

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Joan Buchanan, Chair

MONDAY JANUARY 24, 2:00 PM  
STATE CAPITOL ROOM 437



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## ITEMS TO BE HEARD

### 0502 CALIFORNIA TECHNOLOGY AGENCY

#### ISSUE 1: OVERVIEW FOR 2011

The California Technology Agency (CTA) serves as the primary point of accountability for, and management of, the state's integrated information technology, public safety communications and information security program. More specifically, the CTA is responsible for enhancing information security and stakeholder privacy, ensuring the reliability and cost effectiveness of the state's IT infrastructure, providing shared technology services across government, and conducting oversight of state IT projects to ensure their delivery and the effective management of the risks inherent in IT projects.

The Office of Chief Information Officer (OCIO) was created under SB 90 (Committee on Budget and Fiscal Review) Chapter 183, Statutes of 2007. On May 10, 2009 the Governor's Reorganization Plan No. 1 (GRP 1) took effect consolidating statewide information technology (IT) functions under the OCIO. AB 2408 (Smyth) Chapter 404, Statutes of 2010 renamed the OCIO the California Technology Agency (CTA).

	<b>2009-10 (actual)</b>	<b>2010-11 (estimated)</b>	<b>2011-12 (proposed)</b>
<b>Expenditures</b>	409.5 million (4.0 million General Fund)	469.8 million (3.8 million General Fund)	\$486.2 million (3.7 million General Fund)
<b>Personnel Years</b>	788.8	1,221.1	1,254.0

#### Formation of CTA has Resulted in Savings

Since its formation, the CTA has brought reduced costs to IT services in California. Among these savings are these examples:

1. Reduced data center square footage by more than 100,000 square feet. The space savings alleviated the need for a new data center facility, eliminating more than \$40 million in capital costs and \$24 million in annual operating expenses.
2. Avoided IT project costs of more than \$300 million through the IT Capital Planning process.
3. Reduced IT consultant contracts by \$17 million and IT project cost by \$52 million through the IT Acquisition Planning process.

4. Renegotiated the CalNet 2 contract reducing telecommunications costs to state agencies by \$25 million annually.
5. Conducted an assessment of wireless rates resulting in more than \$3 million in savings to state agencies.
6. Reduced data center rates charged to state agencies by \$23.94 million.
  - a. Achieved \$8 million in rate reductions due to network consolidation.
  - b. Reduced storage rates by more than 90 percent since 2008 (from \$24 per gigabyte/month to \$2 per gigabyte per month).

### **CTA Approves and Oversees IT Projects**

The CTA currently oversees 76 projects, worth over \$8.7 billion in total project costs. The CTA utilizes an IT Project Complexity Assessment to determine the risk level for IT projects. The assessment considers risk in terms of business and technical complexity. Typical business attributes include scope, geography, schedule constraints and financial risk. Typical technical attributes include the level of technology integration, security needs, stability of hardware/software, and team experience. The complexity introduced by each of the individual attributes is scored on a scale ranging from 0.5 to 4 (Low to High), and the composite score developed for both business and technical complexity that, when plotted on a two-dimensional chart, depict the relative risk of the project.

Consistent with the State Administrative Manual, IT Project Managers are required to report to the CTA regarding the status of the IT projects they are managing. The frequency of reporting, which is done using a consistent format, depends on the level of project risk as determined through the complexity assessment. The reporting requirements are as follows:

- High Risk/Criticality – Monthly reporting.
- Medium Risk/Criticality – Quarterly reporting.
- Low Risk/Criticality – Semiannual reporting.

**CTA Requesting Oversight Positions**

The CTA requests \$966,000 special fund and 9.0 positions for Independent Information Technology Project Oversight (IPO). These positions represent the beginning of the staffing needed to provide independent project management services to state departments. The State currently spends \$17.2 million on contracted project management costs.

**STAFF COMMENT**

The proposed positions represent the beginning of the implementation of CTA's expanded role as outlined in AB 2408. The Subcommittee could consider holding off taking action on this proposal until all of the components are available for consideration so that all of the projects and the CTA's resources can all be considered at one time.

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**Staff Recommendation:** Defer action or approval on the IPO budget proposal pending further discussions with the Subcommittee. Without prejudice to the merits of the project, deny this Budget Change Proposal until after the May Revision is released.

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**ISSUE 2: CTA BUDGET CHANGE PROPOSALS**

The CTA has a variety of budget change proposals; most reflect additional workload associated with current computer system utilization at the state level.

**BCP-1 Mainframe CPU Processing**

The California Technology Agency (CTA) on behalf of the Office of Technology Services (OTech) requests an increase in expenditure authority of \$5,499,000 (Special Funds) in FY 2011-12 to the Office of Technology Services for the purchase of 1,616 million of Instructions Per Second (MIPS) to accommodate existing and increasing workload capacity. OTech provides information technology (IT) services for the State of California Executive Branch agencies and other public entities that serve California residents. New state anti-fraud initiatives, federal reporting requirements and natural population and caseload growth have driven a projected 14 percent increase in mainframe transactions for the coming fiscal year. OTech's capacity must increase to provide sufficient resources for customer workloads. Funding for the department is driven from the OTech Revolving Fund and has little or no impact on the General Fund.

**BCP-2 Midrange Server**

The CTA on behalf of OTech requests an increase in expenditure authority of \$8,186,000 in spending authority in FY 2011-12 to purchase 95 additional UNIX server instances and 412 additional Windows server instances for growth. The Office of Technology Services (OTech) also requests 25 replacements UNIX servers and 50 replacement Windows server instances to replace those which are over 5 years old. One time costs will be \$6,142,000 for UNIX and Windows server instances and software cost. Ongoing costs are \$4,539,000 for 200 additional State staff positions. The requests have been made to provide OTech with the sufficient processing capacity and staff support for increased workload due to the expansion of current systems and addition of new systems in order to deliver the performance and service agreed to. OTech is an internal service fund (special fund) department that operates from the OTech Revolving Fund and has little or no impact on the General Fund.

**BCP-3 Data Storage Capacity**

The CTA on behalf of the OTech requests and increase of \$5,366,000 in spending authority in FY 2011-12 for hardware, software, and connectivity components to ensure adequate data storage support to meet needs of customer driven workloads. Without capacity upgrades and growth OTech will be unable to support the growth of customer programs, the systems will reach capacity, and customers will be unable to add new data. Funding is driven by the OTech Revolving Fund and has little or no impact on the General Fund

**BCP-4 CA.mail and California Email Services**

The CTA on behalf of the OTech requests an increase of \$10,639,000 in spending authority in FY 2011-12 and three additional state to implement the vendor hosted California Email Services (CES). The expenditure reflects the requirement in Executive Order S-03-10 and statutorily in AB 2408 that all Executive Branch agencies must migrate to either the OTech operated CA.mail or third party hosted CES by June 2011. The migration will improve security and standardization of IT across State government.

**BCP-8 Prior Year Adjustments**

Adjusts the CTA's expenditure authority to align previously approved budget actions with the ongoing costs of the related projects. The adjustments result in a net reduction of \$10,157,200 in 2010-11 and \$9,965,200 in 2011-12. The purpose of these adjustments is to align the OTech budget with actual expenditures for these projects in order to maintain a reasonable connection between spending authority level of OTech and the actual expenditures required to support the needs of its customers.

**STAFF COMMENT**

In BCP #1, CTA provided the following table to illustrate the increase in mainframe workload. This increase reflects the increased use of systems by customer departments.

Description	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
MIPS Totals	9,357	9,835	9,835	10,238	<b>11,543</b>	<b>13,159</b>
MIPS between FYs	727	478	0*	403	<b>1,305</b>	<b>1,616</b>
% Growth of MIPS =Net/Prev FY MIPS Total (rounded up)	8%	5%	0%	4%	<b>13%**</b>	<b>14%**</b>

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**Staff Recommendation:** Approve as Budgeted.

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**ITEM 8880 FISCAL****ISSUE 1: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FISCAL)**

The Financial Information System for California (FISCAL), is an Enterprise Resource Planning (ERP) information technology (IT) project intended to create and implement a new statewide financial system which will encompass the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting. As an ERP system, FISCAL will be a set of software applications that will integrate and streamline the aforementioned business processes, and, in so doing, replace aging legacy systems, inefficient “shadow” systems, and duplicate processes throughout the state’s departments and agencies.

The FISCAL system evolved from an effort by the Department of Finance to create a new the Budget Information System (BIS). The project evolved and was increased in size into what is now known as the FISCAL project into a full ERP system to replace the State Controller’s Systems and the California State Accounting and Reporting Systems (CALSTARS).

The FISCAL project requests \$71.2 million (\$18.9 million General Fund) and 99.3 authorized FISCAL positions for project costs next year. Based on SPR 3, approved by the OCIO (now CTA) on November 19, 2009, the official overall cost to deliver FISCAL remains approximately \$1.6 billion over a total of 12 years.

**WHAT CAN FISCAL DO THAT WE CAN'T DO NOW?**

Some concrete examples of how the state will benefit from FISCAL.

- Greater detail of expenditures, revenues in all areas with the ability to drill down
- Enhanced ability to compare department expenditures across agencies
- Increased ability to monitor expenditures during the fiscal year.
- Easier reporting and more transparency of financial data
- Accounting and fiscal systems will be standard across departments.
- Both fiscal and technical platforms will be re-engineered to improve current business practices, making technical experts more effective and efficient and building skill sets that will improve the financial workforce across state government.

**FIT-GAP ANALYSIS="BAKE OFF"**

The project has adopted a two-step procurement strategy (similar to the one used on the 21st Century project) that includes an open procurement for a Firm Fixed Price fit-gap analysis to three top bidders (in FY 2010-11), followed by the actual fit-gap analysis in which the bidders have seven months to review potential gaps between their software and the state's business requirements. Each bidder receives a fixed price for production of a detailed implementation plan, including all costs to carry out the plan. At the end of the process, the state could have three entirely viable FISCAL proposals from which to choose.

The Fit-Gap analysis is often referred to as a "bake-off" because the final vendor is selected from a pool of vendors that have developed tangible prototypes for evaluations before the final awards are made.

**FUNDING**

The original financing plan was to use bond financing for the cost of FISCAL, and Government Code Section 15849.24 authorizes the State Public Works Board to issue bonds, notes, or certificates to finance the costs of the Project. The Attorney General's office has informed the Department of Finance that Proposition 58 (2004) could complicate the financing of FISCAL through bonds. Whether or not there is a problem would depend on the financial circumstances of the state at the time. If there were a Prop 58 conflict, the AG's office would not be willing to deliver an opinion as to the validity of bonds financing the FISCAL system.

As a result, Project staff is exploring other funding mechanisms to fund both the vendor costs and the state staff costs. The amount that can be financed is dependent on the cost of the capitalized asset. Guidance for capitalization of intangible assets is forthcoming from the State Controller's Office and the Department of Finance, and is based on federal capitalization rules. That guidance will provide information about what Project costs can be counted toward, and recorded as, the cost of the final asset (i.e., hardware, software, vendor costs, facilities, etc.). Once guidance is provided it will be possible for project staff to estimate the amount to be financed and the debt service costs. Options for financing the vendor costs include

- GS \$Mart (Golden State Financial Marketplace, run by the Department of General Services. The GS \$Mart program enables state departments to finance essential items of equipment and other goods, including IT goods).



- I-Bank (The California Infrastructure and Economic Development Bank is a state entity within the Business, Transportation, and Housing Agency. The I-Bank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds).
- Vendor Financing.
- Bond Financing.

Project staff is also looking at other funding mechanisms for other costs of the project (state staff, OE&E, facilities); including user fees once departments are implemented. Discussions are on-going with DOF and federal negotiators to obtain some federal funding through SWCAP. The Statewide Cost Allocation Plan (SWCAP) includes the amount of State administrative, General Fund costs (e.g., amounts expended by central service departments such as the Treasurer, Personnel Board, Controller, and Finance for the general administration of State government) chargeable to and recovered from federal funds, as determined by DOF. Staff is also working with DOF on the feasibility of pro-rata for FI\$CAL. Both these options would be available prior to any departments using FI\$CAL, and if successful, would reduce the net General Fund costs for the project, particularly during the planning phases. Staff has obtained ideas on user fee scenarios from other states with ERPs, and other state departments who charge user fees. The following are some user fee options, but staff continues to investigate other methodologies:

- Charge users based on data processing usage (currently how CALSTARS charges users).
- Charge by user license.
- Charge by the percentage of the non-payroll budget, including state operations and local assistance.

Much of the prior estimated cost of FI\$CAL was associated with an estimated 750 dedicated state staff that were envisioned to implement the project over its life. Initial work to develop the fit-gap analysis requirements suggests that the level of state staffing, and therefore project costs necessary to implement the project, will be lower than projected. Some reasons for this are:

- The use of JAD sessions instead of the original plan of using full-time dedicated staff and providing backfill positions to the partner departments.
- A revised implementation strategy of rolling out functionality, rather than the big bang approach.

- A decrease in the estimated size of facility needs. The Project has decreased its estimated facility needs from 140,000 sq. ft. to 75,000 sq. ft.

To date, the state has spent approximately \$42.6 million on the FI\$CAL Project.

<b>STAFF COMMENT</b>
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Overall the FI\$CAL project appears to be on track, within budget, and on schedule. As the year progresses the Administration will be able to provide more information on the funding mechanism and the progress of the Fit-Gap analysis. When this information is provided, the Subcommittee should be well situated to decide whether to fully commit the State to implementing this project.

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**Staff Recommendation:** Defer action or approval on the FI\$CAL budget proposal until the details regarding the project funding are available. Without prejudice to the merits of the project, deny this Budget Change Proposal until after the May Revision is released.

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**ITEM 0502 CALIFORNIA TECHNOLOGY AGENCY**  
**ITEM 1760 DEPARTMENT OF GENERAL SERVICES**  
**ITEM 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING**

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**ISSUE 1: TRANSFER OF DEPARTMENT OF FAIR EMPLOYMENT HOUSING IT  
FUNCTIONS TO DEPARTMENT OF GENERAL SERVICES**

The Department of General Services (DGS) is requesting approval to assume operation and oversight of the Department of Fair Employment and Housing's (DFEH) IT functions. Currently, DFEH has seven positions dedicated to providing IT. Under the proposed transfer, five of these positions would be transferred to DGS and two of the positions would be redirected for another DFEH purpose.

The five positions transferred to DGS were filled IT positions at DFEH. DFEH is reimbursing DGS \$507,000 for the cost of these positions. DGS agreed to eliminate five vacant positions and reduce their operating budget by \$300,000 as part of this transaction. Therefore, this transaction reduces state positions by a net of five and has a net savings of \$300,000.

DFEH had two vacant positions in their IT unit. The Department is proposing to convert these positions into two limited-term positions in the Special Investigations Unit to address new workload stemming from the settlement of 1,500 family leave claims in a \$6.9 million class-action family leave case with a major California employer. By eliminating their in-house IT shop, DFEH is able to staff this new workload within existing resources.

The movement of the IT functions has already occurred on an interim basis. Budget Control Section 1.50 empowers the Department of Finance to enable DGS to bill DFEH for the IT services provided. Approval of the BCP before the Subcommittee would make this arrangement permanent.

**STAFF COMMENT**

This BCP is an example of administrative innovation to find opportunities to both improve the level of services for a department and reduce state costs at the same time. DFEH had been authorized for 10 PY's at one point to run their IT operations, but will now be able to have a higher level of service from DGS for roughly half the cost of their original IT model. Both the Department and the State share in the savings-- DFEH has used some of this savings to fund an urgent need with the lawsuit settlement, but the state at large receives most of the savings through a \$300,000 reduction to DGS.

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**Staff Recommendation:** Approve As Budgeted

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**ITEM 8860 DEPARTMENT OF FINANCE**

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**ISSUE 1: CALIFORNIA RECOVERY TASK FORCE**

The Department of Finance requests \$1,628,000 (\$928,000 General Fund) to continue the activities of the California Recovery Task Force. The Department requests 5 positions (one year limited term) to monitor the remaining active grants in 2011-12.

The funding would pay for three primary functions:

- \$578,000 Task Force (Contract for Federal Government, Quality Control for Quarterly Reporting, Accuracy of Jobs Numbers/Data)
- \$450,000 OSAE/FSCU (Audits, Compliance Monitoring)
- \$600,000 California Technology Agency (Maintain System, Help Desk, Website Maintenance)

As the ARRA provisions begin to expire, the number of grants will drop from the 1,121 grants in effect on September 30, 2010 to 568 grants remaining in 2011-12. The expenditures for the task force also reflect this decline in workload, with the budget declining from \$3.9 million in 2010-11 to the \$1.6 million for 2011-12.

**STAFF COMMENT**

The Department of Finance notes that some of the activities funded in this proposal could be scaled down to meet minimum federal requirements, but that any reduction would increase the risk of non-compliance with the strict oversight and audit expectations of the federal government.

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**Staff Recommendation:** Hold Open

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**ITEM 0840 STATE CONTROLLER'S OFFICE****ISSUE 1: 21<sup>ST</sup> CENTURY PROJECT****Description**

The 21<sup>st</sup> Century Project of the State Controller's Office (SCO) is an extensive revamp of the state's entire payroll processing and related services such as employment history, position management and leave accounting. The SCO is responsible for paying approximately 294,000 state employees through its existing legacy system. This employee population includes state civil service employees, as well as elected officials, judicial council members, judges and the California State University System (CSUS) employees. The existing highly-customized system lacks the flexibility to adapt to the changing payroll requirements. The project is given heightened importance because the current system is based on computer languages that are essentially not taught and are increasingly falling into disuse. The population of state employees and others familiar with the system and the various languages used is shrinking rapidly.

To support the state's ongoing needs, the Legislature in 2004 authorized the development and purchase of a new system that would provide a technically-advanced solution and create the functions required to support future growth and increased complexities in state government. The new system, referred to as MyCalPAYs, is designed to offer benefits to the state, human resources professionals and employee groups. MyCalPAYs is designed to transform the business processes and technology that support the human resources and payroll functions of the state. Initially it will be used by the state's 160 departments employing approximately 243,000 employees. This effort will take about 15 months to complete with departments migrating to the MyCalPAYs system on a quarterly basis. Upon completion, MyCalPAYs will support all state civil service employees as the human resources and payroll system of record. The 21st Century Project is the effort to build, test and deploy MyCalPAYs to the state's civil service employees. The plan is to add CSUS employees at a future date.

**Background**

In the initial approval of the project, SAP was selected as the software provider of the project and BearingPoint was selected to provide system integrator services. As the prime contractor, BearingPoint had overall responsibility for implementing the solution. In January 2009, the state terminated the contract with BearingPoint, the project systems integrator, for failure to meet contractual commitments. After contract termination, the SCO developed a "go-forward" strategy to complete implementation of the project. The major change in this strategy included a revised scope for the project that excluded CSU employees, which the SCO has indicated will be addressed in a separate project at a future time. This revised approach was included in Special Project Report No. 3 which was approved by the Office of the Chief Information Officer (OCIO) in May 2009.

The SCO then began the process to procure a new systems integrator to complete the project. The SCO has since completed the procurement and in February 2010 approval was given to retain SAP Public Services, Inc., as the new systems integrator. The new contract includes the system integrator services and supplemental software tools necessary for the completion of the project. The new plan removed certain management responsibilities from the project integrator's portfolio and included requirements relating to knowledge of state procurement.

The termination of one integrator and the hiring of another has added to the time-span over which the project is to be implemented. Under the original timeline, the "go-live" and support phase of the project were to be completed by mid-year 2010-11. Under the current timeline, the "go-live" phase is expected to be completed by the end of calendar year 2013. Currently, the project preparation phase (project planning, project management, risk management, change control, status reporting and issue management) and blueprint validation phase have been completed. Approximately 15 state departments participated in the validation phase. The realization phase began in June 2010 and includes a full build and test of the system. The next phases include the final preparation and "go-live" portions. The "go-live" phase will be conducted in 5 waves of departments with 11,000, 70,000, 70,000 and 85,000 employees added in consecutive quarters.

On January 21, 2010, the Joint Legislative Budget Committee (JLBC) approved a Control Section 11.00 request from the SCO related to the project. This Section 11.00 request was based on the OCIO's December 16, 2009, approval of Special Project Report No. 4 for the project which delineated several contract changes and cost adjustments. In its letter approving the SPR, the OCIO specified several conditions for the project including submission of a detailed cost tracking report on a quarterly basis.

As noted, the JLBC approved the Section 11.00 request. However, due to the magnitude and complexity of the Project, the JLBC requested that the SCO provide the Senate Budget and Fiscal Review Committee and Legislature with regular updates as the Project progresses, including the quarterly cost tracking report that is provided to the OCIO. Additional requested information included updates on the status of the BearingPoint litigation (since concluded) and more information about how the project is managing risks that could impact the performance of the system or the cost of the project.

### **Proposal**

The Administration requests \$63.7 million (\$34.2 million GF) to fund the 21<sup>st</sup> Century Project for 2011-12. In addition to GF support, additional budget support will be made up of special funds (\$28.4 million) and reimbursements (\$1.0 million). The bulk of the funds (\$51.5 million) will be used for operating expenses and equipment with \$37.5 used for consulting and professional services contract and \$9.5 million for Department of Technology Services—Consolidated Data Center. The request funds 111 limited term positions at a cost of \$12.2 million. These limited term positions were approved as part of the 2010-11 budget and this request does not increase position authority for 2011-12.

The current estimated total cost of the project (one-time and continuing) is \$303.2 million over the 11 year time-span. Of this amount, \$255.7 million is one-time and \$50.3 is the cumulative total of continuing costs. Continuing costs fluctuate from year to year. They are expected to peak at \$11.3 million in 2012-13 and decline to \$5.6 million in 2013-14. Annual costs of the project are shown below.

#### 21<sup>st</sup> Century Project

##### Actual and Estimated Project Costs (\$ millions)

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	TOTAL
<b>One Time</b>	1.4	4.9	11.6	34.7	16.2	15.8	26.2	56.9	52.7	35.4	00.0	255.7
<b>Continuing</b>	0.0	0.0	0.0	1.1	2.9	3.8	5.2	9.2	11.0	11.4	5.7	50.3
<b>Bond Rec.</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.8
<b>Total</b>	1.4	4.9	11.6	35.8	19.1	19.6	31.4	66.1	63.7	46.7	5.7	303.2

### COMMENTS

The need to transition the state from a transaction-based system to an enterprise database system that supports the business needs of state government is clear. After an unfortunate setback this project is now on track, and constant updates are provided to the Legislature on its progress. Their most recent report was provided to the Legislature in October 2010, and the SCO staff has consistently been very responsive to all requests from the Legislature. Pursuant to the JLBC request, the SCO will continue to provide quarterly reports on progress to the Legislature, allowing proper oversight of this important project. The next report is expected to be delivered to the Legislature in the near future.

In its most recent report to the Legislature regarding the project, the SCO identified 18 deliverables for the next quarter. The Committee may want to query the SCO staff regarding the status of these components of the project, since all were scheduled to be completed by December 31, 2010.

The Committee may wish to ask the current status of the realization phase of the project and the results from the build and test components. In addition, information should be reported on the initiation of the “go-live” phase, which is to begin later this year.

Project staff has identified three high risk areas of the project: possible changes to the project following the blueprint validation; adequacy of resources and staff for testing of the project; incorporation of the Department of Corrections in the project. The Committee may want to inquire how project staff has prepared for these potential risks.

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**Staff Recommendation:** Approve As Budgeted

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