

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

**REPORT ON AUDIT
FOR THE TWO YEAR PERIOD ENDED
JUNE 30, 2010**



SUMMARY

On March 31, 2010, VITA and Northrop Grumman signed Amendment 60 to the Comprehensive Infrastructure Agreement. This amendment established the adjusted baseline quantities of statewide resource unit usage and the corresponding Northrop Grumman prices per unit of usage, otherwise known as the contract adjusted baseline. The amendment also adjusted the contractual spending cap corresponding to the adjusted baseline at \$234.2 million annually for the next nine years. However, it is possible for the Commonwealth to exceed this spending cap through the acquisition of additional services above the baseline or outside the scope of the CIA.

Our prior audits included a number of findings and recommendations concerning certain contract deliverables, inventory and billing accuracy, billing and collection procedures, and the development of a cost allocation plan which includes imputed revenues. We found during the course of our audit, that VITA has made significant progress in resolving these findings. A complete summary of prior audit findings and recommendations with a summary of the resolution of each is in Appendix A to this report.

Although VITA made significant progress on a number of our prior findings, there are certain issues which continue to linger, even after the contract rebaselining. While both Northrop Grumman and VITA have contractually agreed to the Commonwealth-wide inventory values, we found Northrop Grumman continues to inaccurately report to VITA the inventory allocations between agencies.

Also, while VITA does have a dispute resolution process to resolve these inventory discrepancies and any other billing discrepancies identified by customer agencies, we found VITA and Northrop Grumman do not resolve those disputes timely. Some disputes we found took more than two years to resolve.

We also found that an underlying risk exists in the current Cost Allocation Plan to recover IT infrastructure costs from customer agencies. An important contractual factor, known as reduced resource credits and additional resource charges, are not factors in the existing rate structure. While not an immediate threat to VITA's cash flow, not factoring these variables in could potentially lead to over or under-recovery depending upon the ebb and flow of inventory quantities across the state.

Our audit of the Virginia Information Technologies Agency, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in VITA's internal PeopleSoft financial system;
- matters involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

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BACKGROUND

Our audit had the following three purposes.

1. To follow-up on our last audit of the Information Technology Infrastructure Services Partnership (Partnership) between the Commonwealth of Virginia Information Technologies Agency (VITA) and Northrop Grumman.
2. To follow-up on our last audit of VITA's inventory and billing processes, and development of the cost allocation plan.
3. A review of VITA's system of internal controls and compliance with state and applicable federal financial matters.

Since our last audits of VITA and the Partnership, there have been significant changes in both the Partnership and within VITA's management. Our previous audit noted that Northrop Grumman manages the Commonwealth's IT infrastructure per the Comprehensive Infrastructure Agreement (CIA). As prescribed by the CIA, VITA and Northrop Grumman now use a fee-for-service billing model which entails a specific price for each service related to the management of IT infrastructure regardless of the consumer.

On March 31, 2010, VITA and Northrop Grumman signed Amendment 60 to the CIA. This amendment established the adjusted baseline quantities of statewide resource unit usage and the corresponding Northrop Grumman prices per unit of usage, otherwise known as the contract adjusted baseline. The amendment also adjusted the contractual spending cap corresponding to the adjusted baseline at \$234.2 million annually for the next nine years. However, it is possible for the Commonwealth to exceed this spending cap through the acquisition of additional services above the baseline or outside the scope of the CIA.

Our prior audits included a number of findings and recommendations concerning certain contract deliverables, inventory and billing accuracy, billing and collection procedures, and the development of a cost allocation plan which includes imputed revenues. We found during the course of our audit, that VITA has made significant progress in resolving these findings and has resolved all prior findings related to the management of the CIA as well as inventory and billing operations. A complete summary of prior audit findings and recommendations with a summary of the resolution of each finding is in Appendix A to this report.

AGENCY OVERVIEW

VITA has eight divisions and as of the time of our audit, VITA had 276 full-time, wage, and managed employees. The table below shows each division's expenses for fiscal years 2009 and 2010.

Table 1

Total Expenses by Department for Fiscal Years 2009 and 2010
(in thousands)

<u>Department</u>	<u>2009</u> <u>Expenses</u>	<u>2010</u> <u>Expenses</u>
Chief Information Officer	\$ 645	\$ 553
Legal & Legislative Service	405	609
Communications	783	716
Customer Service and Project Management*	4,921	4,106
Finance and Administration	19,085	9,258
Enterprise Solutions and Governance**	62,222	65,441
COV Security and Risk Management	1,570	1,662
Internal Audit	529	575
Managed Expenses	67,804	60,272
Agreement Expenses	163,969	190,598
Pass Through Costs for Out of Scope Services	<u>11,348</u>	<u>21,961</u>
Total	<u>\$333,281</u>	<u>\$355,751</u>

Source: PeopleSoft Financial System Departmental Budget Report

*For 2009, the Customer Service and Project Management Department included the Service Management Organization and Customer Account Management Divisions, which were combined in 2010.

**Enterprise Solutions and Governance includes Wireless E-911 fund expenses of \$52.5 million and \$47.5 million for fiscal year's 2009 and 2010 respectively. Also included in these expenses are the Project Management Division's administrative costs, the costs associated with Enterprise Applications and the VA Geographic Information Network.

The following tables summarize VITA's actual funding and expenses by source for the fiscal years ended June 30, 2009 and June 30, 2010.

Table 2

Revenue and Expenses by Fund for Fiscal Year 2009 (in thousands)

<u>Fund</u>	<u>Revenues</u>	<u>Expenses</u>
General	\$ 1,901	\$ 1,898
Industrial Funding Assessment	5,568	5,503
Geographic Information Systems	1,022	2,397
Internal Service: Computer Services	199,494	204,909
Internal Service: Telecommunications	68,809	64,730
Internal Service: Out-of-Scope	911	1,231
Wireless E-911 Fund	51,536	52,611
Federal Funds	<u>4</u>	<u>2</u>
Total	<u>\$329,245</u>	<u>\$333,281</u>

Table 3

Revenues and Expenses by Fund for Fiscal Year 2010 (in thousands)

<u>Fund</u>	<u>Revenues</u>	<u>Expenses</u>
General	\$ 2,381	\$ 2,381
Special Revenue	31	81
Industrial Funding Assessment	5,464	5,629
Geographic Information Systems	751	2,305
Enterprise Applications*	945	8,314
Internal Service: Computer Services	188,641	225,673
Internal Service: Telecommunications	68,164	62,581
Internal Service: Out-of-Scope	426	1,013
Wireless E-911 Fund	53,015	47,729
Federal Funds	<u>43</u>	<u>45</u>
Total	<u>\$319,861</u>	<u>\$355,751</u>

Source: PeopleSoft Financial System: Fund Trial Balance

VITA receives most of its funds from agencies paying for IT infrastructure services in Internal Service Funds. We have separately audited the Wireless E-911 Fund and the report may be found on our website. General Funds supplement the operations of various VITA departments, including the Chief Information Officer's Office and Enterprise Solutions and Governance.

Our review of general internal control processes found no significant weaknesses with account reconciliations, application security, and business process controls for accounts payable. However, we did find that control weaknesses remain in the inventory and billing process and with VITA's responsibility for IT procurement oversight within the Supply Chain Management division. We discuss our repeat findings related to inventory and billing processes in the section titled

“INVENTORY AND BILLING” below. However, we discuss here our repeat finding on VITA’s oversight of Commonwealth technology purchases.

Finding: Maintain Adequate Oversight of Technology Procurements (Repeat Compliance Finding)

VITA’s Supply Chain Management Division (Supply Chain) has responsibility for the procurement of information technology and telecommunications goods and services for its use and the use of other state agencies. During the last audit, we found that VITA did not have a process to determine that agencies were appropriately routing IT purchase requests to Supply Chain for review and approval.

During this audit, we found that, although VITA has developed a plan to determine if agencies are appropriately routing IT purchase requests to Supply Chain for approval, VITA had not placed the process into effect during the audit period. VITA took the following steps toward correcting this issue.

- Supply Chain worked with DGS to eliminate the default of R01 for the PO Category field in the state’s electronic procurement system (eVA) so that an agency must select the category of purchase such as technology, supplies, etc. by July 29, 2011. DGS has also created a link from eVA to VITA’s procurement website.
- Supply Chain is developing a non-compliance reporting mechanism that will distribute reports to Agency IT Resources (AITRs) for review. Agencies will self-report noncompliance and VITA will take appropriate action. Supply Chain plans to begin this monitoring by the end of May 2011.
- Supply Chain modified its website to make it easier for agencies to determine what purchases require either VITA, Northrop Grumman, or only the agency approval prior to procurement.

VITA should continue to work to implement these processes to improve compliance with their policies and the statute. This process should work to ensure that agencies do not circumvent the required evaluation of IT goods and service purchase requests and allow Supply Chain to ensure purchases are made from lower cost state contracts. Further, enforcement of this policy should allow VITA to identify agency-procured items which should have been included in the Partnership and mitigate the risk of these occurrences.

PARTNERSHIP CHANGES

The remainder of this report covers changes to the Partnership and CIA and operational changes to VITA including: contract administration, cost allocation plan process, billing and inventory management processes. Findings related to each of the abovementioned sections are within the body of each corresponding section.

Background

In November 2005, the Commonwealth entered into a Public-Private Partnership (Partnership) with Northrop Grumman through signing a Comprehensive Infrastructure Agreement (CIA). In doing so, effective July 1, 2006 Northrop Grumman assumed responsibility for the management of the Commonwealth's IT infrastructure, including security operations, for a baseline of services encompassing nearly all Commonwealth executive agencies at an annual cost not to exceed \$236 million.

The CIA initially laid out a plan for Northrop Grumman to transition existing Commonwealth IT infrastructure assets to a managed service environment. This transition plan included consolidation of data centers and agency servers; email systems consolidation; certain upgrading or hardware refreshment with Northrop Grumman assets, transfer of or access to related maintenance and support contracts; among other deliverables outlined in the Agreement's 74 milestones and multiple statements of work.

The transition plan initially scheduled transformation completion and transition to a fee-for-service billing model (managed services) with establishment of an adjusted baseline inventory of assets and services to occur by July 1, 2009; however, the Commonwealth and Northrop Grumman did not agree on the contract adjusted baseline until March, 2010. We discuss the status of transformation and the effects of the amendment which sets the rebaselined inventories later in the report.

Milestone Status Update

Since our last audit Northrop Grumman has completed many of the outstanding Transition milestones satisfactorily with appropriate acceptance criteria and acceptance test results. As we concluded fieldwork, the only remaining Transition milestone was for enterprise messaging consolidation (Milestone 32). According to acceptance criteria for this milestone, at least 90 percent of all eligible executive branch agencies must have migrated to a single Enterprise Exchange organization. Because Northrop Grumman has not fully transformed all agencies, as we discuss in the "STATUS OF TRANSFORMATION" section, this milestone remains incomplete. The milestone is currently 68 percent complete. With the full transformation of VDOT and Corrections, the milestone will reach 90 percent completion.

Organizational Changes

In prior years, the Service Management Organization (SMO) division of VITA had responsibility for the following.

- Managing the delivery of infrastructure services as performed by Northrop Grumman
- Being the single point of accountability within VITA for the oversight of Northrop Grumman and effective management and improvement of infrastructure services
- Overseeing the transformation of infrastructure services by Northrop Grumman and assuring that Northrop Grumman delivered an appropriate level of performance to Commonwealth customers through service level agreements (SLAs)
- Engaging VITA's customers via customer relationship managers and supporting the interactions between Northrop Grumman and customers
- Providing visibility of how the performance of IT infrastructure services has improved and its 'value for money'
- Management of the contractual and financial aspects of the CIA

Since our last audit, VITA has made some significant organizational changes over the management of the CIA and Partnership, which includes eliminating the Service Management Organization and distributing those functions throughout VITA and in some cases flattening the organizational hierarchy by eliminating a layer of management.

Management has transferred SMO employees among these divisions—Security and Risk Management, Customer Service and Project Management Organization, and Finance and Administration. Management has also assigned the responsibility for management of services and assets among the divisions with the Customer Service and Project Management Organization and Security divisions overseeing the quality and quantity of services and goods as well as contractual performance, while the Finance and Administration division oversees financial performance and cost recovery.

Structural Modifications to the Agreement

Re-baselining

VITA and Northrop Grumman signed Amendment 60 to the Comprehensive Agreement in March 2010. This amendment set inventory quantities and base prices for these quantities for the Commonwealth based on inventory amounts agreed upon by individual agencies and validated by VITA, Northrop Grumman, and in some cases, Agency counts. The inventory quantities in Amendment 60 reflect usage at the time of Amendment. Amendment 60 also outlined fees for additional resource usage above the adjusted baseline and fees for inventory usage falling below the adjusted baseline inventory usage.

For the remaining years of the agreement—fiscal year 2011 and forward, the maximum contract amount payable to Northrop Grumman and for VITA retained costs for the adjusted baselines services shall not exceed \$234.2 million. This amount does not include any applicable fees for additional resource usage above the baseline nor does it include fees for additional goods or services provided by Northrop Grumman that are not within the basic scope of services constituting the baseline. These fees are payable in excess of the contract set cap of \$234.2 million.

For the contract year ending June 30, 2010, total payments to Northrop Grumman for direct partnership expenses were \$180.7 million. Payments to Northrop Grumman are substantially lower than the overall contractual cap for three reasons. First, VITA pays the expenses for managed employees directly and these expenses are part of the capped cost under the Comprehensive Agreement. Payroll expenses for these employees totaled \$12 million for the 2010 contract year.

Second, VITA retains certain telecommunication contracts which Northrop Grumman uses for some network, voice, and video services. This is included in scope of the Partnership. VITA paid \$43.5 million for telecommunication services, which the Comprehensive Agreement also considers as part of the capped cost. Lastly, VITA imposed penalties on Northrop Grumman for various instances of contractual noncompliance throughout the year totaling \$3.7 million. The report discusses these withholdings and short-pays in more detail later.

Service Level Agreements

By Amendment 60, the Commonwealth and Northrop Grumman mutually agreed to reduce the number of Service Level Agreements (SLAs) that VITA would use to monitor the quality of infrastructure services as managed and provided by Northrop Grumman. The CIA now provides for 49 individual SLAs representing the more important measures of services in lieu of the original 196.

Each SLA corresponds to different types of services Northrop Grumman provides such as desktop computing, network security, messaging services and other services; and documents a minimum required level of performance. If Northrop Grumman performs below the contractual minimum level of performance, VITA may withhold a portion of payments due to Northrop Grumman directly related to the service delivery failure; however, the CIA SLA methodology provides for the accumulation, earnback and/or application of these performance credits to Northrop Grumman invoices. Not all SLAs, however, have performance credits; the two SLAs for VIP-level help desk ticket resolution do not include performance credits since there are penalties in other help desk SLAs which encompass these.

Generally the CIA divides the SLAs into two categories. The first category measures performance across the enterprise with regards to a service category (e.g. incident resolution, server availability) relative to a target and has a built-in tolerance for service delivery failures, which we refer to as “enterprise-wide” SLAs. The second category measures the number of individual incidents typically related to a site or location that occur without a tolerance for any service delivery failures, which we refer to as “per event” SLAs.

Enterprise-wide SLAs

For ongoing monitoring of infrastructure services, VITA monitors 35 enterprise-wide SLAs for such services as help desk ticket response time, mainframe and server availability, virtual private network connectivity, and various other measurable items. Generally these SLAs have a target delivery rate that Northrop Grumman measures across all of the customer agencies as a single enterprise. For example, one SLA for the help desk requires that Northrop Grumman respond to help desk web tickets within one business hour for at least 90 percent of all requests, enterprise-wide, for the month. Another SLA specifies that enterprise-wide mainframe servers will be up and available for use 99.5 percent of every month.

For all enterprise-wide SLAs, Northrop Grumman must meet individual performance targets which vary depending upon the priority of the individual services, which they must deliver and measure. If Northrop Grumman fails to meet the minimum level of service for any SLA, performance credits may accumulate and be subsequently earned back or applied to Northrop Grumman invoices.

Per Event SLAs

Certain SLAs are measured relative to targets for a location over a given month rather than aggregated across the enterprise. There are 12 such SLAs, which provide a means of monitoring Northrop Grumman's service at the location level and measuring performance in terms of incident events such as outages of local area network (LAN), wide area network (WAN), and specific devices (such as routers and switches). Table 4 details the performance credits per occurrence for failure to meet these 12 SLA's.

Table 4

Comprehensive List of Per-event SLA Penalties

Service Level Agreement (per event)	Performance Credit
WAN Connectivity – Large Locations	\$5,750.00
WAN Connectivity – Medium and Critical Small Locations	\$3,450.00
WAN Connectivity – Small Locations	\$1,150.00
WAN Connectivity – Managed Router Locations	\$230.00
Router Connectivity – Large Locations	\$1,150.00
Router Connectivity – Medium Locations	\$862.50
Router Connectivity – Critical Small Locations	\$575.00
Router Connectivity – Small Locations and Managed Router Locations	\$287.50
LAN Switch Connectivity – Large Locations	\$1,150.00
LAN Switch Connectivity – Medium Locations	\$862.50
LAN Switch Connectivity – Critical Small Locations	\$575.00
LAN Switch Connectivity – Small Locations	\$287.50

*Note: Large Locations have more than 500 active ports; medium locations have between 51 and 500 active ports, small locations have 50 or less active ports.

The sum of these per event performance credits are capped each month by the “per event penalty pool,” which is defined as ten percent of the monthly fees associated with data network, voice and video services minus any applicable industrial funding adjustment. These discrete, per event performance credits, like the performance credits for enterprise-wide SLAs, are also subject to earn-back provisions. A complete list of all SLAs with performance metrics and measurements for the months of March, 2010 through December, 2010 is included as Appendix B to this report.

SLA Performance Credit Methodology

Performance credits for per event SLA’s as well as enterprise-wide SLA’s apply for Northrop Grumman’s failure to meet performance targets on enterprise-wide SLAs in addition to those mentioned above for specific events. The CIA provides a methodology for calculating the performance credits by category, treatment for consecutive months’ failures and application to future Northrop Grumman invoices as credits and/or earn back by Northrop Grumman prior to application to future Northrop Grumman invoices. Northrop Grumman has an opportunity to earn back eligible performance credits for missing an SLA target by meeting that same target for the next two consecutive months. If Northrop Grumman does not meet an SLA target in any one of the two consecutive months after missing the target, the eligible performance credit is applied to an invoice and Northrop Grumman cannot recover this amount.

The Partnership calculates the enterprise-wide SLA performance credits based the formula below.

Total “at-risk amount” which is ten percent (10%) of the monthly fees

Less:

The cost passed through for Managed Employees

The monthly fees for the data network, voice, and video services, which are subject to per event penalties

The industrial funding adjustment and certain non-recurring fees charges

Times

An “allocation percentage” which is currently 5.71 percent, which is a weight assigned to all enterprise-wide SLA’s not to exceed 200 percent in total, and not less than five percent or more than 20 percent for any individual enterprise-wide SLA

Plus

The “per event penalties” which is the sum of the discrete per event performance credits not to exceed the per event penalty pool

Equals

The SLA eligible performance credit

Those eligible performance credits not successfully earned back by Northrop Grumman are applied as credits to VITA on future Northrop Grumman invoices.

VITA may allocate a weighted percentage to any of the 35 enterprise-wide SLA's they choose to delineate the SLA's importance and to increase or decrease the corresponding performance credit for Northrop Grumman not meeting service level minimums for certain SLAs. Currently, VITA values all SLAs equally and calculates penalties based on 1/35th (or 5.71 percent) of the at risk amount from the bill for the failed SLA. VITA multiplies the penalty by 1.15 as prescribed by the CIA to arrive at the total performance credit for a failed SLA.

Successive service level failures (e.g. month over month) additionally result in increased performance credits using multiplying factors. If an SLA is missed two consecutive months, the first month's performance credit cannot be earned back (becoming applied) and the second month's performance credit increases to 1.5 times the original and to two times the original penalty for each consecutive month thereafter that they fail to meet the metric.

Performance Credits Applied

Since the signing of Amendment 60 through December 2010, VITA has applied performance credits that were not earned back by Northrop Grumman totaling \$79 thousand for per event and enterprise-wide SLAs. However, VITA and Northrop Grumman are still in negotiations over the SLA's reported and related performance credits assessment for the August and September server outage and restoration that affected multiple large state agencies.

SLA Weight

Our examination of Northrop Grumman performance indicates that there are certain SLAs which the company does not meet consistently. However, the CIA has limits on the performance credits which may be imposed for missing those SLAs, because of the weighing factor VITA uses for those SLAs.

Every six months VITA may reassess the weighted value associated with each SLA and set new weights. Currently all SLA's are of equal value, therefore missing one SLA allows VITA to penalize 1/35th of the at risk amount (times the contractual 1.15 multiplier) for failure to meet the SLA.

STATUS OF TRANSFORMATION

The original CIA date for completion of a fully transformed IT environment was June 30, 2009. In March 2010, contract Amendment 60 went into effect, which set forth base rates and quantities for all resources (both hardware and services) in use by Commonwealth executive branch agencies.

In order to get the quantities in the amendment, each agency agreed upon physical inventory levels in use at their respective agencies (i.e. desktops, laptops, physical servers, etc.). VITA set the virtual inventory quantities through usage reports provided by Northrup Grumman at the time of implementation of Amendment 60. With the adoption of Amendment 60, the Commonwealth and Northrup Grumman considered the required adjustment to contract baselines completed allowing transition to manage services billing.

Amendment 60 also addressed the issue of transformation at certain agencies not yet being complete. There were 11 agencies which required further resolution of certain transformation issues such as incompatibility with Northrop Grumman-provided services to an unwillingness to transform. However, those agencies are currently working with the Partnership to determine how to resolve these problems so that all agencies can completely transform.

Beginning in January 2011, agencies which have outstanding transformation issues may incur higher fees each month (referred to as legacy rates) for infrastructure that has not been transformed but which the Partnership must service. Since it is more costly for the Partnership to maintain and support agency-owned assets, the legacy fees are an offset for the increased cost. Table 5 has a listing of agencies and their expected dates for completing transformation at the time of our audit along with the estimated amount of the monthly legacy fees.

Table 5

Remaining Agency Transformation Status as of April 30, 2011

Agency Name	Expected Date of Transformation	Estimated Monthly Legacy Rates Charged	Agency on track to meet transformation date?
Department of Aviation	To be Determined	\$ -	To be Determined
Department of Transportation	June 2011	\$4,145	Yes
Department of Forensic Science	June 2011	\$36,168	Yes
Department of Motor Vehicles	To be Determined	\$128,526	To be Determined
Department of Corrections	July 2011	\$63,498	To be Determined
Department of Medical Assistance Services	To be Determined	\$ -	To be Determined
Virginia Employment Commission	To be Determined	\$39,006	To be Determined
Department of Emergency Management	To be Determined	\$31,243	To be Determined
Virginia State Police	To be Determined	\$76,014	To be Determined

Two of the agencies above, Department of Aviation and Department of Medical Assistance Services, are not subject to legacy fees at this time. Per Amendment 60, legacy fees are applicable to all agencies not transformed by January 2011. During the initial transformation period, Department of Medical Assistance Services had a contract with a separate vendor for the support of the agency's infrastructure that did not end until after June 2010; therefore, transformation for this agency would not begin until that time. For the department of Aviation, Northrop Grumman has not been able to adequately execute the respective agency transformation plan. As a result, the agency has not been charged legacy fees.

INVENTORY AND BILLING

This section of the report serves as a follow-up to our December 2008 report on VITA's Cost Allocation Plan, inventory tracking, billing, and collections.

VITA bills agencies for a number of services such as telecommunication, computing services, and the infrastructure managed by Northrop Grumman. Total Northrop Grumman billings to VITA for contractually agreed-upon baseline usage, facility fees, tower fees, and certain VITA retained costs are limited to \$236 million in fiscal year 2010 and \$234.2 million per year after fiscal year 2010.

Amendment 60 to the CIA set the baseline quantities of resources for which the state would pay. Resource units can be either physical or non-physical. Physical inventory items are tangible items such as desktops and laptops and other hardware used by the Commonwealth and located at individual agencies. Non-physical inventory items are intangible or consumable resources such as bandwidth or data storage usage which must be measured as services are used.

For physical resources, each executive state agency and Northrup Grumman agreed to the amounts to ensure accuracy of the physical inventory. For virtual resources, VITA verified virtual resource usage reported by Northrup Grumman for each agency in order to ensure the accuracy of virtual inventories.

The CIA sets forth resource prices that VITA considers as the base price for a resource. The Cost Allocation Plan assigns a portion of the fixed fees from the contract to each resource and VITA's applicable overhead to establish each resource unit's total price. Each customer pays the total price, which includes all fees and operating expenses (overhead). For example, an agency receives a monthly bill for a desktop computer. The total service charge will include the desktop base fee as noted in the contract, a network fee, a network security fee, a software fee, and an allocated portion of VITA administrative expenses, including debt recovery.

Following are findings and recommendations relative to inventory and billing operations and the cost allocation plan.

Finding: Strengthen Inventory and Billing Controls (Repeat Finding)

Northrop Grumman must maintain an accurate inventory by individual agency. VITA uses these inventory records to generate individual agency bills. Prior to Amendment 60, each agency certified as to how much physical inventory was in the agency's possession. This certification process determined the baseline usage that VITA and Northrop Grumman agreed to in Amendment 60; however, Northrop Grumman continues to perform validation and verification over inventory to keep track of changes or discrepancies in the original inventory amounts.

In our last audit, we noted that VITA inappropriately billed agencies because of inaccuracies in Northrop Grumman's inventory records. With Amendment 60, the agency and Northrop Grumman should have eliminated the majority of inventory inaccuracies since each party agreed to the counts. The only changes to inventory levels at individual agencies should be changes the

agency requests, errors found through the verification and validation process to identify equipment in use, or increased consumption of some virtual resources. During the current year, we selected six agencies to test the accuracy of the billed inventories to ensure that VITA charged only approved rates, and to ensure that only agency requested changes affected the billable inventories. From those agencies tested, we found the following for the month of January 2011.

Agency	Total Number of Inventory Items	Total Number of Items Tested	Net over/(under) billing
Department of Taxation	2,815	36	\$606.46
Department of Behavioral Health and Developmental Services	1,812	30	456.29
Hiram Davis Medical Center	118	30	1,828.70
Library of Virginia	193	30	271.98
State Police Headquarters	720	30	693.73
Center for Innovative Technology	51	30	-
Total			\$3,857.16

We also reviewed equipment additions for the month of January for the six agencies listed above to determine that the agency requested all additions. At the Department of Taxation, we found six items on the January bill which the agency had not requested, but were merely corrections of understated inventory records by Northrop Grumman. At the Department of Behavioral Health and Developmental Services, we found that 90 of the 99 additions to the bill the agency had not requested, but were corrections made by Northrop Grumman. At Hiram Davis Medical Center, we found 23 additions to the January bill, none made by the agency. Hiram Davis Medical Center submitted a billing dispute to VITA for these items. After further follow up on this matter, it was determined that the agency had an overbilling of \$23,294 for the month of January.

At the Library of Virginia (Library), we found the Library did request three of the six additions to the January bill. While the Library did not request the other three items, the Library admits to having added the items previously, but VITA did not previously bill for the usage. At State Police, we found they had requested all additions. At the Center for Innovative Technology there were no additions to the bill and none requested by the agency.

While reviewing bills for two of the six agencies, Department of Behavioral Health and Developmental Services and Hiram Davis Medical Center, we found several instances of items charged to these agencies' bills belonging to other agencies. At the Department of Behavioral Health, 17 of the 30 items tested were email accounts belonging to employees of other Health and Human Resources agencies. At Hiram Davis Medical Center, two of the 30 items tested were equipment belonging to Southern VA Training Center. Upon further investigation, it was determined that of the 23 additions to Hiram Davis's January bill, seven equipment items should be additions for Southern VA Training Center.

We recommend that Northrop Grumman and VITA continue to work to ensure that inventory quantities are correct for billing purposes at each agency.

Finding: Create a Time Frame for Resolving Inventory Disputes

We also reviewed accounts receivable for fiscal year 2010 and found that, on average, one to three months was a normal time period in resolving many inventory disputes. For this reason, we reviewed receivables greater than 90 days reported as being collectible.

Of these receivables, we selected for testing the five agencies with the largest accounts receivables balances greater than 90 days at the end of fiscal year 2010. These five agencies made up 79 percent of total receivables greater than 90 days, or \$2.8 million. We found that approximately \$2 million of those receivables, VITA subsequent to June 30, 2010, wrote off due to incorrect inventory counts. We also found that of the remaining \$785 thousand, VITA only collected \$391 thousand from agencies while \$394 thousand remains in dispute. Some of the outstanding receivables date back to the beginning of fiscal year 2008 with no resolution until the beginning of fiscal year 2011.

We recommend that VITA and Northrop Grumman set a time frame for resolving inventory disputes and establish deadlines for the resolution of future inventory disputes. This process will result in reducing the write off of accounts receivables after fiscal year end.

Finding: Ensure Cost Allocation Plan recovers all Costs

The rate development process involves multiple calculations, historical data, and projections to determine an equitable rate based on the cost of providing services. Base rates, or Northrop Grumman charged rates, for each resource are in Amendment 60 to the contract, and this amendment includes the base quantities, or agreed upon baseline usage for each resource unit.

In order to determine agency bills, VITA must multiply the base rates by the base quantities. Added to this amount is the overhead applicable to each resource as allocated by VITA. For example, for desktop computers, VITA multiplies the base price by the base quantity and adds the percentage for Northrop Grumman fees such as the desktop computing tower fee and network security fees. VITA then applies a percentage of its own overhead, mainly facility fees, administrative expenses, and debt recovery to the desktop computers in order to get to the total price that is passed on to customer agencies. Since our last review, VITA documented how the staff developed the rate.

However, when VITA developed the most recently approved rates for fiscal year 2011; we observed that staff did not utilize all contract baseline quantities and contract fees for the current contract year. In some instances, rather than utilize the baseline quantities in Modification 60 VITA utilized the most current quantities reported on the invoice received monthly by VITA and provided by Northrop Grumman. This decision was made by VITA because of a desire to reflect the most current usage in the rate structure. By doing this, VITA did not account for baseline quantities reflected at the prices noted in the contract. This approach excludes usage levels that go above or below the contract baseline, which can directly impact the Commonwealth's recovery of the base contract costs due to added or lost resources.

Additionally, VITA used the Resource Unit rates outlined in the contract for the development of all approved rates. However, to smooth out rates for customers for fiscal year 2011 and 2012, in some instances VITA elected to utilize the fixed fees in the contract that are projected to be incurred in subsequent years.

When statewide usage rises above the baseline, this usage results in additional resource charges (ARCs) that decrease the per-unit price to the Commonwealth for resource units above the baseline. The calculation for ARCs is as follows.

Calculation of ARCs

Description	Formula
ARC Deadband Threshold	Resource Unit Baseline x (1.00 + ARC Deadband Baseline) (the ARC Deadband Baseline is expressed as a percentage)
Fee for Additional Resources	Fee for Additional Resources below the Deadband Threshold + Fee for Additional Resources above the Deadband Threshold
Fee for Additional Resources below the Deadband Threshold	The lesser of (Actual RUs – RU Baseline) x RU Rate or (ARC Deadband Threshold – RU Baseline) x RU Rate
Fee for Reduced Resources above the Deadband Threshold	If (Actual RUs – ARC Deadband Threshold) > 0, (Actual RUs – ARC Deadband Threshold) x ARC Rate

When statewide usage falls below the baseline, reduced resource credits (RRCs) are applied. RRCs do not completely take away the cost per unit of assets not in use, but rather decrease the cost per unit for units no longer in use, but the Commonwealth is still responsible for a portion of the cost of the asset.

This allows Northrop Grumman to recover initial capital costs. For example, the baseline quantity for Unix Physical Enterprise servers is 26 servers at \$7,760.75 each. At December 2010, the quantity in use statewide decreased to 19 servers. This decrease resulted in usage being seven servers below the baseline; therefore, VITA received reduced resource credits but still must pay a portion of the fee for the decrease in units. VITA performs the calculation below in four parts in order to determine the full reduced resource credit to be charged.

Calculation of RRCs

Description	Formula
Reduced Resource Credit Deadband Threshold	Resource Unit Baseline x (1.00 - RRC Deadband Baseline) (the RRC Deadband Baseline is expressed as a percentage-for servers is it five percent)
Credit for Reduced Resources	Credit for Reduced Resources above the Deadband Threshold + Credit for Reduced Resources below the Deadband Threshold
Credit for Reduced Resources above the Deadband Threshold	The greater of (Actual RUs – RU Baseline) x RU Rate or (RRC Deadband Threshold – RU Baseline) x RU Rate
Credit for Reduced Resources below the Deadband Threshold	If (Actual RUs – RRC Deadband Threshold) < 0, (Actual RUs – RRC Deadband Threshold) x RRC Rate

The baseline cost for usage of 26 servers is \$201,779.50. As a result of the decrease in usage, the agency is receiving a bill of \$174,412.67 per month. This decrease is the baseline cost less reduced resource fees in the amount of \$27,366.83. Although no longer used, VITA receives a bill for each of the seven servers below the baseline quantity of approximately \$3,909.55 per month,

a little less than half the baseline price. VITA is not passing this cost on to agencies since agencies no longer have responsibility for payment of items not in use.

As stated above, VITA is responsible for RRCs when usage falls below the baseline, and based on the current rate structure, does not recover those costs as the agencies are not using the assets. If VITA does not pass this cost on to the customers, VITA will likely have future cash flow deficiencies unless they factor these amounts into the rate structure. Further, the effects of ARC's are not factored into the rate structure. Should overall resource unit quantities that are affected by ARCs rise significantly, VITA risks over-recovering from customer agencies if an adjustment is not made to compensate agencies for reduced per-unit prices if they occur. This is not an immediate threat to VITA, but is a risk that the current rate structure does not consider as inventories may continue to shrink or grow over time.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

June 1, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Information Technologies Agency (VITA)** for the period January 1, 2009 through June 30, 2010 (18 months). For inventory testwork, our audit period extended into January 2011 in order to have access to the most current inventory quantities at each agency selected for testwork. Our audit period for contract management, cost allocation, and cost recovery testwork spanned from March 1, 2010 through December, 2010 as to include management practices in place since the Partnership's rebaselining. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and in VITA's internal PeopleSoft financial system, review the adequacy of VITA's internal controls, test VITA's management of the Comprehensive IT Infrastructure Agreement, test the reasonableness of VITA's cost recovery from agencies for those services provided for in the Agreement and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

VITA's management has responsibility for establishing and maintaining internal controls and complying with applicable laws, regulations, and contract provisions. Internal control is a process

designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant business processes.

Comprehensive Infrastructure Agreement Management
Cost Recovery, Inventory Validation, and Billing Processes
General and Payroll Expenses
General Application and Accounting Controls

We performed audit tests to determine whether VITA's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, and contract provisions. Our audit procedures included inquiries of management, inspection of documents, records, and contracts, and observation of VITA's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed inventory and accounts receivable balances with agencies selected for testwork.

Conclusions

We found that VITA properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in VITA's internal PeopleSoft financial system. VITA records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and PeopleSoft.

We noted certain matters involving internal control that require management's attention and corrective action. These matters are described throughout the report. We noted one control matter which we consider an instance of noncompliance with the Code of Virginia noted in the finding titled "*Maintain Adequate Oversight of Technology Procurements.*"

VITA has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter; however, there are some prior year findings that have not been completely resolved. All of the prior year findings are noted in "Appendix A: Status of Prior Year Findings."

Exit Conference and Report Distribution

We discussed this report with management on June 10, 2011. Management's response to the findings and recommendations identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/clj



COMMONWEALTH of VIRGINIA

Virginia Information Technologies Agency

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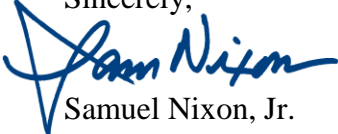
June 15, 2011

Mr. Walter J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to respond to the Auditor of Public Accounts' audit of the Virginia Information Technologies Agency (VITA). We are pleased that you have reported on the significant progress we have made since our last audit, and overall we agree with the report's findings and recommendations.

As always, we appreciate the professionalism of your staff. Thank you for working with us and seeking our input.

Sincerely,

Samuel Nixon, Jr.

c: The Honorable Jim Duffey, Secretary of Technology

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

OFFICIALS AND MANAGEMENT

James D. Duffey, Jr.
Secretary of Technology

Samuel A. Nixon Jr.
Chief Information Officer of the Commonwealth

Judy Marchand
Director of Customer Services and Project Management

Dana Smith
Director of Finance and Administration

APPENDIX A: STATUS OF PRIOR YEAR FINDINGS

Our two previous reports included a number of findings related to improving internal controls over financial management as well as complying with Federal Indirect Cost Principles. As part of this review, we followed up on the status of these findings.

Partially Resolved Findings

Improve Policies and Procedures over Asset Inventory – Partially Resolved

During our last audit, we found that VITA did not fully document definitions for billable asset types or determine whether existing definitions for asset types provided by Northrop Grumman were accurate. However, during the current audit period, we found both VITA and Northrop Grumman, have defined and agreed on all billable asset types as a result of Amendment 60 and the Cost Allocation Plan uses these contractual resource units.

While it is clear that billable asset types that customer agencies pay for has a direct correlation to the underlying contractual price paid to Northrop Grumman, there are still inaccuracies in customer bills due to inaccurate inventory records produced by Northrop Grumman. Our recommendation related to these inventory inaccuracies is in the recommendation titled “*Improve Inventory Accuracy.*”

Establish and Document Procedures for the Creation of Rate Structures – Partially Resolved

During the last audit, we found that VITA had not made significant progress in developing policies and procedures for creation of rate structures. Since the last engagement, VITA has developed new rates. During the current audit period, we reviewed and recalculated the 2011 approved rate structure and determined through further inquiry with agency personnel and our recalculations that the methodology to create rates was reasonable; although some inconsistencies did exist.

Agency personnel provided us with a rate profile form that showed what they should include in each customer resource rate. We determined the amount was reasonable and sufficient for rate creation instruction. While we consider the process for developing rate structures reasonable, we have concerns about the ability to recover all costs that we discuss in the recommendation “*Ensure Cost Allocation Plan recovers all Costs.*”

Resolved Findings

Continue to Apply Resources to Completing the Procedures Manual - Resolved

During our previous audit, we found that the Partnership did not complete the manual that details the specific policies and procedures used to manage the Commonwealth's information technology infrastructure. Without this manual, it was difficult for VITA to determine the appropriateness of specific decisions made by Northrop Grumman in conducting the business of the Partnership.

During the current audit period, we found that Northrop Grumman completed and VITA has accepted both the Comprehensive Procedures Manual's Table of Contents and full content of the Manual. It is important to note, however, that the Procedures Manual is subject to change due to changes in operations or areas where Northrop Grumman and VITA agree there are changes or new procedures. At the time of our review, we consider the Procedures Manual substantially complete with respect to current operations.

Enforce Timely Delivery of Milestones - Resolved

During our previous audit, we found that there were several milestones for the migration of customers' networks to a single consolidated Wide-Area Network. There were milestones which set interim network migration goals of 30 percent, 45 percent, 52 percent, 68 percent, and 90 percent. Although late, Northrop Grumman had met all interim milestones through 52 percent migration with VITA's acceptance. Again late, Northrop Grumman did complete the 68 percent milestone after our audit period. The 90 percent milestone, due January 1, 2009, remained outstanding. We recommended that VITA institute financial penalties for not meeting milestones on time.

During our current year audit, we found that only one milestone remains outstanding—Milestone 32 related to an Enterprise agency-wide messaging system. According to acceptance criteria for this milestone, at least 90 percent of all eligible Executive Branch agencies must have migrated to a single Enterprise Exchange organization. Since the Partnership has not fully transformed all agencies (see the Section: STATUS OF TRANSFORMATION) Northrop Grumman has not met this milestone. The milestone is currently 68 percent complete, and with the full transformation of VDOT and Corrections, the milestone will reach 90 percent completion. Since the Agreement did not specify a payment for completion of this milestone, VITA is not penalizing Northrop Grumman for not meeting this milestone.

Develop Realistic Schedule to Re-base-line Resource Units - Resolved

During our previous audit, we found that VITA and Northrop Grumman set a date of July 2009 for the re-baselining of resource unit quantities. We determined that this date was aggressive considering the resources available at the time of the audit and suggested the development a contingency plan if the Partnership did not meet the deadline.

During the current audit period, we found that VITA and Northrop Grumman modified the contract with Amendment 60, which re-baselined all resource unit quantities and set base prices for these resource units on March 31, 2010. Re-baselining set forth an adjusted baseline of usage by the

Commonwealth and set prices for usage above and below that baseline. While delays in transforming some agencies and corrections to inventory quantities continue, VITA and Northrop Grumman have agreed on a baseline for the infrastructure going forward.

Complete Data Control Documents for Service Level Agreements - Resolved

The Partnership agreement provides for Service Level Agreements (SLA) that define the minimum levels of performance Northrop Grumman will provide the Commonwealth. The Agreement originally defined 196 different SLAs which Northrop Grumman would measure and report to VITA by specified due dates. In order to collect and measure these SLAs, Northrop Grumman creates a Data Control Document (DCD) for each SLA, which VITA approves. These DCDs document the parties' agreement on how Northrop Grumman will measure each of the service levels and how the Partnership will evaluate performance.

During our last audit, we found that VITA did not receive or approve DCDs for many of the 196 SLAs, which VITA needed to determine if Northrop Grumman was completely fulfilling its contractual obligation to the Commonwealth.

During the current audit period, Amendment 60 to the Comprehensive Agreement consolidated the 196 SLAs into 49 SLAs.. We found that all 49 SLAs have approved Data Control Documents and VITA is performing data reviews of Northrop Grumman's reported SLAs information in order to determine that they are accurately measuring the performance.

Establish and Document Procedures for Classifying Assets in Service Option 5 - Resolved

VITA classifies assets in "service options" in the inventory and billing system based on the level of service provided and bills customers for assets based on the asset's classification. In addition to the billable service options, VITA established service option five for out-of-scope assets that are not in the "refresh" cycle and should not receive service. Therefore, VITA does not bill for these assets. If the Partnership provides service related to an asset, but receives no revenue, the federal government requires that VITA calculate an imputed revenue amount.

During our last audit, we found that VITA did not have formal policies and procedures for service option five (or non-billed) assets, including documentation requirements for moving assets to service option five or a formal policy for monitoring these assets on an on-going basis.

During the current audit period, we found that VITA developed a formal policy for service option five assets. This policy includes annual monitoring of asset classifications and monthly monitoring of service option five assets to track these assets and determine if the service option five classifications are still reasonable.

Improve Reporting to Allow Comparison of Revenue vs. Allowable Costs - Resolved

The Federal Office of Management and Budget's Circular A-87 requires that VITA submit a comparison of revenues and allowable costs as part of its Cost Allocation Plan. The federal government uses this information to determine whether VITA is over-recovering for products and

services and to determine whether rates for equipment and services are reasonable. During the last audit, we found that VITA did not have formal policies and procedures for preparing this report and did not provide adequate detail to explain the imputed revenues, which created a difference between the accounting records and the report to the federal government.

During the current audit, we determined that, although VITA has not developed written procedures for preparing this report, we were able to determine that the necessary components of the Cost Allocation Plan meet OMB Circular A-87 requirements by a review of the compilation of the 2011 Cost Allocation Plan.

This review included the comparison of revenue versus allowable costs. The report is a PeopleSoft report designed by the Finance division for inclusion in developing the Cost Allocation Plan. It reports imputed revenues in the amount of \$226,628 that represent VITA equipment usage charges not billed to agencies.

Further, a review of the 2012 Cost Allocation Plan found total imputed revenues of \$4.8 million mainly for unbilled enterprise print services and disaster recovery service. With the finalization of the contract baseline going forward, these amounts will become part of VITA's costs and no longer be an imputed factor in future Cost Allocation Plans.

Improve Process for Establishing Rate Tiers - Resolved

During our last audit, we found that VITA separated servers and local area network (LAN) devices into tiers based on asset acquisition price, and Northrop Grumman and VITA were not charging the same usage price for the same items with similar purchase prices. During the current audit period, we found that with Amendment 60, in order to remedy this charging problem, Northrop Grumman and VITA are charging agencies based on the server size and number of ports on LAN devices at the individual agencies respectively. All agencies are now billed the same rates for the same services.

Notify Oversight Entities of Rate Changes - Resolved

During our last audit, we found that VITA was charging agencies different prices than approved by the Joint Legislative Audit Review Committee (JLARC) for premium assets. During the current year audit, our tests of inventory and billings at various agencies found that VITA charged only JLARC approved rates to customers.

Equitably Distribute Virtual Inventory Costs to Agencies - Resolved

During our last audit, VITA and Northrop Grumman did not have a methodology for distributing virtual inventory costs to agencies. During the current audit period, we reviewed the 2011 rate structure and Amendment 60, which included quantities and definitions of virtual inventory items. The cost for these items are in the rate structure and priced so that these costs are consistently passed on to the agencies utilizing the resources.

Properly Monitor and Control PeopleSoft Access - Resolved

During our last audit, we found several instances of inappropriate and unnecessary system access for VITA's financial system (PeopleSoft). Also, there was no documentation available showing that VITA was properly granting and monitoring system access on an annual basis as noted in their procedures. The following recommendations were made:

- Properly Monitor PeopleSoft System Access
- Disable Unnecessary PeopleSoft System Administrator Access Roles
- Adequately Segregate System Access Responsibilities
- Maintain PeopleSoft Access Documentation

During the current audit period, we reviewed system access and noted that VITA deleted all unnecessary access and properly documented system access reviews and requests and approval for system access during the audit period. We also observed VITA made system access changes to further segregate duties between users and have developed an annual monitoring process for PeopleSoft access.

Properly Complete Employment Eligibility Verification Forms - Resolved

During our last audit, we found VITA was not properly completing Employment Eligibility Verification (I-9) forms in accordance with federally-provided instructions. During the current audit period, we tested a sample of new employees hired during the audit period and found that VITA has properly completed I-9 forms in accordance with procedures provided by the Department of Homeland Security.

APPENDIX B: COMPREHENSIVE LIST OF MILESTONES

Milestone	Original Due Date	Modified Due Date	Actual Completion	Original Amount Due	Modified Amount Due	Actual Payment
1 Service Commencement	7/1/2006	7/1/2006	6/28/2007	2,736,937	2,736,937	2,736,937
2 Offer Letters extended to VITA Employees (Critical)	6/1/2006	6/1/2006	6/8/2006	5,473,874	5,473,874	5,473,874
3 Knowledge Management System Operational	8/1/2006	10/1/2006	8/24/2007	-	-	-
4 Procedures Manual Plan	8/1/2006	8/1/2006	10/12/2006	-	-	-
5 Procedures Manual (Critical)	10/1/2006	10/1/2006	10/24/2006	2,736,937	2,736,937	2,736,937
6a Initial Disaster Recovery Test at SWESC	10/1/2007	5/1/2008	5/22/2008	16,655,655	9,000,000	7,945,185
6b Final Disaster Recovery Test at SWESC (Critical)	10/1/2007	6/1/2008	see 6a	see 6a	see 6a	see 6a
7 ITIL Process Optimization Complete	6/1/2008	6/1/2008	5/12/2010	-	-	-
8 Service Commencement	7/1/2006	7/1/2006	6/28/2007	4,390,527	4,390,527	4,390,527
9 Infrastructure Operation Center (Interim)	11/1/2006	11/1/2006	11/9/2006	8,781,052	8,781,052	8,781,052
10 Richmond Plaza Building Server Consolidation in-place	2/1/2007	4/1/2007	6/13/2007	3,292,895	3,292,895	3,292,895
11 Move mainframe/server workload from Richmond Plaza Building to CESC	4/1/2007	2/1/2008	7/14/2008	1,097,632	1,097,632	1,097,632
12 Move infrastructure for disaster recovery to SWESC back-up data center	4/1/2007	3/1/2008	5/27/2008	18,417,785	8,526,126	8,526,126
13 Tape automation complete	3/1/2008	3/1/2008	3/28/2008	6,139,262	4,683,785	4,683,785
14 Mainframe print consolidation complete	6/1/2008	6/1/2008	8/7/2008	-	-	-
15 Server Consolidation complete (25%) (Critical)	7/1/2007	12/1/2007	11/20/2007	-	3,077,686	3,077,686
16 Server Consolidation complete (65%)	8/1/2008	8/1/2008	2/13/2009	-	-	-
17 Server Consolidation complete (90% of Eligible)	6/1/2009	6/1/2009	10/8/2009	-	-	-
18 Service Commencement	7/1/2006	7/1/2006	6/28/2007	2,794,066	2,794,066	2,794,066
19 Desktop and asset management system	1/1/2007	1/1/2007	6/6/2007	1,397,033	1,397,033	1,397,033
20 Begin desktop refresh (Critical)	3/1/2007	3/1/2007	3/30/2007	5,588,132	5,588,132	5,506,141
21 Quarter 1 Refresh	4/1/2007	4/1/2007	6/28/2007	1,397,033	392,787	392,787
22 Quarter 2 Refresh	7/1/2007	7/1/2007	9/27/2007	4,077,267	4,077,267	4,077,267
23 Quarter 3 Refresh	10/1/2007	10/1/2007	11/30/2007	4,077,267	4,077,267	4,077,267
24 Quarter 4 Refresh	1/1/2008	1/1/2008	3/21/2008	4,077,267	4,077,267	4,077,267
25 Quarter 5 Refresh	4/1/2008	4/1/2008	5/13/2008	4,077,267	2,130,066	2,130,066
26 Quarter 6 Refresh (66% of quarter counts (Critical)	5/1/2008	6/1/2008	5/28/2008	-	2,130,066	2,130,066
27 Quarter 7 Refresh	10/1/2008	10/1/2008	11/6/2008	-	-	-
28 Complete of Desktop Refresh (90%)	3/1/2009	3/1/2009	1/27/2010	-	-	-
29 Service Commencement	7/1/2006	7/1/2006	6/28/2007	3,948,306	3,948,306	3,948,306
30 Single agencywide address list should be "Commonwealth-wide" (Critical)	4/1/2007	4/1/2007	3/27/2007	3,948,306	3,948,306	3,948,306
31 Backend Infrastructure in Place	7/1/2007	9/1/2007	9/7/2007	4,936,689	4,936,689	4,936,689
32 Enterprise agencywide messaging system cutover complete (90% of Eligible) (Critical)	6/1/2009	6/1/2009	Incomplete	-	-	-
33 Service Commencement	7/1/2006	7/1/2006	6/28/2007	1,665,188	1,665,188	1,665,188
34 Temporary NOC	11/1/2006	11/1/2006	11/9/2006	4,995,564	4,995,564	4,995,564
35 Submit Arch Network Blueprint Addressing Plan	2/1/2007	2/1/2007	2/7/2007	832,594	832,594	832,594
36 Connectivity to CESC	4/1/2007	7/1/2007	9/27/2007	416,297	416,297	416,297
37 Connectivity to SWESC	4/1/2007	11/1/2007	11/20/2007	416,297	416,297	416,297
38 15% Lan Migration	10/1/2007	10/1/2007	11/30/2007	1,973,748	1,973,748	1,973,748
39a Enterprise NOC (Critical)	9/1/2007	11/1/2007	12/13/2007	4,934,370	4,934,370	4,934,370
39b 39b – Final Enterprise NOC (Critical)	9/1/2007	4/1/2008	see 39a	see 39a	see 39a	see 39a
40 MPLS Core established, begin Agency migration (Critical)	9/1/2007	9/1/2007	10/17/2007	2,960,622	5,416,099	5,416,099
41 30% Lan Migration	1/1/2008	1/1/2008	3/4/2008	657,916	657,916	657,916
42 45% Lan Migration	4/1/2008	4/1/2008	8/7/2008	657,916	657,916	657,916
43 60% Lan Migration	7/1/2008	7/1/2008	5/21/2009	657,916	657,916	657,916
44 75% Lan Migration	10/1/2008	10/1/2008	2/17/2010	-	-	-
45 Complete Agency LAN migration (90%) (Critical)	1/1/2009	3/1/2009	9/10/2010	-	-	-
46 Service Commencement	7/1/2006	7/1/2006	6/28/2007	182,864	182,864	182,864
47 Complete Site Surveys (large sites = 500 thru 2000 users)	12/1/2006	8/1/2007	12/5/2007	182,864	-	-
48 Voice over Internet Protocol (VoIP) Arch Design and Recommendations	4/1/2007	Deleted	Deleted	-	-	-
49 Voice over Internet Protocol (VoIP) Infrastructure	1/1/2010	Deleted	Deleted	-	-	-
50 Begin implementation of VoIP	5/1/2010	Deleted	Deleted	-	-	-
51 VOIP Completion (90%)	10/1/2011	Deleted	Deleted	-	-	-
52 Service Commencement	7/1/2006	7/1/2006	6/28/2007	817,689	817,689	817,689
53 Interim Security Incident Tracking and Management System	10/1/2006	10/1/2006	2/22/2007	817,689	817,689	817,689
54 Enterprise Security Operation Center (ESOC) transitional	6/1/2007	11/1/2007	12/14/2007	817,689	817,689	817,689
55 Enterprise Security Operation Center (ESOC) complete (Critical)	7/1/2007	6/1/2008	9/25/2008	1,205,227	1,205,227	1,205,277
56 Enterprise vulnerability assessment program operational (VAP) (Critical)	9/1/2007	3/1/2008	3/31/2008	1,205,227	1,205,227	1,205,227
57 Computer Security Incident Response Center (CSIRC) Complete (Critical)	10/1/2007	3/1/2008	3/13/2008	1,205,227	1,205,227	1,205,227
58 Service Commencement	7/1/2006	7/1/2006	6/28/2007	916,865	916,865	916,865
59 Incident management system Web accessible (interim incident management system)	8/1/2006	8/1/2006	9/26/2006	916,865	916,865	916,865
60 SWESC Staffed and Trained	2/1/2007	12/1/2007	3/7/2008	456,195	456,195	456,195
61 Installation of Avaya telephony	3/1/2007	12/1/2007	1/28/2008	456,195	456,195	456,195
62 Dedicated incident management system and agent workstations installed	4/1/2007	1/1/2008	12/21/2007	456,195	456,195	456,195
63 Transition services to Southwest Enterprise Solutions Center	5/1/2007	3/1/2008	4/15/2008	456,195	456,195	456,195
64 Production incident management system/SPOC help desk (Critical)	9/1/2007	7/1/2008	6/15/2009	456,195	456,195	456,195
65 Service Commencement	7/1/2006	7/1/2006	6/28/2007	-	-	-
66 Commonwealth Enterprise Solutions Center (Commonwealth ESC) ready for occupancy	2/1/2007	7/1/2007	2/26/2009	-	-	-
67 Commissioning Certificate for Commonwealth ESC	2/1/2007	7/1/2007	2/26/2009	-	-	-
68 Richmond Plaza Building migration complete (Critical)	4/1/2007	3/1/2008	2/25/2008	-	3,000,000	3,000,000
69 Southwest Enterprise Solutions Center (Southwest ESC) ready for occupancy	2/1/2007	11/1/2007	2/6/2008	-	-	-
70 Commissioning Certificate for Southwest ESC	2/1/2007	11/1/2007	3/16/2009	-	-	-
71 Service Commencement	7/1/2006	7/1/2006	6/28/2007	206,434	206,434	206,434
72 Process Cutover	1/1/2007	1/1/2007	1/15/2007	103,217	103,217	103,217
73 Migrate existing projects into maintenance umbrella	3/1/2007	3/1/2007	4/20/2007	103,217	103,217	103,217
74 Internal Apps Transformation Complete	4/1/2007	4/1/2007	4/20/2007	472,609	472,609	472,609
Total				141,644,275	130,170,402	129,033,646

Source: VITA Milestone Register through March 2011

APPENDIX C: PARTNERSHIP SERVICE LEVEL AGREEMENTS

Per Event SLAs

SLA #	Title	Target	March 2010	April 2010	May 2010	June 2010	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010
8.11	WAN Connectivity – Large Locations (i.e., > 500 active ports)	99.95%	0/14	1/14	0/14	0/14	1/15	0/15	0/16	1/21	0/16	1/16
8.12	WAN Connectivity - Medium Locations (51-500 active ports) and Critical Small Locations (≤ 50 active ports)	99.90%	8/231	3/228	5/228	11/231	13/233	13/232	5/232	12/234	15/236	12/235
8.13	WAN Connectivity - Small Locations (≤ 50 active ports)	99.85%	26/823	32/821	39/820	57/818	54/816	59/813	23/813	34/807	44/800	28/795
8.14	WAN Connectivity - Managed Router Locations	99.85%	17/355	14/355	21/352	14/352	25/351	17/349	14/349	4/349	17/349	9/349
8.21	Router Connectivity - Large Locations (i.e., > 500 active ports)	99.95%	0/14	0/14	0/14	0/14	0/15	0/15	0/16	1/21	0/16	0/16
8.22	Router Connectivity - Medium Locations (51-500 active ports)	99.95%	0/231	0/228	1/228	4/231	3/233	2/232	0/232	0/234	1/236	0/235
8.23	Router Connectivity - Critical Small Locations (≤ 50 active ports)	99.95%	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
8.24	Router Connectivity - Small Locations (≤ 50 active ports) and Managed Router Locations	99.70%	1/823	3/1176	0/1172	18/1170	7/1167	12/1162	2/1162	3/1156	1/1149	1/1144
8.31	LAN Switch Connectivity - Large Locations (i.e. >500 active ports)	99.70%	1/14	2/14	0/14	0/14	0/15	1/15	1/16	0/21	1/16	1/16
8.32	LAN Switch Connectivity - Medium Locations (51-500 active ports)	99.70%	5/231	0/228	6/228	0/231	6/233	6/232	3/232	2/234	2/236	4/235
8.33	LAN Switch Connectivity - Critical Small Locations (≤ 50 active ports)	99.70%	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
8.34	LAN Switch Connectivity - Small Locations (≤ 50 active ports)	99.70%	1/823	0/821	2/820	0/818	3/813	3/813	1/813	0/807	1/800	0/795

Enterprise-wide SLAs

SLA #	Title	Target	March 2010	April 2010	May 2010	June 2010	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010
1.11	Priority 1 – CESC and SWESC Data Center Locations & Mainframe	90%	100%	100%	N/A	N/A	N/A	100%	0%	N/A	100%	100%
1.12	Priority 1 – Other Locations	85%	100%	90%	100%	89%	97%	92%	88%	96%	97%	93%
1.13	Priority 2 - CESC and SWESC Data Center Locations	95%	95%	100%	62%	100%	100%	100%	100%	100%	100%	50%
1.14	Priority 2 - Other Locations	90%	98%	98%	97%	98%	97%	95%	98%	98%	99%	96%
1.15	Priority 3 - CESC and SWESC Data Center Locations	95%	95%	92%	96%	95%	97%	98%	95%	95%	95%	95%
1.16	Priority 3 - Other Locations	90%	90%	92%	90%	90%	93%	94%	90%	93%	92%	92%
1.17	Initial Findings of Root Cause Analysis Reporting for all Priority 1 & 2 Incidents regardless of location	95%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1.21	Restore Requests for production data in CESC / SWESC	95%	100%	99%	100%	98%	99%	98%	97%	100%	98%	98%
1.22	Restore requests for production data in remote sites	95%	100%	100%	100%	100%	100%	100%	95%	100%	100%	50%
1.31	Accuracy of Record in Asset Tracking Database	95%	N/A	N/A	N/A	N/A	N/A	N/A	97%	N/A	N/A	98%
3.11	Deploy service / security patches / anti virus updates necessary to fix/repair environment vulnerabilities	95%	100%	100%	98%	100%	100%	96%	99%	100%	99%	99%
3.21	Managed Firewall Management Implementation of firewall changes	90%	100%	100%	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3.31	NIDS / NIPS – Able to receive and respond to alerts from NIDS/NIPS	99.60%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
3.32	HIDS / HIPS – Able to receive and respond to alerts from HIDS/HIPS for changes to selected local files	99.60%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
3.33	NIDS / NIPS & HIDS / HIPS Implementation of changes related to changing, adding, and deleting signatures and rules	TBD	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3.41	Managed Firewall Installation - Installation of Managed Firewall	72	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/5	0/11
4.11a	Customer Contact Response Time (Email/Web Form Time to Respond)	90%	82%	92%	91%	93%	92%	92%	97%	93%	93%	90%
4.11b	Customer Contact Response Time (Average Speed to Answer)	60	35	35	43	48	71	48	50	46	47	58
4.12	Password Reset (COV, Encryption using entitlement and EPHD OTP)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
4.13	Agency Application Password Reset Requests	90%	94%	93%	100%	100%	100%	100%	100%	100%	100%	100%
4.21	First Contact Resolution	70%	94%	94%	84%	85%	71%	72%	79%	75%	76%	78%
4.22	Time to Resolution – Shrink Wrap App Incidents for Assets with Altiris installed	90%	95%	92%	98%	98%	99%	99%	99%	99%	99%	99%
4.23	Incident Closure Notice (via e-mail and/or phone)	100%	100%	100%	100%	100%	100%	100%	99%	100%	100%	100%
4.31	New End-User Account (up to 20 per request) and individual User Account Privilege Changes	90%	100%	100%	90%	93%	92%	79%	92%	92%	93%	93%
5.11a	On-site Dispatch - 8 Hours	70%	86%	85%	84%	86%	83%	82%	79%	83%	82%	82%
5.11b	On-site Dispatch - Next Business Day	90%	95%	96%	98%	98%	98%	98%	97%	98%	98%	97%
5.21	Desktop Service IMAC	90%	95%	91%	91%	96%	96%	95%	96%	93%	92%	94%
5.31	Software Installation (Patching) - Operating System (including service packs and non-critical security patches)	90%	98%	100%	N/A	N/A	100%	100%	100%	100%	100%	100%
6.11	Messaging Service for Microsoft Exchange	< 2	5.13	0.49	-	0.25	-	29.50	-	-	-	-
7.11	Mainframe and Server - System Availability Mainframe (OS Class 1, IBM, Unisys)	99.50%	99.90%	99.90%	99.90%	99.90%	99.90%	99.90%	99.90%	99.80%	99.90%	99.90%
7.12	Production Server Instances	99.50%	99.90%	99.70%	99.90%	99.90%	99.90%	99.80%	99.90%	99.80%	99.90%	99.60%
7.13	Critical Server Instances located in Critical Data Centers (CESC and SWESC) with DR	99.90%	99.90%	100.00%	100.00%	100.00%	99.90%	100.00%	99.90%	99.90%	100.00%	99.90%
8.41	VPN - Remote End-User Connection	99.70%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
8.51	Network Transit Delay	98.00%	98.00%	98.00%	99.00%	99.00%	98.00%	98.00%	99.00%	98.00%	98.00%	99.00%
8.52	Packet Delivery Loss (excluding dialup service)	98.00%	82%	86%	78%	93%	90%	90%	50%	44%	92%	56%
9.11	Voice over IP (VoIP) - All Locations	99.90%	0/54	0/54	1/54	0/54	0/54	0/54	0/54	0/19	0/21	0/21
9.21	Jitter (Real-Time Classes of Service)	98.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: VITA SLA Dashboard through December 2010