



COMMONWEALTH of VIRGINIA

Samuel A. Nixon, Jr.
CIO of the Commonwealth
E-mail: cio@vita.virginia.gov

Virginia Information Technologies Agency

11751 Meadowville Lane
Chester, Virginia 23836-6315
(804) 416-6100

TDD VOICE -TEL. NO.
711

March 21, 2011

The Honorable Charles J. Colgan
Chair, Senate Finance Committee
Senate of Virginia
10660 Aviation Lane
Manassas, Virginia 20110-2701

The Honorable Lacey E. Putney
Chair, House Appropriations Committee
Virginia House of Delegates
Post Office Box 127
Bedford, Virginia 24523

The Honorable Mamie Locke
Chair, Senate General Laws and
Technology Committee
Senate of Virginia
Post Office Box 9048
Hampton, Virginia 23670

The Honorable Kathy J. Byron
Chair, House Science and Technology
Committee
Virginia House of Delegates
523 Leesville Road
Lynchburg, Virginia 24502

Chairmen Colgan, Putney, Locke and Byron:

Pursuant to Section G of Item 434 of the budget for the 2010-12 Biennium, the Virginia Information Technologies Agency (VITA) is required to submit a report containing information that satisfies the following:

The Chief Information Officer shall analyze and compare the costs of IT goods purchased through the Comprehensive Infrastructure Agreement to costs the Commonwealth would otherwise pay if comparable IT goods were purchased directly by VITA, excluding any goods for which there is an existing internal service fund rate approved by the Joint Legislative Audit and Review Commission, or an approved contractual resource unit. In addition, this analysis shall focus on the status of any outstanding deliverables under the Comprehensive Infrastructure Agreement; including but not limited to the establishment of a service catalog. The analysis shall include the cost of the goods plus all taxes, including sales and personal property taxes, and all applicable overhead rates. If goods were purchased by VITA, the analysis should identify all required changes to the contract, specific installation procedures and ongoing support requirements including any cost to be charged by the vendor for installation and support of goods purchased by the Commonwealth.

This letter is submitted in satisfaction of this requirement.

The Honorable Charles J. Colgan
The Honorable Lacey E. Putney
The Honorable Mamie Locke
The Honorable Kathy J. Byron
March 21, 2011
Page Two

Background

When VITA was established in 2003, it became responsible for “procurement of information technology and telecommunications goods and services of every description for state agencies” (*Code of Virginia* § 2.2-2010 (7)). More recently, under the Comprehensive Infrastructure Agreement (CIA) the Commonwealth entered with Northrop Grumman in 2005, Northrop Grumman became responsible for procuring the goods and services necessary to satisfy its infrastructure service obligations to nearly all executive branch agencies. Practically speaking, Northrop Grumman is responsible for procuring infrastructure items and services used by Commonwealth employees, such as: personal computers and laptops; printers and peripherals; appropriate business software (e.g., Microsoft Office, antivirus); and, all the hardware necessary to provide network and Internet access, including servers and switches.

Current Situation

The current process (referred to as procure to pay or P2P) allows agencies to request a non-telecommunications infrastructure service or item. The P2P process for infrastructure goods is for small requests that do not require significant labor or coordination with Northrop Grumman. Examples of P2P requests include requests for non-standard printers or oversize monitors. Large requests, such as support of a facilities move or a significant increase in infrastructures assets, are fulfilled via a work order process. Standard infrastructure items, such as laptop and desktop computers, are requested through a service catalog.

P2P requests are routed through eVA. All other requests are processed through other systems; for instance, telecommunications service requests are routed through a separate telecommunications services request (TSR) process. Once a P2P request is in the eVA system, VITA and Northrop Grumman staff members determine:

1. Whether the request is in-scope to the CIA. If the request is determined to be in-scope, Northrop Grumman is responsible for fulfillment. In-scope requests are one of two types of requests:
 - a. Those items that are charged as a rated service; or,
 - b. Those items that that are non-standard or the items do not have an established rate. The Commonwealth will be billed an incremental charge for these items.
2. If the request is out-of-scope to the Northrop Grumman agreement, the items are procured by VITA.

The Honorable Charles J. Colgan
The Honorable Lacey E. Putney
The Honorable Mamie Locke
The Honorable Kathy J. Byron
March 21, 2011
Page Three

This report focuses only on those procurements currently processed by Northrop Grumman staff for which the Commonwealth incurs an incremental charge (#1b above). In-scope procurements conducted by Northrop Grumman (#1a above) or procurements processed by VITA staff (#2 above) are not included in this report.

During calendar 2010, the P2P process supported review of approximately 423 requisitions per month, with approximately 39% of those requisitions processed by Northrop Grumman and 61% processed by VITA. P2P transactions totaled approximately \$15 million in FY10.

Challenges

As the foregoing section indicates, the P2P situation is extremely complex. Since its implementation in July 2006, there has been great dissatisfaction among Commonwealth agencies with timeliness, cost and lack of process transparency in the P2P service process. Some of the factors contributing to this situation include:

Timeliness – When P2P requests are entered into eVA, both VITA and Northrop Grumman management determine whether they consider the request to be in-scope to the CIA and whether the item or service is incremental. This determination consumes an inordinate amount of time and resources. Also, the extensive exceptions to what is included in the CIA further complicate the process. These issues exacerbate the length of time it takes to determine which party will provide the good or service.

Cost – The price Northrop Grumman charges an agency for a P2P service or item is usually much higher than the cost to an agency to purchase the asset directly from a Commonwealth supplier. The higher cost stems from a number of factors:

1. Northrop Grumman staff members do not appear to look for the vendor with the lowest price. In fact, there are no contractual or structural incentives for Northrop Grumman to exercise cost control. Moreover, in some instances, as a non-governmental entity, Northrop Grumman is precluded from receiving lower pricing that is only available to the Commonwealth.
2. Northrop Grumman is subject to sales tax and passes this cost to the Commonwealth.
3. Northrop Grumman adds a surcharge (7% or 7%+3%), which also is passed along to the Commonwealth.

The Honorable Charles J. Colgan
The Honorable Lacey E. Putney
The Honorable Mamie Locke
The Honorable Kathy J. Byron
March 21, 2011
Page Four

Process Transparency – Once an agency’s P2P request has been priced as an incremental procurement and approved by the agency, the approved eVA order is submitted to Northrop Grumman for procurement. Northrop Grumman then creates its own internal purchase request and processes it through its internal systems and approvals. There is no integration between Northrop Grumman’s internal systems and eVA. This means that there is no end-to-end view of any request nor capture of data that could support cycle time analytics and reporting. Agency frustration with this lack of transparency is exacerbated by Northrop Grumman’s lack of responsiveness to agency inquiries regarding the order status. The CIA does not include service level requirements related to procurement processing and implementation times; however, an Operational Improvement Initiative has been created to monitor and track the time associated with Northrop Grumman’s portion of the procurement with the goal of improvement.

Commonwealth Should Receive More Benefit from P2P

Purchasing goods and services that are incremental and non-standard does not appear to be a priority for Northrop Grumman. Northrop Grumman has eliminated the local buying staff and moved this responsibility under the local program’s finance management office. There is no dedicated or local purchasing staff; purchasing to support the Commonwealth is combined with Northrop Grumman’s internal corporate purchasing function.

Currently it appears there is neither cost benefit nor customer service benefit from Northrop Grumman purchasing incremental, non-standard goods and services, so it is appropriate to examine the options available to the Commonwealth regarding P2P procurements. The three basic options available to the Commonwealth are:

1. Improve the current P2P environment with Northrop Grumman;
2. Return P2P to the Commonwealth; or,
3. Move P2P transactions to a third-party provider.

Improve the Current P2P Environment with Northrop Grumman – This option would require Northrop Grumman to alter its current approach to fulfilling P2P requests. It is unclear at this time what changes Northrop Grumman would need to make and whether such changes would require negotiations between Northrop Grumman and the Commonwealth, and subsequent amendments to the CIA.

Return P2P to the Commonwealth – Implementing this choice would encompass a variety of actions and decisions, including:

The Honorable Charles J. Colgan
The Honorable Lacey E. Putney
The Honorable Mamie Locke
The Honorable Kathy J. Byron
March 21, 2011
Page Five

1. Amending the CIA to reflect the reduction in services provided by Northrop Grumman. However, because the CIA does not explicitly detail Northrop Grumman's contracting and procurement costs, accurately assessing appropriate reductions in fees paid to Northrop Grumman will be a challenge. An additional consideration is determining who is responsible for managing assets no longer procured by Northrop Grumman.
2. Determining who would be responsible for fulfilling procurements: VITA, agencies or some combination of the two. A series of subsequent issues follow from this decision, including ensuring adequate staffing and expertise to facilitate procurements, managing suppliers, and shaping appropriate IT procurement policy and oversight.
3. Assessing whether the cost of returning P2P to the Commonwealth will be adequately offset by the related savings.

Move P2P Transactions to a Third-Party Provider – This possibility may be the most speculative of the three. Prior to implementing this approach the Commonwealth would need to conclude that one or more third-party providers can be engaged to fulfill P2P procurements without increasing the overall cost. Additionally, the issues of amending the CIA and who would be responsible for managing assets no longer procured by Northrop Grumman remain.

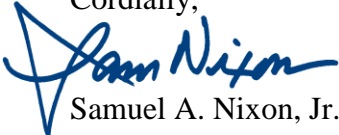
Next Steps

As previously stated, the three possibilities identified above are the basic options available to the Commonwealth. The solution the Commonwealth ultimately implements may include elements from two or more of the basic possibilities. Additionally, it is extremely important to note that each of the potential issues, actions and decisions highlighted above are accompanied by any number of related issues that must be addressed and questions that must be answered. In short, how to address in-scope incremental Northrop Grumman purchases is a complex question with many intersecting issues.

VITA's plan is to explore the benefits and burdens associated with the different approaches to satisfying P2P requests and decide upon and start implementing a new approach during the summer of 2011.

Finally, even if responsibility for P2P procurements returns to the Commonwealth, this still does not address the current dissatisfaction surrounding the timeliness of the initial determination regarding whether the request is in-scope to the CIA, and if not, whether the item or service is incremental. VITA recognizes that this determination consumes an inordinate amount of time and resources, and is working now to try to streamline the process as much as possible.

The Honorable Charles J. Colgan
The Honorable Lacey E. Putney
The Honorable Mamie Locke
The Honorable Kathy J. Byron
March 21, 2011
Page Six

Cordially,

Samuel A. Nixon, Jr.

c: The Honorable Martin Kent, Chief of Staff
The Honorable James D. Duffey, Jr., Secretary of Technology