



COMMONWEALTH of VIRGINIA

Lemuel C. Stewart, Jr.
CIO of the Commonwealth
Email: lem.stewart@vita.virginia.gov

Virginia Information Technologies Agency


110 South 7th Street
Richmond, Virginia 23219
(804) 225-VITA (8482)

TDD VOICE -TEL. NO.
711

March 31, 2006

MEMORANDUM

TO: The Honorable John H. Chichester, Chair, Senate Finance Committee
The Honorable Walter A. Stosch, Chair, Senate General Laws Committee
The Honorable Vincent F. Callahan, Jr., Chair, House Appropriations Committee
The Honorable Joe T. May, Chair, House Science and Technology Committee
The Honorable John S. Reid, Chair, House General Laws Committee

FROM: Lemuel C. Stewart, Jr. 

SUBJECT: VITA Quarterly Report

Item 463.B.4, 2004 Appropriations Act, directs the Chief Information Officer (CIO) to prepare Quarterly Reports providing the status of IT reform implementation in the Commonwealth. This document represents the quarterly submission due April 1, 2006, covering activities occurring from December 16, 2005, to March 15, 2006 (except where noted).

I am pleased to report that the Virginia Information Technologies Agency (VITA) continues to make substantial progress in all areas of operations. This edition of the Quarterly Report highlights Information Technology Investment Board activities IT infrastructure and organizational transformation, partnership highlights, collaborative solutions, the statewide IT Strategic Plan, technology management, finances, rates, memoranda of understanding with agencies, and audit activities.

As always, I welcome the opportunity to discuss with you any aspects of VITA and the IT infrastructure partnership efforts underway.

Attachment

c: The Honorable Timothy M. Kaine, Governor of Virginia
The Honorable William H. Leighty, Chief of Staff
The Honorable Aneesh Chopra, Secretary of Technology
Information Technology Investment Board Members
The Honorable Lacey E. Putney, Chairman, Joint Legislative Audit and Review Commission
The Honorable Thomas K. Norment, Jr., Chairman, SFC Sub-Committee for General Government
The Honorable L. Preston Bryant, Jr., Chairman, HAC Sub-Committee for Commerce & Technology
The Honorable Harry J. Parrish, Chairman, House Finance Committee
The Honorable Richard L. Saslaw, Member, Senate of Virginia
The Honorable Janet D. Howell, Member, Senate of Virginia
The Honorable Samuel A. Nixon, Jr., Member, Virginia House of Delegates

Virginia Information Technologies Agency



VITA Quarterly Report

April 1, 2006



expect the best

December 16 – March 15, 2006

In keeping with our commitment to cost savings,
this report was produced in limited quantities, in-house,
utilizing an existing color printer and binding equipment.

Prepared and Published by:
Virginia Information Technologies Agency

Comments and recommendations on the Quarterly Report from
all interested parties are welcomed and encouraged.

Suggestions may be conveyed electronically to
VITACOMMS@vita.virginia.gov. Please submit written correspondence to:

Lemuel C. Stewart, Jr.
Chief Information Officer of the Commonwealth
Virginia Information Technologies Agency
110 South Seventh Street
Richmond, VA 23219
cio@vita.virginia.gov

This report is available online at:
www.vita.virginia.gov

About the Cover:

VITA is people first, customer-driven and customer-focused, and committed to nurturing its people through ongoing training/re-training throughout their professional careers. In our logo, we highlight individuals in our agency who make VITA a success seven days a week, 365 days a year. We currently are featuring the following outstanding VITA employees and the new Vice Chair of the Information Technology Investment Board (ITIB) in our logo (from left to right): Charles Townes, Acting Manager, Supply Chain Management; Nancy Tomlinson, Facilities Coordinator/Purchasing Officer, 2004 and 2005 Agency Star Nominee; Cynthia Cordova-Edwards, Senior Commercial Manager, Service Management Organization; and Hiram Johnson, Vice Chair, ITIB, who also has 20 years of state service and was selected as one of Virginia's Outstanding State Agency Heads. Their combined state service represents more than 58 years of contributions to the Commonwealth.



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Information Technology Investment Board (ITIB) Highlights

The ITIB met January 11-12, 2006, with representatives of numerous stakeholder groups to draft a Statewide Information Technology Strategic Plan (see page 16) and met in regular session on February 9, 2006.

New Secretary of Technology Joins ITIB

Secretary of Technology Aneesh Chopra joined the ITIB as its newest member. Secretary Chopra previously was Managing Director of the Advisory Board, a think tank providing strategic research to hospitals and health systems. He previously served on Virginia's Board of Medical Assistance Services and on Virginia's Electronic Health Records Task Force. He has a bachelor's degree from Johns Hopkins and a master's in public policy from Harvard University's John F. Kennedy School of Government.



Secretary Chopra said he greatly appreciates the opportunity to sit along side the Commonwealth's brightest minds in the use of technology and to join in advancing the Commonwealth's objectives. He said he is entering state government at a time when the quality of information technology has been elevated and is pleased with the rigor with which project management is approached.

Secretary Chopra said he will spend his time looking at how technology can be better used to meet the needs of the Commonwealth and will serve as a communication bridge in that regard.

He said his three priorities will be using technology in:

- Transportation, whether through intelligent transportation or demand management;
- Health care, promoting administrative efficiency and elevating quality of care through the electronic health care initiative; and,
- Education, facilitating links between the Commonwealth's assets at the university level and the needs of workforce development, and having cutting-edge researchers address the Commonwealth's needs.

Hiram Johnson Elected Vice Chair

At the February 9, 2006, meeting, Hiram Johnson was elected vice chair of the ITIB by unanimous vote.

He retired from Dominion Resources as general manager of external affairs in 2000 after 18 years with the company in several leadership positions. He also served 20 years in executive positions in Virginia state government, where he was selected as one of Virginia's Outstanding State Agency Heads.



Johnson previously served on the Governor's Council of Information Management and as a member of the boards of the Richmond Arts Consortium and Junior Achievement of Central Virginia. In 2003, Johnson was appointed by the Virginia General Assembly Joint Rules Committee to the ITIB for a one-year term. He was reappointed to a four-year term in 2004.

Johnson received a bachelor's degree from Virginia Commonwealth University, and completed the executive programs at the University of Michigan and the University of Georgia. He is a native of Chesterfield County, and serves on the Board of the Chesterfield/Colonial Heights Crime Solvers.

ITIB Restructures Meetings, Committees

Chairman James F. McGuirk II proposed, and the ITIB unanimously agreed at the February 9, 2006, meeting, to restructure ITIB meetings and committees.

Chairman McGuirk said when the ITIB was formed, it was to establish VITA, hire a Chief Information Officer, put project management processes in place, establish rates and ensure financial stability, and make sure it understood proposed legislation and the impact on IT.

His proposal elevates the strategic plan and Recommended Technology Investment Projects (RTIP) out of the committee process and to the ITIB. Two separate full board meetings will address strategic items and operational matters. A new committee structure has been established. The committees and members include:

IT Infrastructure Committee

Leonard M. Pomata, Chair
James W. "Jimmy" Hazel
Hiram R. Johnson
Mary Guy Miller
Scott D. Pattison

Executive Evaluation and Governance Committee

Mary Guy Miller, Chair
Hiram R. Johnson
Kenneth S. Johnson Jr.
James F. McGuirk II

Commonwealth IT Solutions Committee

The Honorable Aneesh Chopra, Chair
Kenneth S. Johnson Jr.
Walter J. Kucharski
James F. McGuirk II
Alexander "Sandy" Thomas

Legislative Affairs Committee

James W. "Jimmy" Hazel, Chair
The Honorable Aneesh Chopra
Hiram R. Johnson
Alexander "Sandy" Thomas

Finance and Audit Committee

Scott D. Pattison, Chair
Walter J. Kucharski
James F. McGuirk II
Leonard M. Pomata

Meetings Slated for 2006

April 5-6
July 19-20
August 10 -- Special meeting re: RTIP
Oct. 18-19

Awards and Recognition

CIO in Government Technology's Top 25

Virginia's Chief Information Officer Lemuel C. Stewart Jr. has been named to *Government Technology's* Top 25 Doers, Dreamers and Drivers list.

Government Technology, an organization that conducts information technology (IT) studies and provides IT applications, news and publications, honors individuals each year who redefine and advance technology's role in government and society. This year's list highlights those who have accomplished IT reform goals.



Stewart was praised for engineering the successful integration of staff and resources from 90 agencies into one organization and for streamlining the government's IT infrastructure while maintaining service continuity. The development of the public/private partnership with Northrop Grumman was marked as an achievement that will transform the state's technology infrastructure and improve government operations and delivery of services to citizens.

During Stewart's 30-year information technology career he has held various leadership positions in the commercial and government sectors. He was President and Founder of Executive Partners, a technology consulting company; President of QuadraMed Corporation's healthcare services division, a publicly traded national healthcare technology services company; President of Health Communications Services, Inc., an international healthcare information technology services company; and President and Founder of Information Technology Solutions, a technology consulting company. Stewart also served with the Commonwealth of Virginia in various technology leadership positions including Director of the Department of Computer Services and Director of the Department of Information Technology.

Stewart chairs two Commonwealth boards -- the Council on Technology Services and the Wireless E-911 Services Board -- and is a member of the Virginia Geographic Information Network Advisory Board.

From its inception, the Information Technology Investment Board (ITIB) and VITA have focused significant attention on the identification and support of multi-agency and intergovernmental collaboration initiatives.

Learning Management System

The Enterprise Learning Management System, called the Commonwealth of Virginia Knowledge Center (COV KC), is a shared online application available to all state agencies. The Department of Human Resource Management (DHRM) is the business owner of this enterprise application. During the quarter, two new customized online training courses were made available to all state employees through the COV KC -- "Terrorism and Security Awareness Orientation" and "Understanding and Using the Grievance Procedure."

Also during the quarter, several new agencies expressed an interest in creating their own branded KC domain, increasing the total number of agencies now live, planning to go live, or evaluating the state-wide Learning Management System to 16. This group includes:

- Department of Correctional Education
- Department of Corrections
- Department of Education
- Department of Employment Dispute Resolution
- Department of General Services
- Department of Human Resource Management
- Department of Juvenile Justice
- Department of Motor Vehicles
- Department of Planning and Budget
- Department of Social Services
- Department of Taxation
- Department of Transportation
- Department of Veteran's Services
- Employment Commission
- State Police
- VITA



VITA's branded KC domain, known as the VITA KC, provides VITA employees with unprecedented access to online training opportunities from leading course providers. This ongoing investment in workforce development continues to improve skills and strengthen knowledge of state workers.

Enterprise Geographic Information Systems (GIS)

Enterprise GIS services development continues on three parallel tracks: (1) establishing a collaborative enterprise partnership across state agencies through a managed governance process;

(2) managing ongoing local support through existing local government partners' collaborative networks; and, (3) developing, marketing, and deploying geospatial enterprise services.

VITA and the Virginia Geographic Information Network (VGIN) contracted with Sanborn Map Company Inc. of Colorado Springs, CO, for a statewide update of the Virginia Base Mapping Program's (VBMP) high-resolution digital orthophotography. Sanborn will acquire six-inch resolution imagery over approximately 10 percent of the state and one-foot resolution statewide over two years with local options to produce contour/flood plain maps to FEMA standards and three dimensional structure planimetrics by locality.



VGIN held workshops with two regional GIS manager workgroups across Virginia to work with local government partners on moving to statewide standards for digital road centerlines and ongoing updates of this data by local governments. Six more workshops have been scheduled. VGIN also delivered the first statewide road centerline test product to the Virginia Utility Protection Services (Miss Utility - Call before you dig).

VGIN continues to test a state-of-the-art geospatial enterprise technology platform at VITA. VGIN is nearing completion of a study of security and performance issues related to installing independent business applications on a single enterprise technology platform. VGIN transferred the State Board of Elections (SBE) geocoding and redlining applications to the Geospatial Enterprise Production Platform (GEP) and held test workshops for local voter registrars from six jurisdictions in Virginia and SBE management staff. VGIN was also awarded a \$498,000 homeland security grant to continue development and deployment of the Virginia Readiness, Response, and Recovery GIS (VR3) for homeland security and public safety.

E-911

Over the past two years, the Wireless E-911 Services Board has worked to enhance its enabling legislation to position the Commonwealth for the future. During the 2006 General Assembly session, this initiative was finally successful. Patroned by Senator Kenneth W. Stolle, this legislation (Senate Bill 395) expanded the role of the Board into planning for the future, sometimes called the next generation, E-911 system so that it is able to respond to the challenges of new telecommunications technologies. However, this legislation also recognizes the role of VITA with this future system by directing the Wireless E-911 Services Board to support VITA's efforts toward a statewide telecommunications network.

Instead of the Board planning to build an independent network just to support E-911, the legislation requires collaboration with VITA and other public safety stakeholders. Initial requirements for the next generation E-911 network indicate that it will be Internet protocol-based. As a result, this network need not be an independent network as it is now. In fact, the E-911 application will be able to utilize the backbone telecommunications infrastructure that is part of the Northrop-Grumman IT Infrastructure Partnership agreement. Rather than focusing on the design or funding of the entire

network, the focus can be placed on expanding access to the core network to each locality in the Commonwealth to support E-911. This local interface also can be shared with other agencies that need to communicate with local agencies or even among the localities themselves.

The network would support a multitude of applications in addition to E-911. One application that is being explored in Southwest Virginia is the concept of hosted E-911 services. Once the network is in place, one or more E-911 centers (also called public safety answering points or PSAPs) could



consolidate their infrastructure in a common data center. This sharing of infrastructure will provide a greater economy of scale for those PSAPs working together and will support much improved interoperability. By using the same backroom equipment, calls could be easily rerouted to another PSAP or area in the event of an evacuation of the PSAP. Additionally, the extraordinarily high call load that typically follows a major incident could be disbursed across the region to minimize its impact on any one agency. VITA is working with the region to determine the viability and economy of a pilot project. This pilot project is expected to be a model for the entire Commonwealth and even the nation.

Supplier Managed Staff Augmentation (SMSA)

Supplier Managed Staff Augmentation (SMSA) is providing agencies with an efficient, time-saving tool for hiring IT contractors. In the first 44 days of operation, 68 contractors were placed in 18 agencies. Of those 68 positions, 47 percent were filled through small, woman and minority (SWAM) IT suppliers. Currently, there are 74 active IT contractor suppliers involved in the SMSA network, with an additional 16 suppliers going through the process of joining the network. Of the 74, 35 percent are SWAM suppliers.

VITA implemented SMSA for cost savings, productivity improvements, and better process management in hiring contract IT staff. It provides IT professionals with high-demand skills, while making wise use of taxpayer dollars.

Under SMSA, an agency hiring manager contacts the SMSA provider to discuss a need for a contractor. A requisition detailing the required skill set is posted and accessed by suppliers via the provider's Web-based system. Within three business days, the hiring manager will receive the resumes of the top five candidates. The provider handles scheduling interviews, conducting background checks, and extending job offers to the most qualified candidate. Once the position is filled, the provider continues to monitor contractor performance.

Strategic Planning and Portfolio Management

Commonwealth IT Strategic Plan

The Commonwealth Information Technology Strategic Planning Project is designed to create a strategic plan that provides direction for technology decisions in the Commonwealth. This plan will be fully supportive of Virginia's business direction and goals with the incorporation of input from stakeholders. The end product will be an IT strategic plan that is reviewed and updated as required, and a process for maintaining the plan that will be tied to the Commonwealth's planning cycle. It will be made available to agencies to provide technology direction in a timely manner for business/budget planning, and will be an integral part of the Commonwealth's planning process as a whole.

Virginia citizen and business representatives, Virginia government and IT leaders, Council on Technology Services (COTS) members, higher education representatives, legislators and legislative staff all gave generously of their time and expertise to work with this project, by outlining and describing what matters most in moving technology forward to support the business of the Commonwealth.

Sixteen stakeholder workshops and many one-on-one sessions were conducted to collect the perspectives of stakeholders between October and December 2005. More than 140 people supplied expertise, ideas and viewpoints that contributed to this strategic plan.

Technology experts' "views over the horizon" on leading edge technology showing promise for state government were gathered through futures presentations, a vendor/partner workshop, and reviews of nationally recognized consultant reports.

The project team also worked with the Department of Planning and Budget and the Executive Director of the Council on Virginia's Future throughout the project to ensure that the strategic plan fits into the Commonwealth's existing planning cycle and aligns to Virginia's eight long-term objectives as set forth by the Council.

The information gathered from the above sources was analyzed and brought to a two-day retreat January 11-12, 2006, to create the foundation for the Commonwealth of Virginia Strategic Plan for Information Technology.

The retreat team included representatives from the stakeholder groups, as well as the ITIB, CIO, Secretary of Technology and representation from the Council on Virginia's Future and Department of Planning and Budget. Thirty one individuals participated over the course of the retreat. The team drafted a mission, vision, goals, objectives, measures, and initiatives.



Subsequent to that retreat, the Strategic Planning Workgroup, a subset of the retreat team has been meeting weekly to continue to adjust and refine the draft for additional input before the plan goes to the full ITIB for consideration at its April 5-6, 2006, meeting.

Recommended Technology Investment Projects (RTIP) Report

At the direction of the ITIB, VITA conducted a stakeholder survey in December 2005 to answer the following questions about the annual ITIB Recommended Technology Investment Projects (RTIP) Report:

- Who is using the RTIP Report?
- How is the RTIP Report being used by stakeholders?
- Does the RTIP Report meet the needs of identified stakeholder groups?
- What are the stakeholder's suggested improvements to the report and reporting process?

Survey results, observations, conclusions, and recommendations were presented, along with a draft of the proposed 2006 RTIP Report format, to the ITIB Strategic Planning and Review Committee (SPARC) on February 9, 2006. Discussion followed on the results of the survey and the proposed content and format of the 2006 RTIP Report. SPARC committee members requested a revised one-page 2006 RTIP Report outline that incorporated the committee's discussion points, addressed issues raised in the survey, and provided a crosswalk of the RTIP Report contents with JLARC's 1997 report, "Overview: Review of Information Technology in Virginia State Government." VITA staff provided the requested outline and crosswalk to the Chair of the ITIB and the Chair of SPARC. In light of the restructuring of the ITIB committees and the implementation of a special ITIB session dedicated to strategic planning and the RTIP Report, approval of the 2006 RTIP report outline was deferred to April.

Work continues within VITA and in collaboration with the Department of Planning and Budget to strengthen the Agency Strategic Planning Process in the area of IT planning. Currently, ongoing operations and maintenance IT costs are captured as part of overall administrative and support services within agency strategic plans. Proposed improvements include separating ongoing operations and maintenance IT costs into a separate IT services category and delineating between infrastructure service fees paid to VITA and non-infrastructure application costs. Once agreement has been reached among all parties as to the best approach, agency strategic plan instructions will be updated. This revised planning approach will better support both RTIP reporting and the planned transition of services to the new VITA contract with Northrop Grumman.

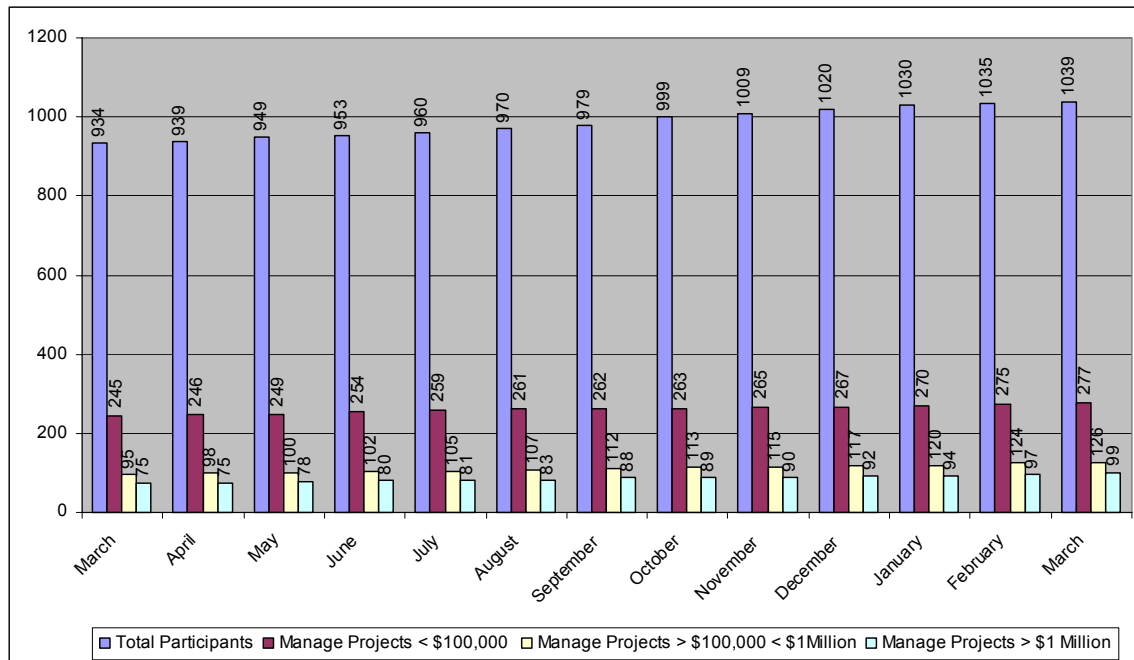
Following are the scheduled activities for the 2006 RTIP reporting cycle:

- April - Agencies update their Agency Strategic Plan to synchronize with the Appropriation Act
- May - CIO approves the IT component of Agency Strategic Plans for FY 06-08 Budget
- June - Agencies update major IT project portfolio information for the 2006 RTIP Report
- July - VITA develops the Draft 2006 RTIP Report
- August - VITA presents the Final Draft 2006 RTIP Report to the ITIB for approval
- September- ITIB 2006 RTIP Report delivered to Governor and General Assembly

Project Manager Development Program (PMDP)

Interest and participation in the Commonwealth PMDP has grown at a steady rate during the past year. Results to date, including the total number of PMDP participants and identification of those meeting qualification requirements for various project categories, are shown in Exhibit A. As of March, there were 1,039 participants in the program, including 277 who have met the qualification requirements for managing projects in the Commonwealth. Between March of 2005 and March of 2006, the number of participants qualified to manage major IT projects grew by 32 percent. Program participation and achievement of project management qualification standards is expected to continue at the current rate.

Exhibit A
Participation in the Project Manager Development Program



Project Oversight and Reporting

Starting in 2005, at each meeting of the ITIB, the CIO provides his assessment of the status of Major IT Projects. His assessment is drawn from reports submitted through the Commonwealth Major IT Project Status Report Dashboard, proponent Secretariat evaluations, and Project Management Division (PMD) Analysis. Each project is assessed either:

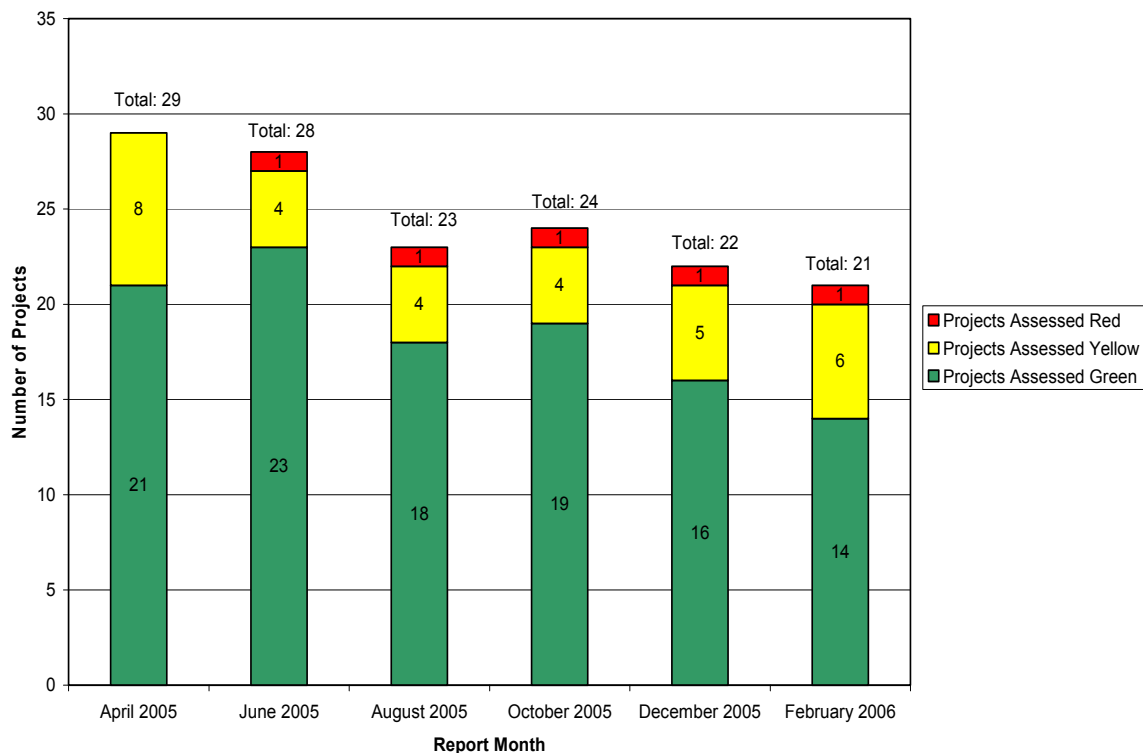
- Green: On Track
- Yellow: Warning — Consider corrective action or monitor previous corrective action
- Red: Problem — Immediate corrective action required

Exhibit B summarizes the CIO assessments for the past 12 months, as presented at the February 2006 ITIB meeting. For the past 12 months, on average, 77 percent of the projects were assessed as Green, 20 percent as Yellow, and 3 percent as Red. During this period, the number of active projects

has dropped from 29 to 21, due to projects being completed at the end of FY05, slowed project approval due to consideration of the Public-Private Educational Facilities and Infrastructure Act (PPEA) infrastructure and enterprise application proposals, and conclusion of the 2004-2006 budget biennium. The number of projects assessed as Yellow rose in December and February as a result of closer scrutiny. The Major IT Project Status Report Dashboard is available at <http://www.vita.virginia.gov/projects/cpm/majorITProjectStatus/pubDashboard.cfm>.

Exhibit B Status of Major IT Projects

**CIO Assessment of Major IT Projects,
as Reported to the IT Investment Board**



Independent Verification and Validation (IV&V)

As a key refinement in project oversight activities, the ITIB directed the development of a more consistent and comprehensive Independent Verification and Validation (IV&V) program for major IT projects. All major projects initiated since January 2005 have been required to contract with IV&V providers using the Advance IT Services contract and to conduct IV&V reviews as specified in the Commonwealth Project Management Standard (GOV2004-02.3.2). The program guidance has been incorporated into the upcoming Project Management Standard revision. Since January 2005, executive branch agencies have used the IV&V program guidance and templates in newly initiated major IT projects. Promulgation of the Project Management Standard revision is anticipated no later than April 2006.

IT Infrastructure Partnership

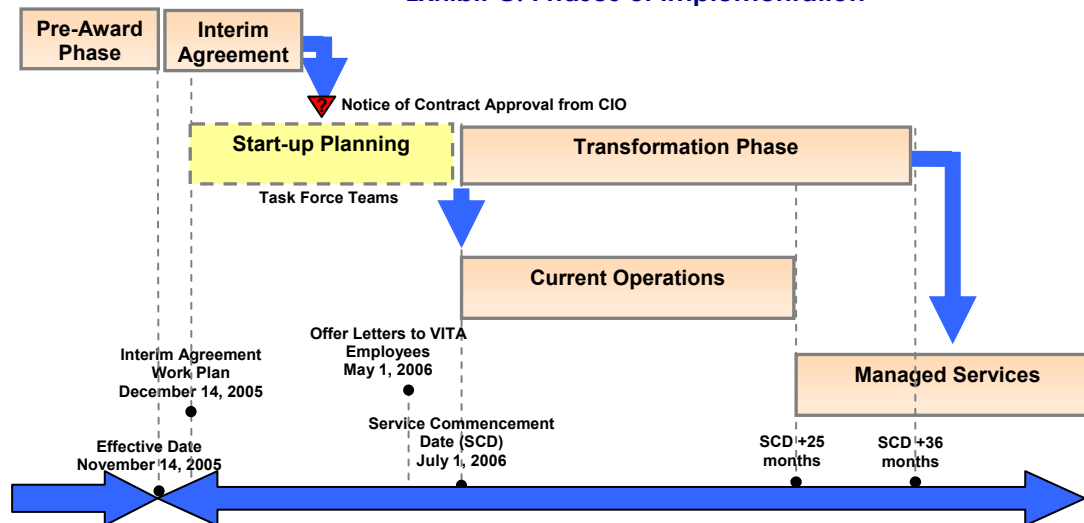
The Commonwealth of Virginia and Northrop Grumman Corporation formed a partnership in November 2005 to modernize the state's IT infrastructure. The 10-year, \$2 billion contract will result in:

- A reliable and agile infrastructure with consistent, measurable services at predictable prices;
- Excellent opportunities for employees for growth and an enhanced employment package;
- New, state-of-the-art facilities in Chesterfield and Russell Counties;
- Improved security of Commonwealth data and 24-hour disaster recovery capability; and,
- Job creation and economic development, particularly in southwest Virginia.

Phases of Implementation

The partnership is in the interim agreement phase, which permits VITA and Northrop Grumman to plan the transition and transformation activities beginning on service commencement date (SCD), currently scheduled for July 1, 2006. Following legislative approvals, the interim agreement will become final with notice from the CIO. At the time of this report, the General Assembly has convened in special session to finalize the budget bills, including the "caboose" bill containing the capital lease component for the partnership. Exhibit C illustrates the planned phases of implementation.

Exhibit C: Phases of Implementation



At service commencement, Northrop Grumman will assume technical and operational responsibility for current IT infrastructure services — the current operations phase — and will begin transformation activities — the transformation phase — to modernize the Commonwealth's IT infrastructure over three years. As the transformation projects are completed, current operations will move into the managed services phase, also known as steady state operations, for the remainder of the agreement.

Interim Phase Accomplishments and Focus

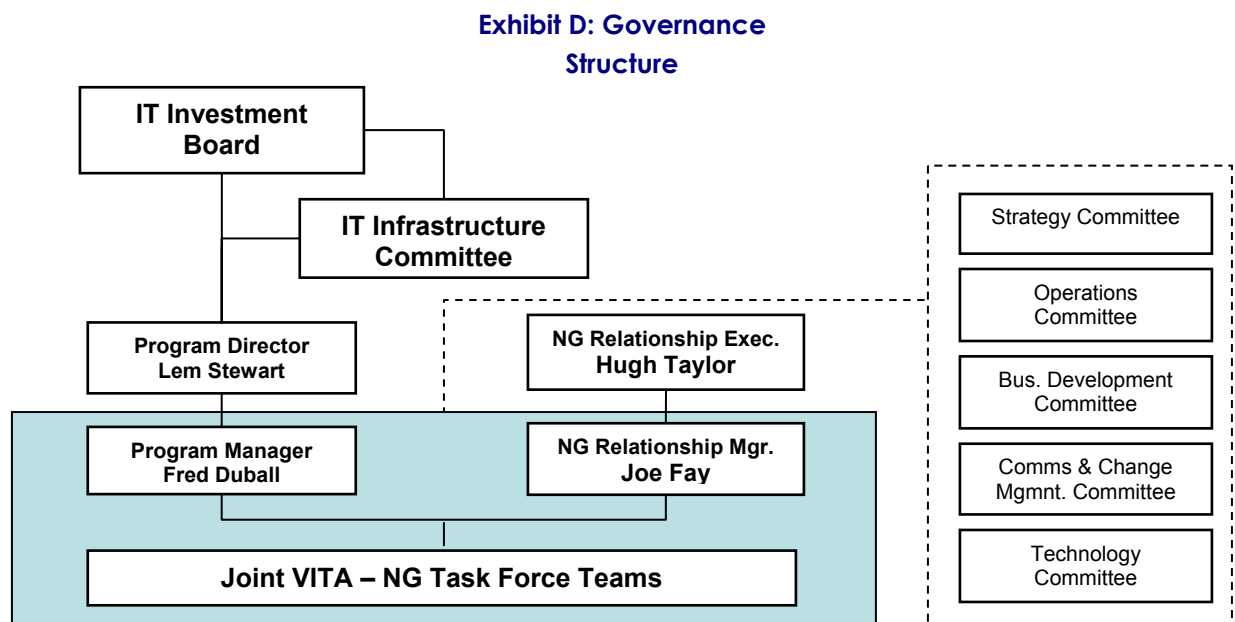
Over the last quarter, VITA and Northrop Grumman began intensive, joint planning efforts to prepare for service commencement and transformation. The partnership is focused on five “vital few” activities during the interim phase, including:

- **Partnership alignment and program mobilization** including start-up activities to form the program structure, establish governance and oversight, stand up the project teams and work plans, align with Commonwealth leadership, and encourage stakeholder involvement and input.
- **Employee transition** to develop the employee transition plan for continuity of work force during the offer, decision and acceptance period and to develop the employee on boarding plan.
- **Current operations** to maintain current levels of service and support as Northrop Grumman assumes technical and operational responsibility for IT infrastructure services.
- **Critical milestones** to expand the contractual milestones for transformation projects and activities to identify implied milestones, predecessors and interdependencies.
- **Financial readiness** to assess and adjust financial activities and processes, create transparency, and prepare systems for billing and invoicing under the partnership.

The planning effort includes more than 100 people from both organizations, most of whom are co-located on the fifth floor of the VITA Operations Center in Richmond. The partnership relationship overall is very good, and all interim phase milestones and deliverables have been met.

Governance and Oversight

The governance structure (Exhibit D) for the partnership is composed of a combination of committees and roles.



ITIB

The ITIB is the overall program sponsor for the Commonwealth. The Board established the IT Infrastructure Committee in February 2006. Chaired by Len Pomata, the committee is charged with oversight of IT infrastructure operations and partnership implementation.

Program Executives

CIO of the Commonwealth Lem Stewart and Northrop Grumman Commercial, State and Local Group President Hugh Taylor are the program executives. They are accountable for the success of the partnership and responsible for ensuring overall alignment of the partnership and the Commonwealth's business strategy.

Program Directors

VITA Service Management Organization (SMO) Director Fred Duball and Northrop Grumman Relationship Manager Joe Fay are the program directors. They are responsible for the day-to-day activities associated with implementation of the partnership and for management of the partnership relationship. They oversee first-tier managers who serve as co-leads for seven joint task force teams.

Oversight Committees

There are five joint governance committees providing oversight and guidance to the partnership.

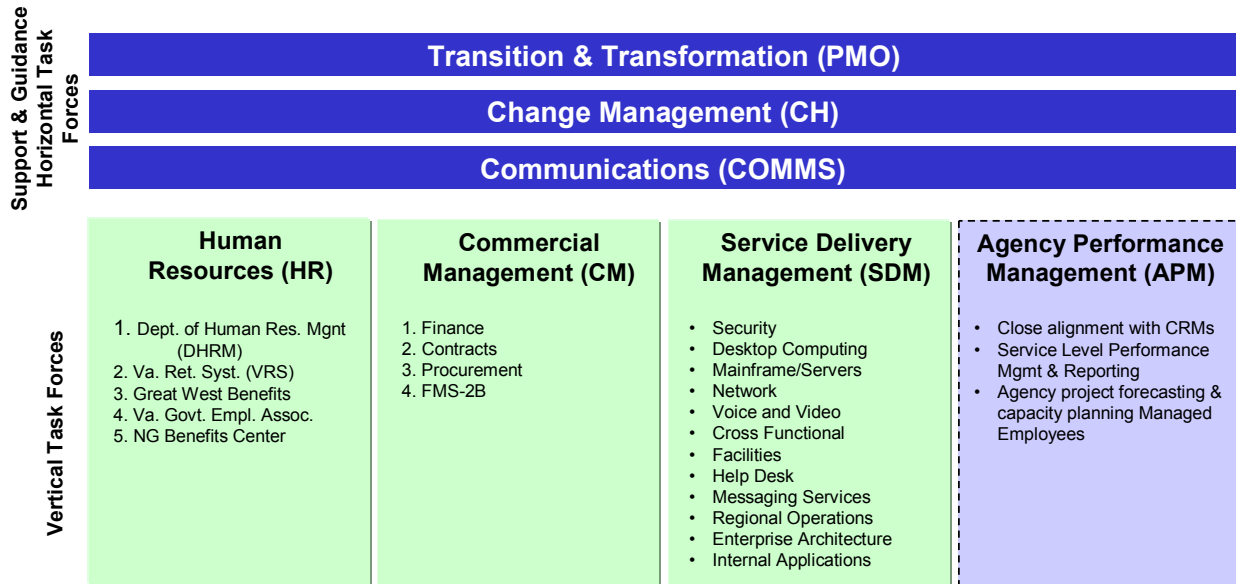
- The **Strategy Committee** will guide the overall business and technology direction of the partnership, and will be chaired by the CIO of the Commonwealth.
- The **Operations Committee** will drive continual improvement of processes and performances. Chaired by the VITA SMO Director, the committee will review performance, identify gaps, review root cause analyses, and implement solutions and operating procedures.
- The **Business Development Committee** will assess market opportunities and performance, make recommendations for growth, pursue market opportunities, and develop pricing. It will be chaired by the VITA Business Development Director.
- The **Communications and Change Management Committee** will assist the partnership with people and organizational impacts, ensure stakeholders are informed and educated, and develop communication and organizational change management strategies.
- The **Technology Committee** will ensure the technical architecture and standards are aligned with Commonwealth business requirements, review and recommend new technologies, and propose changes to standards. It will be chaired by the VITA Technology, Applications, Architecture and Strategy Director.

Program Structure

The SMO Directorate is the structure within VITA responsible for managing the partnership with Northrop Grumman. While the remaining SMO positions are under recruitment, VITA and Northrop Grumman have formed seven task force teams to commence planning during the interim phase. Each team is a joint VITA and Northrop Grumman team, with a co-lead from each partner. Exhibit E

illustrates the functional overview of the partnership, including three “horizontal” task force teams providing guidance and support to the four “vertical” task force teams.

Exhibit E: Program Functional Overview



Transition and Transformation (Program Management Office) Task Force Team

The PMO is responsible for ensuring successful management of program activities, including program support and governance, resource allocation, management of risks and issues, coordination of projects, and monitoring progress at the program level.

Change Management Task Force Team

The Change Management Task Force Team is mindful of impacts to people and organizations. Responsible for helping customers and employees transition smoothly, it will enable managers and employees to operate successfully in a matrix management environment, help align leadership, coordinate change management activities across the partnership, and align change management efforts of the partnership to other transformations within VITA.

Communications Task Force Team

The Communications Task Force Team is responsible for ensuring all stakeholders are well-informed, aligning program communications to the vision and strategy for VITA and the partnership, helping to create awareness and support of customers and employees, and coordinating communications across the project to ensure accurate and consistent messaging.

Human Resources (HR)

The HR team is responsible for ensuring employees have the information they need to make the best decisions for themselves and their families. It oversees transition planning activities and employee events, ensures successful on boarding of new Northrop Grumman employees, and engages partners

to help employees make a smooth transition. Partners include the Virginia Retirement System, Virginia Department of Human Resource Management, Virginia Governmental Employees Association, and the Northrop Grumman Benefits Center.

Commercial Management

Responsible for handling all financial and contractual activities of the partnership, the Commercial Management Task Force Team oversees compliance of the Comprehensive Infrastructure Agreement, manages partnership finances, manages supplier relationships and third party contracts, and refines the procurement process.

Service Delivery Management

The Service Delivery Management Task Force Team is responsible for managing IT infrastructure operations and planning the technical transformation projects. The team is focused on transitioning current operations from VITA to Northrop Grumman at service commencement and planning to transform the Commonwealth IT environment. Exhibit C includes the sub-teams, or technical towers.

Agency Performance Management

The Agency Performance Management (APM) Task Force Team will be formed in the next quarter, following final approval of the partnership. The functions of this team are currently being performed by the Service Delivery Management Team. The APM will provide the interface between customers and IT infrastructure operations, provide technical advice on how to best leverage value from infrastructure capabilities, and work closely with the Customer Relationship Management directorate to translate business needs into IT requirements. The APM will assess, monitor and manage the performance of IT infrastructure operations, and develop and manage customer project forecasting and capacity planning.

Stakeholder Involvement

VITA and Northrop Grumman have formed a number of groups to encourage stakeholder participation and involvement to make the partnership and transformation a success, including the Customer Advisory Council and several technical Community of Interest (COIN) groups of technical experts.

Customer Advisory Council

The Customer Advisory Council will provide advice and recommendations to ensure partnership plans and projects are aligned with customer agency needs. Made up of agency IT resources (AITRs) from customer agencies, the Council will provide insight and input into the selection and use of innovative technologies and process improvement opportunities. It also will assist in the identification of common agency issues and make recommendations for resolution.

Technical Community of Interest (COINs)

VITA has established several Community of Interest (COIN) groups to share best practices, foster communications across agencies, and enhance services to customers. The COIN environment provides a forum for meaningful technical dialogue among Northrop Grumman and VITA staff, allowing them to participate in development of policies, standards, guidelines, and procedures for consistent and effective service delivery. VITA has formed four COINs, made up of technical experts, including Desktop COIN, Messaging and Server COIN, Network COIN, and Voice and Video COIN.

Employee Transition

Following final legislative approvals, Northrop Grumman will provide enhanced employment offers to approximately 870 VITA infrastructure employees. Employees will have up to 120 days to accept the offer or remain a VITA employee. The partnership is focused on providing employees with the information they need to make the best choice for themselves and their families. Highlights from the previous quarter include:

- Employee benefits Web site launched, www.benefits.northropgrumman.com/VITA, with information about working at Northrop Grumman, benefits, and frequently asked questions (FAQs).
- Mailbox for employee questions established, questions@vita.virginia.gov, in February. More than 300 questions, primarily in the areas of retirement, benefits, and leave, have been answered.
- Employees notified by VITA on March 7 whether they are in-scope to the partnership and eligible to receive job offers from Northrop Grumman.
- Participation by Northrop Grumman in two VITA Dialogue meetings, all-hands-on-deck meetings involving employees across the Commonwealth.
- First seven regional employee meetings hosted by Northrop Grumman to provide more detailed employee information, a technical overview of transformation projects, and an opportunity to meet Northrop Grumman staff in a smaller group setting. The last six regional meetings will occur in the next quarter, concluding on April 19.

Planned employee transition activities for the next quarter include providing detailed, personalized benefits statements for employees containing their specific salary and benefits information and job offers, targeted for May 1. The timing of employee offers is subject to change, based on legislative approvals of the capital lease component of the partnership.

During the month of May, Northrop Grumman plans to host a series of regional benefits sessions where employees can schedule one-on-one meetings with a benefits specialist from Northrop Grumman. Employees will have 120 days to make their decisions, with signing bonuses ranging from two to six percent based on acceptance date. The earliest start date is July 1.

Employees who choose to remain VITA employees will receive operational and technical direction from Northrop Grumman. Tool kits are being developed to help employees and managers from VITA and Northrop Grumman understand roles and responsibilities in a matrix management environment.

Current Operations

In preparation for service commencement, VITA and Northrop Grumman are planning to transition current IT infrastructure operations to Northrop Grumman. The focus of activities during this quarter and the next include gaining an in-depth understanding of the current environment and operations, customer groups and service needs, VITA management organization and staff, customer agency management and services, and processes and procedures.

The Service Delivery Management Task Force Team is developing a baseline of current service levels and existing performance metrics. The goal is to ensure a smooth transition, with no degradation of customer service at service commencement and through the transformation process. The team is assessing current and planned projects to ensure continuity and alignment with transformation plans.

Financial Readiness

In addition to the employee and technical aspects of preparation for service commencement, VITA and Northrop Grumman are planning the financial aspects. Led by the Commercial Management Task Force, financial readiness includes customer billing and charge back, budgeting and forecasting, third-party contracts management, and financial reporting. It also includes developing the processes and systems for processing partner invoices, billing, and accounting.

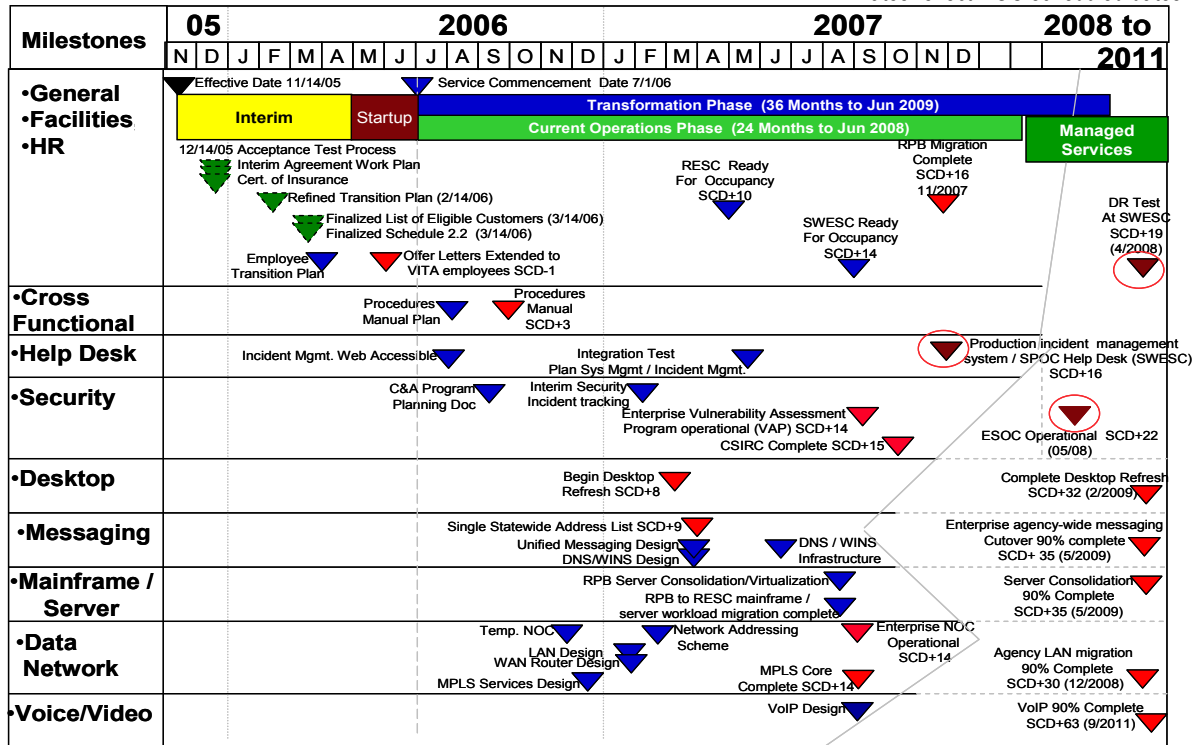
Critical Milestones

Exhibit F (next page) illustrates the critical milestones for the program. The focus in the current and next quarter is to expand the milestones to identify predecessors, interdependencies, and implied milestones.



Program Milestone Schedule

Dates reflect NGC scheduled dates

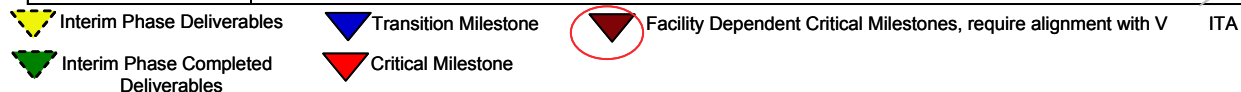
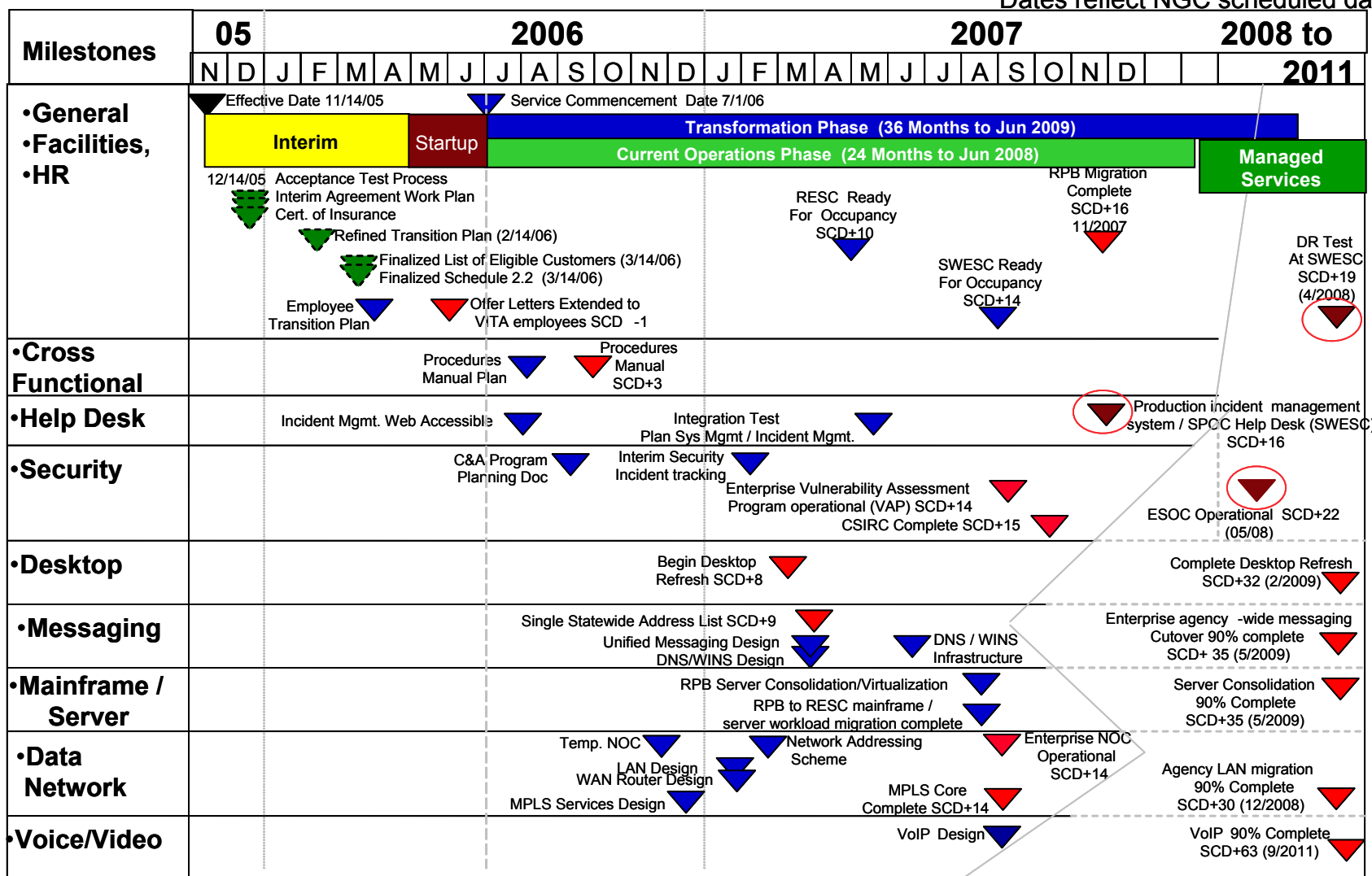


- Interim Phase Deliverables
- Transition Milestone
- Facility Dependent Critical Milestones, require alignment with VITA
- Interim Phase Completed Deliverables
- Critical Milestone

03/08/06

Exhibit F: Critical Milestones

Dates reflect NGC scheduled dates

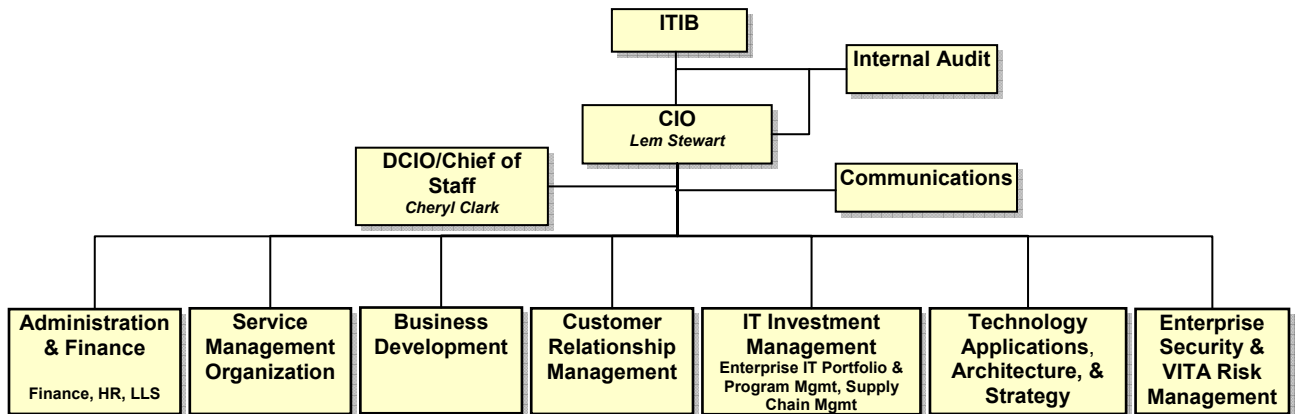


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Organizational Transformation

Implementation of the retained organization continued during this quarter with filling of leadership positions and associated functional adjustments. The last step of implementation (Exhibit G) will align with service commencement date of the partnership, now targeted for July 1, 2006.

**Exhibit G
VITA To-Be Organization**



VITA Directors and staff have engaged in a series of workshops and directed exercises to define and develop the services that the retained organization will deliver to its customers and the processes that will be used to deliver those services. In addition, gaps in the definition of those services and processes, as well as in the human resources and technologies employed, have been identified and are being addressed in detailed implementation plans to be completed in the coming quarter.



FY 2006 Financial Results – Second Quarter

Overall, financial activity through the first half of fiscal year 2006 in all funds is in line with expectations (Exhibit H). VITA continues to process a large number of transactions on behalf of transitioned agencies, with almost 40 percent of revenue derived from direct billed services.

Exhibit H FY 2006 Financial Results as of December 31, 2005

	Budget	Actual
Operating Revenues	\$295,689,670	\$141,853,428
Expenses, Including Transfers	<u>293,441,282</u>	<u>139,486,424</u>
Net Change	2,248,388	2,367,004
Ending Retained Earnings		<u>\$ 56,477,509</u>

Although VITA's cash balances have declined since the beginning of the fiscal year, VITA continues to maintain a positive cash balance. If activity for the remaining portion of the fiscal year tracks to last year, VITA may temporarily experience a cash deficit in coming months, but expects to end the fiscal year with a positive cash balance.

IT Financial Benefits

In addition to their other advantages, VITA's infrastructure IT initiatives are projected to produce significant financial benefits (cost savings and cost avoidances) to both the Commonwealth generally and to specific customer state agencies and localities. A summary is shown in Exhibit I.

Exhibit I IT Financial Benefits/Savings (\$000)

	FY 2004	FY 2005	FY 2006 (Annual Est.)	FY 2006 (Est. YTD 7/06-12/06)
Cost Savings	\$15,858	\$29,544	\$26,000	\$12,713
Cost Avoidance	\$875	\$13,455	\$17,395	\$8,698
Total	\$16,733	\$42,999	\$43,395	\$21,411

The "FY 2006 (Est. YTD 7/06—12/06)" figures are preliminary. Reporting on some cost saving and cost avoidance data lags by several months, and further adjustments are possible.

The savings reported here represent contract rate reductions and discounts. The primary savings categories are telecommunications (Verizon and COVANET) and Virginia Partners in Procurement (VaPP). VaPP savings are for IT purchases (hardware, software, etc.).

Rates Approval, Implementation

At its meeting on December 1, 2005, the Joint Legislative Audit and Review Commission (JLARC) Internal Service Fund (ISF) Subcommittee approved VITA's proposed rates for security management and data and voice over Internet protocol (VOIP) services on the campus network, as well as a rate reduction for audio teleconferencing. Following approval of an alternative methodology by the ITIB at its December 8, 2005, meeting, the CIO presented a new project management rate proposal to the ISF Subcommittee for consideration at the December 12, 2005, JLARC meeting.

During its regular December 12, 2005, meeting, JLARC approved all of VITA's proposed rates as recommended by the ISF Subcommittee on December 1 and December 12, 2005.

VITA learned in December that the executive budget proposal for the 2006-2008 biennium recommends funding increases for customer agencies, including higher education institutions, that will be charged the new rates for project management and security. Recommendations are for General Funds only, based on each agency's percentage of state dollars used for information technology expenses. These new appropriations, if approved, will be available to customers beginning July 1, 2006.

Accordingly, executive branch leadership has asked VITA to defer implementation of the new rates until the affected agencies (1) can access the additional General Fund appropriations designated for this purpose (July 1, 2006), and (2) have adequate time to plan and adjust their non-General Fund revenue streams (e.g. fees for services, federal grants), as needed, to assure adequate funding. VITA began charging for the project management governance costs (no rate increase required in the near term) in March 2006; and will charge for enhanced oversight services, as requested by customers, using the new rate structure and implement security rates at the beginning of FY 2007.

Memoranda of Understanding with Agencies

Since FY 2005 when VITA absorbed IT personnel and assets from executive branch (in-scope) agencies, a direct bill methodology has been employed to recover the direct and administrative expenses associated with providing IT goods and support services for which VITA assumed statewide responsibility as a result of transition. This chargeback methodology was implemented as an interim measure to begin the transformation of the Commonwealth's IT infrastructure to a consolidated environment.

Continuing toward transformation and in support of the recent decision to enter into an IT Infrastructure Partnership with Northrop Grumman, VITA is consolidating and sharing resources. The first phase involves reorganizing the personnel resources currently providing IT support to in-scope customer agencies into a regional model that facilitates shared staffing, allows for cross training, and provides greater efficiency in the delivery of services. In order to support this organizational model,

VITA is revising its chargeback methodology for personnel resources from direct billing for named persons to a flat monthly fee for services provided.

VITA has developed a Memorandum of Understanding (MOU) for each in-scope agency and is actively engaged with agencies to achieve understanding of and agreement on the services VITA will deliver and the fees that will be charged. On the heels of securing agreements on labor-related services and costs, VITA will address customer agency spending for IT goods and external (non-VITA) services such as servers, desktops, network devices, software, maintenance renewals and seat management contracts (phase two). Centralizing the purchasing of IT goods, products, and services is a necessary step toward transformation and consolidation. It also supports the contractual agreement with Northrop Grumman currently set to commence on July 1, 2006, pending General Assembly approval of the capital lease component.

Taking this next step in the transformation process will further facilitate the consolidation and sharing of resources (both personnel and non-personnel) while allowing customers to focus on their need for services that support their businesses rather than purchasing component parts to build and maintain the IT infrastructure. With phase two, VITA intends to build on the MOU chargeback methodology of phase one by adding fixed monthly fees to cover the cost of IT infrastructure goods and services.

Audit Activities

Current Audit Activity

- Auditor of Public Accounts (APA) 2006 Audit of VITA is underway.
- APA Audit of the Wireless E-911 Services Board is substantially complete with no internal control weaknesses identified.
- The APA Statewide Single Audit will be released March 31 and will include the results of the 2005 VITA "Review of Security Controls Over Information Technology" Audit Report.

Prior Audit Reports

Auditor of Public Accounts (APA) 2005 VITA "Review of Security Controls Over Information Technology" Audit Report

Of the 16 corrective actions planned to address the four findings, 9 actions are reported as completed, 3 have revised due dates and the remaining 4 are reported to be on schedule.

APA January 2005 VITA Performance Audit Action Status

For the 2005 APA Performance Audit Corrective Actions in response to the APA Performance Audit Report as of December 15, 2004, ten of the 15 actions have been reported as completed, three have revised due dates and the remaining two actions are reported to be on schedule.

APA audit reports are available online at <http://www.apa.virginia.gov/reports.htm>.