



COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

P. O. Box 1475
Richmond, Virginia 23218

November 16, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
Patrick Henry Building, Third Floor
Richmond, Virginia 23219

Dear Governor:

Item 54.10, Chapter 3, 2006 Acts of Assembly, Special Session I (Appropriation Act), established the Enterprise Applications Public-Private Partnership Project Office (EAPPPPO) effective July 1, 2006, for the purpose of modernizing central administrative systems through an Enterprise Applications Public-Private Partnership. The appropriation act language requires the project office director to provide you with reports on the status of the project as well as funding needs, areas of risk, and any major problems.

The following is an outline of the activities that have taken place since July 1, 2006.

Project Office Director

The appropriation act language provides for the establishment of a project office and creates the position of Project Office Director to oversee the activities of the project. In a memo to James McGuirk, Chairman of the Information Technology Investment Board (ITIB), from Bill Leighty, Chief of Staff, dated July 14, 2006, Tim Bass was designated as Interim Director to immediately assume management responsibilities for the project until the Governor could appoint a permanent director. The Governor has designated me as the primary business owner of the enterprise project.

I am pleased to report that we are making progress toward hiring a permanent project director. The appropriation act language requires the ITIB to review and approve the director's qualifications prior to final implementation of the employment contract. In order to move forward with hiring permanent project director, we have taken two significant steps.

First, the ITIB has reviewed and approved the qualifications for the director's position. Second, in October 2006, a Request for Proposals (RFP) was issued by the Department of Accounts (acting as fiscal agent to the EAPPPO) to contract with an executive recruiter to assist with the search and selection of a permanent director. Korn-Ferry International was selected as the executive recruiter by a panel consisting of the Secretary of Finance, the Secretary of Technology, the Deputy Secretary of Finance, and the interim director of the project.

A contract with Korn-Ferry was negotiated and executed by the Department of Accounts. Initial discussions of candidate qualifications have been completed and the contractor has begun the search process with a goal of hiring a permanent director no later than January.

Project Office

The project office has been established pursuant to the appropriation act. In Mr. Leighty's July 14, 2006, memo, he also requested that the ITIB release up to \$550,000 of the funds appropriated for this project to allow the interim director to establish the Project Management Office (PMO), to begin recruiting two additional staff, and to continue detailed planning activities required by ITIB policies and procedures. On July 20, 2006, the ITIB approved the release of \$550,000 and the funds were subsequently placed in the Virginia Infrastructure Technology Fund (VTIF) for use by the interim director of the EAPPPO.

Effective August 1, 2006, the EAPPPO office was established at Old City Hall, Suite 115. The Department of Accounts assumed responsibility as its fiscal agent service bureau and the Department of Human Resources as its human resources service bureau for all personnel matters.

Other Major Activities of the EAPPPO

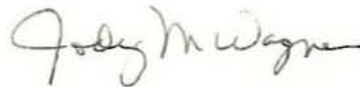
1. The primary focus of the activities in this biennium will be to implement an enterprise financial management system. I presented an outline of the first phase of the project to the ITIB on October 18, 2006. A copy of that presentation is attached.
2. Development of detailed project planning materials for ITIB review and approval began in early September. The EAPPPO plans to submit the proposal to the ITIB in early December. We will provide details for expenditure of the \$11.0 million appropriation and information about the additional funding required to implement a financial management system by the end of the biennium. We also will ask the ITIB to approve the release the appropriated funds to allow the General Design phase of the project to begin.

The Honorable Timothy M. Kaine
November 16, 2006
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3. Negotiation of an enhanced collections agreement between the Department of Taxation and CGI-AMS has continued throughout the quarter. It is expected that a final agreement reflecting projections of the enhanced collections will be completed by early December.

I will continue to advise you of the progress made on this project until a permanent director is hired. At that time, these reports will be submitted by that individual. Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Jody M. Wagner".

Jody M. Wagner

Enclosures



COMMONWEALTH of VIRGINIA

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Jody M. Wagner
Secretary of Finance

P. O. Box 1475
Richmond, Virginia 23218

November 16, 2006

The Honorable John H. Chichester
Chairman, Senate Finance Committee
Virginia General Assembly
P.O. Box 904
Fredericksburg, Virginia 22404-0904

The Honorable Vincent F. Callahan, Jr.
Chairman, House Appropriations Committee
Virginia General Assembly
P.O. Box 1173
McLean, Virginia 22101

Dear Gentlemen:

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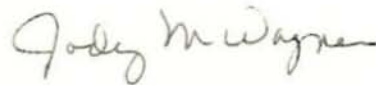
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Jody M. Wagner

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c: The Honorable Timothy M. Kaine
James F. McGuirk, II

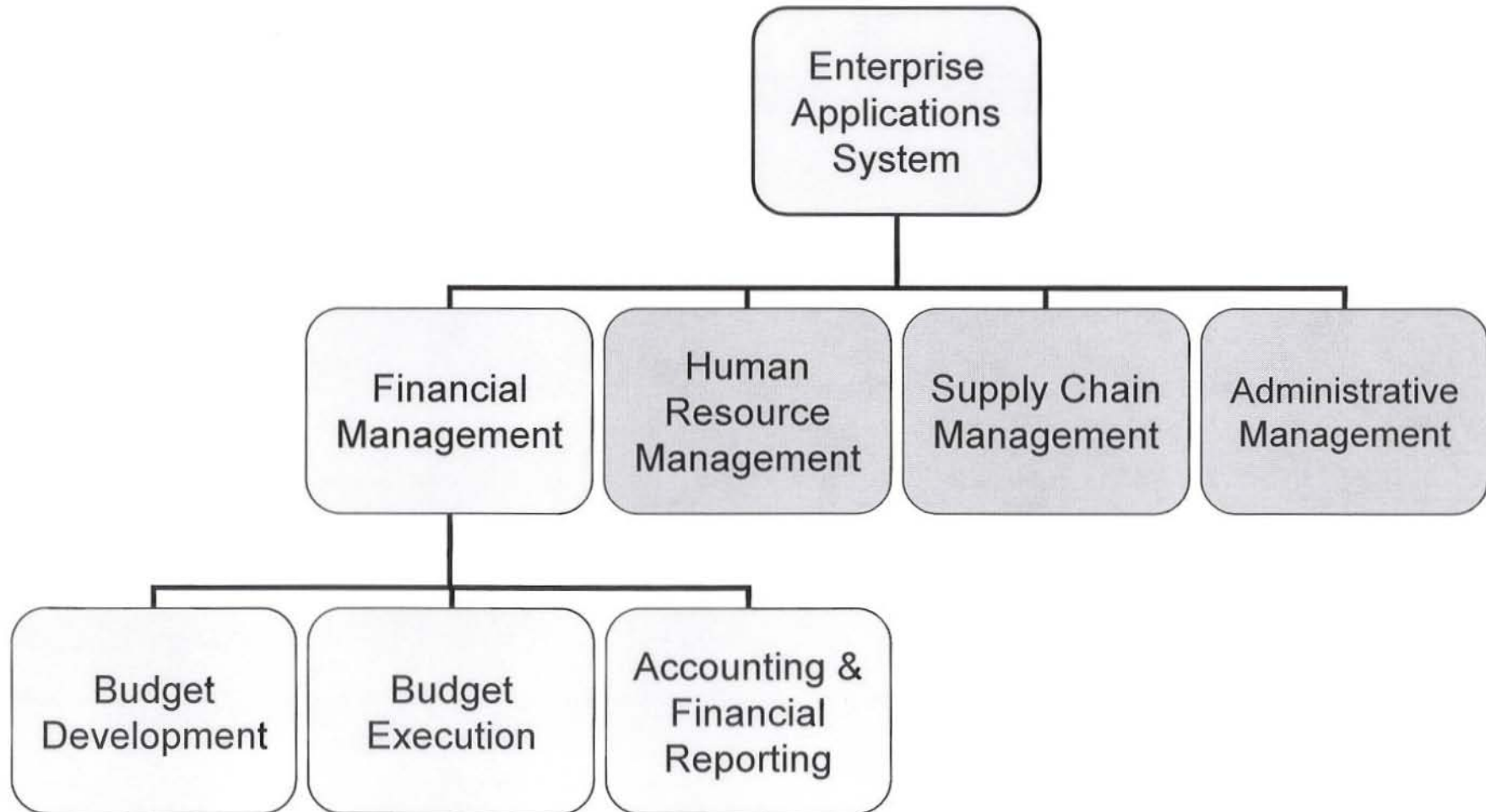
Enterprise Applications

Status Update provided to the ITIB
Solutions Committee

October 18, 2006

Jody M. Wagner
Secretary of Finance

Overview of the Enterprise Applications System



Enterprise Applications

- Phase 1 – Financial Management System
 - Program begins upon approval of ITIB (Nov 2006).
 - Deliverable #1 – New ERP-based Budget Development System (June 2008).
 - Deliverable #2 – New ERP-based Integrated Financial Management System – includes Budget Development & Execution and Accounting & Financial Reporting (June 2009).
 - Beyond Phase 1 – Human Resource, Supply Chain, and Administrative Management Systems. Specific order to be determined.

Enterprise Applications

Major Projects

Budget Development System

Budget Execution System

Accounting & Reporting



Processes Using New ERP Functions

Budget Amendment Cycle

Biennial Budget Development

Budget Execution, Accounting & Reporting



Enterprise Applications

- Why start with Financial Management?
 - If an Enterprise solution was not being considered at this time, the Commonwealth would still face the need to replace its financial systems.
 - We would still be reviewing business processes.
 - We would still be considering an ERP software solution.
 - We would still be hiring an integrator.
 - Current systems do not support the needs of most state agencies. Over 150 separate financial systems of various types were discovered during due diligence.

Enterprise Applications

- Why start with Financial Management? - *continued*
 - Risk of system failure and the diminishing pool of knowledge to support these antiquated systems.
 - The potential exists for material errors that could lead to internal control findings or audit qualifications resulting from risks associated with antiquated systems. Concerns include:
 - Processes that require manual intervention.
 - Significant data analysis and manipulation are required that adversely impacts timely financial reporting.
 - Weaknesses in numerous reports as cited by the APA .

Enterprise Applications

- Phase 1 Cost Breakdown
 - Costs by deliverable are currently being scrubbed.
 - Charter & Proposal for ITIB will provide costs for the Financial Management Program and by each project deliverable:
 - Performance Budgeting System
 - » Program Management - (COVA, Integrator)
 - » Vendor Costs – (Product, Service, Maintenance)
 - Balance of Integrated Financial Management System
 - » Program Management - (COVA, Integrator)
 - » Vendor Costs – (Product, Service, Maintenance)

Enterprise Applications

- Funds will come from several sources, released by ITIB (through VTIF) as appropriate.
 - Current General Fund Appropriation – \$11 million split between years: \$5.5 million in FY 2007 and \$5.5 million in FY 2008.
 - Additional funds will be needed. Sources will need to include:
 - Additional General Fund support from the General Assembly
 - Enhanced collections in partnership with CGI-AMS

Enterprise Applications

- Next Steps
 - Draft Charter & Proposal for ITIB review will be submitted to the VITA PMD, CIO, and ITIB (Nov 2006).
 - First funding request to the ITIB will focus on approval of the release of the appropriated \$11M toward the major project deliverables.
 - Engage recruiter (Oct 2006), initiate search and select permanent EA Director (Oct – Nov 2006), hire is subject to ITIB approval (Dec 2006).

Enterprise Applications

- Next Steps - *continued*
 - Complete ERP platform selection.
 - Engage agencies to provide required financial management expertise.
 - Core team members
 - Subject matter experts

Enterprise Applications

Questions?