

Commonwealth of Virginia

Information Technology Staff Augmentation Operational Review Committee Report



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OPERATIONAL REVIEW

In January 2007, Governor Kaine, in consultation with members of the General Assembly, established operational review teams to identify practices that could improve performance and transparency of the State enterprise. As with the previous eleven areas assessed, staff augmentation was selected because it provided an opportunity to identify gaps in meeting performance and service goals for a function common to many agencies. For purposes of this report, staff augmentation includes temporary resources paid by the hour and managed by the agency hiring manager as well as consulting engagements that are project-based with a contract for specific results.

Because of a pending contract renewal of an existing information technology staff augmentation contract, IT staff augmentation was the first phase of the study and is the focus of this report. The second phase of the assessment on non-IT staff augmentation will be initiated in 2008. The Commonwealth of Virginia has completed the Operational Review of information technology (IT) staff augmentation within state government.

OPERATIONAL REVIEW PROCESS

The study team included one senator and one delegate from the legislative branch, and nine state employees representing central and line agencies of varying sizes from the executive branch, and is referred to as the Committee in this report.

IT Staff Augmentation Operational Review Committee				
Member	Title	Representing	Secretariat	Role
Emmett Hanger	Senator	Senate of Virginia	General Assembly	Co-Chair
Chris Saxman	Delegate	House of Delegates	General Assembly	Co-Chair
Sara Wilson	Director	Department of Human Resource Management	Administration	Coordinator
Bill Anderson	EDR Consultant, Sr.	Dept. of Employment Dispute Resolution	Administration	Member
Jim Burns, MD	Deputy Commissioner for Public Health Programs & CIO	Virginia Department of Health	Health & Human Resources	Leader, Proposed Practices Subcommittee
Mary Clarke	IT Governance Manager	Virginia Department of Transportation	Transportation	Member
Rick Davis, PMP	Applications Development Manager	Department of Corrections	Public Safety	Member
Chris Lee, PhD	Assoc. Vice Chancellor for Human Resource Services	Virginia Community College System	Education	Leader, HR Perspective Subcommittee
Jim Roberts	Director, Finance & Administration	Virginia Information Technologies Agency	Technology	Member
Mitch Rosenfeld	Budget & Policy Analyst	Department of Planning & Budget	Finance	Member
Elaine Shepherd	Applications Manager	Virginia State Police	Public Safety	Leader, Current Practices Subcommittee
Diane Anderson	<i>Human Resource Management Consultant</i>	<i>Department of Human Resource Management</i>	<i>Administration</i>	<i>Staff</i>
Tammy Edwards	<i>Supplier Manager</i>	Virginia Information Technologies Agency	<i>Technology</i>	<i>Staff</i>
Sonia Hicks	<i>Supplier Relationship Manager</i>	Virginia Information Technologies Agency	<i>Technology</i>	<i>Staff</i>
Susan Woolley	<i>Director, Supply Chain Management</i>	Virginia Information Technologies Agency	<i>Technology</i>	<i>Staff</i>

The Committee held eleven full committee meetings, held multiple sub-committee meetings, and conducted extensive research with external subject matter experts in both

the public and private sector to gain knowledge and expertise on IT staff augmentation best practices.

Research conducted by the Committee includes:

- a) **Previous Assessments** - Reviewed previous staff augmentation assessments, projects and initiatives,
- b) **State Subject Matter Experts** - Conducted interviews with 26 state agency subject matter experts, including employees of Virginia Information Technologies Agency (VITA) and Department of General Services (DGS),
- c) **State Agency IT Liaisons** - Surveyed all 83 state Agency IT Resources, and 40 responded,
- d) **SMSA Vendors** - Surveyed the 97 vendors that placed temporary resources more than once in the past year, including Small, Women and Minority (SWaM) business vendors currently participating in the Supplier Managed Staff Augmentation (SMSA) contract, and 37 responded,
- e) **Non-SMSA Vendors** - Surveyed 10 vendors who previously contracted for state IT staff augmentation but are not currently participating in the SMSA contract, and 4 responded.

As part of an external review, the Committee researched IT staff augmentation best practices through numerous sources, including:

- a) **Private Sector** - Conducted interviews with representatives from two large private sector businesses,
- b) **Other State Interviews** - Invited representatives from the states of Florida and Pennsylvania to share their experiences with IT staff augmentation,
- c) **Other State Surveys** - Conducted survey interviews with IT liaisons working in 12 state governments outside of Virginia, including neighboring states, states considered by the 2005 Government Performance Project as the best managed states, and states using the same supplier as the Commonwealth,
- d) **Consultants** - Received a presentation by a consulting firm that has recently examined the IT staff augmentation practices of 10 states,
- e) **NASCIO Survey** - Surveyed the National Association of State Chief Information Officers (NASCIO), and 4 responded,
- f) **NASPO Survey** - Surveyed the National Association of State Procurement Officers (NASPO), and 15 responded,
- g) **Articles** - Reviewed related industry articles from IT Research Advisory Groups and information available online.

Appendices to this report include information collected by the Committee during the operational review process. Proprietary research articles are listed as references and are not attached to the report.

Staff Augmentation Practices in Virginia State Government

BACKGROUND

There are a number of factors that create challenges for information technology staffing in Virginia. As the Commonwealth focuses on productivity and transparency, automation demands continue to grow, along with reliance on IT staff. Increased automation demands have left some agencies with too few IT classified positions to support their development, operations and maintenance needs. These agencies must augment their staff by using temporary workers from suppliers to assist with agency efforts.

Virginia agencies are faced with the daunting task of moving from their "legacy" IT applications such as Mapper, COBOL, PowerBuilder, ASP, and Natural, to the new Java or .NET environments and need personnel to support both environments while this transition takes place. Agencies are reluctant to fill classified positions with staff having legacy skill sets that will be obsolete in the next three to five years.

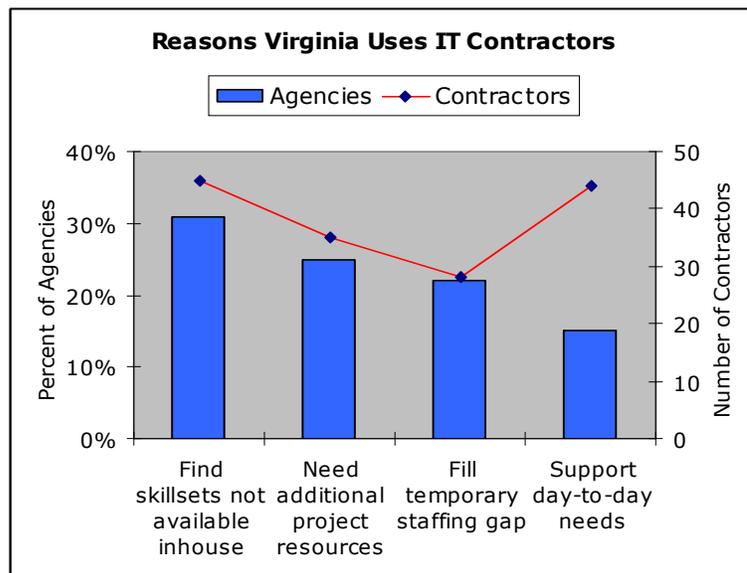
At the same time, it is difficult to attract personnel with current skill sets in Java and .NET to the state classified positions as these skills are in high demand and low supply in the IT job market. As a consequence, many agencies find that a contractual resource is the only option available to meet their operational needs and to migrate their IT applications to the newer environments.

REASONS FOR USING IT CONTRACTORS

Agencies use staff augmentation to:

- Find specialized skill sets not available in-house,
- Fill a temporary gap in agency IT staffing,
- Secure additional resources for a project or project management, and
- Provide additional long-term resources to support the agency's day-to-day needs when full-time positions are not available.

In response to a survey of state agencies, the largest number of contractors was used to support day-to-day needs of the agency when full time positions were not available. This creates knowledge transfer issues for the agencies and impacts workforce planning. Co-employment issues are also of concern in these situations.



Source: Agency Survey - Question 4

IT STAFF AUGMENTATION CONTRACTS

Until January 2006, the Commonwealth used a contract process which was administered by different central agencies, the Department of General Services (DGS) and the Department of Information Technology (DIT). Agencies were provided with a list of suppliers that had

been selected through a competitive process to provide information technology staff augmentation services within approved fixed rate for different jobs or skill sets. Individual agencies engaged directly with vendors under these statewide contracts. Due to the age of these contracts, a one-time increase was allowed where suppliers could propose rates in excess of their fixed price up to 35% above the original fixed price. Many agencies negotiated their own costs for a specific engagement. There was no system to support the engagement process, enterprise reporting, or cost discounts. Metrics did not exist on utilization, cost or quality of service.

The Virginia Information Technologies Agency (VITA) now has responsibility for managing IT procurement. VITA supplies contractual IT staff augmentation services by providing two contractual models for different services: 1) Advanced IT Services, and 2) Supplier Managed Staff Augmentation.

Advanced IT Services - Initially, VITA implemented an Advanced IT Services contract that provides resources specifically for defined projects based on either fixed price or time and materials. This contract was awarded in August 2003 to five large firms, of which only four are actively placing resources with the Commonwealth today. These firms provided resources for projects, subcontracting when needed to support the delivery of the project. Competition among prime contractors was expected, and the prime contractors would utilize subcontractors when needed to augment their own resources. In these instances, the contract holders add a surcharge to the subcontractor's cost, increasing the cost to the agencies. Use of this contract is optional.

Supplier Managed Staff Augmentation - In November 2005, VITA replaced approximately eighty contracts, commonly referred to as the "body shop" contracts, with a single Managed Service Provider (MSP) contract which standardized practices, captured data, established and measured service quality, and provided statewide data on contract usage and expenditures. This contract was awarded to Computer Aid, Inc., (CAI) through a competitive solicitation process and was implemented in January 2006. This contract provides a single supplier to manage a network of subcontractors through a centralized automated tool, Peopleclick, and is referred to as supplier managed staff augmentation (SMSA). State Executive Branch agencies are mandated to use this contract for IT staff augmentation.

The requirement to use SMSA created an issue for a number of agencies where there existed long-term contractors engaged under the previous contracts. To smooth the transition, a one-year grace period was granted to provide additional time for those agencies to migrate the legacy contractors to the new contracts. The MSP provided a six-month reduced rate to agencies to minimize budgetary impact of the transition. Many agencies continue to experience challenges in transitioning and have been awarded extensions on a case-by-case basis.

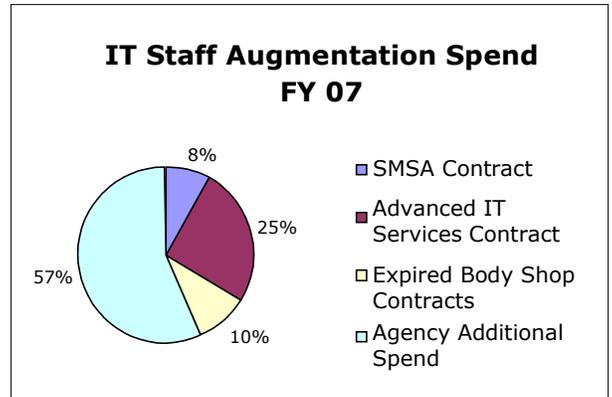
There are currently no constraints on the length of engagement for individual contract workers with any agency and no requirements for a break in service between engagements. Some individual contract workers have been engaged by agencies for ten to fifteen years. Many contract workers provide daily operational and ongoing services, often working alongside classified workers and receiving daily assignments and supervision in a manner similar to that of the classified workers.

STAFF AUGMENTATION SPEND

Based on the best expenditure data available, it is estimated that \$96.6 million was spent on IT contractual services by state agencies, which represented 73.4% of the total IT and non-IT staff augmentation spend of \$131.6 million in FY 07. In comparison, \$255.2 million was spent in FY 07 on salary and benefits for classified IT employees, and another \$56 million was expended on certain IT personal services outsourced to Northrop Grumman. In total for FY 07, the Commonwealth spent \$407.8 million on IT staff, including salaried, outsourced and temporary resources.

Costs for IT temporary resources, which were 24% of the total IT staff expense in FY 07, represent a significant annual expenditure and warrant scrutiny. The breakdown of FY 07 IT staff augmentation spend includes:

SMSA Contract	\$ 7.9 million
Advanced IT Services Contract	\$ 24.5 million
Expired Body Shop Contracts	\$ 9.4 million
Agency Additional Spend	<u>\$ 54.8 million</u>
TOTAL	\$ 96.6 million



Source: CARS data and Supplier Report of Sales

Overall, utilization of the SMSA program is low, representing only 8% of IT staff augmentation spend in FY 07. The Advanced IT Services contract represented one-quarter of the spend during the same time period. The majority of the IT temporary labor expense was outside of the state enterprise contracts, and details regarding this spending were not captured centrally. It is believed that much of the agency additional spend is through contracts that agencies have with vendors.

SMSA CONTRACT

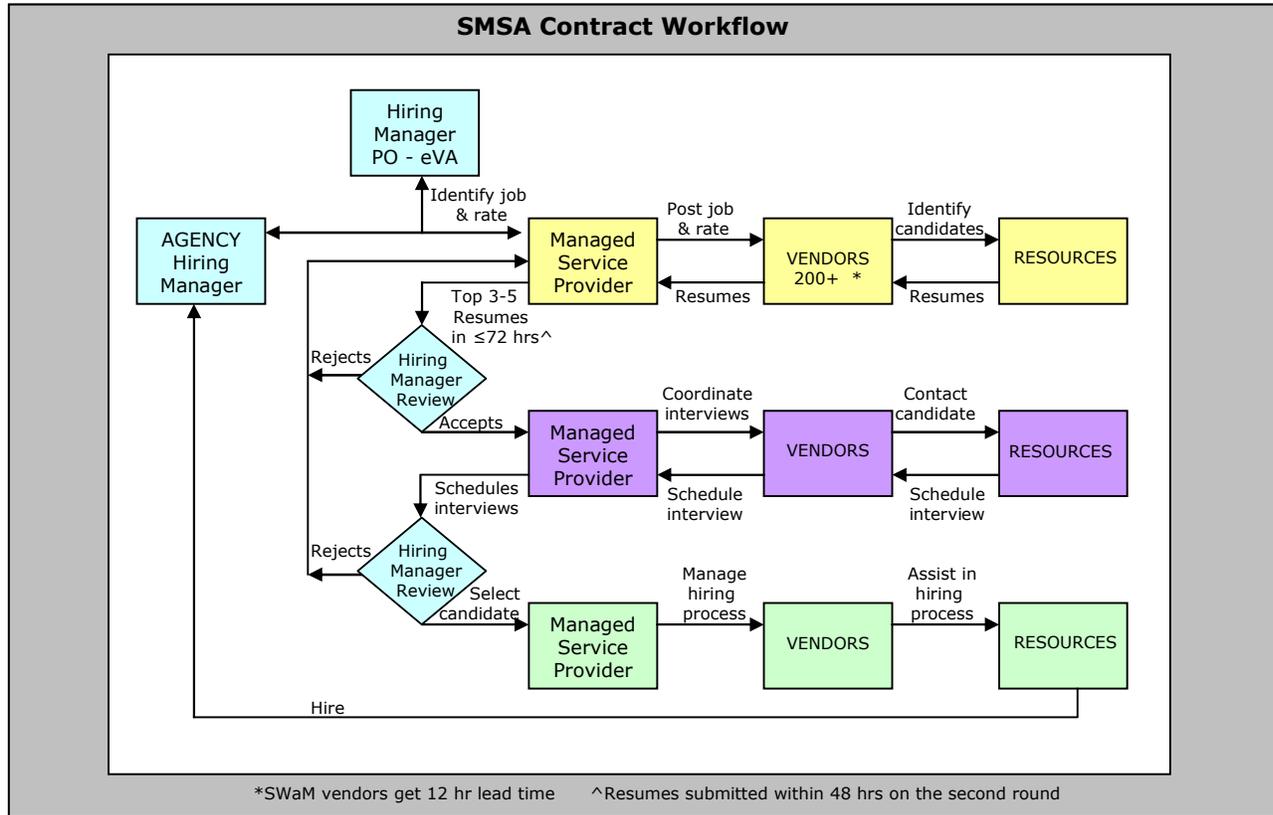
VITA established objectives for the SMSA contract. These included:

- Combine state buying power to enable competitive market rates,
- Streamline staffing workflow to shorten time to hire,
- Provide an easy to use Web-based system with a robust reporting capability,
- Broaden and diversify the supplier base to provide appropriate talent, and
- Report metrics on spend, usage, process, resource and supplier performance.

The SMSA contract is a managed service provider model with outsourced management. The single service provider manages all of the processes related to engaging, managing, and terminating contract hourly IT workers for the Commonwealth. These processes include soliciting, screening, selecting, on-boarding, time reporting, invoicing, resource and subcontract performance measurement and terminating. While the MSP manages these processes, the agency hiring manager selects the resource that matches the agency need.

The cost to the Commonwealth is a "not to exceed" market rate by geographic region. Competition during the engagement process can produce rates below this ceiling. The not to exceed rates are reviewed every six months relative to a labor market index and, if appropriate, the Commonwealth may agree to an adjustment in the ceiling rate by job classification.

To engage a resource, 1) agencies submit a position request, 2) the service provider screens resumes, and 3) the agency manager interviews and hires the contractor. There is no maximum tenure of the contractor and no break in service is required. Vendors are evaluated quarterly.



VITA Assessment of the SMSA Contract

The SMSA program provides a business application tool to automate the engagement and management of IT temporary resources based on agency requirements allowing them to select the resource at market rates. The Web-based system provides the reporting capabilities desired. Reporting on supplier and contractor performance, usage, spend and process cycle time is provided quarterly.

The number of Small, Women and Minority (SWaM) vendors is high, and SWaM expenditures represent 70 percent of the SMSA total spend. Overall, utilization of the program is low, with SMSA spend representing only 8% of all IT staff augmentation expenditures in FY 07.

Off-program usage of the SMSA program and the usage of the more expensive Advanced IT Services contracts for staff augmentation have increased the cost of resources to agencies. When an agency requests a specific named individual rather than selecting a resource provided by the program, it increases the average cost to the agency by 45%. Most of the off-program usage is related to long-term contractors and not being able to find the required skills sets through SMSA.

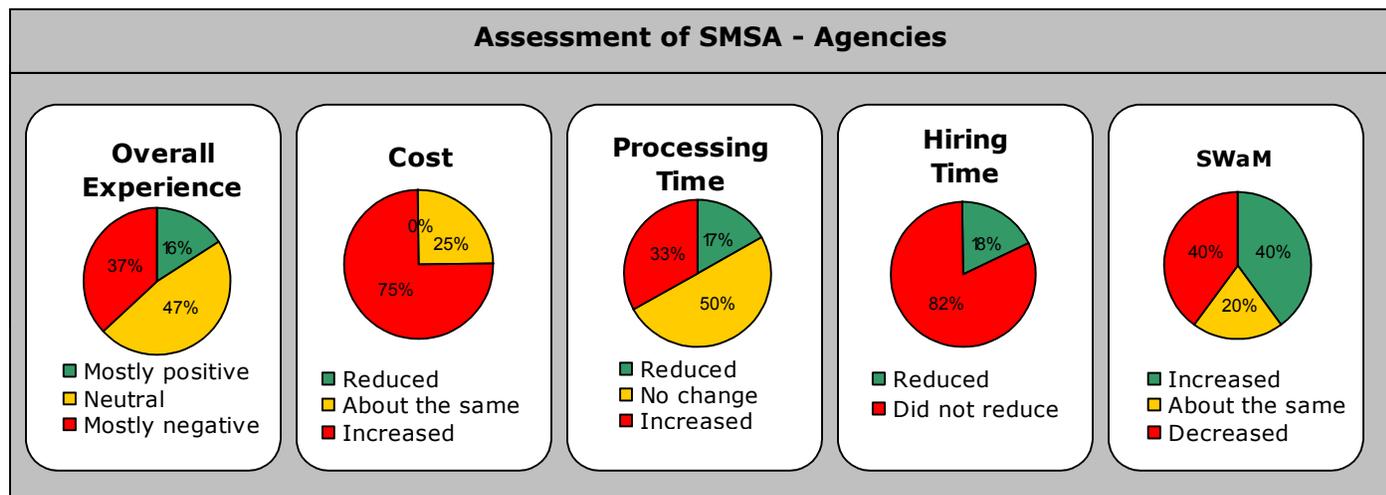
The lack of agency acceptance and challenges with transitions of long-term contractors has inhibited the success of the program. Some agencies have used the Advanced IT Services Contract as a vehicle to get named resources.

VITA Assessment – SMSA Contract	
<p>STRENGTHS</p> <ul style="list-style-type: none"> • Uses best practice of private industry with Managed Service Provider (MSP) model • Enables access to expansive IT resources with open vendor network • Provides opportunity for considerable SWaM participation • Creates sustainable, consistent process, standard job categories and rates, allowing hiring cycle time to be reduced • Establishes measurements, monitoring and reporting of supplier performance • Manages supplier performance with Service Level Agreements with financial remedies • Provides repository of data and metrics reporting with automated reporting tool • Leverages strength of competition to consistently hire resources at rates that track market pricing 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Created centralized process when agencies prefer to manage their own hiring process for contract staff • Permitted inconsistent management practices among agencies for managing IT contractors • Have not eliminated co-employment issues because agencies continue to treat contractors as employees and keep strong temporary contractors on staff for extended periods of time • Developed high dependency on contract staff for support of critical legacy systems and new system development • Have not invested in documentation of work and knowledge transfer to reduce dependency on specific named resources
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Implement centralized hiring process for contract labor • Seek opportunities to reduce costs associated with contract labor • Increase focus on spend management for contract labor/professional services due to increased spending and dependency on supplier provided services • Manage use of immigrant H1B visa contractors 	<p>THREATS</p> <ul style="list-style-type: none"> • Increased cost trend for IT labor • Increased demand for new Web-based skills • Increased difficulty in managing demand, availability, and cost for higher skills sets in tight labor market • Increased agency demand puts IT job role at risk for effective staffing • Impact of Virginia’s low unemployment rate on availability of skilled resources in statewide labor market

Agency Feedback on the SMSA Contract

Agencies provided feedback on whether the SMSA contract met the program objectives. More than twice as many agencies had a negative experience as compared to a positive experience. None of the agencies reported reduced cost. Three-quarters of the agencies increased their costs, half of them significantly. Some process improvements were achieved, with reduced processing time and reduced hiring time cited. The SMSA contract also impacted the Small, Women and Minority (SWaM) businesses participating as subcontractors, with the same percentage of the agencies increasing SWaM participation as decreasing SWaM participation. Reporting metrics have improved. The focus on

subcontractor and individual resource performance could be further enhanced by additional metrics on service provider performance from the agency’s perspective.



Source: DHRM Agency IT Staff Augmentation Survey – Questions 25, 23, 21, 22, 37

Survey results and focus group discussions identified the high overhead cost as one of the primary concerns of agencies using the SMSA contract. Individual agencies stated that their costs have increased significantly due to the mark-up charged, and the multiple layers of subcontracting. In the past, some agencies noted that they were able to negotiate directly with the vendors providing the resources and were able to discount their costs. There were fewer additional overhead charges for multiple layers of contractors or for the supplier manager before the SMSA contractor.

Agencies acknowledged that the tight IT labor market frequently makes it difficult to find resources with the needed skill sets in a timely manner. The quality of the contractors submitted through SMSA was identified as a concern, and agencies want more flexibility to find high-quality IT consultants. The agencies indicated that the SMSA contract removed their link with the vendors. Agencies believe that the lack of direct communication has a negative impact on the vendors’ understanding of agency environments and needs as well as the quality of the contractors referred.

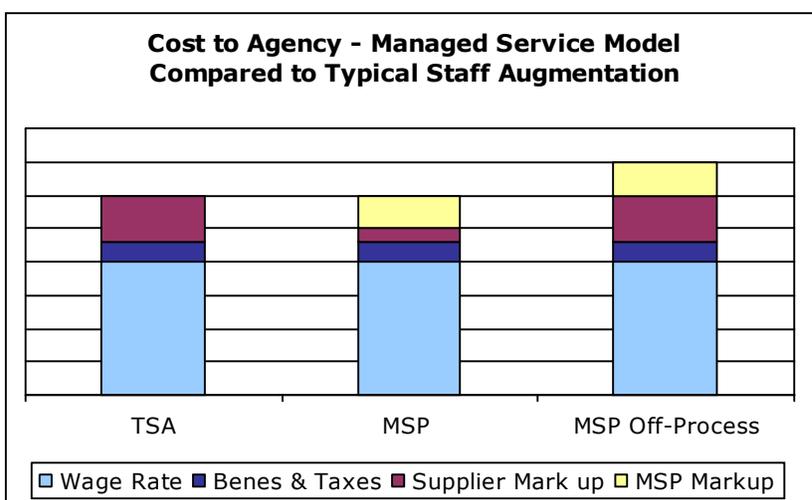
A substantial number of agencies note that the quality of contractors provided through the SMSA contract has not met their expectations or needs. Quality of the vendors is a critical issue for agencies, and has a direct impact on the quality of work performed for the agencies. The wage rate and skill level of contractors are linked, and higher level skill sets cost more. Agencies have limited funds available for these IT resources, and any additional administrative fees without corresponding reductions in subcontractor fees increases the amount agencies pay for a resource.

Because cost was a major issue identified by most agencies, it necessitated a close review. The managed service provider model is based on subcontractors reducing their mark-up in line with changing their cost structure. Because the SMSA contractor provides central services, including marketing, state fees, invoicing, and collections, the subcontractors no longer have that expense and have the ability to reduce their overhead expenses accordingly. In addition, the subcontractors gain access to Commonwealth-wide business and have an opportunity to increase their business with the state.

Approximately one-third of the staff augmentation cost represents administrative expenses. Included in the overhead costs are funds agencies pay to the state, including the 2% fee paid to the VITA Industrial Fund Allocation (IFA) and the 1% DGS eVA fee with a cap \$1,500 per purchase order charged to suppliers. The SMSA contractor mark-up includes funding an automated tool, Peopleclick, it uses to manage the process. The balance of the overhead represents MSP expenses, including contractor taxes, contractor benefits, contractor training, equipment and set-up costs, human resources and recruiting costs, and profit margin.

In situations where an agency requests a specific resource or subcontractor, subcontractors have a tendency to keep margins at existing levels which results in increased costs to the agency when SMSA contractor fees are added. Through October 2007, the average hourly rate of standard placements under the SMSA program was \$57.63 compared to \$83.41 for those placements that were off-process with a named resource or specific contractor. This represents a 45% increase on average in the off-process cost.

A supplier’s mark-up of 46% to 65% of the wage rate equates to 32% to 39% of the total amount the agencies pay. Off-process resources, where a specified resource or company is requested, increases agency cost when the contractor and subcontractor are unable or unwilling to reduce its mark-up.



Several agencies provided specific cases to illustrate the higher cost to the agency of hiring off-process resources under SMSA.

For example, one agency needed a part-time Database Administrator and found the temporary resource, who went to a sourcing company that contacted the MSP. The temporary resource received wages of \$55 an hour, the sourcing company charged \$80.47 an hour for the resource, and the SMSA contractor charged \$97.43 an hour to the agency for the work. This represented a 77% mark-up over the wage rate for an off-process resource.

The agencies indicated that the higher mark-up was not limited to hiring off-process resources. In one instance, an agency needed a high-end skill set for applications development work and followed the SMSA process. The agency received resumes from the SMSA contractor and hired a temporary resource. The temporary resource received wages of \$55 an hour, and the SMSA contractor charged \$125 an hour to the agency for the work. This represented a mark-up of 127% over the wage rate for a normal process resource.

Eleven interested agencies participated in operational review discussion groups and provided data and examples of the impact of SMSA on their hiring of IT contract resources. Four of the agencies indicated that the contract increased their cost significantly:

- 1) one agency cited a \$678,000 increase over the prior contract,
- 2) a second agency indicated a \$420,000 annual increase in IT contract costs,
- 3) a third agency projected a \$135,000 annual increase, and

- 4) a fourth agency reduced their contract positions from four to three because of the increased cost.

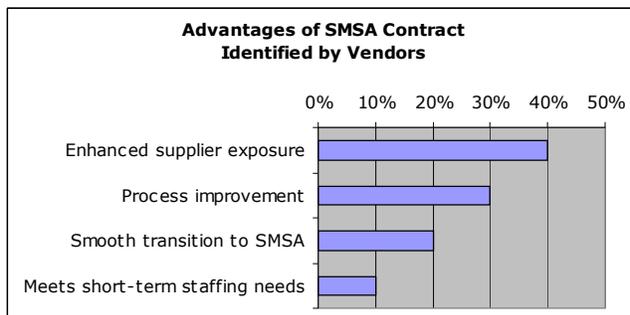
The differences in costs are significant and have fueled dissatisfaction among agencies. These agencies expect further increases once their “grandfathered” contracts expire.

When agencies were asked to make suggestions to improve the contract, the most frequently mentioned area for improvement was the cost. As one agency put it, they want a different contract, referencing issues with high overhead costs, limited flexibility, inability to negotiate rates, lack of relationship with vendors, and slower hiring process with the SMSA contract. In summary, agencies are looking for change in the IT staff augmentation process.

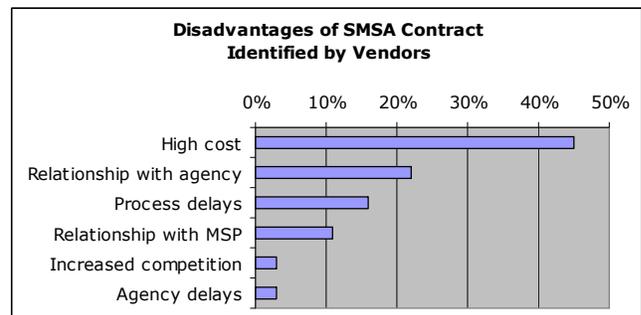
Participating Vendor Feedback on the SMSA Contract

The Department of Human Resource Management (DHRM) surveyed the vendors currently participating in the SMSA contract that have supplied resources more than once during the fiscal year. Feedback was provided on a number of areas, including the frequency of engagement, satisfaction with the current system, and suggestions for improvement. Several vendors cited benefits of SMSA such as a) being able to bid on more position requisitions, b) receiving requirements quickly via e-mail and Website, and c) increasing exposure to other opportunities for business.

A common concern expressed by almost two-thirds of the responding vendors was the increased costs associated with the current system. The respondents stated that they must maintain low margins to be competitive since the supplier manager’s overhead must be incorporated in the costs. Vendors indicated that they often provide less experienced/skilled workers in order to meet agency demand and still maintain a profit margin. In addition to the concerns expressed over costs, almost one-third of respondents reported that the inability to talk directly to hiring managers hampered their ability to understand and meet agency needs.

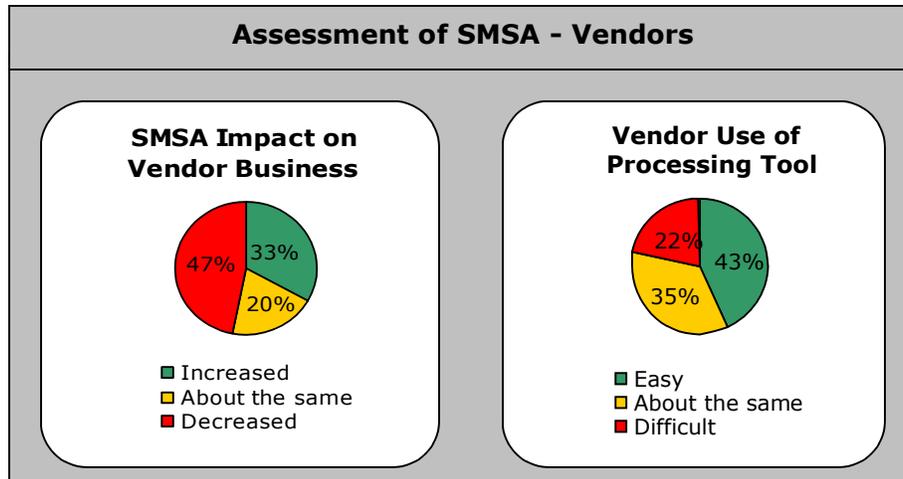


Source: DHRM Vendor IT Staff Augmentation Survey – Question 7



Source: DHRM Vendor IT Staff Augmentation Survey – Question 7

When asked about the impact of the SMSA contract on their business, one-third of the vendors indicated that their business increased and almost one-half said they lost business. The Peopleclick tool was deemed easy to use or about the same as other tools by a majority of the vendors. Approximately one-fifth of the vendors found the tool difficult to use.



Source: DHRM Vendor IT Staff Augmentation Survey – Questions 12, 13

The most frequent suggestion to improve the state's staff augmentation program was to change the cost model, rate structure and margin. A number of vendors recommended the elimination of the SMSA contract to cut out the middleman. One vendor thought that the circumvention of the process by the agencies should be eliminated, so that agency participation in SMSA would increase.

Non-Participating Vendor Feedback on the SMSA Contract

Surveys were sent to vendors who previously worked directly with agencies, but are not currently participating in SMSA or are participating only with the Advanced IT Services contract. Three of the four survey respondents indicated that the SMSA rate structure is a problem, resulting in a very low profit margin for the vendors and capping rates payable to contract workers too low to attract and retain highly skilled and experienced workers.

One vendor stated that there were too many restrictions and conditions imposed on the subcontractors such as the errors and omissions insurance requirement, and that it did not make business sense to participate in the contract. Concern was expressed about the lack of direct communication between the vendor and the agency, which negatively impacted the vendor's ability to understand agency requirements and to provide the right IT resource.

ADVANCED IT SERVICES CONTRACT

While the vendor survey and most of the agency survey focused on the SMSA contract, feedback on the Advanced IT Services contract was also solicited from the agencies. The FY 07 spend on the Advanced IT Services contract was three times higher than the SMSA spend. The difference is attributable to higher skill sets solicited through this contract for specialized services, the purchase of project-based services, the higher mark-up permitted, and the use of this contract as a vehicle to obtain/retain contractors engaged through non-SMSA vendors.

VITA Assessment of the Advanced IT Services Contract

VITA evaluated the contract and noted:

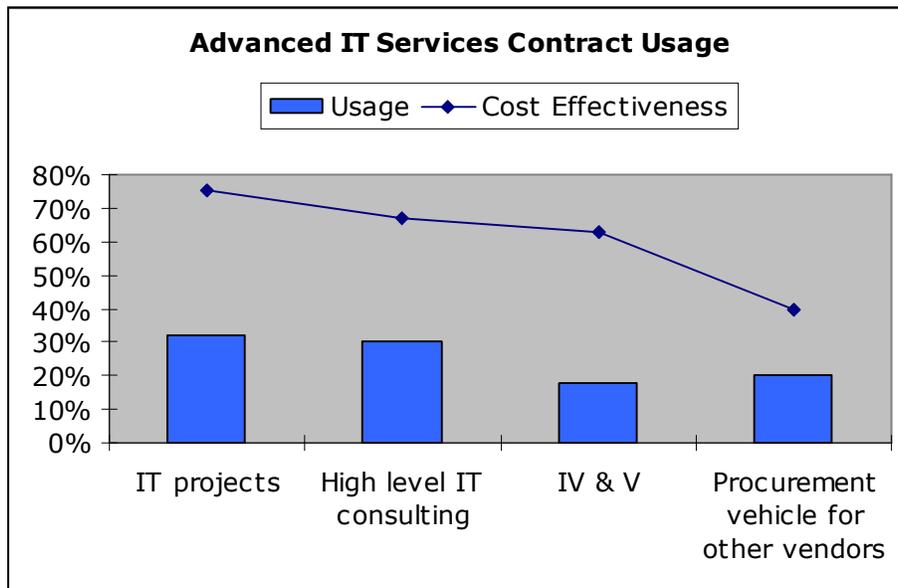
- Agencies are satisfied with the ability of the contract to meet agency consulting needs.
- Agencies have long term relationships with some vendors.
- Network resources have expanded through subcontractor relationships.
- Engaging resources through subcontractors is a simple process.
- Subcontract opportunities enable SWaM participation.
- Multiple awards provide flexibility and potentially increase competition.
- The intent was for agencies to send requirements to multiple suppliers for competitive bids.

VITA assessed the consulting services program based on its strengths, weaknesses, opportunities and threats to the program.

VITA Assessment – Advanced IT Consulting Services Utilization	
<p>STRENGTHS</p> <ul style="list-style-type: none"> • Provides flexibility for use for all staff augmentation needs • Provides flexibility to choose from multiple suppliers • Establishes successful working relationship between agencies and suppliers • Increases resource pool through the use of 5 prime suppliers and their subcontractors 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Used as vehicle to circumvent the SMSA program to obtain specific named resources • Inhibited competition for best price due to long term relationship between supplier and agency • Impossible to assess competitiveness of multiple proposals since each supplier structures job skills & categories differently • Unable to evaluate if processes for engagement, assessment or pricing of proposals are consistent due to manual hiring process • Lack of automation for monitoring and reporting on consultant or supplier performance
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Consolidate all IT staff augmentation and consulting services to a supplier managed process • Increase SWaM participation • Manage agency expectations and needs with tight labor market 	<p>THREATS</p> <ul style="list-style-type: none"> • Increased cost trend for IT labor • Increased demand for new Web-based skills, project/program management, and various business consulting services • Increased agency demand puts IT job role at risk for effective staffing • Increased difficulty in managing demand, availability, and cost for higher skills sets in tight labor market • Potential for suppliers to take advantage of their relationship with agencies

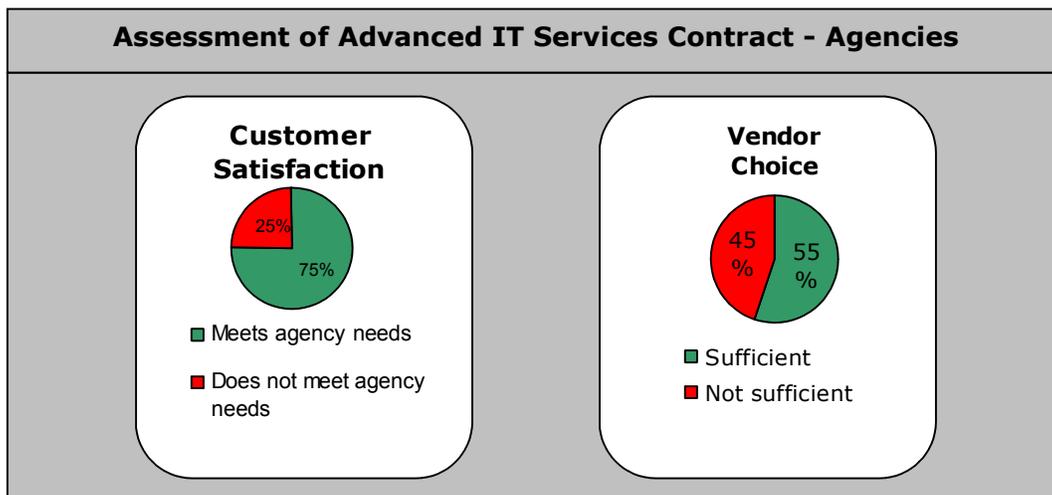
Agency Feedback on the Advanced IT Services Contract

The agencies use the Advanced IT Services Contract primarily for IT projects and high-level IT consulting. Some agencies take advantage of the Advanced IT Services contract as a procurement vehicle for other vendors, frequently to retain the current contractor provided by a non-SMSA vendor. While most agencies consider the IT project services cost effective, less than half of the agencies believe the Advanced IT Services contract is cost effective as a procurement vehicle for other vendors.



Source: DHRM Agency IT Staff Augmentation Survey – Questions 28, 29, 30, 31, 32

Agencies are more satisfied with the Advanced IT Services contract than with the SMSA contract, with three-quarters of the agencies indicating that the contract met their agency needs. A majority of the agencies responding to the survey thought there were sufficient vendors from which to choose. Agencies have more flexibility and control using the Advanced IT Services contract than the SMSA contract.



Source: DHRM Agency IT Staff Augmentation Survey – Questions 35, 34

An agency commented that the Advanced IT Services contract significantly speeds up the procurement process for obtaining quality services. Another agency noted that it was quick, easy and allowed the agencies to make choices. The flexibility of the contract was a major benefit to another agency, so they could spend more time doing IT development work rather than procurement. This flexibility permitted the agency to continue working with the vendor who learned the agency needs, work style and the level of services customers expect.

Many of the recommendations made by the agencies centered on cost. Since the agency could work with the vendors it wanted, one agency said the contract met its needs, but that it increased overhead for the agency and was "easy money" for the primary contractor. One small agency found the quotes to be prohibitively high, and thought their experience illustrated the need for a shared resource pool that smaller agencies could access on those occasions when they require IT development assistance.

STAFF AUGMENTATION PRACTICES ISSUES SUMMARY

During the review, agencies and vendors shared issues and concerns about the current IT staff augmentation process. Common themes emerged, and the key issues are listed below.

Staff Augmentation Practices Issues Summary			
AGENCIES	VENDORS	ISSUE	COMMENTS
X	X	Cost	Increased costs with subcontractor layering
X	X	Quality	Decreased satisfaction with quality of contracted workers
X	X	Communications	Need for direct contact and relationship between vendor and agency to ensure familiarity with agency operations and cultures, technical skill-sets needed, and soft skills/traits that are compatible with agency needs
X	X	Pricing Flexibility	Need for greater flexibility with rate structures to enable vendors to provide contractors having needed skills and to reduce mark-up of current SMSA contracts
X		Staffing Flexibility	Need for greater flexibility in staffing IT functions with classified employees, relying less on contractual services for ongoing operations/maintenance augmentation
X		Procurement Flexibility	Need for greater flexibility in procurement options to secure contractual staff in a timely manner
X		Co-Employment	Potential co-employment issues due to current lengthy tenures of some contractual workers
X		Data	Need for comprehensive, reliable data on human capital resource staffing and expenditures dedicated to IT functions

To learn what best practices were being used by other state governments and the private sector in addressing these issues, the Committee reached out to these groups for additional information and advice.

STAFF AUGMENTATION PRACTICES IN OTHER STATE GOVERNMENTS

Information from other states was gathered from multiple sources. Electronic surveys were sent to two national associations, the National Association for State Procurement Officers (NASPO) and the National Association for State Chief Information Officers (NASCIO).

In addition, Virginia surveyed states about the best practices for managing the engagement of IT temporary labor, including: a) the 2005 Government Performance Project “best managed” states, b) the states contiguous to Virginia, and c) other states that used CAI as the MSP. The target audiences were the state procurement offices and program managers that oversee the daily operational aspects of IT temporary labor processes and contracts. Interviews were conducted to gain additional insight regarding business objectives, process and controls, and program effectiveness. The twelve states interviewed that provided feedback were:

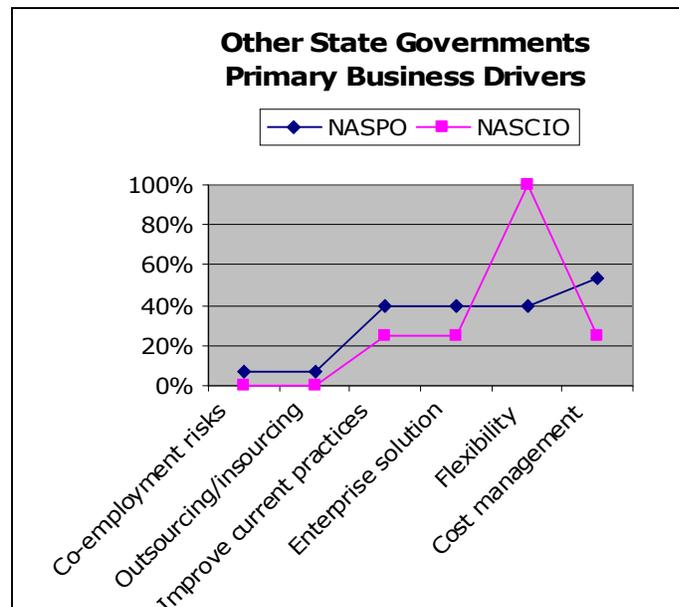
Arkansas	Minnesota	Tennessee
Delaware	Missouri	Utah
Georgia	North Carolina	Washington
Maryland	South Carolina	West Virginia

IT STAFF AUGMENTATION AND CONSULTING COSTS

Because other state governments were not able to provide cost information on all aspects of the IT staff augmentation and consulting contracts, the Committee was unable to determine the cost effectiveness of the process used in Virginia as compared to other state governments. Virginia spent \$96.6 million in FY 07 for both IT temporary staffing and consulting. Almost half of the surveyed states spent annually between \$1 million and \$25 million on IT staff augmentation, with some including IT consulting spend. In addition, twenty percent of the states spent between \$26 million and \$50 million, twenty percent between \$51 million and \$75 million, and thirteen percent between \$76 million and \$99 million.

PRIMARY BUSINESS DRIVERS

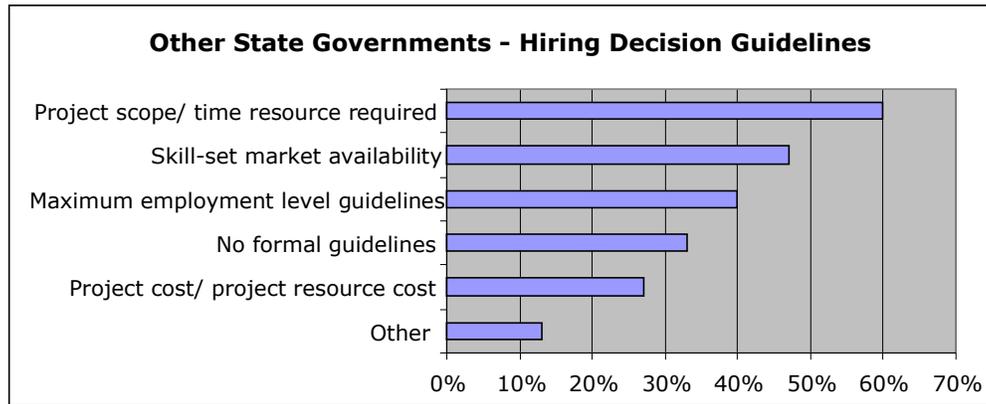
Other state governments were surveyed as to why they used IT temporary labor. While cost management was the primary business driver for procurement officers in other states, flexibility was the most cited reason by the chief information officers. Improved business practices and programs as well as enterprise solutions were also important to both groups. The NASPO and NASCIO survey data was corroborated by the information provided by other states during interviews. Cost management, efficiency, and flexibility were the key business objectives highlighted during the interviews with other state governments.



Source: NASPO and NASCIO Surveys – Question 5

HIRING DECISIONS

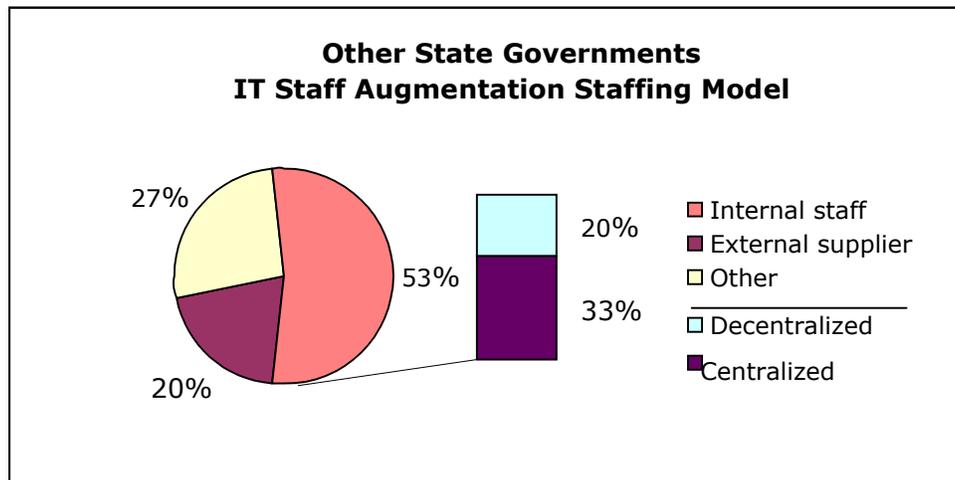
States use different criteria to determine if a resource need is filled through contract labor or by hiring a full-time employee. According to the NASPO survey data, the most important guidelines in the hiring decision were the project scope and amount of time the resource was needed. Information provided during the state government interviews indicated that the human resource and budget guidelines were most frequently used in hiring decisions.



Source: NASPO Survey – Question 6

STAFFING MODEL

The staffing model for managing IT staff augmentation varies. A majority of the states manage the process in-house, with two-thirds of them using a manual process and one-third using a Web-based application tool. One-quarter of the states use an external supplier to manage their staff augmentation. Some states use a combination of internal staff with specific services provided by a supplier.



Source: NASPO Survey – Question 3

CONTRACT MODEL

Although most states are moving to a centralized or enterprise solution, they vary widely in contracting methods selected in 2007:

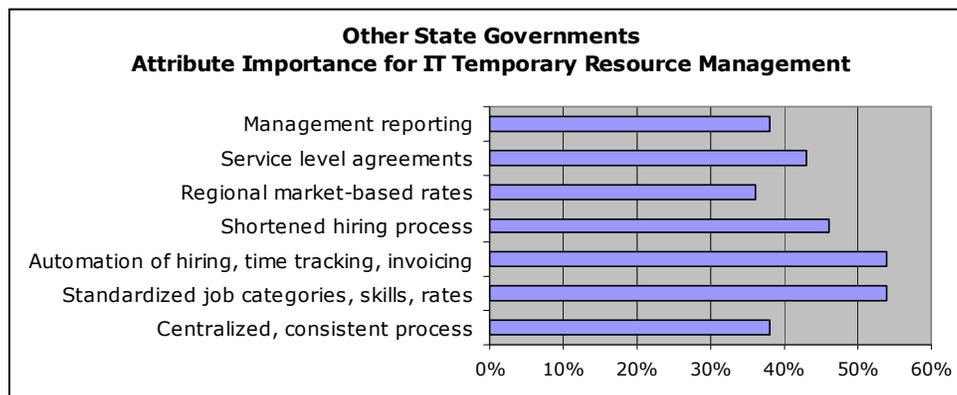
- **Traditional Staff Augmentation (TSA)** – contracts directly with multiple staff augmentation firms, and internal staff manages the process and program. Used by Utah, Washington and North Carolina.
- **Application Service Provider (ASP)** – provides access to a hosted workflow application via the Web. Used by South Carolina.
- **Managed Services Provider (MSP)** – manages the requisition, solicitation, evaluation, engagements, and payment for contingent workforce services. Held to stringent service level agreements. Serves as the relationship manager between the client and the vendor network. Develops and manages contractual agreements with network of subcontractors. Used by Virginia and Pennsylvania.
- **Third Party Administrator (TPA)** – serves primarily in an administrative role and is typically not held to the same standard as a full-fledged MSP. Used by Georgia.

The following chart contrasts the services typically provided by each model.

CONTRACT MODELS				
Function	TSA	ASP	TPA	MSP
Hosted Web-based Workflow Application	No	Yes	Yes	Yes
Service Level Agreement	No	No	No	Yes
Account Management Team (contract labor management, service delivery)	No	No	Yes – limited	Yes
Vendor Management (contract relations)	Yes	No	No	Yes
Program Management (reporting, analysis, monitoring)	Yes	No	Yes – limited	Yes
HR Support and Practices (performance issues related to program)	Yes	No	Yes	Yes
Reporting	Yes	Yes	Yes	Yes
Back Office Support (POs, invoicing, timesheets)	Yes	Yes	Yes	Yes
Help Desk	Yes	Yes	Yes	Yes

PROCESS MANAGEMENT

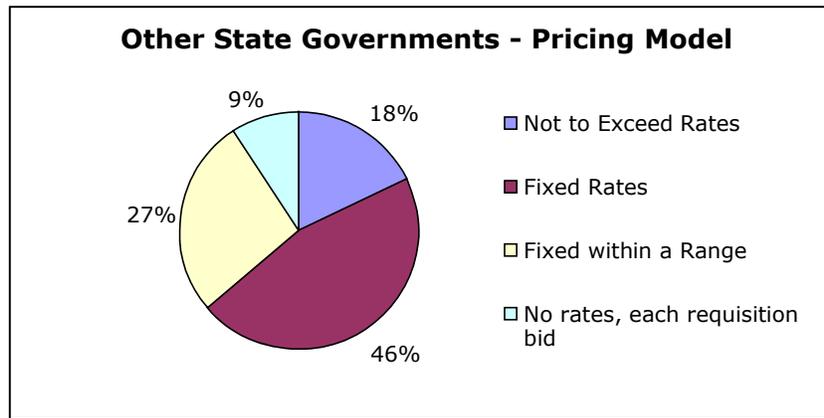
The majority of other state governments indicated that the automation of the hiring, time tracking and invoicing process as well as the standardization of job categories, skills and rates were important in managing IT temporary resources. Shortening the hiring process for IT temporary resources was also an important factor for many states.



Source: NASPO Survey – Question 7

RATE STRUCTURE

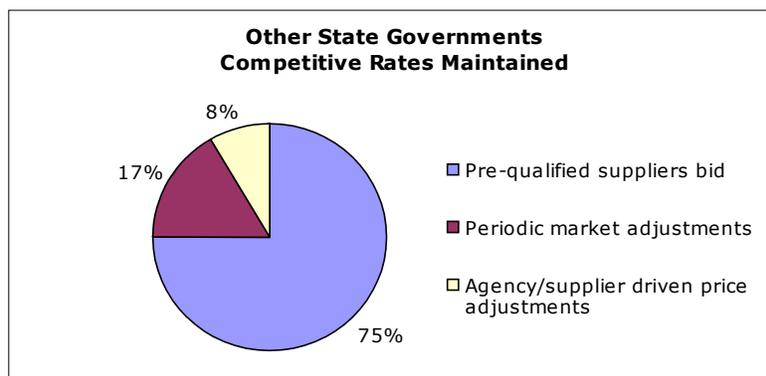
The states utilized a variety of models in hiring temporary resources. “Not to exceed” rates are cost-effective if labor costs remain steady during the term of the contract. “Fixed” rates cannot be adjusted during the term of the contract and provide for cost control but no adaptability to market changes. “Fixed within a range” rates are cost effective if market rates stay within a range or if there is low volatility during the term of the contract. “No rates, each requisition bid” is a very cost-effective structure as the market defines the rate, but the model has higher contract administration expenses. Almost half of the states used a “fixed rate” pricing model. One-quarter of the states operated with a rate “fixed within a range”.



Source: 2007 Interviews of Other State Managers of IT Temporary Labor

RATE MANAGEMENT

Once the initial rates are set, the rates need to be maintained in order to remain competitive in the marketplace. With rates indexed to market or structures that reset rates to current conditions, the contract remains competitive and cost effective. Three-quarters of the other state governments reported that they utilize competition to keep rates aligned with the market by requiring a bid for each engagement. Some states made adjustments to current market conditions periodically or when requested.



Source: 2007 Interviews of Other State Managers of IT Temporary Labor

STAFF AUGMENTATION PRACTICES IN THE PRIVATE SECTOR

Interviews were conducted with two large, multi-national companies headquartered in Virginia. Since these companies have a large IT presence in Virginia, they draw IT contractors from the same market as the Commonwealth. These companies had centralized or were in the process of centralizing IT staff augmentation, and noted similar rationales for the decision and some common experiences in making the transition:

- This function had previously been decentralized. Individual offices and hiring managers negotiated and contracted with individual vendors. Analysis showed that this practice resulted in inconsistent pricing and quality of services, even with the same vendors.
- Significant expenditures being made on IT staff augmentation could better be leveraged through a centralized approach.
- Executives were concerned about the potential risk of co-employment issues with individual contractors engaged for lengthy tenures.
- Managers must adhere to their budgetary and headcount constraints. When position authorization is not available, they typically resort to contractual services to supplement staffing.
- Centralization was met with reluctance on the part of the hiring managers. Individual units articulated concerns about a) loss of control over negotiation and selection of contractors, b) the loss of relationships with vendors, and c) the possibility that contractors provided through this process would not have the desired skills or traits.
- Both companies strongly recommended that solid change management plans should be implemented to enhance such transitions.
- Both initially used a large number of vendors but have systematically winnowed the number based on performance to a smaller, more manageable and productive pool of vendors.
- Both use automated requisition and reporting tools.
- They have achieved or are beginning to achieve lower costs.
- They have strong senior management support for the change due primarily to lower costs and reduced risk regarding co-employment issues.

COMPARISON OF VIRGINIA, OTHER STATE GOVERNMENTS AND THE PRIVATE SECTOR

Virginia is more similar to the private sector companies interviewed than to the other states surveyed or interviewed. Most other states have legacy contracts and business models that they have tweaked over time, while Virginia moved to a new model based on private sector practices. The chart below compares Virginia with the private sector and four states.

Along with Virginia, Utah and Washington are considered to be best managed states according to the 2008 Pew Foundation Government Performance Project. Maryland is a contiguous state, and South Carolina has a different procurement model. Virginia’s data addresses only the SMSA contract, and does not include information on the \$88.7 million spend using the Advanced IT Services, the expired body shop contracts, or the additional agency spend.

Comparison of Virginia SMSA, Other State Governments and the Private Sector - FY 07								
Topic	Virginia	Company A	Company B	Utah	Washington	South Carolina	Maryland	
1 Organization	Centralized – Outsourced	Centralized – Insourced	Decentralized - moving to centralized	Centralized – Insourced	Centralized – Insourced	Centralized & partially outsourced	Centralized	
2 Supply model	Outsourced Management - Managed Service Provider	Insourced Management using COTS	Moving to Outsourced Management-Managed Service Provider	Insourced manual process managed by Admin services	Insourced – managed by Dept of Info Systems (IT)	ASP model, vendor provided Web tool, process managed with IT internal staff, moving to MSP model	Insourced, co-managed by IT and Budget and Management Office	
3 Annual spend	\$7.9 million	\$100 million	\$25 million	\$3.5 million	\$20-25 million	\$26-\$50 million	> \$195 million over 2 yrs	
4 Vendor selection	Open RFP 2 step process: 1) Requirements 2) Value to cost ratio	RFI-RFP 3 step process: 1)RFI - 10 Questions, go/no go 2)RFP - ability to supply 3)same RFP - cost	RFP in process	RFP with recompet every 2 yrs	RFP with annual recompet	RFY with annual recompet, suppliers with no submittals removed after 1 yr	RFP with annual recompet	
5 Number of vendors	1 service provider, 200+ subcontractors	9	Unknown	33	156	347	217	
6 Number of contractors	173	700 - 750	Unknown	Do not track	Do not track	2,000	Do not track	
7 Automation Tool	Yes – Peopleclick	Yes – PeopleSoft	Yes – new solution will be automated	No – manual	No – manual using MS Forms	Yes – Beeline	No – manual using MS Forms	
8 Number of internal staff managing program	1.5	8 (1 director, 2 professional, 5 support)	3 not sure until implemented	1.5+ Another dept handles reporting	1.5	3 (2 internal, 1 external)	2	
9 Contractor job classification	25 positions 4 levels	29 positions 4 levels	RFP in process	33 high level categories with many job positions	17	16	15	
10 Rate structure	Set rate not to exceed Market rate	Rate card	Fixed margin with service provider fees at risk	Not to exceed fixed rates	Not to exceed rates	Not to exceed rates, exception for 25% uplift	Fixed not to exceed rates	

Comparison of Virginia SMSA, Other State Governments and the Private Sector - FY 07								
Topic	Virginia	Company A	Company B	Utah	Washington	South Carolina	Maryland	
11	Rate structure review	Semi-annual	Annual – formal Monthly – informal	Not provided – RFP in progress	None, adjustments driven by agency or vendor	Annually with supplier rebid and refresh	No formal guideline, rate may be adjusted	Initial pricing includes 1 yr fixed rates for each yr of the 5 yr contract
12	Mark-up	No fixed mark-up Estimate ~52%	Unknown, focused on bill rate	Was 45%, Moving to 35% plus 2.5% service provider add-on	Unspecified	Unknown, focused on fully loaded not to exceed rate	1.4% admin fee to ASP service provider	Not focused on mark-up due to competition
13	Maximum tenure of contractor	None	2 years with 90 day break	If ≥ 2 years, converted to employee or released	None, based on dollar limits rather than term	18-24 mos, no break in service required	Up to 5 yrs if listed in scope	None
13	Exception process	Yes – need Review Committee approval	Yes – need Executive approval	Yes – need Executive approval	Optional contract, agencies can source on their own	Optional contract, agencies can source on their own	Yes for fixed rates	Optional contract, agencies can source on their own
15	Vendor evaluations	Quarterly	Quarterly	Unknown, RFP in progress	None required	Required after each engagement	Required after each engagement	None required
16	Change management	Some focus	Very important focus	Very important focus	Customers involved in providing requirements, and participate on evaluation team if major change	Agencies participate at every level and with yearly refresh	Agencies and vendors participate in developing requirements	Feedback gathered from largest customers
17	Consulting Spend	Not included	Some large projects managed outside process	Not included	Included	Included	Yes for Beeline application, internal process different	Included
18	Number of years program in place	2	6	Not provided	8	7	3	2.5
19	Resource engagement process	<ul style="list-style-type: none"> PO submitted thru Peopleclick Provider screens resumes, Agency manager interviews and hires 	<ul style="list-style-type: none"> Request thru PeopleSoft tool, Sent to prequalified suppliers, Managers screen interview and hire 	<ul style="list-style-type: none"> Not provided, RFP in progress 	<ul style="list-style-type: none"> RFQ from pre-qualified suppliers Documented evaluation, scoring and selection process 	<ul style="list-style-type: none"> RFQ from pre-qualified suppliers Resource can be engaged within 2 to 3 weeks 	<ul style="list-style-type: none"> Request thru online tool, Sent to all pre-qualified suppliers, Manager screens interviews and hires, Different process for consulting 	<ul style="list-style-type: none"> RFP with contract award Requires 2 months

Source: VITA, state and company interviews

RECOMMENDATIONS

RECOMMENDATION 1	Implement a prequalified vendor model for IT staff augmentation
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The Committee reviewed five models of staff augmentation, including:

- A. **Independent** - There is no central management and agencies manage staff augmentation and contracts individually. Wage employees essentially follow this model.
- B. **Prequalified** - The Commonwealth establishes minimum qualifications and terms and conditions for vendors to qualify as staff augmentation suppliers. Any number of vendors can qualify. Examples of this model are the way DHRM facilitates hiring of temporary trainers and DGS obtains non-professional services for construction projects.
- C. **Multiple Awards** - The Commonwealth contracts directly with a limited pool of contractor vendors, the old "body shop" concept. This method was used by the Department of Information Technology (DIT, the precursor of VITA) and the Virginia Information Technologies Agency (VITA) before the current MSP contract.
- D. **Outsourced** - A single vendor manages the entire staff augmentation process for the Commonwealth. This Supplier Managed Staff Augmentation is the method used under the existing SMSA contract with VITA.
- E. **In-House** - Contractors are provided from within the Commonwealth. This method was used by DIT for some IT service needs before VITA's inception.

Each model was reviewed, and the advantages and disadvantages of each were considered. While flexibility and leverage were pluses for some models, cost was the most common negative.

Identified Models - Advantages and Disadvantages		
Option	Advantages	Disadvantages
Independent	<ul style="list-style-type: none"> Maximum flexibility for users 	<ul style="list-style-type: none"> Costs determined by agencies' individual negotiating skills No leverage as an enterprise No reporting Inefficient procurement
Prequalified	<ul style="list-style-type: none"> Potentially as much choice as Independent Eliminates layering of contractors, reducing costs 	<ul style="list-style-type: none"> Potentially more complex than SMSA Does not use enterprise leverage directly
Multiple Awards	<ul style="list-style-type: none"> May use enterprise leverage 	<ul style="list-style-type: none"> May reduce supply May increase costs with layering of contractors
Outsourced	<ul style="list-style-type: none"> Most effective leveraging opportunity Administratively simple 	<ul style="list-style-type: none"> May reduce supply May increase costs with layering of contractors
In-House	<ul style="list-style-type: none"> Complete control 	<ul style="list-style-type: none"> Slow to respond to requests Difficult to adjust to changing needs

The Committee reviewed the various models and ranked them based on four criteria: a) flexibility, choice, supply and quality (these criteria were considered related and included in one category), b) bill rate, c) administrative management costs (i.e. the difference between the employee's wage rate and the agency's cost), and d) the procurement process from the agency's perspective, which is somewhat related to administrative costs. Although the Prequalified model was the top model only in the bill rate category, it scored consistently high in all categories to make it the top choice of all identified options.

Identified Models - Scoring					
Option	Flexibility, Choice, Supply Quality	Bill Rate	Administrative Management Costs	Procurement Process	Total Score (Unweighted)
Prequalified	4	4	4	4	16
Independent	5	3	5	1	14
Multiple Awards	3	3	3	3	12
Outsourced	2	3	2	5	12
In-house	1	1	1	1	4

Key: 5 is most and 1 is least advantageous from the Commonwealth perspective

The Committee recommends the adoption of the Prequalified option, including the establishment of vendor qualifications, terms and conditions, and a tiered rate structure. Vendors would qualify as either providers of individual contractors or as solution providers (i.e. project management or deliverables), or both. Once qualified, vendors would be available to any agency under the terms established. The solicitation process should be structured so that all vendors have a chance of being selected for each solicitation, but the requesting agency should be able to limit the number of responses.

Under the current process, duplicate entries are required in the MSP management tool, Peopleclick, and in the state procurement system, eVA. The Committee recommends an enhancement to eVA to capture the necessary information or the development of a system interface between the automated tool and eVA in order to provide process efficiencies.

The central agency managing IT staff augmentation should manage the qualification process and vendor relationship issues, and provide for opportunities for optional services that the agencies may request. Further analysis needs to be conducted as to whether the functions should be managed in-house or outsourced, the automation tool to be used, and how it will be funded.

RECOMMENDATION 2	Enlist an Advisory Committee for IT Staff Augmentation
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It is recommended that an Advisory Committee be established to assist with developing and managing the staff augmentation process. This allows the line agencies as well as the central agencies to work together to understand the business needs of the Commonwealth.

The prompt resolution of outstanding issues and concerns must be encouraged, and the Advisory Committee is an appropriate forum for this function. By addressing problems early in the process, customer satisfaction is expected to improve. Agencies must be provided an opportunity to be heard in the development of the Commonwealth IT staff augmentation guidelines, and will be held accountable for compliance with the rules they help establish. It

is recommended that the Advisory Committee develop an exception process to allow for deviations from established policy and report such exceptions periodically to management.

The Advisory Committee should assist with change management issues related to IT staff augmentation. Because the Prequalified option is substantially similar to the former “body shop” contract system, which was generally viewed favorably by state agencies, it is anticipated that agency objections or resistance to the Prequalified option will be negligible.

RECOMMENDATION 3**Amend law, policies and procedures to optimize human capital**

Changes are needed in law, policy, and practice to enhance the Commonwealth’s ability to source needed IT staff. The Commonwealth should recognize the difference between the procurement of commodities and the procurement of staff augmentation by exempting staff augmentation contracting from certain provisions of the Code of Virginia. The Committee recommends that practices and processes be developed that will ensure the flexibility needed by agencies in augmenting IT staff, and that DHRM work with VITA and DGS to ensure that this occurs.

To this end, Senator Hanger introduced Senate Bill 741 during the 2008 General Assembly session that provided for DHRM to work jointly with DGS and VITA to develop expedited processes for the procurement of staff augmentation. Under Chapter 576, Acts of Assembly of 2008, which becomes effective July 1, 2008, DHRM may perform contract administration duties and responsibilities for any resulting statewide augmentation contracts.

The State’s ability to recruit and retain staff is complicated by widely held misperceptions by IT managers, human resource (HR) professionals, agency leadership and potential applicants. The need to ensure that IT managers and HR professionals are collaborating and are aware of all the currently available staffing tools is critical to the success of any IT staff augmentation endeavor. Agency leaders must understand the unique requirements for staffing in this area and be willing to use all available recruitment, retention, and compensation tools. Potential applicants may also harbor outdated perceptions about employment opportunities, training opportunities, and state-of-the-art technologies available in Commonwealth employment.

The Appropriation Act limits the number of classified positions agencies may maintain, despite the fact that considerable expense may be incurred through alternative staffing methods to work around these restrictions. Working within and around the maximum employment level restrictions is a major concern for managers attempting to meet disparate information technology needs and resources.

The Committee recognizes that position level limits included in the Appropriation Act may sometimes influence an agency’s decision regarding whether to hire an employee using a classified position or to contract for services. In other cases, an agency may have sufficient vacant positions overall but may not allocate them internally or authorize their use for a variety of reasons.

Therefore, the Committee recommends, after an agency has exhausted its internal options for the redistribution of existing vacant positions, either the transfer of positions between agencies or the creation of new positions in order to hire full-time personnel using classified positions and to convert long-term contractor positions to full-time classified positions where appropriate. However, any transfer or creation of new positions must be supported

by an analysis of the expected benefits, including cost savings, decreased turnover risk, the retention of intellectual capital, and reduced co-employment risks.

Further, the Committee recognizes that position level limits may contribute to the use of consultants and may discourage the use of classified state positions for services. Therefore, the inclusion of position level limits in the Appropriation Act should be reviewed for possible modification or elimination. It is recommended that the total human capital effort be included in the Appropriation Act rather than just salaried positions. This provides increased transparency into the actual people costs of the agency.

RECOMMENDATION 4 Achieve SWaM goals

Agencies would be required to solicit proposals from at least three qualified vendors, including at least one SWaM vendor, and to negotiate a price within the rate schedule guidelines. Under the current contract, the number of SWaM vendors is high, and it is expected that they would be key participants in the prequalified contract model. There is an opportunity to increase SWaM spend, and individual agencies will be held accountable for agency SWaM vendor participation rates and expenditures. Although SWaM participation is primarily an agency responsibility, the Advisory Committee should review SWaM participation from time-to-time to ensure reasonable goals are being achieved and to eliminate any identified barriers to SWaM participation.

RECOMMENDATION 5 Assist smaller agencies in IT Staff augmentation procurement

Since smaller agencies frequently either lack or have minimal IT staff, assistance must be provided to smaller agencies in obtaining and maintaining IT contractors. It is recommended that smaller agencies have the option of seeking support from another agency in the same or different Secretariat, VITA, or a vendor as an outsourced function. If smaller agencies are unsuccessful in obtaining voluntary help from one of the suggested sources, the Secretary of Technology shall ensure that adequate support is obtained. Smaller agencies require this staff augmentation support so that their business needs are achieved, and the Advisory Committee should monitor any issues that arise.

RECOMMENDATION 6 Minimize co-employment issues

In order to reduce co-employment issues and potential legal liability, agencies need to recognize that contractors are a temporary resource, and should be managed accordingly. When contractors work side-by-side with classified staff performing identical functions, work the same scheduled hours, have the same supervisors, and work on a continuing basis for an unspecified length of time, they may be considered "common-law" employees and entitled to the same benefits as the Commonwealth's classified employees. Agency hiring managers must be informed of and held accountable for practices that minimize potential co-employment liability. The Commonwealth should limit the length of individual contractor engagements and ensure that contractors are not treated as classified employees. When it is apparent that functions being performed contractually will be needed on an ongoing basis, there must be a process to transition resources into classified positions. Sound management requires that practices and procedures be developed to transfer knowledge acquired contractually to agency staff.

RECOMMENDATION 7 Rate the performance of any vendors and contractors used

Performance metrics must be developed and monitored by users to ensure that engaged vendors and contractors are providing high-quality services. While vendors have been rated on responsiveness and percentages of candidates submitted who are actually engaged, agencies feel that some key quality and cost measures have not been addressed. The vendor assessment should be expanded to include the quality of contractors and the ease of contract administration such as requisitioning, billing, timesheet reporting, and appropriate screening of candidates. Each agency will be required to report on experiences with vendors and individual contractors used. A shared repository for this data will be needed so that agencies may benefit from prior experiences with individual vendors and contractors. To ensure that the recommended reporting is fair, the Committee recommends a legal and procurement review of the process.

RECOMMENDATION 8 Centralize reporting

The Commonwealth spends almost \$100 million on temporary IT resources and needs comprehensive reliable data to understand temporary resource staffing and expenditures dedicated to IT functions. The Committee recommends the establishment of a cost-effective centralized reporting mechanism, interfaced with other necessary systems, and maintained so that reliable data on IT staff augmentation can be reported. Increased transparency in the human capital expenditures of the Commonwealth can be achieved with the centralized data on staff augmentation.

RECOMMENDATION 9 Provide training and change management for the new process

The Commonwealth needs to place greater emphasis on change management and training. Since it is important to provide a meaningful context for change to those impacted by it, an effective change management process is critical to the success of any new process. This entails more than communicating information. It requires education about the new processes, a forum and process for ideas to be exchanged, and a process for decisions to be communicated in a manner that connects enterprise goals with individual gains to be achieved. Devoting the necessary time and resources to the change management function will decrease resistance to the changes and enhances the final product or process.

RECOMMENDATION 10 Review the implementation of the general recommendations applicable to all staff augmentation in part II of this study

A number of issues arose during the IT staff augmentation review that have application to all staff augmentation, and the Committee recommends further analysis of these issues. As strategies are developed for new ways of working, the culture of state employment will change and adequate training needs to be provided.

Recommendation 10 – General Changes		Comments
Changes in Law, Regulation or Practice		
1	Position Level	Position level limitations should be reviewed to analyze perceived unintended consequences , perceived impediments, and potential barriers to effective staffing

Recommendation 10 – General Changes		Comments
2	Wage 1500 Hour Limitation	Revisit the 1500 hour limitation on temporary, wage positions and its effect on staffing
3	Temporary Positions	Allow temporary positions to exist for a year or less with renewals after a break in service
4	Market Pricing	Create a process for IT exceptions where the classification for the position is appropriate but there is a need to pay above an existing pay range because of market pricing demands.
5	Cafeteria Plan	Create a cafeteria plan for benefits to allow choice for candidates and improve total compensation
6	Benefits for Part-Time Employees	Determine additional benefit opportunities for part-time employees.
7	Hire Temp to Perm	Permit starting employees as wage and converting successful new hires to regular classified positions without new search.
8	Hire Contractor to Perm	Create leasing arrangements that would convert contract employees to classified employees without a placement fee after some period of time.
9	Term Employment	Educate managers regarding options to hire for specific periods such as project based employment, defined time period or seasonal employment.
10	Position Conversion	Create a protocol for converting wage or contractor positions to classified positions with decision making tools to assist in the cost/benefit analysis.
Train, Retrain, Develop and Retain		
11	Learning Organization	Develop a Learning Organization framework for IT professionals in state employment where continuous growth opportunities are provided, expected, and desired.
12	State IT Training Academy	Create a state IT Training Academy to develop current employees.
13	Career Paths	Educate managers regarding options to hire for specific periods such as project based employment, defined time period or seasonal employment.
14	Cross-Train	Encourage cross-training of the state's IT workforce, including interagency and cross-agency training
15	Retrain	Retrain functional employees assigned IT collateral responsibilities who demonstrate IT aptitude to be true IT professionals
16	Strategic Retention	Identify key talent and apply existing compensation retention tools as needed for strategic retention
17	Partnerships	Create partnerships with higher education institutions and other organizations to develop internships and other collaborative learning/working opportunities such as co-ops and summer jobs
18	"Build" versus "Buy"	Hire inexperienced IT workers, which are in higher supply, and train them to higher order IT skills, which are in lower supply
19	Personal Development Plans	Commit to retraining current IT employees upon the sunset of the legacy systems lifecycle, include such provisions in their personal development plans and allocate budget to ensure training is available
Talent Banks		
20	Employee Skill Bank	Develop skill bank of internal personnel that can be used for emergencies or stop-gap measures
21	Project Skill Bank	Develop a resume database or retirees, job seekers, interns, independent consultants, and others who are willing to work on short and long term projects
22	External Job Board	Create a job board such as ITVirginia.jobs Website where interested applicants can apply for regular, temporary, or contract positions as an alternative staff augmentation methodology
23	Talent Bank Coordinator	Coordinate the talent banks by using internal staff or a third-party vendor
Management Tools and Training		

Recommendation 10 – General Changes		Comments
24	Utilization of Current Tools	Train managers on current tools and encourage managers to better utilize them
25	Quick Reference Tool	Create a quick reference tool describing all the staffing options available to managers similar to the "Pay Practices Chart"
26	Staffing Decision Tool	Create a staffing decision tool explaining the pros, cons and cost-benefit of each staffing option, and require a cost/benefit analysis for each augmented staff retained longer than 12 months
27	Position Conversion Tool	Create cost/benefit ratios for converting long time contractor positions to classified position to retain intellectual capital, reduce co-employment risks, and realize savings
28	Contractors	Enter into contracts with employees and negotiate the terms and conditions of the contract
29	Internships and Co-Ops	Make better use of internships and co-ops to meet the shortage of IT skills and to develop the future workforce
30	Hiring Managers	Train hiring managers on efficient hiring methods, negotiating salaries, and other hiring issues
31	Co-Employment Risks	Mitigate co-employment risks by training managers to work with HR and centralized reporting and monitoring of staff augmentation to identify risks so that they can be corrected
Employment Flexibility		
32	Alternate Work Schedules	Utilize available flexibility in scheduling, and consider schedules that are other than 8 to 5 five days a week
33	Telework	Utilize telework, including people who work out of state
34	Part-Time Employment	Utilize "Q" status, 20 hours per week, or other part-time employment
35	Job Sharing	Have two part-time people share one job
36	Seasonal Employment	Have limited engagements, seasonal employment, or six months on/six months off
Culture		
37	Telework Policies and Practices	Continue strategies and collaboration among agencies on telecommuting policies and practices
38	Training	Foster training for people managing remote workers, including the Managing Virginia Program (MVP) module on telework
39	Accountability	Hold managers accountable in the recruitment and retention of employees, including the appropriate exercise of flexibility and use of tools and resources

CONCLUSION

After an assessment of the Commonwealth current practices and a review of best practices of other state governments as well as the private sector, the Committee made ten recommendations that will improve the efficiency and effectiveness of the IT staff augmentation process for the Commonwealth.

Recommendations		Comments
1	Implement a Prequalified vendor model	Change from the MSP model to a prequalified vendor model. Develop staff augmentation process that continuously reviews appropriate staffing models to optimize human capital.
2	Enlist an Advisory Committee	Provide input into procurement strategies, processes and any exceptions to be granted.
3	Amend law, policies and procedures	Develop practices and processes that will ensure the flexibility needed by agencies in augmenting IT staff, and DHRM should work with VITA and DGS to ensure that this occurs. Recognize the difference in the procurement of commodities and staff augmentation.
4	Achieve SWaM goals	Require agencies to solicit proposals from at least three qualified vendors, including one SWaM vendor, and hold the agencies accountable for SWaM vendor participation rates.
5	Assist smaller agencies	Provide assistance to smaller agencies in obtaining and maintaining IT contractors by assigning the role to VITA or to a larger agency in the Secretariat or outsource this function to a vendor.
6	Minimize co-employment issues	Limit the length of individual contractor engagement, and develop processes to convert to a classified position if position continues to be needed.
7	Rate performance	Require each agency to report on their experience with any vendors or contractors used.
8	Centralize reporting	Establish cost-effective centralized reporting mechanisms, interfaced with other necessary systems, and maintained so that reliable data on staff augmentation can be reported.
9	Provide training and change management	Provide for adequate training and change management for the new process.
10	Review general recommendations	Review the implementation of the general recommendations applicable to all staff augmentation in part II of this study.

The specific recommendations included in this report will produce performance outcomes that:

- a) Reduce administrative overhead,
- b) Increase availability of potential contractors,
- c) Reduce co-employment risks,
- d) Increase agency flexibility,
- e) Improve communications,
- f) Maximize human capital,
- g) Hold agencies accountable for achieving SWaM goals,
- h) Increase agency and vendor satisfaction with the IT staff augmentation process.

These recommendations form the framework for a new approach to staff augmentation for IT services, a field in which rapid technology changes and market flux require dynamic solutions. The collaborative process achieved by diverse agencies during this review should be used to develop an implementation plan and support successful change management during implementation. Many of the recommendations pertaining to IT staff augmentation are applicable to staff augmentation in various other occupations and provide a launch for phase II of the operational review.

The Committee respectfully submits this report.

ACKNOWLEDGEMENTS

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Agency Information Technology Representatives who responded anonymously to the survey

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Article by Phil Murphy for CIOs, Forrester

Recruiting IT Talent: Adjusting To A Hot Market

Article by Samuel Bright for CIOs, Forrester

Services Procurement Grows Despite Obstacles

Article by Andrew Bartels for Business Applications Professionals, Forrester

APPENDICES**ARTICLES****A Strategic Sourcing Here to Stay, States Say**

Article by David Yarkin, Government Sourcing Solutions

B Workplace Answers: Best Practices for Contractor Relationships

Article by Lynn Lieber, Esq.

CASE STUDIES**C Chevron Case Study**

Corporate case study using Beeline application

D Merrill Lynch Case Study

Corporate case study using Beeline application

E TransUnion Case Study

Corporate case study using Beeline application

PRESENTATIONS**F Background Information - IT Temporary Resources Operational Review**

Presentation by VITA Supply Chain Management, September 12, 2007

G Contract Pricing Information - IT Temporary Resources Operational Review

Presentation by VITA, September 28, 2007

H Cost Cutting Caucus - February 14, 2008

Presentation by Sara Wilson, IT Staff Augmentation Operational Review Committee

I Contract Pricing Information - IT Temporary Resources Operational Review

Presentation by VITA on contract pricing, November 13, 2007

J Florida's IT Staffing Experience, October 15, 2007

Presentation by Frederick Springer, Bryan, Miller & Olive, Attorneys at Law

K Procuring IT Staff Augmentation - Lessons Learned In Pennsylvania

Presentation by David P. Yarkin, former Dep. Secretary for Procurement, Pennsylvania Department of General Services

L Research from Other States - IT Temporary Resources Operational Review

Presentation by VITA Supply Chain Management, November 13, 2007

M Staff Augmentation Procurement Strategy 12/18/2007 Final

Presentation by Department of General Services on staff augmentation generally

CONTRACT INFORMATION

- N** **VITA Request for Proposals – Supplier Managed Staff Augmentation (SMSA)**
SMSA RFP – Introduction and Proposal Instructions and Administration only
- O** **VITA SMSA Job Titles and Descriptions**
Original SMSA Job Titles and their definitions
- P** **VITA SMSA Job Titles and Descriptions**
Current SMSA Job Titles and their definitions
- Q** **VITA SMSA Job Titles and Bill Rate for Zone 98**
Current SMSA Job Titles and not to exceed rates for the City of Richmond
- R** **VITA SMSA Vendor Performance**
1st Quarter FY08 SMSA vendor performance
- S** **Cost Comparison of Agency Resources Transitioned from Old Body Shop Contracts to Advanced IT Contracts**
Cost comparisons of old body shop resource rates to Advanced IT rates as of 9/20/07
- T** **Advanced IT Services Contract – Pricing Schedule**
Current Advanced IT Services contract pricing by supplier
- U** **Advanced IT Services Contract – Monthly Report Sales**
Quarter FY08 Advanced IT vendor and agency information

SURVEYS

- V** **6. Client Satisfaction Survey**
Survey by Computer Aid, Inc to assess client satisfaction
- W** **IT Staff Augmentation Review - Vendor Feedback Summary Survey Results**
Survey of Participating Supplier Managed Staff Augmentation Vendors 2007
- X** **IT Staff Augmentation Review - Non-SMSA Vendor Feedback**
Survey of Non-participating Supplier Managed Staff Augmentation Vendors 2007
- Y** **Virginia Agencies Current Practices Survey**
Survey of Agencies on SMSA and Advanced IT Services Contracts 2007
- Z** **National Association of State Procurement Officers Member Survey**
Survey of NASPO members on IT staff augmentation, October 2007
- AA** **National Association of Chief Information Officers Member Survey**
Survey of NASCIO members on IT staff augmentation 2007