

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES****Assemblymember Hector De La Torre, Chair****WEDNESDAY, MAY 4, 2005, 1:30PM
STATE CAPITOL, ROOM 4202****ITEMS FOR CONSENT**

| ITEM | DESCRIPTION | PAGE |
|----------------|--|-------------|
| 5180 | DEPARTMENT OF SOCIAL SERVICES | 2 |
| CONSENT | SPRING FINANCE FOR INCREASED MEDI-CAL DISABILITY WORKLOAD | 2 |
| 1 | | |
| CONSENT | SPRING FINANCE LETTER ADJUSTING ETP FUNDING IN CALWORKS | 3 |
| 2 | | |
| CONSENT | SPRING FINANCE LETTER AB 636 STATE STAFFING | 3 |
| 3 | | |
| 5175 | DEPARTMENT OF CHILD SUPPORT SERVICES | 4 |
| CONSENT | SPRING FINANCE LETTER TRANSFERRING FULL COLLECTIONS PROGRAM | 4 |
| 4 | | |

ITEMS FOR VOTE ONLY

| ITEM | DESCRIPTION | PAGE |
|---------------|---|-------------|
| 4700 | DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT | 5 |
| VOTE | NATURALIZATION SERVICES PROGRAM | 5 |
| ONLY 1 | | |

ITEMS TO BE HEARD

| ITEM | DESCRIPTION | PAGE |
|----------------|--|-------------|
| 5175 | DEPARTMENT OF CHILD SUPPORT SERVICES | 6 |
| ISSUE 1 | FEDERAL CHILD SUPPORT AUTOMATION PENALTY | 6 |
| ISSUE 2 | CALIFORNIA CHILD SUPPORT AUTOMATION SYSTEM (CCSAS) | 8 |
| ISSUE 3 | CHILD SUPPORT LOCAL ASSISTANCE FUNDING | 10 |
| 0530 | HEALTH AND HUMAN SERVICES AGENCY | 12 |
| 4130 | HEALTH AND HUMAN SERVICES AGENCY DATA CENTER | |
| 5180 | DEPARTMENT OF SOCIAL SERVICES | |
| ISSUE 4 | CONSOLIDATION OF DATA CENTER AND TRANSFER OF PROJECT MANAGEMENT TO THE HEALTH AND HUMAN SERVICES AGENCY | 12 |
| ISSUE 5 | CWS-CMS GO-FORWARD PLAN | 17 |

ITEM FOR CONSENT

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

CONSENT ISSUE #1: SPRING FINANCE LETTER FOR INCREASED MEDI-CAL DISABILITY WORKLOAD

The Department of Finance has issued an April 1st Spring Finance Letter increasing Department of Social Services (DSS) Medi-Cal Disability staff to address additional workload generated by increased caseload.

BACKGROUND:

On April 1, 2005 the Department of Finance issued a finance letter that would increase staffing for the Medi-Cal Disability staffing. The Department requests 20.0 additional positions, effective July 1, 2005, for a budget year cost of \$3.4 million (\$1.7 million General Fund). The additional positions address a growth in the Medi-Cal caseload.

Federal regulations require timely and accurate decisions of medical eligibility for disability claims under Title XIX of the Social Security Act. The DSS Disability and Adult Program Division conduct's these evaluations. Over the last five years, this unit has seen a dramatic increase in the caseload that has grown faster than the staffing available to handle the work level. The unit current has a backlog of over 15,000 cases that can result in delays of up to a year.

STAFF COMMENT:

In previous fiscal years, the Subcommittee has approved similar requests for additional DSS Disability and Adult Program Division positions based upon increased caseload levels.

There have been no issues raised with this additional staffing.

CONSENT ACTION:

Adopt Spring Finance Letter

CONSENT ISSUE #2: SPRING FINANCE LETTER ADJUSTING ETP FUNDING IN CALWORKS

The Department of Finance has issued an April 1st Spring Finance Letter that makes a technical adjustment to transfer the Employment Training Program Funding transferred to DSS.

BACKGROUND:

The Department of Finance has issued an April 1st Spring Finance Letter that adjusts the Employment Training Program Fund transfer to DSS to account for an overestimation of workers compensation savings at the Department of Fair Employment and Housing. As noted above, ETP receives additional funding for any workers compensation savings in State government. The Department of Finance has re-examined its estimate for the Department of Fair Employment and Housing and believes that the department will save \$391,000 less than projected in the January budget. As a result the Spring Finance Letter adjusts the transfer to ETP and the offsetting adjustment to the DSS to reflect the anticipated workers compensation savings.

STAFF COMMENT:

This letter conforms to a Spring Finance Letter issued to make a corresponding change to the Employment Development Department. Assembly Budget Subcommittee #4 adopted the conforming letter on April 12, 2005.

CONSENT ACTION:

Adopt Spring Finance Letter

CONSENT ISSUE #3: SPRING FINANCE LETTER AB 636 STATE STAFFING

The Department of Finance has issued an April 1st Spring Finance Letter for staffing to oversee the California Child and Family Services Review system.

BACKGROUND:

The Department of Finance has issued an April 1st Spring Finance Letter that adds \$370,000 (\$185,000 General Fund) and four positions (2 permanent and 2 limited term positions) to monitor the System Improvement Plan for all 58 counties, as required by AB 636 (Steinberg), the California Child and Family Services Review system.

STAFF COMMENT:

The Subcommittee discussed implementation of the California Child and Family Services Review system at both the March 16th and March 30th hearings. The proposed Spring Finance Letter allows the State to monitor county performance and each county's progress towards improving its outcomes in child welfare programs.

CONSENT ACTION:

Adopt Spring Finance Letter

ITEM 5175 DEPARTMENT OF CHILD SUPPORT SERVICES**CONSENT ISSUE #4: SPRING FINANCE LETTER TRANSFERRING FULL COLLECTIONS PROGRAM**

The Department of Finance has issued an April 1st Spring Finance Letter to transfer the Child Support Full Collections Program from the Franchise Tax Board to the Department of Child Support Services.

BACKGROUND:

On April 1, 2005 the Department of Finance issued a finance letter that transfers the Child Support Full Collections Program, consisting of 168.5 positions and \$12.4 million (\$4.2 General Fund), from the Franchise Tax Board to the Department of Child Support Services.

The Child Support Full Collections Program locates non-custodial parents who are delinquent in their child support payments and locates and intercepts the assets of these individuals. The transfer would help consolidate State child support functions at the Department of Child Support Services. It would also meet the requirements for certification of the California Child Support Automation System (CCSAS) project.

STAFF COMMENT:

This proposed transfer is consistent with the requirements of last year's AB 2358 (Steinberg).

CONSENT ACTION:

Adopt Spring Finance Letter

VOTE-ONLY ITEM**ITEM 5180 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT****VOTE-ONLY ISSUE #1: NATURALIZATION SERVICES PROGRAM**

The Governor's Budget proposes to eliminate all funding for the Naturalization Services Program (NSP).

BACKGROUND:

The NSP provides community-based citizenship training services to immigrants throughout the State. Services provided include Outreach, Skills Assessment, Citizenship Preparation and Assistance, and Advocacy/Follow-Up services.

In the current year, the program received \$1.5 million State General Fund to serve an estimated 12,000 individuals. The Governor's Budget proposes to eliminate this program in the budget year.

STAFF COMMENT:

This issue was held open at the April 20, 2005 hearing.

VOTE-ONLY ACTION:

Appropriate \$5 million General Fund for the Naturalization Services Program.

ITEMS TO BE HEARD

ITEM 5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE #1: FEDERAL CHILD SUPPORT AUTOMATION PENALTY

The Governor’s Budget includes \$218 million for a federal automation penalty.

BACKGROUND:

The Governor’s Budget includes \$218 million General Fund in 2005-06 for the federal fiscal year (FFY) 2005 penalty. The 2004 Budget Act did not include funding for this penalty, as the payment was entirely deferred to state fiscal year 2005-06. The federal government recently informed the department that payment of the FFY 2006 penalty will be deferred to 2006-07. The penalty amount is a percentage of program administration costs, with an increasing percentage each year. California has reached the maximum percentage level at 30 percent of administrative costs.

Since 1997, California has been subject to substantial federal penalties due to the state’s failure to establish a single statewide system for the collection of child support. The cumulative federal penalty from 1998 through 2006 is expected to be over \$1.2 billion General Fund. The automation system is scheduled to be completed and implemented statewide by 2008.

During 2004 budget hearings, the department indicated that federal certification of automation system compliance might be possible as early as September 2005. If approved this would have reduced the 2005-06 penalty by 90 percent. Based on an October 2004 letter from the federal government, the department now indicates certification and penalty relief are not expected until September 2006.

OPTIONS FOR ADDITIONAL PENALTY RELIEF:

The Subcommittee could consider additional options to achieve federal relief for Child Support Services. The chart below provides options that the Subcommittee could request the Governor to pursue in order to further reduce the General Fund impact of the proposed federal penalty.

| Possible Penalty Relief Alternatives Option | Penalty Amount | | | |
|--|----------------|----------|----------|-------|
| | FY 05-06 | FY 06-07 | FY 07-08 | Total |
| No Penalty Deferral | 385 | 66 | -201 | 240 |
| Governor's Budget to Defer Penalties | 218 | 223 | -201 | 240 |
| Advanced Certification Credit | 218 | 22 | 0 | 240 |
| Gov. Davis Proposal (Matsui Bill) | 90* | 90* | -81 | 99 |

The Governor's Budget assumes that the federal penalties are delayed and that certification takes place on September 2006. The deferral of the penalty is not a cost savings to the State, it merely shifts costs from one fiscal year to another.

The Administration also states that it is working on a proposal to allow the State to receive credit for certification in 2006. Under federal law the State will only have to pay 10 percent of the penalty in the fiscal year that it receives certification, but the current structure requires the State to pay the entire penalty up front and the have 90 percent of it returned once the State is certified, which could be several years later. The Administration's proposal would allow the State to pay 10 percent of the penalty.

In 2003, Governor Gray Davis sponsored a bill authored by Congressman Robert Matsui that would have frozen the penalty at a percentage of the State's administrative costs. Since the federal penalty is a percentage of the State's administrative costs, the penalty has been increasing each year as the State's expenditures to build the automation system increase. Thus, the State is being assessed an increased penalty for trying to fix the automation problem. The Matsui bill would have kept the penalty constant, to avoid punishing the State for its attempts to automate. The Schwarzenegger Administration has not sponsored a similar bill.

If the Matsui Bill had been enacted, the State would save almost \$150 million over the next three fiscal years from federal penalty relief. The Governor's Budget only assumes penalty relief from certification alone.

STAFF COMMENT:

Last year, the Department of Child Support Services believed that the State would be able to certify by September 2005. The federal government had indicated that it would not allow the State to certify for federal funding until all automation and Statewide Disbursement Unit activities have been completed.

Because the FFY ends September 30th and the State expects to certify in September 2006, even a small delay in the CCSAS project could result in an additional year of automation penalties.

ISSUE #2: CALIFORNIA CHILD SUPPORT AUTOMATION SYSTEM (CCSAS)

The Subcommittee will receive an update on the progress of the CCSAS system.

BACKGROUND:

The Governor's Budget proposes \$267 million (\$92 million General Fund) for the continued development of the CCSAS, including an augmentation of \$90 million (\$25 million General Fund) above the current year. This includes funding for both the CCSAS Child Support Enforcement (CSE) component and the State Disbursement Unit (SDU) component. The Franchise Tax Board (FTB) acts as DCSS' agent for the procurement, development and maintenance of the CCSAS project. Due to Legislative concerns, recent CSE contract amendments have been renegotiated to include deliverable-based payment conditions.

The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. The budget proposes to redirect 1.5 existing DCSS positions and reestablish 1.5 expiring limited-term positions to implement the CSE component. Total costs for the CSE are projected to be \$1.3 billion (\$466 million General Fund) from 2003-04 through 2012-13. This component is scheduled to be completed by September 2008.

The SDU component of CCSAS will provide statewide collections and electronic disbursement. The budget proposes 37.0 additional positions (10.5 new and 26.5 redirected) for SDU project development and operations. Total costs for the SDU are projected to be \$217 million (\$76 million General Fund) from December 2004 through December 2011. This component is scheduled to be completed by September 2006.

The Administration's proposal to redirect 29.5 positions includes 13.0 expiring limited-term positions that were originally established for the Compromise of Arrears program. The department indicates that the remaining 16.5 positions were redirected from non-CCSAS project positions, and from non-critical mission areas that would allow the department to still meet state and federal requirements at a reduced level. The areas of redirection include Forms and Outreach, Quality Assurance, Data and Performance Analysis, California Parent Locator Services, Accounting and Fiscal Services, and Business Services. The department indicates that it is committed to the CCSAS SDU project and plans to do what is necessary to ensure that the successful development and implementation is completed in a timely manner.

The Budget also includes Trailer Bill Language that would authorize DCSS to borrow up to \$150 million from the General Fund to ensure timely disbursement of child support payments.

DCSS indicates this loan authority is necessary to rule out potential delays in moving collections through the State Treasury system. It will take a minimum of two days to move collections through the State Treasury system to the Service Provider (Bank of America). This process can take longer depending on the timing of when remittances are received and processed by the State Treasurer. Additionally, the loan authority would cover fund liabilities such as non-sufficient fund (NSF) checks and IRS negative adjustments.

DCSS also indicates that failing to process collections within two days would result in non-compliance with the federally mandated child support payment deadline of two days, which could lead to federal penalties and the loss of federal incentive funds. Also, delayed payments could create financial hardships for families that depend upon these payments for basic living expenses and could result in significant dissatisfaction among child support clients, especially the non-IV-D population who will be receiving child support payments from the State for the first time once the CCSAS is implemented.

In November 2004 the Department of Finance submitted a request to the Legislature to increase project contract costs by \$14 million in 2005-06 to implement the initial phase of the automation system more quickly. However, the November 2004 request proposed contract amendments that were not consistent with prior Legislative intent, as they did not specify performance - or deliverable - based payment conditions. In response to concerns expressed by the Legislature in December 2004, the Administration indicates it has amended the contract to include those payment conditions.

STAFF COMMENT:

The Department reports that the CCSAS project is within budget and on schedule. DCSS expect certification of the project by September 2006.

ISSUE #3: CHILD SUPPORT LOCAL ASSISTANCE FUNDING

The Subcommittee will consider county funding for child support programs.

BACKGROUND:

The Governor's Budget proposes to continue holding local child support funding flat at \$710 million (\$194 million General Fund) in 2005-06. The relationship between local funding and collections was discussed in last year's budget hearings, but is still not entirely clear. The Legislative Analyst's Office recommends that the department lead a workgroup to develop a consistent local administrative cost reporting methodology. The Child Support Directors Association suggests that an administrative cost methodology be developed by January 2006.

Local child support agencies are responsible for the administration of child support programs at the county level and perform functions necessary to establish and collect child support. Program activities include establishing child support cases, establishing child support orders, collecting current and past-due child support, enforcing medical support orders, and implementing customer service initiatives.

California provides baseline compensation to counties, on a statewide basis, at a level comparable to 13.6 percent of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources. The DCSS allocates resources for administration of local child support programs in a lump sum and does not control county expenditures for program activities and for child support initiatives.

Baseline county funding for the implementation of local child support programs is established according to a statutory formula based on child support collections. Individual county allocations are generally based on historic county expenditures and vary across the state.

In recent years, the Legislature has considered the effect on program performance of child support administrative funding reductions, and the relationship of existing allocations to program performance and actual costs. No statewide consensus has been reached, although some data suggests that California can improve its performance without investing new resources in the child support program if under-performing local agencies improve their performance.

The Child Support Directors Association reports that state and local staffing has declined from 11,070 in 2001-02 to 9,319 in 2003-04, due to the lack of funding increases. Additional local positions may be eliminated or held vacant in 2005-06 as a result of flat funding. Some counties indicate that flat funding may prevent revenue collections from increasing in 2005-06.

LOS ANGELES COUNTY'S ALLOCATION:

Last year the Governor vetoed a proposed performance-based supplemental allocation for Los Angeles County to address an inequity in county allocations. Los Angeles County receives less funding per case than most other counties in the State.

Los Angeles receives the third lowest allocation-per-case in California. At \$299 per case, it is much lower than the statewide average of \$393. Since Los Angeles serves 475,533 cases, 26.3 percent of the State's caseload, Los Angeles's ability to collect child support is critical to the State.

LAO RECOMMENDATION:

The Legislative Analyst's Office reviewed local cost reports and initially recommended that local funding for administrative activities be limited to 25 percent of each county's total allocation in 2005-06. However, further review found that counties did not receive sufficient information to ensure consistent reporting of administrative costs. The LAO now notes an alternate proposal, that the department may instead lead a workgroup to develop a consistent local administrative cost reporting methodology.

SUPPLEMENTAL REPORT LANGUAGE:

The LAO is requesting the following alternative Supplemental Reporting Language to further study local Child Support administration:

The Department of Child Support Services shall report to the Legislature on how local child support agency costs should be classified as program costs or administrative costs. In developing this report, the Department should consult with stakeholders including, but not limited to, the Child Support Directors Association of California; local child support agency directors (or their designees) from at least one small, medium, large, and regional local child support agency; the Department of Finance; the Legislative Analyst's Office; and legislative staff from both caucuses of the Senate and the Assembly. The report should examine the feasibility of imposing a cap on administrative expenses for the 2006-07 budget based on the new definitions of administrative costs. To the extent that counties provide sufficient information, the report should include a county-by-county listing of program and administrative expenditures for each county based on the definitions contained in the report. The report shall be submitted to the Legislature no later than January 10, 2006.

STAFF COMMENT:

The Senate adopted the LAO reporting language on April 28, 2005.

**ITEM 0530 HEALTH AND HUMAN SERVICES AGENCY
ITEM 4130 HEALTH AND HUMAN SERVICES AGENCY DATA CENTER
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES**

ISSUE #4: CONSOLIDATION OF DATA CENTER AND TRANSFER OF PROJECT MANAGEMENT TO THE HEALTH AND HUMAN SERVICES AGENCY

The Subcommittee will consider a proposal to shift information technology projects to the Health and Human Services Agency when the Data Center is consolidated with Teale.

BACKGROUND:

The administration proposes to transfer several large IT projects from HHSDC to HHSA. This transfer is the result of the proposed consolidation of HHSDC and the Stephen P. Teale Data Center into the new Department of Technology Services (DTS). Specifically, the budget requests to transfer to HHSA: (1) ten projects (nine social services projects and one unemployment insurance project), (2) the HHSDC revolving fund with a balance of \$223 million, and (3) 176 positions.

Under the administration's proposal, DTS' primary purpose would be the day-to-day operation of computers and telecommunications systems. The administration, therefore, proposes to transfer the project management responsibilities for HHSDC projects away from the new data center. According to the administration, the reason it selected HHSA for project placement is that some of the DSS projects interface with other departments' programs under HHSA's oversight. The administration asserts that placing the projects at HHSA offers the best solution to minimize project disruptions and ensure the ongoing success of the projects.

Prior to 1995, DSS managed all of its own IT projects. Due to numerous project management problems on the largest DSS projects, however, the 1994-95 Budget Act transferred five projects (another project was also transferred but later terminated) to HHSDC. These projects were:

- Child Welfare Services/Case Management System.
- Statewide Automated Welfare Systems (SAWS), which consists of four separate projects—Consortium IV; Interim SAWS; Los Angeles Eligibility Automated Determination, Evaluation, and Reporting System; and Welfare Client Data System.

Since that time, the state has transferred four additional DSS projects to HHSDC. Figure 1 (next page) identifies the nine DSS projects currently managed by HHSDC, the projects' status, and proposed budget-year costs.

| Figure 1 | | |
|--|---|----------------------|
| Department of Social Services Projects Managed by Health and Human Services Agency Data Center | | |
| <i>(In Millions)</i> | | |
| Project Name | Current Activities | 2005-06 Costs |
| <p>Child Welfare Services/Case Management System (CWS/CMS) Provides a statewide data base, case management tools, and a reporting system for the state's CWS program.</p> | <p>Status: project undergoing major modifications.</p> <ul style="list-style-type: none"> •Transferring CWS/CMS equipment to Department of Technology Services. •Conducting procurement for new software maintenance contract. •Maintaining and operating current CWS/CMS. | \$121.1 |
| <p>Electronic Benefit Transfer Uses debit card technology and retailer terminals to automate benefit authorizations, delivery, redemption, and financial settlement for food stamp program.</p> | <p>Status: implementation.</p> <ul style="list-style-type: none"> •Completing implementation within counties. | 20.8 |
| <p>In-Home Supportive Services (IHSS)/Case Management Payrolling System Provides case management and payroll services for the IHSS program.</p> | <p>Status: development.</p> <p>Conducting procurement for the development, maintenance, and operation of replacement system.</p> | 13.7 |
| <p>Statewide Automated Welfare System Consists of four separate projects. Provides uniform information technology capability to county welfare offices. Counties belong to one of four consortia.</p> | <p>Status: implementation, and maintenance and operations.</p> <ul style="list-style-type: none"> • Implementing new system in certain counties. • Maintaining and operating remaining consortium systems. | 237.0 ^a |
| <p>Statewide Fingerprint Imaging System Automates the collection, interpretation, and storage of fingerprints for persons applying for public benefits.</p> | <p>Status: maintenance and operation.</p> | 8.0 |
| <p>Welfare Data Tracking Implementation Project Determines time-on-aid for CalWORKS program.</p> | <p>Status: maintenance and operation.</p> | 3.9 |

^a Some of these costs are included in the Department of Social Services' budget.

HHSDC Oversees Employment Development Department (EDD) Project. Chapter 157, Statutes of 2003 (AB 1765, Oropeza), appropriated \$85 million in federal funds to EDD to implement the Unemployment Insurance (UI) Modernization Project. Chapter 157 requires the project to include (1) a redesign of the UI continued claims system, (2) an upgrade of the UI call centers, and (3) implementation of fraud detection in UI computer systems. To meet federal requirements, EDD entered into an agreement with the federal government to (1) encumber \$85 million in the HHSDC revolving fund and (2) require HHSDC to oversee the project. Under the agreement, EDD provides the day-to-day project management, manages the project's governance structure, and provides the policy and program guidance to the project. The HHSDC participates in one of the project's steering committees and helps ensure that the project uses best practices. Upon project implementation, EDD plans to maintain and operate the completed system.

LAO RECOMMENDATIONS:

The LAO has made two recommendations:

- 1) Since the Employment Development Department (EDD) project funds need to remain encumbered consistent with the federal agreement and the Health and Human Services Agency does not have program oversight responsibility for EDD, LAO recommends that the Unemployment Insurance Modernization Project remain with the data center.
- 2) LAO recommends that the Legislature transfer the remaining projects to the Department of Social Services (DSS) rather than the Health and Human Services Agency because DSS should be held accountable for the projects' success and agencies are designed to provide policy direction and oversight rather than carry out day-to-day operational responsibilities.

Placing Remaining Projects at DTS Is Not a Good Choice. One alternative would be to place the projects with the new consolidated data center. According to the administration's DTS proposal, in 2005-06 the primary focus of the DTS executive team will be managing the consolidation effort. This could detract from the guidance provided by DTS executives to the DSS projects. In addition, DTS is proposed to be placed in the State and Consumer Services Agency, which does not have oversight responsibility for DSS programs.

Concerns with Projects at HHSA. LAO has two concerns with the administration's proposal to place the DSS projects at HHSA:

- 1) **Agencies Do Not Typically Manage Programs or Projects.** The chief responsibility of agencies is providing policy guidance to departments. Agencies primarily review department policy proposals, forward issues to the Governor's office, and participate in budget reviews with the Department of Finance. Agencies do not typically have operational responsibility for programs nor do they have any particular expertise in managing state IT projects.
- 2) **Departments Can Manage Projects With Interfaces.** Many state computer systems interface with another department's computer system. For example, some of the Franchise Tax Board's tax systems interface with EDD systems. Both departments manage their own projects and interact with each other when necessary. To date, the Legislature has not directed agencies to manage these types of projects for departments. It is not clear why the DSS projects could not follow this same approach—with one department taking the lead and coordinating with others when appropriate. For this reason, the administration's major factor for placing the projects at HHSA—the necessary cross-department communication—is not sufficient justification alone for the placement decision.

Place Projects at DSS. One of the important factors in project success is ensuring program accountability. The Legislature holds departments accountable for ensuring that computer systems meet the state's program and policy needs. Given the need to hold departments accountable for project success and the concerns described above, the best solution for the remaining HHSDC projects would be to transfer them to DSS. This solution would provide the most program accountability and recognizes that agencies do not have particular expertise in managing state IT projects or operating programs on a daily basis. For this reason, LAO recommends that the Legislature transfer the remaining HHSDC projects to DSS.

While DSS unsuccessfully managed some of these projects roughly a decade ago, the projects' HHSDC management structure would also be transferred to the department which should ensure project continuity. Under this recommendation, LAO also expects HHS to perform its traditional oversight role and ensure that DSS coordinated with other affected departments. To address any remaining risks to a successful transition, LAO recommends that the Legislature take two actions. 1) First, LAO recommends that the Legislature adopt budget bill language that requires DSS to provide on a quarterly basis copies of project status reports and independent oversight reports. (The projects already file these reports with DOF.) 2) In addition, LAO recommends that the Legislature direct DOF's Office of Technology, Oversight, and Security to review the projects over the next year to ensure that DSS is providing adequate guidance and direction to the projects consistent with state policies and procedures. This type of review has been requested by the Legislature in the past for high-risk projects. This review should be completed and a report provided to the Legislature by March 2006 in order for the Legislature to address any deficiencies during 2006-07 budget hearings.

SPRING FISCAL LETTER:

The Department of Finance submitted a Spring Finance Letter to modify the proposed Trailer Bill Language to make the transfer of the projects to the Health and Human Services Agency. The Agency reports that it is going to be making further modifications to the language in the May Revision.

STAFF COMMENT:

The final Trailer Bill Language for the proposed transfer of the data center will be considered during the May Revision hearings.

ISSUE #5: CWS/CMS GO-FORWARD PLAN

The Subcommittee will hear the results of the Technical Architecture Alternatives Analysis for the CWS/CMS System.

BACKGROUND:

In 1993, the federal government offered funding to any state that agreed to develop a Statewide Automated Child Welfare Information System (SACWIS). A SACWIS system performs certain functions such as processing child abuse investigations and preparing foster care case plans. If a state chose to develop such a system, then the federal government provided "incentive funding" at 75 percent of total costs for the first three years of the project's development and then 50 percent for the subsequent years. In 1994, California received federal approval to develop CWS/CMS as SACWIS-compliant. In 1997, the state announced the completion of the CWS/CMS system when it became operational in all counties.

The federal government, however, did not consider CWS/CMS complete because the system did not meet all the SACWIS requirements. Starting in 1999, the federal government raised concerns about the inability of the CWS/CMS system to meet SACWIS requirements. In June 2003, the federal government notified the State that it did not consider CWS/CMS to meet SACWIS requirements. As a result of that decision, the federal government reduced its share of funding for CWS/CMS from roughly 50 percent to 30 percent. In addition, the federal government notified the State that it would not provide any federal funding for the current contract after August 2005.

Starting in March 2004, the administration began developing a strategy to address the federal government's concerns about achieving SACWIS compliance. In August 2004, the administration provided its SACWIS compliance strategy—the Go Forward Plan—to the federal government. The total costs for the Go Forward Plan are currently estimated to be \$82 million (all funds) over four years. The plan consists of three components:

- Conducting a Technical Architecture Alternatives Analysis (TAAA) to determine the costs and benefits of achieving SACWIS compliance versus non-SACWIS compliance.
- Developing a Request for Proposal (RFP) for a contractor to maintain the CWS/CMS software.
- Transferring the CWS/CMS hardware from the current contractor's site to DTS.

In October 2004, the federal government approved the CWS/CMS Go Forward Plan and restored SACWIS funding to the project. In addition, the federal government retroactively provided SACWIS funding for July 2003 to September 2004.

TAAA FINDINGS:

The TAAA concluded that SACWIS functions are necessary to meet county program needs. In addition, the analysis concluded that the current CWS/CMS system does not meet either the state or county program needs. In addition, the analysis indicates that the current CWS/CMS system's technology is costly to maintain, difficult to modify, and requires significant technical enhancements to meet program needs. To solve these issues, the analysis examined three alternatives: (1) modify the existing system to include SACWIS functionality, (2) migrate the CWS/CMS technology over time to newer technology, and (3) develop a new system.

The analysis concluded that the most cost effective solution was to develop a new system. One time costs for the new system were estimated to be \$136 million and annual maintenance and operation costs were estimated to be about \$93 million. Total ten year costs were estimated at \$1.3 billion. The TAAA also estimates that it will take three years to develop the new system. (This estimate does not take into account (1) preparing the feasibility study report (FSR) and (2) preparing the RFP and conducting the procurement. According to a schedule included in the TAAA, the state will spend the budget year developing the FSR and preparing the RFP.

STAFF COMMENT:

The Subcommittee previously heard this issue on March 30, 2005, but the TAAA study had not yet been released.