JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
OF THE VIRGINIA GENERAL ASSEMBLY

Implementation Review:

Virginia Information Technologies Agency

December 2003 Status Report

Members of the
Joint Legislative Audit and Review Commission

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The Virginia Information Technologies Agency (VITA) was created by the 2003 General Assembly in an effort to consolidate the information technology (IT) and telecommunications functions of State government into a single entity. The VITA legislation (SB 1247 and HB 1926 of the 2003 General Assembly) provided for the merging of the State's three existing IT service agencies and the consolidation of certain information technology staff and functions from more than 90 other State agencies within VITA. Additionally, the legislation established an Information Technology Investment Board and an independent chief information officer (CIO). Reforms enacted in the legislation included improvements to the information systems project initiation and development processes, management of the State's information systems assets, and the prioritization of funding for identified technology investments.

A majority of ongoing VITA operations are currently financed through three internal service funds whose rates are authorized by the Joint Legislative Audit and Review Commission (JLARC). Accordingly, JLARC staff were directed to monitor the implementation of the VITA legislation at the July 14, 2003 meeting as a part of the approval of the initial internal service fund rates for VITA, pursuant to § 2.2-803 of the *Code of Virginia* and the Commission's internal service funds policy adopted in September 1983. As part of the implementation review, JLARC staff were directed to monitor the status of several activities and initiatives, and report findings to the Commission, the Senate Finance Committee, the House Appropriations Committee, and other committees and commissions as requested.

To date, there has been significant progress in implementing the Information Technology Investment Board, establishing the VITA organizational structure, and promulgating initial standards, guidelines, and policies for the development of information systems. However there remain several outstanding concerns that JLARC staff will continue to monitor over the next 18 months, including:

- Are the actions of the Information Technology Investment Board, the chief information officer, and the VITA organization consistent with legislative intent, and do they promote the successful consolidation of IT functions in State government?

- Has the IT Investment Board and the VITA project management division developed appropriate policies, standards, and guidelines for effective oversight of the systems development process? Are mechanisms in place to ensure that the requirements of the process are enforced?

- Has VITA developed an appropriate financial planning model and staffing plan that sustains the current level of IT services, identifies new billing elements for services provided under the memoranda of agreement signed with executive agencies, and supports funding priorities recommended by the IT Investment Board to the General Assembly?

This status report outlines several concerns raised by JLARC staff through initial presentations made to the Senate Finance Committee and the I-Gov advisory committee of the Joint Commission on Technology and Science. It also presents the status of recent actions taken by the Secretary of Technology as the interim CIO, the IT Investment Board, and VITA to address the issues identified in the JLARC staff presentations. Several remaining concerns are also outlined, with suggested actions for consideration by the IT Investment Board and VITA.

Significant Implementation Progress Has Been Made in Some Areas

Since the VITA enabling legislation became effective on July 1, 2003, significant progress has been made in implementing several areas of information technology reform. In particular, substantial progress has been made in organizational and administrative activities including the appointment of the Information Technology Investment Board and development of the VITA organizational structure. Similarly, the initial *VITA Operating Plan* and *Recommended Technology Project Investments for the 2004-2006 Budget Biennium* documents were submitted to the Governor and the General Assembly as scheduled. Moreover, it appears that the consolidation of IT functions for small agencies is proceeding on schedule. Finally, the project management division within VITA has been established, as directed by the legislation, and several project management standards, guidelines, and policies for the development of information systems have been promulgated.

Following appointments from the both the Governor and the General Assembly in June 2003, the Information Technology Investment Board was established and has held two scheduled meetings (on August 5 and October 15, 2003), and three *ad hoc* meetings (on September 25, November 5, and December 1, 2003). Three committees were established at the October 15 meeting in order to facilitate the board's involvement in the areas of systems development oversight, legislative activities, and VITA finances. In an effort to promote accessibility to the board by VITA staff and the general public, formal meeting space for the IT Investment Board has been established within the VITA Operations Center. Moreover, the IT Investment Board has made substantial progress in initiating the recruitment process for the State's chief information officer through creation of a CIO recruitment committee, selection of an executive search firm to conduct the CIO search process, approval of the official CIO position description, and interviewing of several potential candidates.

By consolidating the three existing IT service agencies -- the Departments of Information Technology (DIT) and Technology Planning (DTP), and the Virginia Information Providers Network (VIPNet) -- substantial advancements have been made in developing the VITA organizational structure. Through this consolidation, approximately 400 staff have been brought into a single organization in order to ensure continuity during the transition of IT functions from line agencies into VITA. Similarly, separate VITA administrative and operations headquarters have been established allowing VITA management staff to share a centralized space as well as allowing room for expansion as permanent operational staff continue to be absorbed into the VITA organization.

Another accomplishment has been the development and submission of the *VITA Operating Plan* to the Governor and the General Assembly on August 29, 2003. The plan contains information on the VITA organizational structure, proposed processes for negotiating the memoranda of agreement with executive branch agencies, a schedule of existing internal service fund rates, and a description of the process used to review and approve major IT projects. Additionally, the preliminary project priority report, *Recommended Technology Investments for the 2004-06 Biennium,* was submitted to the Governor and the General Assembly as required by the enabling legislation. The report contains a list of all current and proposed information systems development projects identified in each secretariat. The IT Investment Board reviewed the plan on September 25, 2003, and has received subsequent presentations on the processes used to evaluate and prioritize the projects within the individual secretariats.

As the implementation of the VITA organization has progressed, consolidation of IT functions from small agencies appears to be on schedule. To date, VITA has developed and executed memoranda of agreement (MOA) with 22 State government entities including eleven small agencies, ten cabinet secretaries and the Office of the Governor. The majority of the remaining small agencies are tentatively scheduled to be fully supported by the VITA operational staff prior to the end of December. However, it appears that at least two of these may not be fully supported by VITA until mid-January 2004. As a result of the initial agency consolidation efforts, some concern was raised regarding the ability of small and medium-sized agencies to meet financial obligations for ongoing VITA services following the transfer of funds to VITA in the 2003 Appropriation Act. Subsequently, $3.7 million in budget cuts to small and medium agencies were restored for FY 2004.

Finally, as part of its efforts to standardize information system platforms, VITA has adopted a series of performance "best practices" as well as several standards and guidelines, and has created a new web identity for the Commonwealth. Agencies that have signed memoranda of agreement with VITA are required to migrate agency websites to the new standard unless specifically authorized by VITA. Additionally, the project management division has promulgated several policies related to the selection and qualification of IT project managers as well as the initiation and development of new information systems projects.

While VITA has made progress is several areas, JLARC staff continue to have concerns in others. The remainder of this status report discusses outstanding issues that require additional attention by VITA staff, the IT Investment Board, or the interim CIO. Ongoing concerns relate to the role of the IT Investment Board, recruitment of the CIO, funding and staffing for project management, the VITA financial plan, and staffing for the consolidation of information technology in VITA.

Role of the Information Technology Investment Board Is Evolving

The IT Investment Board was established by the 2003 VITA legislation as a supervisory board. The board's statutory duty is to govern the central information technology operations for State government, and to provide supervision for the CIO and VITA. With the authority given the board in statute and its responsibility to hire and directly supervise the CIO, the board was effectively established as the agency head for VITA.

An early concern identified by JLARC staff regarding the IT Investment Board was the apparent lack of understanding by its members of their duties as a supervisory board. Initially, the board was given little guidance regarding the general role of a supervisory board, or the specific duties assigned to the board by law. At its October 15 meeting, the board finally received information from counsel on its statutory responsibilities as a supervisory board. In addition, the House and Senate patrons of the VITA legislation addressed the board on the intent of the legislation regarding their role in the overall reform of information technology operations for State government.

Partially as a result of its inadequate understanding of its duties and responsibilities, the board appears to have acted prematurely in delegating some authority to the Secretary of Technology in his role as interim CIO. At its first meeting on August 5, 2003, the board was requested to delegate four of its statutory duties to the interim CIO. The stated purpose of the delegation was to "facilitate the efficient and effective operation of VITA in routine matters and business processes that should not require action by or approval of the Board." The specific duties the board was requested to delegate were:

(1) the approval of strategies, standards, and priorities (which are typically promulgated as agency policies, guidelines, procedures, and guidance documents) for the use of information technology for state agencies in the executive branch of state government (subdivision 4 of Section 2.2-2458);
(2) the approval of statewide technical and data standards for information technology and related systems (subdivision 6 of Section 2.2-2458);
(3) the approval of statewide information technology architecture and related set of system standards (subdivision 7 of Section 2.2-2458); and
(4) for calendar year 2003 only, the submission, on or before September 1, of a list of recommended technology investment projects and priorities for funding such projects to the Governor and the General Assembly (subdivision 10 of Section 2.2-2458).

The board approved the delegation unanimously (by a vote of 6-0, since three members were not present).

Subsequent discussions with the interim CIO clarified that the purpose of the delegation was to relieve the board of responsibilities which the interim CIO considered to be day-to-day operational activities which the board would have difficulty completing, or that might be delayed while waiting for the board to act. Given this purpose, the delegation of these duties by the board was unnecessary and inappropriate because it was based on assumptions that were in error. The statute does not call on the board to actively participate in the staff work that would precede action by the board. Rather, the board could carry out its statutory responsibility by directing the CIO and VITA staff to develop the necessary policies for its consideration and approval. That staff work would have to be done even with delegation to the CIO. Further, it is not the duty of the interim CIO to determine what should and should not require the approval of the board – the General Assembly had already made that determination in law.

Moreover, the Secretary is only one of nine voting members, with no special or unique statutory authority granted by the *Code* to fashion the nature of the board's work. It is clearly within the normal duties of supervisory boards to approve policies and standards that govern the operations of agencies, so it was inappropriate for the Secretary to request, and the board to approve, the delegation of the board's approval authority to the interim CIO. JLARC staff reported this concern to the Senate Finance Committee on August 25, 2003, and recommended that the board rescind its delegation of responsibilities. House and Senate patrons of the legislation creating the board also expressed concerns about the delegation of authority to the interim CIO.

Because of concerns raised by JLARC staff and certain members of the General Assembly, at its September 25, 2003, meeting, the board reconsidered the delegation of authority. An initial motion to rescind the delegation did not receive a second. A substitute motion which did not rescind the delegation but clarified the delegation was approved by a vote of six to one (with two members absent). The clarifying language adopted by the board is:

> The exercise of these certain enumerated delegations by the interim Chief Information Officer shall not extend to those matters which involve major policy, planning, or funding issues. Review and approval of such issues shall remain at all times with the Information Technology Investment Board.

Even with this modification, JLARC staff continue to have concerns about the delegation of the board's authority to the CIO. First, the language implies that the CIO has some delegated responsibility other than approval of major policies. All the statute directs the board to do in the first place is approve policies and standards. It can already direct the CIO and VITA to perform staff functions without any delegation of authority to the CIO. Therefore, it is not clear what the delegation with the amended language actually accomplishes.

Second, the modification leaves to the Secretary, in his role as interim CIO, decisions regarding what issues are to be brought before the board. The interim CIO need only make a determination on his own that an action does not constitute a "major policy, planning or funding issue." The interim CIO is thus free to act on matters of potential significance without proper consideration by the board.

The problem with this situation has already demonstrated itself on several occasions. First, the Secretary, acting as interim CIO on behalf of the board, but without its approval, has recently issued several project manager training and systems development standards which will have a significant impact on the successful completion of projects to be approved and funded by the board and the General Assembly. Second, the Secretary, as interim CIO, submitted the proposed VITA budget to the Governor and the Department of Planning and Budget (DPB) prior to any review or approval by the board. Submission of these proposed budget priorities to DPB could have a substantial impact on the funding and operations of the agency. Finally, on August 29, 2003 the Secretary, again acting on behalf of the board, submitted the *Recommended Technology Investment Projects for the 2004-2006 Budget Biennium* to the Governor and the General Assembly without any previous discussion or prioritization by the board. In all three instances, the board should have been afforded the opportunity to discuss these issues, direct VITA staff to make any modifications it considered appropriate, and approve the final version prior to submission or publication. Under the delegated authority, the Secretary, acting as the interim CIO, issued these systems development standards and funding priorities without any prior input from the board.

JLARC staff continue to believe the delegation of authority, even as modified by the board at its September 25 meeting, is inconsistent with legislative intent and inconsistent with the board's responsibility as a supervisory board. Accordingly, JLARC staff recommend that the board rescind the delegation of responsibilities to the interim CIO.

Recruitment of the Chief Information Officer Is Underway

One of the most important reforms enacted by the 2003 legislation was the creation of an independent chief information officer (CIO) position separate from the Secretary of Technology (who had served as CIO pursuant to prior statutory language regarding the duties of the Secretary). The independent CIO is to be hired by the Information Technology Investment Board under a five-year contract. The legislation designated the Secretary as the interim CIO until the position was filled. A deadline of January 1, 2004, was effectively established for hiring the CIO, as stated in the VITA legislation's third enactment clause:

> That the Secretary of Technology shall continue to serve as the Chief Information Officer of the Commonwealth for six months after the effective date of this act or until such time as the Information Technology Investment Board has hired the Chief Information Officer as provided by the first enactment of this act.

At the time of the JLARC staff briefing to the Senate Finance Committee at the end of August, little progress had been made in the effort to hire the CIO. The interim CIO appeared to have done little of the preliminary staff work that could have assisted the board in initiating the hiring process. For example, the interim CIO could have directed the development of a draft position description, pre-screened firms to assist in the search for candidates, and developed a draft of the compensation package and employment contract for the CIO. Such steps would have provided an early opportunity for the board to consider key elements of the process. Instead, the board did not begin the process until September, with creation of a CIO recruitment committee to manage the hiring process.

By mid-October, the board committee had identified six potential executive search firms capable of performing the CIO search process. Only four of the six firms' proposals were given consideration for review. Two of the four firms agreed to provide services *pro bono*, with the Commonwealth paying for related expenses, and two did not agree to this requirement. After further review of the firms, the committee recommended that the board engage the services of the McCormick Group on a *pro bono* basis. In addition, the committee established a process to evaluate candidates and conduct preliminary interviews in order to narrow the field of candidates for final consideration by the board. The board also approved the position description at the October 15 meeting. The target date for hiring the CIO was set by the committee for early January 2004.

By mid-November, the executive recruiting firm had screened more than 100 applications for the State CIO position and had narrowed the list to 30 potential candidates. The board's CIO recruitment committee reviewed the 30 candidates and narrowed that list to ten candidates for initial interviews. At its December 1, 2003 meeting the board met in executive session to interview the final two candidates for the position. As of the date of this report, the board had not yet hired the CIO.

In order to attract highly qualified candidates to this position, and meet the January 1, 2004, deadline for having the CIO in place, the salary range proposed for this position by the IT Investment Board is between $175,000 and $200,000. The proposed salary range raises concerns about salary equity among State executive officials. The General Assembly has an approved salary range, from $95,572 to $151,103, for Virginia's top agency executives, and the authorized salary for the Governor's cabinet secretaries is $131,370, for the current fiscal year. Table 1 provides a comparison of salaries at comparable agencies across State government.

Additionally, the proposed salary appears to be higher than most salaries paid to any other state level chief information officer in the country, except Tennessee. As illustrated in Table 2, state CIO salaries typically range

Table 1

Virginia State Executive Salaries
(through June 2004)

State Agency	Executive Salary
Virginia Port Authority, Executive Director	$ 117,952
Department of Planning and Budget, Director	$ 119,609
State Tax Commissioner	$ 121,389
Department of Motor Vehicles, Commissioner	$ 124,256
Superintendent of State Police	$ 125,347
Department of Corrections, Director	$ 126,666
Department of Medical Assistance Services, Director	$ 127,463
Virginia Retirement System, Director	$ 127,729
Department of Environmental Quality, Director	$ 130,369
Commonwealth Transportation Commissioner	$ 132,925
Department of Social Services, Commissioner	$ 134,970
Superintendent of Public Instruction	$ 146,535
State Health Commissioner	$ 151,103
DMHMRSAS, Commissioner	$ 151,103
University of Virginia, President	$ 151,421
Virginia Tech, President	$ 151,421
Virginia Commonwealth University, President	$ 151,421
Virginia Retirement System, Chief Investment Officer	$ 225,000

Notes: All presidents of Virginia's universities are eligible for additional compensation through payments from foundations. The Director of the Virginia Retirement System is eligible for an annual 5% incen tive bonus based on established performance measures. The Chief Investment Officer of the Virginia Retirement System is hired on a contractual basis to the VRS Board of Directors and is eligible for a 50% incentive bonus based on performance criteria set forth in the contract.

Source: 2003 Virginia Acts of Assembly, Chapter 1042 (May 1, 2003)

Table 2

Other State Chief Information Officer Compensation

State	CIO Compensation
California	$ 123,255
Connecticut	$ 123,961
Delaware	$ 133,660
Georgia	$ 165,000
Kentucky	$ 92,342
Maryland	$ 92,220
Massachusetts	$ 107,591
Michigan	$ 107,480
Montana	$ 105,000
North Carolina	$ 130,000
Pennsylvania	$ 125,399
Tennessee	$ 225,000
Texas	$ 120,000
Virginia	$ 131,370
Washington	$ 133,000

Sources: CIO Compensation for the states of California, Connecticut, Georgia, Kentucky, Maryland, Massachusetts, Michigan, North Carolina, Pennsylvania, Tennessee, and Texas were taken from the Council of State Governments, *Book of the States 2003.* CIO Compensation for the states of Delaware, Montana, and Washington were taken from CIO Magazine May 2003 profiles. CIO compensation for Virginia was taken from the Chapter 1042 of the 2003 Acts of Assembly.

from $90,000 to $120,000. Moreover, JLARC staff found that the proposed CIO compensation has been incorporated into both VITA's proposed internal service fund rates as well as in its biennial budget request previously submitted to DPB. VITA's internal service fund rates are intended to cover all administrative and overhead costs for the agency, however, at its November 5, 2003 meeting, the board approved a VITA staff request that this position be funded through direct appropriation from the State's general fund. General funding for VITA overhead costs are inconsistent with the internal service fund model, and should not be approved by the General Assembly.

While the board has taken action to address concerns related to the slow start of the CIO recruitment process, it is still not yet clear that it will be able to complete the process by its target date. Additionally, the Secretary of Technology interpreted the legislation's enactment clause to permit him to serve as the interim CIO past December 31, 2003. In fact, however, the language is restrictive, so the Secretary cannot serve as the CIO after December 31. This interpretation was confirmed with the House and Senate patrons of the VITA legislation. Therefore, in the event that a CIO has not been hired by December 31, 2003, the board needs to be prepared to appoint a new interim CIO.

Project Management Reforms Are Under Development

As identified in the December 2002 JLARC Report *Review of Information Technology Systems Development,* a major contributing factor to the failure of systems development projects by State agencies has been the lack of adequate project management. The 2003 legislation addressed this problem by creating a project management division within VITA to provide ongoing support and oversight to systems development efforts, and to promote the effective and efficient management of technology projects across the Commonwealth.

It appears that VITA has made significant progress in promoting improved project management. For example, the project management division has issued several project management related policies, standards, and guidelines; developed a variety of project management tools that are available to the State's information technology project managers; and established a comprehensive project manager training program.

However, JLARC staff remain concerned that the board has not played an active role in reviewing and approving these policies prior to publication and did not provide substantial review or prioritization of the project submission to the General Assembly. Furthermore, there is a concern shared by both JLARC and VITA staff that the funding and staffing available for project management are inadequate.

Information Technology Resource Management Policies, Standards, and Guidelines. Some of the most significant advancements in the implementation of the VITA legislation, to date, have been in the development and publication of information technology resource management policies, standards, and guidelines. In particular, VITA has issued the Commonwealth Project Management Guidelines, which describe the framework and processes for managing IT projects, and the Project Manager Selection and Training Standard, which establish the minimum qualifications and training standards for all Commonwealth IT project managers. The Commonwealth Project Management Guidelines (COV ITRM Guideline GOV2003-02.2), are based in part on the Project Management Institute's *Body of Knowledge*, and provide a detailed discussion on managing the development of a major information system from project initiation through the planning, execution, and closeout phases. Additionally, the Commonwealth Project Management Guidelines offer several project management templates to assist agency project managers in developing a project's charter, proposal, budget plan, organizational structure, schedule, and timeline. Furthermore, several of these documents represent deliverables that are required to be reviewed for each major IT project approved by the IT Investment Board.

The Project Manager Training and Selection Standard (COV ITRM Standard 2003-02.3) establishes the minimum qualifications and training standards for the State's IT project mangers and is applicable to all State agencies and institutions of higher education. There are five major components to this standard including; project manager testing and training, project manager qualifications, project manager mentoring, project manager qualification and selection processes, and the planned implementation schedule. In general, there are both mandatory and optional training requirements.

Another area in which VITA has made considerable advancements in reforming the information systems development process is through the creation of the Commonwealth Project Manager Development Program. Through the Project Manager Development Program, VITA is providing access to qualification testing, project management training, and a project management information clearinghouse. These documents are again consistent with "best practices" established in the Project Management Institute's *Body of Knowledge*. However as the training activities provided by VITA continue to grow, there is some concern that agencies may have inadequate funds to cover the costs associated with providing this training to agency IT project mangers.

All project managers and project sponsors are required to attend the Commonwealth Project Manager Overview Training that address the Commonwealth Technology Management Policy, the Project Management Guidelines, and the Training Standard. To date, VITA's project management division has registered more than 430 individuals across the State for the project manager overview training, and almost 200 individuals have completed this mandatory training. Five training sessions have been provided in association with J. Sargeant Reynolds Community College, and have been made available to current State employees at no cost to their agencies. A sixth session is scheduled for December 9, 2003, and several larger agencies have contacted VITA about providing this training directly to their staff.

While both the Project Management Guidelines and the Training Standard establish effective policies for strengthening the information systems development and project management processes in the State, both were promulgated without review by the IT Investment Board. Given the significance and wide-ranging impact of both of these policies they should have been submitted to the IT Investment Board for review and approval prior to issuance to the agencies.

Moreover, the information systems project priorities outlined in the document, *Recommended Technology Investment Projects for the 2004-2006 Biennium,* were neither reviewed nor prioritized by the board prior to submission to the Governor and the General Assembly on August 29, 2003. The board was first given an explanation of the methodology used by staff to develop the project priority list at the its meeting on September 25, 2003. At that time, the board raised several concerns with the way in which the information was developed and presented, and requested additional information from VITA project management division staff. Subsequently, the board received a presentation from VITA staff concerning the development of the criteria and the projects recommended for funding at its meeting on October 15. Following this presentation, the board authorized an addendum to the initial document listing 26 projects prioritized primarily by funding source and estimated return on investment. However, at no time did the board discuss the individual projects included on this list or prioritize these projects based on relative importance of the projects to the State's IT portfolio.

Staffing for the VITA Project Management Division. One of the most significant remaining concerns regarding project management is the staffing of the project management division in VITA. Currently the project management division consists of six positions that were previously assigned within the Department of Technology Planning. At its November 5, 2003 meeting, the IT Investment Board approved a request for four additional project manager positions and one administrative position for the project management division as part of its biennial budget request to the Governor and the Department of Planning and Budget.

In addition to providing ongoing support and oversight to agency IT project mangers, the VITA project management division is also mandated by the enabling legislation to serve as the Commonwealth Enterprise Program Management Office, with responsibility for managing existing technology assets and linking current projects with future investments. To this end, project management division staff are responsible for managing programs and projects of enterprise significance, and managing multiple programs and projects that individually support the same types of activities. Given that staffing levels within the project management division have remained constant through the transition period, while the responsibilities of the division have increased, it appears that additional staffing should be provided to the project management division.

VITA Financing and Staffing Raise Concerns

As part of the initial review of VITA implementation, JLARC staff noted several concerns relating to VITA's operations, including the proposed financing of VITA services and staffing of VITA from the merger of the central IT agencies and transfers from line agencies. While the development of the VITA financial plan has been ongoing, the agency still does not have a funding plan for FY 2004 that has been approved by the IT Investment Board. It is essential that an agency financial plan be adopted to ensure that VITA has sufficient resources to provide the improved level of services anticipated by the consolidation, and that VITA's customer agencies are charged only for the reasonable costs of services they receive. Additionally, initial steps have been taken to resolve financial issue related to reimbursement of the Virginia Department of Transportation for staff support provided during the VITA implementation period.

JLARC staff have also noted concerns about VITA staffing. In particular, some position transfers from agencies may be inconsistent with legislative intent, and the lack of an agency staffing plan raises questions about the appropriateness of staffing for the agency. Given the significance of these two operational areas to the successful implementation of VITA, financial and staffing issues will be a primary focus of the JLARC staff monitoring activities over the coming year.

VITA Financial Plan and Rates. The 2003 VITA legislation continues the use of internal service funds as the mechanism for funding information technology services. Accordingly, VITA sought approval from JLARC for initial internal service fund rates to be carried over from the internal service funds managed by the Department of Information Technology. JLARC approved those rates in July 2003. At that time, JLARC staff noted that VITA did not have a comprehensive financial plan to guide the preparation of future rate requests or its budget for the next biennium. As of the date of this status report, VITA has not completed and presented for board approval its comprehensive financial plan.

At the October 15 meeting of the board, staff presented a basic outline of the existing VITA funding process and staffing levels, and the proposed funding model. Under the proposed funding model, VITA staff anticipate that ongoing operations will be funded through the continued use of internal service funds as well as through increased appropriations from the State's general fund. The board took no action at this meeting. On October 27, 2003, VITA submitted to JLARC its request for rates for new services it will provide pursuant to the consolidation. These services include desktop PC support, server operations and support, and provision of network and other data services.

At the *ad hoc* meeting on November 5, 2003, the board was provided with a presentation on both the proposed internal service rates to be submitted for approval by JLARC, and general fund requests previously submitted to DPB. However, at this meeting several board members raised concern over the limited supporting information provided for the rates, or any benchmarks of current costs for similar activities against which the appropriateness of the proposed rates could be measured. In order to provide more time for review of the proposed rates, the board requested that no action be taken on the proposed rates at the November 5 meeting and that VITA staff work with the board's finance committee to provide additional justification at the board's next meeting.

Subsequently, additional financial information and the rate calculation methodology were provided to the members of the board. VITA also made several revisions and provided corrections to its analysis of costs and revenues. The IT Investment Board finance committee has since considered the rate requests and recommended approval by the board. The board authorized the rate request at its meeting on December 1, 2003. JLARC staff review of the VITA rate request is provided in a separate rate approval memorandum.

VITA's Biennial Budget. An additional concern relates to the preparation and submission of the VITA budget. In developing the proposed budget for the next biennium, it does not appear that the board was provided the opportunity to review and approve the budget request prior to submission to the Department of Planning and Budget (DPB). Moreover, at the October 15, 2003 board meeting, VITA staff raised questions about its ability to share budget information with legislatively appointed members of the board, because budget preparations are considered confidential until presented by the Governor. JLARC and other legislative staff questioned that concern, since the statute does not create separate classes of board members based on their appointments. All members of the board share in its obligation to carry out its supervisory responsibilities, including oversight of the VITA budget. Following a review by the Attorney General's Office, all board members were provided detailed financial planning and budget detail documents following their submission to DPB.

At its subsequent *ad hoc* meeting on November 5, 2003, the board was presented ten budget priorities for the 2004 budget biennium, totaling $27.5 million in general and non-general funds. These budget priorities were developed by the interim CIO and VITA staff and submitted to the Department of Planning and Budget in preparation of the Governor's proposed budget for FY 2004. At this meeting, the board members removed one of these budget priorities and revised several others. Moreover, some concern was raised that the budget request submitted to DPB reflected the priorities of the interim CIO and VITA staff, and not the board. The board has acknowledged that the development of these budget priorities did not occur in a manner that promoted active involvement by the board prior to submission to DPB, and has made a commitment to improving this process for future submissions.

Reimbursement of VDOT. Recently, steps have been taken to address one final financial issue related to reimbursement of the Virginia Department of Transportation (VDOT) for the staff support it has been providing to VITA during the transition period. Early in the implementation process, VDOT offered to provide support for various IT functions because of its regional systems and telecommunications presence across Virginia. VDOT agreed to participate because it presented an early opportunity to prepare for the transfer of IT functions to VITA. Neither VITA nor VDOT developed a plan for reimbursement of VDOT expenses related to support of the IT consolidation, however. When JLARC and Auditor of Public Accounts staff raised concerns about the use of federal and State transportation funds for VITA implementation, VITA and VDOT agreed to develop an appropriate mechanism to ensure that VDOT costs are identified and fully reimbursed by VITA. Staff from the Auditor of Public Accounts will verify that reimbursement has been made.

Staffing of VITA. An important element of the information technology reforms envisioned within the VITA enabling legislation is increased efficiencies in technology operations through the consolidation of certain IT support functions within one agency. The consolidation of IT staff in VITA involved two major efforts. The first was the merger of the State's central IT agencies to create the VITA organization. The merger involved 367 staff, and was completed on July 1, 2003.

The second effort involves the transfer of selected IT staff from more than 90 State agencies in order to consolidate certain IT functions within VITA. While the initial VITA legislation called for the transfer of all IT staff, totaling more than 2,400 positions, the consolidation as enacted excluded staff associated with agency-specific and mission-critical applications support and development. As a result, only about one-third as many positions were to be transferred to VITA from the agencies. The enacted legislation also mandated that the transfers be phased, beginning with small agencies by January 2004. Table 3 shows the number of positions to be transferred to VITA based on its negotiations with agencies regarding employee duties related to IT. As shown in the table, all of the transfers may not be completed until January 2005, however the IT Investment Board was given authority to accelerate the pace of the transfers as it deems necessary.

Based on JLARC staff's preliminary review of VITA's process for identifying positions to be transferred and the actual positions identified, it appears that some transfers may be problematic. Several factors point to this conclusion. The underlying problem has been that the process is being executed backwards, with VITA identifying positions in the agencies that *could* be transferred based on the description of duties for employees, rather than first identifying the actual positions, based on functions to be performed, that *should* be created in VITA. Positions to be included in the consolidation were identified not by performing an analysis of the staffing requirements of VITA based on the functions assigned to it by the 2003 legislation, but rather by surveying agencies to determine which employees were currently performing IT functions. Such a process was necessary because of a commitment by the Governor that there would be no net layoffs as the result of the consolidation and because VITA did not develop an appropriate staffing plan based on projected workloads or other objective criteria.

The lack of a staffing plan and the process used by VITA produced several questionable aspects of the employee transfers from agencies. For example, 285 positions to be transferred from the agencies are still categorized

Table 3

Positions Assigned to VITA

	Agency Size			
Position Type	Small	Medium	Large	Total
Classified	7	58	746	811
P-14	0	2	23	25
Contractor	2	0	51	53
Total	**9**	**60**	**820**	**889**

Note: Consolidation target dates: small agencies by January 2004, medium agencies by July 2004, and large agencies by January 2005.

Source: VITA Operations Plan.

as "undetermined" because the staff perform multiple functions and do not fit easily into the position classifications at VITA. In other words, VITA currently has not identified how these positions will be used, but assumes that it may need them as a part of the consolidation. These positions were identified for transfer only because they had performed IT functions within the agencies, not because there was a clearly defined need for them in VITA. In addition, 70 positions that are currently vacant are to be transferred as well.

VITA staff have confirmed that while the current approach provides flexibility in assigning staff to specific directorates it may initially result in VITA having more positions than needed to provide services to its customer agencies. According to VITA staff, excess positions will be managed through attrition, transfers to vacancies in other agencies, and other management techniques. However, had a comprehensive staffing plan been in place before the transfers were implemented, some additional savings from position reductions might have been captured while at the same time honoring the Governor's commitment that there would no net layoffs resulting from the consolidation.

The 2003 legislation called for the consolidation in VITA of "the procurement and operational functions of information technology, including but not limited to servers and networks," while mission critical and agency specific IT functions are to remain with the agencies. It is not clear then why VITA chose to transfer some agency IT managers who would have been expected to manage the IT applications functions not transferred to VITA. Based on initial employee transfer data developed by VITA, there are approximately 40 positions in State agencies that perform this function that have currently been mapped into the VITA personnel management structure as the agency's service level director. For 13 of these positions, it was determined that the identified individuals were not involved with application development and would be transferred to VITA as the agency service level director. For another 13 agencies it was determined that the identified position would remain at the line agency.

While the transfer of positions into the VITA organization is being handled on a case-by-case basis, there is still some outstanding concern that the transfer of these positions is inconsistent with legislative intent. VITA staff have acknowledged this concern and are re-visiting the transfer of those positions. As a result of this ongoing review of those positions scheduled to transfer into the VITA organization, in at least one instance detailed review of an individual's day-to-day job responsibilities has led to the determination that the position was not in-scope and the individual remained with the agency. Given the significance of this activity to the successful implementation of VITA, JLARC staff will examine the transfer of positions to VITA more closely over the next year.

Finally, as noted earlier, only the IT Investment Board is authorized to accelerate the consolidation of IT staff and other assets from agencies. The Virginia Department of Transportation (VDOT) has been working with VITA staff to accelerate the transfer of VDOT IT personnel prior to January 2005 as required by the legislation. While VDOT staff have been in continuing negotiations with VITA regarding the transfer of staff and other assets, this accelerated transfer has not yet been reviewed or approved by the board. As a result of the plan to accelerate the transition of VDOT personnel to VITA, an additional 219 employees may be transferred as early as January 2004. Given the potential impact this action could have on the operations and funding of VITA, the board should carefully assess the proposed transfer before authorizing VITA to proceed with the accelerated transfer of VDOT IT personnel.

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