

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 5 On Transportation and Information Technology

Assemblymember Bob Blumenfield, Chair

**TUESDAY, MARCH 17, 2009, 1:30 PM
STATE CAPITOL, ROOM 447**

GOVERNOR'S REORGANIZATION PLAN #1

- 1) PRESENTATION OF THE GOVERNOR'S PROPOSED REORGANIZATION PLAN
- STATE CHIEF INFORMATION OFFICER – TERESA "TERI" TAKAI
- 2) ANALYSIS OF THE GOVERNOR'S PROPOSED REORGANIZATION PLAN
- LEGISLATIVE ANALYST'S OFFICE
- 3) PRESENTATION BY AFFECTED DEPARTMENTS
 - P.K. AGARWAL – DIRECTOR, DEPARTMENT OF TECHNOLOGY SERVICES
 - MARK WEATHERFORD – EXECUTIVE DIRECTOR, OFFICE OF INFORMATION SECURITY AND PRIVACY PROTECTION
 - SCOTT HARVEY – DEPARTMENT OF GENERAL SERVICES
 - GREGORY HURNER – DEPUTY SECRETARY FOR LEGISLATION, STATE AND CONSUMER SERVICES AGENCY
- 4) MEMBER COMMENTS AND QUESTIONS

Reorganization Process:

Pursuant to the government reorganization process specified in statute (see attached Government Code section 12080), the Legislature has 60 days to consider the Governor's IT reorganization plan. During the first 50 days, the plan may be heard in standing committee, after which time (or following an earlier committee report), a resolution, by floor motion, may be made for dispensing with the proposal "as is" (i.e. without amendment). Barring action by either house to deny the plan, it would take effect May 10, 2009 (on the 61st day after the date of submission to the Legislature).

Governor's proposed IT Reorganization Plan: (Full proposal available at <http://www.lhc.ca.gov/lhcdir/grpit/GRPITFeb2009.pdf>)

On March 10, 2009, the Governor submitted to the Legislature his Proposed IT Reorganization Plan (GRP) to consolidate various statewide IT organizations and functions under the Office of the Chief Information Officer (OCIO). The GRP would greatly expand the duties and responsibilities of the OCIO. In total, they would absorb approximately 1,200 state employees and \$500 million in funding from other departments.

The Administration asserts that California IT lacks the broad and cohesive organizing logic necessary to best optimize limited state resources. To address this shortcoming, the Governor proposes a "federated" governance model, in which the OCIO would have expanded authority over various IT services and functions while leaving some "local control" at the agency, department, and program levels.

The reorganization would consolidate under the OCIO the following existing entities:

- The Office of Information Security and Privacy Protection (OISPP) (Information security functions only. Consumer focused privacy protection functions will continue to be carried out by the new Office of Privacy Protection under the State and Consumer Services Agency.)
- The Department of Technology Services (DTS), including the Technology Services Board
- The Telecommunications Division of the Department of General Services

Additionally, the expansion would give the OCIO authority over IT procurement policy, unified communications services, IT human capital management, data center and shared services, and broadband and advanced communications services policy.

According to the Administration, the governance model should align with the organization and decision-making structure of the Executive Branch, with Agencies establishing the policies and business priorities in program areas and Departments, within Agencies, executing policy direction and delivering government programs. Statewide control agencies, such as the Department of Finance and the Department of General Services, manage and oversee the budget, support services and procurement. In addition to aligning with the decision authorities of the California Executive Branch, the Administration asserts that an effective IT governance process should also:

- Maintain decision authority at the appropriate tier;
- Provide statewide IT infrastructures and services;
- Consolidate IT resources to increase capacity and reduce costs;
- Improve management of IT projects;
- Streamline approval, purchase and oversight processes; and
- Foster collaboration and data sharing.

All transferred employees affected by this reorganization would report to the OCIO, though physically they would remain at their current locations. The total number of positions transferred would be about 1,180, with 800 from DTS, 368 from DGS's Telecommunications Division, and 6 from OISPP. All unexpended balances of appropriations and other funds available for functions affected by this reorganization would be transferred to the OCIO and would have to be used for their original purposes.

In addition to improved service, the Administration anticipates the increased IT coordination and efficiency made possible under the reorganization plan would generate an estimated \$1.5 billion in savings over the next five years.

ENTITIES INVOLVED:

The Governor's current Reorganization plan proposes to consolidate the following existing entities:

Office of the State Chief Information Officer (OCIO). The OCIO was formally established by Senate Bill 90 (Chapter 184, Statutes of 2007) and began operation in January 2008. The State CIO's specific responsibilities include the following:

- Advising the Governor on the strategic management and direction of the state's information technology resources.
- Establishing and enforcing state information technology strategic plans, policies, standards and enterprise architecture.
- Minimizing overlap, redundancy and cost in state operations.
- Coordinating activities of agency information officers and the Director of Technology Services.
- Improving organizational maturity and capacity in the effective management of information technology.
- Establishing performance management practices and ensuring state information technology services are efficient and effective.
- Approving, suspending, terminating and reinstating information technology projects.

In the Budget Act of 2008, the Legislature provided the OCIO with 32 positions and a budget of approximately \$6.7 million. The Governor's 2009-10 January Budget proposal requested 29 new positions and an increase of \$8.4 million (\$5.7 million General Fund) to develop a strategic plan and overall structural design for education data systems and to provide sufficient resources to carry out the existing duties of the Chief Information Officer related to Enterprise Architecture, Geospatial Information Systems (GIS), human capital management, program and project management and information technology policy. The request for increased funding was held without prejudice from the approved 2009-10 budget for further discussion and may require updating as details of the GRP are analyzed.

The Department of Technology Services (DTS). The DTS was established on July 9, 2005, via a Governor's Reorganization Plan, and exists under the jurisdiction of the State and Consumer Services Agency. The DTS provides information technology (IT) services, on a "fee for service" basis, to state, county, federal and local government entities throughout California. Through the use of a scalable, reliable and secure statewide network, combined with expertise in voice and data technologies, DTS delivers comprehensive computing, networking, electronic messaging and training. In the Budget Act of 2008, the Legislature provided DTS with approximately 800 positions and a budget of \$278 million.

The Technology Services Board (TSB). The TSB, which was also established on July 9, 2005, via a Governor's Reorganization Plan, provides governance and guidance to the DTS, helps set policy on services provided, reviews and approves DTS' annual budget and rates, and ensures appropriate oversight and customer orientation. The TSB was designed to ensure that the DTS is governed by its major customers from a business perspective. Chaired by the State CIO, the TSB membership consists of top executives from all Cabinet agencies and the State Controller's Office.

Office of Information Security and Privacy Protection (OISPP). The OISPP was established effective January 1, 2008, under the State and Consumer Services Agency. The OISPP is made up of two offices: The Office of Information Security is responsible for ensuring the confidentiality, integrity, and availability of state systems and computer applications and for protecting state information. The Office of Privacy Protection promotes and protects privacy rights of consumers.

Department of General Services – Telecommunications Division (DGS-TD). The DGS-TD was first established in 1947 and has existed in its current incarnation since the business telecommunications functions were transferred to the Department of Technology Services on July 9, 2005. DGS-TD is made up of two distinct offices, the Office of Public Safety Communications Services (OPSCS) and the State of California 9-1-1 Emergency Communications Office. The OPSCS provides engineering and technical support services for public safety related communications systems, including design, installation, and maintenance services. The 9-1-1 Emergency Communications Office provides oversight of the 9-1-1 network and approximately 500 police, fire, and paramedic dispatch centers, also known as Public Safety Answering Points (PSAPs) and assists PSAPs in the administration and funding of 9-1-1 services. In the Budget Act of 2008, the Legislature provided approximately 368 positions and over \$220 million to the Telecommunications Division of DGS.

IT Procurement Policy. Under the Department of Information Technology (DOIT), authority over IT procurement policy and IT procurement procedure were separated, with the Department of Information Technology (DOIT) overseeing IT procurement policy and the Department of General Services overseeing IT procurement procedure. When DOIT sunset on July 1, 2002, their authority over IT procurement policy was transferred to the Department of Finance (DOF) who currently maintains such authority.

BRIEF BACKGROUND OF CALIFORNIA IT:

IT reorganization is nothing new to California. From the 1980's through mid-90's, the Department of Finance (DOF) was solely responsible for approving and overseeing state IT projects. In 1995, the Legislature established the Department of Information Technology (DOIT) to provide planning and policy

guidance to state IT operations. Due to constant failure to meet statutory mandates, DOIT was allowed to sunset in 2002. In 2003 the Bureau of State Audits (BSA) contracted with RAND to review the cause of DOIT's failure. Among many factors, RAND highlighted the following:

- DOIT's inadequate inclusion of or responsiveness to department and agency CIOs in the formulation and revision of a statewide strategic plan resulted in a product that was neither well received nor complete.
- DOIT's role and responsibilities relative to other control agencies was ill-defined.
- DOIT struggled to set standards in the face of opposition from vendor lobbyists.
- DOIT was created with the intent of providing project leadership and guidance as well as oversight, but it did not possess the resources (and may not have possessed adequate authority) to undertake such an enormous task.
- Given limited resources, DOIT may have attempted to tackle too many challenges at once, rather than establish a set of priorities and tackle only the most important issues and challenges, as time and resources permitted.

Until 2006, the State relied heavily on DOF and DGS to perform many IT functions. While a state CIO was hired prior to 2006, there was no authority or resources provided until SB 834 (Chapter 533, Statutes of 2006) formally established the position and prescribed the following duties: (1) advising the Governor on IT issues, (2) minimizing overlap and redundancy of state IT operations, (3) coordinating the activities of agency information officers, (4) advancing organizational maturity and capacity in IT management, and (5) establishing performance measures for IT systems and services.

Further language (SB 90, Chapter 184, Statutes of 2007) raised the CIO to a cabinet-level position and expanded the powers of the OCIO to (1) approve, suspend, and terminate IT projects; (2) establish and enforce state IT plans and policies; and (3) consult with agencies on programmatic needs and IT projects. SB 90 also transferred the IT policy-setting and review functions and resources from the DOF to the OCIO, and the information security policy-setting function from the DOF to the State and Consumer Affairs Agency (SCSA).

Despite discussions of placing the Office of Information Security and Privacy Protection (OISPP) under the CIO, it was instead placed in the State and Consumer Services Agency. In fact, the LAO recommended that Security be

placed under the authority of the OCIO, and the Administration argued that "best practices" suggested it should reside in a separate agency.

The LAO, while supportive of the general shift of IT responsibilities to the OCIO, raised several other concerns as well, including:

- They felt the plan was overly ambitious raising concerns that such an aggressive agenda could result in reduced effectiveness.
- Without funding authority (which remained with DOF), projects the CIO had concerns with could potentially still receive funding.
 - Conversely, projects could be given inadequate resources to achieve completion as approved by the OCIO.
 - The LAO recommended that project review remain under DOF to keep the two functions together, and allow the CIO to focus on other priorities.
- The CIO's joint role as advocate for IT projects, and impartial review of those projects could create conflicts limiting the ability to provide an independent perspective on oversight.

Status of California's IT:

The creation of the OCIO has addressed some concerns that existed with previous IT structures in California. The OCIO has been conducting surveys throughout state government to try to better understand the current status of IT in the Executive Branch. Thus far, their data shows:

- Operating expenditures of more than \$3 billion annually.
- IT Projects:
 - More than 120 large IT projects under development with estimated budgets exceeding \$6.8 billion over 11 years.
 - More than 500 small to medium IT projects under development.
- IT Human Capital
 - More than 50% of the state's IT workforce will be eligible to retire within the next five years.
 - 130 individuals serving as CIOs or in an equivalent function within state agencies.

- More than 10,000 authorized positions in IT classifications (annual payroll/overhead in excess of \$1.5 billion).
- IT Infrastructure - Data Centers, Servers and Storage
 - The state has approximately 409,000 sq. ft. of floor space in 405 locations dedicated to data centers and server rooms.
 - Approximately 33 percent of data center floor space lacks sufficient disaster recovery and backup capabilities.
 - The state owns and operates more than 9,494 servers.
 - More than a third of these servers are at, or near, the end of their useful life (3+ years old).
 - Agencies are operating 259 storage systems
- IT Infrastructure – Desktop
 - More than 200,000 desktops/laptops are in use by Executive Branch agencies, with a refresh cycle ranging between three to five years.
 - The average desktop in use requires 4 to 16 times more energy than a laptop computer operating with advanced power management.
 - More than 100 different email systems.
 - 180,000 active email boxes.
 - 15 million emails per day.
 - 95% of the e-mail the state receives each day is spam.

This data has helped guide their development of this reorganization plan and determine areas where efficiencies can be achieved through consolidation.

LAO ANALYSIS:

According to the LAO, in general, consolidating entities with similar functions under a centralized governance structure can lead to increased efficiencies and improved services as redundant staff activities are eliminated and the delivery of services is streamlined. We concur that there are potential benefits, in particular,

from consolidating the state's IT functions. The state CIO possesses a broad perspective of the state's overall business and IT needs and could better assist state entities in the best use of technology to maximize the state's business processes and goals.

Transferring the authority to create and enforce IT procurement policy to the OCIO could lead to more standardized procurement policies for all IT goods and services. Consolidation of these entities could also provide greater visibility and more awareness for information security as the CIO establishes statewide IT goals and policies, including standards for information security. The LAO also highlights that this move would allow the OCIO to create and enforce more standardized processes and technologies for all clients who utilized DTS services.

While standardization of IT policies and processes could result in some cost efficiencies, this is not without potential tradeoffs. These include limiting state entities' choice in purchasing IT goods and data services, potentially reducing the number of IT vendors who may sell to the state, and creating a large bureaucracy that may impede rather than encourage government efficiency.

Despite these potential drawbacks, the LAO believes ensuring more standardized IT policies and procurements outweigh these concerns. However, there are some implementation issues associated with this GRP that should be considered.

The GRP lacks key details regarding how this reorganization would actually be implemented. For example, the GRP does not address how the OCIO would maintain effective oversight over multiple new functions and staff. The OCIO would be responsible for, among many things, strategic planning, project review and oversight, managing a large data center, and creating statewide IT related policies and standards. The LAO raises concerns that the office may be taking on too many duties at one time.

In addition to implementation issues, the LAO points out a lack of information regarding cost savings estimates. The Administration believes this first phase of reorganization would permit the state to avoid \$185 million in costs (all funds) in 2009-10 and \$1.5 billion in costs (all funds) over five years. This would be achieved through such means as consolidating software contracts, data centers, computer rooms, servers, storage, and networks. However, the Administration has not yet made public the details regarding how such costs would be avoided. The LAO recognizes the potential for cost avoidance, but without more information cannot comment on the accuracy of the administration's estimates. They are, however, skeptical of the administration's \$1.5 billion estimate.

Issues for Consideration

One approach the LAO suggests the administration could take to mitigate the potential risks of taking on all the proposed functions at once would be to reduce the number of functions transferred to the OCIO at one time. A more phased approach could reduce the total workload for OCIO's current managers, allowing them to better handle problems as they arise. For example, the reorganization could begin with the transfer of procurement and information security policy to the OCIO. Another example would be giving the OCIO the authority to begin building state expertise in project management, an IT function not included in the GRP but one we discuss at length below. Also, a more phased approach could be less disruptive to department staff, allowing them to be more systematically and slowly consolidated into the OCIO.

The LAO notes that an important IT-related function has been omitted from the reorganization plan. The OCIO has highlighted the need for the state to develop a workforce of state workers with IT project management expertise who could better guide the implementation of IT projects. Toward that end, the OCIO has developed a project management academy and plans to establish a Project Management Office within OCIO. The GRP does not advance this important goal.

For the full LAO analysis, please see the letter dated March 9, 2009 to the Little Hoover Commission (attached).

STAFF COMMENTS:

The first question that must be answered is "what is the problem with the state's IT governance system"? The Administration suggests that lack of consolidation and centralization of control is the problem. Based on this definition of the problem, the natural solution is greater consolidation of IT functions and centralization of authority in the OCIO, as proposed in the GRP. As previously noted, this is not a new issue to California. The LAO, Little Hoover Commission, and RAND (on behalf of the BSA) have all issued one, or more, reports on this very topic. While information from all those sources could not be included for the sake of brevity, the review of the history is essential to better analyze the current proposal.

There does appear to be general consensus that there is "A" problem with California's IT governance structure, but there is no universal agreement as to what exactly is the cause of the problem, nor a universal answer as to what should be done to address that problem.

There are many trade-offs to be weighed in regards to centralization, structure and breadth of responsibility. Some advocate for a completely centralized OCIO with virtually all IT authority housed there. Others caution that such centralization

can have negative consequences, including discouragement of collaboration and innovation at lower levels of the organization. The BSA report prepared by RAND in 2003 reviewed the IT governance structures of several states with successful IT organizations, and found that they all managed to be successful despite wide variances in structure and amount of centralization.

The Administration has proposed one possible IT governance structure, but the Legislature should consider the variety of options that exist, and the trade-offs that exist for each of those options. Issues to consider include:

- 1) Cost Savings: One of the primary justifications of this reorganization provided by the Administration has been the potential for savings and cost avoidance in the amount of \$1.5 billion over the next five years. At the time of drafting this agenda, the Administration had just provided initial details regarding these savings projections, but staff did not have time to adequately analyze the information provided.

Over 5 years, they expect to achieve \$452 million in General Fund "cost avoidance", primarily through server and storage space consolidation. They also project \$473 million in General Fund savings through reduced spending on several different aspects of IT. They are estimating a 55% General Fund to 45% special fund split, which provides a total five year savings estimate of \$1.6 billion. Most of the savings aren't achieved until 2011-12, but they do estimate being able to achieve \$102 million in savings in the 2009-10 budget.

The savings numbers provided don't take into account that there is likely to be an upfront increase in costs to achieve any potential savings, such as those funds requested in the OCIO's Budget Change Proposal for the 2009-10 budget. What kind of investment is necessary to implement these changes?

- 2) Implementation: The Administration insists this reorganization be done through the GRP process to expedite the reorganization. There is no clear timeline, however, to suggest the rate at which these massive organizational changes will occur. At the Little Hoover Commission hearing the CIO from Utah described his experience with a statewide IT overhaul and stated that it took them three years to fully implement their changes. The Administration has not provided a timeline or any clear milestones to be achieved. Without these details, there is little ability for the legislature to monitor the progress of these efforts.

The LAO points out that previous attempts at IT reorganization have been plagued by trying to do too much at once. They suggest several options including a phased approach to moderate this risk. The Legislature should consider if the GRP provides sufficient detail to ensure that the reorganization provides the proper amount of resources and authority with the OCIO to manage the large scale changes being proposed.

This plan is not without risks. Those risks must be weighed against the current structure and what it would mean to continue operating under the status quo. Does everything have to happen now to avoid the risks of maintaining the status quo? What other options were considered?

- 3) Performance Measures: Along with a timeline and specified milestones to be achieved, it is necessary for the OCIO to provide a current baseline of service levels, and properly measure the changes in those levels as they complete the reorganization process. Without accurate performance measures, there is no way to determine the success or failure of the proposed IT governance structure. The proposed plan contains no information on performance measures, but upon further inquiry, the administration provided proposed performance metrics (attached). These measures, however, are not included in the formal plan presented to the legislature for approval.
- 4) Project Management: Both the LAO and Little Hoover Commission raise the issue of project management. Much of the public discontent with the state's IT structure stems from failure of large IT projects that make the front page of the newspaper when they crash. In 1997 the state abandoned its automated network for tracking child support payments after spending \$111 million. Currently the state UI automation system is years behind schedule, the Fi\$cal project has constantly been forced to change direction further delaying the project and increasing costs, and the 21st Century project has had to file for breach of contract with their vendor who failed to provide the services required.

As noted in the LAO comments, there is a lack of project management reform under the Governor's proposal. With the vast resources focused on these few large projects, it seems as though the plan should at least discuss the role of the proposed expanded OCIO in these projects. The LAO and Little Hoover Commission also questioned the logic in leaving the Office of Systems Integration (OSI) under the Health and Human Services Agency, separate from the OCIO when they have exhibited exactly the kind of project management expertise needed in the new OCIO. While there are logistical difficulties in incorporating the OSI into this reorganization, the merits of such a move should be discussed by the Legislature.

- 5) Centralization vs. Flexibility: The RAND study suggested that if California chose to move forward with an effort to consolidate IT functions, a stronger more centralized OCIO would be beneficial. This recommendation, however, came amidst caution that there is no "right" structure for IT reorganization. They suggested that the trade-offs inherent with these decisions must be considered carefully.

- 6) While consolidation/centralization provides benefits such as potential cost savings, stronger security, greater efficiency and enhanced career opportunities, there are also costs. Agencies and departments will lose a great deal of autonomy and flexibility to fit their IT structure to their particular needs.

Creating efficiency often includes greatly expanding the size of procurement contracts, which creates issues in regards to equity and competition in procurement. Can the administration assure the Legislature that this change won't lock many smaller vendors out of the market? Will it create a system where few vendors can compete, thus increasing the cost to the state?

Did the Administration consider all these tradeoffs and specifically review various potential structures to address them? If so, what factors led to moving forward with this proposal?

- 7) IT staffing: The GRP specifies a roll for the new OCIO in regards to improving the pool of IT expertise within the state. Some level of outsourcing may be necessary to assure the ability of the state to ramp up resources quickly for projects, but not overextend state resources for temporary needs. Internal expertise, however, are crucial to an efficient IT governance structure. Has the Administration considered how to determine the correct balance between the two competing priorities? How will the new OCIO handle this issue?
- 8) Timing: As mentioned above, and by the LAO, the proposed GRP vastly expands the scope and authority of the OCIO. Did the Administration consider a phased approach, having the OCIO take over some expanded authority and gradually working towards consolidation of state IT resources? This would allow the OCIO to develop the appropriate expertise and ensure all the necessary resources are available for success? What other options were considered by the Administration? Why was this process considered the best option?

Over the coming weeks, prior to determining if GRP #1 should be accepted or rejected, the legislature should work closely with the Administration to address these issues that have been raised. Without a clear implementation plan, well defined authority and responsibilities and effective performance measures, the State runs the risk of making the same errors made with DOIT. Public and private stakeholders should be consulted to ensure that we do not repeat the many mistakes of past IT reorganization efforts in California.

RELEVANT INFORMATION AND REFERENCES:

- LEGISLATIVE ANALYSTS OFFICE LETTER TO THE LITTLE HOOVER COMMISSION REGARDING GRP #1 - ATTACHED
- PROPOSED PERFORMANCE MEASURES - ATTACHED
- REORGANIZATION PROCESS – GOVERNMENT CODE 12080 - ATTACHED
- GOVERNOR'S REORGANIZATION PLAN #1-
[HTTP://WWW.LHC.CA.GOV/LHCDIR/GRPIT/GRPITFEB2009.PDF](http://www.lhc.ca.gov/LHCDIR/GRPIT/GRPITFEB2009.PDF)
- IT STRATEGIC PLAN - [HTTP://WWW.ITSP.CA.GOV/PDF/STRATEGIC_PLAN.PDF](http://www.itsp.ca.gov/pdf/strategic_plan.pdf)
- LITTLE HOOVER COMMISSION (HEARING AGENDA AND WRITTEN TESTIMONY) FEBRUARY 2009 - [HTTP://WWW.LHC.CA.GOV/LHCDIR/FEB09.HTML](http://www.lhc.ca.gov/LHCDIR/FEB09.HTML)
- LITTLE HOOVER COMMISSION REPORT ON “A NEW LEGACY SYSTEM: USING TECHNOLOGY TO DRIVE PERFORMANCE”
[HTTP://WWW.LHC.CA.GOV/LHCDIR/193/REPORT193.PDF](http://www.lhc.ca.gov/LHCDIR/193/REPORT193.PDF)
- BUREAU OF STATE AUDITS – FEBRUARY 2003 REPORT ON INFORMATION TECHNOLOGY [HTTP://WWW.BSA.CA.GOV/PDFs/REPORTS/2002-111.PDF](http://www.bsa.ca.gov/PDFs/REPORTS/2002-111.PDF)