

The California State Auditor released the following report today:

Los Angeles Department of Water and Power

Consequences Linked to Its Premature Launch of Its Customer Information System May Push Total Costs Beyond \$200 Million

BACKGROUND

Overseen by the Los Angeles Board of Water and Power Commissioners (board), the Los Angeles Department of Water and Power (department) provides water and electricity to roughly 3.8 million residents and businesses. To assist the department in managing its core business operations—such as billing for water and power usage and managing customer service—it launched a new customer information system (CIS) in 2013. Immediately after CIS's launch, the department's customers began complaining of late utility bills, unwarranted shut-off notices, and excessive wait times to speak with customer service representatives.

KEY FINDINGS

During our review of the development and implementation of CIS, we noted the following:

- The department prematurely launched CIS despite repeated warnings about the quality of the new system.
 - ✓ Its quality assurance expert warned that no aspect of CIS was ready and reported that CIS's scope, quality and schedule were all at the lowest possible rating and needed immediate attention.
 - ✓ Roughly two weeks before launching CIS, the department's own internal analysis of go-live readiness reflected that defects were still present in the system.
- The department's lack of transparency in accurately informing the board of CIS's progress and cost overruns impeded the board's ability to understand and address potential problems before CIS launched and did not place it in a strong position to hold managers accountable.
- Following the system's launch, the department has frequently modified its collection parameters to manage call volume and wait times, which has created an increase in the number of past-due accounts and in customer debt associated with uncollected customer accounts.
- Despite its progress in reducing the number of estimated and delayed bills it issues, the department has struggled in its efforts to seek payment from customers who have not paid their bills—its customers owed more than \$681 million as of November 2014, an increase of more than \$245 million since July 2013.
- Because of its complexity, the cost to implement CIS almost doubled—to nearly \$174 million—compared with the \$87 million originally budgeted. Further, the total cost for implementing CIS could range from nearly \$200 million to \$230 million after considering our estimates of bad debt included in the past-due amounts customers owe on their bills.
- The department is still attempting to resolve defects, some of which existed during CIS's development—its recent steps to address CIS's remaining defects and other system issues potentially involve its entering into another multimillion-dollar contract.

KEY RECOMMENDATIONS

We made a number of recommendations to the board so that it can more effectively oversee the department's information technology (IT) projects, including taking the following actions:

- Establish a standing committee to oversee and evaluate the status of the department's IT projects.
- Develop reporting standards for the department's management to follow in providing the status of IT projects. Reports should include original and updated estimates of the budget and scope of projects, results of system testing and listing of defects, and issues raised by the quality assurance contractor.
- Develop a process for identifying IT projects that may have significant effects on business operations or customer relations, and require the board's approval before launching critical new systems.

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