



DRAFT

COMMONWEALTH of VIRGINIA

Virginia Information Technologies Agency

Lemuel C. Stewart, Jr.
Chief Information Officer

11751 Meadowville Lane
Chester, Virginia 23836-6315
(804) 416-6100

_____, 2009

Mr. Dave Zolet
President
Commercial, State & Local
Northrop Grumman Corp

Dear Dave:

Northrop Grumman made a commitment in 2005 to modernize the Commonwealth's infrastructure. Since that time, Northrop Grumman has performed inconsistently to the standards established in the Comprehensive Infrastructure Agreement (CIA) and has put the Commonwealth at risk. For example: operational stability of customer services has been inconsistent; customer satisfaction with services is unacceptably low; inventory and billing for services have been plagued with problems; Transition Plan milestones are well behind schedule; and Northrop Grumman still has not delivered a comprehensive corrective plan to complete Transition.

In spite of these performance failures and others, VITA has tried a variety of cooperative approaches to help Northrop Grumman address these shortcomings and get the project back on a successful track. Numerous meetings at all levels of management have been held between VITA and Northrop Grumman to discuss performance deficiencies. The Commonwealth, in the spirit of working together, made many concessions in schedules for Northrop Grumman deliverables. Additionally, in response to Northrop Grumman's request, the Governor's Office provided high-level support and reinforcement for enhanced agency assistance in the transition process.

As Northrop Grumman's shortcomings in performance persisted, VITA implemented other corrective strategies, including some financial, but VITA has been paying substantially all amounts requested by Northrop Grumman month after month for cash flow purposes. Despite the Commonwealth's efforts, significant deficiencies in Northrop Grumman's performance of key functions persist and elevate the management, operational, financial, and customer satisfaction risks to which Northrop Grumman is exposing VITA.

Mr. Dave Zolet
March 31, 2009
Page Two

In light of the foregoing, VITA is reducing its payment of Northrop Grumman's March 1, 2009 invoice by 25 percent, and remitting an adjusted amount of \$10,172,250.55. An identical percentage will be deducted from each subsequent monthly payment until Northrop Grumman accomplishes the following outcomes:

1. Deliver a comprehensive and realistic corrective plan with the level of detail as specified for the Transition Plan in Section 3.2.3 of the CIA;
2. Provide accurate data to support VITA's billing for services and complete the asset inventory and reconciliation, including identification of the tools, processes and procedures necessary to provide reporting of actual Resource Unit usage for each Resource Unit as specified in Schedule 10.1 of the CIA;
3. Deliver all the Service Level data capture documents, begin routine measuring and reporting of all Service Levels, and deliver an operational plan to achieve continuous operational stability; and,
4. Provide a detailed plan for delivery of the Procedures Manual as specified in Schedule 3.8 of the CIA.

If the above outcomes are accomplished and approved by VITA by June 30, 2009 then Northrop Grumman may renew its invoice for the Commonwealth to release these funds. By exercising its contractual right to reduce payments for Northrop Grumman's failure to perform, the Commonwealth is not waiving any contractual rights or remedies available to it.

Sincerely,

Lemuel C. Stewart, Jr.

c: The Honorable Wayne Turnage, Chief of Staff, Office of the Governor
Jim McGuirk, Chair, Information Technology Investment Board
Len Pomata, Information Technology Investment Board
Fred Duball, Director, Service Management Organization, VITA
Jim Roberts, Director, Finance and Administration, VITA