

April 10, 2014

# Information Technology Procurement and Implementation Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Senate Budget and Fiscal Review Subcommittee No. 4  
On State Administration and General Government  
Hon. Richard Roth, Chair





## Overview of State Spending on Information Technology (IT)



**State Spent \$2.2 Billion on IT in 2012-13.** As shown in the figure, the state spent \$2.2 billion in 2012-13 on telecommunications services, IT goods and services, operating the state's data center, and developing and maintaining state IT systems. (This spending total excludes higher education, which is outside the Department of Technology's purview.)

<b>Information Technology Expenditures in 2012-13</b>	
<i>(In Millions)</i>	
<b>Budgetary Area</b>	<b>Expenditures</b>
Health and Human Services	\$638.2
Business, Transportation and Housing	364.3
State and Consumer Services	320.5
Labor and Workforce Development	273.3
Legislative, Judicial, and Executive	177.9
Corrections and Rehabilitation	148.8
Natural Resources	146.8
General Government	97.7
Environmental Protection	43.8
California Technology Agency <sup>a</sup>	7.7
Education <sup>b</sup>	3.9
<b>Total</b>	<b>\$2,223.0</b>

<sup>a</sup> Now called the Department of Technology.  
<sup>b</sup> Excludes higher education.



## Overview of State Spending on IT *(Continued)*

---



***Currently, the State Has Over 35 Approved Significant IT Projects in Various Stages of Development.*** The total cost of completing all of these IT projects under development over a number of fiscal years is estimated to be nearly \$4 billion. The five largest state IT projects in development are:

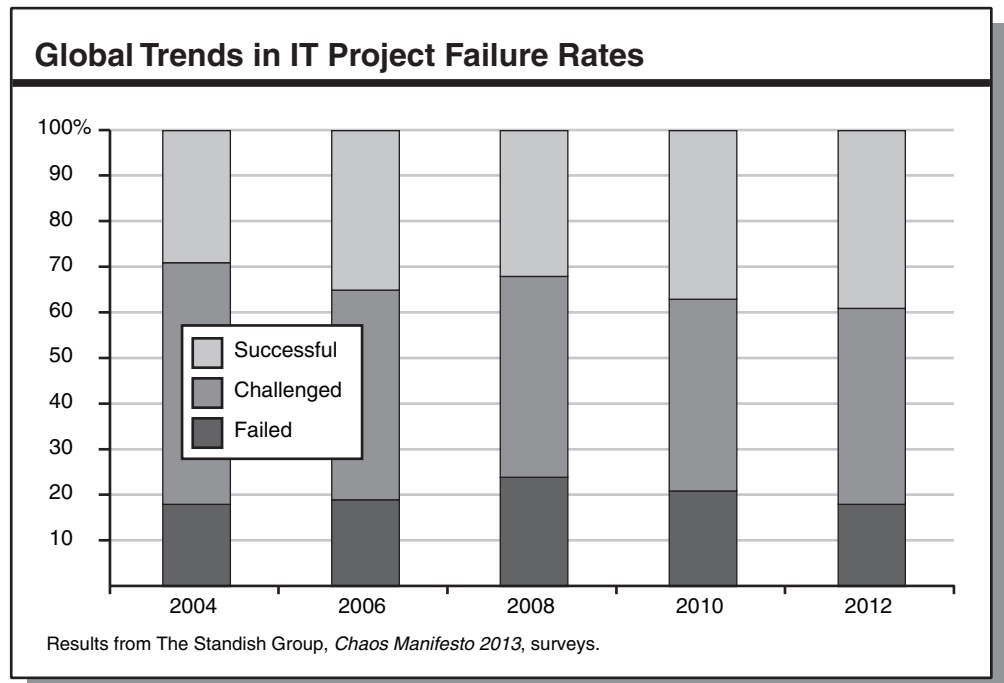
- ***Financial Information System for California***, which will integrate the state's financial management systems.
- ***Enterprise Data to Revenue Project***, which will modernize the state's taxpayer return and tax revenue collection systems.
- ***Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting Replacement System***, which will determine eligibility and benefits for a variety of public assistance programs.
- ***Medicaid Management Information System***, which will process payments for health care providers of Medi-Cal fee-for-service.
- ***Child Welfare Services New System***, which will modernize the child welfare services system.



## IT Project Failure Rates



**Developing Large IT Systems Is Difficult and the Majority of Times Results in Challenged or Failed Projects.** As shown in the figure (based on a global survey—focused on the U.S.—of companies and government agencies of various sizes), a vast majority of IT projects are either (1) completed late, over budget, and/or lacking in some system requirements; or (2) not completed. Of large projects surveyed in 2012 (those with estimated cost above \$10 million), only 10 percent succeeded, while 38 percent failed and 52 percent were challenged.



- **Successful** projects were completed on time, within budget, and included all required features.
- **Challenged** projects were late, over budget, and/or included fewer features than required.
- **Failed** projects were cancelled at some point during the development and not completed.



## Overview of State IT Procurement

---

- State Law Designates the Department of Technology as the State's IT and Telecommunication Procurement Officer.*** Before July 1, 2013, the Department of General Services held IT procurement authority for state agencies. The IT procurement authority was transferred to the Department of Technology in state law effective July 2013 to leverage the department's technology expertise and to further consolidate IT functions within a central state entity responsible for technology.
  
- IT Procurement Is Governed by Many State Laws.*** State law requires competitive bidding (except in a few circumstances, such as when only one entity meets the state's needs or in instances of an emergency), the review of bids based on evaluation criteria, and provides bidders an opportunity to protest a procurement. State law authorizes the Department of Technology to set the policies and procedures to be followed by agencies during IT and telecommunication procurement.
  
- Statutory Emphasis Is on Ensuring Fair and Open Competition**
  
- For IT-Specific Procurements, the State Can Select IT Goods and Services Based on "Best Value" Instead of Lowest Cost**



## Common Challenges With Procuring and Implementing IT Projects

---



### Common IT System Procurement Challenges

- The amount of time and cost to conduct major complex procurements.
- Obtaining contracts that meet the state's needs.
- Nonperforming vendors continuing to receive state business.



### Common IT Project Implementation Challenges

- High vacancies and turnover rates.
- Complex and/or misunderstood system requirements.
- Management of vendor contract.
- Conversion and migration of data.
- System testing.
- Change management.



## Case Study: 21st Century Project

---

- The 21st Century (TFC) Project.*** The TFC Project was an IT project that would have replaced existing human resources and payroll management systems with a single statewide system. The existing systems are old and inflexible, cannot meet the needs and demands of the state, and are at risk of failure. The new system would have improved payroll, benefits administration, and timekeeping, and included self-service access by employees and managers, among other capabilities.
- Project Suspended After Errors Persisted.*** Significant errors were identified during the pilot stage of the project, including overpayments, incorrect deductions, and leave balance discrepancies. The project was suspended after the errors persisted for several months.
- Project Expenditures.*** At the time of the contract termination, the state had spent \$262 million of the \$373 million estimated total project cost.
- Current Status**

  - The TFC Project is reconciling payroll by comparing the pay and benefits processed using the new system to what employees should have been compensated, using data from the existing system as a comparison point. This effort is delayed and is now expected to be complete by December 2014.
  - The TFC Project is engaged in a legal proceeding against the primary vendor for breach of contract.