



**Information Technology Investment Board
Finance and Audit Committee
April 2007**

This Finance Report covers the following topics:

- Fiscal Year 2007 To Date VITA Financial Results (thru February 28, 2007)
- Cash Flow (thru March 31, 2007)
- Enterprise Applications Project Office Financial Results (thru February 28, 2007)
- Final Budget Bill actions

FY 2007 YTD Financial Results (thru February 28, 2007)

**YTD Financial Results
All Funds**

<u>All Funds</u>	<i>FY 2007 Budget</i>	<i>February 2007 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$317,134,283	\$200,990,241	63.4%
Expenses, including transfers out	<u>311,406,005</u>	<u>213,500,852</u>	68.6%
Net Change	<u>\$2,248,388</u>	(12,510,611)	
Retained Earnings, July 1		<u>55,371,607</u>	
Ending Retained Earnings		<u><u>\$42,860,996</u></u>	

Financial activity in all funds in fiscal year 2007 through the first eight (8) months is running slightly ahead of projected expenses and slightly behind budgeted revenue. The significant negative year to date balance is almost entirely the result of a Wireless E-911 legal settlement payout to Cingular which occurred in February, using fund balances that had been reserved for that purpose over several years. Revenue and Expense details for various programs are described following the fund tables below.

**YTD Financial Results
Internal Service Fund**

	<i>FY 2007 Budget</i>	<i>February 2007 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>ISF</u>			
Revenues, including transfers in	\$251,923,915	\$166,552,475	66.1%
Expenses, including transfers out	<u>\$251,885,997</u>	<u>173,892,110</u>	69.0%
Net Change	<u>\$37,918</u>	(7,339,635)	
Retained Earnings, July 1		<u>29,733,496</u>	
Ending Retained Earnings		<u>\$22,393,861</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 decentralized (agency based) services. ISF revenues through February are running under budget projections, and expenditures are running slightly ahead of projections for several reasons. First, FY 07 is a transitional year for finances as well as service delivery. Changes in the method of billing agencies, from a Memorandum of Understanding approach to a single statewide rate for decentralized services, has presented challenges as further described elsewhere in this report. As part of this migration plan, for example, in February about \$2.5 million in billings to agencies were not posted, and therefore the revenues not reflected above. This will be offset when the new billing system is fully in place during the last quarter of the fiscal year, and prior months billings reconciled. In addition, for a variety of reasons, certain charges have been made against the ISF program year-to-date that would otherwise have been supported from other fund sources and programs (i.e. General Fund, IFA, etc.), which is described more fully in other sections below. Accounting corrections to those charge backs will also be made during the fourth quarter, based on amendments adopted to the state Budget Bill during this past legislative session and other administrative adjustments.

**YTD Financial Results
Enterprise Funds**

	<i>FY 2007 Budget</i>	<i>February 2007 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Enterprise</u>			
Revenues, including transfers in	\$54,222,802	\$31,176,922	57.5%
Expenses, including transfers out	<u>48,532,442</u>	<u>34,895,273</u>	71.9%
Net Change	<u>\$5,690,360</u>	(3,718,351)	
Retained Earnings, July 1		<u>21,736,063</u>	
Ending Retained Earnings		<u>\$18,017,712</u>	

VITA's Enterprise Fund is comprised solely of Wireless E-911 revenues. Year-to-date revenue collections for this program are running behind budget due to a timing issue, as revenue remittance to VITA runs about 30 days behind revenue collection by the carrier. Year to date expenditures in this program are running markedly ahead of budget however for a simple reason. In February we paid a \$10.5 million legal settlement to Cingular in lieu of litigation on a matter which had been pending for several years and for which fund balances had been reserved. This was a one-time expense, which had it not been paid out would show expenditures year to date less than revenues received.

**YTD Financial Results
General Fund**

	<i>FY 2007 Budget</i>	<i>February 2007 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>GF</u>			
Revenues, including transfers in	\$6,203,080	\$0	0.0%
Expenses, including transfers out	<u>\$6,203,080</u>	<u>4,324</u>	0.1%
Net Change	<u>\$0</u>	(4,324)	
Retained Earnings, July 1		<u>0</u>	
Ending Retained Earnings		<u>(\$4,324)</u>	

The General Fund (GF) portion of VITA's budget this year is made up of two components:

1. certain overhead costs not allowable for indirect cost charge-back, and
2. the costs for updating the Virginia Base Map (VGIN program).

The former amount (\$2.5 million) has not been available to VITA year-to-date because of amendments in last year's Budget Bill related to projected "VITA savings". This amount was the subject of a Governor's budget amendment which was approved during the 2007 legislative session, and which will be available when the new Budget Bill is signed. The shortfall in this appropriation has, however, presented operational challenges for VITA year to date. Those expenditures that would otherwise have been charged to GF have been borne by the Internal Service Fund or other programs. That will be reconciled and accounting adjustments made after the newly approved Budget Bill transfer is made to the agency.

In the case of the VGIN appropriation, transfer of funds into this account occurred in March and is not reflected in the financial reports through February. Expenditures associated with the digital orthophotography, data aggregation, and quality control, are now adequately capitalized for the remainder of FY 2007.

**YTD Financial Results
Special Revenue Funds**

<u>Special</u>	<i>FY 2007 Budget</i>	<i>February 2007 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$4,416,976	\$3,260,844	73.8%
Expenses, including transfers out	4,416,976	4,402,426	99.7%
Net Change	<u>\$0</u>	(1,141,582)	
Retained Earnings, July 1		<u>3,438,339</u>	
Ending Retained Earnings		<u>\$2,296,757</u>	

Special Revenue Funds are comprised of revenue collections and expenditures generally intended to support procurement and contractual services (IFA), public-private partnerships (PPEA), certain Virginia Geographic Information System (VGIN) services, and the Virginia Technology Infrastructure fund. These IFA revenues have been running well ahead of estimates fiscal year to date, in part because of improvements in recording and collection efforts. In addition we started the fiscal year with sizable fund balances in the program. This account funds 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. Considering the fund balances and strong revenue collections in this program, we have increased expenditures of these funds compared to the original budget to help offset, in part, the impact of revenue shortfalls in the agency's major funding programs – Internal Service Funds – based on the impact of actions by the HHS-DCA relating to federal fund payments.

YTD Financial Results

Federal Funds

<u>Federal</u>	<i>FY 2007 Budget</i>	<i>February 2007 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$367,510	\$0	0.0%
Expenses, including transfers out	367,510	306,719	83.5%
Net Change	<u>\$0</u>	(306,719)	
Retained Earnings, July 1		<u>463,709</u>	
Ending Retained Earnings		<u><u>\$156,990</u></u>	

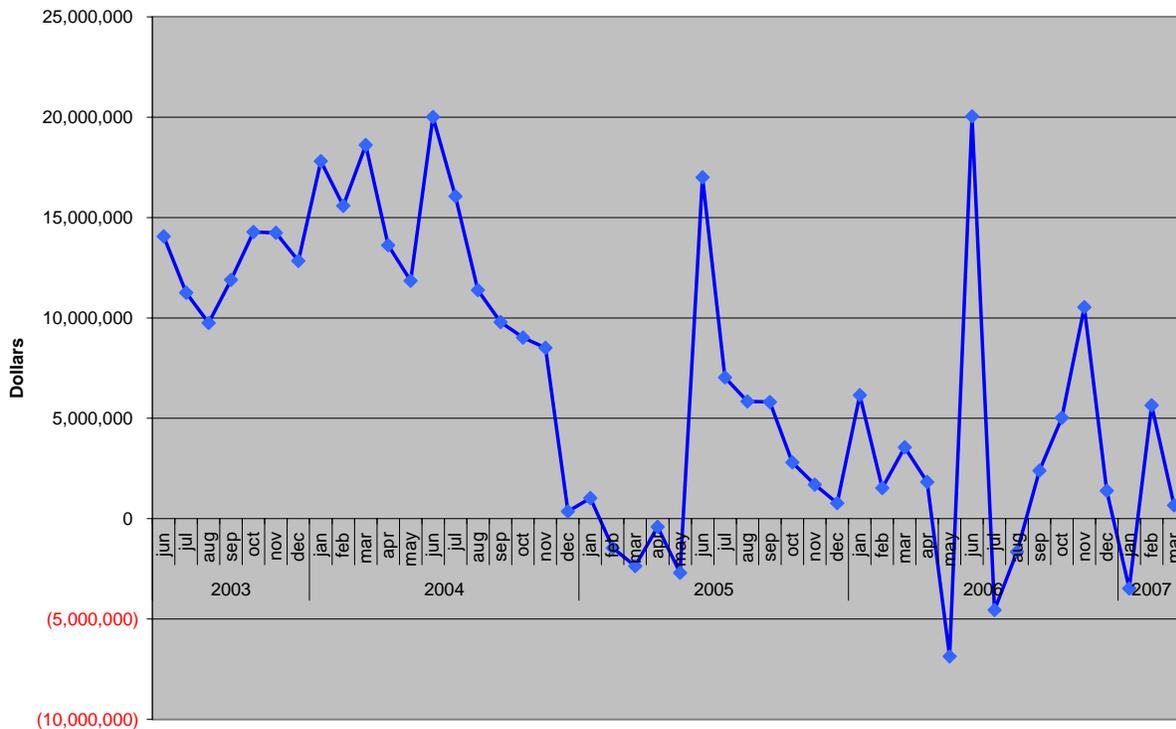
In FY 2006 VITA received \$1.7 million in Homeland Security Grant funds, and expended about \$1.4 million. The year-end balance carried-forward of about \$0.6 million is obligated for the completion of the two federally supported projects involved and most of that balance has now been spent through February.

Cash Flow – Internal Service Fund (ISF)

ISF Cash with Treasurer of Virginia

Cash with Treasurer of Virginia	
June 2006	\$ 20,037,684
March 2007	\$ 10,665,711 *
<i>*includes \$5M line of credit plus \$5M treasury loan</i>	

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



The chart above reflects revenue collections versus expenditures at the end of each month, and **DOES NOT include cash advances or treasury loans** (which totaled \$10.0 million in early 2007).

The chart indicates the impact on VITA cash flow of periods of transformation. Even before VITA was created, its predecessor agencies had operated by capitalizing agency expenditures, paying personal service and other costs, and then seeking reimbursement from state and local agencies receiving services.

When VITA was created that same charge-back and rate allocation system was applied to the consolidated agency. The chart indicates that after years of operating under the previous system, revenues and expenditures, and therefore cash flow, was relatively smooth. That was true until early in calendar year 2005 when all of the “large” agencies were merged in and the VITA consolidation was complete. Cash-flow was in negative territory for almost all the first half of that calendar year.

Recognizing the potential impact of the Northrop-Grumman agreement on cash-flow, the Memorandums of Understanding process was intended, in part, to smooth the financial transition for both VITA and the agencies. Year-end, discretionary spending spikes are clearly evident in fiscal years 2005 and 2006, and are an example of the need to smooth out cash flow. Throughout this fiscal year VITA has struggled to manage cash flow, receivables and expenditures. We ended five of the past nine months with negative or very little cash on-hand. The explanation for this is relatively simple – through February many of the state agencies have not paid, have short paid, or have been slow paying their VITA MOU bills. All of those situations relate to the requirement that we shift to a new billing structure in mid-year as a result of a directive from the Department of Health and Human Services, and/or related state agency

budget issues which are being addressed with the help of the Department of Planning and Budget.

Decentralized Services Rates Plan

In March 2007 VITA implemented a revised customer billing protocol for decentralized (agency-based) IT services using a recently approved standard, single, enterprise-wide, rate structure. The driver for the agency billings is the inventory of active assets used by each agency. This charge-back system replaced the Memorandum of Understanding approach we began implementing this past year, with the revised billings effective retroactive to July 1, 2006.

The Joint Legislative Audit and Review Commission (JLARC) approved this plan on December 11 and the U.S. Department of Health and Human Services (HHS) Division of Cost Allocation (DCA), in a letter dated December 20, with some reservations and interest in cost reconciliation at the end of the current fiscal year, accepted VITA proceeding with the revised plan.

Throughout January and February VITA worked closely with the Department of Planning and Budget to address the impact of these changes may have on each agency's funding, and with Northrop-Grumman and individual agencies to validate and update IT inventory information.

Enterprise Applications Project Office

The Virginia Enterprise Applications Program (VEAP) core team, comprised of nearly 60 Commonwealth and CGI resources, has completed the initial updates to the eight (8) Future State Business Process / Best Practice Environment Definition documents. Future State Business Process (FSBP) Workshops have been scheduled for the months of April and May. Forty-three (43) agencies and 121 subject matter experts will be reviewing these documents to provide feedback (updates, clarifications, and additional detail) to the project team.

North Highland has come on-board as the Independent Validation and Verification (IV&V) vendor for the Enterprise Applications Project. North Highland has just completed the first round of interviews and is reviewing project documentation to produce the first formal IV and V report.

The Request for Proposal (RFP) for Enterprise Resource Planning (ERP) software was released on March 8th. Vendor responses will be submitted by April 8th. Evaluations (proposal reviews, Q&A, product demonstrations, etc.) will be conducted through the end of May with contract negotiations continuing through June. Contract award is expected in early July 2007.

A permanent Project Director, Peggy Feldmann, has been selected and will be presented to the ITIB for approval at the April ITIB meeting.

	Annual Budget	Actual (02/28/07)	Remaining Budget	Explanation
Personnel	931,964.00	95,087.99	836,876.01	
<i>EA Project Management Office</i>	431,964.00	95,087.99	336,876.01	
<i>CoVA Project Team</i>	500,000.00	0.00	500,000.00	MOUs executed, funds transfer in March
Office Space	24,500.00	0.00	24,500.00	
Operational Costs	16,706.00	5,990.65	10,715.35	
Other	7,881.00	2,767.82	5,113.18	
Contracts	4,505,949.00	1,487,473.99	3,018,475.01	
<i>Planning Support</i>	55,949.00	101,662.74	-45,713.74	Use of contractors to support planning
<i>CGI Fixed Fee</i>	1,200,000.00	1,000,000.00	200,000.00	
<i>CGI T&M</i>	2,985,000.00	385,811.25	2,599,188.75	
<i>IV&V</i>	50,000.00	0.00	50,000.00	
<i>Tax System Mods</i>	150,000.00	0.00	150,000.00	
<i>Software RFP</i>	65,000.00	0.00	65,000.00	
Office Supplies	3,000.00	434.87	2,565.13	
Travel/Business Meals	10,000.00	2,584.29	7,415.71	
Total:	5,500,000.00	1,594,339.61	3,905,660.39	

2007 Budget Actions

The 2007 General Assembly session adopted most of the Governor's recommendations in the Budget Bill (HB 1650/SB 750) that affect VITA. The enrolled Budget Bill covers the current year, FY 2007, as well as fiscal year 2008 beginning on July 1, 2007. Highlights of VITA's amended budget for the 2006-2008 biennium include:

- Adjustments to internal service fund sum sufficient totals: The amounts reflected in the language for several budget items now conform to VITA's revenue projections developed last fall. This includes the impact of new decentralized services rates, new rates for geographic information services (GIS) initiated in FY 2008, and the addition of previously projected revenue (based on the December, 2005 rate schedule approved by JLARC) for project management activities.
- Adjustments to Line of Credit language: VITA requested an increase in its Line of Credit authorization from \$5M to \$25M. A twenty million dollar (\$20.0 million) increase to the LOC was approved, which will enable VITA to obtain short-term loans to address fluctuations in cash flow (see above section).
- Adjustments to position level: VITA identified 623 positions which were no longer needed when the majority of affected VITA employees accepted employment offers from Northrop Grumman during July through September of 2006. The enrolled budget includes, on top of the 623 position decrease, additional reductions to VITA's position level of 30 positions in FY 2007 and 55 (inclusive of the 30) in FY 2008. This may create an administrative issue that VITA will need to address prior to July 1.
- Restoration of general fund "savings": The Budget Bill partially addressed VITA's budget request by eliminating the \$3.3M general fund cut in FY 2007 – but retained next

year's reduction of \$1.6M. Legislative action basically reversed this proposed correction to the biennial budget by moving the original GF reduction of \$3.3M to the FY 2008 Budget Bill total of (\$1.6M) GF, for a total of \$4.9M GF in reductions next year.

- Funding assistance to executive agencies using GIS: VITA recommended, and the Budget Bill included, the provision of general fund assistance to state agency customers of VITA's geographic information services, beginning next fiscal year. The enrolled budget adjusted the amount downward to reflect the correct general fund percentage of the total cost. VITA recently informed the Department of Planning and Budget (DPB) that this funding assistance will not be required until FY 2009, as the next round of orthophotography is deferred until that time.

There are several concerns in this budget that will affect VITA's operations this year and next. We will have to address some, and possibly all, of these in our next state budget submission (fall 2007 time frame). These include:

Eliminating the general fund reduction in FY 2008: We have made the case repeatedly, and will continue to do so, that "savings" attendant to IT transformation are no longer available for reallocation under the IT partnership with Northrop Grumman. Efficiencies and economies savings realized by our customers must be retained by them in order to ensure that they have at least level funding to address VITA charges. Revenue from these charges is our primary funding source to meet contractual obligations to NG.

Unfortunately, the next opportunity to correct this budget action is in the submission updating the 2006-2008 biennial budget, known as the 2008 caboose bill. Even if elimination of the reduction is approved by the 2008 legislature, it would not be effective until a year from now, so VITA will be forced to compensate for this significant negative GF cash flow with ISF replacement funding for most of the next fiscal year.

Operating under a severely constrained position level cap: VITA's current staffing picture suggests that it will be difficult to reduce on-board strength to 400 classified positions by July 1, when that position level becomes effective. Limitations on hiring remain in place, and we will seek further adjustments in the maximum employment level in the next budget submission if this appears necessary in the coming months.

Obtaining adequate funding assistance for state agency customers of GIS: Customers will have the opportunity in the next state budget cycle to individually request new general fund appropriations to offset the impact of the new GIS rates effective in FY 2009 and beyond. Additionally, VITA will advocate in our budget submission for the agencies' aggregate needs to ensure that this requirement has maximum visibility with state decision makers.

Addressing the funding needs of the IT partnership in a dynamic environment: As the transition phase of the IT partnership continues, VITA and its customers will face evolving funding requirements for the provision of IT services. Our experiences in the initial year of the new decentralized services rates may induce us to seek approval of revisions to the rate structure from federal authorities (the HHS Division of Cost Allocation) and the legislature (JLARC). VITA is collaborating with DPB to stay on top of the impact of our various rates and charges to customers in order to identify requirements for state funding assistance.