



## Information Technology Investment Board Finance and Audit Committee October 2009

This Finance Report covers the following topics:

- Fiscal Year 2010 VITA Financial Results (through August 31, 2009)
  - VITA Financial Results
  - Cash Flow – Internal Service Fund
  - Accounts Receivable
  - Northrop Grumman Payments and Withheld Amounts
  - Budget Update
  - Rates Update
- Appendix
  - Combining Balance Sheets
  - Combining Statement of Revenues, Expenses and Changes in Net Assets

### FY 2010 Financial Results Financial Results Summary

|  | <i>FY2010<br/>Budget</i>       | <i>August 2009<br/>YTD Actual</i> | <i>Actual as a %<br/>of Budget</i> |
|--|--------------------------------|-----------------------------------|------------------------------------|
| <b><u>All Funds</u></b>                  |                                |                                   |                                    |
| <b>Revenues, including transfers in</b>  | <b>\$336,846,657</b>           | <b>\$54,461,430</b>               | <b>16.2%</b>                       |
| <b>Expenses, including transfers out</b> | <b><u>336,484,042</u></b>      | <b><u>56,159,567</u></b>          | <b>16.7%</b>                       |
| <b>Net Change</b>                        | <b><u><u>\$362,615</u></u></b> | <b>(1,698,137)</b>                |                                    |
| <b>Retained Earnings, July 1</b>         |                                | <b><u>17,127,373</u></b>          |                                    |
| <b>Ending Retained Earnings</b>          |                                | <b><u><u>\$15,429,236</u></u></b> |                                    |

Overall, revenues and expenses are in line with budgeted amounts. Revenues are lagging behind expenses, due primarily to Enterprise Fund activity. Further details are provided below.

**YTD Financial Results  
Internal Service Funds**

| <u>Internal Service Fund</u>             | <i>FY2010<br/>Budget</i> | <i>August 2009<br/>YTD Actual</i> | <i>Actual as a %<br/>of Budget</i> |
|--|--------------------------|-----------------------------------|------------------------------------|
| <b>Revenues, including transfers in</b>  | <b>\$274,740,345</b>     | <b>\$41,474,985</b>               | <b>15.1%</b>                       |
| <b>Expenses, including transfers out</b> | <u>274,377,730</u>       | <u>41,835,749</u>                 | <b>15.2%</b>                       |
| <b>Net Change</b>                        | <u>\$362,615</u>         | <b>(360,764)</b>                  |                                    |
| <b>Retained Earnings, July 1</b>         |                          | <u>9,725,077</u>                  |                                    |
| <b>Ending Retained Earnings</b>          |                          | <u><u>\$9,364,313</u></u>         |                                    |

The Internal Service Fund program represents the core of VITA's business, and accounts for the majority of revenues and expenses, including telecommunications, computer services and shared rate (agency-based) services.

As in FY09, VITA is not generating sufficient revenue to cover its expenses. The revenue shortfall is due to the lack of a fully reconciled inventory and Northrop Grumman's continued inability to provide key billing data to VITA.

**YTD Financial Results  
Enterprise Funds**

| <u>Enterprise Fund</u>            | <i>FY2010<br/>Budget</i> | <i>August 2009<br/>YTD Actual</i> | <i>Actual as a %<br/>of Budget</i> |
|-----------------------------------|--------------------------|-----------------------------------|------------------------------------|
| Revenues, including transfers in  | \$42,113,801             | \$8,814,222                       | 20.9%                              |
| Expenses, including transfers out | <u>42,113,801</u>        | <u>11,893,100</u>                 | 28.2%                              |
| Net Change                        | <u>\$0</u>               | (3,078,878)                       |                                    |
| Retained Earnings, July 1         |                          | <u>8,071,922</u>                  |                                    |
| Ending Retained Earnings          |                          | <u>\$4,993,044</u>                |                                    |

Revenues for the E-911 program are right on target. Expenses exceed both revenue and budget, due entirely to an annual \$3.7 million transfer to the Virginia State Police.

**YTD Financial Results  
General Fund**

| <u>General Fund</u>               | <i>FY2010<br/>Budget</i> | <i>August 2009<br/>YTD Actual</i> | <i>Actual as a %<br/>of Budget</i> |
|-----------------------------------|--------------------------|-----------------------------------|------------------------------------|
| Appropriations and transfers in   | \$2,877,180              | \$2,877,180                       | 100.0%                             |
| Expenses, including transfers out | <u>2,877,180</u>         | <u>411,572</u>                    | 14.3%                              |
| Net Change                        | <u>\$0</u>               | 2,465,608                         |                                    |
| Fund Balance, July 1              |                          | <u>0</u>                          |                                    |
| Ending Fund Balance               |                          | <u>\$2,465,608</u>                |                                    |

The General Fund appropriation supports statewide IT governance and oversight. VITA staff members collaborate with key stakeholders in formulating a strategic vision and direction for IT in the Commonwealth, and then in translating that vision and direction into practical guidance in planning and implementing specific technology initiatives. The General Fund appropriation also supports the Enterprise Applications Division. As the result of recent general fund budget reductions assessed by the Governor, VITA's appropriation will be cut by 15% to \$2,457,973. Spending is being reduced accordingly.

**YTD Financial Results  
Special Revenue Funds**

| <u>Special Revenue and Dedicated<br/>Special Revenue</u> | <i>FY2010<br/>Budget</i> | <i>August 2009<br/>YTD Actual</i> | <i>Actual as a %<br/>of Budget</i> |
|--|--------------------------|-----------------------------------|------------------------------------|
| <b>Revenues, including transfers in</b>                  | <b>\$8,090,331</b>       | <b>\$1,230,863</b>                | <b>15.2%</b>                       |
| <b>Expenses, including transfers out</b>                 | <b>8,090,331</b>         | <b>1,448,952</b>                  | <b>17.9%</b>                       |
| <b>Net Change</b>  | <b>\$0</b>               | <b>(218,089)</b>                  |                                    |
| <b>Fund Balance, July 1</b>                              |                          | <b>1,842,443</b>                  |                                    |
| <b>Ending Fund Balance</b>                               |                          | <b>\$1,624,354</b>                |                                    |

While VITA does have several distinct special revenue and dedicated special revenue funds, the current activity is primarily related to the Industrial Funding Adjustment (IFA) fund (which pays for acquisition and general government activities, including support to the Governor's Office, that would not normally be included as overhead billed to state agencies and other customers) and the Geographic Information Systems (GIS) fund (which accounts for activities of the Virginia Base Mapping Program and similar activities).

The original budget also includes \$1,770,000 for the Enterprise Applications Division's support to the State Board of Elections' Virginia Election Results Information System (VERIS); since this work was largely completed before the beginning of FY10 the revenue and expense projections will be adjusted in future reports.

While revenues for IFA are running slightly ahead of expenses, revenues lag behind expenses in the GIS fund because the planned \$1.8 million transfer from the E-911 fund to the GIS fund has not been made. This transfer will occur in October.

**YTD Financial Results  
Federal Funds**

| <b>Federal Funds</b>                     | <i>FY2010<br/>Budget</i> | <i>August 2009<br/>YTD Actual</i> | <i>Actual as a %<br/>of Budget</i> |
|--|--------------------------|-----------------------------------|------------------------------------|
| <b>Revenues, including transfers in</b>  | <b>\$0</b>               | <b>\$0</b>                        |                                    |
| <b>Expenses, including transfers out</b> | <u><b>0</b></u>          | <u><b>0</b></u>                   |                                    |
| <b>Net Change</b>                        | <u><u><b>\$0</b></u></u> | <b>0</b>                          |                                    |
| <b>Retained Earnings, July 1</b>         |                          | <b>2,336</b>                      |                                    |
| <b>Ending Retained Earnings</b>          |                          | <u><u><b>\$2,336</b></u></u>      |                                    |

VITA received a federal grant for \$47,000. This cooperative agreement will assist VITA with the further integration of the State Spatial Data Infrastructure (SSDI) needs with the National Spatial Data Infrastructure (NSDI) needs and the continued integration of the strategic visions of the VITA Integrated Services Program. A small portion was drawn down in FY09 to cover expenses in FY09 and early expenses in FY10. The grant period runs through February 2010.

**YTD Financial Results  
Virginia Enterprise Applications Program**

|   | <i>August 2009 YTD<br/>Actual</i> |
|---|-----------------------------------|
| <b><u>Technology Infrastructure Fund</u></b>                |                                   |
| <b>Resources Available to Spend (original WCA drawdown)</b> | <b>\$11,683,436</b>               |
| <b>Expenses</b>   |                                   |
| <b>FY09 Expenses</b>  | <b>2,514,406</b>                  |
| <b>FY10 Expenses through August</b>                         | <b>570,194</b>                    |
| <b>Total Expenses (current amount to repay)</b>             | <b>3,084,600</b>                  |
| <b>Remaining Funds</b>                                      | <b>\$8,598,836</b>                |

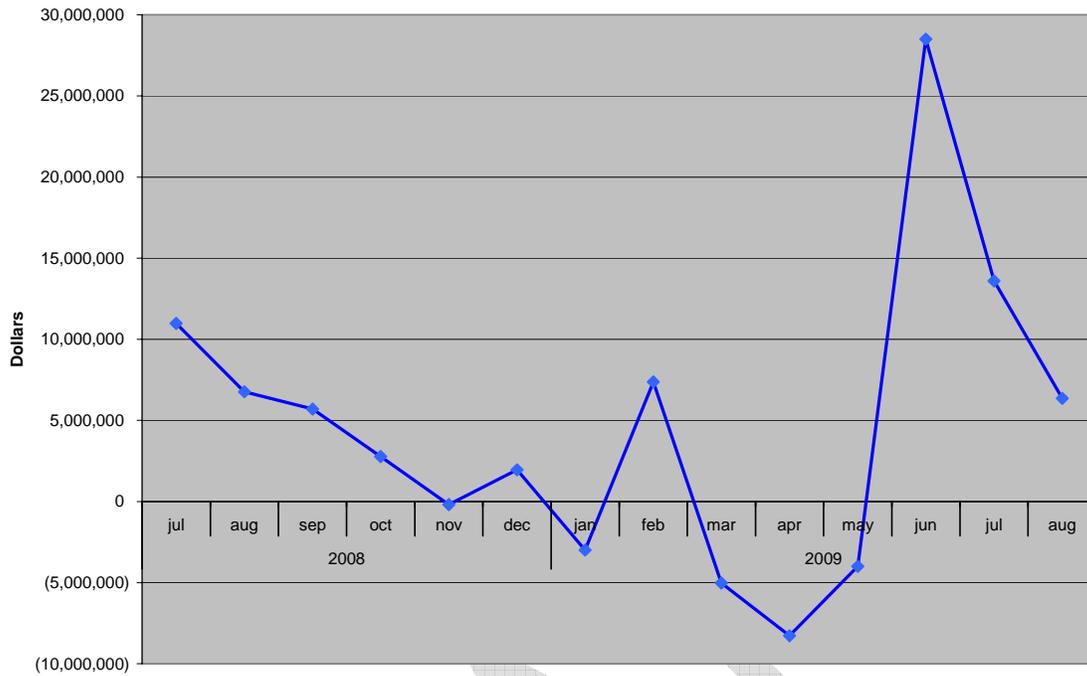
At its July 24 meeting the ITIB approved \$9.1 million in spending from the Enterprise Application Division's working capital advance in FY 2010. Most of this will be used to purchase and begin implementation of the performance budgeting (PB) system. Classified staff and consultant costs associated with the PB acquisition are included in the year-to-date expenses. As other sources of funding for EAD initiatives – including Virginia Interactive and agency outreach project revenues – are added to the budget, downward adjustments to the actual expenses in this fund may be made consistent with technology infrastructure fund's focus on enterprise-wide projects.

**Cash Flow – Internal Service Fund (ISF)**

**ISF Cash with Treasurer of Virginia**

| <b>Cash with Treasurer of Virginia (not including loans)</b> |                      |
|--|----------------------|
| <b>June 30, 2009</b>   | <b>\$ 28,500,803</b> |
| <b>August 31, 2009</b>                                       | <b>\$ 6,351,704</b>  |

VITA - ISF Cash On-Hand (end of month)



The chart above reflects revenue collections net of expenditures at the end of each month, and DOES NOT include working capital cash advances/treasury loans. No loans were necessary through August; however, in September VITA obtained a \$10 million draw down against the line of credit.

## Accounts Receivable

| <b>Accounts Receivable (as of August 31, 2009)</b> |                   |            |           |            |
|--|-------------------|------------|-----------|------------|
|  | <b>Total</b>      | Current    | 1-30 Days | > 30 Days  |
| Telecommunications                                 | <b>12,459,894</b> | 11,345,618 | 992,572   | 121,705    |
| Computer Services                                  | <b>7,909,127</b>  | 4,366,743  | 3,383,064 | 159,320    |
| Decentralized Services                             | <b>18,972,654</b> | 3,786,055  | 5,001,191 | 10,185,408 |
| Time & Materials                                   | <b>257,433</b>    | 169,287    | 20,884    | 67,262     |
| Other  | <b>17,507</b>     | -          | -         | 17,507     |
| <b>Total Internal Svc Funds</b>                    | <b>39,616,615</b> | 19,667,703 | 9,397,710 | 10,551,202 |

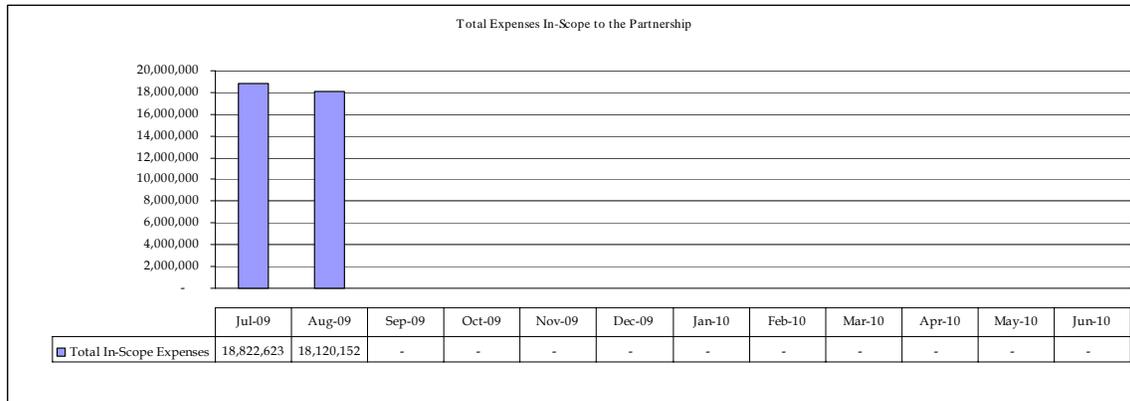
Total receivables have increased 54% (\$13.8 million) since June 30, 2009. Below is a list of agencies with the largest balances greater than 30 days past due. The first six on the list are regulars with recurring inventory and billing issues that remain unresolved. The Department of Corrections is a new entry on the list; the agency has been slow to pay this year's decentralized services bills and has been contacted about payment.

Social Services  
 Tax  
 Employment Commission  
 Health  
 Environmental Quality  
 Rehabilitative Services  
 Corrections  
 General Services

VITA estimates that \$3.3 million in inventory disputes and at least \$1.3 million in DSS service delivery disputes ultimately will be uncollectible.

# Northrop Grumman Payments and Withheld Amounts

## Payments Against the Contractual Cap



## Payment Withholding

Over the past two years, the amounts set forth below have to date been withheld from payment to Northrop Grumman for the reasons stated and are pending resolution of the issues involved.

| Issue   | <u>Withheld Amount<br/>thru FY09</u> | <u>Withheld<br/>Amount in FY10</u> |
|---|--------------------------------------|------------------------------------|
| <b>Server Disc Storage</b> - Data available under recovers server storage in use*         | \$2,426,916                          | \$404,486                          |
| <b>Enterprise Printing</b> - Data available under recovers enterprise print in use*       | \$3,840,384                          | \$640,064                          |
| <b>Financial and Operational Audits</b> - Incomplete or inaccurate audits from CY 1 and 2 | \$250,000                            | \$25,000                           |
| <b>Procedures Manual</b> - Not delivered when promised                                    | \$625,000                            | \$50,000                           |
| <b>ITIL Optimization</b> - Not delivered when promised                                    | \$1,200,000                          | \$200,000                          |
| <b>TOTAL</b>  | <b>\$8,342,300</b>                   | <b>\$1,319,550</b>                 |

\*Amounts withheld through FY 09 have been deemed permanent short payments and will not be paid to Northrop Grumman. VITA's financial statements for FY09 were adjusted accordingly.

## Budget Update

### Statewide Budget Reductions:

VITA was required to prepare and submit two budget reduction plans in July, for general fund (GF) and internal service fund (ISF) spending. 5%, 10%, and 15% reduction scenarios were presented in each plan. The internal service fund plan ultimately was not adopted. Details of the general fund reduction plan are shown below:

### GENERAL FUND BUDGET REDUCTION PLAN, FY 2010

| <u>Description</u>   | <u>Impact</u>   | <u>Amount</u> |
|--|---|---------------|
| Reduce spending for IT governance activities   | Spending on organizational memberships, publications and subscriptions, training, etc., will be reduced.  | \$12,000      |
| Reduce spending for enterprise applications consultants                              | The Enterprise Applications Division (EAD) has relied heavily on consultant labor. Most consultants' contracts ended on August 31 and were not extended. Work can be performed more cost effectively by classified and wage employees.  | \$137,112     |
| Reduce spending for development of Commonwealth IT strategic plan                    | VITA planned to make use of a consultant to assist with plan development, as it did in FY 2006. Relying solely on existing staff, VITA can complete the plan in its most basic, bare-bones form and satisfy the Code requirement.   | \$63,407      |
| Reduce spending for integration of Commonwealth enterprise architecture and ProSight | VITA is developing the Commonwealth Enterprise Business Repository to integrate the enterprise business architecture and other enterprise applications with ProSight. Proposed reductions will delay VITA's development and implementation of this important project, thereby limiting the full potential for savings within this and other agencies. | \$100,000     |
| Reduce spending for CIO transition   | Due to the change in VITA leadership, various transition costs in addition to the holdover contract are expected. Eliminating funding in this area will limit the future flexibility of the CIO to address statewide IT governance issues.  | \$94,775      |
| Eliminate one filled IT governance position  | Eliminating one position from the governance function may adversely affect assistance to agencies on IT project management and policy development.  | \$11,913      |

**TOTAL, FY 2010 GF  
REDUCTIONS**

**\$419,207**

Reductions shown above reflect VITA's 15% scenario. The eliminated position was effected through the recent staff reorganization of the Project Management Division. Other reductions are targeted to planned expenses that are being reprioritized.

Fiscal years 2011 and 2012 also were included in the general fund reduction plan. Recent guidance from the Department of Planning and Budget (DPB) suggests that similar GF reductions will be included in the Budget Bill for the 2010 – 2012 biennium to be published on December 18, 2009.

**2010 – 2012 Biennial Budget Development:**

The executive branch is in the process of developing the initial budget for the upcoming biennium (beginning July 1, 2010). In the constrained economic climate, there are scant opportunities to obtain state (general) funding for new initiatives; rather, as noted above, most agencies are sustaining new reductions of 15% to their general fund appropriations.

With this in mind, VITA proposed several modest increases as well as essential corrections to Appropriation Act language. The most significant proposal requests the restoration of funding provided, from the Central Appropriations account, to VITA customers. This is intended to cover increases in decentralized services charges some customers have experienced. The following table summarizes the biennial budget request (decision package) submission:

| <b><u>VITA PROPOSED DECISION PACKAGES</u></b> |   |                          |                          |                        |                      |
|---|---|--------------------------|--------------------------|------------------------|----------------------|
| <i><u>Description</u></i>                     | <i><u>Rationale</u></i>   | <i><u>FY 2011 GF</u></i> | <i><u>FY 2012 GF</u></i> | <i><u>Language</u></i> | <i><u>Item #</u></i> |
| Restore GF supplement funding for agencies    | The 2009 Budget Bill intended to retain a base of \$6 million for supplemental assistance for agencies; this was deleted in FY 2010 by the 2009 GA. Restoring this amount to the biennial budget base enables agencies to receive minimal assistance while VITA continues to effect cost-saving measures to reduce overall IT expenses. | \$9,505,454              | \$9,505,454              | Yes                    | 473                  |

|  |  |             |             |     |     |
|--|--|-------------|-------------|-----|-----|
| Fund ongoing operational expenses for enterprise applications                    | Permanent funding is required to maintain and operate three enterprise applications: Performance Budgeting (2012--\$.4M); Business Intelligence (2011--\$153K, 2012--\$156K); and Financial Management (2011--\$242K; 2012--\$242K). This does not include the development and acquisition expenses covered by working capital advances. | \$395,000   | \$798,060   | No  | 433 |
| Expand funding sources for repaying working capital advance                      | The current language is too restrictive, preventing VITA from using fees, agreed to by participating agencies, to repay working capital advances.  | \$0         | \$0         | Yes | 433 |
| Meet Chapter 781 direction to establish and implement enterprise data standards. | Chapter 781 and the Code charge VITA (EAD) with managing data standards for the Commonwealth. While existing funding and FTEs will be used to the maximum extent possible, additional resources likely will be required to establish and implement a comprehensive data standards program.   | \$1,000,000 | \$1,000,000 | No  | 433 |
| Transfer E-911 funding for base map to VGIN                                      | This companion language completes the non-GF transfer of E-911 funding (\$1.75M), intended to fund the base map program, to VGIN. Separation of funding is recommended per an APA finding.   | 0           | 0           | Yes | 431 |

|   |  |   |   |     |            |
|---|--|---|---|-----|------------|
| Correct placement of savings language         | Language on closing the gap between customers' IT budgets and costs should have been added to Item 434 rather than Item 433 (housekeeping).                            | 0 | 0 | Yes | 434        |
| Revise amounts in ISF sum-sufficient language | The amounts described in language in the service areas supported by internal service funds (ISF) will be updated in accordance with the most recent revenue forecasts. | 0 | 0 | Yes | 432<br>435 |

An earlier biennial budget submission allowed VITA to make technical adjustments to its non-general funds, including placement of E-911 appropriations dedicated to VGIN activities in the VGIN program; adding a dedicated special fund appropriation for Virginia Interactive revenues to be used by the Enterprise Applications Division; increasing E-911 and IFA appropriations to mirror revenue projections in these areas; and decreasing VGIN and VERIS special fund appropriations in line with current activity in these programs.

**IT Customer Costs:**

The ITIB recently submitted a report to the General Assembly money committee chairs and Governor on VITA’s contributions to closing the gap between executive agency customers’ IT budgets and IT costs. An assumption behind the reporting requirement (which can be found in the current Appropriation Act, Chapter 781, Item 433.F.) is that VITA can readily revise IT services charges at its discretion. One point of the report is to correct this notion; with the costs of service delivery tied to the Northrop Grumman contract, there is scant flexibility to significantly impact the charges for most VITA-provided services. However, VITA has successfully implemented – and reported on – a number of efforts that do provide savings or cost avoidance opportunities to its customers.

Also noted in the report is that some customers will begin being charged for IT services they have been receiving, but for which VITA has not been able to bill due to inadequate cost and/or service information from Northrop Grumman. As these problems are resolved, customers are beginning to be billed. It is necessary to implement these additional charges both for VITA to obtain adequate recoveries to meet its financial obligations to Northrop Grumman and to comply with federal cost allocation guidance requiring equitable charges to customers across the board.

**What's Coming Up:**

JLARC's report on VITA will be released on October 13. Any recommendations related to funding of the IT partnership may have some impact on the Governor's budget proposal, and undoubtedly will influence 2010 General Assembly budget deliberations. If needed, VITA Finance staff will include pertinent information in the next Finance and Audit Committee report.

As mentioned above, the Governor's budget will be released on December 18, a few days after the next ITIB committee meeting day is scheduled. Advance information on the contents of the Budget Bill normally is not available so information on the proposed 2010 – 2012 budget will be presented at the January 2010 board meeting.

**Rates Update**

Finance staff members have completed a draft rates submission for JLARC. In order to give JLARC adequate time to evaluate the rates proposal, it must be submitted at least a month before the target meeting date – in this case, December 14. If board members have any questions about the proposal summarized below or would like additional details, please inform the Finance staff no later than October 22 if at all possible.

| <b><u>VITA RATES CHANGE PROPOSAL -- TO BE SUBMITTED October 2009</u></b> |               |   |                  |
|--|---------------|---|------------------|
| <u>Service</u>   | <u>Action</u> | <u>Description</u>  | <u>Eff. Date</u> |
| <i>Virtual Private Network (VPN) service</i>                             | Eliminate     | VITA and Northrop Grumman have agreed that single factor authentication VPN services will be part of the standard service offering to personal computer (PC) customers. VITA, therefore, is discontinuing charges previously applied to customers using VPN services. | 10/1/2009        |
| <i>Legacy Data Center Network Port Charge</i>                            | Eliminate     | Northrop Grumman's charging model for network costs makes no distinction between CESC and remote locations. VITA, therefore, is discontinuing charges previously applied to customers using legacy network ports for servers located at CESC.                         | 10/1/2009        |
| <i>PC Encryption</i>   | Reduce        | Northrop Grumman has reduced the unit price for PC encryption services. Accordingly, VITA requests approval of a reduced rate.  | TBD*             |

|                                       |                        |  |           |
|---------------------------------------|------------------------|--|-----------|
| <i>Direct Attached Server Storage</i> | New                    | Northrop Grumman will begin charging VITA for all storage, regardless of the architecture, in November 2009. Accordingly, VITA requests approval of the expanded definition for server disk storage to include direct attached storage, both located at the CESC. Without expanding the definition, VITA will not generate sufficient revenue to pay the Northrop Grumman charges in full. Additionally, there would be inequity among customer agencies as some would not be paying for services received.  | 11/1/2009 |
| <i>Virtual Server Backup Factor</i>   | Adjustment             | VITA has developed and requests approval of a factor that will reduce the billable volume of backup data for virtual servers to an amount comparable to physical servers. By applying this factor to the volume of data backed up for virtual servers, the resulting quantity is comparable to that charged for physical servers. Without the use of this factor, either VITA will not generate sufficient revenue to pay the Northrop Grumman charges in full (as in our current non-bill state) or VITA will overcharge virtual server customer agencies. Additionally, there would be inequity among customer agencies; some would either be paying more than others for services received while some would not be paying anything.                     | 11/1/2009 |
| <i>Internet Access Services</i>       | New<br>--DSS<br>only-- | The Department of Social Services provides PCs through the IT partnership to local district offices; however, in some larger counties the PCs are supported by local government IT staff and are connected to local government data networks. [VITA applies a less-than-full service charge for the PCs in these localities]. Due to this unique situation, it became necessary for Northrop Grumman to separate Internet Access Services from basic PC services. This new service is deployed in conjunction with the managed router service that was established in 2007 and utilizes a similar tiered rate structure that increases in keeping with bandwidth requirements. The VITA rates developed for this service follow the same tiered structure. | TBD**     |

\* *Effective date contingent upon VITA/Northrop Grumman approval of related engineering change proposal*

\*\* *Effective date will coincide with reduction of PC charges to affected DSS offices*

## Appendix

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