



January 4, 2022
2021-039

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 report follows up on significant concerns raised in our previous assessments on the development and implementation of the Financial Information System for California (FI\$Cal). In December 2019, we issued a report that raised concerns about how a revised project plan risked reduced functionality and obscured project costs. In January 2021, we issued another report in which we noted that the FI\$Cal project office, which oversees development of the FI\$Cal system, had missed yet another planned project completion date in June 2020. Consequently, the project’s governing entities—which we describe in the text box—had to extend the project timeline by two years. This report highlights the following concerns with the FI\$Cal project and provides an update on the status of recommendations we made in prior reports:

- The project office will not complete the project by its scheduled end date of June 2022. A final step involves the State Controller’s Office (State Controller) comparing the data produced by FI\$Cal for the State’s annual comprehensive financial statements to its legacy system and verifying the data’s accuracy. However, this verification process has fallen behind schedule, and the project office had not released a new schedule as of December 2021.
- The Department of FI\$Cal (department), which maintains and operates the FI\$Cal system, will need to ensure that it has sufficient staff resources to perform these support functions after the project ends. The vendor that has been developing the system will transition resources off of the project, and department staff must assume a portion of the workload the vendor previously performed. However, the project has had a vacancy rate of more than 15 percent for the past five years, and the department may struggle to successfully manage this transition.

Background on FI\$CAL

In 2005 the State initiated an information technology (IT) project to develop a comprehensive budget system that would connect to other state financial systems, including the IT systems used by the State Controller and other departments. In 2006 the State transformed the scope of the project to combine the State’s accounting, budgeting, cash management, procurement, and other operations into a single, modernized system. The State subsequently issued a series of Special Project Reports (SPR) that further modified the project’s scope, schedule, and budget. The most current of these updates, issued in September 2020, extends the project’s official end date to June 2022 with a projected total cost of more than \$960 million.

Governing Entities

Multiple state agencies have roles in developing FI\$Cal:

- The steering committee provides governance to the project and includes representatives from the Department of Finance (Finance); the Department of General Services; the State Controller; the State Treasurer’s Office; and the Customer Impact Committee, which represents agencies that use or will use FI\$Cal.
- The California Department of Technology (CDT) approves SPRs and provides oversight on areas such as project governance, time management, and resource management.
- The project office implements the FI\$Cal system.
- The department maintains and operates the FI\$Cal system.

Source: State law, various SPRs, and other department information.

- For the third consecutive year, the State will issue late financial statements, resulting in part from state agencies’ challenges in using FI\$Cal. Timely financial reports are important for the State to maintain a high credit rating and access to federal funding.

The Project Office Will Not Complete the Project by Its Scheduled End Date

In September 2020, the governing entities issued a ninth SPR that set the project’s completion date for June 2022. According to this new timeline, between December 2020 and June 2021, the project office was to issue three releases of additional functions, such as a particular interface between FI\$Cal and the State Controller’s legacy system. The interface would allow the State Controller to import year-end accruals for those agencies whose transition to using FI\$Cal is either deferred or exempted. The project office was then to provide 12 months of support while the State Controller verified the data for the State’s fiscal year 2020–21 comprehensive financial statements by comparing the data from FI\$Cal to its legacy system.

Although the project office successfully completed and released the additional functions as scheduled in December 2020 and March and June 2021, the data verification process is encountering delays. In July 2021, the State Controller was scheduled to begin verifying the data for fiscal year 2020–21 with support from the project office. However, this effort is behind schedule. According to the project office’s former chief deputy director, who left the project office in November 2021, a resource shortage at the State Controller is the primary reason for the delay. In its role of providing project oversight, CDT had raised concerns since October 2020 about resource shortages at the State Controller endangering the project’s timeline. The team leader for the State Controller staff assigned to the project confirmed that staff shortages, as well as the delay in closing the State’s fiscal year 2019–20 financial statements, had caused the data verification to fall behind schedule. She stated that the State Controller received budget authority at the start of the fiscal year in July 2021 for six new staff positions that will be dedicated to the data verification. As of November 2021, four of those positions had been filled. The project office had not released a revised time line for the data verification process as of December 2021. The data verification is the final step in finishing the project. As Figure 1 shows, this will be the latest of many completion dates that the project office has missed.

Figure 1
The Project Office Will Once Again Miss the Target Completion Date for FI\$Cal



Source: Analysis of five SPRs (numbers 4, 5, 6, 8, and 9) and interviews with project office staff.

Even when the project office officially declares the project done, it will not have implemented all promised functionality, and doing so will likely incur significant expense. As we described in our two most recent reports, the project office postponed the development of some features, thus

reducing the number of key features the system will have when the project formally ends. Some of these features are large and play an important role in the functionality of FI\$Cal, such as a feature for statewide loan accounting. Until these features are complete, the State Controller will continue using its legacy system—a concerning fact given that one of the original goals of the project was to replace stand-alone systems with a single, integrated system. The former chief deputy director confirmed that there is currently no schedule for completing these features, although in June 2021, the department entered into two new contracts with the vendor that, according to the former chief deputy director, are intended to support the postponed features' development. The contracts extend to December 2022, at a total cost of \$6 million. However, with no schedule for developing the postponed features, it is possible the two vendor contracts will need to be extended. In our January 2021 report, we noted that the 2020 SPR obscures the full cost of FI\$Cal. As these new contracts demonstrate, the department will incur significant expenses related to FI\$Cal's development long after the project's official end date.

The Department Will Need to Ensure That It Has Sufficient Staff Resources to Perform Continuing Maintenance and Support Functions

The likelihood that the volume of work to maintain FI\$Cal will increase in the near future as more agencies use the system, creates the risk that the department will be unable to provide all necessary support and maintenance functions after the project's official end date. As the project nears its scheduled end date, the vendor that the project office contracted with to develop and implement FI\$Cal will transition off the project. As the vendor staff leave, the department's staff must be prepared to assume responsibility for continuing maintenance and support functions. Because FI\$Cal is a large and complex system, the department will need to monitor it, develop enhancements to improve FI\$Cal's usability, and address any technical problems that occur in the software. The department developed plans in December 2020 and January 2021 for transitioning operations and technical knowledge from the vendor resources to its own staff in order to facilitate its independent maintenance and operation of FI\$Cal. The department confirmed that the transition is proceeding on schedule.

However, the volume of work that the department must manage will likely increase as more state agencies transition to FI\$Cal and users require changes to the system. As more agencies use FI\$Cal for their business operations, they identify ways to improve FI\$Cal's usability and the department must then develop such enhancements. These can range from safeguards to prevent common user errors to new features, such as the ability for users to add comments to certain transaction records. According to the department, it currently deploys 12 to 14 of these enhancements each month and has a process for scheduling them based on priority and available staff resources.

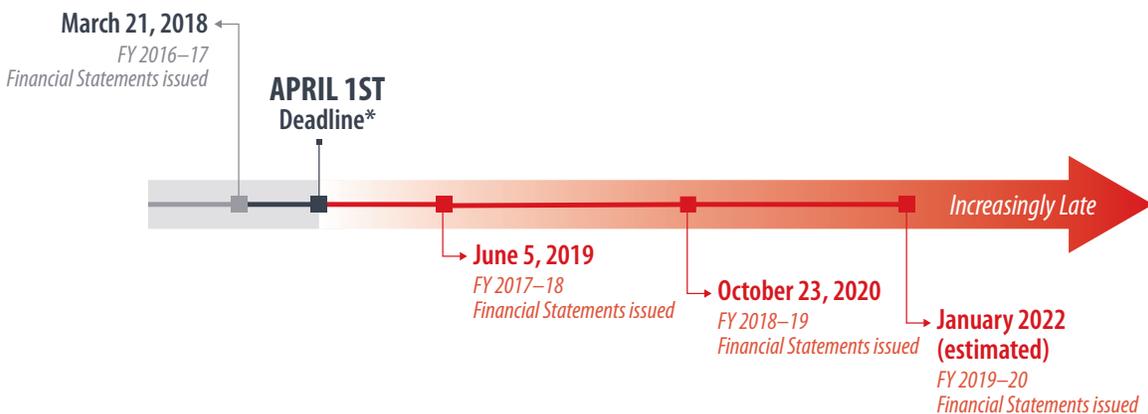
The challenges the department has had in hiring and retaining staff may threaten its efforts to independently maintain FI\$Cal and provide all necessary support to users. CDT has for the past year raised concerns about vacancy rates and their effect on transitioning operations away from vendor resources. CDT noted that the project has had a vacancy rate above 15 percent for the past five years. These vacancies include positions in the department as well as in FI\$Cal-related positions at the agencies that partner with the department, such as the State Controller. CDT considered the vacancies a risk to the success of the project as the department assumes operations from the vendor.

Finding staff with the right combination of skills and the current economic climate have both contributed to the department’s staffing challenges. The department has stated that filling IT positions is particularly challenging because many of the positions also require in-depth knowledge of financial business processes. The deputy director of the administrative division in the department explained that as the department continues to expand its operations, it addresses the need for additional resources through the normal budget process. She stated that recruitment efforts include advertising on social media and contracting with a company that locates individuals who meet specific job requirements, but she confirmed that there is currently a great deal of competition for positions, particularly in information security. Staffing challenges are not unique to the department—many sectors of the economy are currently struggling to hire and retain staff amid the ongoing COVID-19 pandemic. However, the department will need to mitigate these challenges as it prepares to fully manage maintenance of FI\$Cal.

The Transition to FI\$Cal Has Caused Delays to Critical State Financial Reporting for the Third Consecutive Year

From the beginning, the FI\$Cal system was meant to improve the State’s fiscal controls by enhancing the timeliness of financial management information; however, fiscal year 2019–20 will be the third consecutive reporting cycle in which the State will publish late financial statements. Each year the State Controller prepares a comprehensive set of financial statements, which our office audits for accuracy and compliance with accounting standards. State bond agreements require the State to publish these financial statements, including the audited statements, if available, by April 1 of the year following the end of the fiscal year. Federal funding requirements have typically set this same deadline for publishing financial statements, although the federal government extended the deadline because of the COVID-19 pandemic. Figure 2 shows that the State has failed to meet the April 1 deadline for the past three years.

Figure 2
As State Agencies Have Transitioned to FI\$Cal, the State’s Annual Financial Statements Have Been Issued Increasingly Late



Source: State of California Annual Comprehensive Financial Statements for fiscal years 2016–17, 2017–18, 2018–19, and 2019–20 and analysis of Office of Management and Budget memorandum and state bond agreements.

* For fiscal years 2018–19 and 2019–20, the federal government extended financial reporting deadlines to September 30. The April 1 date set in state bond agreements for publishing financial statements, including the audited statements, if available, did not change.

These financial reporting delays may ultimately prove costly for the State. The State's ability to publish accurate and timely financial statements is important for the State to sustain the trust of financial markets and maintain a high credit rating. A high credit rating helps ensure access to low-interest debt. If the State suffers a downgraded credit rating, it could substantially increase borrowing costs, affecting the State's ability to pay for debt-financed projects such as schools and levees. Publishing late financial statements also creates a risk to the State's access to federal funding. Because it receives billions of dollars in federal funds each year, the federal government requires the State to prepare financial statements and have these statements audited.

State agencies' struggles with using FI\$Cal have contributed to these delays in publishing the State's annual financial statements. In our October 2020 Internal Controls report, Report 2019-001.1, we described how 12 agencies of significance to the State's overall financial reporting did not perform their fiscal year 2018–19 monthly account reconciliations to the records of the State Controller in a timely manner and many chose to only complete annual reconciliations. Some of the explanations that agencies provided for this lapse included unfamiliarity with the FI\$Cal system and its complexity.

The department has taken some steps to address agencies' challenges in using the system. For example, in January 2021, the department launched the FI\$Cal Learning Center, which consolidated all training materials for users into one location. These trainings include web-based training and videos to help users master the skills needed to successfully use FI\$Cal. In addition, as noted previously, the department develops enhancements to FI\$Cal as users require changes to the system. While critical, these efforts have not yet resulted in all agencies submitting timely financial reports to the State Controller.

Agencies' difficulties with using FI\$Cal, in addition to ongoing concerns about significant project features and processes that will still need to be implemented even after the project is officially considered complete, represent significant risk to the State. Thus, in our August 2021 updated assessment of issues and selected agencies that pose a high risk to the State, Report 2021-601, we concluded that state financial reporting and accountability remained a high-risk issue due to the transition to FI\$Cal. In addition, our Internal Control report for fiscal year 2018–19, Report 2019-001.1, noted a series of deficiencies in FI\$Cal's safeguards. These identified deficiencies increase the risk that the State may not be able to rely on the financial reports FI\$Cal generates. Due to these significant concerns, we will continue to report on issues related to state financial reporting and the FI\$Cal project as part of both our state high-risk program and our annual FI\$Cal monitoring mandate.

We prepared this report pursuant to Government Code section 11864.

Respectfully submitted,



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Acting California State Auditor

For questions regarding the contents of this report, please contact our Public Affairs Office at 916.445.0255.

Appendix

Status of Prior Recommendations

Our August 2018 and December 2019 reports included recommendations to the project office and CDT about improving project transparency and oversight. In January 2021, we reported that the project office and CDT had partially implemented most of the recommendations and resolved one. As the table reflects, CDT has now implemented one of the outstanding recommendations. However, the project office and CDT must do more work to fully implement the remaining recommendations we have made.

The Project Office and CDT Have Failed to Fully Implement Some Recommendations for More Than Three Years

RECOMMENDATION	DECEMBER 2019 ASSESSMENT	JANUARY 2021 ASSESSMENT	CURRENT STATUS	ASSESSMENT UPDATE
The State Controller, Finance, and the project office should meet in September 2018 to discuss the status of delinquent entity financial statements and develop corrective measures to ensure that the State's financial report is produced with timeliness and accuracy.	Partially Implemented	Partially Implemented	Stakeholders, including Finance, the State Controller, and the project office, have coordinated to provide training and support to agencies submitting delinquent financial statements. However, agencies continued to submit late reports for fiscal year 2019–20, delaying the publication of the State's financial report.	Partially Implemented
The project office should arrange for oversight to continue until the State Controller publishes the State's annual financial statements exclusively using FISCAL.	NA— Recommendation issued in December 2019	Partially Implemented	The project office has reflected in its 2020 SPR a budget for CDT's oversight through fiscal year 2022–23. The project office has also approved a technical oversight contract through January 2023. The project office's former chief deputy indicated that the project office will secure a new contract at a date closer to 2023.	Partially Implemented
To ensure transparency of the total project costs, within 30 days CDT should require the project office to submit a new special project report that includes, at a minimum, changes in cost, scope, and schedule for the following: <ul style="list-style-type: none"> Ensuring that all entities are able to use FISCAL to meet all of their accounting and reporting needs. Fully transitioning to FISCAL by June 2019 the entities originally scheduled for onboarding in 2018. 	Partially Implemented	Partially Implemented	Since we made this recommendation, the project office has submitted and CDT has approved two project plan updates that modified the project's cost, scope, and schedule. Our 2019 and 2021 monitoring reports discussed our concerns that these project updates obscured the true scope and costs of the project. As we discuss in this report, we continue to have concerns that the prior modifications to the project scope do not provide full transparency regarding the project's costs and functionality.	Partially Implemented

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RECOMMENDATION	DECEMBER 2019 ASSESSMENT	JANUARY 2021 ASSESSMENT	CURRENT STATUS	ASSESSMENT UPDATE
To ensure that stakeholders are able to make informed decisions, CDT should formally communicate any significant concerns regarding the project at the monthly steering committee meetings.	Partially Implemented	Partially Implemented	Since our last update in January 2021, we have observed CDT consistently sharing significant risks and concerns at steering committee meetings.	Fully Implemented

Source: State Auditor's reports, 2018-039 *Fi\$Cal Status Letter*, 2019-039 *Fi\$Cal Status Letter*, 2020-039 *Fi\$Cal Status Letter*, and our analyses of project office and CDT status updates.

Note: All recommendations are from August 2018 unless otherwise noted.

NA = Not applicable.