OVERSIGHT HEARING

Information Technology Procurement and Implementation

April 10, 2014
State Capitol Rose Ann Vuich Hearing Room 2040
9:30 a.m. or Upon Adjournment of Session

AGENDA

Introductory Remarks

Legislative Analyst's Office
- Lourdes Morales, Fiscal and Policy Analyst
- Mark Newton, Deputy Legislative Analyst

State of California Task Force on Re-Engineering IT Procurement for Success
- Dr. Rosio Alvarez, Chair

California State Controller's Office
- Lisa Crowe, Chief, Personnel and Payroll Services Division
- Tony Davidson, Project Director, 21st Century Project
- Jim Lombard, Chief Administrative Officer
- Jan Ross, Chief Information Officer
- Tom Yowell, Chief, Administration and Disbursements Division

California Department of Technology
- Andrea Wallin-Rohmann, Deputy Director of Policy

Public Comment

Closing Comments

INFORMATION TECHNOLOGY PROCUREMENT AND PROJECT IMPLEMENTATION

Background: On August 15, 2013, Senate Budget and Fiscal Review Subcommittee No. 4 held an oversight hearing related to the suspension, and subsequent termination, of the 21st Century Project. While that oversight hearing focused on the 21st Century Project, there have been other costly state information technology (IT) projects that have also been suspended or terminated. This hearing is intended to determine if the cost overruns and project failures are a symptom of problems within the state's current IT procurement process.

IT oversight and procurement have suffered a long and troubled history in the state. Prior to the early 1990s, a sub-unit within the Department of Finance (DOF) performed oversight of IT projects. However, the management of IT projects was highly decentralized and the Department of General Services (DGS) was responsible for the procurement of IT-related services and products. In response to criticism that this approach was inadequate as the state's investment in IT grew, the California Department of Information Technology (DOIT) was created in 1995 to oversee the planning and the development of IT projects.

The DOIT was instrumental in securing a six-year, $95 million contract with Oracle for enterprise software. The no-bid, sole-source contract was widely scorned and triggered an investigation by the State Auditor in 2002, who issued a scathing report that alleged, among other things, that the state might have saved $41 million if it had obtained the software without the contract. Following the audit, the state cancelled the contract and the Legislature allowed the statutes that had created DOIT to sunset. Functions supporting IT projects were then scattered state departments and agencies.

Four years later, in 2006, a new law established the Office of the State Chief Information Officer (OCIO) and charged it with coordinating government information technology efforts. In 2007, the office's responsibilities were expanded to include planning and project approval. In 2009, the Legislature further consolidated statewide technology functions under the office. AB 2408 (Smyth and Huber), Chapter 404, Statutes of 2010, combined the OCIO, the Office of Information Security, the Department of Technology Services, and the Department of General Services' Telecommunications Division into a single unit. On September 28, 2010, the Governor signed legislation renaming the office as the California Technology Agency and extended its sunset provision to 2015.

During consideration of the 2013-14 budget, some significant changes were made to the IT procurement process. SB 71 (Budget and Fiscal Review Committee), Chapter 28, Statutes of 2013, modified the way that the state purchases IT enhancements. Prior to the passage of SB 71, as had long been the process, the DGS was responsible for IT-related procurement for most state agencies. SB 71 transferred procurement authority for large-scale IT-related enhancements, and the DGS staff responsible for this function, to the Department of Technology, formerly known as the California Technology Agency.

Throughout the history of the state's management of projects, the size and scope of IT projects has continued to grow. That growth is reflected in the state's significant investment in IT upgrades, which was roughly $1.3 billion in 1994, and totals more than $3.9 billion in the budget year. The suspension of several high-cost, IT upgrades, budgeted at nearly $1.0 billion, has significantly decreased the state's overall investment in IT modernization, which totaled nearly $5.0 billion at this time last year.

Among these suspended projects, was the contract with the vendor responsible for integrating the IT upgrade for the state's payroll disbursement system, the 21st Century Project, which was terminated in February 2013 after investing approximately $250 million.

TASK FORCE ON RE-ENGINEERING IT PROCUREMENT FOR SUCCESS

Issue 1 – Task Force Recommendations

Background: In just the first few months of 2013, two major California IT projects with combined budgets of over $500 million had either been suspended or canceled after years of development. Additionally, many state software-development projects exceeded their cost and schedule estimates. These problems are by no means unique to California or the public sector; large-scale commercial companies frequently experience failed IT projects and even the most respected systems integrators and developers have regular project failures. In light of these factors, the Governor and the Controller commissioned the Task Force on Reengineering IT Procurement for Success to help the state identify how it can: (1) hire the right vendors, (2) at the best value, and (3) hold them accountable for their performance.

While the primary focus of the task force was the procurement process, the recommendations extend into vendor management to address the risks presented in the entire project life cycle. To arrive at these recommendations, the task force interviewed stakeholders in the vendor, state, and general procurement communities; reviewed relevant studies and past reports; and drew on the collective experience of its members.

Staff Comment: The majority of the recommendations in the task force's report, issued in August of 2013, are administrative in nature and can be implemented through administrative action; however, a few will require statutory or legislative changes. There may be additional instances in which the state may need to identify conflicts that will require amending statute and work with the Legislature to modify statutes that limit the state's ability to pursue the recommendations.

Questions for the Task Force on Re-engineering IT Procurement for Success:

1. *Can you please describe which recommendations will require legislative action?*

2. *Did the task force consider utilizing an approach that breaks larger IT projects into numerous smaller projects? If not, does the Task Force see any issues with utilizing that approach moving forward?*

DEPARTMENT OF TECHNOLOGY

Issue 1 – Stage/Gate Model

Background: The process for IT procurement is generally the same, regardless of the cost and scope of the project. The review and approval process begins with the state entity seeking the IT project developing a feasibility study report (FSR). Once approved by the Department of

Finance, the FSR is essentially the business justification for undertaking a project. The FSR is translated into a budget proposal that is submitted to the Legislature for review and action.

Upon receiving the authority to procure IT enhancements, as provided by SB 71, the Department of Technology reviewed existing procurement processes and determined that the current IT modernization process was often viewed as cumbersome by both the vendor and the end-user department, required too much time for decision-making, and often relied on outdated data. The Department of Technology modified the IT procurement process with the intent of improving the quality, value, and likelihood of success for IT projects undertaken by the state.

As part of its improvement process, the Department of Technology has introduced the Stage/Gate model for IT projects. While state entities must still complete an FSR, the initial information that they are expected to provide will be different. The introduction of the Stage/Gate model is designed to be more informative on the front-end of the request, and departments/agencies must provide a more accurate project budget estimate and more clearly define the business case that led them to request an upgrade to their IT portfolio. The Department of Technology expects that the introduction of the Stage/Gate model will reduce the need for change orders mid-project. Technology Letter (TL) 13-02 introduced the changes, which all state entities are subject to, into the IT project approval lifecycle.

The Stage/Gate model also will break the IT procurement process into multiple stages. Each subsequent stage will be separated by a deliverable, or a gate. After each stage, the Department of Technology will conduct an analysis to determine whether or not the investment remains practical, and if the project should continue. The Stage/Gate model has the potential to reduce the complexity of future IT projects in the state by breaking the project into multiple discrete phases. According to a recent study conducted by the University of Oxford, the longer a project is scheduled to last, the more likely it is to run over time and over budget, with every additional year increasing the cost by 15 percent.

Staff Comments: The recent changes to the procurement process may be positive, but only time will tell. The introduction of the Stage/Gate model represents a change to the procurement process that was likely necessary. There are certain advantages to utilizing the proposed model, and the Stage/Gate model is a commonly accepted practice in the IT industry. However, there are certain risks that may arise from its use. One of the disadvantages of using the Stage/Gate model is that it limits creativity and ingenuity. The process to move from one gate to the next is very structured and the focus to move to the next gate may limit creativity. Additionally, it is unclear if every project will have clearly defined deliverables or gates, or if an agency will attempt to do too much in one phase.

Questions for the Department of Technology:

1. *Will modifying the procurement process require any changes to statute?*

2. *How does the Department of Technology plan on ensuring that the right people are determining whether or not a project moves forward?*