



Information Technology Investment Board

Meeting Minutes Wednesday, August 10, 2005 * Electronic Meeting *

Primary Location:

Virginia Information Technologies Agency (VITA) Auditorium
110 S. 7th St.
Richmond, VA 23219

Remote Location:

Interactive Design & Development
2608 Sheffield Dr.
Blacksburg, VA 24060

Attendance

Members Present at Primary Location:

The Honorable Eugene J. Huang, Chairman
James W. Hazel
Hiram R. Johnson
Kenneth S. Johnson, Sr.

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

Members Present at Remote Location:

Dr. Mary Guy Miller, Vice Chair

Members Absent:

Christopher G. Caine

Others Present at Primary Location:

Lemuel C. Stewart, Jr., Chief Information Officer of the Commonwealth
John Westrick, Office of the Attorney General
Jenny Hunter, Interim IT Investment Board Director

Call to Order

Chairman Eugene J. Huang called the meeting of the Information Technology Investment Board (ITIB) to order at 1:00 p.m. Chairman Huang announced the appointment of Kenneth S. Johnson, Sr., to the ITIB and welcomed him. Mr. Johnson is the founder of Johnson, Inc., a full-service advertising, marketing, and public relations firm.

Chairman Huang announced the reappointment of Dr. Mary Guy Miller to the ITIB. He announced Assistant Secretary of Technology Judy Napier was promoted to Deputy Secretary of Technology.

At the request of the chair, Jenny Hunter performed the roll call and confirmed the presence of a quorum in the primary location.

Board Chair and Vice Chair Discussion

Chairman Huang stated the two-year terms of the Board Chair and Vice Chair have come to an end. He opened the floor for nominations for the positions of Board Chair and Vice Chair. Jimmy Hazel thanked Chairman Huang for his service as Board Chair, noting the able job he has performed and the significant progress the Board has achieved under his leadership.

Mr. Hazel nominated Jim McGuirk to serve as Board Chair. Len Pomata seconded the nomination. No further nominations were made. Chairman Huang called for a vote to elect Mr. McGuirk Board Chair. The following members voted to carry the motion as presented: Chairman McGuirk, Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, and Len Pomata.

Chairman McGuirk thanked the Board members for their confidence. He opened the floor for nominations for the position of Board Vice Chair.

Hiram Johnson nominated Secretary Huang to serve as Board Vice Chair. Scott Pattison seconded the nomination. No further nominations were made. Chairman McGuirk called for a vote to elect Secretary Huang Board Vice Chair. The following members voted to carry the motion as presented: Chairman McGuirk, Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, and Len Pomata.

Approval of Minutes

Chairman McGuirk introduced the draft meeting minutes from June 20, 2005.

Hiram Johnson made a motion to approve the minutes as recorded. Secretary Huang seconded the motion. Chairman McGuirk called for a vote to approve the minutes as recorded. The following members voted to carry the motion as presented: Chairman McGuirk, Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, and Len Pomata.

CIO Status Report

Chief Information Officer (CIO) of the Commonwealth Lemuel C. Stewart, Jr. provided a status report on agency operations and issues to the Board.

Audit Action Plan Update

- The single action for the 2005 Auditor of Public Accounts (APA) Internal Control & Compliance Audit has been completed.
- Seven of fifteen actions have been completed for the 2005 APA Performance Audit. Of the remaining eight actions, four have revised completion dates and four are on schedule for completion.
- Three of four actions associated with the 2004 APA SAS 70 Audit have been completed; the remaining action has a revised completion date of September 15.
- Two of the sixteen actions associated with the internal Small Purchase Charge Card Audit have been completed. Of the remaining fourteen actions, twelve have revised due dates related to policy revisions and two are on schedule.

Finance Report

- VITA's cash flow position has improved as a result of changing agency payments from 30 days to ten days and from the end-of-year spending surge. VITA had \$7 million in cash at the end of July. The Treasury loan of \$1 million was repaid.
- VITA has saved agencies and localities \$16.7 million in fiscal year (FY) 2004 and \$43.5 million in FY 2005. The significant growth in the cost avoidance category is related to prevention of major project failures, consolidating servers for agencies affected by the Capitol renovation project, and leveraging contracts and buying power.
- VITA hired a dedicated small, women- and minority-owned (SWAM) business outreach specialist and established a Web site to improve access to upcoming procurements and business opportunities for SWAMs. VITA spends approximately \$1.85 million per quarter with SWAM companies. As a result of centralizing contracts from the 90 agencies, the total technology SWAM spend for the last quarter of FY05 was \$6.58 million.

Customer Satisfaction Survey

- The Joint Legislative Audit and Review Commission (JLARC) conducted a customer satisfaction survey on VITA. Mr. Stewart expressed concerns with the methodology of the survey and the timing so soon after the integration of the customer agencies. In response to questions from Mr. Hazel, Mr. Stewart said he is presenting to JLARC on September 12 and JLARC staff planned to share the high-level summary of the survey results with VITA.
- VITA has been working with the University of Virginia Center for Survey Research since early spring to establish a baseline customer satisfaction survey. At the advice of the Center, VITA is waiting until fall to focus less on emotions associated with the changes and more on service improvements.

Transformation & PPEA

- Extensive due diligence results support the need to change the way we do business. The "as-is" environment is not a criticism of the agencies or their management of IT.
- Due diligence results validate the "silo" approach to solutions, antiquated systems, an aging workforce, inadequate security tools and inconsistent practices and standards, inadequate data center facilities, and duplication of costly administrative systems.
- Infrastructure due diligence results found lack of standardization, inability to transfer employee skills or deploy enterprise solutions on common infrastructure, limited performance measures, inadequate disaster recovery, and underutilization of equipment.
- In the enterprise applications domain, there are 160 financial systems and 55 human resources systems in the 46 agencies that were studied. These systems cost \$300 million annually to maintain, with another \$100 million per year in purchases of duplicative systems.
- If we don't transform, it will cost the Commonwealth \$1.6 billion over six years to maintain administrative systems; \$600 million in new systems; and an additional \$200 million to maintain the infrastructure with no improvements. Numbers from similar implementations in administrative systems show savings of 50 to 70 percent.
- Through Transformation, Virginia will have shared systems, standard technology platforms, adequate security, a secure data center, more enterprise systems, greater efficiencies, improved services, a common network, standardized e-mail and communications, and cost reductions. The bottom line is Transformation will lead to consistent performance and consistent service at a predictable cost.

- The Commonwealth faces significant challenges, including funding the \$500 million upfront investment, shifting from agency-centric to enterprise view, handling the sheer scope of the initiative, and lack of tools and resources. Partnerships through the Public-Private Educational Facilities and Infrastructure Act of 2002 (PPEA) are being considered.
- Potential partners were given a list of rules to ensure equitable and fair treatment of employees, no additional funding, no impact on Virginia's bond rating, shared risks and investments, positive economic development impacts, provision of a more efficient and modern IT infrastructure, and no increased costs over the FY 2005 baseline expense level of approximately \$240 million.
- Both PPEA tracks were highly collaborative, involving 85 individuals representing 21 agencies, including three cabinet Secretaries, two deputy Secretaries, and two members of the ITIB. The Council on Technology Services provided input, as well as independent reviews by Gartner, Gordon & Glickson, McClain Group (Enterprise Applications), and the Office of the Attorney General.
- Prior to Transformation, VITA has provided value to the Commonwealth. There have been no major project failures since VITA and the Board were created in 2003. Virginia is investing in more enterprise solutions, saving customers money, prioritizing major IT investments, and building on industry best practices.

In response to questions from Mr. Pomata and Walter Kucharski, Mr. Stewart explained the savings will occur over the long term (seven to ten years). By using the PPEA model, Virginia can get the \$500 million needed to modernize the infrastructure, lower the ongoing costs significantly, and pay back the \$500 million investment, without paying more than the FY 2005 baseline rate over the course of the agreement.

Mr. Kucharski asked about the \$200 million in potential future investment in duplicative systems. Mr. Stewart said a policy is in place today that the Board and the CIO will not approve projects or procurements for duplicative administrative systems unless they are mission critical or an emergency.

In response to Mr. Kucharski's concerns about the projected savings, Chairman McGuirk suggested looking at the run rate for supporting the infrastructure and the projects from a global, enterprise approach. There will be inherent savings in collectivity versus individuality. Chairman McGuirk stated the Board needs to be careful to distinguish between cost savings and cost avoidance. He requested the CIO of the Commonwealth categorize and report on savings and cost avoidance on an annual basis.

In response to a question from Mr. Ken Johnson, Mr. Stewart explained that the state's AAA bond rating could be impacted by debt load. As such, the potential partnership needs to be mindful of retaining the highest rating for the Commonwealth. In response to a question from Mr. Hazel on end-of-year spending, Mr. Stewart replied that Transformation will have a positive impact by creating predictable pricing and consistent service.

Infrastructure PPEA Process

Tom Falat, VITA Legal and Legislative Services, provided an overview of the Infrastructure PPEA process, including timeline and background information. The highlights of his presentation include:

- Throughout the PPEA review process, VITA has posted numerous presentations and updates to its Web site and provided public updates to many groups. VITA has also provided information to its employees through internal communiqués and agency-wide meetings held every 60 days.

- Multiple exemptions within the Freedom of Information Act (FOIA) allow a public entity to exercise a negotiation strategy that is not undermined by having to provide details of one vendor's proposal to a competing vendor or the public. Once the public body has made a decision to award (or not to award) a contract, the proposals become public information. The Virginia Public Procurement Act states that proposal records shall be open to public inspection only after award of the contract.
- The General Assembly and FOIA Advisory Council are reviewing the PPEA Model Guidelines and have convened a Workgroup to address them. Draft revisions to the procedures have been posted for public comment.
- Many steps have been taken to inform our employees, the public, and interested stakeholders of the process and status of the PPEA. VITA also recognizes the need to maintain a competitive bargaining atmosphere and negotiating strategy to reach the best deal possible.

In response to questions from Mr. Kucharski, Mr. Stewart affirmed that VITA is following the advice of the Office of the Attorney General in matters related to FOIA, and is following the model procedures issued by the Office of the Secretary of Administration.

In response to a question from Mr. Hiram Johnson, John Westrick responded that the FOIA statute gives discretion to public bodies in the area of exercising FOIA exemptions. As a general rule, while FOIA exemptions make it legally permissible to withhold records, they do not dictate that the records have to be withheld. There is legal authority for a public body to withhold records of this sort if it so chooses, and VITA's decision to do so is, in his view, supported by applicable FOIA exemptions.

Recommended Technology Investment Projects (RTIP) Report

Chairman McGuirk requested a change in the agenda order and introduced The Honorable William H. Leighty, Governor's Chief of Staff. Mr. Leighty is a longtime supporter of the Board and VITA and of the overall Transformation initiative. He most recently championed the Enterprise Business Architecture, significantly increasing its reach and impact. Mr. Leighty addressed the Board on the Recommended Technology Investment Projects (RTIP) Report.

- He emphasized the support of the Governor's Office for the role of the Board, particularly in the project prioritization and oversight of major IT projects. The Governor's Office views the prioritization of major projects in terms of overarching goals for the state, beyond the term of a single governor. He shared the Governor's top five priorities for major IT projects.
 1. Projects that meet the long-term objectives of the Council on Virginia's Future.
 2. Projects that support the business enterprise, including cross-cutting and enterprise-wide systems.
 3. Enterprise Applications PPEA.
 4. Mandatory projects.
 5. Phased projects.
- On the PPEAs themselves, Mr. Leighty observed there has never been a better time than now to undertake these two projects. He urged the Board and VITA to make the best effort to maintain the schedule and keep the projects on track. The perception of "rushing to the end" is not so Governor Warner can see it signed before he goes out the door—the projects are already overdue from what was originally envisioned with the General Assembly a year and a half ago.

- The timing is difficult, as VITA and the Board do not know what the vision of the incoming administration will be. Nevertheless, the PPEA partnership is the best model for going forward and making the much-needed changes.
- On the issue of public disclosure of the PPEA proposals, Mr. Leighty recognized the valid negotiating and confidentiality reasons for not releasing information. If the Board has discretion to do so, he asked the Board to err on the side of releasing information to the public.

Best Practices in Competitive Negotiations

Bill Kumagai, Managing Vice President for State and Local Government for Gartner, provided an overview on best practices in competitive negotiations.

- The first step is to begin with the end in mind, and envision how to plan for success. Deal success criteria includes strategic alignment and vision, price and service levels, contract and relationship, and, ultimately, customer satisfaction.
- The second step is to understand each party's interests in order to achieve a win-win deal.
- The third step is to create a negotiations team with the requisite skills to address major contracting components, including attorneys, technical and financial experts, the project manager, and other consultants and advisors.
- The fourth step is to establish a negotiations strategy and prepare the team. The team could expect new issues and alternatives to arise midstream.

Secretary Huang noted the Board and VITA are conducting public business with public funds. He asked Board members why the Board would not want to release unredacted versions of the PPEA proposals. Mr. Hazel said the Board and VITA have nearly concluded the PPEA review process in full compliance with the relevant statutory provisions and policies. It would not be in the Commonwealth's best interest to change the process at this late date. He noted the General Assembly study committee reviewing the PPEA recommended that any action to release information should be done in advance of detailed review, which is the point in time the proposals are in now. Releasing the information now would not be consistent with the committee's recommendation.

Mr. Kucharski described the traditional procurement process, where the specific requirements and scope of work are known and published prior to receiving proposals. He expressed concern that the scope of work for the PPEA projects may have changed significantly from what was seen in the Conceptual proposals submitted over a year ago.

In response to questions from Mr. Kucharski and Chairman McGuirk, Mr. Stewart said the statement of work has not changed since the Conceptual proposals were received and posted over a year ago. Mr. Hazel served on the Infrastructure PPEA Steering Committee and validated Mr. Stewart's statement.

Hiram Johnson said the general framework and foundation for what the Commonwealth wanted was made public. He agreed with Mr. Hazel's sentiments that VITA is in a confidential period, evaluating proprietary solutions and assets brought forward by the vendors. He urged the Board to respect the rules and agreements set publicly with the vendors at the outset and maintain confidentiality.

In response to questions from Ken Johnson, Mr. Stewart stated that 85 individuals representing 21 agencies have been involved in the review of the Infrastructure and Enterprise Applications proposals, providing subject matter expertise in all areas, including

finance, human resources, and technology. The input from these individuals was considered by the Infrastructure Steering Committee in formulating its recommendation.

In response to questions from Secretary Huang, Mr. Kumagai said he has worked with and in government since 1984 and has never seen any negotiation that has been conducted in public. He said the impact of holding negotiations in public would significantly delay the negotiations process. Holding the negotiations in a confidential setting promotes openness, so the companies feel they are in a better position to place alternatives on the table without giving up their competitive advantage. He did not see a major, direct impact on pricing, as pricing is a function of the details contained in the deal. He anticipated any indirect impact would probably be negative.

Dr. Miller expressed concern about changing the process midstream, as the process was publicized from the beginning. Virginia engaged with the private sector to bring their intellectual property to the table. Had a different strategy and process been announced at the beginning, the companies would likely have formulated their proposals differently and been more guarded with solutions. She stated it would neither be in the interest of the Commonwealth to change the process midstream, nor would it be equitable to the potential partners.

In response to questions from Mr. Pomata, Mr. Stewart said he is confident that VITA has conveyed as much as possible to employees and has involved the Virginia Governmental Employees' Association in the review and evaluation process.

Mr. Kucharski raised concerns that the members of the General Assembly by and large do not understand the terms of the potential PPEA. They may have received briefings on the process, but have limited understanding of the terms of the contract. The Governor has the authority to execute the contract, and the General Assembly may need to approve the financials. Mr. Stewart said he is working with Mr. Hazel and Hiram Johnson to share more information with legislators and get their input on the process and direction.

Chairman McGuirk said the top goal is to create the greatest amount of transparency possible, as the Board and VITA are public organizations. In examining that overarching goal, the Board explored whether there has been any precedent set in previous PPEA efforts. Only one PPEA was a possible candidate, and there was no competitive bidder (similar to a sole source). Where there have been multiple bidders, there has never been a situation in the PPEA where information was disclosed prior to negotiations. He said the main goals of the potential PPEA partnership are to achieve cost efficiencies, provide better services, ensure the fair and equitable treatment of employees, and create economic development. If these goals cannot be met, there is no reason to sign a contract. As a Board representative to the Steering Committee, Chairman McGuirk said VITA has been as transparent as it could be without giving away its leverage.

Secretary Huang made a motion that the IT Investment Board instruct the CIO of the Commonwealth to release and make available to the public full and unredacted versions of the detailed PPEA proposals received by VITA dealing with both Infrastructure and Enterprise Applications. The Chairman called for a second. There being no second, the motion failed.

RTIP Report Briefing

Constance Scott of VITA's Project Management Division provided the second half of the RTIP Report briefing to the Board. Her presentation included changes to the report, status,

highlights, future considerations, a recommendation, and next steps. The highlights of her presentation are:

- All major IT project categories are divided into enterprise/collaboration projects and agency-specific projects. The Board added four categories, including "projects not recommended for funding."
- The selection process was changed to align with the Department of Planning and Budget strategic planning process, the *Code of Virginia*, and the Enterprise Business Plan from the Council on Virginia's Future.
- The ranking process shifted emphasis to strategic alignment and benefits to the Commonwealth, rather than the top two projects in each Secretariat. The scoring process was based on the priorities outlined by Mr. Leighty, with projects supporting the Council on Virginia's Future long term objectives as top priority.
- The total portfolio of Commonwealth major IT projects is valued at approximately \$1.2 billion, with the top five investments costing \$790 million, or 67.8 percent of the total value.
- All Secretariats that have major IT projects identified collaboration opportunities for nearly 70 percent of all projects.
- The Report recommends 30 projects with estimated costs of \$339 million for funding. The Report also identifies 18 projects not recommended for funding, with estimated costs of \$96 million. Another 26 projects are funded and 5 are instructional or research projects.
- Priority Technology Investment Projects (PTIP) list is the essential recommendation of the RTIP Report, and are divided into two sections: Recommended for Funding and Recommended for Maintained Funding. The PTIP list includes 39 projects (30 Recommended for Funding and 9 Recommended for Maintained Funding) with estimated costs of \$751 million.
- Staff recommendation is that the Board approve the 2005 RTIP Report as presented with the following recommended priorities: that the Governor and General Assembly appropriate funds for the Priority Technology Investment Projects contained in Appendix A of the RTIP report; and that the Governor and the General Assembly maintain funding for the Priority Technology Investment Projects which are currently active Major IT Projects, to include two projects in planning, contained in Appendix B of the RTIP Report. The staff also recommends the Board authorizes the Chairman of the Board to submit the report to the Governor and General Assembly on September 1.

In response to questions from Mr. Hiram Johnson and Mr. Kucharski, Ms. Scott said the projects related to administrative systems are not in conflict with the potential Enterprise Applications PPEA initiative. Mr. Stewart explained that any infrastructure projects on the list, such as Voice Over Internet Protocol (VoIP) are conducted in conjunction with VITA's direction or by institutions of higher education, which are not required to use VITA's infrastructure. Mr. Kucharski thanked the staff, saying the 2005 RTIP Report is the best report to date.

Mr. Pomata made a motion to accept the staff recommendation to approve the RTIP Report and to authorize the Chairman to submit the report to the Governor and General Assembly on September 1. Mr. Pattison seconded the motion. Chairman McGuirk called for a vote. The following members voted to carry the motion as presented: Chairman McGuirk, Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, and Len Pomata.

Committee Reports

Legislative Review

Mr. Hazel said the members of the committee will be very active in communicating with members of the General Assembly in the coming weeks.

Strategic Planning and Review

Chairman McGuirk reported that the SPARC has been focused on the RTIP Report presented earlier.

Finance and Audit

Mr. Pattison reported the Department of Accounts compliance rate for prompt pay is 95 percent. VITA achieved 97 percent over the last fiscal year. Mr. Pattison congratulated the VITA staff for that and for resolving the cash flow issues.

Mr. Pattison asked Board members to review the revisions to three audit action plans related to the 2005 APA Performance Audit, the APA SAS 70 Audit, and the internal Small Purchase Charge Card Audit. The revisions are changes to due dates.

Mr. Pattison made a motion that the Board approve the revisions to the three audit action plans in a block. Mr. Hazel seconded the motion. Chairman McGuirk called for a vote. The following members voted to carry the motion as presented: Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, Len Pomata, and Chairman McGuirk.

Other Business

Secretary Huang introduced former Governor's Fellows Ashley Boyd and Thomas Gates as Special Assistants in the Office of the Secretary of Technology.

Secretary Huang provided an update on the higher education plans for administrative independence. The implementation committee is in negotiations with institutions of higher education, so more information will be available at the next meeting. In response to a question from Chairman McGuirk, Secretary Huang said the higher education community is looking to separate itself from Board and VITA oversight while he and the CIO are trying to interject the Board and VITA.

In response to a question from Jimmy Hazel, Mary Guy Miller reported that no members of the public attended the meeting at the remote site in Blacksburg.

Public Comment

Chairman McGuirk solicited public comment. There was no public comment.

Executive Session: CIO Evaluation & Infrastructure PPEA Discussion

Mr. Hazel made the following motion:

Mr. Chairman, I move that the ITIB convene a closed meeting pursuant to Virginia Code §§ 2.2-3711(A)(1) for the purpose of discussing the performance of the Chief Information Officer of the Commonwealth, and pursuant to Virginia Code §§ 2.2-

3711(A)(6) and (A)(30) for the purpose of discussing the recommendation of the Infrastructure PPEA Steering Committee whether to move into negotiations, the negotiation objectives and evaluation details, and to discuss the terms and scope to be negotiated and the Board's input into the negotiation process, as discussion of these matters in open meeting would adversely affect VITA's bargaining posture and negotiating strategy and therefore its financial interest, and pursuant to Va. Code § 2.2-3711(7), for the purpose of consulting with legal counsel regarding employee compensation rules and regarding the PPEA process and proposals. The CIO and certain staff whom he has selected for their familiarity with the above matters should attend the closed meeting, as their attendance will aid our discussion.

At the request of the Chairman, Ms. Hunter conducted a roll call, and the following members voted to carry the motion as presented: Chairman McGuirk, Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, and Len Pomata.

The Board reconvened in public session at 6:15 p.m. Chairman McGuirk read the following statement:

The ITIB is now reconvened in open session, having completed a closed meeting. I will now conduct a roll call and will ask each member to certify, to the best of his or her knowledge, that only public business matters lawfully exempt from open meeting requirements under the Freedom of Information Act and only those public business matters identified in the motion convening the closed meeting were heard, discussed or considered in the closed meeting.

At the request of the Chairman, Ms. Hunter called the roll, and the following members so certified: Chairman McGuirk, Jimmy Hazel, Eugene Huang, Hiram Johnson, Ken Johnson, Walter Kucharski, Mary Guy Miller, Scott Pattison, and Len Pomata.

Jimmy Hazel made a motion for the IT Investment Board to approve the staff recommendation to continue negotiations with both Infrastructure PPEA proposal teams from IBM and Northrop Grumman. Dr. Miller seconded the motion. Following a question from Ken Johnson, Jimmy Hazel amended his motion for the IT Investment Board to approve the staff recommendation to begin formal negotiations with both Infrastructure PPEA proposal teams from IBM and Northrop Grumman. Dr. Miller seconded the amended motion.

Chairman McGuirk called for a vote to authorize the CIO of the Commonwealth and staff to commence negotiations. The following members voted to carry the motion as presented: Jimmy Hazel, Hiram Johnson, Ken Johnson, Mary Guy Miller, Scott Pattison, Len Pomata, Chairman McGuirk, and Eugene Huang.

Adjournment

Chairman McGuirk reminded the members September 8 is the date for the Special Board meeting to review the recommendation of the Enterprise Applications PPEA Steering Committee. October 5 is the next regular Board meeting.

Hiram Johnson made a motion to adjourn the meeting. The motion was seconded by Jimmy Hazel, and the chairman adjourned the meeting at 6:23 p.m.