

May 23, 2012

Employment Development Department's (EDD) Automation Projects (2012-13 May Revision Budget Requests)

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Budget and Fiscal Review Subcommittee No. 5 on
Corrections, Public Safety and the Judiciary
Hon. Loni Hancock, Chair





Disability Insurance Automation (DIA) Project



What Is the DIA Project?

- The DIA project would simplify and automate the numerous manual work processes involved when filing a disability insurance claim.
- Specifically, DIA would allow claimants, medical providers, and employers to use the Internet to submit claims data via web-based forms, significantly simplifying and automating EDD's manual work processes related to disability insurance claims. The DIA would also assist EDD in managing fraud and abuse through detecting unauthorized access to applicants' confidential health information.



Finance Letter

- The Governor's proposal for 2012-13 requests \$33.8 million and 68 positions to continue with the development phase of the DIA project. These dollars will come from the disability insurance fund.



Project Expenditures

- To date, project costs total about \$78 million (this includes estimated costs through March 2012).
- Total project costs are currently estimated at \$157.9 million. This estimate includes three years of vendor supported maintenance and operation (M&O) costs after the DIA system has been fully deployed.



DIA Project Timeline

- Feasibility Study Report (FSR)—Approved January 2006**

 - The EDD proposed developing the DIA system. The project was estimated by EDD to cost *\$35 million*. The system was planned to be fully implemented by *June 2009*.
 - The estimated annual M&O costs would be *\$3.2 million*.

- Special Project Report (SPR) #1—Approved November 2007**

 - The FSR included a nine-month procurement. However, due to procurement-related delays, which increased the procurement to 16 months, the project schedule was extended by an additional 23 months. This schedule change triggered SPR #1.
 - The scope of the DIA project remained unchanged and the project was estimated by EDD to cost *\$33 million*. The system was planned to be fully implemented by *May 2011*.
 - The estimated annual M&O costs would be *\$3.7 million*.

- SPR #2—Approved November 2009**

 - Upon completing the procurement process, EDD now estimated the cost of the project to be *\$119 million*, of which *\$52 million* would go to the selected vendor—Deloitte—to build the system. (The balance of the costs would be for state staff, data center services, and other contract services, among other items.) The system would be fully implemented by *January 2013*.
 - Through the initial planning and procurement years, EDD had learned they had underestimated both the complexity and effort necessary to build the DIA system. New estimates of both cost and schedule triggered SPR #2.
 - The estimated annual M&O costs would be *\$6.9 million*.



DIA Project Timeline

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SPR #3—Approved November 2011

- The SPR #3 updated project costs to *\$158 million* (a *\$38 million* variance from SPR #2). A significant project change was to include two additional years of M&O as part of the project costs (beyond the typical one year for M&O). The new implementation date for the DIA system is now *June 2013*.
- The estimated annual M&O costs are now *\$8.8 million*.
- The *\$38 million* variance between SPR #2 and SPR #3 are attributable to:
 - Including two more years of M&O as part of project costs resulting in an additional *\$18 million*. This includes costs for extending current contracts, equipment, data center services, hardware, software, and state staff.
 - Legislation, specifically Chapter 23, Statutes of 2009 (ABX3 29, Coto), requiring EDD to establish an alternate base period that expanded unemployment insurance (UI) eligibility rules. About *\$8 million* of work was necessary to implement legislation.
 - Costs that often accrue over the lifespan of a project, including increased state staffing needs, enhanced system functionality or scope increases, and data center costs, among other things. This accounts for the remaining *\$12 million* variance.



Unemployment Insurance Modernization



2003-04 Budget Act

- The Legislature set aside appropriations of federal Reed Act funds (\$66 million) for two EDD projects that would help to modernize UI services.
- Call Center Network Platform and Application Upgrade (CCNPAU) will build a single networked infrastructure for EDD's call centers which will interact with an intelligent call routing system. This will increase the number of available agents by 1,000 and provide the infrastructure necessary to route calls to specialized agents. The goal is to reduce blockage to call center services and increase EDD's service level to meet Department of Labor performance guidelines.
- Continued Claims Redesign (CCR) will develop an interactive Internet website and telephone application that allows customers to file UI claims and recertify on a biweekly basis on the Internet or by phone. Customers will be able to confirm certification, reopen claims, submit address changes, and receive communications via this application. This solution reduces the amount of workload that must be processed.



FSR—Submitted October 2003

- The EDD proposed CCNPAU and CCR as two individual projects. Together, they would cost an estimated \$96 million.
- The CCNPAU—\$38 million, to be completed by November 2006.
- The CCR—\$58 million, to be completed by June 2008.



Unemployment Insurance Modernization

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SPR #1—Submitted May 2006

- The EDD proposed merging the two projects due to multiple interdependencies. This required refining the scope, schedule, and costs of the combined projects. The EDD planned to conduct a single procurement. These changes brought costs to \$113 million and delayed completion of the project by three years.
- The CCNPAU—\$48 million, now to be completed by April 2010.
- The CCR—\$65 million, now to be completed by September 2011.



SPR #2—Submitted August 2007

- The EDD proposed changes to the procurement strategy. Rather than conduct a single procurement for the two subprojects, EDD would now utilize the Calnet II contracting vehicle for CCNPAU. (Calnet II is a service contract the state has with AT&T and Verizon to provide telecommunication services to state entities at competitive prices. It was not available at the time of SPR #1.) A request for proposal approach would be used for CCR. These changes increased costs to \$126 million and further delayed the project by nine months.
- The CCNPAU—\$56 million, now to be completed by September 2009.
- The CCR—\$71 million, now to be completed by June 2012.



Unemployment Insurance Modernization

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SPR #3—Submitted September 2009

- After conducting both procurements, EDD updated the project document to reflect actual vendor costs and timelines. The updated project costs are \$159 million with a project completion date of May 2012.
- The CCNPAU—\$71 million, now to be completed by January 2011 (16 months later).
- The CCR—\$87 million, now to be completed by May 2012 (one month earlier).
- Total project funding—\$66 million in Reed Act funds, \$79 million from the state's base grant for UI, and \$14 million American Recovery and Reinvestment Act funds.



Unemployment Insurance Modernization

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SPR #4—Submitted April 2012

- Project costs have been updated to a total of \$185 million (about a \$27 million variance from SPR #3).
- The \$27 million variance between SPR #3 and SPR #4 is attributable to:
 - The CCNPAU—Completed in May 2011, however, an additional *\$11 million* over estimated SPR #3 costs was spent to incorporate an identity management solution (allowing for a more secure environment) and additional call center agent seats and equipment (due to unprecedented workload increases).
 - The CCR—Estimated completion date is now May 2013. An additional *\$16 million* over estimated SPR #3 costs will be spent. See details below.
 - As with the DIA project, two additional years of M&O costs are now included as part of the CCR costs, resulting in an additional *\$7 million* for extending current contracts, equipment, data center services, hardware, software, and state staff.
 - Chapter 23 resulted in *\$9 million* of additional costs that were added to the Deloitte contract in order to implement legislation.



Unemployment Insurance Modernization

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| Costs Over Time | | | | | |
|------------------------|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <i>(In Millions)</i> | | | | | |
| Subproject | Estimated Costs | | | | |
| | FSR (Submitted 10/03) | SPR #1 (Submitted 5/06) | SPR #2 (Submitted 8/07) | SPR #3 (Submitted 9/09) | SPR #4 (Submitted 4/12) |
| CCNPAU | \$38 | \$48 | \$56 | \$71 | \$81 |
| CCR | 58 | 65 | 71 | 87 | 106 |
| Total Costs | \$96 | \$113 | \$126 | \$159^a | \$187 |

^a Funded by a combination of federal funds (currently \$66 million Reed Act funds, \$79 million UI base grant funds, and \$14 million ARRA funds, totaling \$159 million).
 FSR = Feasibility Study Report; SPR = Special Project Report; CCNPAU = Call Center Network Platform and Application Upgrade;
 CCR = Continued Claims Redesign; UI = unemployment insurance; ARRA = American Recovery and Reinvestment Act.