January 9, 2015

Letter Report 2014-039

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

Dear Governor and Legislative Leaders:

This letter report provides an update on recent events related to the Financial Information System for California (FI$Cal) project. Pursuant to California Government Code, Section 15849.22(e), the California State Auditor (state auditor) is required to independently monitor the FI$Cal project throughout its development, as deemed appropriate by the state auditor. FI$Cal is a business transformation project for state government in the areas of budgeting, accounting, procurement, and cash management and uses a commercial-off-the-shelf software package with minimal modifications. Our independent monitoring includes, but is not limited to, monitoring the contracts for independent project oversight (IPO) and independent verification and validation (IV&V) services, assessing whether concerns about the project raised by the IPO and IV&V staff are appropriately addressed by the FI$Cal steering committee and the FI$Cal project, and assessing whether the FI$Cal project is progressing timely and within budget. We are required to report on the project's status at least annually and this is the 11th report we have issued since we began our monitoring in 2007, and our fourth report since the project began the design, development, and implementation (DDI) phase in June 2012.

The project plans to roll out FI$Cal as a series of "waves" that deliver incremental functionality to a growing number of departments over four years. FI$Cal went live at the pre-wave departments on July 1, 2013, and at most Wave 1 departments on July 16, 2014. Wave 2 has a go-live date of July 2015, and Wave 3 has a go-live date of July 2016. The fourth and final wave of FI$Cal has a scheduled go-live date of July 2017. We provide some key facts on FI$Cal in the text box.

In our previous report, dated February 26, 2014, we provided updates on our oversight activities, the project's changes in its implementation approach in the fifth *Special Project Report* (SPR), and our concerns with the fifth SPR. In addition, we reported that the project was behind schedule in implementing the budgeting function, which we discuss later in this report. Further, we reported that the project does not use spending as a metric to measure progress in completing FI$Cal. Under the current reporting metrics prescribed by the California Department of Technology (CalTech), the project reports FI$Cal is

---

**Key Facts on the
Financial Information System of California**

- Total estimated cost of project: $672.6 million

- Costs through November 2014: $253.97 million

- System Integrator: Accenture LLP is the project's selected systems integrator, with a total cost of $226 million over five years

- Independent verification & validation (IV&V): Eclipse Solutions has been contracted to provide IV&V services

- Independent project oversight (IPO): The California Department of Technology provides IPO services

- Number of project staff: As of November 2014, 247 of the 288 authorized full-time positions are filled

- Sponsoring departments: California Department of Finance, California Department of General Services, California State Controller, and the California State Treasurer

Sources: Fifth *Special Project Report*, January 2014, and the November 2014 *Independent Project Oversight Report* from the California Department of Technology.

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
January 9, 2015
Page 2

56 percent complete as of October 2014. However, if CalTech required the project to use other metrics to measure progress, such as total number of users on FI$Cal, total departments converted, overall expenditures, or functionality completed, FI$Cal would be less than 50 percent complete. According to the IPO, CalTech does not plan to revise the way the project reports progress. Nonetheless, although none of these metrics by themselves provide a complete measure of the project's progress, taken together they would provide a more comprehensive assessment of the project's overall progress towards developing and deploying FI$Cal.

In addition, we reported previously that the IV&V indicates the project is missing knowledge transfer opportunities from the system integrator to state staff that would prepare state staff for taking over system maintenance. Failure to adequately train and provide appropriate hands-on experience for state staff could necessitate the State relying on the system integrator or another vendor to maintain FI$Cal after its full implementation in July 2017. Key knowledge transfer opportunities are often one-time activities such as configuration of the software and implementation of new functionality. Since our last report, the IV&V reports the project continues to miss knowledge transfer opportunities during development of waves 1 and 2 and deployment of Wave 1. We also previously reported that the project's procurement of a vendor for data management services was significantly delayed. At this time, the IPO reports that the project addressed this issue and has been using a vendor's services for Wave 2.

Lastly, in our April 2012 report we made three recommendations for the Legislature to consider related to tracking of costs for state department subject matter expert staff, monitoring the projected benefits of FI$Cal, and reporting the cost and reasons for any significant and unanticipated customizations that the project makes to the FI$Cal software. In its annual report to the Legislature, the project is required to report any significant software customizations and the reasons for them, but not the cost. We are unaware of any legislative action to address our other two recommendations; however, we believe these recommendations are still valid.

The Project's Job Vacancy Rate Has Remained Stagnant, Which Creates Workload Challenges for the Project

Although we previously reported that the project was making progress in reducing its staff vacancy rate, progress has stalled at a vacancy rate of 14 percent of total authorized positions (41 vacancies among the 288 authorized positions) as of November 2014, which is the same vacancy rate that we reported in November 2013. The project has been slow to advertise these open positions—advertising only 14 of the 41 vacant positions as of November 1, 2014—citing workload and delays in the State's hiring process. Moreover, the project indicates having difficulty finding qualified staff that have the appropriate technical skills and knowledge of the State's business and technical processes. Nevertheless, these vacant positions amount to roughly 5,000 hours of staff work time, per month, that the project does not have available for DDI activities. Because the project does not track the actual time that staff work, the impact of these vacant positions is unclear. However, during Wave 1 implementation, the project reported that staff were working some nights and weekends and the IPO reports that the project's staff resources are strained because of the continuing work on functionality that was deferred from Wave 1. Additionally, Accenture LLP (Accenture) continues to staff its team at a level higher than expected—263 actual positions instead of 195 planned positions—with over 20 percent of its team performing DDI activities offshore in India without direct oversight from state staff.

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
January 9, 2015
Page 3

The project also experienced turnover in three key executive positions: the executive partner, the deputy director of technology, and the deputy director of the project management office. The executive partner and deputy director of technology both resigned in April and May 2014, respectively. The project was able to fill the deputy director of technology position in April 2014 when the project's deputy director of the project management office took the job, but that created another vacancy in the position she left. According to the project, it is currently recruiting for the deputy director of the project management office, with the project's scheduling manager serving in this position in the interim. In September 2014, the project filled the executive partner position.

State Auditor's Monitoring and Project Oversight Activities

We continue to attend monthly oversight meetings, quarterly steering committee meetings, and, when held, executive working group meetings.[1] In the past, the executive working group has met monthly. During 2014 the executive working group continued to receive a monthly written status report but only formally met twice. The project director stated that the project has not needed the executive working group to meet more often because there have been frequent full steering committee meetings throughout the year. She indicated that steering committee members are often at the project site to engage directly in project activities, and also that project business executives of the sponsoring departments are often at the project site and they report the project's progress to their respective department management. However, our information technology expert (IT expert) is concerned about the apparent lack of opportunity for the executive working group to review progress and project issues as a body at a strategic level, particularly for a project that has been actively encountering schedule and resource issues.

In September 2013 we reported our concern that the consistency of the IPO function had suffered because of the excessive turnover among the IPO analysts that CalTech assigned to oversee FI$Cal. In May 2014 the IPO's lead analyst—who served in this capacity since July 2013—left CalTech to assume the role as the partner business executive to the project representing the California Department of General Services (General Services). This is the third oversight staff to leave CalTech and take a position with the project since 2010. Although CalTech immediately filled this position and has assigned a second IPO analyst, the continued turnover of IPO analysts disrupts CalTech's oversight of FI$Cal and results in a loss of institutional knowledge of the project's history and challenges.

The IV&V continues to report concerns and make recommendations to the project, some of which the project has addressed, while others have remained outstanding. We are monitoring the project's resolution of the IV&V recommendations and we are also monitoring a recent IV&V concern with the declining quality of Accenture's deliverables. Although the IV&V closed this concern in its September 2014 report, it indicated it will continue to monitor this area.

The Project Is Facing Potential Schedule Challenges

In October 2014 the IV&V reported that the project faces ongoing and increasing schedule and resource challenges that it did not anticipate in the project's fifth SPR. The challenges that the IV&V noted include the delayed and ongoing design, development, and testing activities

---

[1] The executive working group is a meeting of the project's executives that discusses significant project issues before being formally presented to the steering committee.

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
January 9, 2015
Page 4

for Wave 1, and concerns about the magnitude of software upgrades planned for Wave 3. According to the IV&V, these challenges, in tandem with the work associated with waves 2 and 3, cannot be successfully met without substantial modification to the project's overall schedule.

Although the IPO has not recommended that the project modify its schedule as of November 2014, the IPO reports concerns with the continuing impact that the delayed Wave 1 work is having on the project's schedule. According to the project director, the project is considering several options for how it could address the concerns of the IV&V and IPO. Nevertheless the challenges that the project is experiencing suggests that the project may need to revise its schedule, which could result in a new SPR.

Although the Project Implemented Wave 1, Several Key Departments and Functions Were Not Implemented as Planned

Although the project implemented Wave 1 of FI$Cal in July 2014, this implementation had several significant last minute changes resulting in a substantially reduced number of anticipated users in the wave and the deferral of certain functions. Wave 1 was to implement FI$Cals' department-level accounting function at 30 mostly smaller departments, and implement the statewide budgeting function of the California Department of Finance (Finance). However, in July 2014 the steering committee voted to defer several departments and certain functions from Wave 1 to later waves. Specifically, deployment of FI$Cal's accounting function at the California State Board of Equalization and California Department of Justice was pushed back three years to Wave 4.[2] These two departments represent 779 out of 1,341 users or 58 percent of total planned Wave 1 users.[3] According to the IPO, both departments cited that the defect workarounds that Accenture proposed were too time consuming. As a result, they reached a mutual agreement with the project to defer implementing the accounting function to Wave 4. Additionally, the California State Controller (state controller) and the California State Treasurer (state treasurer) chose to delay implementing FI$Cal's accounting function because both departments wanted to perform additional user acceptance testing. Although the project and the two departments had tentatively anticipated completion of the additional testing and deployment of FI$Cal's accounting function by September 2014, testing for the two departments extended to November 2014. The state controller began deploying FI$Cal in late November 2014, but the state treasurer had not yet committed to a deployment date. When the state treasurer eventually deploys FI$Cal's accounting function, it and the state controller will each need to input a backlog of accounting transactions that have occurred since July 2014, amounting to almost one-half of a fiscal year of accounting activity. The IPO indicated that the project is exploring options to minimize the workload associated with this backlog.

Further, the IV&V reports that some of the departments that implemented Wave 1 have continued to use their legacy accounting systems in parallel with FI$Cal. According to our IT expert, the short-term parallel use of old and new IT systems can be a best practice for risk management by providing users with a means to revert to their old system if insurmountable problems are discovered in the new system. The IV&V indicates that these departments are continuing to use parallel systems because they want to ensure that FI$Cal functions properly

---

[2]   As of October 29, 2014, the decision to move these departments to Wave 4 is pending approval.

[3]   Two smaller departments—the California Department of Aging and the California Commission on Aging—were also deferred from Wave 1.

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
January 9, 2015
Page 5

before they discontinue use of their legacy accounting systems. The project director indicated that the project cannot stop departments from operating parallel systems and expects that some departments implementing FI$Cal in later waves will also operate parallel systems. However, the cost of using two systems in parallel for an extended period was unanticipated in the fifth SPR and creates additional work for those departments.

In addition, because of technical difficulties with completing certain of FI$Cal's functions, the project has moved these functions from Wave 1 to a series of subsequent small releases collectively called Wave 1.x. The text box shows examples of some of the functions that the project deferred from Wave 1 as originally defined. The project anticipates completing these functions by mid-2015. Wave 1.x includes certain development activities on the statewide budgeting function, including development of the governor's budget. The budgeting function encountered difficulties

> **Selected Examples of Functions Deferred From Wave 1 Into Wave 1.x**
>
> - Month and year-end closing
> - Development of the governor's budget
> - Cash-flow forecasting.
>
> Source: October 2014 *Independent Project Oversight Report* from the California Department of Technology.

in its development in early 2014. Specifically, departments were unable to use the FI$Cal budgeting function as intended. Therefore, in March 2014 the IPO reported that the project decided departments would continue to use their existing budget process and the project would revisit the issue at a later time. According to the project director, the project's efforts are now focused on completing the functions needed to produce the governor's budget by January 2015. However, the IPO reported in November 2014 that any further delays or problems with the budgeting function could delay production of the governor's budget.

The IPO reported concerns that the unanticipated workload and delay involved with Wave 1.x could delay work on future waves. In fact, as we discuss in the next section, Wave 2 activities have experienced delays, in part because staff have had to continue to focus their efforts on Wave 1.x tasks rather than beginning to work on Wave 2.

Wave 2 Activities Have Experienced Delays

The project and IPO report that the project has experienced delays in certain Wave 2 tasks. Wave 2, according to the fifth SPR, will implement accounting functions at several additional departments, including General Services, and also implement the statewide procurement function at General Services. According to the IPO, because the extra workload for Wave 1.x was unanticipated, the project is using staff resources on Wave 1.x activities that the project planned to use on Wave 2 activities. The IPO reported that in October 2014 the project assigned staff resources by specific waves to help address this problem. However, through November 2014, the IPO has been reporting that the project continues to experience delays in Wave 2 tasks. With only six months remaining to complete all activities for Wave 2, additional delays will continue to compress the remaining Wave 2 development into a smaller period of time, which in turn could jeopardize the project's ability to meet its July 2015 go-live date for Wave 2. Going forward, delays in Wave 2 could have a domino effect resulting in delays for Wave 3 and Wave 4.

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
January 9, 2015
Page 6

IV&V Reports that the Simultaneous Implementation of Wave 3 Functions and a Major Software Upgrade Presents Significant Risk

Wave 3 will implement the statewide accounting and treasury functions of the state controller and state treasurer, respectively. Although Wave 3 is not scheduled to go live until July 2016, the project is working on Wave 3 activities concurrently with Wave 2 activities. However, Wave 3 includes a major software upgrade to the commercial-off-the-shelf software used for FI$Cal, which adds further pressure to the project's schedule. The software upgrade includes more than 1,000 new features, functions, and enhancements, and a new user interface. According to the IV&V report, combining a major software upgrade with the implementation of substantial new functionality is an inherently high-risk undertaking. The IV&V indicated that it was not aware whether Accenture had successfully implemented a major software upgrade concurrent with a substantial release of new business functionality, which are typically managed as stand-alone activities. The IV&V made several recommendations, including that the project request Accenture to report the impact of the software upgrade on the functions already deployed in the previous waves. In addition, to minimize the risk of schedule delays, the IV&V recommended that the project separate the activities for the software upgrade and Wave 3 functionality as much as possible. The project director indicated that the project is considering the IV&V's recommendations and how to best accomplish the software upgrade.

Wave 4 Will Be Challenging for the Project Because It Includes Many Large Departments

Selected Departments Included in Wave 4:

- California Department of Developmental Services
- California Department of Education
- California Department of Health Care Services
- California Department of Human Resources
- California Department of Justice (from Wave 1)
- California Department of Parks and Recreation
- California Department of Public Health
- California Department of Social Services
- California Department of Technology (CalTech)
- California Department of Veterans Affairs
- California Highway Patrol
- California Secretary of State
- California State Board of Equalization (from Wave 1)
- Employment Development Department
- Franchise Tax Board

Sources: Financial Information System for California, Fifth *Special Project Report*, January 2014, and the July 2014 *Independent Project Oversight Report* from CalTech.

As reported in our February 2014 letter report, we are concerned that the size of Wave 4 may be too large. Although there is no new functionality that is planned for deployment, Wave 4 includes 68 departments, plus the departments that the project moved from Wave 1 to Wave 4. Some of the departments included in Wave 4 are listed in the text box. Our IT expert believes there is a risk that including so many departments in a single wave may overwhelm the project's resources. Moreover, there is risk that the project may encounter situations, such as in Wave 1, where departments have unique needs or resource challenges that require their removal from the wave.

As a condition of approving the fifth SPR, CalTech has required the project to provide in January 2015 an assessment of the resources needed for Wave 4, and an implementation plan and schedule for the Wave 4 departments. After completing that assessment, the project may determine that it has insufficient resources and time to accomplish Wave 4 implementation, which could necessitate extending the project's timeline. If this extension were to occur, full implementation of FI$Cal would be delayed beyond July 2017 and the project's cost will increase.

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
January 9, 2015
Page 7

We will continue to monitor and report on these topics in addition to others that come to our attention, at a minimum, before January 10 each year.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

Date: January 9, 2015

Staff: John Baier, CPA, Audit Principal
                   Nicholas Kolitsos, CPA, MBA
                   Amber Ronan

IT Expert: Catalysis Group

Legal Counsel: Donna Neville, JD, Chief Legal Counsel

For questions regarding the contents of this report, please contact
Margarita Fernández, Chief of Public Affairs, at 916.445.0255.