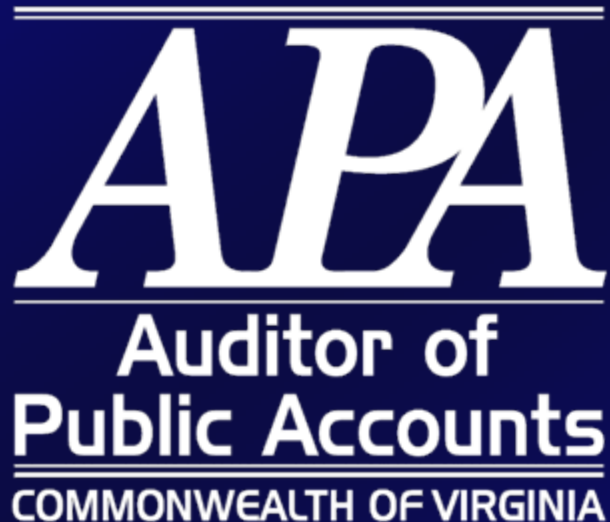


VITA Audit Activities 2003-2009



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Presentation Outline

- History of APA audits of VITA
- Centralization of IT Services
- Privatization of IT Services
- Partnership Contract
- Audit of Contract Management (Expenses)
- Audit of VITA Cost Allocations (Revenues)

VITA Related Audit Activities

- Since 2003 we have issued 12 reports on VITA, 8 of which focused on VITA's transformation including:
 - Board governance
 - information security policies and procedures
 - administration of Northrop Grumman contract
 - billing and cost allocation plan
- Most recent report dated February 2009.

VITA Timeline - Operations

- Between July 2003 and December 2004 VITA transitioned all agency IT assets and some agency IT personnel to VITA.
- Equipment and personnel stayed at their original agency under a “same faces, same places” philosophy.
- Agencies still responsible for managing applications that run on VITA’s hardware.

Audit Highlights 2003

- No operating procedures for new services.
- No detailed plan for achieving consolidation.
- Need for improved ITIB oversight and independence by hiring a permanent CIO, rather than the Secretary of Technology also acting as CIO and ITIB Chairman.

Audit Highlights 2003

- Inadequate billing systems and inaccurate inventory.
- Rates impacted by unreliable inventory.
- Federal funds to pay for VITA IT services at risk if care is not exercised in setting rates and billing equitably.

Audit Highlights 2004

- Permanent CIO hired in February 2004.
- ITIB needs to establish an IT Strategic Plan.
- Concept of rates for new services put on hold. Direct Billing instituted whereby agencies paid actual costs for new goods and services plus 5.52 percent VITA overhead.

Audit Highlights 2004

- Basic web-based inventory system implemented and work continued on accuracy and completeness. More robust inventory system was recommended.

VITA Timeline - Operations

- November 2003 - March 2004 – VITA receives four unsolicited PPEA proposals.
- November 2004 – Board selects Northrop Grumman and IBM to further develop their PPEA proposals.
- November 2005 - Board awards a comprehensive agreement to Northrop Grumman to provide IT operations to in-scope agencies.
- July 2006 – VITA IT operations begin transfer to Northrop Grumman.

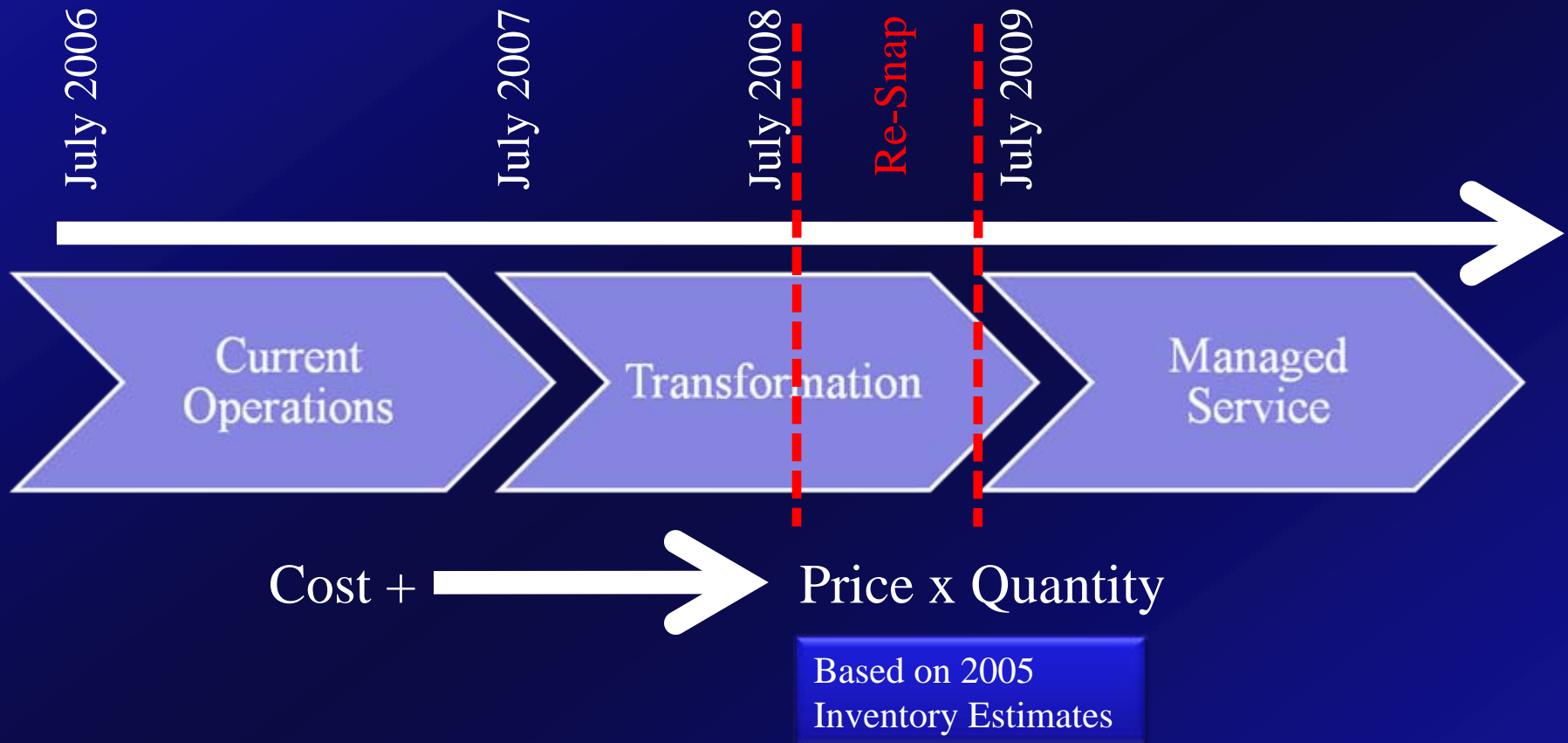
Northrop-Grumman Public-Private Partnership

- Effective 7/1/06 NG took over computer service operations from VITA.
- 10 year, \$2.4 billion dollar contract.
- New data center, new back-up facility, help desk support, infrastructure ownership and management.
- NG owns inventory and is responsible for its accuracy.

Partnership

- 10 year Agreement
- Capped at \$236 million per year
 - Less approximately \$77 million for telecom and other services and Northrop Grumman managed state employees
 - Net annual payment to Northrop = \$159 million
- Minimum guarantee to Northrop of 85%

Partnership Evolution



Re-Snap

- Based on final validated inventory: New baseline is established for the contract
- If final inventories reveal that the Commonwealth uses more IT assets than originally estimated in 2005: the total amount of the contract increases.
- If final inventories reveal that the Commonwealth uses less IT assets than originally estimated in 2005: the total amount of the contract decreases.

Price x Quantity = Contract Total

Audits of Service Management Organization

- Conducted three consecutive annual audits beginning in 2006
- Reports issued in February 2007, 2008 & 2009

Comprehensive Findings

Since inception of the Partnership, the following issues have been noted in our reports:

- Contractual Milestones have not been completed timely
- Specifically, a Comprehensive Procedures Manual, originally due in October 2006, has not been completed by Northrop Grumman

Comprehensive Findings

- Resource Units (inventory), to be used for billing starting June 2008, have not been fully defined nor counted by Northrop Grumman
- Current contract payments are based on an estimation of Resource Units based at time of contract conception (2005)
- Complete accurate inventories are necessary in order to accurately re-snap the base-line of the contract – Unlikely to meet July 2009 “end of Transformation” deadline

Contract Milestones

- Contract provides for 74 milestones, 51 of which have associated payments to Northrop for completion
 - As of 2/1/2009, 12 milestones were not accepted. Of these, 9 were overdue at the time
- 42 of the 62 delivered milestones were delivered and accepted after the contractual due date.

Procedures Manual

- Critically Important to Continuity of Operations
- Lays out the processes to which the Commonwealth may hold Northrop Grumman accountable
- Numerous contractual references to a completed procedures manual for compliance

Resource Units (aka Inventory)

- 54 defined resource units
 - Physical (e.g. laptops, servers, monitors)
 - Non-physical (e.g. virtualized servers, network traffic)
- Inventory contractually to be completed by July 2008
- Three-month mock-billing period prior to officially invoicing the Commonwealth based on resource units was to begin April 2008

Resource Unit Deficiencies

- As of February 2009: Northrop has not completed physical or non-physical inventories
- Projected physical inventory completion was April 2009 – not met
- Many non-physical assets have not yet been defined
- Accurate billing cannot happen without completed accurate inventories

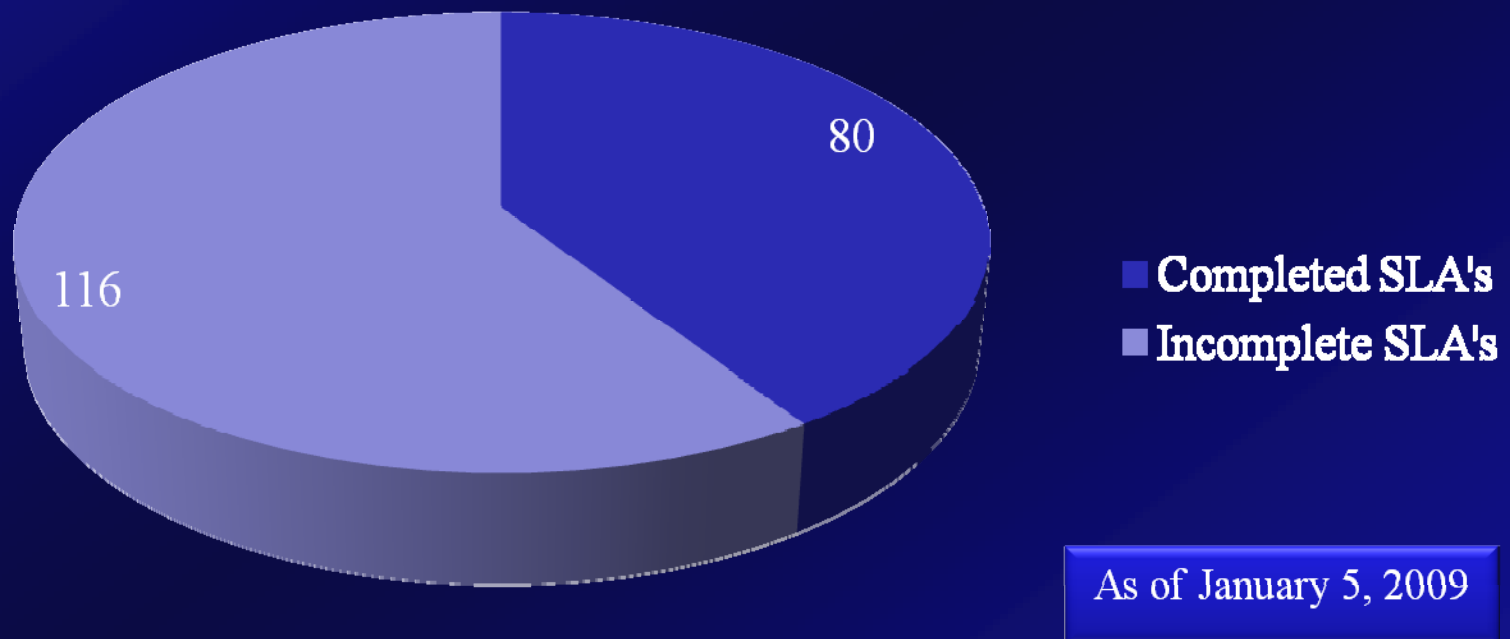
Importance of Accurate Inventories (Resource Units)

- Will create new base-line for the contract over remaining life
- Increases and/or decreases in inventory after “Re-Snap” will lead to reduced or increased unit costs, respectively

Service Level Agreements

- Agreed-upon measures and targets that will be used to hold Northrop Grumman accountable to performance.
- 196 self-reported SLA's by Northrop Grumman
- Commonwealth to choose 20 of 196 each month to monitor Northrop performance and assess financial penalties for insufficient performance
 - Northrop may earn-back penalties for 3 consecutive months of acceptable performance under the deficient SLA

Service Level Agreement Status



Penalties

As of April 2009:

Total withheld	\$13,639,028
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Less: Returned to NG	<u>\$5,562,442</u>
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Net withheld from NG	<u>\$8,130,586</u>
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Passing Through Costs

- Northrop Grumman bills VITA based upon 2005 estimated inventory quantities
- VITA bills agencies based on current (certified) inventories provided by Northrop Grumman
- Because these are different quantities, VITA adopts a different rate structure for Agencies to bridge the gap

Cost Allocation

- Because NG is billing on inaccurate inventories: Federal Government raised concerns over how fee structure translates to Federally-funded Agency bills
- Completed audit of Cost Allocation Process in June, 2008
- Follow-up review still in progress

Cost Allocation Findings

- Federal reporting errors and insufficient detail to allow users to adequately compare revenue and expenses by product or service line (federal requirement)
- Insufficient support and explanations for rate development for decentralized services (desktops, laptops, servers)

Cost Allocation Findings

- Lack of policies and procedures to direct Northrop Grumman on how to classify an asset's billable status (active, in-stock, etc) and definitions for asset equipment types (server, router, etc)
- Lack of internal and external formal guidelines for directing agencies and other stakeholders on how to resolve billing disputes

Cost Allocation Findings

- Lack of inventory records to support the individual agency bills for NG services
 - Insufficient explanations for significant fluctuations in quantity and types of servers
 - Double billing for the same asset within one month

Audit Reports

- Service Management
 - 2009 - <http://www.apa.virginia.gov/reports/VITA2009.pdf>
 - 2008 - <http://www.apa.virginia.gov/reports/VITA%2008.pdf>
 - 2007 - <http://www.apa.virginia.gov/reports/VITAReview07.pdf>
- VITA Cost Allocation
 - 2009 – In-progress
 - 2008 - <http://www.apa.virginia.gov/reports/2007VITACostAllocation.pdf>
- Board Governance and VITA Operations
 - 2003 - <http://www.apa.virginia.gov/reports/VITAspecialrpt03.pdf>
 - 2004 - <http://www.apa.virginia.gov/reports/vita2004.pdf>

Audit Reports

- Other Matters

- 2004 - <http://www.apa.virginia.gov/reports/VITARev04.pdf>
- 2004 - <http://www.apa.virginia.gov/reports/VITA04.pdf>
- 2005 - <http://www.apa.virginia.gov/reports/VITAreview05.pdf>
- 2006 - <http://www.apa.virginia.gov/reports/VitaReview06.pdf>
- 2006 - <http://www.apa.virginia.gov/reports/VIPNet06.pdf>
- 2007 - <http://www.apa.virginia.gov/reports/VITA2008.pdf>

Questions

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