound and outbound toll traffic for domestic and international calls. Providing calling cards, enhanced call routing, and support.	✓	✓	✓	✓
	Voice Services Other ACD, IVR, Voicemail	Legacy	Provide customized enhancements to telephone systems throughout the Commonwealth.	✓	✓	✓	✓
	Paging Services	Legacy	Provide wireless paging service throughout a majority of the Commonwealth. Providing local, statewide, and nationwide service plans and two-way paging and support.	✓	✓	✓	✓
	Nextel Service	Legacy	Provide wireless telephone service within the Nextel coverage areas. Providing both US and International service plans and support.	✓	✓	✓	✓
	Voice Consulting & Engineering Service	Legacy	Provide analysis and design of proposed voice communications system both wireline and wireless. Providing research and develop recommendations for enhancements, expansions and/or consolidations of voice communications systems.	✓	✓	✓	✓
	Two-way Radio Equipment	Legacy	Provide radio communications and support throughout the Commonwealth. Users must have FCC license to purchase equipment.	✓	✓	✓	✓
Voice Services - continued	E911 Services	Legacy	Provide both wireline and wireless 911/E911 service throughout the Commonwealth. Providing funding assistance, system design and end user support.	✓	✓	✓	✓
	State Directory Service	Legacy	Provide directory assistance services through VITA state operator staff utilizing ACD telephone equipment. Providing value added directory information to Commonwealth citizens, legislators, and state and local agencies and institutions.	✓	✓	✓	✓
	Radio Licensing	Legacy	Provide two-way radio service within the Commonwealth. Providing FCC application process, site review and engineering, propagation studies, system design and support.	✓	✓	✓	✓

✓ - Fully Exists   ✕ - Partial or Nonexistent   n/a - not applicable

Recommendation 1

The Board should work with the Chief Information Officer to explain its expectations on the consideration and deliberation of policy matters. The Board and the CIO should also establish how and when the individual Board committees will receive and consider information and how the Board committees will report to the full Board. Additionally, the Board should establish a mechanism whereby Board members may participate in developing meeting agendas along with governing rules that provide sufficient information and time to consider any proposals and recommendations.

Recommendation 2

By the Board using VITA's business plan as its initial tool, we believe the Board can strike a balance between exercising its supervisory duties and overseeing VITA without becoming overly involved in VITA's daily operations. Prior to adopting the business plan, the Board should require VITA management to address the findings in this report and develop some of the policies and procedures that will affect operations, such as the guidelines for considering privatization proposals.

VITA management should also provide the Board a summary of its performance compared to the business plan and, at least twice a year, indicate issues or matters that the Board should consider adopting within the business plan. Finally, the Board and management should develop a regular cycle to review and update the business plan on a more permanent basis, such as once every three to five years.

Further, we recommend that the Board should not approve VITA to accelerate the consolidation of any large agencies until they have a business plan, policies and procedures, and have adequately addressed the findings in this report. The purpose of the incremental consolidation of agencies into VITA was to give VITA the time required to build their controls and systems and test them on the small, then medium and finally large agencies. There was a recognized risk of failure from implementing the large agencies before processes, controls, and underlying systems were in place.

Finally, the Board needs to consider and incorporate into the business plan some long term goals and objectives concerning technology in the Commonwealth. This last consideration should elicit the advice and opinions of state agencies and institutions, the Administration, Legislature and public concerning what systems and technologies would best serve the Commonwealth.

Recommendation 3

VITA's business plan documents are insufficient and do not meet best practices. However, for VITA to complete a business plan for all operations is neither practical nor feasible at this point. Continuing to operate without a usable business plan is also neither practical nor feasible.

Since the legacy operations have existing policies and procedures, we would recommend that VITA's senior management and the CIO complete a business plan for all of the new services.

This business plan should incorporate the following items for the new services;

     1.   A market comparison;

     2.   A customer analysis that identifies VITA's customer needs;

3. A pricing strategy that includes a description of VITA's new service rates and how they are calculated;

4. A description of operations that outlines the scope of VITA's operations, how it will deliver their service, and what services VITA plans to perform in-house versus outsourcing;

5. A development strategy that describes what work remains to complete and implement VITA's new services, i.e. what are all of the steps that VITA needs to accomplish to get the new services up and running; and,

6. A financial section that includes new services and consists of well-constructed financial information including cash flow projections, a discussion of financial assumptions and funding requirements.

Recommendation 4

VITA's senior management needs to complete the development of a billing system and ensure that the system can appropriately account for the equipment and saving credits required by the JLARC approval of the rates.

Recommendation 5

VITA should continue to focus efforts on fixing BERT quickly so VITA will have the required information to make informed recommendations regarding funding needs to the Board and JLARC. Without this information, everyone is forced to make decisions based on data that does not contain the level of reliability and precision they need.

VITA should also continue their effort to develop a new budgeting system based on a modern programming language that is not difficult to support. The new budgeting system should interface with VITA's accounting system to allow for monitoring of detailed budgets by managers, to use electronic triggers for overspending against a budget, and improve efficiency and reduce the likelihood of errors caused by the double keying of subsequent budget adjustments.

The new budgeting system should allow for downloading prior year transaction summaries to use in future budget development. Further, it should interface with the Asset Management System to allow for the budgeting of equipment refreshing, license renewal, and equipment maintenance expenses. An interface with the payroll system is also necessary in order to obtain detailed salary and wage information by employee, billing element, and cost center.

Recommendation 6

The Board should direct the CIO and VITA staff to begin developing the criteria and process for reviewing and considering proposals under the Public-Private Education Facilities and Infrastructure Act. VITA staff should show how their process compares to other existing criteria used by other boards and agencies and how any and all operating constraints are part of the consideration. Finally, the Board along with VITA staff should develop a mechanism to consider PPEA's within VITA's business plan.

In addition, the Board should direct VITA staff to develop a methodology for calculating savings to fund the Virginia Technology Infrastructure Fund. After it is developed, the Board should review and approve the methodology.

Recommendation 7

The Board should hire an Audit Director as soon as possible and require him to report directly to the Board. The Board should also be responsible for approving the audit work plan. If the organizational structure is modified as we recommend, the audit function will be able to provide the Board unbiased updates on the VITA implementation and will also be able to provide constructive feedback to VITA management concerning implementation and internal control issues.

Recommendation 8

Since VITA will need to obtain JLARC's approval for rates by September 30, 2004, VITA management should develop a process to review and correct the "due diligence" information by March 31, 2004. While a complete detailed review is not practical, management should determine what key information is necessary to provide the most accurate rate information, which should carry VITA into and through the large agency transfers.

Recommendation 9

The Board should have the VITA staff provide a revised profit and loss projection, which corrects the assumptions discussed above. The Board should also have the staff begin preparing and providing the Board with monthly financial information that includes not only the internal service fund information shown in the profit and loss projection, but the entire funding of VITA. These projections and monthly financial information should show the effects of not receiving future funding.

The Board should have VITA staff modify the projections to reflect any future budget adjustments as they occur. Also, since the profit and loss projection coupled with the due diligence information will form the core data for the revised service rate requests, VITA staff should provide the Finance Committee and potentially the entire Board a briefing on VITA's financial status.

Recommendation 10

We recommend that the Board direct the CIO and VITA staff to obtain accurate and reliable financial information for use in comparing PPEA proposals to VITA's cost of providing the services in-house. VITA and the Board must implement this recommendation in conjunction with the previous recommendation concerning PPEAs. If VITA staff base their PPEA evaluations on the current data, they may accept proposals that are not financially advantageous to the Commonwealth.

Recommendation 11

VITA staff should develop a methodology to include policies and procedures to analyze costs and proposed savings before placing an initiative into development and to monitor on-going costs and savings during implementation. After developing a methodology, VITA staff should obtain approval for the methodology from the Board and the Secretary of Finance. VITA should also develop a method to monitor the true on-going savings and costs throughout the implementation of the initiative to ensure VITA realizes and captures the projected cost savings.

Further, until the Board approves a methodology and VITA validates due diligence data, both the Administration and the Legislature should exercise professional skepticism of any projected savings provided by VITA before using them as a basis to reduce agencies appropriations.

Recommendation 12

In an effort to provide services to agencies at the lowest possible prices, the Board should re-evaluate the no reduction in force policy. The Board should direct VITA to only absorb additional staff when specifically needed and also identify opportunities for staff reductions as part of their detailed business plan development. Further, VITA should work with the Department of Human Resource Management to find alternatives to layoffs for staff VITA identifies as unnecessary. Personnel expense is one of the largest components of VITA's service rates and is controllable. VITA must be innovative in identifying alternatives to deliver services while keeping the personnel expense component as low as possible.

Further, the Board should direct VITA staff to provide details of the components of their overhead and develop plans to control or reduce these costs in an effort to reduce service rates. Without knowing what makes up the overhead amounts, it is impossible for VITA or the Board to identify ways they can reduce them. VITA should closely monitor the increases in overhead and recommend actions to the Board to reduce these costs if the service revenue is insufficient.

Recommendation 13

We recommend that the Board require VITA to use only the JLARC approved rates and to refuse to grant agency exemptions. Instead, VITA should work to identify ways to reduce the cost of their operations so the rates are competitive, meet the needs of the majority of Commonwealth agencies, and are not more sophisticated than necessary to get the work done efficiently. VITA should evaluate the level of computing sophistication needed by agencies and establish a computing standard. They should also study the optimum replenish cycle necessary to satisfy agency needs and determine if revising the current four year cycle is appropriate.

Recommendation 14

We recommend that VITA consistently apply their policies and procedures relative to billing, equipment credits, savings credits and remediation costs once they are developed. Granting agency exceptions or inconsistent application of their policies could jeopardize Federal funds.

Recommendation 15

We recommend that the Board require VITA staff to vigorously pursue and resolve the repayment of VDOT for the use of their staff and resources. VDOT has limited financial resources and the Code of Virginia is very specific about the use of these funds. Inappropriate use could result in state compliance   issues.

COMMONWEALTH *of* VIRGINIA

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January 6, 2004

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Walt:

Thank you for the opportunity to review and comment upon the APA's draft report that reviews internal controls and automated systems within the Virginia Information Technologies Agency (VITA).

This independent assessment points to many actions already progressing within VITA. In fact, substantial actions are already underway related to 10 of the 15 recommendations and one has been completed. The report will serve us well by further illuminating the path ahead. It identifies critical issues we must resolve over coming months in order to institutionalize a new governance framework, to acquire even more accurate and complete data at the enterprise level and to redevelop or replace legacy systems inherited from predecessor agencies which are unable to scale to support an organization of VITA's far greater breadth and depth.

Understandably, VITA's staff takes pride in the very significant progress that has been made in the six months of the new agency's existence. In that light and to present a balanced context for the report, I offer the following observations:

1. VITA has met all deadlines mandated by the Governor and the General Assembly for planning and extensive reporting.
2. VITA has met all service continuity and performance commitments to customers.
3. VITA has met all commitments made to Commonwealth IT employees.
4. VITA has defined its services, has set interim rates and is working toward deployment of associated service delivery and management functions, including:
    a. The VITA Customer Care Center, a one stop service for service delivery management such as reporting service incidents, placing service orders and for information assistance.
    b. The VITA Information Center, a centralized system for efficient, remote management of enterprise infrastructure and assets.
    c. The VITA Secure Network, a network for uniform and secure enterprise communications.

5. VITA completed the consolidation of 35 small agencies before the deadline of January 1, 2004 set by the General Assembly for consolidating IT services and staff. As a result, these agencies now have IT services that meet minimum security, supportability and licensing requirements. They are receiving desktop and helpdesk support unavailable to them previously and are positioned for future service enhancements and savings as the consolidation continues.
6. VITA has established specific and measurable performance standards for availability and responsiveness of new services, in place for agencies for the first time. And VITA is meeting or exceeding most measures.
7. Gross savings and cost avoidance of $10.3M will be achieved by VITA in FY04 in reduced hardware and software procurement costs, telecommunications contract renegotiations, and other savings strategies.
8. In addition to meeting mandates for service delivery, agency consolidation, planning and reporting, VITA has returned new value to customers across all service categories. To cite but a few examples, these benefits include such things as negotiation with suppliers of more than $500K expense reductions for a single agency, paving the way for the Departments of Health and Social Services to adopt the leading edge telephony technology of Voice Over IP, and establishing a new service that issues prompt and instructional security alerts across the enterprise as a defense against viruses and intrusions.
9. VITA has adopted industry best practices for its operations, most notably the ITIL model for service management and service delivery.
10. VITA's staff is working responsively to support the operations of the Information Technology Investment Board and is committed to the steps necessary to improve the quality and scope of the information upon which the Board will rely in its supervisory oversight of VITA.

These accomplishments have been achieved without any increases in established MEL and in spite of releasing $3.8M in monies allocated to VITA for startup activities to small and medium agencies.

In summary, legacy services are being sustained and strengthened, new services are being offered, customers are being billed for both old and new services and the consolidation is proceeding on schedule.

At the same time, we must keep in mind that the map to VITA given us by the 2003 General Assembly is a phased consolidation of IT services and staff over an eighteen month period. As a practical matter, this phased transition dictates a sequential process for progress. Steady incremental progress is being made to engage with and support a new governance framework, to obtain management and decision data never before available at the enterprise level and to redevelop or replace legacy systems.

We appreciate the opportunity for these acknowledgements as well as that of the progress that is being made in the constitution and development of the Board, which has met monthly since its inception in August 2003.

Along with the APA, JLARC and others, the VITA leadership team places the highest importance on developing an effective and informed working relationship with the Board – one that is aligned with and guided by explicit goals, expectations and measures.

As such, the Board's active participation in review of the APA report will be an essential ingredient in formulating a full and meaningful response. Of the fifteen total recommendations, there are many interdependencies. A chart is attached that summarizes the disposition and status of the fifteen recommendations. In brief, it appears that two are fully under the Board's purview and at least seven others will require decisions and cooperative actions by the Board and VITA staff, jointly. VITA may act unilaterally on six of the recommendations (one having been completed).

While VITA would disagree in many instances with characterizations in the commentaries throughout the report, we are nonetheless in fundamental agreement with the direction and guidance in the report and are eager to move forward.

The timing of the audit in relation to year end holidays and the Board's meeting schedule along with the compressed timetable for review have not afforded the Board a reasonable opportunity for review and comment.

Therefore, I have directed VITA staff to prepare a recommended action plan for consideration and adoption by the Board within 30 days. This plan will be developed in conjunction with the Finance Committee of the Board.

Walt, your staff is to be commended for a job well done and in record time. We appreciate, in particular, the professionalism of lead auditor Karen Helderman and look forward to the APA's continued guidance and advice to ensure the success of VITA.

Sincerely,

Cheryl Clark
Acting Chief Information Officer

Attachment

C: The Honorable George Newstrom, Secretary of Technology
       Eugene Huang, Deputy Secretary of Technology
       Judy Napier, Assistant Secretary of Technology

ATTACHMENT

SUMMARY of Recommendations from a Report from the Auditor of Public Accounts Review of Internal Controls & Automated Systems within VITA (issued January 8, 2004)

	Short Title	*Primary Responsibility*	*Status*	*Comments*
1	Board Process	Board	Initiate	
2	Board/Business Plan	Joint	Underway	Depends on #3
3	VITA/Business Plan	VITA	Underway	Prerequisite to #2 Operating Plan will be expanded to constitute Business Plan. Additional documents which already exist will be incorporated.
4	Billing System	VITA	Underway	Implementation date is 3/5x/04. APA audit & certification of the system is required by JLARC in its conditional approval of interim rates.
5	Other Admin Systems	VITA	Underway	Need acknowledged. VITA receives no applications staff thru the consolidation. Development resources and associated funding will be required.
6	PPEA Criteria	Joint	Initiate	Related to #2 & #3
7	VITA Audit Director	Board	Initiate	
8	Due Diligence Data	VITA	Underway	Agencies are being required to refine, augment and validate submissions.
9	P&L Statements	Joint	Underway	Staff are updating the P&L statement and developing a set of reports for use by the ITIB Finance Committee & Board
10	PPEA Cost Basis	Joint	Initiate	Depends on availability of more accurate cost data
11	Cost & Savings Methodology	Joint	Underway	VITA will propose a methodology for adoption by the Board and Sec of Finance
12	Staffing Costs & Methods	Joint	Underway	An enterprise approach will require collaboration & support from DHRM
13	JLARC Approved Rates	Joint	Underway	Related to #14 Staff has conferred with JLARC & APA to ensure clarity on resolving this issue.
14	Consistent Fiscal Policies & Practices	VITA	Underway	Related to #13. Policies related to all issues are close to completion. Consistent adherence thereafter is not considered an open issue.
15	VDOT Repayment	VITA	Completed	Repayment of $434K was issued by IAT to VDOT on 1/5/04. Future expenses will be repaid monthly.