



DRAFT v3

Minutes

Finance and Audit Committee

Thursday, Dec. 17, 2009

10 a.m.

Commonwealth Enterprise Solutions Center (CESC)

11715 Meadowville Lane, Chester, VA 23831

Chesterfield Conference Room

Members Present

Scott Pattison, Chair
Secretary Ric Brown

Hiram Johnson
Walt Kucharski

Members Absent

None

Also Present

Sheila Alves, Internal Audit Director
George Coulter, Chief Information Officer
Dana Smith, VITA Controller
Marcella Williamson, Executive Director of the ITIB
John Westrick, Office of the Attorney General

Call to Order

Mr. Pattison called the meeting of the Information Technology Investment Board's Finance and Audit Committee to order at 10:05 a.m. and requested that Ms. Smith call the roll. There was a quorum.

Approval of Minutes

Mr. Hiram Johnson made a motion, seconded by Mr. Kucharski:

"I move that the minutes from the May 22, 2009, meeting of the Finance and Audit Committee be approved."

The motion was approved on a voice vote.

Secretary Brown arrived.

Finance Report

Ms. Smith reported that expenses were exceeding revenue by \$7.5 million through October, primarily because of activity in the Internal Services Fund and Enterprise Fund.

Internal Service Fund

She said the Internal Service Fund revenue continues to be insufficient to cover expenses in part because Northrop Grumman has not been able to provide key billing data to VITA, particularly for storage and enterprise print. She said that although VITA was withholding payments to Northrop Grumman for these two items, the expenses had been booked with no corresponding revenue. She also stated that VITA had verbally informed Northrop Grumman that VITA will not pay those withholds but needed to finalize that position in writing. She said Northrop Grumman now is providing billing information for these items and, therefore, the withholds will stop going forward. In addition, less revenue has been generated primarily because of more accurate inventories.

Mr. Kucharski asked if the withhold payments will be retroactive or current. Ms. Smith said prior withholds will not be paid, but that VITA must pay current bills from Northrop Grumman. He asked if VITA picked up \$1.8 million as a result. Ms. Smith said \$6 million actually was permanently withheld in FY09 and an additional \$1.8 million will be withheld permanently for FY10.

Mr. Hiram Johnson asked if some agencies are continuing to withhold payment to VITA. Ms. Smith said yes, but some have gotten better at making payments while some are withholding payments hoping for supplemental funding such as that received in recent years from the Department of Planning and Budget. She explained that the supplemental funding is not likely this year. Secretary Brown said he is more optimistic that it might be provided. Ms. Smith noted that a couple of agencies who received the supplements still did not pay their bills from VITA. Secretary Brown said while some agencies withheld payments until they received payment from Central Accounts, he is unaware as to why the couple of agencies did not pay. Ms. Smith said she contacted the agencies and DPB, and either the agencies did not have enough money even with the supplement or used it for something else. She said she had talked to VITA's DPB budget analyst about the issue. Mr. Kucharski said he is concerned about what agencies that received money and did not pay did with the funding. Secretary Brown said there always are discrepancies with agencies.

Enterprise Fund

Ms. Smith said revenues are on target to match prior years. She said the fund appears to in a poor financial state because an early payment is made each year to the Virginia State Police -- \$3.7 million this fiscal year. In addition, expenses and transfers are expected to exceed this year's current revenues because grant awards have been approved that intentionally dip into retained earnings and the Appropriations Act required a transfer of \$6 million to the State Compensation Board.

General Fund

Ms. Smith said the General Fund budget numbers currently do not include a 15% cut expected in the proposed budget expected to be presented by Governor Tim Kaine on Dec. 18. She said any cuts made will be reflected in the next report.

Special Revenue Funds

This fund currently shows revenue a little ahead of expenses, but Ms. Smith noted that a payment to the federal government must be made at the end of the year.

Virginia Enterprise Applications Fund

Ms. Smith explained that ITIB approved \$9.1 million in working capital advance spending, with most to purchase and implement the performance budgeting system. Mr. Hiram Johnson asked for information about enterprise applications funding, contract staff and projects. He said he thought the ITIB did not approve the financial management system, but Mr. Kucharski said his staff checked and the ITIB did approve the project. Ms. Smith and Ms. Rudolph provided additional information; however, Secretary Brown suggested that the project managers for the two major projects provide updates to the ITIB at the next meeting.

Cash Flow

Cash continues to be a challenge, Ms. Smith reported. She said VITA has a \$30 million line of credit with the state of which the current drawdown totals \$20 million, but that she is concerned that without the general fund supplement this may not be enough and has discussed raising that to \$40 million with DPB staff. She noted that in prior years, VITA paid off its lines of credit by the end of the fiscal year.

Accounts Receivable

Ms. Smith said accounts receivable also continue to be a challenge. She said receivables decreased slightly from Aug. 31, but still are substantially greater than at June 30. She said seven agencies are more than 30 days past due, including Social Services, Tax, Employment Commission, Health, Environmental Quality, Rehabilitative Services and General Services. General Services has not paid the last three invoices, totaling \$508,000. She said VITA estimates that \$3.3 million in inventory disputes and at least \$1.3 million in Social Services' service delivery disputes ultimately will be uncollectible. Part of the issue with Social Services is that VITA has found that many localities are not receiving Northrop Grumman services but have their own IT staff and were billed for services not received. Mr. Kucharski asked when VITA told Social Services that the money would be written off. Ms. Smith said those discussions currently are underway. He noted that the money was not collected and not billed through the federal government. Ms. Smith said that is correct.

Withholds

Ms. Smith provided the committee members with information on payment withholdings from Northrop Grumman. The amount totals more than \$8.3 million, pending resolution of service disc storage, enterprise printing, financial and operational audits, procedures manual and Information Technology Infrastructure Library (ITIL) optimization.

Rates

Ms. Smith said the rates change proposal presented to JLARC (spell out?) was deferred until the budget is proposed and there's a better understanding of budget implications. She said she is concerned because there are federal implications – the rates would have permitted VITA to bill agencies more equitably as federal guidelines require. She noted that some customers are getting services for which they are not paying. She said VITA will contact JLARC to see when JLARC can reconsider. CIO Coulter noted that Senator Walter Stosch wanted to table the rates until the new administration is in place. Ms. Smith explained that the overall effect of the proposed rate changes is an overall increase in charges to customers.

Upon questioning by committee members, Ms. Smith said the rates issue now is critical because of federal concerns. Ms. Rudolph reported that VITA is dividing the \$236 million cap on annual partnership expenses by 12 and paying Northrop Grumman that amount, which is not truly connected to bills to agencies. She said federal officials want accurate, equitable billing. Re-baselining of the contract to determine what is in the \$236 cap also is essential she said. Mr. Kucharski noted that the state could lose federal funding if this continues, and suggested VITA staff members walk JLARC through the big picture of VITA rates. He said the rates discussion currently is in pieces, and too large to understand when presented in that manner. He suggested using a series of mock bills, showing the proposed rates and discussing the impact on agencies and the federal funding issue.

Ms. Smith noted that rates also hinge on re-baselining. Secretary Brown said in a perfect world, the re-baselining would come first so the impact on agencies is clear.

Mr. Kucharski said the state asked two years ago for another year to set up equitable rates and billing and then received another year extension. He said he is concerned about the reaction of federal officials. It was noted that agencies' concern about poor service and linking service quality to rates also is a challenge.

Mr. Kucharski said VITA has conducted customer surveys, knows customer concerns and has developed remediation plans and should have a conversation with federal officials so they know that not only is there light at the end of the tunnel, VITA may be reaching the end of the tunnel. He also noted that federal officials should be provided with information regarding outside studies of VITA so all of the rates discussion can be put into context.

Chairman Pattison asked about options for dealing with the projected \$5 million shortfall in VITA's budget this fiscal year. Ms. Smith said there are no good answers to that question. She said there is a clause in the IT infrastructure contract with Northrop Grumman that addresses appropriation issues and that VITA must look at how its retained earnings continue to erode. Secretary Brown

said revamping the rate structure once and for all and moving forward, instead of doing it piecemeal, would be beneficial. Mr. Kucharski said asking the governor or General Assembly for assistance is an option.

Other Business

Chairman Pattison asked for other business.

Mr. Hiram Johnson asked if Peggy Feldmann could, at the committee or full ITIB meeting, present plans to address issues contained in the audit report that deals with enterprise applications.

Public Comment

Chairman Pattison asked for any comment from the public. There was none.

Adjournment

Mr. Pattison adjourned the meeting at 11:20 a.m.