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Oversight Hearing: Senate Business, Professions,
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Subcommittee on California's Innovation, Technology
and Life Sciences Economy
Senator Jerry Hill, Chair

What Can the State do to Prevent Future IT Project Delays and Cost Overruns

State Capitol, Room 444
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Good Morning, Senator Hill and members of this Subcommittee. My name is Carol Henton. I am pleased to provide testimony on behalf of the IT Alliance for Public Sector (ITAPS)[1]. ITAPS is an alliance of leading technology companies offering the latest innovations and solutions to public sector markets. With a focus on the federal, state and local levels of government, the central mission of ITAPS is to advocate for improved procurement policies and practices. ITAPS is a division of ITI, the Information Technology Industry Council, based in Washington, DC.

In my remarks I will make some general observations about the problems and challenges related to IT acquisition in California. I will then offer a set of recommendations on how the state can bolster its track record of IT project implementation in the future.

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[1] **About the IT Alliance for Public Sector (ITAPS):** As a division of ITI, ITAPS is an alliance of leading technology companies offering the latest innovations and solutions to public sector markets. With a focus on the federal, state and local levels of government, as well as on educational institutions, ITAPS advocates for improved procurement policies and practices, while identifying business development opportunities and sharing market intelligence with our industry participants. ITAPS has over 30 members -- including several companies headquartered here in California such as Adobe, HP, Intel, Juniper Networks, Oracle, Performance Technology Partners, and VMware. In addition to those, we are proud to represent many other leading IT vendors such as Amazon Web Services, AT&T, Blackberry, Boeing, CA Technologies, CenturyLink, CGI, Deloitte, EMC, Honeywell, IBM, Juniper Networks, Lenovo, Lockheed Martin, Microsoft, Panasonic, SAIC, SAP and Xerox.

General Comments

To start, let me make five brief points:

1. The pace of change in technology is getting faster not slower.
2. The state's technology is quite old and outdated; much of it needs to be replaced or modernized.
3. The longer we wait the more costly, complex and difficult it will be to modernize.
4. The State can't get there alone – there needs to be a strong partnership between state employees, vendors and the legislature, with a shared goal of ensuring improved outcomes.
5. To get there, we need to **simplify** processes at every level.

For starters, let's not overlook the fact that there is a long list of successful IT projects, but which often get little attention. While of course it is appropriate to focus on the problems, I want to call your attention to one recent IT project that by any measure has been wildly successful. Last July, the California Franchise Tax Board (FTB) announced an important achievement—the recovery of an added $1 billion in state tax revenue resulting from its massive tax system modernization project, the Enterprise Data to Revenue System. During the 66 months of the project, EDR is projected to raise more than $4.7 billion and an added $1 billion per year thereafter. This first-billion milestone came almost 10 months ahead of the projected April 2015 schedule. By working with its IT vendor partner to automate manual processes and add modernized payment services to enhance data consistency and consolidation, California can now invest in additional services to improve constituent's lives. This FTB project is but one example; there are many other successful IT projects. I'm quite certain Director Ramos would be happy to share details about them with the members of the legislature.

As we've heard today from both State Auditor Howle and Director Ramos, there are numerous reasons why large IT projects encounter difficulties. I want to comment on several of them. But before I do, ITAPS wishes to commend state officials at the Department of Technology for their concerted effort to improve procurement rules and processes and for providing guidance, mentoring and consultation to the departments. The Department of Technology's (CalTech's) State Technology Approval Reform project (known as "STAR") is intended to

transform the IT project approval process and is expected to soon demonstrate good results.

Vendor Performance Scorecards

In addition to STAR, CalTech is also working on a vendor performance scorecard that will rate how well a vendor performs against a contract, which is also the subject of AB 522 by Assemblymember Burke. From our perspective, the success of an IT project is rooted in the initial planning stages and the successful partnership and management of the risks of the project. Vendor performance evaluation may lend itself to a review of a contract, but it generally does not represent a holistic view of a project's success or challenges and may or may not be an indication of future contract performance. Rather, the success of any IT contract depends on the agency clearly defining the business problem to be solved and the outcome it seeks to achieve while avoiding overly prescriptive requirements, coupled with strong government executive engagement with leading technology companies to discuss alternatives and solutions to achieve the desired outcomes. This approach permits vendors to solve the problem, rather than deliver a predetermined solution, thus increasing the opportunity for innovative solutions from the bidders.

With this in mind, if California seeks to enhance the way it currently evaluates the performance of its vendors, we recommend that the process ensure fair, 360-degree performance reviews and comparisons across similar contracts. We urge the legislature to consider directing state agencies to engage in business planning to determine performance needs and outcomes of an IT project and clearly identify the attributes for successful performance of a responsible and responsive IT contractor. Because timing is critical in this process, we will ask that the pending legislation clearly require that performance attributes be identified and announced early in the bidding process.

Furthermore, we recommend that any vendor scorecard system includes a review of a state agency's activities to determine if an agency contributed to nonperformance, cost overruns or delayed project implementation. For example, if the agency changed requirements or performance expectations after the contract had begun, that would most likely contribute to cost overruns and project delays. These actions would take control of the success of the program out of the hands of the vendor and therefore should be appropriately attributed to the actions of the agency.

Our recommendation is in line with the federal Office of Management and Budget's recently adopted Acquisition 360, which is designed to improve communications between the government and industry, and performance on contracts, including during the pre-award phase.

In sum, if vendor performance criteria are described clearly and there is accountability on both sides, then IT vendors are likely to view this process as fair and one that will foster a more collaborative environment. Ultimately, the state will have facilitated more objective evaluations and reduced post-award disputes.

Problems from the vendor perspective

So what are some of the challenges from the perspective of the vendor community?

One problem is the challenge of workforce development in state government. With over 50% of the state's IT workforce eligible to retire within the next five years, and a continued challenge of attracting and retaining Millennials, California struggles with having enough experienced and well trained staff that is necessary and required for the complexity of large IT projects that are needed for the state to function and excel. The ability to recruit and train talented employees, while retaining key personnel over the lifespan of a protracted and complex project, is a challenge for the state. Often budgets don't permit adequate training of staff and there are retention issues for key staff. It's no secret that exciting and rewarding jobs in Silicon Valley are beckoning new college graduates and many others.

Another problem is that all too often the initial design of a major IT project misses the mark. It is customary for the state to hire a firm to design and estimate what it will cost to implement an important project. These Feasibility Study Reports – better known as FSRs – are frequently too optimistic about the amount of money that should be budgeted and are unrealistic about how long it will take to implement. The result, as noted in August 2013 by the *Task Force on Reengineering IT Procurement for Success*, is that – years later – the project is deemed "troubled" or even a "failure" because it cost more than initially estimated and took longer than expected. In other states, vendors are able to engage in the preliminary design and scoping of a large project and then are permitted to bid – and be awarded – the job to carry out and deliver their project plans. The legislature may wish to revisit this statute, which was adopted over a decade ago.

We now have a ten year track record of this statute's effects – both good and bad – we could examine, which might highlight reasons to revise this strict "follow-on contracting" prohibition. There are many who believe that this contracting prohibition has at times prevented the state from receiving best value and reduced risk.

Permit me to briefly identify several additional problems:

- Business and technical requirements often do not meet business needs by the time the project begins. All too often the requirements do not take advantage of current technology innovation & improvements. Instead they seek to shoe-horn outdated business processes in a prescriptive fashion.
- From the point of conception of a large IT project to its eventual "award", the project requirements and key objectives are often diluted or even lost as a result of a "risk adverse" environment, which can cause the project to be destined for trouble before it has even begun.
- Vendors often cut corners in bidding because of undue weight placed on "low cost" solutions. State officials, including the legislature, should be aware of the trade-off when the emphasis is on "low cost" instead of "best value."
- Budget estimates are made too early – before the requirements are fully understood – and budgets are unrealistic given the complexity of the business and technical requirements. Forecast budgets (and associated timelines) are then reported as "firm" to legislative appropriators, before the procurement phase is even begun. Then, if these metrics are adjusted upwards later, then the project is labeled as a failure. Such labeling needs to stop.
- There is a lack of engaged, consistent & sustained executive sponsorship. Due to resource constraints, the state team is often unable to dedicate sufficient staff on a full-time basis to a project.
- Finally, agencies should be afforded a greater degree of flexibility during contract performance to permit the state and its vendor to work together to resolve issues, rather than "stay the course" simply because that I s what is written in the contract. For example, if there is a requirement that cannot be met due to technical or business issues, there should be a way to revisit the design requirements and adjust them at key points in the project life cycle to evolve the expectations and outcomes.

Innovation Strategy Recommendations

But those challenges and problems are well-known and have been analyzed in several studies, audits and reports. I would like to devote the remainder of my time to some recommendations that we believe will lead to improvements in the process.

In January, ITAPS issued an Innovation Strategy "Brief" to governors – both newly-elected and incumbents. In my remarks this morning, I will summarize some of those recommendations. In my written testimony, for the record, I will provide a full explanation of those recommendations and highlight examples of IT initiatives that lend themselves to innovation strategy implementation.

1. **Ensure that large IT projects proceed only when adequate executive and legislative sponsorship exist.** California leadership tends to view IT projects as a cost center, and not as a strategic means of improving the State's competitive stance in the global economy. If the desire is to ensure success with the state's use of technology, California leadership needs to view, budget, and manage the environment with the same level of strategic focus as it does other critical infrastructure such as water and roads.

2. **Embrace a culture of innovation and invest in new technologies.** Turning innovation into a cultural value that pervades every level of state government requires openness, sharing, engagement and buy-in from state officials, particularly individuals in senior leadership roles. California, which is the leader in the global economy for cutting edge technology, should look to technology solutions, like cloud computing and mobile applications, to transform state enterprise systems, drive efficiency, reduce costs, and automate and modernize constituent services and government operations.

3. **Build Smarter IT Procurement.** We need to modernize the terms and conditions in state contracts in order to permit acquisition and deployment of innovative solutions that will keep pace with technology, facilitate competition, and eliminate delays in procuring IT goods and services. The state will benefit by embracing contractual terms and conditions that protect corporate intellectual property rights, include fair indemnification provisions, and set reasonable limits on liability. By the way, California benefits from a powerful statutory authority known as Section 6611, which has existed since 2003 and which permits important flexibility in IT contracting. No other state has

anything quite like California's Section 6611; others states are looking to follow California's lead.

4. **Partner with the Private Sector**. We recommend that the state consider establishing a collaborative advisory partnership with senior IT executives from industry, which could serve as a sounding board for problem-solving for the myriad of state technology challenges such as cyber security threats and emerging technologies – in order to understand their relevancy, make them operations-focused and increase the pace of adoption in the enterprise.

5. **Lastly, grant broad-authority to the state's Chief Information Officer (CIO).** Every state needs to empower its state CIO with broad authority to oversee all state agencies' IT investment, procurement, and management strategies so that technology can target solutions and be available across the state enterprise. While existing authority for California's state CIO is probably sufficient, I want to emphasize the importance of the need to give him or her broad authority.

I want to conclude my testimony with this closing thought -- more bureaucracy and oversight will only serve to complicate the current process. And more rules will likely add to delays and will make it more costly, risky and challenging to drive to successful outcomes. The goal should be to streamline the process in order to reduce costs and deliver better results.

Thank you Senator Hill for the opportunity to testify today. I am happy to answer any questions.