

September 24, 2013

2013-039

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report provides an update on recent events related to the Financial Information System for California (FI\$Cal) project. Pursuant to Government Code, Section 15849.22(e), the California State Auditor (state auditor) is required to independently monitor the FI\$Cal project throughout its development, as deemed appropriate by the state auditor. FI\$Cal is a business transformation project for state government in the areas of budgeting, accounting, procurement, and cash management and is based on a commercial-off-the-shelf software package with minimal modifications. The independent monitoring includes, but is not limited to, monitoring the contracts for independent project oversight (IPO) and independent verification and validation (IV&V) services, assessing whether concerns about the project raised by the IPO and IV&V contractors are appropriately addressed by the FI\$Cal steering committee and the FI\$Cal project, and assessing whether the FI\$Cal project is progressing timely and within budget. We are required to report on the project's status at least annually and this is the ninth report we have issued since we began our monitoring in 2007, and our second report since the project began the design, development, and implementation (DDI) phase in June 2012. During the DDI phase, the project intends to deploy FI\$Cal in five waves, with more departments and functionality added with each wave. The project reported that FI\$Cal went live at the pre-wave departments on July 1, 2013, and the final wave of FI\$Cal has a scheduled go-live date of July 2016.<sup>1</sup>

In our last report, dated January 8, 2013, we provided updates on our oversight activities, the project's relatively inactive tracking of risks and issues since early 2012, its continuing challenges in recruiting and retaining staff, its schedule progress, and an update on the project's data conversion and change management activities. We are issuing this letter report now because we believe it is important that the Legislature is made aware of significant concerns related to oversight and transparency. Since 2009 the California Department of Technology (CalTech) has provided IPO services to the project.<sup>2</sup>

<sup>1</sup> The pre-wave departments were the Agricultural Labor Relations Board, Office of Environmental Health Hazard Assessment, California Department of Aging (including the Commission on Aging), California Arts Council, and California Department of Fair Employment and Housing.

<sup>2</sup> Before July 1, 2013, the California Department of Technology was known as the California Technology Agency.

## Consistency of IPO Has Suffered Due to Excessive Staff Turnover

Since mid-2012 there has been significant and sustained turnover of the IPO staff, which has reduced the effectiveness of CalTech's oversight services. The Table shows that, in the 15-month period since May 2012, five different individuals have filled the IPO role on the project. The turnover of four staff that have filled the IPO role between May 2012 and July 2013 occurred because one staff left CalTech to work for a county agency, two staff were reassigned to other projects by CalTech, and one staff served as an interim IPO analyst.

**Table**  
**Independent Project Oversight Staff Turnover, Report Issuance, and Oversight Meeting Attendance**  
**May 2012 to July 2013**

	2012								2013						
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY
Analyst 1*	●	●	●	●	●										
Analyst 2					●	●	●	●	●						
Analyst 3										●	●	●			
Analyst 4												●	●	●	●
Analyst 5															●
Issued monthly report†	✓	✓	✓	✓	✓	✓	✓	✓	‡	✓	Late	✓	Late	Late	✓
Attended monthly oversight meeting	No meeting	✓	✓	No meeting	✓§	No meeting	×	No meeting	✓	×	✓	×	✓	✓	✓

Sources: California State Auditor's review of independent project oversight (IPO) reports and related documents, as well as observations of oversight meetings. Analyst stop and start times are approximate.

□ Outline indicates months the IPO staff was not on site at the project (mid-January to mid-May 2013).

✓ = Yes

× = No

\* This analyst took over the IPO position in April 2012.

† The California Department of Technology (CalTech) established the 10<sup>th</sup> working day of the month following the reporting period as the due date for the IPO report.

‡ CalTech did not issue a separate report for January 2013. Instead, in March 2013 it issued a report that covered both January and February 2013.

§ Two meetings were held this month to discuss the July and August reports.

|| A CalTech representative attended this meeting, but not the person assigned to the IPO position.

As a result of the frequent turnover, the IPO has not always provided timely analysis of the project's status to the Legislature, external oversight entities, and other stakeholders. In fact, in its September 2012 report the IPO indicated that "without the stability of a long-term IPO on the project, oversight of the project may not be as thorough and comprehensive as a project of this size and complexity requires." As the Table shows, during the 15-month period from May 2012 through July 2013 the IPO failed to attend three of the 11 scheduled monthly oversight meetings, which are intended to provide the project, state auditor staff, the Legislative Analyst's Office, and other oversight entities an opportunity to discuss the IPO's and the IV&V's concerns and the project's planned response to those concerns. For one meeting CalTech sent a representative, but not the person who was the assigned IPO at that time. In addition, the IPO did not issue a separate report for January 2013 and issued three other monthly reports late during this period. In each instance,

the IPO issued these reports more than 10 days after the period that the report covered, which CalTech has established as the due date for the IPO report, and not in time for the respective monthly oversight meetings. Moreover, the IPO was not working at the project site between mid-January and mid-May 2013, but instead was working from CalTech's offices. Our information technology expert (IT expert) indicates that IPO staff are typically at a project site to attend meetings, observe activities, review documentation, and discuss issues and concerns with project staff.

The negative effect of the turnover of IPO analysts is exacerbated by CalTech's decision to staff the IPO function with only one individual. We believe that having two staff assigned to provide IPO services for a project of this size may have helped maintain the continuity and timeliness of the oversight provided during the recent period of significant turnover. In May 2013 we suggested that CalTech add another staff member to this role. According to CalTech, it has assigned one staff on a full-time basis who will fill the IPO role for the long-term and will be assisted by his manager on a part-time basis. CalTech also is in the process of adding a second individual to the IPO function who will work a minimum of half-time on the project. CalTech hopes to have this individual in place by October 2013. CalTech also indicated that it will reassess the need for additional resources as the project progresses. The Legislature, external oversight entities, and other stakeholders rely upon the independent assessment provided by the IPO's oversight reports to identify missing or ineffective project management practices that may result in problems that negatively affect the project's cost, schedule, or scope. Inconsistent IPO hinders the project's and others' ability to promptly identify and address potential problems.

### **IPO's Assessment of FI\$Cal's Budget and Schedule Has Been Lacking**

Although the IPO reports provide good information on many aspects of the project, including the project's efforts to fill staff vacancies and its efforts to address certain risks, they often lack meaningful assessments of the project's schedule and budget. According to CalTech's *Information Technology Project Oversight Framework*, the intent of the IPO function is to provide an independent review and analysis of project management practices to determine if the project will be completed within the estimated schedule and cost, and will provide the functionality required by the sponsoring business entity; and is intended to identify and quantify any issues and risks affecting these project components.

However, the IPO has provided no meaningful analysis of the project's spending against its budget during the DDI phase, which began in June 2012. Rather, the IPO reports simply present cost information the project has reported to date, with little or no insight as to how the expenditures made during the DDI phase affect the project going forward. For example, although as of April 30, 2013 the project had only spent 45 percent of its appropriation—\$40 million of \$89 million—for fiscal year 2012–13, the IPO provided no insight as to why the project has spent less than half of its appropriation with only two months remaining in the fiscal year. Underspending can indicate several problems including overestimation of project costs or delayed spending due to late deliverables. Nevertheless, because this information is not included in the IPO report, it is unclear whether the IPO was aware of the variance or its cause. As of June 30, 2013, the project indicated it had spent \$58 million of its \$89 million appropriation.<sup>3</sup>

<sup>3</sup> Of the \$31 million appropriation that was unspent as of June 30, 2013, the project reserved \$24 million for future expenditures. It did not reserve the remaining \$7 million of the fiscal year 2012–13 appropriation.

According to our IT expert, a more meaningful and traditional analysis would include several elements. In addition to summarizing actual costs to date, it would assess the impact of identified or expected variances on the budget for the fiscal year. For example, it would indicate whether any such variances were caused by costs not matching expectations, estimates that were too optimistic or too pessimistic, expenditures being accelerated or delayed, reductions or increases in scope, or the realization or avoidance of risks. Finally, it would comment on any specific cost analysis that the project is performing to measure its progress against expenditures.

Further, the IPO has not always been clear in its assessment of the project's schedule. For example, the IPO has reported that the project is on schedule during the DDI phase, except for two months during which the IPO did not comment on whether the project was on schedule or not. However, the IPO has previously communicated significant concerns over the project's progress in data management, which is a series of activities, such as data conversion and cleansing, that are critical to the project meeting the schedule in the long term. In fact, from October 2012 through March 2013, the IPO consistently reported delays in critical path activities related to data management. However, beginning with its April 2013 report, the IPO no longer provided information on whether the project was meeting these critical path deadlines, instead reporting a general concern that Wave 1 activities—the deployment of FI\$Cal to additional departments and with additional functionality in July 2014—could potentially experience a delay as a result of pressure from data management activities. Nevertheless, the IPO reports do not adequately discuss or evaluate this potential delay, such as describing its likelihood or magnitude, which would allow stakeholders to appreciate the risks to the schedule going forward and whether the project's efforts to mitigate these risks are effective.

Additionally, the IPO has been mostly silent on the sufficiency of the project's actions to mitigate the delays to the procurement of data management services. The project originally expected to award the contract for these services in April 2013, but due to various delays with the procurement, the contract for these services was not in place until August 2013. These delays in securing data management services add to the existing pressure on these vital data management activities. Consequently, the IPO may not be effectively communicating to stakeholders—including the Legislature—the risks associated with these key areas; and, as a result, stakeholders are not in a position to respond appropriately to these risks. When we voiced our concerns to CalTech, it agreed and stated that it will give added focus to the project's budget and schedule.

### **The Project Has Held Two Closed Steering Committee Sessions and Did Not Promptly Communicate the Nature of These Sessions to State Auditor Staff**

The project recently held closed sessions during two key meetings without promptly disclosing their nature or outcome, which impedes our ability to provide oversight of the project and its decisions. Specifically, in March and May 2013 the project held closed sessions of its executive working group and steering committee meetings, respectively. Historically, the project made a significant decision during closed sessions without the knowledge of oversight entities or the Legislature. Specifically, in May 2008, the project held two meetings to which state auditor staff were not invited. An outcome of these meetings was the project's significant decision to unbundle its software and hardware procurement. Because the project did not inform us of this decision, the Legislature was only notified of this change when it was copied on a letter

sent by the Office of the State Chief Information Officer<sup>4</sup> one month later in June 2008. The project subsequently reversed this decision following concerns raised by legislative staff and because it concluded that the benefits of the unbundled approach did not outweigh the cost and schedule impact. Therefore, to ensure that key decisions by the project are transparent to stakeholders, we subsequently reached an agreement with the previous project executives that the project would promptly brief us on the content of any closed meetings as soon after the meeting as possible.

However, after a number of changes in the leadership team, the project did not promptly respond to requests to brief us on the purpose and focus of these two recent closed meetings. In September 2013 the project sponsor did finally provide us a high-level summary of these two closed sessions. He indicated one session was related to a personnel matter and the other was related to a project issue that we will monitor and report on as necessary. Without advance notice of closed sessions and a briefing afterwards on the topics discussed and any outcome, these meetings compromise the oversight of the project and leave the Legislature and other stakeholders uninformed.

We continue to monitor the IPO and IV&V recommendations and the project's efforts to address those recommendations. For instance, we are currently monitoring the resolution of an IV&V recommendation that the project ensure the system integrator provides sufficient system documentation, which would help the State to maintain FI\$Cal after implementation without the assistance of the system integrator or another consultant. We are also monitoring the IPO and IV&V assessments, including any recommendations, related to data conversion activities, which have been affected by a delay in the procurement of data management services. We will continue to monitor and report on these topics in addition to others that come to our attention, at a minimum, before January 10 each year.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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<sup>4</sup> Prior to 2011 CalTech was called the Office of the State Chief Information Officer.