AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR

TUESDAY, APRIL 21, 2015
1:30 P.M. - STATE CAPITOL ROOM 447

VOTE ONLY

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ITEMS TO BE HEARD

VOTE-ONLY

8860 DEPARTMENT OF FINANCE

VOTE-ONLY ISSUE 1: PUBLIC WORKS BOARD TRAILER BILL

The Department of Finance has proposed Trailer Bill Language to change current Public Works Board Authority.

BACKGROUND

The State Public Works Board was created by the Legislature to oversee the fiscal matters associated with construction of projects for state agencies, and to select and acquire real property for state facilities and programs. The Board is also the issuer of lease-revenue bonds, which is a form of long-term financing, which is used to pay for capital projects.

The Legislature appropriates funds for capital outlay projects such as acquiring land, planning and constructing new buildings, expanding or modifying existing buildings, and/or purchasing equipment related to such construction. Through the review and approval processes, the Board ensures that capital outlay projects adhere to the Legislature's appropriation intents.

Voting members of the Board include the Director of Finance (Board Chair), the Director of Transportation, and the Director of General Services. When the Board deals with matters related to the issuance of revenue bonds the State Controller and the State Treasurer are added as members. Advisory members include the Director of the Employment Development Department, three Senators appointed by the Senate Rules Committee, and three Assembly members appointed by the Speaker.

The proposed Trailer Bill Language eliminates a July 1, 2015 sunset on the Board's current authority to authorize lease-revenue bonds for asset transfer authority. The asset transfer authority allows the Board to sell bonds on a completed project (and encumber that facility) and use the bond proceeds to fund the design and or construction of another legislatively authorized project(s). The language also proposes to correct jurisdiction of property going to the Department of General Services (DGS) for which DGS has no responsibility and instead directs the property directly to the department with jurisdiction, allowing that department to retain title upon the final payment of a lease revenue bond. This amendment results in increased governmental efficiency by eliminating paperwork to correct the unintended consequences of the statute as currently worded. The bill contains other technical changes such as changing the criteria the board uses to evaluate projects and the methodology for the sale of bonds by the Treasurer.

STAFF COMMENTS

The proposed Trailer Bill draft on the Department of Finance website contains a provision that appropriates $36.9 million for the CalFIRE San Luis Obispo Unit Headquarters Replacement project.   That proposal was considered in Assembly Budget Subcommittee 3 on March 4, 2015 and should be considered separately from the Trailer Bill provisions outlined above.   Therefore, the proposed action for this item does not include direction regarding the appropriation.

Vote-Only Action Recommendation: Adopt Trailer Bill Proposal.

VOTE-ONLY ISSUE 2: SB 1186 ANNUAL REPORT

The issue before the Subcommittee is the annual reporting required pursuant to SB 1186 (Steinberg) Chapter 383, Statues of 2012.

BACKGROUND

SB 1186 (Steinberg) Chapter 383, Statutes of 2012, created the Disability Access and Education Revolving Fund within the Division of the State Architect. This fund was established for the purpose of increasing disability access and compliance with construction-related accessibility requirements. The moneys established as a result of SB 1186 come from a $1 surcharge on any applicant for a local business license or equivalent instrument or permit, and from any applicant for the renewal of a business license or equivalent instrument or permit. Of the funds collected, 70 percent are retained by cities and counties. Of the 70 percent retained by cities and counties, 5 percent may be used for administrative costs, and the remaining moneys are to be used to fund increased Certified Access Specialist (CASp) services in that jurisdiction and to facilitate compliance with construction-related accessibility requirements. The remaining 30 percent of fees collected are transmitted on a quarterly basis to the Division of the State Architect for deposit in the Disability Access and Education Revolving Fund. SB 1186 also established reporting requirements as follows:

> *"(d) Each city, county, or city and county shall make an annual report, commencing March 1, 2014, to the Legislature and to the Chairs of the Senate and Assembly Committees on Judiciary, and the Chair of the Senate Committee on Budget and Fiscal Review and the Chair of the Assembly Committee on Budget, of the total fees collected in the previous calendar year and of its distribution, including the moneys spent on administrative services, the moneys spent to increase CASp services, the moneys spent to fund programs to facilitate compliance, and the moneys transmitted to the Disability Access and Education Revolving Fund. A report to be submitted pursuant to this subdivision shall be submitted in compliance with Section 9795."*

STAFF COMMENTS

Staff is supportive of the Disability Access and Education Revolving Fund but sees the annual reporting requirements set forth in SB 1186 as an unnecessary burden on local governments. Given the preparation and labor that goes into preparing and distributing such reports, staff feels that relieving local governments of the annual reporting requirement may allow for more resources to be redirected in support of additional CASp Services.

Staff Recommendation: Adopt Trailer Bill Language to repeal subdivision (d) of Section 4467 of the Government Code.

0650 OFFICE OF PLANNING AND RESEARCH

VOTE-ONLY ISSUE 3: IMPLEMENTATION OF RECENT LEGISLATION

The Department of Finance has issued a Spring Fiscal Letter for the Office or Planning and Research to implement recently enacted legislation.

BACKGROUND

The Department of Finance has issued an April 1 Spring Fiscal Letter for the Office of Planning and Research to fund activities related to the implementation of AB 52 (Gatto) Chapter 532, Statutes of 2014. The letter proposes $138,000 General Fund and one limited-term position.

AB 52 creates a process for California Native American tribes to be involved in the CEQA process as tribal governments. CEQA projects that impact tribal resources have experienced uncertainty and delays as lead agencies attempt to work with tribes to address impacts on tribal resources.

STAFF COMMENTS

None.

Vote Only Action: Adopt Spring Fiscal Letter

1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 4: VOTE-ONLY BUREAU OF REAL ESTATE APPRAISERS

The Bureau of Real Estate Appraisers (BREA) has one budget change proposal request.

BACKGROUND

The Bureau of Real Estate Appraisers is responsible for developing and implementing the real estate appraiser licensing program, and ensuring that this program complies with federal mandates.

The Governor's Budget includes a request from the Bureau of Real Estate Appraisers for position authority to establish a 1.0 permanent position for a Senior Programmer Analyst-Specialist, which will be funded through an internal redirection and a budget reduction of $66,000 in FY 2015-16 and ongoing to reflect the savings from the current Information Technology (IT) Consultant contract.

The requested position will replace the current IT Consultant and a limited-term Programmer, whose contracts would be up in September and October of 2015. Without these positions, BREA would lose its ability to generate licenses in a timely manner and could fall out of federal compliance.

STAFF COMMENTS

This proposal appears non-controversial. Staff recommends approval.

Staff Recommendation: Approve 1.0 permanent position for a Senior Programmer Analyst-Specialist.

ISSUE 5: VOTE-ONLY BUREAU OF SECURITY AND INVESTIGATIVE SERVICES

The Bureau of Security and Investigative Services has one budget change proposal request.

BACKGROUND

The Bureau of Security and Investigative Services regulates the following six professions: Locksmiths, Repossessors, Private Investigators, Proprietary Security Services, Private Security Services, and Alarm Companies. The Bureau licenses, registers and certifies these businesses and their employees.

This budget change proposal requests funding for the implementation of Assembly Bill (AB) 2220 (Daly, Chapter 423, Statutes of 2014). AB 2220 requires all private patrol operators (PPOs) to carry a minimum of $1 million in insurance coverage for any one loss of occurrence due to bodily injury, including death, or property damage, or both.

The Bureau of Security and Investigative Services is requesting funding of $140,000 in FY 2015-16, $235,000 in FY 2016-17, and $132,000 in FY 2017-18 and ongoing to support the following positions that will be needed to implement AB 2220 (Chapter 423, Statutes of 2014):
- 0.5 permanent Program Technician II position to review, monitor and process the liability insurance policies submitted by PPO licensees and applicants.
- 1.0 two-year Limited Term Associate Governmental Program Analyst (AGPA) to educate and investigate PPO licensees who fail to comply with the liability insurance requirement.
- 1.0 permanent AGPA position to conduct compliance inspections of PPO licenses who employ armed security guards for their firearm activities.

STAFF COMMENTS

This proposal appears non-controversial. Staff recommends approval.

Staff Recommendation: Approve as Budgeted.

ISSUE 6: VOTE-ONLY VETERINARY MEDICAL BOARD

The Veterinary Medical Board has one budget change proposal request.

BACKGROUND

The Veterinary Medical Board is charged with the administration, formulation, and implementation of the policies and procedures necessary for protecting the public and animals' health, welfare and safety in the veterinary medical field.

Senate Bill 1323 (Lieu, Chapter 375, Statutes of 2014) requires that any revenue generated in the Specialized License Plate Fund from a license plate issued under the Pet Lover's License Plate Program to be appropriated to the Veterinary Medical Board. The Board agreed to sponsor this effort in order to ensure that there is a permanent source of funding for free and low-cost spay and neuter programs, with the goal of reducing the number of animals that end up in shelters. To date, DMV has issued 14,106 Pet Lover's plates, and deposited roughly $145,000 into the Pet Lover's account within the fund. Since the DMV made Pet Lover's license plates available, no funds have been allocated to the Board.

The Governor's Budget includes a request from the Veterinary Medical Board for a permanent ongoing appropriation of $150,000 in the Specialized License Plate Fund within the Department of Motor Vehicles for the purpose of funding grants to providers of no-cost or low-cost animal sterilization services.

STAFF COMMENTS

This proposal appears non-controversial. Staff recommends approval.

Staff Recommendation: Approve an ongoing appropriation of $150,000 in the Specialized License Plate Fund for the Veterinary Medical Board.

ISSUE 7: VOTE-ONLY DENTAL BOARD OF CALIFORNIA

The Dental Board of California has one budget change proposal request.

BACKGROUND

The Dental Board of California is responsible for the regulation of the practice of dentistry and dental assisting, and protection of the public when exercising its licensing, regulatory, and disciplinary functions.

This request addresses new requirements set forth by Assembly Bill (AB) 1174 (Bocanegra, Chapter 662, Statutes of 2014). These new requirements would expand the existing duties of registered dental assistants (RDA) and registered dental assistants in extended functions (RDAEF), and would require those licensees to register with the Board. Due to the expansion of scope for these professions, new education requirements and training for these expanded duties as well as mandated compliance with new regulatory requirements will be developed and overseen by the Board.

The Governor's Budget includes a request from the Dental Board of California for 1.0 full-time Associate Governmental Program Analyst and 1.0 full-time Management Services Technician and $180,000 in FY 2015-16 and $164,000 ongoing to implement the mandates of AB 1174.

STAFF COMMENTS

This proposal appears non-controversial. Staff recommends approval.

Staff Recommendation: Approve 1.0 full-time Associate Governmental Program Analyst and 1.0 full-time Management Services Technician and $180,000 in FY 2015-16 and $164,000 ongoing.

ISSUE 8: VOTE-ONLY DENTAL HYGIENE COMMITTEE OF CALIFORNIA

The Dental Hygiene Committee of California (DHCC) has one budget change proposal request.

BACKGROUND

The Dental Hygiene Committee of California was created in FY 2009-10 in order to establish its own set of mandates, regulations, and procedures so that it would not have to rely on the mandates within the Dental Practice Act.

This request will address the Committee's new mandate to review courses and course providers for procedures that require additional training such as determining radiographs, the use of telehealth procedures to communicate with a dentist from a distance. Assembly Bill (AB) 1174 (Bocanegra, Chapter 662, Statutes of 2014) authorizes the Committee to approve courses in specific functions for dental hygienists and collect the fees for the review and approval of the courses.

The Governor's budget includes a request from the Dental Hygiene Committee of California for 1.0 Staff Services Analyst and $86,000 in FY 2015-16 and $78,000 ongoing to implement the mandates of AB 1174.

LAO COMMENTS

According to the LAO, the workload for the Staff Services Analyst is largely temporary. As such, the LAO recommends approving the requested position on a two-year limited-term basis.

Based on conversations with DHCC, the course providers would seek approval for courses within the next two years in order to make the curriculum available to students as soon as possible. Therefore, the workload should decline within a few short years. In response to this, the DHCC has stated that they would then restructure the Staff Services Analyst position to allow the analyst to support the committee's Continuing Education program.

STAFF COMMENTS

The DHCC has a modest budget and cannot absorb the workload of the Staff Services Analyst with existing resources. Many Departments take issue with limited-term positions because personnel often seek other employment before the term of the position has expired. If this were to occur at DHCC, the workload would not be sustainable and DHCC would fall out of compliance with AB 1174. Staff recommends approval.

Staff Recommendation: Approve 1.0 Staff Services Analyst position, $86,000 in FY2015-16 and $78,000 ongoing.

ISSUE 9: VOTE-ONLY BOARD OF BEHAVIORAL SCIENCES

The Board of Behavioral Sciences has one budget change proposal request.

BACKGROUND

The Board of Behavioral Sciences regulates four different types of mental health professionals: License Marriage and Family Therapists, Licensed Clinical Social Workers, Licenses Educational Psychologists and Licensed Professional Clinical Counselors. The Board has seen a steady increase at a rate of 5% since FY 2009-10, and currently has over 90,000 licensees and registrants.

The Board has noted that the steady increase in recent years can be attributed to the Affordable Care Act, which has increased access to mental health services for consumers, thus requiring more providers.

The Governor's budget includes a request from the Board of Behavioral Sciences for a budget augmentation in the amount of $148,000 in fiscal year (FY) 2015-16 and $132,000 in 2016-17 for two full-time positions. The Board is also requesting an increase in time-base for two half-time positions to avoid serious delays in its Licensing Unit. The increase in time base will be funded via internal redistribution of existing resources.

STAFF COMMENTS

This proposal appears non-controversial. Staff recommends approval.

Staff Recommendation: Approve budget augmentation request of $148,000 in FY 2015-16 and $132,000 in 2016-17 for two full-time positions and an increase in time-base for two half-time positions.

ITEMS TO BE HEARD

7502 DEPARTMENT OF TECHNOLOGY

ISSUE 1: HOW EFFECTIVE IS THE STATE OF CALIFORNIA IN IMPLEMENTING INFORMATION TECHNOLOGY PROJECTS?

The Subcommittee will consider the State's performance at completing Information Technology projects.

BACKGROUND

According to the Department of Technology, the State currently has 40 large reportable IT projects underway representing $4.6 billion in projected total project costs.

These projects range from a $2 million project at the Department of Social Services to create a registry of home care workers to the State's largest information technology project, the $672.6 million FI$Cal project which is replacing the budgeting and accounting systems for almost every department in the State.

The Department of Technology rates most projects with a stoplight-inspired status of green (on target, healthy project), yellow (project is slipping), or red (project needs immediate intervention). Currently 19 projects are rated green, 7 are rated yellow, and one is rated red.

There are several projects on the list that are not rated. Some of these unrated projects are not managed by the Department of Technology, but are instead managed by the Health and Human Services Agency's Office of System Integration (OSI); although the Department of Technology generally still provides oversight.   Systems managed by OSI are typically statewide systems used by county workers to administer health and human services programs.

How the State of California compares:

IT project failures and setbacks frequently occur in both the public and private sector, at the federal level.   A 2013 report by the Standish Group based upon an assessment of 50,000 IT projects undertaken around the world, estimates **18 percent of all large information technology projects fail and 43 percent succeed but are "challenged" (late, overbudget, or with less functionality). Only 39 percent of projects completely succeeded**.

According to the Department of Technology from 2008-2014, 40 percent of 71 State information technology projects completed during that period had cost overruns.

There has been progress in successfully delivering information technology projects over the last decade. The 2013 Standish Group report found that overall project success rate increased dramatically from 29 percent in 2004 to 39 percent in 2012. Anecdotally, it appears the State has also seen more success as it has adopted many of the same best practices used in the industry.

It is also worth noting that the State of California is a large very complex organization to automate, so most of the 50,000 information technology projects observed in the Standish Group report are likely much smaller than the average project in California. For example, the California Department of Social Services is budgeted to spend $379 million to maintain its automation projects this year, this is comparable to the annual level of Information Technology expenditures for the United States Housing and Urban Development at $400.8 million and the United States Environmental Protection Agency at $394.1 million.

STAFF COMMENTS

There is a perception that the State of California is inept at developing and implementing information technology projects.   The data and research suggest that the State's performance is in line with the experience of other entities both private and public.   We are just as mediocre at these difficult ventures as everyone else.

Information technology projects are inherently risky, because they challenge an organization to rethink the way it does its daily business in very fundamental way. Sometimes these changes are akin to a strict vegetarian transitioning to the all-meat paleo diet. It is hard for the vegetarian to know beforehand what they will want to eat after the transition and sometimes the vegetarian may regret transition itself because the benefits of the change haven't been realized.   But these changes can yield potentially big returns in terms of customer service, transparency, and efficiency. However as a Government, the State's tolerance for risk should be lower than that of the private sector. It will not be possible to remove risk completely, but the next issue on the agenda discusses the State's effort to reduce the level of project risk.

The State also has a very tiny bench of talent to draw from to assist in implementing these projects. This is due to the following reasons:
- The State has a really lean workforce in general. According to the US Census in 2011 California had 108 State employees per 10,000 people, the fifth lowest level of any State. If California had the national average number of State employees per capital 140 employees per 10,000 people, the State workforce would have an additional 124,480 employees.
- The State does not pay technical staff and managers well. The middle managers that are essential at doing the leg work to implement these projects make less

than their counterparts in Cities, Counties, or in the private sector. This leads to departments having to poach talent from one another, as only a small group of staff with track records of success are available at this time. It is rare for the State to pick up talented staff from other public and private entities, but it is not rare to hear State staff moving in the opposite direction because of this pay disparity.

- The Department of Technology has limited resources to help with projects. The Department of Technology has a total of 910 positions budgeted in the Governor's budget. However, most of these positions are associated with the technical infrastructure of the State's data center and telecom operations. Only 28 of these staff are in the Information Technology Project Oversight Division that monitors State IT projects.

The State needs to take risks to modernize, innovate, and improve services. However, the Assembly must think about how much risk is appropriate for the State to take on and whether the benefits of such projects are worth the potential cost of failure.

Staff Recommendation: Hold Open

ISSUE 2: STRATEGIES TO REDUCE INFORMATION TECHNOLOGY PROJECT RISK

The Department of Technology will discuss efforts underway to increase the successful implementation of IT projects.

BACKGROUND

As discussed in the previous section, all information technology projects have risk, but the research and practice of implementing information technology projects has evolved over the last decade to reduce that risk. The Department of Technology has mirrored this evolution with its approach and practices.

To simplify the changes of implementing Information Technology systems, one can describe the reason projects have setback or fail in three distinct phases.

1. Poor Planning Increase Project Risk

The Problem:
Often IT projects face their biggest challengers before the implementation work even begins. Poor planning is likely the most common source of cost overruns and project failures. In particular, sometimes departments don't have a clear picture of how the use of technology will require change in the business process or how much customization will be necessary to provide the needed functionality. In addition, bad decisions made during procurement can hamper the progress of a project.

The Department's Response to this Problem:

The department has made two changes to improve up-front planning:

- **STAR.** The Department of Technology is developing a new review process that is designed to reduce the risk of IT projects by ensuring that they are subject to vigorous analysis before being released. This effort is called the State Technology Approval Reform (STAR) Project. According to the Department, the STAR Project is intended to ensure projects are undertaken with clear business objectives, accurate costs, and realistic schedules. The new process will include multiple stages that are separated by gates which require Department of Technology approval before projects can begin. STAR will also improve communication and collaboration at the beginning of and throughout an IT effort, and develop different approval models that are flexible enough to help expedite approvals for low-risk projects and build additional support for more complex, high-risk projects This effort is underway now, but will be implemented over the next few years.

- **Procurement Changes.** In 2012, Assembly Budget Subcommittee #4 took the action to begin to move the procurement of Information Technology projects from the Department of General Services to the Department of Technology, which formally occurred in 2013. This move has enabled the Department of Technology to insure that the initial information technology contracts don't contain problematic provisions that have causes problems in previous projects. In addition, the Department will begin using a vendor scorecard, where the performance of vendors in implementation will inform procurement decisions going forward01.

2. Missteps in Implementation Can Be Fatal to a Project.

The Problem:
Information technology projects can go off track due to a lack of understanding or forethought by the project staff. For the State, this is particularly true because many projects are not managed by professional project management staff, but rather whatever staff member is available for the role.

The Department's Response to this Problem:

The Department has two approaches to help keep projects on track:

- **Project Management Unit.** The Department of Technology has unveiled a proposal for a project management unit (discussed in the next issue of the agenda) within the department that could function as the primary project management for large IT project for which the client department lacks the expertise or capacity to manage on their own. This proposal is designed to be paired with the STAR Project, as the Department of Technology can assess the project management abilities of a department during the STAR process and then assign the appropriate project management resources if needed. The 2014-15 budget included four positions to begin this project management effort.

- **Consulting and Planning Division** In late 2013, the Department of Technology created this division to provide hands-on assistance to projects experiencing trouble. The division employs experts with decades of experience in their respective disciplines to augment state department project staff, providing assistance, direction, and methodologies to enable project success. Consulting and Planning Division experts are versed in the challenges California's projects have experienced and apply their knowledge and experience with industry best practices to help these projects succeed. The Consulting and Planning Division provides assistance to projects in eleven disciplines: 1. Contract Management, 2. Data Management, 3. Governance, 4. Implementation, 5. Organizational Change Management, 6. Interface Management, 7. Quality Assurance and Quality Control, 8. Requirements Management, 9. Risk and Issue Management, 10.

Schedule Management and, 11. Test Management. To date, departments have availed themselves of these services 22 times. The five division staff also provide training, through the Department's Office of Professional Development, and has taught their disciplines to over 750 State staff. Lastly, the division has published methodologies including project plans, tools, and training materials on their website so all State projects can benefit from their knowledge.

3. Big Mistakes are Expensive and Difficult to Fix.

The Problem:
When a project goes completely off track, the resulting chaos can make recovery different. These projects can go way over budget, bust through their schedules, and sometimes even fail completely. Once a project reaches this stage, the State often has to make the difficult decision to scrap the entire project—and lose any residual value on its investment or go forward, and have to settle with the higher cost and/or lower functionality of the system.

The Department's Response to this Problem:
Among the tools used by the Department of Technology are:

- **Department of Technology Suspenes/Terminates of Projects.**   The Department of Technology has recently begun using its authority to authorize the suspension and/or termination of projects that have faced significant difficulty. To date, the Department has terminated one project and suspended three others.

- **Vendor Scorecard.** The recently announced vendor scorecard will mean that a vendor that contributes to a failed project can have their performance potentially count against their ability to bid for future projects.

STAFF COMMENTS

A review of best-practices literature for information technology projects suggests that the Department has some thoughtful strategies underway to reduce the risk of project failure. However, the State is still several years away from seeing this vision fully implemented.

The framework for the current Department of Technology was created in late 2006, when the Office of the Chief Information Officer was created in law. Most of the initial operations of the Office were to assume the management of the large Teale Data Center and the telecommunications unit at DGS.   Over the last eight and a half years the Department of Technology has gone through several name changes, and has built up some capacity to play a central role in the oversight and management of the State's

large IT portfolio. However much of existing capacity has only recently been added in the last two years and are still ramping up to meet the State's needs.

The Department intends to continue the slow growth, to insure that its staff uses the same protocols to attack projects.   While this is a wise strategy in the long run, it means that projects underway today have not benefited from these processes and we may be years from seeing the benefits of these up front services.

Staff Recommendation: Hold Open

ISSUE 3: PROJECT MANAGEMENT OFFICE

The Department of Finance has issued a Spring Fiscal Letter to fund the Department of Technology's Project Management Office.

BACKGROUND

As mentioned in the previous issue, the Department of Technology sees establishment of a Project Management Office as a critical step toward increasing the success of the State delivering information technology projects successfully. The Department of Finance issued a Spring Fiscal Letter that requests 11 positions (growing to 13 total positions) at $1.5 million special fund to begin the funding of this office.

The new positions requested will be used as follows:

- 8 permanent positions in 2015-16 and an additional 2 permanent positions in 2016-17 for the Project Management Office's Project Standards and Support Unit. The requested positions would develop the statewide project management framework and continuously update the framework to reflect changes in industry standards, changes in state IT policies, and feedback from practitioners regarding its effectiveness. In addition, these positions would develop the curriculum to train departmental IT staff to use the new project management framework.
- 3 permanent positions to begin managing three IT projects on a pilot basis. Specifically, the Department of Technology would manage IT project within the Office of Environmental Health Hazard Assessment, California Victim Compensation and Government Claims Board, and Commission on Teacher Credentialing. The Department of Technology indicates it selected these pilots based on its own capacity to manage projects at this early stage of the PMO and an attempt to mitigate risk.

The budget bill would contain provisional language to allow this office to grow as needed, which would be funded through reimbursements from departments with information technology projects.

LAO RECOMMENDATION

- ***Pilot Full Range of Service Models.*** We recommend the Legislature require the Department of Technology to pilot the "advisory" and "full" service model, in addition to the "balanced" service model, prior to managing additional IT projects. The standards and practices would differ sufficiently among the three services models to warrant pilots for all three service models. Lessons learned from piloting the full range of service models would be instructive to Department of Technology in terms of how best to structure and implement its services to departments of varying needs statewide.

- ***Require Updates on Pilots to Legislature.*** We recommend the Legislature adopt supplemental reporting language that requires Department of Technology to provide quarterly updates to the Legislature on the status of the pilots and a final report to the Legislative within six months on completing the pilots. The final report to the Legislature should include (1) challenges that the pilot projects experienced, (2) lessons learned from the pilots, and (3) how the project management framework will be revised based on the lessons learned from the pilots.

STAFF COMMENTS

Since last year, the Department of Technology has spent considerable time outlining the functions of this new office and how it would work within the Department. One of the principle challenges for this new office is that the Department's role in oversight of projects could potentially conflict with its new role as a project manager of these same projects. The Department has bifurcated these responsibilities into the two different divisions of the Department in the hopes of avoiding or minimizing this potential conflict. However, as this office grows the Assembly should revisit this arrangement to insure that the Department can balance both missions without compromise.

Staff Recommendation: Adopt Spring Fiscal Letter with Supplemental Reporting Language to reflect the LAO Recommendations.

ISSUE 4: DEPARTMENT OF TECHNOLOGY BUDGET REQUESTS

The Department of Technology has some budget and capital requests proposed in the Governor's budget.

BACKGROUND

The Governor's budget includes $373 million for the Department of Technology in 2015-16, a decrease of $6.5 million or 1.7 percent from the current year. Most of the funding for the Department is through reimbursements and charges made to state departments for services; the Department receives only $4.8 million General Fund for its support.

The Governor's budget includes two proposals:

- Telecom Procurement. The Budget adds six positions to the Department of Technology's budget for telecom procurement. These additional positions were added after assessing the workload associated with the transfer of this function from the Department of General Services to the Department of Technology.

- Baseline Adjustment Proposals. The Budget includes several budget adjustments to true-up the expenditure authority for the Department to reflect the workload associated with servers, mainframe usage, and network capacity reconciled with unspent prior-year expenditure authority. The net result of this proposal is a reduction of $5.9 million in expenditure authority and the establishment of two new positions going forward.

STAFF COMMENTS

In addition the Governor's Budget included a $6.7 million capital request to install additional cooling capacity at the Gold River Data Center. That proposal may be adjusted by the Administration later in the process, so can be addressed if that happens.

Staff Recommendation: Approve as Budgeted

8880 FI$CAL

ISSUE 5: FI$CAL

The Subcommittee will receive an update on the Fi$Cal Project.

BACKGROUND

The Financial Information System for California (FI$Cal Project) is California's largest IT project at this time, with an estimated costs of $672.6 million. FI$Cal will enable the State of California to combine accounting, budgeting, cash management, and procurement operations into a single financial management system, often referred to as a Enterprise Resource Planning (ERP) system. This will eliminate the need for more than 2,500 independent legacy systems and department-specific applications that support the internal financial management operations of the State. Most of these systems and applications do not communicate with each other, and have exceeded their useful lives.

The Project is led by a partnership of the Department of Finance, the State Controller, the State Treasurer, and General Services.

The project took decades to develop, and was finally launched in 2011, with a contract awarded to Accenture to oversee software integration and implementation. Since that time, the project has been rolling out functionality in waves. The chart below illustrates these waves:
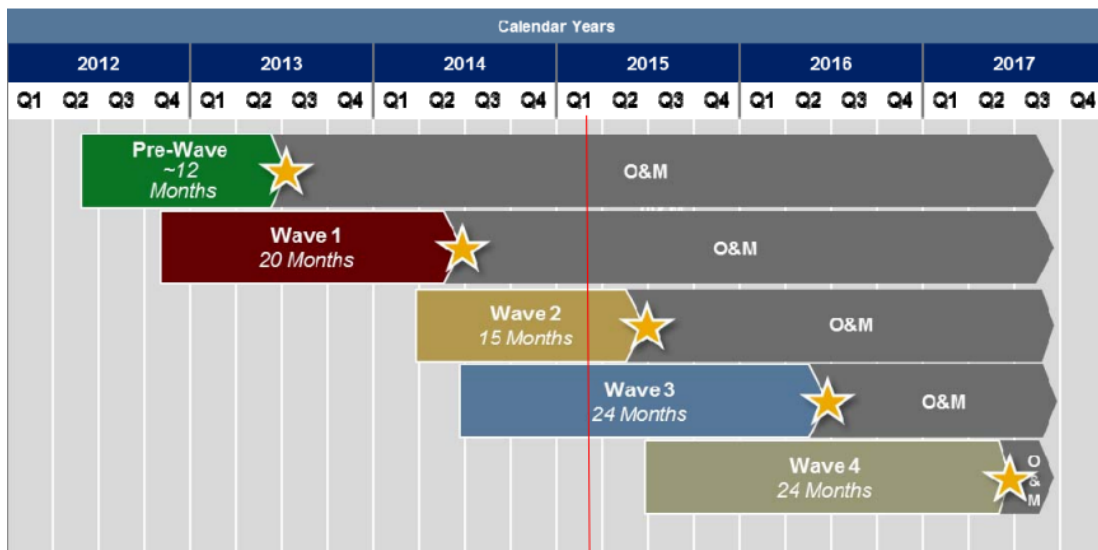
The Project Waves

Pre-Wave was a small go-live prior to Wave 1 that builds a statewide financial system roadmap and implements automated workflow processing for requisitions, purchase orders, and receiving to demonstrate the benefits of automation to the State. In addition, the Pre-Wave (1) included the design of the statewide Chart of Accounts, Budget Structures, and statewide end-state business processes, (2) determined and take action on the disposition of Pre-Wave legacy systems, and (3) confirmed the departments by Wave. Seven small departments were transited to Fi$Cal in this wave.

Wave 1 brought new functionality to FI$Cal. The Statewide Chart of Accounts and Budget Structure was established; FI$Cal became the primary departmental accounting, procurement, cash management, and budgeting System, and FI$Cal becomes the budgeting book of record for the State. 30 departments were transitioned to Fi$Cal for this wave, including the seven in the Pre Wave. The Department of Finance itself was among these departments.

Wave 2 continues the rollout of functionality by deploying additional statewide control functions to DGS, including transition to FI$Cal as the Procurement System of Record. This wave also delivers additional FI$Cal departmental functionality to all of the Wave 1 departments. Wave 2 also adds the departmental operations for DGS. As in Wave 1, additional Change Management activities and focus will be needed for the Wave 1 and Wave 2 departments during their Wave 3 implementation. An additional 50 departments transitioned to Fi$Cal, with the Department of General Services, Department of Consumer Affairs, and High Speed Rail being among the larger departments making the transition.

Wave 3 continues the rollout of additional statewide control functions to the remaining Partner Agencies (State Controller and State Treasurer), including transition to FI$Cal as the General Ledger Book of Record and cash management control functions. This wave also includes a technology upgrade to the FI$Cal solution. Only the Controller and the Treasurer transition in this Wave as it focused on control functions.

Wave 4 deploys the FI$Cal System in its entirety to the 81 remaining in-scope departments and releases the public-facing transparency website.

Status of the project:

The Governor's January budget bill was created using Fi$Cal, one of the first tangible examples of the new system. Overall the project continues to stay within budget and on schedule for final completion.

However the departments using the system have had difficulty making the transition from the old systems they previously used to the new Fi$Cal system. In addition, departments are having difficulty balancing the additional work of transitioning to Fi$Cal

with their core functions, like accounting.   Departments are expected to absorb implementation costs within existing resources, which has been challenging for some departments.

The project created the following dashboard to illustrate the project's status on December 31, 2014.

FIGURE 1. FI$CAL DASHBOARD
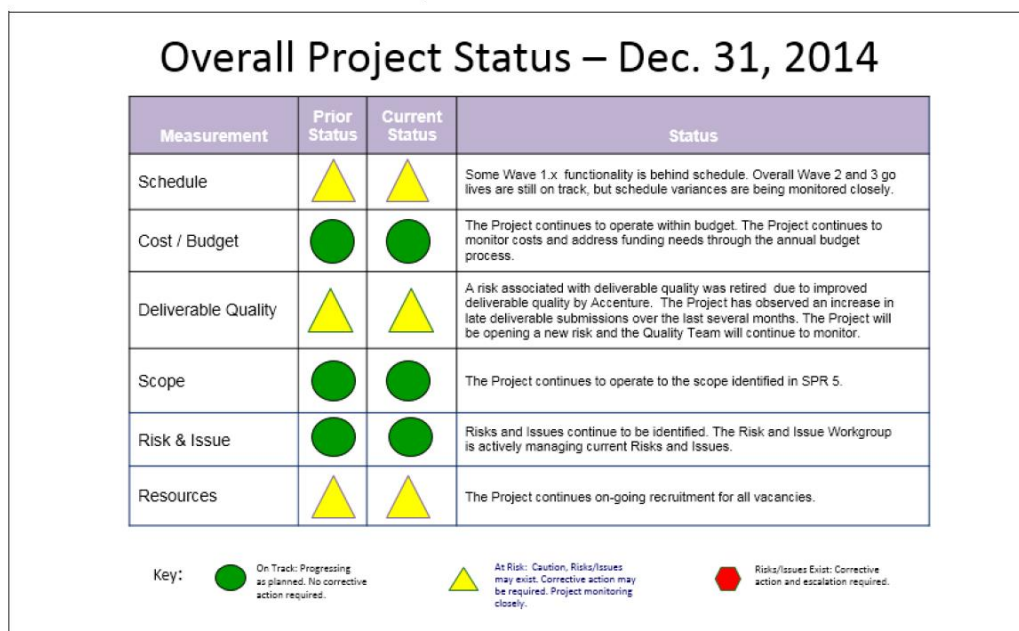
Change Management:

Enterprise Resource Planning (ERP) systems are one of the most difficult projects any organization can undertake. A 2013 study by Panorama Consulting Solutions of 172 ERP systems found that 53 percent of these systems were implemented over budget, 61 percent had duration overruns, and 60 percent of them yielded fewer benefits than expected.

One of the most common challenges associated with ERP systems is a lack of proper "change management" preparation.   For Fi$Cal, this includes the project working with the line staff in the accounting division to understand how the new system will change their day-to-day work and having support for these users during crisis or peak demand periods of the year.   Last year the project composed Special Project Report 5, which recognition of the challenge of change management, and based upon best practices learned from other states implementing an ERP, like New York. This change extended implementation for Wave 4, when most departments will be transitioned to the system.

Despite the recent changes to the project schedule, Fi$Cal has already faced change-management challenges as some Wave 2 departments stopped using Fi$Cal this year and used the State's legacy accounting system, CALSTARS for their month-end close activities.

Currently departments in Wave 1 and Wave 2 must enter data in both Fi$Cal and CALSTARS, which will continue until the entire state is able to transition to Fi$Cal. This added layer of work, in addition to the project development and training needs, has put considerable strain on departments that have implemented the project to date.

The project has responded to this challenge by doubling the number of readiness team members, staff that are dedicated to assist departments with implementation, from 8 to 16. In addition, the project has created a structure for the 81 departments in Wave 4 to work in teams, with an emphasis on agencies, to assist with the transition.

STAFF COMMENTS

The State took a large risk in commissioning the Fi$Cal system, however that risk was necessary to modernize and centralize our financial infrastructure. The Legislature in particular will benefit from this project as it will allow greater transparency into the expenditures of State departments, which are currently scattered across hundreds of different systems used by departments. For example, having all of the data on one system would have helped detect the $54 million of funds that were hidden by an administrator at the Department of Parks and Recreation and discovered in 2012.

Given the size and complexity of the project, Fi$Cal has, so far, been a success and a model for what the State is capable of achieving in modernizing the way it does business. However, this achievement stretched the limits of the first department to use the system. Even the Department of Finance itself appeared strained from the implementation.

On July 1, 2015 the project is entering its most critical phase, Wave 4, when most of the State departments will transition to the new system. Experience from Wave 1 and Wave 2 indicate that departments are having difficulty transitioning to the new system and that the implementation process itself strains the internal operations of each department as it occurs. The project is planning to redirect within its current scope of resources to try to meet these needs. But neither the project, nor the departments that are transiting have any significant mechanism to request additional resources until the 2016-17 budget process. This means that Wave 4 may be halfway into implementation before the project is able to make any course corrections necessary to insure that departments succeed in their transition to the new system.

The Subcommittee may wish to consider adding provisional control language to the budget that would allow the Department of Finance to request additional resources for the Fi$Cal project or an implementing department in the budget year. Such language would likely require the project to submit a new Special Project Report to the Department of Technology, which ultimately would be submitted to the Legislature if approved. This language would allow the project flexibility to adjust its schedule and approach if necessary to insure the value of the system is realized.

Staff Recommendation: Hold Open

1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 6: BREEZE

The Subcommittee will discuss the BreEZe project.

BACKGROUND

The BreEZe project has been the most talked about State information technology project in 2015. The project has suffered a significant setback and is in the process of changing its scope and work plan to recover from this setback.

What does BreEZe do?

The Department of Consumer Affairs oversees 40 Boards, Bureaus and a Commission that regulate various professions and agencies through licensing and enforcement. These commissions range from high profile entities like the Athletic Commission and the Medical Board, to lesser known entities like the Structural Pest Board and the Cemetery and Funeral Bureau. Much of the activities associated with all of these boards revolve around the issuance of licenses for these professions, enforcement of professional standards, and the processing of complaints from consumers.

Most of this workload is done in a traditional paper-based environment. If you want to renew your license, you have to fill out a form, attach a check, and mail it to the State.

The BreEZe project was commissioned to modernize this business process by replacing multiple disparate legacy systems with one system that would allow licensees and consumers to use the internet to apply for and renew licenses and to file complaints. Essentially BreEZe would allow the Boards and Commissions to offer the same online services that other State departments had offered for over a decade.

That sounds easy. What happened?

The challenges BreEZe faces today and the criticism the project has received are rooted in the history of the project. This agenda will attempt to illustrate the key decision points of the project, so choices made by the State are provided in context of the information known at the time.

2010 BreEZe is seen as an example of best practices.

In 2009 the State began testing new models for the procurement of information technology systems. Prior to that time, the State would often limit the amount of interaction with vendors prior to the award of a contract and both the State and the vendors would find it difficult to transition from the technical procurement documents to the actual project. Out of this discussion emerged a model for multi-stage procurement, where the State would first contract for a prototype from more than one vendor and then

use that information to select the final vendor for the project. This is similar to the model the US Armed Services use in selecting which defense contractor will manufacture its fighter jets. Because the expected costs of BreEZe were only $28 million, the State modified this approach to avoid contracting with vendors to build a prototype, but instead invited vendors to work with the State to help solicit approaches to meet the business needs of the project.   At the time, this was seen as a huge improvement to the current procurement model.

2011 Only one bid leads to a bad contract.

Ultimately, only two vendors submitted bids for BreEZe. One of the vendors filed a protest to the bid process and the other did not actually submit a bid that answered the questions posed by the State.   As a result, the vendor that filed the protest, Accenture, was awarded the contract in September 2011. Because of the protest, Accenture was able to negotiate changes to the Department of General Services contract language which shifted more project risk to the State. This included a provision that may require the State to pay the vendor regardless of whether the project is successful.

The bad contract provisions that shifted risk to the State would make it difficult and expensive to fix other problems with the project. These problems would soon become apparent. BreEZe is now estimated to cost $45.8 million and be rolled out across Consumer Affairs in three "Release" waves.

Early 2013 It doesn't work!

The Department of Consumer Affairs discovers in testing that the system does not meet the Release 1 Boards' business needs.   The main reason for these errors is the lack of thorough documentation by the Department of Consumer Affairs staff that leads to missteps and errors in the system. The Department of Consumer Affairs comments that while they had looked at the business processes that would change during the planning of the project, they failed to consider the "granularity" of these processes that was necessary for the system to work.   For example, this lead to some mandatory components for certain licenses being skipped in automated process, which needed to be fixed for the project to go forward.

July 2013 SPR 2--The First Attempt to Fix the System

The Department of Consumer Affairs submits a Special Project Report 2 for the project, to the Department of Technology, which increases the overall project costs to $78 million. The new report identified a new timeline for the project given the extensive delays encountered during Release 1 acceptance testing. The emphasis of the Report was to allow "Release 1" of the system to go live in October 2013, which allowed the first ten boards and commissions to begin using the system.

Subcommittee 4 heard an update on SPR for on April 8, 2014 when considering budget $11.84 million in additional funds for BreEZe to fund SPR2. This funding was approved by both houses and included in the 2014 budget.

January 2015—A Proposal to Pause

The Department of Finance submits a Section 11 request for $17.5 million to terminate the contract with Accenture for the project after the delivery of Release 2. These funds are approved by the Joint Legislative Budget Committee in March.

STAFF COMMENTS

Clearly BreEZe is among the most troubled information technology projects in the State's portfolio. Despite that status, it should be noted that it has achieved partial functionality and is operational in ten boards and commissions at this time—thus it is far from the worst project in terms of overall outcomes. However, the State is left with many difficult decisions for how to move forward with its half-built system.

The Bureau of State Audits and numerous others have weighed in to suggest that the Department of Consumer Affairs and the Department of Technology made poor decisions that contributed to the projects downward trajectory. While both departments certainly made mistakes, they faced very difficult decisions at key points in the process that it is hard to definitely say were incorrect without the benefit of hindsight we all enjoy. The list below attempts to illustrate these decisions so that each can be considered given the history provided in the background:

1. **The First decision: Should we have automated the paper-based processes in the first place?** It is hard to see anyone arguing that the State should continue a paper-based system at the Department of Consumer Affairs forever. It is clear that the State was overconfident in its commission of the project, however at the time the Department of Technology lacked the resources to identify and support the planning of this project to avoid the problems that would later hinder its success.

2. **The Second Decision: Should the State have signed the contract with Accenture?** This is a tough call. In hindsight, this contract was the root cause of other difficult decision points later on. At the time, the State had to either agree to terms with Accenture or abandon the project. Given the small size of the overall contract, it likely didn't seem that risky a decision. The Department of Technology comments that today such contract provisions would not be approved.

3. **The Third Decision: Once the problems with the system were known in 2013, what should the State have done?**   The crux of the State Auditor's recent report on BreEZe is that the Auditor believes when the errors and setback in the system were discovered in 2013 that the Department of Technology should have stepped in and killed the project.   But in truth, the Department of Technology and Consumer Affairs faced a very difficult choice at this juncture. If the project was killed, terminating the contract with Accenture would trigger the State having to pay the vendor for the project without getting any product at all. However, if the project could be amended, the State could get the functionality for Release 1 and be able to try to work with the vendor from there.

4. **The Choice Before Us Today:** Now that funding has been approved for the Section 11 request, the Department of Consumer Affairs is on track to put the system development on pause and end the current contract following the implementation of Release 2.   How should the State move forward?   The Department of Consumer Affairs can operate a half-built system and leave the remaining boards and commissions using their current business processes; it can try to automate the remaining boards and commissions outside of BreEZe; or it can try to revive and finish the project.   There is no clear and easy answer to this question.

Staff Recommendation: Informational Item.

ISSUE 7: BREEZE SPRING FINANCE LETTER

The Department has a Spring Finance Letter (SFL) to continue funding for the BreEZe project and to fund credit card processing fees on behalf of users of credit card payments through the BreEZe system.

BACKGROUND

After realizing that there were issues with the ability to automate the licensing process with the BreEZe system the Department submitted SPR 2, which increased the overall project cost to $77.9 million (an increase of $50.4 million over the expected project costs). SPR 2 updated and realigned the project schedule due to project delays encountered during the deployment of Release.

SPR 3.1 was sent to the Joint Legislative Budget Committee in January of 2015 and requested further resources to increase the overall project costs to $95.4 million (an increase of $17.5 million). $11.3 million of this cost can be attributed to contract costs and the remaining balance is for additional staff resources and an extended schedule. Within SPR 3.1 the Department recognizes the need for thorough planning efforts, organizational change management, and maintenance and operations support. This report was approved by the Legislature in March of 2015.

The Spring Finance Letter requests additional funding for the continued support of the BreEZe project. Aside from the resources included within the SPR 3.1 request, the SFL requests additional funding for the boards and one bureau in Releases 1 and 2 to fund the credit card processing fees for users who make credit card payments through the BreEZe system.

	BreEZe Project	Credit Card Convenience Fee	Total 2015/16 Augmentation
DCA Boards	$17,209	$2,503	$19,712
DCA Bureaus	$3,437	$99	$3,536
Total	**$20,646**	**$2,602**	**$23,248**

(dollars in thousands)

LAO COMMENTS

The LAO recommends modifying the Governor's proposal to:
    (1) approve the requested maintenance positions on a two-year limited term rather than permanent basis
    (2) allocate the costs of the proposed maintenance positions as well as consulting and professional services, so they are not borne by Release 3 entities.

The LAO recommends two-year limited term positions because they believe that the level of workload will decrease over time because maintenance demands should decrease as the number of BreEZe defects decline.

The LAO also recommends modifying the proposal to reallocate the proposed costs for the requested maintenance positions as well as consulting and professional services to the Release 1 and 2 entities that will benefit from these activities. This would shift approximately $3.2 million in costs from Release 3 entities to Release 1 and 2 entities.

STAFF COMMENTS

In response to the LAOs concerns, the Department has provided clarification about the long-term workload for the 34 positions included in this request. The majority of these positions will help with the release of technology, ongoing maintenance and operations of the software. According to the Department, all workload analysis for the 34 requested positions was conducted based upon the needs of the on-going maintenance and operations production "releases." These releases occur every 5-8 weeks for the Release 1 programs, and will remain at that frequency once Release 2 is added to the BreEZe System in production. The Department also notes that many of the current roles are supported by staff from the vendor, Accenture, and others are redirected staff.

Regarding the LAO's recommendation on Release 3 entities paying for Release 1 and 2 activities, DCA has explained that the 34 positions will also provide guidance and support for the impending Release 3 entities. The Department should be prepared to comment further on the recommendations from the LAO and provide rationale regarding the Release 3 entities share of the maintenance costs for Release 1 and 2.

In the past, credit card convenience fees have deterred licensees and registrants from utilizing online systems, which is why the Department is requesting $2,602,000 to cover these fees for the licensees in Release 1 and 2. DCA cites the Department of Motor Vehicles as a model, as DMV experienced an increase of 80% to the usage of their technology system when they did not charge credit card fees.

Staff Recommendation: Hold Open.

ISSUE 8: DEPARTMENT OVERVIEW

The Department will give an overview of its 2015-16 budget and will provide an overview on fund conditions.

BACKGROUND

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by establishing minimal competency standards for approximately 250 license categories and involves approximately 3 million businesses and professionals.

The Governor's budget proposes total spending of $575.712 million (non General Fund) for the Department of Consumer Affairs in 2015-16, a decrease of 5.7 percent from the current year. Proposed staffing totals 3438.7 personnel.

STAFF COMMENTS

The Department has identified five Boards and Bureaus that are actively planning fee increases in order to improve fund conditions. Among these are the Board of Registered Nursing, Dental Board, Dental Assisting Program, Board of Pharmacy, and Physical Therapy Board. The Department will give an overview of the fund conditions, the nature of the depletion of the fund, and the expected licensing fee increases.

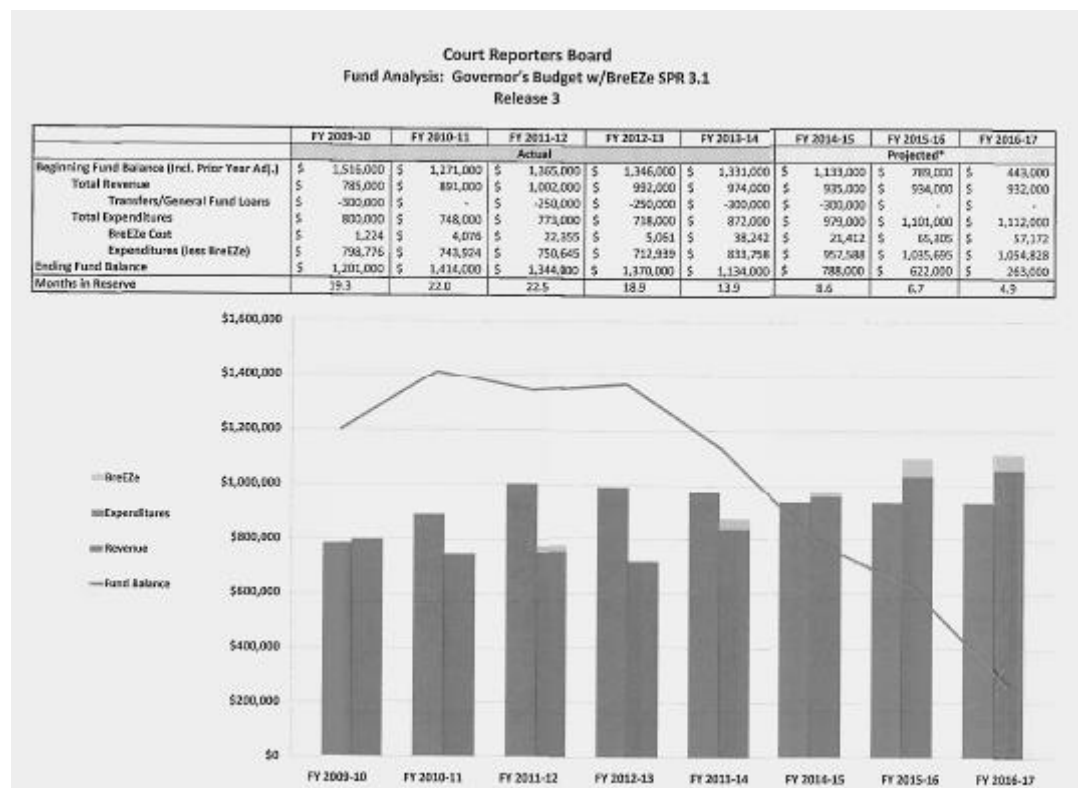**Staff Recommendation: Informational Item.**

ISSUE 9: COURT REPORTERS BOARD

The Court Reporters Board has one budget change proposal request. The Department will give an overview on the request and the fund condition for the Board.

BACKGROUND

The Court Reporters Board licenses shorthand reporters and is required to protect consumers by: administering a minimum-level competency test, regulating the minimum curriculum that court reporting schools and programs must offer, and engaging in enforcement actions when deemed necessary.

The Governor's Budget includes a request from the Court Reporters Board for a special fund budget augmentation of $82,000 for FY 2015-16 and ongoing to fund examination development workshops in association with the Board's English and Professional Practice license examinations.

Court Reporters Board
Fund Analysis: Governor's Budget w/BreEZe SPR 3.1
Release 3

STAFF COMMENTS

As the fund condition for this Board depletes in the 2016-17 FY, the Subcommittee may wish to ask the Board about any plans it has to increase fees for its licensees.

Staff Recommendation: Approve special fund budget augmentation of $82,000 for FY 2015-16 and ongoing.

ISSUE 10: BUREAU FOR PRIVATE POSTSECONDARY EDUCATION

The Bureau for Private Postsecondary Education (BPPE) has one budget change proposal request.

BACKGROUND

The Bureau for Private Postsecondary Education exists to promote and protect the interests of students and consumers through the effective and efficient oversight of California's private postsecondary educational institutions. In fulfilling these duties the Bureau also proactively combats unlicensed activities, and resolves student complaints. The State Auditor's office recently found that the Bureau was not meeting the mandates of the California Private Postsecondary Education Act of 2009, generally as a result of significant backlogs.

A 2013 audit by the California State Auditor concluded that BPPE has consistently failed to meet its responsibility to protect the public's interests. Among other findings, the auditor identified several specific concerns, including (1) a backlog of more than 1,100 license applications, (2) challenges proactively identifying and effectively sanctioning unlicensed institutions, (3) failure to respond to complaints against institutions in a timely fashion, and (4) a backlog of more than 470 claims by students to recover tuition from institutions that closed while they were enrolled.

Senate Bill (SB) 1247 (Chapter 840, Statutes of 2014) extends the sunset date for BPPE from January 1, 2015, until January 1, 2017. This bill was intended to amend existing mandates and add additional regulatory mandates in order to provide the Bureau with guidance and resources necessary to better serves students and consumers.

The Governor's budget includes a request from BPPE for a special fund budget augmentation of $1,915,000 in FY 2015-16, $1,718,000 in FY 2016-17 and $1,077,000 in FY 2017-18 and ongoing to fund 10.0 permanent positions and 5.0 two-year limited term positions to implement the provisions of SB 1247.

LAO COMMENTS

According to the LAO, most of the resources requested by BPPE are reasonable and would help implement SB 1247. However, most of the workload associated with processing applications from institutions that are newly subject to BPPE oversight because they participate in veteran's financial aid programs would likely be temporary in nature. The bureau estimates that 140 institutions that participate in veterans' financial aid programs will have to apply for BPPE approval during 2015-16 because SB 1247 requires these institutions to seek approval by January 1, 2016. Therefore, the LAO estimates that BPPE will require three positions to review these applications during the

budget year, but finds the majority of the workload to be approval-related and short-term.

The LAO recommends modifying the proposal to two limited-term for processing applications from institutions that are newly subject to BPPE oversight because they participate in veteran's financial aid programs, and approval of the remaining positions.

STAFF COMMENTS

The Board has had compliance issues with the Department of Consumer Affair's mission in the past, and SB 1247 implementation is an attempt to better serve students in a timely and fair manner. Staff finds this request to be in line with the implementation of SB 1247 and has no concerns.

Staff Recommendation: Approve special fund budget augmentation of $1,915,000 in FY 2015-16, $1,718,000 in FY 2016-17 and $1,077,000 in FY 2017-18 and ongoing to fund 10.0 permanent positions and 5.0 two-year limited term positions.