

Information Technology Projects Financial Information System for California (FI\$Cal)

Background

The State of California invests a significant amount of resources in information technology (IT) projects annually. Given technological trends and the pressure to continuously upgrade and improve its technological infrastructure, the state's IT resource needs are likely to continue to increase in the future. The California Department of Technology (CDT) is the state's central IT entity and has broad responsibility and authority over all aspects of technology in California state government, including: policy formation, interagency coordination, IT project oversight, information security, technology service delivery, and advocacy. The director of the CDT, who also serves as the state chief information officer, advises the Governor on the strategic management and direction of the state's IT resources. While CDT provides project oversight, because of the diversity in project designs, schedules and costs, procurement and implementation is generally the responsibility of individual departments.

Status of Projects

As shown in the chart below, the estimated cost of current IT projects committed to by the state total almost \$3.5 billion over the period of acquisition of the projects. These individual project costs range from \$2.6 million for the Renewable Portfolio Standards Database (RPS) for the Energy Resources Conservation and Development Commission to over \$910 million for the statewide Financial Information System for California (FI\$Cal). As we discuss further below, IT projects can be quite dynamic and, as a consequence, their associated costs are typically revised and refined throughout the acquisition and implementation period.

**California Information Technology Projects
Costs and Status
December 2016**

Department	Project Number And Project Name	Total Project Cost	Criticality Rating	Complexity Zone	Score Card Rating
Board of Equalization, State	0860-094 Centralized Revenue Opportunity System (CROS)	\$343,383,931	High	IV	 Green
Board of Equalization, State	0860-097 AB 1717 Prepaid Mobile Telephony Services Surcharge (MTS)	\$4,407,435	High	II	 Green
California Correctional Health Care Services	5225-146 Electronic Health Record System Project	\$386,462,158	High	IV	 Green
Commission on Teacher Credentialing	6360-098 Streamline and Strengthen the Accreditation Process (SSAP)	\$6,471,434	Medium	II	 Green
Conservation Corps, California	3340-013 California Conservation Corps C ³ Project	\$8,112,282	Medium	II	 Yellow
Department of Corrections and Rehabilitation	5225-157 Automated Re- entry Management System (ARMS)	\$62,929,901	Medium	II	 Yellow
Department of Corrections and Rehabilitation	5225-162 Career Technical Education (CTE)	\$20,024,880	Medium	II	 Green
Energy Resources Conservation and Development Commission	3360-071 Renewable Portfolio Standards Database (RPS)	\$2,633,817	Medium	II	 Green
Finance, Department of	8860-030 Financial Information System for California (FI\$Cal)	\$909,967,933	High	IV	 Yellow
Health Care Services, Department of	4260-200 CA Medicaid Management Information System (CA-MMIS)	\$458,591,056	High	IV	 Green
Human Resources, Department of	7501-001 Examination and Certification Online System (ECOS)	\$9,946,210	Medium	II	 Green
Insurance, Department of	0845-042 CDI Menu Modernization Project (CMMP)	\$21,391,153	High	IV	 Green
Motor Vehicles,	2740-191 Centralized	\$17,862,420	High	IV	 Green

Department	Project Number And Project Name	Total Project Cost	Criticality Rating	Complexity Zone	Score Card Rating
Department of	Customer Flow Management and Appointment System				
Motor Vehicles, Department of	2740-190 Automated Knowledge Testing Expansion System	\$9,768,595	Medium	IV	 Yellow
Pesticide Regulation, Department of	3930-012 Product Registration Data Management System (PRDMS)	\$6,037,903	Medium	II	 Green
Public Health, Department of	4265-028 Women, Infants and Children Management Information System (eWIC-MIS)	\$90,288,809	High	IV	 Green
Public Health, Department of	4265-019 Women, Infants and Children Management Electronic Benefit System (eWIC-EBT)	\$46,685,330	High	III	No Report Available
Public Health, Department of	4265-021 California Immunization Registry (CAIR) 2.0	\$11,856,841	High	IV	 Green
Public Utilities Commission	8660-068 Transportation Carrier Application and Equipment e-Filing Portal (TCP)	\$3,548,849	Medium	II	No Report Available
Public Utilities Commission	8660-080 eFiling Administration Support (eFast)	\$5,684,942	Medium	II	 Green
Rehabilitation, Department of	5160-047 Enhanced Maintenance and Operations	\$11,823,889	Medium	II	 Green
Secretary for California Health and Human Services Agency	0530-200 LEADER Replacement System (LRS)	\$484,812,905	High	IV	 Green
Secretary for California Health and Human Services Agency	0530-211 Child Welfare System (CWS) New System (CWS- NS)	\$420,744,069	High	IV	No Report Available
Secretary of State	0890-047 California Business Connect	\$53,350,155	High	III	 Green
Social Services, Department of	5180-153 County Expense Claim Reporting Information System (CECRIS)	\$10,583,093	Medium	II	 Green

Department	Project Number And Project Name	Total Project Cost	Criticality Rating	Complexity Zone	Score Card Rating
Social Services, Department of	5180-186 State Hearings Appeals Case Management System (ACMS)	\$18,843,759	High	IV	■ Green
State Treasurer	0950-019 Debt Management System II	\$19,773,758	High	II	■ Green
Total Cost : \$3,445,987,507					

Source: Department of Technology

The projects listed in the chart have a “Score Card Rating,” with the rating generally based on the degree to which they remain on schedule with respect to timing and costs. The rating is compiled from various strategic, tactical, and work environment indicators, and is derived from the evaluation tools provided in the Statewide Information Management Manual (SIMM). The CDT defines the rating categories as the following:

- **■ Green** – Indicates a fairly healthy project.
- **■ Yellow** – Indicates a project that is slipping.
- **■ Red** – Indicates a project that is in need of immediate intervention.
- **Not Indicated** – Indicates that a Project Status Report was submitted, but the so-called “vital signs” portion of the Status Report was not completed.
- **No Report Available** – Indicates that a Project Status Report is not available for publishing for the reporting period.

Most of the projects listed in the chart are proceeding according to current plan, at least based on the most recent assessments. However, we would note that the scorecard rating is based on performance relative to the current existing projects. For some of the items listed (for example, the Board of Equalization’s Centralized Revenue Opportunity System [CROS]), the project listed represents only the most recent attempt to address this particular IT need of the agency; there have been other previous projects designed to address this issue. In addition, the status chart appears to be compiled on the basis of the most recent documents received (including revisions) and is not necessarily reflective of the original timeline established for the project.

It is worth considering the number and magnitude of the IT projects that have been discontinued entirely in the past. In recent years, the state has had a number of challenges delivering on-time and on-budget IT projects. Several high-profile projects have experienced significant revisions, delays, and cost overruns. The numerous setbacks have been the topic of several legislative oversight hearings, and have led to organizational and process changes within the Administration. One of the more significant changes was the Legislature’s approval of a statewide project management office within the CDT.

Senate Budget Subcommittee Review

In previous years, the Senate Budget and Fiscal Review Subcommittee No. 4 has conducted an extensive review of the state's IT procurement and project implementation process. Other budget subcommittees have also conducted reviews of IT projects that fall under their jurisdictions. Subcommittee No. 4 included in its review, the procurement and project implementation of the State Controller's 21st Century Project. The 21st Century Project, which was intended to unify an automated statewide payroll disbursement system, was originally estimated to cost \$84 million. Prior to its suspension in 2013, overall project costs were estimated to be over \$300 million. Over the project's nine-year lifespan the project costs ballooned by over 350 percent.

While the focus of the subcommittee was on the 21st Century Project, it also looked at several other high-profile IT projects that were also experiencing difficulty. For example, the California Department of Motor Vehicles' \$200 million IT modernization project was also suspended in 2013. During its oversight hearings, Subcommittee No. 4 questioned whether or not there was an underlying issue that has handicapped the state's ability to deliver an IT project on time and on budget. The subcommittee came to a primary conclusion that was similar to the Administration's – that the individuals with responsibility for implementing complex IT projects often lack the necessary experience and technical capabilities for project success.

In addition to the lack of adequate staffing, IT project design, procurement and management is a very dynamic process with numerous unknowns. The process and the approach for IT necessarily lacks many of the characteristics typical of more traditional capital procurement. There are numerous complexities and developments that require fairly regular adjustments in timing, staffing and costs. Projects can also be altered or significantly redesigned after the project has been initiated. In other situations, mid-year budget adjustments are necessary to achieve project success. What this process suggests is that project success requires personnel and project contracts to be flexible enough to adapt and respond to changing circumstances and demands.

Financial Information System for California (FI\$Cal)**Background**

One of the most vital projects for the state is FI\$Cal, the statewide project being undertaken to integrate and re-engineer the statewide business processes related to budgeting, accounting, procurement and cash management. The goal of the project is to provide a unified and consistent financial system that will be used by virtually all state entities. System integration for the project is being provided by Accenture LLP; independent project oversight (IPO) by the CDT; and, independent verification and validation (IV&V) by the Public Consulting Group. Last year the Legislature approved a permanent administrative structure for FI\$Cal, establishing it as a stand-alone department. As noted in the chart above, the project report rating for FI\$Cal is 'yellow,' indicating that the project is 'slipping.'

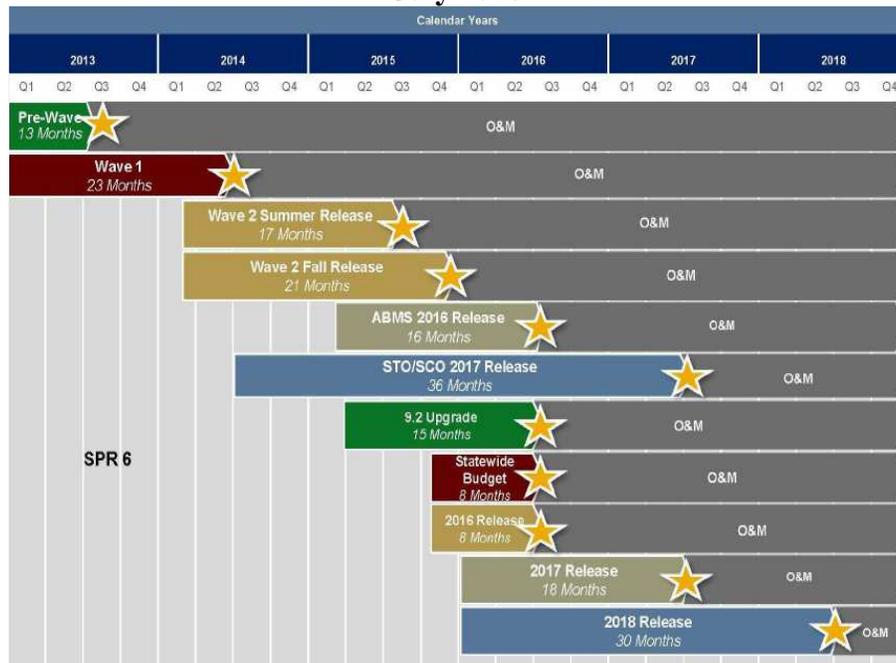
FI\$Cal is an ambitious and complex project, and in reflection of this, the project has undergone numerous changes in scope, schedule and cost. These various changes have been incorporated and documented in special project reports (SPRs) with the project currently working under the rubric of SPR 6, approved last year. Under the previous SPR 5, a series of waves were to be set

in motion, with each wave consisting of additional departments and system functionality. The Legislative Analyst’s Office (LAO) notes that there were some ‘early successes’ in this process, but later some difficulties and delays occurred. Overall, the LAO notes that project changes to date have led to schedule extensions and cost increases, but have also led to modifications that have mitigated project risk and made project objectives potentially more attainable.

Project Costs and Schedule

Under the changes in SPR 6, the project transitioned from implementing ‘waves’ to more independent ‘releases’, allowing departments that are not prepared to implement on the scheduled date to come on line at a later time. The amended approach established new programs to assist departments in transitioning to the project, revised the implementation schedule for remaining releases, and allowed more time for knowledge transfer to the state. These changes resulted in increased costs for the project and a two-year delay in the overall timeline for the project. The two-year time extension pushed out project completion from July 2017 to July 2019. The costs also expanded significantly to \$910 million, representing an increase of \$237 million from those in SPR 5 dated January 2014. The currently timeline is shown in the department’s graphic below.

**FI\$Cal
Project Schedule
July 2016**



Source: Department of FI\$Cal

State Auditor's and LAO Concerns.

The auditor's most recent Letter Report of January 2017 indicates that the project continues to experience some delays, despite the two year time extension provided in SPR 6. For example, according to the IPO, a key component of the project – testing of the Activity Based Management System (ABMS) – was taking 10 weeks longer than planned as of October 2016. In addition, the IPO indicated that implementation of functionality for both the State Controller's Office and the State Treasurer's Office were delayed, along with a five week delay in the release for other departments.

While the delays represent a continuing concern, it is unclear whether these are the responsibility of FISCAL or the participating departments, or both. We should note that many of the delays are due to failures on the part of departments to adequately staff the conversion to the new system. Specifically, the most recent Letter Report from the auditor identifies as a significant driver of the most recent SPR, the unanticipated need to provide continuing support from FISCAL to departments in year-end reconciliation and budget close-out. More recently, in some cases, it appears that delays or time extensions have been necessitated by departments unwilling or unable to make a decision on how to proceed at a certain decision point. The auditor's letter notes that if delays continue and compound, the project may need to extend the schedule again, which could increase the costs by an additional \$100 million. Alternatively, not extending the schedule could jeopardize the functionality and quality of the final product.

The auditor 'remains concerned' regarding the number and size of the departments that have yet to implement FISCAL, as well as the compressed time frame proposed for implementation. Given the challenges that were presented with smaller, fewer and less complex departments, the auditor notes potential issues with the project's ability to implement the next releases (scheduled for July 2017 and July 2018), which consist of major state departments. Citing the project's 21 percent vacancy rate, the auditor notes that "...there is significant risk that the project's resources will be overwhelmed when it tries to implement releases that include large and complex departments."

Last year in conjunction with FISCAL budget proposals, the LAO weighed in on the overall status of the project. At that time, it expressed the view that the Governor's budget proposal to implement the changes proposed in SPR 6 was a reasonable plan to implement the remaining functions and departments in FISCAL, and recommended approval of this component of the Governor's budget proposal. However, LAO also noted that the FISCAL Project involves the development of an extremely ambitious and complex IT system and significant work remains before the system is fully implemented. Given the scope of the remaining work and signals from oversight entities that some project activities continue to track behind schedule, LAO thinks a future SPR is likely that would further extend the project schedule and increase costs.

Comments

As indicated in the chart that begins this discussion, the state has substantial investment in IT projects across various departments. This level of investment is only going to increase in the future, due to the complexity and accompanying expenses of procuring and implementing its IT plans. By CDT's own assessment, four of the 27 projects identified are slipping, representing an investment of just under \$1 billion and 30 percent of the total. Another two projects totaling costs of \$470 million have not provided information sufficient to have a rating assigned.

Ensuring FI\$Cal Success

The FI\$Cal project discussion is provided as an example of a major state project (consisting of numerous sub-projects) that while generally proceeding in a positive manner, has experienced numerous delays and cost increases. These instances have caused several new SPRs to be issued in order to cope with changing circumstances. Given the additional delays that have occurred since the issuance of SPR 6, the project may be in the position to issue a follow-up SPR in order for project plans to track with actual performance. While this would recognize that FI\$Cal (and certain departments) have missed milestones, it could allow for the project to refocus on the overall goal to ensure the overall functionality of the system. In this context, the Legislature may want to consider the follow:

- Revisit issues related to resource support for departments, and consider whether additional outside assistance is warranted in the conversion to FI\$Cal.
- Examine the process through which balancing costs, functionality and project timeframe need to be addressed in projects of this magnitude.
- Address governance and administrative structures that could improve and enhance the overall accountability for the project.

Oversight and Monitoring

As a component of its oversight responsibilities the budget committee and subcommittees should continue to review the performance of state projects, and consider increasing the level and consistency of oversight activities. The Legislature lacks a dedicated venue for IT oversight and monitoring, and this may be an area where the budget committee should invest in further effort. In particular, oversight could focus on those areas that seem most susceptible to both weaknesses and present opportunities for potential improvements. For projects currently underway, it is clear that the most vital factor for project success is to ensure that these efforts are fully staffed – both state department and project vendor – with the most qualified technical personnel available. The state could consider additional incentives (such as differential pay, as employed by the Department of Finance) in order to attract and retain IT professionals.

Future IT Projects

Going forward, the Legislature, in its oversight capacity, should consider facilitating and encouraging the administrative branch to look to the Government Accountability Office's (GAO) recommendations regarding successful IT projects. The common critical success factors as determined by the GAO are:

- Project staff is actively engaged with stakeholders.
- Project staff has necessary knowledge and skills.
- Senior department and agency directors support the program.
- Users and stakeholders are involved in developing the project requirements.
- Users participate in testing of the functionality throughout project.
- Government and contractor staffing is stable and consistent.
- Program staff appropriately prioritizes project requirements.
- Program officials maintain consistent communication with primary vendor.
- Sufficient and consistent funding is provided.