



IT Infrastructure Committee

October 21, 2009



NORTHROP GRUMMAN

Today's topics

- Contract modification approach
- Contract updates needed immediately
 - Encryption
 - Managed router / firewall / Internet access
 - Re-baselining
- Contract modifications under consideration

Contract modification approach



Approach

- Although CIO is statutorily responsible for amending the contract, many decision-makers must be consulted and significant factors must be considered
 - Analysis of JLARC findings and VITA's detailed review of impacts to Commonwealth, customers
 - Only pursue contract modifications that benefit the Commonwealth
 - Rely on Office of the Attorney General review to ensure modifications preserve Virginia's rights
- Commit to thorough review before executing contract modifications
 - Review by IT Infrastructure Committee of the ITIB
 - Review by CIO Council
 - Follow the process set forth by the Governor's Office with the Governor's working group and ITIB
 - Provide detailed briefings to General Assembly members and staff

Today's proposed modifications

- Two contract modifications for your review
 - Two engineering change proposals (ECPs) for new services
 - Re-baseline effort for usage-based billing
- Changes are needed to bring the contract up to date
 - Services being provided, billed today
 - Provides payment mechanism
 - Re-baselining required by contract and compliance with federal funding mandates
- No plans to change the cap or extend the contract in FY 10

Contract updates



Encryption service ECP

Service description

- Encryption is a new, optional service offering that helps customers meet today's information security requirements
 - Encryption protects sensitive information, such as Social Security numbers, stored on desktop, laptop and tablet computers
 - Encryption makes it difficult to retrieve data from lost, stolen or compromised PCs
 - New services are above the \$236 million cap

Business drivers for service

- Necessary for some customers to meet Virginia security policy, standard for storing sensitive information
- Increases data protection
- Some customers currently use the service
 - Encryption service in place today for approximately 2,168 computers
 - Largest customer is Department of Corrections (~1,500 computers)
 - Other users are Health, Social Services and Taxation
- Necessary to complete transformation at some agencies

Encryption service ECP

Purpose of contract modification

- Provides technical requirements for deploying new service
- Provides payment mechanism for billing/invoicing
- Brings contract up-to-date with service environment

Financial implications

- Current customers: lowers costs significantly
 - Current pricing is \$18.83 per PC per month
 - New pricing will be \$9.59 per PC per month plus a one-time “out of cycle” installation charge of ~\$100
- New customers: service option at competitive rates

Encryption service ECP

Contract modification status

- VITA and Northrop Grumman are in agreement
- Specific language under review by Office of Attorney General
 - Preserve rights, Commonwealth interest

CIO recommendation

- Modification is favorable to Commonwealth customers, both parties
- Move forward as quickly as possible to finish reviews, execute modifications and lower costs to customers

Managed router/firewall/Internet access ECP

Context

- VITA “bundles” network services together
 - Wide area network (WAN) or Metropolitan area network (MAN) - Internet
 - Local area network (LAN) – connectivity within customer agency
 - Remote access – connectivity from outside of the office
 - Network security services – monitoring, responding to threats
 - Approximately 15% within \$236 million cap
- While this enterprise network service offering satisfies most customers, some need “unbundled” – or individual – network service options
 - Social Services shares facilities with local government
 - Alcoholic Beverage Control stores
 - Potential customers, such as colleges and universities, K-12, localities, legislative and judicial branches

Managed router/firewall/Internet access ECP

Service description

- These are existing services that are “bundled” within WAN services
 - Managed router service
 - Managed firewall service
 - Internet access

Business drivers for service

- Necessary for some customers to have a menu of network service options
- Supports future new business development among localities, education and non-executive branch agencies
- Customers are requesting or currently using the services
 - Social Services
 - ABC stores

Managed router/firewall/Internet access ECP

Purpose of contract modification

- Provides technical requirements for deploying services individually
- Provides payment mechanism for billing/invoicing
- Allows customers to choose those services that meet their needs
- Brings contract up-to-date with service environment

Financial implications

- Current customers: cost neutral, requires 36-month commitment
- New customers: variety of service options at set rates

Managed router/firewall/Internet access ECP

Contract modification status

- VITA and Northrop Grumman are in agreement
- Specific language under review by Office of Attorney General
 - Preserve rights, Commonwealth interest

CIO recommendation

- Modification is favorable to Commonwealth customers, both parties
- Modification is critically needed to resolve customer service and billing issues
- Move forward as quickly as possible to finish reviews, execute modifications

Re-baselining

Activity description

- Re-baselining is a critical contract update to replace 2005 inventory estimates with 2009 inventory data
 - Adjusted baseline establishes contract minimum (85%)

Business drivers

- Required to comply with federal cost mandates
- Required to move to usage-based (managed services) billing
 - Quantity (Q) x Price (P) ≤ \$236 million
- Required in the contract

Re-baselining

Purpose of contract modification

- Establishes resource units and baselines (quantities and definitions)
- Updates 2005 estimates with 2009 data
- Allows VITA to adjust prices/rates as necessary to stay within cap
- Increases alignment with and transparency for billing and payment
 - Between Northrop Grumman and VITA
 - Between VITA and customers

Financial implications

- Current customers: bills may go up or down, based on actual usage
- New customers: potential revisions to service rates



Overview of “P x Q” Adjustments

+	Retained costs	\$45-50M – almost all telecom expenses
+	Managed employees expenses	~\$13M
+	Northrop Grumman fixed management charges	~\$71M, including Microsoft and facility charges
=	Northrop Grumman resource Units (P x Q)	~\$100-110M remaining, but “P x Q” is much higher for specific resource units
		\$236M

Re-baselining

Challenges

- Transformation delays and immature processes for inventory management creates financial risk to the Commonwealth
 - VITA and Northrop Grumman have worked diligently to validate Qs using automatic and manual methods
 - VITA assumes risk and increased burden of validation of invoices using manual methods until transformation is complete
- Northrop Grumman has committed to re-baselining process
 - Quantities above the initial baseline or resource units Northrop Grumman asserts do not allow cost recovery

Issues

- Servers and storage
- Internal applications
- Multi-functional printers
- Microsoft
- Retained expenses
- Mainframe print

Re-baselining

Status

- VITA and Northrop Grumman are in general agreement on Qs
 - Considerable review of statewide asset inventories
 - Physical inventory (PCs, servers) agreed to and signed off by agencies
 - Non-physical inventory (ports, mailboxes) complete
 - Validation nearing completion
 - Processes in place for updating inventories

CIO recommendation

- Work through challenges as soon as possible
- Commence with adjusting the baseline to meet commitments
- Use adjusted baseline to update pricing, rates
- Follow review process for specific contract updates

Contract modifications under consideration



Potential modifications for Committee review

- Re-baselining contract updates
- Wireless
- Microsoft licensing
- Voice over Internet Protocol (VoIP) telecommunications
- Disaster recovery
- Bandwidth and network redundancy
- Enterprise Virtual Private Network (VPN)