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January 31, 2008

2007-039

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by a trailer bill to the Budget Act of 2007 (see Section 65, Chapter 172, Statutes of 2007), the Bureau of State Audits (bureau) took over the administration of the Department of Finance's (Finance) contract for independent oversight of the Financial Information System for California (FI\$Cal) project beginning in September 2007. The budget trailer bill, which amends the Budget Act of 2007, requires the bureau to monitor the contract, including assessing whether the concerns of the contractor are being addressed, and to periodically report to the Legislature on the contract. It also requires Finance to submit to the Legislature, no later than April 1, 2008, an approved Special Project Report (SPR) for FI\$Cal that describes four project alternatives for the Legislature's consideration. Further, the budget trailer bill requires the oversight entities—Finance's Office of Technology Review, Oversight, and Security (OTROS),¹ the bureau, and the oversight contractor—to develop and present a communication plan to the Legislature concurrent with the SPR. Because the SPR has been completed, we believe it is appropriate at this time to provide a brief status update on our monitoring of the contract.

BACKGROUND

During 2005 Finance completed a feasibility study report to formally initiate the Budget Information System (BIS) project, which was to replace Finance's existing legacy budget systems. However, according to Finance, as work proceeded and workshops were held, project stakeholders identified a need to consolidate and modernize other financial business systems of the State, such as the current budgeting and accounting systems, rather than simply developing a statewide budget system. As a result, Finance developed an SPR during 2006 that expanded the

¹Chapter 183, Statutes of 2007, which became effective January 1, 2008, requires the Office of the State Chief Information Officer (OCIO) to, among other things, approve and oversee information technology projects and establish and enforce state information technology strategic plans, policies, standards, and enterprise architecture. Thus, OCIO is replacing OTROS as one of the oversight entities. As such, although the initial communication plan was finalized, it will need to be revised to reflect the change from OTROS to OCIO.

scope of the BIS project to more broadly address other financial management areas, such as accounting, financial reporting, and grant and human resources management. The new project was given the name FI\$Cal.

In April 2007 Finance awarded a contract to a consultant—Visionary Integration Professionals (VIP)—to provide both independent project oversight (IPO) and independent verification and validation (IV&V) services for the procurement phase and activities of the FI\$Cal project. The contract term extends from April 2007 through September 2008. As part of its contract, VIP is responsible for verifying that project deliverables are satisfied; validating that delivered solutions meet the accepted requirements; verifying that the approach and deliverables produce the desired outcome; and reporting to the project executives and steering committee on the risks and overall project health, including the status of the schedule, cost, scope, and quality. VIP began providing services covering project activities during May and June 2007; however, the contractor's oversight work was suspended pending enactment of the fiscal year 2007-08 budget.

The budget trailer bill language requires the project to develop additional planning documents. Specifically, it requires Finance to submit to the Legislature by April 1, 2008, an SPR that discusses four project alternatives as follows:

- Continuing with the project as proposed and approved in the December 15, 2006, SPR.
- Continuing with the design, development, and implementation of the BIS as described in the Feasibility Study Report dated July 14, 2005.
- Developing and implementing a proof of concept including the statewide functions of the control agencies and a select few departments.
- Taking no action.

It also requires the SPR to include a plan of funding that evaluates alternative financing options and includes the use of special funds and federal funds, the formalization of roles and responsibilities through the execution of a memorandum of understanding by the various control agencies that are project partners, and a revised project management plan addressing project leadership succession planning and vendor accountability through the management of contracts. After the budget trailer bill was enacted, as previously mentioned, the bureau took over the administration of the VIP contract, and in September 2007, authorized VIP to resume providing its oversight services.

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BUREAU CONTRACT MONITORING ACTIVITIES

As part of our monitoring of the contract, we have attended weekly oversight meetings, steering committee meetings, and other relevant project meetings that have included the VIP consultants and other project stakeholders. For example, we have attended 17 weekly oversight meetings through mid-January 2008 that generally included VIP staff, staff from FI\$Cal and OTROS, as well as other FI\$Cal partner representatives from the State Controller's Office and the Department of General Services (General Services). These weekly meetings are used to discuss the project status, any emerging issues, oversight recommendations, and mitigation strategies. We have generally observed that these meetings have been well attended and that all the parties have been providing input.

Further, we have attended six steering committee meetings through mid-January 2008, which typically occur once a month, although staff may schedule these meetings more often when necessary. The steering committee is made up of representatives from the FI\$Cal project's partner agencies—Finance, General Services, the State Controller's Office, the State Treasurer's Office, the Department of Personnel Administration, and representatives from two rotating departments. According to the FI\$Cal Project Charter, the steering committee performs a variety of activities that generally provide statewide leadership and support for the project. From steering committee meeting minutes and the meetings we attended, we observed that the members provided input to and approved the final SPR. During these meetings, FI\$Cal staff also provided updates on the project status, shared project oversight reports, and discussed project plans, as well as other topics related to the FI\$Cal project.

In addition, we have reviewed a number of VIP's deliverables since it resumed providing services in September 2007. The contract requires VIP to perform certain tasks and to periodically submit reports. For example, one key deliverable for the IPO services that VIP provides is the monthly independent project oversight report (IPOR). The IPOR is based on Finance's Information Technology Project Oversight Framework (IT framework) for high criticality projects. The IPOR is typically made up of three components: a project health assessment; an independent risk assessment; and a checklist evaluating project management processes for completeness, adequacy, and consistency. The IPOR project health assessment provides a report on the overall health of the project based on project schedule, budget and cost, level of effort, client functionality, and system performance and architecture. The IPOR independent risk assessment defines the criticality of new risks—the specific risks that the project will not be complete within the approved schedule, budget, or scope—based on the IT framework criteria and is continuously tracked by the consultant. Finally, the IPOR checklist is a set of questions based on the IT framework associated with high criticality projects. These questions relate to the project's practices and products in the areas of planning and tracking,

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procurement, risk management, communication, and system engineering. Since October 2007 VIP has appropriately provided monthly IPORs, generally by the 10th of each month as required by the contract, and the IPORs address each of the areas previously identified. Further, based on the progress and status discussed in the IPORs and the discussions taking place at oversight meetings, FISCAL project staff have been working to address any concerns as they are identified.

The contract also requires VIP to provide a quarterly comprehensive status report and a mid-quarter interim status report related to the IV&V services it provides. These reports present findings and observations from a technical standpoint as well as a checklist evaluating the project's performance and documentation. According to VIP, it reports findings when FISCAL is not performing activities in accordance with industry standards or best practices described in three sources—the Project Management Institute's Project Management Body of Knowledge, the Software Acquisition Capability Maturity Model, and the Institute of Electrical and Electronic Engineers. From October through December 2007, VIP has appropriately provided one quarterly and one mid-quarter interim status report. We have reviewed and approved all deliverables, beginning with the IPOR for September 2007 through December 2007, including several other deliverables not specifically mentioned that are required by the contract.

Although VIP is appropriately participating in scheduled meetings and is providing the required deliverables, we do have some concerns related to this contract. First, during the four months we have been monitoring the contract, VIP has experienced a significant amount of turnover of the staff that originally was approved by Finance during the initial scoring and awarding of the contract. Although we approved one consultant in September to replace two of the consultants who left the project and were identified in the initial contract documentation, we became particularly concerned when the original IPO lead and engagement manager resigned at the end of November 2007. Furthermore, the consultant we approved in September 2007 resigned effective January 11, 2008. In response to these resignations, VIP submitted for our approval a new organizational structure and the resumes of other staff to replace those leaving the project. Although the proposed staff met the minimum qualifications for the key personnel that will perform the IPO and IV&V tasks for this engagement as outlined in the contract, VIP was unable to meet other requirements of the contract. Specifically, the contract not only requires that replacement staff meet minimum qualifications, but it also requires that the contractor "provide the state with at least two (2) replacement candidates that meet or exceed the experience and skill level that was presented by the contractor and was scored by the state as part of the offer." VIP explained that due to market conditions it could not find two replacement candidates for each position as required and, according to VIP, although it made every reasonable effort to provide a replacement candidate that met or exceeded the experience and skill level of the original IPO lead and engagement manager, it was unable to do so. We ultimately approved the proposed staff after several discussions with VIP about the difficulties it was having in meeting these requirements, but as part of our approval we also obtained

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VIP's written assurance that it would continue its efforts to find additional resources to strengthen its project team. However, we remain concerned about whether future turnover could negatively impact the project.

Finally, our second concern relates to the combining of the IPO and IV&V services under the same contract. Originally, Finance made the decision to combine these services under the same contract, which it awarded to VIP in April 2007, several months before we were charged with taking over the administration of the VIP contract. However, we believe that these two functions should be with separate contractors because it is not unusual for the IPO to find fault with the activities of the IV&V contractor on a given project. We believe the current contract arrangements diminish the IPO's ability to be independent regarding the IV&V activities for the FISCAL project. During the current phase of the project, this may not be of as great a concern as it would be later in the FISCAL project lifecycle. However, if the Legislature decides to move forward and approve the FISCAL project, once the current contract with VIP expires, we will be advocating that these services be split between two different consultants for the duration of the FISCAL project.

Respectfully submitted,



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