

# **SUBCOMMITTEE NO. 4**

# **Agenda**

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Senator Richard Roth, Chair  
Senator Richard Pan  
Senator Janet Nguyen



**Thursday, April 16, 2015  
9:30 a.m. or Upon Adjournment of Session  
State Capitol - Rose Ann Vuich Hearing Room 2040**

**Consultant: Brady Van Engelen**

## **Item Number and Title**

0840	State Controller's Office
0845	Department of Insurance
0890	Secretary of State
7502	California Technology Agency
8880	Financial Information System for California

*(See Table of Contents on page 2 for a More Specific Listing of Issues)*

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<b>AGENDA – VOTE ONLY ITEMS</b>
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<u>Item</u>	<u>Department</u>	<u>Page</u>
<b>0840</b>	<b>State Controller's Office .....</b>	<b>2</b>
	Issue 1 – Property Tax Postponement .....	2
<b>0890</b>	<b>Secretary of State .....</b>	<b>3</b>
	Issue 1 – Ballot Measure Contributions .....	3
<b>7502</b>	<b>Department of Technology .....</b>	<b>4</b>
	Issue 1 – Capacity Budget Change Proposals .....	4
	Issue 2 – Prior Year Adjustments .....	5

<b>AGENDA – DISCUSSION / VOTE ITEMS</b>
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<u>Item</u>	<u>Department</u>	<u>Page</u>
<b>0840</b>	<b>State Controller's Office .....</b>	<b>6</b>
	Issue 1 – State Government Reporting .....	7
	Issue 2 – Payroll Audits .....	8
	Issue 3 – Special Fund Review and Reporting .....	9
	Issue 4 – 21 <sup>st</sup> Century Project Legal Costs .....	10
<b>0845</b>	<b>Department of Insurance .....</b>	<b>12</b>
	Issue 1 – Health Insurance Rate Review .....	12
	Issue 2 – Menu Modernization .....	12
	Issue 3 – Health Insurance Reform .....	13
	Issue 4 – Health Policy Form Review .....	14
	Issue 5 – Workers Compensation Fraud Program .....	15
<b>0890</b>	<b>Secretary of State .....</b>	<b>16</b>
	Issue 1 – Help America Vote Act/VoteCal .....	17
	Issue 2 – Business Connect Project .....	18
<b>7502</b>	<b>Department of Technology .....</b>	<b>19</b>
	Issue 1 – Statewide Telecommunications Procurement .....	20
	Issue 2 – Statewide Project Management Office .....	20
<b>8880</b>	<b>Financial Information System for California .....</b>	<b>24</b>
	Issue 1 – Annual Update .....	24

**Issues Proposed for Vote Only – Issue Descriptions****0840 State Controller's Office****Issue 1 – Property Tax Postponement (PTP)**

**Governor's Budget Request:** The SCO requests 10.2 permanent positions and 6.7 two-year limited-term positions and \$1,715,000 in 2015-16 (\$1,673,000 in 2016-17, and \$1,107,000 ongoing) from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund for the reinstatement and administration of the Property Tax Postponement program, pursuant to AB 2231 (Gordon), Chapter 703, Statutes of 2014.

**Background:** The PTP program allows eligible homeowners to postpone payment of part or all of the property taxes on their primary residence. To participate, the homeowner must apply annually; be at least 62 years of age, blind or disabled; own and occupy the home as their place of residence have a; total household income not exceeding statutory limits; and at least 20 percent equity in their home in the initial year of application.

The PTP loan became due and payable on demand when the homeowner died, moved, changed title, sold the home or allowed senior lien to become delinquent. The SCO is responsible for making every effort to collect PTP loans that are due and payable.

SB 8 3X (Ducheny), Chapter 4, Statutes of 2009, suspended the PTP program effective February 20, 2009. Due to program suspension, the PTP program stopped accepting applications postmarked after this date. Additionally, the SCO no longer allowed claimants to re-borrow from the impound account. Monthly reconciliations were required for the maintenance of the impound account and monthly reports were prepared in order to transfer the payments from the special deposit fund to the General Fund.

Prior to the suspension of the PTP program, the SCO had 14.8 positions administering the program. The suspension and reduction of the program brought the total staff down to 4.8 positions.

AB 2231 restores a modified version of the PTP program, which allows eligible California senior, blind, and disabled citizens to apply to the SCO for property tax deferral beginning July 1, 2016. AB 2231 also creates the Senior Citizens and Disabled Citizens Property Tax Postponement Fund, an interest-bearing fund appropriated to the SCO, in the State Treasury as of January 1, 2015.

**Staff Comment:** This proposal also includes the following:

- Converting existing General Fund appropriations for PTP functions to the PTP fund to reduce SCO's General Fund appropriation by \$254,000 in 2014-15, and \$509,000 in 2015-16, and increases Special Fund authority by the same amount.

- Provisional language in the Budget Act for PTP Fund to cover support costs for the administration of the PTP program.

**Staff Recommendation:** Approve as budgeted.

## 0890 Secretary of State

### Issue 1 – Ballot Measure Contributions

**Governor’s Budget Request:** The Governor’s budget includes a request to provide the Secretary of State with 1.0 full-time position, 0.25 part-time position, and an augmentation of \$135,000 (General Fund) in fiscal year 2015-16, and \$125,000 (General Fund) ongoing, in order to implement the provisions of SB 844 (Pavley), Chapter 920, Statutes of 2014.

**Background:** SB 844 requires that the Secretary of State compile data on total contributions and top contributors to ballot measures and ballot measure committees, and to provide a means for public access campaign finance reports filed by statewide candidates. The data must be compiled and reported within five days of receiving quarterly, semiannual, and pre-election reports. For contributions of \$5,000 or more made within sixteen days of an election, the data must be compiled and posted within two days of receipt.

**Staff Comment:** The reporting system currently utilized by the Secretary of State, known as CAL-ACCESS, does not possess the functionality to produce the data required by SB 844. Therefore, the data will be compiled manually by staff within the Secretary of State’s Political Reforms Division. Future conversations discussing upgrades to CAL-ACCESS that will increase its functionality may be warranted; however, recognizing the need to comply with the provisions of SB 844, staff has no concerns with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

## 7502 Department of Technology

### Issue 1 – Capacity Budget Change Proposals

**Governor's Budget Request:** The Department of Technology is requesting a decrease of \$5.86 million (Technology Services Revolving Fund) in fiscal year 2015-16. The decrease reflects the difference between \$32.167 million needed to address capacity increases in the datacenters and a concurrent decrease of \$38.027 million (Technology Services Revolving Fund) as a technical adjustment to align previously approved budget actions with actual costs. The requested amount for each service provided is listed below:

Request Number	Service Area	BCP Amount
1	Mainframe CPU Capacity	\$7,185,000
2	Midrange Server Capacity	\$9,093,000
3	Enterprise Data Storage	\$8,618,000
4	Network Capacity	\$7,271,000
5	Prior Year Adjustments	-\$38,027,000
	<b>TOTAL</b>	<b>-\$5,860,000</b>

- 1) **Mainframe CPU Processing Capacity (\$7.185 million)** - The Governor's 2015-16 budget includes a proposal to increase expenditure authority by \$7.185 million (Technology Services Revolving Fund) in fiscal year 2015-16 to allow the Office of Technology Services (OTech) to purchase 1,786 million of instructions per second (MIPS) of mainframe processing capacity to meet projected customer needs.

The Office of Technology currently has over 500 customers, of which, approximately 250 are mainframe processing customers. Many are still adding new applications, building new databases, and using WebSphere to add Web interfaces to their legacy applications.

- 2) **Midrange Server Capacity (\$9.093 million)** - The Governor's 2015-16 budget requests increased expenditure authority of \$9.093 million (Technology Services Revolving Fund). The request stems from the OTech need for additional hardware, operating system software, applications software, statewide E-mail, and database software to ensure adequate midrange service capacity to meet the needs of customer-driven workloads. This request also includes resources to meet the disaster recovery requirements of customers.

There is an increased demand on services by customer departments at a variety of state entities. This increased demand, largely stemming from increased population and use of services, results in the growth of customer applications and the need for additional server capacity. OTech continues to experience a substantial increase in the midrange computing workload, database instances, disaster recovery, and web services.

- 3) **Enterprise Data Storage (\$8.618 million)** - The Governor's 2015-16 budget includes a request to increase the spending authority of the Department of Technology by \$8.618 million (Technology Services Revolving Fund) in fiscal year 2015-16 for hardware,

software, and connectivity components to ensure adequate data storage support to meet the needs from customer-driven workloads, approved information technology (IT) projects, and disaster recovery.

While providing for the increasing needs of current customers, the OTech must provide resources for approved IT projects supported by the Department of Technology. In order to achieve both normal growth and approved IT projects, OTech must increase the number and density of virtual servers in preparation of departments growing or migrating over to the Office of Technology. Virtual servers require large amounts of data storage to support their efficient and effective use of IT resources and data processing. Increased IT density allows OTech to support the migration of IT workload from other agencies. In addition, OTech must provide for customers with disaster recovery data storage requirements that are currently located at OTech or relaying them to their data center.

- 4) **Network Capacity (\$7.271 million)** - The Governor's 2015-16 budget includes a request to increase the spending authority of the Technology Agency by \$7.271 million (Technology Services Revolving Fund) in FY 2015-16 to purchase switches, circuits, load balancers, firewalls, and maintenance services.

OTech currently manages two data centers located in Vacaville and Rancho Cordova, and is responsible for the network infrastructure needs of the data centers that provide network services connecting their data center facilities to most of the executive branch departments and local agencies.

**Staff Comment:** Staff has no concerns or issues with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

## Issue 2 – Prior Year Adjustments

**Governor's Budget Request:** The Department of Technology is requesting a technical adjustment to align previously approved budget actions with ongoing costs related to prior year capacity budget requests. The adjustment amounts to a net reduction of \$23.981 million in 2014-15 and a net reduction of \$38.027 million in 2015-16.

**Background:** These technical adjustments are a result of one-time reductions, project cost reductions due to favorable contracts, and/or project completions. The initial budget request is determined in advance of the service or product being acquired and the actual cost may vary by the time the expense is incurred. The intent of the request is to better align the Department of Technology's budget with actual expenditures for prior year requests.

**Staff Comment:** Staff has no concerns or issues with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

***Issues Proposed for Discussion / Vote*****0840 STATE CONTROLLERS OFFICE**

**Department Overview:** The State Controller (SCO) is the Chief Fiscal Officer of California. The Controller provides fiscal control for, and independent oversight of, more than \$100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds.
- Determine legality and accuracy of issue warrants in payment of the state's bills.
- Pay claims against the state.
- Administer the Uniform State Payroll System.
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees.
- Audit state and local government programs.
- Inform the public of the state's financial condition.
- Administer the Unclaimed Property Law.
- Inform the public of financial transactions of city, county, and district governments.

The SCO is funded through the General Fund, as well as over 300 special funds and accounts and reimbursements. The Governor's budget requests \$198.14 million (\$49.42 million General Fund) and 1,386.8 personnel years to support the SCO.

**2015-16 State Controller's Budget**

<b>FUND SOURCE</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
General Fund	\$54.83	\$55.52	\$49.42
Unclaimed Property Fund	\$35.80	\$39.55	\$39.17
Central Service Cost Recovery Fund	\$24.16	\$24.11	\$24.59
Other Special Funds and Accounts	\$12.62	\$14.59	\$21.89
Reimbursements	\$62.03	\$65.66	\$63.07
<b>Total Expenditures</b>	<b>\$189.44</b>	<b>\$199.43</b>	<b>\$198.14</b>
<b>Personnel Years</b>	<b>1,376.6</b>	<b>1,395.5</b>	<b>1,383.8</b>

\*Dollars in thousands

<b>Issue 1 – State Government Reporting</b>
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**Governor's Budget Request:** The State Controller's Office requests 5.3 permanent positions and \$592,000 (Non-Governmental Cost Fund, Special Fund, and Bond Fund) in 2015-16, and \$581,000 ongoing, to address the increased reporting workload associated with the preparation of the annual Budgetary/Legal Basis Report (BLBR) and the Comprehensive Annual Financial Report (CAFR).

**Background:** The BLBR and the CAFR both contain a financial statement for state funds. However, each report is based on different reporting requirements. The BLBR is prepared on the same basis as the applicable Governor's budget, while the CAFR is prepared strictly in accordance with generally accepted accounting principles (GAAP). The CAFR includes a more thorough and detailed presentation of the State's financial condition than the BLBR.

According to the SCO, over the last five years, there have been yearly increases in new accounting standards set by FASB and GASB. Additionally, the number of funds reviewed by the SCO has continued to increase each year. As a result, the number of reports reviewed and total transactions entered into the SCO's accounting system have increased. The SCO has provided minimal GAAP training and guidance departments related to the new reporting requirements, which has led to inaccurate information reported by the departments.



The SCO states that it has not been able to keep up with this increased workload despite the use of staff overtime and temporary help resources. In 2011-12 and 2012-13 the CAFR was found to contain numerous errors.

**Staff Comment:** With the implementation of the Financial Information System for California (FI\$Cal), a project designed to prepare the state systems and workforce to function in an integrated financial management system environment, the SCO will continue to be responsible for reviewing the information submitted by various departments, boards, and commissions. The goal for SCO is to have experienced staff in place to handle the workload.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

<b>Issue 2 – Payroll Audits</b>
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**Governor's Budget Request:** The State Controller's Office (SCO) requests five permanent positions and \$701,000 (\$400,000 General Fund and \$301,000 Central Cost Recovery Fund) in 2015-16, and ongoing, to perform audits on payroll controls and payroll records.

**Background:** In 2013-14 and 2014-15 the SCO received five two-year limited-term positions to perform audits of payroll controls and payroll records. These positions are set to expire on June 30, 2015. This request will convert the limited-term positions that were approved previously to permanent. The positions were provided in response to an internal audit at the California Department of Parks and Recreation (Parks), as well as an investigation by the California Attorney General's office that disclosed a vacation buyout program that was instituted by Parks without authorization from Parks management or CalHR.

In 2013-14, 14 audits were to be performed by SCO, but only eight audits were completed. The SCO explains that eight of the 14 were only performed because staffing and training for the audit program took longer than expected.

The first year of payroll audits disclosed the following:

- \$1,441,134 in questionable costs due to poor payroll controls and processes at departments throughout the state.
- Strong internal controls are needed at the department level since the payroll system is decentralized.
- Having a decentralized system allows voluminous areas where fraud can occur rather than one central area to audit.

**Staff Comment:** Staff does not have any issues or concerns with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

**Issue 3 – Special Fund Review and Reporting Workload**

**Governor’s Budget Request:** The State Controller’s Office (SCO) requests 1.5 permanent positions and \$162,000 (\$92,000 General Fund and \$70,000 Central Service Cost Recovery Fund) in 2015-16, and ongoing, to continue the detailed analyses and reporting of the State’s 570 special funds.

**Background:** In 2011-12, the Department of Parks and Recreation was identified as having significantly underreported available fund balances to the Department of Finance (DOF) for two special funds. The Governor directed DOF to undertake a fund-by-fund review of more than 500 special funds. Since then, the SCO has been working with DOF to ensure that agency information is both reported to the SCO and DOF. DOF’s review focused on two areas:

- The extent to which there were differences in special fund balances as of June 30, 2011, that were reported by departments to DOF and to SCO.
- The reason or reasons for any variance in the two reported year-end balances.

A Special Fund Reconciliation report, dated August 3, 2012, provided details of the findings. As a result, in August 2012, a joint policy was adopted by DOF and SCO that SCO would provide DOF with annual reports for special funds beginning in 2013-14.

In 2013-14, SCO received 7.9 two-year limited-term positions to submit the following reports:

- Preliminary reports, to be submitted in mid-October, for the Governor’s budget development.
- Final reports to be submitted mid-March to help determine if budget decisions by the Governor need to change as part of the May Revision.
- Account Balance by Fund report for the fiscal year ended, to be submitted in July, to assist DOF with identifying all share fund users and reconciling any differences in fund balances.

SCO is requesting a reduced level of staffing beginning in 2015-16; from 7.9 limited-term positions to 1.5 permanent positions, to continue the review of special funds on a permanent basis.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

**Issue 4 – 21<sup>st</sup> Century Project**

**Governor’s Budget Request:** The State Controller’s Office (SCO) requests 8.0 one-year, limited-term positions and \$12.544 million (\$4.397 General Fund, \$1.685 reimbursements, and \$6.462 in special funds) in fiscal year 2015-16, to support on-going legal activities associated with the 21<sup>st</sup> Century Project (TFC). This request also includes trailer bill language that would extend the sunset date of the 21<sup>st</sup> Century Project until June 30, 2016.

**Background:** The SCO is responsible for disbursement of pay to the state’s 275,000 employees. In 2004, the Department of Finance (DOF) approved the justification documents submitted by the SCO requesting an updated payroll system that would provide a greater level of integration known as the 21<sup>st</sup> Century Project. The SCO procured Commercial Off-the-Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state’s payroll system.

The Department of General Services (DGS) awarded the second contract to a different vendor, SAP, on February 2, 2010. An updated Special Project Report (SPR 4), that was issued prior to the contract being awarded, identified the method that would eventually be utilized to implement the new MyCalPAYS system. The first, and smallest phase, would consist of converting payroll for the approximately 1,300 SCO staff to the new payroll system.

The initial pilot was deployed in June of 2012, and revealed a significant volume of errors. The SCO issued a cure letter to SAP in October of 2012, requesting that the vendor deliver the resources necessary to correct the identified errors. SCO was not satisfied with the response and subsequently terminated the contract with SAP in February 2013. Due to the contract being terminated, the Department of Technology had little choice but to suspend the 21<sup>st</sup> Century Project.

In June 2013, the SCO and SAP participated in contractual mediation. The mediation process did not provide an acceptable outcome and, on November 21, 2013, the SCO filed a lawsuit against SAP for breach of contract. According to SCO, the state has the potential to recoup 1.5 times the contract amount, or up to \$150 million. Alternatively, SAP could be awarded \$50 million. The Budget Act of 2014 provided the SCO with 5.0 positions and \$6.529 million to support the legal efforts associated with the TFC.

**Request Detail:**

A more specific cost breakdown of the SCO’s request for \$12.544 million to support ongoing legal costs is provided below.

- \$1.123 million for 8.0 one-year positions (5.0 continuing and 3.0 new). These positions will be responsible for pertinent document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.
- \$996,000 for the project management advisory contract. SCO has contracted with Flagship Advisors to provide two advisors who provide assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition.

- \$7.3 million for legal counsel to defend the state against claims made by SAP. This request may only reflect a portion of total legal costs, as there is provisional language in the budget and a budget control section that provide for additional funding for legal costs, if necessary.
- \$1.075 million for costs associated with leasing a facility, of which \$928,000 will be reimbursed to the SCO through sub-leasing to accommodate project staff and house documents related to the lawsuit.
- \$2.05 million for software contracts and data center services that support the environment which are needed to support the lawsuit filed against SAP.

**Proposed Trailer Bill Language** - Government Code §12432 authorized the State Controller, beginning in FY 2006-07, to assess special funds within the state treasury for costs attributable to the replacement of the state payroll disbursement system, also known as the 21<sup>st</sup> Century Project. This code section also notes that costs assessed to the 21<sup>st</sup> Century Project will be evenly split between the General Fund and special funds within the state treasury.

This section was set to expire on June 30, 2011; however, AB 119 (Blumenfield), Chapter 31, Statutes of 2011, extended the original sunset date by three calendar years, moving it to June 30, 2014. The requested trailer bill language would once again extend the sunset date by one additional calendar year, until June 30, 2016.

**Staff Comment:** It is worth noting that the requested positions and funding support the continued suspension of the 21<sup>st</sup> Century project, not a progression towards an updated automated payroll disbursement system. The subcommittee may wish to ask that the SCO, and the Department of Technology, provide the subcommittee with an update on the progress towards implementing an updated payroll disbursement system.

**Staff Recommendation:** Hold this item open for further discussion.

**Vote:**

**0845 DEPARTMENT OF INSURANCE**

**Department and Budget Overview.** The California Department of Insurance (CDI) regulates the California insurance market and enforces the California Insurance Code, including conducting examinations and investigations of insurance companies and producers, and responding to consumer inquiries. CDI reviews and approves insurance rates to enforce the statutory requirement that rates are not excessive or unfair. The CDI also administers the conservation and liquidation of insolvent and delinquent insurance companies and investigates insurance fraud, in conjunction with local and state law enforcement agencies. The Governor's budget provides the CDI with 1,402.8 authorized positions and \$261.17 million (Insurance Fund, federal funds, and reimbursements).

**Issue 1 – Health Insurance Rate Review**

**Governor's Budget Request:** The California Department of Insurance (CDI) is requesting an augmentation of \$452,000 (Federal Trust Fund) for fiscal year 2015-16, and \$137,500 (Federal Trust Fund) for fiscal year 2016-17, in order to utilize federal grant funds that were awarded to CDI to support federal efforts aimed to increase transparency in the pricing of medical services.

**Background:** The federal Patient Protection and Affordable Care Act (ACA), which was passed on March 23, 2010, includes grant funding provided to states in order to promote accountability in the health care system and improve rate review and reporting processes. The grant funds, which were awarded to CDI in September 2014, represent the fourth iteration of federal funds that have been made available to states as part of the Health Insurance Rate Review Grant Program.

According to CDI, the fourth iteration of federal grant funding will support two actuarial staff that were added as part of the third iteration of grant funding, support project management and consulting for activities associated with the jointly-operated data center located at the University of California, San Francisco (UCSF), and support the funding of a project manager at the data center who will be responsible for the project timeline and budget.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

**Issue 2 – Menu Modernization**

**Governor's Budget Request:** The California Department of Insurance (CDI) is requesting a \$2.77 million (\$1.52 million General Fund and \$1.25 million Insurance Fund) one-time increase of expenditure authority for the second year of implementation of the replacement of the CDI menu and integrated database.

**Background:** The CDI menu was originally developed in 1992, and supports nearly all of the mission critical applications for CDI. The technology that supports the CDI menu is antiquated,

and CDI staff has been required to build “work around” solutions in order to maintain functionality of the software platform. Additionally, the vendor that supports the platform will no longer provide that support after June 2017.

CDI submitted a Feasibility Study Report (FSR) to the Department of Technology, which was approved on April 1, 2014. According to the FSR, total project costs associated with the CDI menu modernization project are \$21.391 million. Year one of the menu modernization project was approved by the Legislature as part of the 2014 Budget Act, the Legislature authorized \$1.3 million (Insurance Fund) to begin the project. The second year of the project will include re-engineering the fraud investigation database (FIDB), and the completion of upgraded systems for Community Programs and Policy Initiatives.

Funding for the second year of the project is split 55 percent General Fund and 45 percent Insurance Fund. CDI will utilize proceeds from a \$46 million dollar settlement that were directed to the General Fund, and are required to be utilized to enhance fraud investigation, to fund a portion of the project. The General Fund portion of the project will support efforts to upgrade CDI’s FIDB, which serves as the Fraud Division’s case management, analysis, and timekeeping system. The upgrade of the Community Programs and Policy Initiatives Branch will be supported by the Insurance Fund.

**Staff Comment:** According to the most recent quarterly Independent Project Oversight Report (IPOR), which was released in December 2014, the project is operating within the anticipated cost structure and remains on schedule. However, the IPOR did raise concerns related to the development of formal documentation of the requirements and management plan. Specifically, the IPOR notes that the requirements gathering and documentation methodology be documented and formally approved, to allow the project to train and implement a consistent methodology across all sub-projects. According to CDI, the concerns raised by the IPOR have been addressed, and will be reviewed as part of the next quarterly IPOR.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

### Issue 3 – Health Insurance Reform

**Governor’s Budget Request:** The California Department of Insurance (CDI) requests a \$1.005 million (Insurance Fund) increase in expenditure authority in fiscal year 2015-16, and ongoing, to address the continuing workload associated with health insurance reform.

**Background:** Limited-term resources to support CDI’s efforts to implement health care reform were approved as part of the Budget Act of 2011, and again as part of the 2013 Budget Act. CDI has been working to adapt its regulation of the state’s health insurance industry to accommodate the market changes that developed as part of Patient Protection and Affordable Care Act (ACA). According to CDI, their role in the reform of health insurance will remain ongoing. CDI has cited several factors that contribute to this observation: changes in the health insurance marketplace will require continued adjustment by both federal and state regulators; provisions of ACA will continue to be phased in until 2018; and regulatory adaptations will be required at the state level to due to growth in the health insurance marketplace.

**Staff Comment:** CDI contends that, due in part to the passage of ACA, their role in the health insurance marketplace has greatly expanded. The requested funding supports 4.0 attorney positions and 4.0 health program specialists on a permanent basis. The workload analysis conducted by CDI concludes that there will be an additional 16,000 hours of work that can be attributed to the reform of health insurance. The requested resources align with the projected workload analysis.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

#### **Issue 4 – Health Policy Form Review**

**Governor’s Budget Request:** The California Department of Insurance (CDI) has requested a \$280,000 (Insurance Fund) increase in expenditure authority for fiscal year 2015-16 and \$264,000 (Insurance Fund) for fiscal year 2016-17 and ongoing for 2.0 permanent attorney positions that are responsible for policy review related to the Patient Protection and Affordable Care Act (ACA) and related state legislation.

**Background:** The Health Policy Approval Bureau (HPAB) within CDI is responsible for the review of health insurance policy forms. The HPAB received limited-term support to address anticipated workload associated with the passage of SB 900 (Alquist), Chapter 659, Statutes of 2010; however, the anticipated workload associated with the California Health Benefit Exchange did not materialize. The resources were redirected to review policy forms submitted in compliance with the Patient Protection and Affordable Care Act (ACA).

According to CDI, the ACA-related mandates, the ongoing changes in federal and state law, and the rate of noncompliance by insurers has resulted in an attorney workload per policy form submission that far exceeds historic reviews. CDI’s HPAB currently has 7.0 attorney’s on staff to review policy forms, including the 1.5 redirected positions that were previously approved on a limited-term basis.

**Staff Comment:** This proposal would be funded by fees assessed at the time policy forms are approved. It is likely that staffing resources would increase revenue by conducting a quicker turnaround on the number of forms reviewed and approved. The workload analysis conducted by CDI concludes that there are a projected 8,000 hours annually required to complete functions associated with the health policy review process. The requested resources align with the projected workload analysis.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

**Issue 5 – Workers' Compensation Fraud Program**

**Governor's Budget Request:** The California Department of Insurance (CDI) has requested a \$5.417 million (Insurance Fund) increase in expenditure authority to fund workers compensation fraud investigation and prosecution workload increases. Additionally, CDI is requesting 15.0 permanent positions in fiscal year 2015-16, and 18.0 permanent positions ongoing to support this workload.

**Background:** The Workers' Compensation Fraud Program (program), which was established in 1991, requires that insurers report suspected fraud, and contains a mechanism for funding enforcement and prosecution activities. The same law that established this program in 1991, created the Fraud Assessment Commission (FAC). The FAC is comprised of seven members who are appointed by the Governor to serve a four-year term. The FAC meets on an annual basis, in order to determine the amount of funding necessary to support investigation and prosecution of workers' compensation insurance fraud. The FAC met for their annual meeting on September 10, 2014, and unanimously approved a 10 percent increase in the workers' compensation assessment in fiscal year 2015-16.

CDI has proposed focusing resources associated with this request to investigate provider fraud in the workers' compensation system, which is on the rise and involves substantial financial losses. A provider in the workers' compensation system can include medical doctors, attorneys, chiropractors, copy services, pharmacists, surgery centers, transportation companies, translation services, and providers of durable medical equipment. There are two components to this request: state operations, which totals \$2.19 million; and local assistance, which totals \$3.227 million.

The \$2.19 million directed to CDI's Fraud Division will support up to 18.0 new permanent positions. Six of the proposed positions are non-sworn support personnel, the remaining twelve are sworn investigators. The remaining \$3.227 million will be available to local district attorney's to support the prosecution of complex medical provider cases involving workers' compensation insurance fraud.

**Staff Comment:** According to CDI, measurements of each county's investigations and prosecution accomplishments are captured in their annual and bi-annual program report to the Insurance Commissioner. CDI's Fraud Division captures this reported information and includes it in its annual report to the Governor, the Legislature, and respective committees in the Assembly and the Senate.

**Staff Recommendation:** Approve as budgeted.

**Vote:**



<b>0890 SECRETARY OF STATE</b>
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**Department Overview:** The Secretary of State (SOS), a statewide elected official, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to the filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe-At-Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

The Governor's budget proposes total spending of \$124.66 million (\$28.35 million General Fund) for the SOS in 2015-16. Proposed staffing totals 564.3 personnel years (PYs), an increase of approximately two PYs compared with the current year.

**2015-16 California Secretary of State Budget**

(Dollars in millions)

<b>Funding</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
General Fund	\$10,350	\$31,265	\$28,352
Secretary of State's Business Fees Fund	\$39,984	\$53,803	\$55,579
Federal Trust Fund	\$22,236	\$26,871	\$37,618
Reimbursements	\$12,088	\$8	--
Victims of Corporate Fraud Compensation Fund	\$3,871	\$1,630	\$1,530
Other	\$54	\$580	\$1,587
<b>Total Expenditures</b>	<b>\$88,582</b>	<b>\$114,157</b>	<b>\$124,666</b>
<b>Personnel Years</b>	<b>502.0</b>	<b>562.0</b>	<b>564.3</b>

\*dollars in thousands

**Issue 1 – Help America Vote Act/VoteCal**

**Governor’s Budget Request:** The Secretary of State’s Office has submitted three requests associated with the implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

- 1) \$34.38 million (Federal Trust Fund Authority) in fiscal year 2015-16; to continue the implementation of the statewide voter registration database, known as VoteCal.
- 2) \$2.976 million (Federal Trust Fund Authority) in fiscal year 2015-16, to continue the implementation of HAVA mandates. These mandates include modernization of voting equipment, education and training programs for local officials, and development and dissemination of voting information to increase voter participation.
- 3) \$305,000 (Federal Trust Fund Authority) in fiscal year 2015-16 for the testing of voting systems, pursuant to the statewide mandates of the HAVA. According to the Secretary of State, costs associated with testing were previously incorporated into the HAVA spending plan.

**VoteCal** - Section 303 of the federal Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107<sup>th</sup> Congress) mandates that each state implement a uniform computer voter registration database that can be maintained at the state level. To address this mandate, the Secretary of State has begun the implementation of VoteCal, the state’s voter registration database. This database must contain the name and registration information of every legally registered active or inactive voter in the state.

On January 10, 2013, Special Project Report Number 5 (SPR 5) was approved by the Department of Technology. According to SPR 5 full-deployment of VoteCal is planned for June 30, 2016. The SPR projects that the total cost of VoteCal through implementation will be \$98.2 million.

**Help America Vote Act (HAVA)** - On October 29, 2002, President Bush signed into law the Help America Vote Act of 2002. This legislation requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. To date, California has received \$391.3 million in federal funds to implement these mandates.

HAVA has, so far, allowed the state and counties to replace punch-card voting systems and improve voter outreach, poll worker training, county security measures, and voter access for persons with disabilities. Activities in FY 2015-16 include voting system testing and approval and voter education programs. Grants to counties account for \$2.3 million of the funding.

**Staff Comment:** Staff has no concerns with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

**Issue 2 – Business Connect Project**

**Governor’s Budget Request:** The Secretary of State's Office requests an augmentation of \$7.75 million (\$6.759 million Business Fees Fund and \$1.0 million Business Programs Modernization Fund) for the continuation of the Business Connect Project. Total project costs for fiscal year 2015-16 are estimated to be \$10.377 million; there is \$2.896 million of existing resources approved as part of the 2014 Budget Act that will supplement the requested funds.

**Background:** The Secretary of State is responsible for the management of over 150 different types of filings of business entities in California. The Business Programs Division, which is responsible for the management of business filings, is comprised of three sections: the business entities section; Notary Public/Special Filings Section; and, the Uniform Commercial Code/Statement of Information section.

The Secretary of State receives more than one million business filings annually, and its current systems rely on antiquated methods, such as index cards and other paper documentation, to process and maintain records. Many business filings and other requests for services must be conducted in-person or by mail. These outdated methods result in very slow processing times, preventing new businesses from opening their doors and creating jobs. Processing times for the office have been as long as 117 days, preventing new businesses from beginning operations and creating delays and uncertainty for existing businesses.

AB 113 (Committee on Budget), Chapter 3, Statutes of 2013, was passed to address the backlog of, and increase the turnaround time for, for processing claims. AB 113 included an appropriation of \$1.6 million to augment the Secretary of State’s Business Programs Division, which is dedicated to processing business filings. However, AB 113 focused on the manual processing of claims, and did not address the state’s need for an automated business filings system.

In March 2011, the Secretary of State submitted a Feasibility Study Report (FSR) that proposed automating many of the functions associated with business filings. At that time, it was estimated that total project costs would be approximately \$21.36 million, with annual ongoing maintenance and support costs totaling \$1.8 million. Resources to support the project would be directed from the Business Fees Fund.

The project’s overall cost has been revised in an updated Special Project Report (SPR), which was issued in December 2013, to reflect the selection of a vendor. Even though project costs associated with systems integration and the purchase of hardware and software are lower than originally anticipated, project costs will increase due to a greater need for offsite backup and disaster recovery. Total project costs are now estimated to be \$26.9 million, reflecting an increase of approximately \$4.7 from the originally approved FSR amount.

**Staff Comment:** As noted in the most recent Independent Project Oversight Report (IPOR), which was issued in February 2015, the scheduled completion of the Business Connect Project has been pushed back to September 2017. According to the IPOR, the vendor-proposed schedule was no longer feasible. The Secretary of State has submitted a corrective action plan to the vendor, and the vendor has responded by hiring a schedule manager to assist the Business Connect Project staff develop a more accurate schedule that ensures the remaining tasks are completed in a more realistic timeframe. Despite the challenges the project has faced

in terms of schedule delays, it is the Independent Project Oversight Consultant's (IPOC) opinion that this project can still achieve success.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

## 7502 DEPARTMENT OF TECHNOLOGY

**Department Overview:** The Department of Technology was established to support state programs and departments in the delivery of state services and information to constituents and businesses through agile, cost-effective, innovative, reliable, and secure technology. The department retains statewide authority to centralize and unify information technology projects and data center services to enhance the ability to develop, launch, manage, and monitor large information technology projects.

In August 2010, the California State Legislature passed AB 2408 (Smyth), Chapter 404, Statutes of 2010, to reestablish the Office of the State Chief Information Officer (OCIO) as the California Technology Agency and to rename the State Chief Information Officer as the Secretary of the California Technology Agency. While Senate Bill 90 (Committee on Budget and Fiscal Review), Chapter 183, Statutes of 2007, had already made the OCIO a cabinet-level agency with statutory authority over strategic vision and planning, enterprise architecture, IT policy, and project approval and oversight for the state in 2007, AB 2408 codified into law significant functions, duties, and responsibilities of the office that had been assigned to the Office of the Chief Information Officer. In addition to consolidating statewide IT functions under one cabinet-level agency, the legislation passed in 2010 was also responsible for coordinating the activities of agency and department CIOs and promoting the efficient and effective use of IT in state operations.

On July 1, 2013, the Governor's Reorganization Plan No. 2 (GRP2) created the Government Operations Agency and, as a part of that plan, reestablished the California Technology Agency as the Department of Technology under the newly-created Government Operations Agency.

The Office of Technology Services (OTech), within the Department of Technology, provides the information technology processing platforms for over 500 customers, including the Executive Branch and public entities. OTech is accountable to its customers for providing secure services that are responsive to their needs and represent best value to the state. OTech is a fee-for-service organization and operates as a 100 percent reimbursable department.

**Budget Overview:** The Governor's 2015-16 budget proposes \$372.80 million dollars (\$4.80 million General Fund) and 910.7 personnel years for the Department of Technology reflects a decrease of \$6.49 million dollars (\$90,000 General Fund increase) and an increase of 8.0 Personnel Years.

**Issue 1 – Statewide Telecommunications Procurement**

**Governor’s Budget Request:** The California Department of Technology (CalTech) has requested 6.0 permanent positions to support the statewide telecommunications procurement function within CalTech. .

**Background:** Prior to 2012, the Department of General Services (DGS) was responsible for statewide telecommunication efforts. AB 2408 (Smyth), Chapter 404, Statutes of 2010 transferred responsibility of the acquisition of telecommunications services and all contracts for telecommunications goods, whether by lease or purchase, to CalTech by February 1, 2012.

CalTech addressed this new responsibility by creating the Statewide Technology Procurement Division (STPD), which included 4.5 permanent positions, as part of the Budget Act of 2013. CalTech has determined that the workload associated with STPD will require that 6.0 temporary positions be ongoing, which will increase the staffing of the STPD to 10.5 permanent positions.

**Staff Comment:** Staff has no concerns or issues with this request.

**Staff Recommendation:** Approve as budgeted.

**Vote:**

**Issue 2 – Statewide Project Management Office**

**Governor’s Budget Request:** The California Department of Technology (CalTech) requests an augmentation of \$1.499 million (Technology Services Revolving Fund) in fiscal year 2015-16, and 11.0 permanent positions, to develop a new project management framework. \$1.067 million of the increase is proposed as a loan from the General Fund to the Technology Services Revolving Fund, and is to be repaid by June 30, 2021.

**Background:** Historically, the state has relied on a decentralized approach to project management, tasking individuals within a department to manage IT project implementation. Under the decentralized approach, project management staff are expected to learn project methodologies and create a team to support the project implementation process. This approach often relies heavily on vendor support to assist with the project implementation process.

One of the primary challenges of utilizing a decentralized project management approach is the lack of experienced project management staff at the department level. Many project managers are starting from scratch; they lack experienced team members, structure, and have a limited understanding of project methodologies. Lessons learned from one project to the next are infrequently shared, and training is applied at varying levels.

To address the problems inherent in a decentralized approach, CalTech proposed moving to a centralized approach through the creation of a statewide project management office. This office would be responsible for the management of an IT project from the beginning to final deployment. CalTech eventually intends to consolidate much of the state’s project management effort to one centralized location, where information sharing is more feasible, training can be applied in a more uniform fashion, and the personnel utilized for project management are experienced professionals, capable of managing more complex projects. The Budget Act of

2014 included 2.0 positions and \$208,000 (General Fund) to begin the process of creating a statewide project management office at CalTech.

CalTech has proposed the following three distinct service models for supporting IT projects. Each service model reflects a different level of engagement of the project management office (PMO) depending on the project management capacity and needs of the sponsoring department. In all of these models, sponsoring departments retain control over and ultimate ownership of the project.

- *Advisory Project Management Assistance.* Under this model, a CalTech PMO project manager would work with a sponsoring department's IT project staff on a full-time *advisory* basis to provide assistance on a variety of project management issues. The PMO's responsibilities in this model would include: (1) reviewing project plans and ensuring plan completeness, correctness, and soundness; (2) identifying major risks and issues and providing advice on how to resolve them; (3) identifying areas of need and suggesting the addition of experts, advisors, or consultants; (4) ensuring that the project is following industry best practices; (5) helping to communicate between various stakeholders; and (6) providing general project management expertise. This model provides the lowest level of services to departments and provides CalTech with little authority and the departments the greatest amount of discretion.
- *Balanced Engagement.* Under this model, a CalTech project manager or associated support staff would be absorbed into the sponsoring department's project management team. Rather than allocating a complete project management team (which includes a project manager and associated support staff, such as schedule, testing, and quality assurance managers), the PMO would allocate targeted resources based on the specific needs of the project. Ultimately, the project management team would include a combination of PMO and sponsoring department staff resources. In the case where CalTech assigns a project manager, that manager would have complete authority over all project staff resources—whether from the PMO or the department. The project manager would follow the standard processes to modify any of the project parameters, such as scope, cost, and schedule. The sponsoring department would maintain final authority over the decisions that affect the project, as prescribed in the project's governance structure.
- *Full Engagement.* Under this model, the PMO would provide a project manager and associated support staff to assume the day-to-day management of the project in lieu of the sponsoring department's staff resources. The project budget and contract executing authority would be transferred to the deputy director of the PMO. This model provides CalTech with the greatest degree of authority. However, as with the targeted assistance model, the sponsoring department would maintain final authority over the decisions that affect the project.

CalTech has identified three distinct scenarios that would trigger PMO engagement:

- **Department requests PMO services** – When a sponsoring department recognizes that they lack the personnel or management experience, necessary for the project, the department could request the services of the PMO.

- **Engagement required as a condition of approval** – When CalTech identifies a lack of management capacity at the sponsoring department, the project could be approved with the condition that the PMO provide project management services to the sponsoring department. According to CalTech, after an agreement has been reached, a transition plan that addresses the shifting of responsibilities, staff, facility infrastructure, budgetary authority, reporting, structure, and contracts would need to be developed.
- **Engagement of at-risk projects** – While performing oversight responsibilities, CalTech may determine that a project require the engagement of CalTech. Under this model, CalTech could utilize its consulting division to provide coaching and assistance in order to get a project back on track, or it could utilize one of the three service models described above to engage the services of the PMO.

The CalTech budget is structured so that departments pay for services they receive directly from CalTech and the General Fund pays for the “statewide” activities of CalTech. As CalTech primarily provides services, most of the department is funded through the Technology Services Revolving Fund, which collects fees paid by customer departments for services provided by CalTech. As noted earlier, the Legislature approved a General Fund appropriation that would allow CalTech to create the foundation of the PMO. CalTech’s proposal includes a loan of \$1.067 million from the General Fund in fiscal year 2015-16 that will support 8.0 positions within the project standards and support unit. The General Fund loan will bridge start-up costs until all staff expenses can be recovered through PMO fees to customers. The General Fund loan will be repaid by building the cost of the loan into future PMO rates. CalTech is in the process of developing rates that are intended to be competitive with private sector rates.

**LAO Recommendations:** The LAO has noted that while there may be some concerns regarding CalTech’s ability to oversee projects, on balance the state would benefit from the development of a body of skilled project management officials that serve IT projects throughout the state. The LAO has conducted a thorough analysis of the Governor’s proposal to create a statewide project management office. A summary of the recommendations provided by the LAO are below:

- **Monitor CalTech’s Efforts to Improve Approval and Oversight Functions.** Given the connection between approval, effective oversight, and project management, the LAO recommends the Legislature monitor CalTech’s progress in implementing the State Auditor’s recommendations intended to address the deficiencies in CalTech’s oversight of IT projects and modifications to the project approval process. CalTech could update the Legislature on its progress during budget or policy hearings.
- **Establish, and Provide Policy Direction for, the PMO in Statute.** The LAO recommends the Legislature formally establish the centralized PMO in statute, given the vague (and unexercised) current authority in statute for CalTech to manage projects. The statute would provide the Legislature an opportunity to indicate its priorities and guide the operation of the office.
- **Annual Reporting on Performance Measures.** The LAO recommends the Legislature require CalTech to develop performance measures that enable an assessment of how well the office is meeting its objectives.

- **Strategy for Bolstering Program Expertise Over Time.** The LAO recommends the Legislature direct CalTech to develop a strategy to bolster program area expertise of the PMO so that the PMO may more effectively support IT projects. In the short term, CalTech's strategy may largely be to rely on the sponsoring departments offering pertinent program briefings to PMO-based project managers.
- **Justification for Existence of Both the Consulting Division and Advisory Service Model.** The services offered by CalTech's Consulting Division and the advisory service model for the PMO seem duplicative. The LAO recommends the Legislature require CalTech to justify the need for both forms of assistance. If CalTech provides insufficient justification, we recommend the Legislature direct CalTech to consolidate the services offered by the Consulting Division and the advisory service model into a single entity.

**Staff Comment:** Concerns have been raised about a potential conflict between CalTech's oversight role and project management role. The plan proposed by CalTech includes a "firewall" that would place these two functions in different units within CalTech. Each unit would have a deputy director who would report to the director. Given that the underlying idea is to centralize IT-related functions under one agency, CalTech's proposal seems feasible.

Accountability represents one of the more significant benefits to transitioning to a centralized IT project management model. However, as noted by the LAO, an assessment on progress will be difficult to achieve if performance measures are not identified. CalTech has noted that establishing a consistent, complete baseline to measure the effectiveness of its services will be developed over time. CalTech has identified three basic principles that will serve as the foundation in developing their performance measures:

- Project specific processes – this is intended to measure the project management framework and will be collected using surveys, interviews, forums, and project artifacts.
- Professional knowledge – this is intended to measure the workload of the project management office.
- Statewide measures – this is intended to look at the state's IT portfolio as a whole.

The high-level schedule provided by CalTech does not specify when reportable outcomes will be established. This subcommittee may wish to seek further clarification from CalTech on when the reportable outcomes will be established. The Subcommittee may wish to consider whether it would be appropriate to codify reportable outcomes, the circumstances under which the PMO would manage projects, the jurisdiction of CalTech, and necessary firewalls.

**Staff Recommendation:** Hold this item open for further discussion.

**Vote:**



**8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI\$CAL)**

**Background:** The Financial Information System for California (FI\$Cal) project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office and the Department of General Services. FI\$Cal is expected to provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, is expected to reengineer business processes; improve efficiency; enhance decision-making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent. After a lengthy multi-stage procurement process, a vendor was selected in 2012 to begin designing and implementing the project.

The Governor's budget includes \$135.391 million (\$102.872 million General Fund and \$32.519 million other funds) to support FI\$Cal for fiscal year 2015-16. Consistent with the 2012 and 2013 budget acts, the General Fund continues to pick up a larger share of the project costs to make up for General Fund expenditures that were deferred in fiscal years 2012-13 and 2013-14. The overall split between General Fund and other funds remains consistent with FI\$Cal's approved cost allocation plan.

FI\$Cal is the state's largest information technology project in terms of budget and scope, and has considerable project risks. In recent history, the Legislature has taken action to mitigate this risk and ensure the best chance for project success by prescribing a multi-stage procurement, requiring additional reporting, and stipulating that the State Auditor's Office monitor the procurement process.

**Bureau of State Audits:** Pursuant to Government Code, Section 15849.22(e), the California State Auditor (State Auditor) is required to monitor the FI\$Cal project throughout its development. The most recent report, issued January 9, 2015, notes that the project has made progress, but continues to raise some concerns. These include:

- Previously reported progress on addressing the projects vacancy rate remains stagnant, which may create future workload challenges.
- Scheduling challenges continue to persist, and some functions have not been implemented as plan.
- Wave 4, which includes many large departments, may present FI\$Cal project staff with a significant challenge.

Initially, the FI\$Cal project plan anticipated that groups of state departments would join the new system over three 12-month waves of implementation between 2014 and 2016. According to the most recent Special Project Report (SPR), SPR #5, the project team has lengthened the waves to 24-month periods and moved most of the departments into the last wave of implementation; this will extend implementation of the project by one year, until 2017.

**Staff Comment:** As noted above, Wave 4 contains a large number of departments. While no new functionality will be introduced during this wave, the volume of departments included in this wave may overwhelm the FI\$Cal project team. To avoid the risk of the project schedule slipping further beyond the July 2017 date proposed in SPR #5, this subcommittee may want to ask the FI\$Cal project team to provide an assessment of what resources will be required to implement Wave 4.

**Staff Recommendation:** Informational item, no action necessary.