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The Financial Information System for California (FI\$Cal)

LEGISLATIVE ANALYST'S OFFICE

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Hon. Holly J. Mitchell, Chair





What Is FI\$Cal?



The FI\$Cal Project. FI\$Cal is an information technology (IT) project currently underway by a partnership of control agencies including the Department of Finance, the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS). FI\$Cal replaces the state's aging and decentralized IT financial systems with a new system that will integrate state government processes in the areas of budgeting, accounting, cash management, and procurement.

- ***Current Estimated Cost.*** \$910 million (\$494 million General Fund), making FI\$Cal the most costly state IT undertaking to date.
- ***Current Estimated Completion Date.*** July 2019



Anticipated Benefits. The FI\$Cal project has several anticipated benefits.

- Eliminates the need for over 2,500 department-specific applications.
- Enables the state financial systems and workforce to function in an integrated environment.
- Automates processes that are currently highly manual.
- Improves tracking of statewide expenditures and standardizes the state's financial practices.
- Makes information more readily available to the public and the state's business partners.



Project Has Evolved



Changes to Projects Are Reflected in Special Project Reports (SPRs). IT projects often change in scope, schedule, and/or cost from what was initially anticipated because of the complexity of such projects. Significant changes to state IT projects are documented and justified in SPRs. The SPRs are prepared by the project and submitted to the California Department of Technology (CDT) for review and approval.



FI\$Cal Currently Operating Under SPR 6. Since the project began in 2005, it has changed many times in scope, schedule, and cost from what was initially anticipated. The FI\$Cal project is currently operating under its sixth SPR, which was approved by CDT in February 2016. Refer to the figure on page 3 for a description of the evolution of the scope, schedule, and cost of the project since it was proposed in 2005.



Evolution of the FI\$Cal Project Scope, Schedule, and Cost

<i>(In Millions)</i>			
Project Plan	Total Estimated Project Cost	Final Implementation Date	Summary of Project Plan
Initial Project Plan (FSR) July 2005	\$138	July 2011	The initial information technology (IT) project was much more modest in scope than the current project. The Budget Information System, as the project was then known, was envisioned to better meet Department of Finance's (DOF's) budget development and administrative needs.
SPR 1 December 2006	\$1,334	June 2015	The administration realized there was a need to modernize and replace the state's entire financial management infrastructure. SPR 1 proposed increasing the scope of the project to include developing a single integrated financial information system for the state. The project would integrate the budgeting, accounting, cash management, and procurement functions of the state. Four partner agencies were identified—DOF, SCO, STO, and DGS—and the project was renamed FI\$Cal. The SPR extended the schedule by four years and increased the cost by nearly \$1.2 billion.
SPR 2 December 2007	\$1,620	June 2017	SPR 2 analyzed advantages and disadvantages of various FI\$Cal alternatives but proposed maintaining the project's expanded scope to integrate the state's financial management processes. The SPR extended the schedule by two years and increased the cost by nearly \$300 million, relative to SPR 1.
SPR 3 November 2009	Unspecified	Unspecified	SPR 3 established the use of a multistage procurement approach. The multistage procurement strategy would assist the project in eliciting more qualified vendors and more responsive proposals for building the FI\$Cal System. The total cost and schedule for the project was left unspecified. At the conclusion of the procurement, when the software application and vendor would be selected, the project would submit SPR 4.
SPR 4 March 2012	\$617	July 2016	SPR 4 updated the project cost and schedule based on the contract with the selected vendor. The total project cost for the FI\$Cal System was estimated at about \$620 million, about \$1 billion less than estimated in SPR 2. The cost reduction is attributed to (1) updated estimates and (2) the move to a more phased implementation approach that resulted in lower overall project costs through reduced risk to the vendor and lower state staffing costs. The system would be completely implemented in July 2016.
SPR 5 January 2014	\$673	July 2017	SPR 5 made various changes to the project's implementation approach to reflect lessons learned over the two years since the vendor was selected and the development of the system began. The SPR resulted in a 12-month schedule extension and increased the total project cost by \$56 million, relative to SPR 4.
SPR 6 February 2016	\$910	July 2019	SPR 6 made various changes to the project's implementation approach to reflect lessons learned since SPR 5. SPR 6 resulted in a 24-month schedule extension and increased the total project cost by \$237 million, relative to SPR 5.

FI\$Cal = Financial Information System for California; FSR = Feasibility Study Report; SPR = Special Project Report; SCO = State Controller's Office; STO = State Treasurer's Office; and DGS = Department of General Services.



Current Project Plan—SPR 6



The current project plan—SPR 6—implements the following changes relative to the previously approved project plan, SPR 5.

- ***Creates Department of FI\$Cal.*** SPR 6 and budget-related legislation established the Department of FI\$Cal to provide the ongoing maintenance and operations function for the FI\$Cal system and support services for users of the system. The department is currently providing this support for the functions and departments that have already implemented FI\$Cal.
 - When the department assumes complete responsibility for maintaining and operating the FI\$Cal system in 2019-20, it is expected to cost \$70.4 million annually and include 274 permanent positions.
- ***Reduces Risk Associated With Transition.*** The revised implementation approach provides the project some flexibility to delay rollout of functions and shift implementation of departments based on their readiness. The revised project plan also attempts to reduce risk associated with the project and improve the likelihood of FI\$Cal success by allowing additional time to build and test certain functions.
- ***Extends Project by Two Years.*** Extends the project's implementation schedule by two years, pushing out the completion date from July 2017 to July 2019.
- ***Increases Project Cost by Over \$200 Million.*** Increases the total estimated project cost to \$910 million (\$494 million General Fund), representing a net \$237 million increase, relative to SPR 5. This includes \$298 million for a seven-year contract with Accenture LLP, the project's selected vendor, a \$61 million increase.



Current Project Plan—SPR 6

(Continued)



The figure below shows project costs incurred to date and the future costs proposed in SPR 6.

Costs for FI\$Cal Under Special Project Report 6^a		
<i>(In Millions)</i>		
Fiscal Year	General Fund	Total Funds
2005-06	\$0.5	\$0.9
2006-07	2.2	5.0
2007-08	6.2	6.2
2008-09	2.1	5.6
2009-10	2.1	12.3
2010-11	1.8	25.8
2011-12	1.9	21.8
2012-13	—	82.0
2013-14	3.4	75.3
2014-15	95.6	100.1
2015-16	103.7	153.9
2016-17	96.3	135.1
2017-18 proposed	87.7	129.7
2018-19 proposed	50.4	85.8
2019-20 proposed	40.1	70.4
Totals	\$494.0	\$909.9

^a Shifts in project funding across fiscal years since approval of SPR 6 means actuals may not align with this table.
FI\$Cal = Financial Information System for California.

Project Status



The figure below provides a listing of the functions the project will roll out and number of departments the project will implement over the remaining releases—which deploy FI\$Cal incrementally over time—pursuant to SPR 6.

Departments and Functionality of FI\$Cal Releases Under Special Project Report 6

	Number of Departments	Functionality ^a	Implementation Date
Pre-Wave (actual)	5 (a subset of Wave 1)	Some procurement functions.	July 2013
Wave 1 (actual)	11	Significant budget functions. Some accounting, cash management, and procurement functions.	Throughout 2014-15
Wave 2 (actual)	45 mostly CFS departments ^b	Additional budgeting, accounting, and cash management functions. Remaining significant procurement functions.	August 2015 December 2015
July 2016 Release^c	10 ^d	Financial management functions specific to the Department of General Services. Additional budget functions. Software upgrades.	July 2016
July 2017 Release^c	50 ^d	Remaining significant accounting functions. Remaining significant cash management functions.	July 2017
July 2018 Release^c	65 ^d	Public transparency website.	July 2018

^a Functionality implemented in earlier waves is deployed to new departments as they join FI\$Cal. Functionality implemented after a department originally joined FI\$Cal will be deployed to that department as part of the subsequent wave deployments.

^b The Department of General Services offers accounting, budgeting, and financial services to state entities on a fee-for-service basis. These departments, typically smaller entities, are known as contracted fiscal service departments.

^c Per the administration's proposal, functionality and departments may be deployed in intermediate release over the 12 months following the principal implementation date.

^d We note that the actual number of departments may change based on the shifting of departments across releases and a redefining of what is counted as a "department."
FI\$Cal = Financial Information System for California and CFS = contracted fiscal services.



System Functionality Nearly Completely Built . . . Pursuant to SPR 6, the project anticipates implementing accounting and cash management functions specific to SCO and STO beginning in July 2017. At which point, most of the FI\$Cal functions will be completely built.



... But Most Departments Have Not Yet Implemented FI\$Cal. The project has delivered the completed functionality to 58 mostly small departments. SPR 6 anticipates that an additional 50 and 65 departments in July 2017 and July 2018, respectively, will begin using FI\$Cal.



July 2017 Release Is Tracking Behind Schedule. SPR 6 anticipates that the accounting and cash management functions would be implemented in July 2017, one year later than what was anticipated by SPR 5, and would deploy functions to 50 departments.

- **Department Deployment Behind Schedule.** Extensive activities, such as preparing to convert data from the legacy systems to FI\$Cal and providing training to department staff, are necessary to prepare a department to use FI\$Cal. Challenges with preparing the California Department of Justice and Department of Veterans Affairs for deployment have caused FI\$Cal to push these departments to the 2018 release. According to CDT, which provides independent oversight of the project, this aspect of the project is currently tracking three weeks behind the schedule included in SPR 6.
- **SCO and STO Accounting and Cash Management Functions Delayed.** Despite the additional time to build and test these functions, schedule delays persist. Since SPR 6 was approved, the project has reduced the time allotted for testing from 12 months to 10 months because design and development activities were tracking behind schedule. According to CDT, this aspect of the project is currently tracking four weeks behind the schedule included in SPR 6.



Staff Vacancy Rate. As of December 2016, the project had an 18 percent vacancy rate (288 of 352 authorized positions filled). According to CDT, there are active recruitments and the project continues to make progress filling vacant positions.



Challenges Closing Month- and Year-End Financial

Statements. The project has experienced difficulty with departments—those already using FI\$Cal—failing to close their month- and year-end financial statements on time.

- 8 of 50 departments have not completed their year-end financial statements for 2015-16. Only 33 percent (19 out of 58 departments) of departments closed their month-end financial statements on time for December 2016.
- SCO uses the year-end financial statements to prepare the state's Comprehensive Annual Financial Report (CAFR), which informs stakeholders, such as credit agencies that rate the state's bonds, of the state's financial position and how the state manages public resources.

- Large IT Projects Present Risk.** The state has experienced considerable challenges implementing IT projects successfully. Given that FI\$Cal is extremely ambitious and complex, the risks inherent to IT projects are more acute in the case of FI\$Cal.
- Prudent to Continue Prioritizing Quality Over Staying on Schedule.** The project's decision to delay the implementation of some functions and departments reflects the project's commitment to a quality product rather than strictly adhering to predetermined milestones. While this strategy ultimately does extend the project's schedule and increase its cost, we believe this approach is prudent given the negative impacts to the state should functions and departments be brought on-line prematurely.
- Remain Concerned With Number and Size of Departments in Upcoming Releases.** We remain concerned by the quantity and complexity of departments that have yet to implement FI\$Cal and the compressed timeframe proposed for implementing them. There is significant risk that the project's resources will be overwhelmed when it tries to implement the July 2017 and July 2018 releases.
- Staff Vacancy Rate Continues to Present Challenges.** Challenges adequately supporting the large quantity of departments slated for delivery of FI\$Cal in the upcoming releases could be exacerbated if the project does not reduce its staff vacancy rate.

- Continued Challenges Closing Month- and Year-End Financial Statements Possible.*** The project has added resources to assist departments with closing month- and year-end financial statements. Given the difficulty the project has had with smaller departments being unable to close their financial statements on time, the project may face challenges in July 2017 and July 2018 when deploying FI\$Cal to a greater quantity and more complex departments. If departments are unable to close their year-end financial statements on time, it could affect SCO's ability to produce the CAFR.

- Seventh SPR Likely.*** The FI\$Cal project involves the development of an extremely ambitious 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, we think a seventh SPR is likely that would further extend the project schedule and increase costs.