



Supplemental Analysis 1994-95 Budget Bill

*Item 2740-001-044
Department of Motor Vehicles
(Page A-54 of the Analysis)*

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Database Redesign

In our *Analysis of the 1994 Budget Bill*, we withheld recommendation on \$7.5 million for the Department of Motor Vehicles (DMV) to continue redevelopment of its driver license and vehicle registration database. In the *Analysis* (page A-54) we reported that so far the database redevelopment project has cost over \$40 million, but that the department is not able to complete the project. Because the DMV reported at the time of our analysis that it was developing a revised plan to salvage the project, we withheld recommendation pending receipt of the revised plan and a report on project status and history.

Database Project Should Be Suspended and Reviewed by an Independent Consultant

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There are two reasons for our recommendation:

- The DMV proposes to radically shift the approach of its database redevelopment project, effectively abandoning most of the investment to date. The department's new plan for a much

less ambitious database redesign may not provide benefits that justify its cost and may not meet the department's long-range needs.

- The DMV, due to the failure of the initial project, may lack the ability to develop and implement a new approach.

These points are discussed in detail below.

New DMV Plan Envisions Substantially Smaller Project That May Not Meet the Department's Long-Range Needs. The DMV released its Special Project Report (SPR) for the revised project on April 11, 1994. The SPR outlines a project that is much narrower in scope than the original database redevelopment project. The new plan focuses on incremental improvements to the existing database system. The new plan differs from the initial plan in the following ways:

- The new plan abandons the use of the Tandem computer system that the department purchased at a cost of \$21 million for this project, and for which it continues to make payments. Instead, the department would continue to use the IBM mainframe at the Teale Data Center. (The Tandem equipment was purchased based upon a competitive evaluation performed by the DMV that judged Tandem superior to IBM for the project requirements.)
- The new plan does not foresee fully rewriting the application programs that control and access the database. Instead, the department would focus its effort on a small number of high-maintenance application programs and would attempt to clean-up and simplify the existing programs. (The high failure rate, obscure logic, and archaic design of these application programs were initially cited by the department as one justification for the database project.)
- The database would essentially keep its existing structure, which the department has previously criticized as outdated and inadequate, and would not be fully redesigned to take advantage of "relational" technology.

While a primary goal of the database redevelopment project has been to improve the reliability and flexibility of the database to allow the department to respond to new and evolving responsibilities, we believe that the limited redesign and renovation proposed in the new plan may not meet the department's long-range business needs.

The DMV estimates that the development costs for this plan will total \$37 million from 1994-95 through 1996-97. In addition, ongoing operational costs would be about \$12 million annually.

The DMV May Lack Ability to Develop Viable Plan. Based upon the department's poor performance and lack of direction for the project to date, we do not believe that the DMV has the necessary ability to develop and implement another plan for this project. There are two principal reasons for this concern:

- *Lack of Departmental Experience.* The department has limited experience with modern database technology and may be ill-equipped to develop a project plan of this magnitude and complexity without outside expertise. While the Office of Information Technology (OIT) must review and approve (or reject) the new DMV plan, such review did not prevent the failure of the initial project and cannot be solely relied upon to prevent future failures, or to ensure that the new plan adequately meets the department's business needs.
- *Departmental Failure to Implement Its Chosen Plan.* The DMV has failed, at great cost, to implement its chosen plan. The DMV attributes this failure primarily to the overly ambitious technical goals of the initial plan that the department now feels were too difficult to execute and would ultimately not have provided benefits that justified the effort. An alternate explanation, not offered by the department, might be that the initial plan is essentially reasonable and that it failed due to mismanagement, lack of technical expertise in the department, and resistance from DMV and Teale staff. If the initial plan was, in fact, sound

but its implementation was mismanaged, then the plan itself should be retained and the management and implementation strategy revised.

In addition, there is a potential conflict of interest regarding the Teale Data Center. Specifically, the Teale Data Center, which owns the computers on which the DMV's database currently operates, stands to lose a substantial portion of its customer base if the DMV decides that its optimal solution does not involve Teale. Teale therefore has a vested interest for the DMV to keep its database at Teale. In fact, Teale has made unsubstantiated low-cost proposals to the DMV to take over the database redevelopment project. This complicating factor makes it difficult for the DMV to select the optimal solution to meet *its* needs and could contribute to the DMV selecting a less desirable solution for the purpose of protecting Teale.

Independent Review Needed. Based on DMV's track record, we lack confidence that the department can develop a viable project plan. Therefore, we recommend that a consultant be contracted to review the department's needs and determine what is the department's best course of action.

The consultant's review should address, at a minimum, these questions:

- How urgent is the need to redevelop the database? We do not dispute that the DMV's database is outdated and hinders the department's operation. If there is a substantial risk that a near-term database malfunction will impair the department's operation, then the database must be overhauled on a more rapid schedule.
- Are the goals, approach, and conclusions of the initial Feasibility Study Report (FSR) still valid? Are the database redevelopment project and the FSR document consistent with the DMV's long-range information technology strategy?
- Is the department's initial project plan viable? Is it consistent with the FSR and the department's long-range information technology strategy? Are

there reasonable grounds for abandoning this approach?

- Is the new plan viable? Is it consistent with the FSR and the department's long-range information technology strategy?
- Evaluating all available options and reasonable constraints, and considering the department's long-range information technology strategy and business needs, what is the most cost-effective option for database redevelopment? The consultant should review all realistic options that the DMV has considered as well as other options identified by the consultant.
- Based on a review of the options, which is the preferred alternative, and to what extent should DMV staff be involved in project execution? In what areas is DMV expertise essential to a successful project? What areas should be contracted to the private sector?

We estimate that this approach would entail an additional cost, probably about \$500,000, and take potentially up to one year for the consultant to review the project. We believe that the additional costs and time delay are warranted in order to ensure the most appropriate course of action is determined—that is, the course of action that would result in a cost-effective project with an achievable completion schedule and a realistic cost estimate that meets DMV's needs. Measured in terms of the costs and delays so far resulting from the DMV's failed attempt, the additional cost and delay for consultant review are insignificant; indeed, had more resources been dedicated to up-front review and planning, the initial project may have been successfully completed by this time.

Consultant Should Participate in Contractor Selection. It is likely that the consultant's recommended course of action will involve participation by private-sector contractors to implement the project. Because the department has had difficulty selecting and managing private contractors for the database project, we believe that, while the request-for-proposal (RFP) for private-sector contractors should be drafted primarily by DMV staff, the consultant should participate as well to ensure

that the RFP reflects the appropriate project direction and contractor qualifications. Ultimately, the consultant should certify, in a letter to the Legislature, that the RFP is adequate to select competent contractors to execute the project. Similarly, the consultant should participate in the drafting of a selection plan and in the selection of the winning contractors and should confirm to the Legislature that these tasks have been appropriately handled.

The consultant should recommend substantial performance guarantees to ensure timely, high-quality, and cost-effective project completion by the selected contractor and should ensure that these guarantees are specified in the RFP and in the resulting contract. The consultant should indicate, in a letter to the Legislature, its assessment of the sufficiency of performance guarantees included in the RFP and contract.

In addition, once a contractor is selected, managing the contract requires expert technical and contract management skills and is an area in which the state has frequently performed poorly. We therefore recommend that the resultant contract for database redevelopment be managed either by the consultant or by an independent third party with appropriate expertise.

Selection of the Consultant Should Not Be Solely by DMV. Because the consultant will have tremendous responsibilities in determining the approach for database redevelopment, it is essential that a highly competent consultant be selected. For this reason, we believe that the RFP to select the consultant should be drafted by a team of state information technology managers and procurement specialists drawn from the DMV, the OIT, and the Department of General Services. In addition, the Administration should consider inviting private-sector information technology managers to participate in drafting or reviewing the RFP. (Finally, review copies of all RFPs and other contractor selection documents should be provided to the Legislature.)

Other Costs Under Existing Contracts Would Continue While Project Direction Under Review. The department has contracted with Tandem Computers, Inc., a computer hardware and software vendor, and the Teale Data Center to purchase and operate a new

computer system for database redevelopment. Although the DMV now indicates that it does not plan to use this computer system, the DMV reports that it is obligated to make payments of \$3.9 million in 1994-95 for the computer system purchased from Tandem. Therefore, we recommend that the Legislature provide funding for this purpose while the project is under review by the independent consultant.

Summary of Analyst's Recommendations

To implement our recommendation, the Legislature should take the following actions:

- Delete all budgeted funds for database redevelopment (reduce Item 2740-001-044 by \$7.5 million), and add the following Budget Bill language:

No funds from this item shall be used for support of database redevelopment.

- Create a new item (2740-012-044) to provide a total of \$4.4 million including (1) \$500,000 for a consultant contract and (2) \$3.9 million for ongoing 1994-95 costs required under the current contract with a computer vendor, and adopt the following Budget Bill language to restrict the use of funds to these two uses:

Of the amount in this item, up to \$500,000 shall be used only for payment to an independent consultant to evaluate the DMV's database redevelopment project and needs and to propose a solution, consistent with the stated intent of the Legislature. Of the amount in this item, up to \$3.9 million shall be used only to make required payments to the Teale Data Center for the purchase, maintenance, and support of the Tandem computer system that was procured for the Department of Motor Vehicles' database redevelopment project. The department shall minimize these costs by eliminating or postponing tasks or payments that are not necessary during the consultant review period. Any funds not required for either of these purposes shall revert on July 1, 1995.

- Adopt the following supplemental report language to direct the DMV to hire an independent consultant to determine the best course for the database redevelopment project:

The Legislature finds that the Department of Motor Vehicles has committed well over \$40 million to a failed database redevelopment project, and because of this failure the Legislature believes that the DMV lacks the ability to develop and implement a revised plan. It is therefore the intent of the Legislature that the DMV contract for an independent expert consultant to determine the most appropriate course of action. The consultant shall be selected by a team including participants from the DMV, the Department of General Services, and the OIT. The consultant will address, at a minimum, these issues:

1. How urgent is the need to redevelop the department's database system?
2. Are the goals, approach, and conclusions of the FSR still valid? Are the database redevelopment project and the FSR document consistent with the DMV's long-range information technology strategy?
3. Is the initial plan viable? Is it consistent with the DMV's long-range information technology strategy? Does it meet the goals of the FSR? Are there reasonable grounds for abandoning this approach?
4. Is the new plan viable? Is it consistent with the DMV's long-range information technology strategy? Does it meet the goals of the FSR?
5. Evaluating all available options and considering the department's long-range information technology strategy and business needs, what is the most cost-effective option for database redevelopment?
6. To what extent and in what areas should DMV staff and private-sector contractors be

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involved in the database redevelopment project?

If the consultant recommends that private-sector contractors participate in the project, the consultant shall be involved in the selection of these contractors. The consultant shall participate in drafting an RFP and selection plan, and shall participate in the evaluation and selection of bids. The consultant shall propose substantial performance guarantees to ensure the performance of the contractor and shall ensure that these guarantees are included in the contract. At each significant milestone in the selection of contractors, the consultant shall certify to the Legislature whether the intent of the Legislature and the best judgment of the consultant is being met.

The consultant shall complete the review, analysis, and recommendations for the database project, and shall submit its final report to the Legislature, the DMV, and the OIT, no later than June 30, 1995. The DMV shall propose to the Legislature, by July 15, 1994, a schedule of milestone dates to achieve this target date and shall promptly notify the Legislature of any slippage in this schedule.