

March 9, 2009

Mr. Stuart Drown
Executive Director
Little Hoover Commission
925 L Street, Suite 805
Sacramento, California 95814

Dear Mr. Drown:

This letter is in response to your request for comments on the Governor's Reorganization Plan (GRP) to consolidate state information technology (IT) functions under an expanded Office of the State Chief Information Officer (OCIO).

Current IT Governance Structure

The GRP proposes consolidating multiple state IT functions under an expanded OCIO. Currently, IT governance responsibility is distributed across various entities and departments:

- The OCIO is responsible for many activities, including developing and enforcing the state's IT plans, policies, and standards; conducting IT project review, approval, and oversight; and promoting the efficient and effective use of IT in state operations. The Chief Information Officer (CIO) is a member of the Governor's Cabinet and advises the Governor on the strategic management of the state's IT resources.
- The Office of Information Security and Privacy Protection (OISPP), part of the State and Consumer Services Agency (SCSA), 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.
- The Department of Technology Services (DTS), also within SCSA, provides IT services to state, county, federal, and local entities throughout California on a fee-for-service basis. Technology services include application and equipment hosting, storage, computing, networking, and training.

- The Technology Services Board (TSB) governs DTS, setting policy on services provided by the department and reviewing and approving DTS' annual budget and rates. The state CIO chairs the TSB.
- The Department of Finance (DOF) has responsibility to maintain all statewide IT procurement policy in the State Administrative Manual and Statewide Information Management Manual. The Department of General Services (DGS) has responsibility for the actual procurement of IT goods and services.
- The DGS also houses the Telecommunications Division, which provides engineering and technical support services for public safety-related communication systems.

Proposed IT Governance Structure

The GRP proposes consolidating the above state IT functions. The new organizational structure would transfer DOF's authority over procurement policy for IT goods and services to the OCIO. It would also transfer all the functions from DTS, the Telecommunications Division of DGS, and the information security functions of OISPP. The CIO would keep her current responsibilities. 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.

The administration indicates this GRP is a first step toward greater centralization of state IT functions. 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, we note that the administration has not yet made public the details regarding how such costs would be avoided.

The Benefits of Consolidating

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. This is referred to as an "enterprise" perspective. The CIO is responsible for considering IT and business needs across agencies, departments, and

projects (rather than focusing narrowly on the needs of one or two entities) and establishing a statewide strategic plan for the effective use of IT across state government. Consolidating IT functions under the OCIO could result in greater alignment of IT services and resources and produce some IT-related efficiencies and improvements on a statewide level. Below, we discuss key features of the plan and the associated benefits.

Procurement Policies. 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. Currently, procurements are conducted on a case-by-case basis according to the technology and business needs of the requesting agency, department, or project staff. This approach does not always allow the state to optimize service contracts, to buy in bulk, or to buy strategically. A CIO responsible for procurement policy would have the ability to establish standards for the types of technologies and IT infrastructure procured for the entire state. Standardization could result in savings as the state would be able to take advantage of economies of scale in purchasing IT goods and services.

Additionally, under the proposed consolidation, the OCIO could be in a stronger position to establish procurement policies that facilitate more efficient and coordinated IT-related procurements. For example, current state procurement policies do not systematically require the early or active involvement of state IT experts, such as DTS and IT security staff, DGS IT procurement staff, or outside IT consultants during the procurement process. (Some staff for particular departments and projects do take advantage of such resources, but not all do so now.) The OCIO could help to standardize expert involvement and other “best practices” in procurement that could mitigate future risks and reduce the cost to the state of such projects.

Security Functions. The departments that report to the SCSA are engaged in a wide array of activities such as civil rights enforcement, consumer protection, professional licensing, and procurement. With such a wide range of responsibilities, one of the SCSA’s responsibilities—information security—is not necessarily the agency’s highest priority. The administration’s proposal would move the security functions that currently reside in SCSA to the OCIO, where they would likely receive greater attention. Under OCIO, security issues could gain greater visibility and more awareness as the CIO established statewide IT goals and policies, including standards for information security.

Data Center Shift. Moving DTS under OCIO makes practical sense. This move would allow the OCIO to create and enforce more standardized processes and technologies for all clients who utilized DTS services. Currently, as is the case with IT procurements, DTS provides services to its clients based upon their individual needs. While this allows DTS to address and satisfy individual clients, DTS admits there is a lack of standardization in the use of hardware and other technologies. If DTS were a part of OCIO, more strategic and standardized approaches to providing data center

services could be developed that take into consideration what is most appropriate for overall state IT needs rather than a single client's IT needs. The OCIO could give DTS the leverage it needs to only offer data services that are aligned with the state's strategic plan for IT. Greater alignment of data services could increase efficiencies and lead to reduced pricing for DTS services.

Possible Concerns With Consolidating

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.

Limiting Choice. Currently, state agencies and departments can purchase IT goods and services through DGS or through outside vendors. Similarly, they may use DTS for data services or find a vendor to provide these services. Under the new reorganization, the CIO would standardize the types and kinds of software, hardware, and technologies the state is able to obtain as well as the data services the state provides. Though exceptions may be granted, in general, all state entities would have to adhere to these new policies and standards in purchasing IT goods and services, thus limiting their choices.

Reduction in Vendors. The OCIO's choice of certain systems and technologies over others could limit the pool of contractors that are able to do business with the state. Reducing the number of vendors could decrease competition for certain contracts, potentially driving up costs for IT goods and services.

Building a Bureaucracy. Should the GRP be implemented, the OCIO would grow to an office of over 1,200 staff. A large office has the potential to become significantly more bureaucratic, creating policies and procedures with unintended adverse consequences. Moreover, a larger bureaucracy may not be as flexible in addressing changing situations.

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

Issues for Consideration

This GRP lacks key details regarding its implementation as well as how it would achieve the stated level of cost avoidance. Additionally, the GRP proposes to increase OCIO's workload without prioritizing its new and existing functions. We discuss these concerns below.

Details Lacking and No Sense of Prioritization. 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. Additionally, there is no indication how the new responsibilities and roles for the OCIO proposed in the GRP would be prioritized along with its existing ones. 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. We are concerned that the office may be taking on too many duties at one time.

One approach the administration could take to mitigate these potential risks 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 OCIO.

Project Management Goals Absent. We note 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.

Our analysis indicates that there is an opportunity to do so. The Office of Systems Integration (OSI) within the Health and Human Services Agency (HHS) has successfully managed that agency's IT projects. The OCIO could leverage the experience and expertise of OSI's project management staff by absorbing them, as they rotate off completed projects, into the newly established Project Management Office. This would give OCIO a small cadre of professional state staff that could be "loaned" to different state IT projects. Presumably, many former OSI staff would end up working on OSI-led projects, as they comprise a large proportion of the state's overall IT project portfolio. Creating a cadre of state workers to conduct project management would have statewide benefits by addressing the state's lack of this particular expertise.

Cost Avoidance Unknown. As noted earlier, the administration estimates cost avoidance of approximately \$185 million for 2009-10 and \$1.5 billion for the first five years if this GRP is implemented. We agree there will be some cost avoidance, in the short term, once IT functions and resources are streamlined and statewide IT policies are standardized. Without further details on the administration's estimates of cost avoidance, however, we cannot comment on their accuracy. In general, we are skeptical about the administration's claim of \$1.5 billion in cost avoidance associated with implementing this GRP alone.

The Bottom Line

In conclusion, the administration's plan to consolidate more IT functions under the OCIO has merit and offers potential statewide cost avoidance—more so in the long term, when IT policies have been firmly established and state entities are working from a more standardized IT framework. However, we are concerned that this GRP lacks detail regarding implementation and has not completely addressed potential challenges to the existing OCIO staff and newly transferred offices. The Legislature may want to consider other means of achieving some of the same goals stated in this GRP.

Please contact Erika Li at (916) 319-8306 if you have any questions about our comments.

Sincerely,

Mac Taylor
Legislative Analyst