

The 2021-22 Budget: California State Payroll System IT Project

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The State Controller's Office (SCO) is responsible for issuing pay to the state workforce, and the California Department of Human Resources (CalHR) supports state human resources (HR) and labor relations policies and practices. In 2016, SCO started planning a replacement for the state's current payroll system—the California State Payroll System (CSPS). The *2021-22 Governor's Budget* proposes to continue CSPS planning efforts with requests totaling \$5.7 million (\$3.4 million General Fund) in 2021-22 for SCO and CalHR to begin project procurement and change management activities. This post evaluates the two budget proposals for the proposed CSPS information technology (IT) project and provides associated recommendations.

Background

Proposed CSPS in Stage 2 Alternatives Analysis of PAL Process. The California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) process is divided into four consecutive stages: the Stage 1 Business Analysis, Stage 2 Alternatives Analysis, Stage 3 Solution Development, and Stage 4 Project Readiness and Approval. The proposed CSPS IT project is in the Stage 2 Alternatives Analysis, which requires entities that propose projects to conduct market research and identify available technical solutions to the business needs they identified in the Stage 1 Business Analysis. Entities then recommend one or more solutions to CDT for approval and (once approved) set a preliminary baseline project cost, schedule, and scope. SCO submitted their Stage 2 Alternatives Analysis documentation last year, and CDT approval is expected to be forthcoming. SCO anticipates the proposed CSPS IT project will complete the PAL process and start development and implementation in 2022-23.

Budget Proposals

Budget Requests \$5.7 Million (\$3.4 Million General Fund) for SCO and CalHR to Start Project Procurement and Change Management Activities. SCO requests \$5.5 million (\$3.1 million General Fund) and 7 positions to complete CDT's PAL. SCO plans to release a solicitation for vendors to bid, conduct a procurement process with multiple phases (described below), and select one or more vendors for the final contract award. CalHR requests \$230,000 General Fund and 1 position to hire an Enterprise HR Project Director to support the implementation of state HR and labor policies and practices in CSPS.

Phased Procurement Process Planned. SCO, with technical guidance from CDT, plans to conduct a procurement process with three phases over a six-month period. (A recent change in SCO's procurement strategy shortened the procurement process from two years, as reflected in SCO's budget proposal, to six months.) Phase 1 will involve the release of a solicitation for vendors to bid, meetings to answer vendor questions, and state evaluation of vendor bids with likely no more than three vendors selected for Phase 2. Phase 2 will require vendors to build proofs of concept—that is, working models of their technical solutions that are based on business scenarios defined by SCO—for state evaluation. (\$3 million of the \$5.5 million that SCO requests in its budget proposal is to pay vendors for their proofs of concept in Phase 2.) This proof-of-concept evaluation, and other information that SCO will gather from vendor meetings and responses, will help the state select one or more "best value" vendors for Phase 3. Phase 3 will end with a contract award after the state finishes its negotiations with the vendor(s) and interviews project staff. Throughout the procurement process, SCO will submit Stage 3

Solution Development and Stage 4 Project Readiness Approval documentation, which will culminate in CDT approval of the CSPS IT project through the PAL process.

Assessment

Proposed CSPS Will Be a Complex and Costly IT Project. Based on market research for their recommended technical solution, SCO estimates the preliminary baseline cost for the proposed CSPS IT project at approximately \$750 million (a majority of which will be General Fund). The complexity of a full replacement of the state's current payroll system—which is what this IT project proposes—also requires a lot of time. The preliminary baseline project schedule anticipates system completion and initial deployment in 2027-28—a five-year time frame to develop and begin implementation of the new system. Throughout the project, change management activities also will be required to train staff at many state entities how to use the new system and to review and modify their existing business processes. This statewide effort is comparable to the change management required for the Financial Information System for California (FI\$Cal) IT project, which led to the creation of a new entity (Department of FI\$Cal) with ongoing operational and training responsibilities.

Phased Procurement Process Reflects Complexity and Risk of Project. The complexity and cost of the proposed CSPS IT project is also reflected in the planned procurement process. A phased procurement in which vendors demonstrate their technical solutions with proofs of concept does have merit as a way of reducing project risk. It also underscores the risk of the proposed project scope and the approach to development and implementation. To determine the viability of the project as scoped, state evaluation of the proofs of concept during the second phase of the procurement process will be critical.

Stage 2 Alternatives Analysis Approval Presents Opportunity for Legislative Oversight. The Stage 2 Alternatives Analysis documentation will identify the administration's preferred technical solution(s) and set a preliminary baseline project cost, schedule, and scope. It is important for our

office, on behalf of the Legislature, to review this information before action is taken on the CSPS budget proposals. We expect CDT approval of the proposed CSPS IT project through Stage 2 of the PAL process in the next couple of months.

Recommendations

Withhold Action on Budget Proposals Until CDT Approves Stage 2 Alternatives Analysis. We recommend the Legislature withhold action on the CSPS budget proposals in the *2021-22 Governor's Budget* until CDT approves the proposed CSPS IT project through Stage 2 of the PAL process. The Stage 2 Alternatives Analysis documentation will allow our office to more fully assess and recommend action on these budget proposals.

Ask Administration Questions While Awaiting CDT Approval of Stage 2 Alternatives Analysis. Awaiting the availability of Stage 2 Alternatives Analysis documentation (once CDT approves the project through Stage 2), we recommend the Legislature consider asking some of the following questions during the budget subcommittee process:

- Why is SCO proposing to replace the current Uniform State Payroll System? Have these reasons changed over time? If so, why?
- What is the recommended solution for this proposed project? Explain the costs and benefits of this solution. What other solutions were considered?
- In light of the state's projected out-year deficits, is now an appropriate time to embark on such a costly project?
- What change management efforts will be necessary to implement this proposed project? How will the project team coordinate these efforts to modernize how the state performs its payroll functions?
- How will the administration mitigate risks and address issues to avoid the outcome of the 21st Century Project, the predecessor to the proposed CSPS IT project?

Require Reporting From Administration to Allow for Evaluation of Proposed Project Cost, Schedule, and Scope. Once the Stage 2

Alternatives Analysis documentation is approved, we also recommend the Legislature direct SCO, CalHR, CDT, and the Department of Finance (DOF) to provide a report with all of the options and technical solutions considered during Stage 2 and their associated preliminary project cost, schedule, and scope (if known). This report could help the Legislature consider options other than the proposed project scope and the approach to development and implementation, and inform future hearings or meetings with the project team.

Consider Options for Legislative Oversight.

We recommend the Legislature establish an oversight framework for this proposed IT project.

Given the proposed project's complexity and cost, the Legislature could consider budget bill language that requires: (1) monthly oversight meetings with our office (on behalf of the Legislature), SCO, CalHR, CDT, and DOF to receive project updates and review oversight documents such as CDT independent project oversight reports and independent verification and validation reports with the project team, and (2) quarterly briefings to update other legislative staff on the proposed project. The Legislature could revisit this oversight framework once the proposed project completes the PAL process and begins development and implementation.

LAO Publications

This report was prepared by Brian Metzker, and reviewed by Mark C. Newton and Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.