

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

**REPORT ON AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2008**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Information Technologies Agency, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in VITA's internal PeopleSoft financial system;
- matters involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Both the Virginia Information Technologies Agency and Northrop Grumman recognize that the Partnership needs to complete several critical processes in order to fully implement their Cost Allocation Plan and billing and address the findings and recommendations from our last report. As of July 2009, the Partnership has not achieved these key processes, but has developed a timeline for implementation and corrective action, which we include in Appendix A.

This report contains a number of findings and concerns that we found during our review.

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BACKGROUND

This audit had the following three purposes.

1. A follow-up on our last audit of the Virginia Information Technologies Agency's (VITA) Cost Allocation Plan findings with a status on VITA and Northrop Grumman Partnership Arrangements to address these findings.
2. A review of VITA's system of internal controls and compliance with state and applicable federal financial matters.
3. A review of VITA's supply chain management process.

This audit does not directly address VITA's Partnership Arrangements with Northrop Grumman, which we addressed in a separate report issued in February 2009 titled *Interim Review of the Information Technology Partnership*. However, a number of findings and recommendations in the section titled *Cost Allocation, Inventory, and Billing* deal with issues which the Partnership must address in order for corrective actions to occur.

In June 2008, we issued a report titled *Review of Cost Allocation Plan, Billing, and Collections for the Virginia Information Technologies Agency*; this review was part of the agreement between the U.S. Department of Health and Human Services and VITA on changes to the Cost Allocation Plan for information technology charges to federal grants and contracts. This plan recognized that there would be a transition period as the Commonwealth and the Partnership moved to a charge per service arrangement.

In addressing the findings and recommendations in last year's report, both VITA and Northrop Grumman recognized that the Partnership would need to complete several critical processes in order to fully implement the Cost Allocation Plan. At the time of our report release, there were delays in meeting these critical processes; VITA management believed that revised plans and deadlines would achieve the corrective actions by the time of this report release.

At the time of this report release, the Partnership had not achieved the critical processes in order to fully implement the Cost Allocation Plan. At our request, VITA management has worked with Northrop Grumman to develop a revised timetable to address these critical processes and we have included their plan in Appendix A.

We have reviewed the plan; however, we cannot provide any assurance as to the success of this revised plan. Furthermore, without timely resolution of the inventory, procedures manual, and established service level agreements, moving to the revised Cost Allocation Plan cannot occur.

COST ALLOCATION, INVENTORY, AND BILLING

This section of the report serves as the follow-up on our June 2008 report on VITA's Cost Allocation Plan, billing, and collections. We conducted this and last year's reviews as part of the agreement that the U.S. Department of Health and Human Services and VITA for the Commonwealth had on its Cost Allocation Plan.

VITA bills agencies for a number of services such as telecommunication, computing and other legacy services, and other services, including the infrastructure managed by Northrop Grumman. Total billings are approximately \$263 million and the portion of the Cost Allocation Plan agreement that directly relates to the billing for the infrastructure managed by Northrop Grumman is about \$179 million.

While Northrop Grumman will ultimately manage and provide most of VITA's services, the only part currently managed is the infrastructure. For infrastructure, VITA and Northrop Grumman will eventually use a fee-for-service billing model; this model will have a specific price for each service and the components parts and other available services.

As an example, agencies will receive a monthly bill for a desktop computer. This service will include the computer, access to a network, standard software, e-mail services, network storage, security meeting the Commonwealth Security Standards, and network backup services. The Cost Allocation Plan will accumulate the component costs of the desktop computer and develop a charge that will uniformly apply to all users of the same service, which is a federal requirement.

In order to develop the monthly charge Northrop Grumman and VITA must establish the total inventory for both physical and virtual items, a procedures manual, and service level agreements. On an interim basis, the key element of the Cost Allocation Plan is the physical and virtual inventory for each agency and the related cost. The physical inventory is simply the number of machines and other devices and assets. The virtual inventory is a measurement of the storage space, processor usage, network cost, or other non-physical items measured and billed by use.

Following are findings relative to the work performed for this audit on the Cost Allocation Plan.

Strengthen Inventory and Billing Controls

Northrop Grumman (NG) is responsible for maintaining an accurate inventory by individual agency. VITA uses these inventory listings to generate individual agency bills. Over the past year, NG has worked to conduct physical asset inventory reconciliations at the individual agencies, as part of the transformation process. This process will finalize the quantity and type of physical assets the agencies have and will help VITA properly bill the agencies based on accurate, reconciled inventory counts. However, NG missed contractual deadlines for completing inventory reconciliations, further delaying individual agency bills. Also, VITA and NG have not reached an agreement on the measures to use and set virtual inventory quantities.

Upon completing these individual agency inventory reconciliations, NG only has to keep the inventory records updated, as physical asset inventory changes at each agency. VITA will then take these updated records and prepare individual bills for agencies.

In our last audit, we noted that VITA inappropriately billed agencies because of inaccuracies in the NG inventory system. VITA management believed that inventory reconciliations completed by NG would finalize inventory counts and resolve the concerns we noted. In order to determine whether these reconciliations improved the counts and ultimately resulted in VITA appropriately billing individual agencies, we reviewed two agencies where NG completed physical asset inventory reconciliations. During this review, we continued to find numerous discrepancies surrounding the physical inventory records, which caused inaccuracies in the subsequent individual agency bills derived from those inventory records.

In the Department of Motor Vehicles (Motor Vehicles) bills, we found duplicate asset tags within a single month's bill that we believe caused more than \$130,000 in double billing over a seven-month period. Furthermore, NG reclassified 14 different assets to new asset equipment types after inventory reconciliation, which caused VITA to apply a different rate to the same asset.

NG also had difficulty locating physical assets during our review of Motor Vehicles. Initially, NG could only locate nine of the 25 selected assets but eventually located 21 of the assets. In addition, we noticed that VITA billed Motor Vehicles for one "out-of-scope" asset for over seven months, totaling overcharges of \$804.

In our review of bills for the Department of Health (Health), we found a number of assets that did not have an asset tag number or a serial number, making it difficult to identify the asset and verify that the equipment truly existed. We also found duplicate asset tags within a single month's bill that we believe caused \$875 in double billing for that month. We attempted to review subsequent monthly bills; however, Health and VITA were trying to resolve further concerns Health management had about the VITA bill that followed inventory reconciliation. Therefore, VITA could not provide a corrected bill for our review. Health found a net difference of over \$36,000 in their January bill, when compared to the signed-off inventory records from the end of December, 2008. In addition, we discovered double billing of \$243,357 for miscellaneous one-time equipment purchases, which Health has recovered the full amount.

Although VITA management does have an inventory quality control process, VITA staff were not aware of these situations before our review. Even though NG has worked over the past year to modify their inventory system and internally strengthen their monthly inventory, inventory and billing problems still exist. The inventory reconciliation process performed by NG has not addressed all of the inventory and billing concerns. In addition, the delay in completing inventory reconciliations has created further delays.

To resolve these concerns, NG and VITA have established a plan to improve asset inventories and billings. This plan is included in Appendix A of this report.

Establish and Document Procedures for Classifying Assets in Service Option 5

VITA classifies assets in “service options” in the inventory and billing system based on the level of service provided and bills customers for assets based on the asset’s classification. In addition to the billable service options, VITA established service option five for out-of-scope assets that are not in the “refresh” cycle and should not receive service. Therefore, VITA does not bill for these assets. If the Partnership provides service related to an asset, but receives no revenue, the federal government requires VITA calculate an imputed revenue amount.

During the prior audit, we determined that VITA did not have a policy describing when and why VITA employees move assets to service option five, as well as a formal request and management approval process for moving assets. VITA also did not have a formal process for monitoring the assets in service option five and evaluating whether each asset should continue to remain in service option five. Finally, we determined that VITA did not have a policy defining whether VITA should provide services for these assets, and if so the method for computing imputed revenues.

To resolve these concerns, VITA established additional service option categories and transferred assets to better identify out-of-scope assets. VITA management decided that service option five assets should not receive service from the Partnership. VITA has not yet developed formal policies and procedures for service option five assets, including documentation requirements for moving assets to service option five or a formal policy for monitoring these assets on an on-going basis.

Improve Policies and Procedures over Asset Inventory

During the prior audit, we determined VITA did not have adequate policies directing NG on how to classify an asset’s billable status. VITA also did not have consistent definitions for each asset equipment type, causing Partnership employees to question the coding of the asset’s equipment type.

VITA has since developed policies and procedures defining billable status of an asset, such as “active” and “excess”. VITA has also developed definitions for many asset equipment types, such as router and switch, but still needs to define some additional equipment types for billable assets. VITA management should also ensure there is a process for evaluating whether this document is current. Without a fully updated document, Partnership employees might not properly and consistently classify a physical asset, causing billing inequities.

Improve Reporting to Allow Comparison of Revenue versus Allowable Costs

The Federal Office of Management and Budget’s Circular A-87 requires that VITA submit a comparison of revenues and allowable costs as part of its Cost Allocation Plan. The federal government uses this information to determine whether VITA is over-recovering for products and services and to determine whether rates for equipment and services are reasonable. During the prior audit, we determined that VITA did not include adequate detail in this report to conclude whether the revenue for individual products and services are appropriate to cover associated, allowable expenses for individual items.

To address this issue, VITA revised the fiscal year 2007 and 2008 reports to classify revenues and expenses in more detail. Specifically, VITA expanded the shared rate services to include specific product lines, such as desktops, laptops, and servers. However, VITA still has not developed formal policies and procedures for preparing this report and does not provide adequate detail to explain the imputed revenues, which creates a difference between the accounting records and the report.

Establish and Document Procedures for the Creation of Rate Structures

The rate development process involves multiple calculations, historical data, and projections to determine an equitable rate based on the cost of providing services. It is imperative that the data used in this process is accurate and reliable due to the impact on participating agencies.

During the prior audit, we found inadequate documentation and explanation of the rate development spreadsheets and insufficient management review of this process. However, VITA has not developed new rates since our review and anticipates developing a new rate method once NG completes its inventory reconciliations. As a result of not developing new rate structures, VITA has not had the opportunity to improve its documentation and review on the rate development process.

To address some of our other concerns, VITA has begun cross-training an individual in the rate and Cost Allocation Plan development process. VITA management also reviewed the last Cost Allocation Plan prior to submission to the federal government. However, VITA has not made significant progress in developing policies and procedures for Cost Allocation Plan documentation and review. Management has not met its internally set July 2009 deadline and expects to complete this documentation in the near future.

As it develops new rates or analyzes current rates, VITA should improve its documentation and explanations. VITA should also improve its documentation and explanations when developing other rates, such as miscellaneous and pass-through rates.

Improve Process for Establishing Rate Tiers

VITA classifies servers and local area network (LAN) devices into rate tiers using the asset's original purchase price. These rate tiers determine the billing rate for each asset. During the prior audit, we found many assets which appeared to have the same description, model, and purchase date with different listed purchase prices, including zero dollars. By not using consistent, accurate cost information, VITA cannot ensure that rates are equitable and appropriately recover costs. For those assets with a listed purchase price of zero, VITA placed and billed these assets in the lowest rate tier.

In August and September of 2008, VITA performed an analysis of servers with a zero purchase price, and made corrections to these asset classifications. A data entry error recorded a server purchase price in one agency in the highest rate tier resulting in overbilling of approximately \$12,383, during October 2008 through April 2009. VITA subsequently refunded this amount to the agency. VITA did not perform an analysis of LAN devices to ensure that the purchase prices for

these assets are equitable because they did not believe that this analysis had a benefit worth the time commitment.

Notify Oversight Entities of Rate Changes

VITA proposed a different monthly rate structure for premium desktops, laptops, peripheral bundles, and wireless phone service to cover the additional initial purchase cost of these types of assets. The Joint Legislative Audit and Review Commission (JLARC) approved these rates and VITA management submitted these rates to the Federal Department of Health and Human Services' Division of Cost Allocation (DCA) in the annual Cost Allocation Plan submission. However, VITA management later decided to bill agencies requesting premium assets at an upfront additional cost, instead of the approved monthly surcharge. VITA management did not notify JLARC until six months after the effective rate dates and did not notify DCA of this decision at all. Therefore, neither entity received the proper notification of the change to the new upfront cost or the decision not to use the premium rate structure.

Equitably Distribute Virtual Inventory Costs to Agencies

In addition to the physical asset inventory billings, both VITA and NG need to develop and bill agencies for a number of virtual inventories and services, such as servers, LAN, storage and other items. As part of the inventory process, NG must establish the virtual quantities at each agency; however, VITA and NG must reach agreement on how to count and include these items in the inventory for billing. Part of the plan in Appendix A documents the method VITA and NG have proposed to resolve these differences.

Once there is an agreement, VITA will need to determine how to include these items in the Cost Allocation Plan. Further, VITA will need to submit a revised cost methodology to both Joint Legislative Audit and Review Commission and the Federal Department of Health and Human Services' Division of Cost Allocation.

VITA INTERNAL CONTROL AND COMPLIANCE MATTERS

The second purpose of this audit was the review of VITA's accounting process, internal control and need to comply with appropriate state and federal law, rules, and regulations. VITA uses a version of the PeopleSoft accounting software product to maintain its internal accounting records. VITA use modules of the PeopleSoft software product (PeopleSoft) to perform various administrative functions.

We reviewed who had access to PeopleSoft and what functions they could perform to determine whether adequate internal control existed over the accounting and other transactions. We also had a general finding concerning compliance with employment eligibility requirements.

PeopleSoft

PeopleSoft establishes access controls through the process of user roles. User roles allow the users to develop a profile by position, job description or other mechanism, which allows class of individuals performing the same function or similar function to have access assigned to them without having to develop and track individuals. This approach also allows at the role level, an organization to separate duties and maintain internal control by preventing the assignment of incompatible access. As individuals move through the organization, they are assigned either new roles or roles with greater access.

Large organizations ensure that the system administrator and information security officer work with various departments when setting up PeopleSoft roles and responsibilities when installing this product. Further, the information security officer works with the internal auditor and the managers of the individual departments and sections of the organization to ensure proper internal controls exist.

We have some concerns that VITA does not have adequate controls for their internal financial application, PeopleSoft, which we detail below.

Properly Monitor System Access

VITA cannot readily determine the actual level of access each role and responsibility provided a user within PeopleSoft. Instead, when granting an employee access to PeopleSoft, the system administrator provides that individual the same access as others within the same working area. In addition, when periodically reviewing system access, VITA performs a limited review because the level of actual access is not readily available for a detailed review.

By not documenting the actual level of access associated with each role and responsibility, VITA risks granting inappropriate access to users. In addition, VITA cannot determine inappropriate access during periodic reviews of PeopleSoft access. VITA should determine and document the level of access associated with each role and responsibility. Then, VITA management should identify the critical access capabilities and ensure that they are appropriately restricted. Finally, VITA should use this information when initially granting access and when performing a periodic review of system access.

Disable Unnecessary System Administrator Access Roles

VITA management has not disabled the potentially risky system access user roles that individuals have when they initially set-up PeopleSoft. These user roles have full access to the system and VITA should disable them since they are currently not in use. In addition, one employee has two PeopleSoft User IDs with the same administrator permission levels. With unnecessary user roles, VITA increases the likelihood of inappropriate access to Commonwealth data and assets. VITA should disable or remove these user roles and ensure that employees do not have multiple User IDs.

Adequately Segregate System Access Responsibilities

Currently, VITA has a number of individuals with system administrator rights to PeopleSoft. One of these individuals, as a daily user of the system, physically adds, modifies, and deletes PeopleSoft access. Two of the other users with system administrator rights are system programmers and have access to add, modify, and delete accounts, as well as post transactions.

By not separating the responsibilities of day-to-day users and system developers from the role of system administrator, VITA has not properly segregated duties. Individuals with capabilities to add, modify, and delete system access should not use the system on a day-to-day basis or serve as the system programmer. In addition, system programmers should not have capabilities to post transactions. VITA should evaluate its processes over system access to ensure adequate segregation of duties exist.

Maintain Access Documentation

During our review, VITA was unable to provide documentation to support the set-up of several PeopleSoft user accounts. Without adequate documentation, we could not determine whether the supervisor properly approved the user's access. VITA should ensure it maintains system modification requests in accordance with document retention requirements.

Other Matters

Properly Complete Employment Eligibility Verification Forms

As noted in the prior year, VITA continues to not properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security in its handbook for employers.

In our sample of fourteen I-9 forms reviewed, we found four forms not completed properly. Specifically, we found the following errors in our review: failure to sign certain sections of the form as required; failure to complete all of Section 1 on or before the first date of employment as documented on the form; and incomplete documentation of employee identification in Section 2.

U.S. Department of Homeland Security regulates the process for completing the I-9 forms and failure to complete the forms properly can result in significant penalties to both the employee and employer. Because of the potential sanctions, we recommend that the Human Resources Division train human resource employees on the requirements of completing I-9s and then develop a process for continuously reviewing the VITA's I-9 process.

The federal government has increased its enforcement efforts related to hiring illegal immigrants, which makes having an effective I-9 process in place important. We recommend that VITA be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the Department of Homeland Security considers it a form of harassment.

Additionally, the Department of Accounts and Human Resource Management, which help regulate and coordinate the Commonwealth's efforts in obtaining I-9 form information, provide training, and we recommend VITA take advantage of this effort.

SUPPLY CHAIN

The third purpose of the audit was to review VITA's Supply Chain process. The Supply Chain process in addition to ensuring that agencies follow the proper procurement procedures also allows VITA to monitor whether agencies are bypassing the Partnership and acquiring assets, which are not compatible with existing central infrastructure. This monitoring also helps VITA and NG prepare for potential future needs within the Commonwealth infrastructure for new systems or other demands.

Adequate Oversight over Technology Procurements

VITA, through its Supply Chain Management Division (Supply Chain), has responsibility for the procurement of information technology and telecommunications goods and services for its use and other state agencies and institutions. Supply Chain helps consolidate and leverage the Commonwealth's buying power for IT goods and services. All IT procurements should comply with the Virginia Public Procurement Act and any regulations, which VITA may prescribe.

Supply Chain has sole authority to procure all non-infrastructure IT and telecommunications goods and services for executive branch agencies and non-exempt institutions. Supply Chain has delegated procurement authority for executive branch agencies to procure non-infrastructure IT goods and services up to \$50,000 and may delegate procurement authority for individual agency procurements over \$50,000 upon agency request.

By policy, VITA prohibits any purchasing, without prior approval, by those executive branch agencies for items that are in scope (infrastructure) to the Partnership. To support this policy agencies must manually code all eVA requisitions with a "V" so that VITA can review the purchase. The eVA requisition process allows VITA's Service Management Organization (SMO) to review all infrastructure items to make the determination whether the item is in or out of scope to the NG contract.

Additionally, VITA's Supply Chain reviews items not provided by NG under the contract to determine if agencies are using the most advantageous procurement method. VITA's Supply Chain must rely on the appropriate coding ("V" code) of a purchase requisition by an agency to ensure that they receive a copy of the purchase request for review.

Currently, the eVA system does not require the V coding for purchase with a certain commodity code or the mandatory routing of IT commodities to VITA to ensure that all purchases undergo review before purchase. However, eVA does currently have the capability to produce ad hoc reports that would allow VITA to review IT orders not coded with a "V."

VITA does not have a process to ensure agencies are appropriately routing IT purchase requests to VITA for approval. VITA should implement a process to ensure compliance with the policy they have established. This will ensure that agencies do not circumvent the required evaluation of IT goods and service purchase requests and allow the division to ensure purchases are not for goods available at lower prices on state contracts. Further, enforcement of this policy will assist the SMO to ensure requested items are not within the scope of the Northrop Grumman Partnership.

AGENCY HIGHLIGHTS

VITA Operations

VITA has eight divisions and as of fiscal year-end 2008, VITA had 374 full-time, wage, and contract employees. Table 1 below provides additional details on each division’s number of employees, personal expenses, and total actual expenses for fiscal year 2008. In addition, the table shows that the Commonwealth paid NG over \$161 million under the Partnership contract.

As the transformation process is underway, VITA is continuing to provide services that NG is obligated to provide. VITA still continues to pay these expenses and the total dollar amount is subtracted from the NG contract “cap” amount. During fiscal year 2008, VITA paid over \$77 million for retained services. This amount includes approximately 160 managed employees at a total cost of almost \$16 million. NG directs the daily activities of these employees and reimburses the Commonwealth for the associated payroll costs.

Table 1

Employees and Actual Expenses by Section for Fiscal Year 2008

<u>Section</u>	<u>Full- Time</u>	<u>Wage</u>	<u>Contractor</u>	<u>Actual Personal Services</u>	<u>Total Actual Expenses</u>
Service Management Organization	28	-	-	\$ 3,504,342	\$ 3,735,756
Commonwealth Security and Risk Management	12	-	-	1,534,992	1,830,910
Customer Account Management	8	-	-	1,034,870	1,037,292
IT Investment and Enterprise Solutions	68	-	1	7,760,861	58,551,109
Finance and Administration	70	7	1	6,774,817	19,921,365
Communications	8	-	-	685,948	761,969
Internal Audit Services	5	-	-	464,464	467,940
Chief Information Officer's Office	3	-	-	472,833	488,500
Retained Services	163	-	-	15,804,262	77,827,534
Northrop Grumman	-	-	-	-	161,020,652
Other	-	-	-	3,155	831,308
Total	<u>365</u>	<u>7</u>	<u>2</u>	<u>\$38,040,544</u>	<u>\$326,474,335</u>

Table 2 summarizes VITA’s actual funding and expenses by source for the fiscal year ended June 30, 2008.

Table 2

Actual Funding and Expenses by Source for Fiscal Year 2008

<u>Fund</u>	<u>Actual Funding</u>	<u>Expenses</u>
General	\$ 2,586,920	\$ 2,586,005
Special Revenue	5,345,872	5,098,812
Internal Service	262,068,026	267,700,060
Dedicated Special Revenue	50,167,589	49,972,924
Federal Trust	<u>1,116,534</u>	<u>1,116,534</u>
Total	<u>\$321,284,941</u>	<u>\$326,474,335</u>

As reflected in the table above, VITA receives most of its funds from agencies paying for Partnership services in the Internal Service Fund. Dedicated Special Revenue primarily funds the Wireless E-911 program and the Virginia Geographic Information Network. The majority of the actual funding comes from a monthly \$.75 surcharge assessed on each cell phone number. The Wireless E-911 Service Board uses this money to provide funding to localities and service providers for their efforts in developing an enhanced emergency communication system. We issued a separate audit report on Wireless E-911 Service Board dated June 18, 2009.

Past Due Accounts Receivable

During the past fiscal year, VITA has had difficulty collecting past due accounts receivable from a number of their customers, many of which are disputing all or part of their bill. Customer disputes are largely a result of individual agency inventory concerns, where the billed agency believes that NG inventory is incorrect and causes inappropriate billings. As of April 2009, VITA’s total past due accounts receivable totaled approximately \$27 million, with over 97 percent of that due from other state agencies. VITA management has estimated that ultimately \$2.5 million of past due accounts may be uncollectable.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

July 13, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations, including the Cost Allocation Plan, of the **Virginia Information Technologies Agency (VITA)** for the 12 month period ended December 31, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System and in VITA's internal PeopleSoft financial system, review the adequacy of VITA's internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports, including the report entitled *Review of Cost Allocation Plan, Billing, and Collections*.

Audit Scope and Methodology

VITA's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Cost Allocation Plan, including development and implementation
Payroll expenses
Appropriations
Billing
Oversight over procurement
System access

We performed audit tests to determine whether VITA's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of VITA's operations. We tested transactions and performed analytical procedures, including budgetary analysis.

Conclusions

We found that VITA properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in VITA's internal PeopleSoft financial system. VITA records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the sections entitled "Cost Allocation, Inventory, and Billing", "VITA Internal Control and Compliance Matters", and "Supply Chain."

VITA has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on August 6, 2009. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

BEM/clj



COMMONWEALTH of VIRGINIA

The Honorable Leonard M. Pomata
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August 12, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to comment on the recently completed report on records, operations, and Cost Allocation Plan of the Virginia Information Technologies Agency (VITA).

We are pleased that you continue to report progress on these matters, and overall we agree with the report's findings and recommendations. I have attached an asset inventory work plan for your inclusion in the report.

As always, we appreciate the time and attention that your staff devoted to this and other matters of mutual interest. We continue to look forward to working with you in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Leonard M. Pomata".

Leonard M. Pomata

Attachment

c: John McDonald, Deputy Secretary of Technology
Members, Information Technology Investment Board

<i>Team Assigned</i>	<i>PROCESS AREAS</i>	<i>Target Start</i>	<i>Target Finish</i>	<i>Completion Status</i>	<i>Notes</i>	<i>Contacts</i>
	APA RESPONSE ACTIONS					
	ASSET - DISPUTE RESOLUTION					
	DISPUTE RESOLUTION / REMEDIATION					
Billing Team	Reconcile VDH Disputes as of 6/1/09	6/1/2009	8/30/2009			Edmondson K / Richardson / Moody
Billing Team	Implement June, July, August and September changes for VDH October billing	8/1/2009	9/30/2009			Edmondson K / Richardson / Moody
Billing Team	Resolve any disagreement with VDH on excluded assets	8/1/2009	10/30/2009			Edmondson K / Richardson / Moody
Billing Team	Implement VDH excluded assets for November bill	8/1/2009	10/30/2009			Edmondson K / Richardson / Moody
Billing Team	Resolve Existing Back-log of Disputes of 6/1/09	6/1/2009	7/22/2009			Richardson / Jain
	DISPUTE ANALYSIS FOR SOURCE OF ISSUE / REMEDIATION					
Billing Team	Identify causes for Disputes and corrective measures to current processes	6/1/2009	8/31/2009			Richardson / Jain / Doran
Billing Team	Implement corrective measures to current processes	7/30/2009	9/30/2009			All
Billing Team	Dispute Process Flow enhanced and updated	7/3/2009	8/30/2009			Richardson / Jain
Server Team / Billing Team	CESC SERVER / EBARS DATA RESOLUTION					
Server Team / Billing Team	Produce update EBARS server list	6/1/2009	7/16/2009			Elkins / Kranda
Server Team / Billing Team	Produce updated CESC server list	7/13/2009	7/17/2009			Elkins / Kranda
Server Team / Billing Team	Review CESC server and EBARS results	7/20/2009	7/22/2009			Simms / Doran
Billing Team / VITA	Provide Review results back to AM for approval on DB update	7/22/2009	8/23/2009			Simms
Billing Team	Determine impact of results to bill and provide to VITA	7/23/2009	8/30/2009			Wood

<i>Team Assigned</i>	<i>PROCESS AREAS</i>	<i>Target Start</i>	<i>Target Finish</i>	<i>Completion Status</i>	<i>Notes</i>	<i>Contacts</i>
Billing Team / VITA	Socialize EBARS bill impact to CAM to prep agencies	7/30/2009	9/7/2009			Simms / Moody
Billing Team / VITA	Communicate to Agencies on bill impact	8/7/2009	9/14/2009			VITA CAM
Billing Team	Update inventory database upon VITA approval on results	8/14/2009	9/21/2009			Wood
	ASSET - DATA INTEGRITY REVIEW AND CORRECTION					
Asset Management	Back-End QA of Database					
	Enhance database validation routines to capture changes	7/7/2009	9/7/2009			Edmondson W
	Maintain records of identified errors	7/7/2009	8/7/2009			Edmondson W
	Streamline Process on database error resolution	7/7/2009	9/7/2009			Edmondson W
	Establish cut-off dates for asset inventory updates to be ready for Monthly billing and invoice cycle.	7/7/2009	9/7/2009			Edmondson W
	Establish completed data collection requirements and return for accuracy policies for asset inventory updates to be processed.	7/7/2009	9/7/2009			Edmondson W
Asset Management	DUPLICATE ASSET TAGS IN INVENTORY					
	Perform Data Analysis on Database for Asset Tag duplicates	7/7/2009	9/7/2009			Edmondson W
	Apply corrections to Existing Asset Tag duplicates via CR	9/7/2009	10/7/2009			Edmondson W
	Perform Analysis on root cause of Asset Tag Duplicates	8/7/2009	10/7/2009			Edmondson W
Asset Management / EUS	Apply Long-term process remediation to prevent duplicates	9/7/2009	12/31/2009			Edmondson W
Asset Management	DUPLICATE SERIAL NUMBERS IN INVENTORY					
	Perform Data Analysis on Database for Serial # duplicates	7/7/2009	9/7/2009			Edmondson W
	Apply corrections to Existing Serial# duplicates via CR	9/7/2009	10/7/2009			Edmondson W
	Perform Analysis on root cause of Serial# duplicates	8/7/2009	10/7/2009			Edmondson W
Asset Management / EUS	Apply Long-term process remediation to prevent duplicates	9/7/2009	12/31/2009			Edmondson W

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Asset Management	DUPLICATE SERVER NAMES IN INVENTORY					
	Perform Data Analysis on Database for Server Name duplicates	7/7/2009	9/7/2009			Edmondson W
	Apply corrections to Existing Server Name duplicates via CR	9/7/2009	10/7/2009			Edmondson W
	Perform Analysis on root cause of Server Name duplicates	8/7/2009	10/7/2009			Edmondson W
Asset Management / EUS	Apply Long-term process remediation to prevent duplicates	9/7/2009	12/31/2009			Edmondson W
	ASSET LOCATION IMPROVEMENTS					
Asset Management	ASSET LOCATER - LOCATION FIELD					
	Determine to what level of granularity can be used and effectively managed and maintained for asset location.	10/10/2009	10/17/2009			Edmondson W
	Obtain VITA and NG consensus on proposed Location usage solution.	10/17/2009	10/30/2009			Edmondson W
	Update processes to use new level of Location values	10/30/2009	12/20/2009			Edmondson W
Asset Management	ASSET LOCATOR - USER NAME FIELD					
	Determine to what level of granularity can be used and effectively managed and maintained for asset User Name	10/10/2009	10/17/2009			Edmondson W
	Obtain VITA and NG consensus on proposed User Name solutions.	10/17/2009	10/30/2009			Edmondson W
	Update processes to use new level of User Name values	10/30/2009	12/20/2009			Edmondson W
Asset Management	EQUIPMENT TYPES - DOCUMENTATION UPDATES					
Asset Management	Assess Equipment Type per industry usage and formulate recommendation	10/10/2009	10/17/2009			Edmondson W
Asset Management	Obtain VITA and NG consensus on proposed solution for populating missing or inaccurate Equipment Types	10/17/2009	10/30/2009			Edmondson W
Asset Management / EUS	Update processes to use new Equipment Type solution	10/30/2009	12/20/2009			Edmondson W
	ASSET - INPUT PROCESS ANALYSIS AND IMPROVEMENTS					

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Billing Team	Evaluate Input Areas for Asset Input/Update					
	Server Transformation - Evaluate process usage for asset input accuracy	7/7/2009	9/7/2009			Jain / Hunt
	Network Transformation - Evaluate process usage for asset input accuracy	7/7/2009	10/7/2009			Hunt / Jain
	Desktop Transformation - Evaluate process usage for asset input accuracy	7/7/2009	9/7/2009			Hunt / Jain
	Third Party transformation data - Evaluate process usage for asset input accuracy (Halifax)	9/7/2009	10/7/2009			Hunt / Jain
	RFS - Evaluate process usage for asset input accuracy	7/7/2009	9/7/2009			Hunt / Jain
	P2P - Evaluate process usage for asset input accuracy	7/7/2009	9/7/2009			Jain / Hunt
	Incident Management - Evaluate process usage for asset input accuracy	7/7/2009	9/7/2009			Jain / Hunt
EUS	Asset Procedures Training and Knowledge by Field OPS					
	Evaluate usage of procedures by EUS / SD / 3rd Party	7/7/2009	9/7/2009			Edmondson W / Murtaugh
	Implement Procedures Communication / Additional Training as needed	8/7/2009	9/30/2009			Edmondson W / Murtaugh
	Ensure Access to Asset Procedures documentation	7/7/2009	9/7/2009			Edmondson W / Murtaugh
Billing Team	Traceability of changes from IMAC or CR entries - apply to inventory change report					
Billing Team	Evaluate methods to capture and track IMAC Number, CR Number or IM Ticket Number to Asset Changes	8/1/2009	8/30/2009			Edmondson W
Billing Team	Obtain VITA and NG consensus on proposed solution for populating change tickets to inventory records and change reports.	9/10/2009	9/10/2009			Edmondson W
Billing Team	Update processes to apply change-ticket information to the database / reports.	9/10/2009	12/20/2009			Edmondson W
Billing Team	Agency Optional Use Fields (initial entry and maintenance)					
Billing Team	Evaluate methods to capture agency optional use field data at asset implementation (child tickets to AITRs)	8/1/2009	8/30/2009			Rodney C.

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Billing Team	Obtain VITA and NG consensus on proposed solution for populating initial child tickets to inventory records for agency optional use fields.	9/1/2009	9/30/2009			Edmondson W/ Rodney C.
Billing Team	Obtain VITA and NG consensus on proposed solution for maintaining inventory records for agency optional use fields (agency online access).	9/1/2009	9/30/2009			Edmondson W/ Rodney C.
Billing Team	Update processes to inventory updates and maintenance and provide instruction.	9/30/2009	12/20/2009			Edmondson W/ Rodney C.
	BACK END ASSET MANAGEMENT PROCESS ANALYSIS - ACTION					
Billing Team	ASSET INVENTORY DATABASE					
	Process review for handling INPUT data to database.	9/1/2009	9/14/2009			Edmondson K / Greenwood
	Proving Accuracy of the Database INPUT	9/14/2009	9/21/2009			Edmondson K / Greenwood
	Current Data Analysis / Gaps	9/1/2009	9/14/2009			Edmondson K / Greenwood
	Quality Assurance processes on database INPUT updates	9/21/2009	9/30/2009			Edmondson K / Greenwood
Billing Team	BILLING FILE CREATION					
	Creation of Billing File for F&A input	9/1/2009	9/14/2009			Edmondson K / Greenwood
	Quality Assurance Processes for File Creation	9/21/2009	9/30/2009			Edmondson K / Greenwood
Billing Team	AGENCY INVOICE CREATION					
	Process review on creation of Billing Invoice and Billing files for Agency	9/1/2009	9/14/2009			Edmondson K / Greenwood
	Quality Assurance Processes for Invoice and file Creation	9/21/2009	9/30/2009			Edmondson K / Greenwood
Billing Team	COMPILE PROCESS IMPROVEMENT RECOMMENDATIONS					
	Process Analysis / Recommendations	10/2/2009	10/11/2009			Edmondson K / Greenwood
	Collaboration / Acceptance on Recommendations	10/11/2009	10/18/2009			Edmondson K / Greenwood

<i>Team Assigned</i>	<i>PROCESS AREAS</i>	<i>Target Start</i>	<i>Target Finish</i>	<i>Completion Status</i>	<i>Notes</i>	<i>Contacts</i>
	Initiate Recommendations	10/18/2009	10/30/2009			Edmondson K / Greenwood

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