August 16, 2018 Letter Report 2017-039.1

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 summarizes the results of our recent survey of select state entities to assess the magnitude of issues that we previously reported related to the Financial Information System for California (FI$Cal). Our survey found that many entities that have implemented FI$Cal struggle with producing financial statements on time and are unsatisfied with system performance, training and documentation, and technical support. We also found from our survey that some of the 64 entities scheduled to begin using FI$Cal in fiscal year 2018–19 may face similar challenges. Several of these entities represent financially significant portions of the State's Comprehensive Annual Financial Report (CAFR) due to their relatively large size. Since the CAFR informs stakeholders—including credit rating agencies, which rate the State's bonds—about the State's financial position, FI$Cal's problems with implementation and user training create a significant risk of the State experiencing the following negative outcomes:

- The State may publish its CAFRs for fiscal years 2017–18 and 2018–19 late, which, if significantly late, could negatively affect credibility among investors, the public, and credit rating agencies, and potentially result in a lower credit rating for the State, which could ultimately cost taxpayers.
- Most entities reported needing additional resources to assist with FI$Cal implementation and post-implementation activities.
- Some entities may not be able to use FI$Cal to meet federal reporting requirements necessary to receive mission-critical federal funds.

Background

FI$Cal is a $918 million information technology (IT) project, which is scheduled to end in July 2019 and will combine the State's accounting, budgeting, cash management, and procurement operations into a single, unified financial management system intended for use by most state entities. State law established the Department of FI$Cal in July 2016 to provide a permanent administrative structure for the project after implementation. Multiple entities oversee different aspects of the project. As the project's system integrator, Accenture LLP is responsible for merging various components of FI$Cal into a single product and ensuring that those components function together. Additionally, the project has two oversight entities that perform Independent Project Oversight (IPO) and Independent Verification and Validation (IV&V).

The California Department of Technology (CDT) provides IPO, an independent review and analysis to determine if the project is properly managed, if it is on track to be completed within the estimated schedule and cost, and to ensure that it will provide the functionality the State requires. The Department of FI$Cal contracts with Public Consulting Group for IV&V, the technical oversight of an IT system's products and processes to ensure that they are being developed and implemented properly. IV&V feedback can provide an early warning about quality issues that might later result in costly system changes and schedule delays. To better ensure that IV&V services are provided by an organization that can maintain adequate independence, we previously recommended that the contract for IV&V services should reside with another state entity. Keeping the organization separate from the entity responsible for implementing the system, which for FI$Cal is the project office, would ensure that the IV&V can deliver findings and recommendations to stakeholders without restriction, fear of retaliation, or coercion. As of July 12, 2018, however, the Department of FI$Cal continues to be responsible for the IV&V contract. Both oversight entities report their concerns and recommendations to the project office monthly.

FI$Cal is governed by a steering committee comprising stakeholders from various entities: the Department of Finance (DOF), the Department of General Services (DGS), the State Controller's Office (State Controller), and the State Treasurer's Office. The steering committee also includes the chair of the Customer Impact Committee, who acts as the primary customer representative for all entities, and a representative of CDT as a nonvoting participant. Finally, state law requires the California State Auditor (State Auditor) to independently monitor the FI$Cal project throughout its development and to report at least annually on issues we deem appropriate, such as the following:

- The project's contracts for IPO and IV&V services.
- The FI$Cal steering committee's and project office's efforts to address concerns that IPO and IV&V raise during their oversight of the project.
- The system's progress relative to its budget and timeline.

This is the 15th report we have issued since we began our monitoring in 2007 and our eighth report since the project began the design, development, and implementation phase in June 2012.

Updates on Key Issues From Our Previous Report

In our January 2018 letter report (2017-039), we provided updates on entities experiencing challenges with producing their month-end and year-end financial statements in FI$Cal, the project office's inadequate response to some of the concerns from its oversight entities, and multiple incidents of system unavailability. We also reported that the project office's July 2018 implementation phase (release) may not result in FI$Cal's successful rollout at all planned state entities. The July 2018 release is the largest and most complex to date and involves 64 state entities. In fact, the total fiscal year 2017–18 state funding for these 64 entities comprises roughly 90 percent of all money that FI$Cal entities receive from the State Budget.

In February 2018, CDT approved the project office's seventh Special Project Report (SPR)—which describes key elements in its plan for this final implementation phase—on the condition that the project office provided CDT with a contingency plan to address risks associated with the July 2018 release and a quarterly report addressing the project's health, progress, risks, and issues, among other items.

To better assess the experience of entities that implemented FI$Cal functionality in the previous releases, we selected 17 entities to survey in April 2018 based on several factors, including the following:

- The year they began using FI$Cal.
- Their total State Budget funding and number of authorized positions in fiscal year 2017–18.
- Their implementation of FI$Cal's accounting functionality.
- Their impact on the State's CAFR.

The survey responses from these 17 entities demonstrated that they continue to face the previously reported challenges.

We surveyed an additional nine entities that are scheduled to deploy FI$Cal in 2018 to obtain their perspectives on their readiness to produce financial statements and conduct operations using FI$Cal. We chose these entities based on whether misstatements in their financial reports would significantly affect the State's CAFR. Table 1 on the following page lists all 26 entities that we surveyed.

Delays in Financial Reporting and Other System Issues May Have Serious Statewide Consequences

Entities that implemented FI$Cal prior to the 2018 release and responded to our survey raised a variety of concerns with respect to their experiences using FI$Cal. Table 2 on page 5 summarizes our key survey results and demonstrates that delayed financial statements, poor system performance, and inadequate training are among the 17 entities' most significant concerns.

Table 1
Survey Participants Were Chosen Based on Implementation Year, Number of Authorized Positions, Total Budget, and CAFR Impact

ENTITY NUMBER	ENTITY NAME	IMPLEMENTATION YEAR	NUMBER OF POSITIONS PER FISCAL YEAR 2017–18 GOVERNOR'S BUDGET	TOTAL FUNDING PER FISCAL YEAR 2017–18 GOVERNOR'S BUDGET
Pre-2018 Release				
1	Department of Alcoholic Beverage Control	2014	415	$67,578,000
2	Department of Finance*	2014	448	81,831,000
3	California Department of Resources Recycling and Recovery	2015	691	1,571,161,000
4	California High-Speed Rail Authority	2015	184	543,889,000
5	Department of General Services, Contracted Fiscal Services†	2015	1,418	1,370,124,000
6	Department of Toxic Substances Control	2015	918	293,188,000
7	State Controller's Office*	2015	1,391	207,127,000
8	State Treasurer's Office*	2015	233	40,574,000
9	Department of General Services*	2016	3,585	1,057,963,000
10	California Community Colleges Chancellor's Office	2017	149	9,358,175,000
11	California Department of Fish and Wildlife	2017	2,443	533,358,000
12	California Department of Food and Agriculture	2017	1,762	447,702,000
13	California Energy Resources Conservation and Development Commission	2017	679	487,950,000
14	California Student Aid Commission	2017	97	2,254,869,000
15	Department of Child Support Services	2017	541	1,006,989,000
16	Department of Consumer Affairs	2017	3,277	660,679,000
17	Department of Parks and Recreation	2017	3,555	762,976,000
July 2018 Release				
18	Air Resources Board	2018	1,418	$494,041,000
19	California Department of Education	2018	2,245	77,276,061,000
20	California Department of Social Services	2018	3,800	24,887,347,000
21	California Department of Tax and Fee Administration‡	2018	4,268	666,037,000
22	Department of Developmental Services	2018	4,027	6,926,931,000
23	Department of Health Care Services	2018	3,430	110,000,929,000
24	Department of Insurance	2018	1,259	272,172,000
25	Employment Development Department	2018	8,294	14,305,151,000
26	Franchise Tax Board	2018	6,195	750,144,000

Source: Governor's Budgets for fiscal years 2017–18 and 2018–19 and FI$Cal project documents.

* These four entities are part of the FI$Cal project's steering committee.

† The Department of General Services' Contracted Fiscal Services provides accounting and budgeting services to 34 state entities that implemented FI$Cal. The budget numbers listed here represent the aggregate funding for the client entities.

‡ The California Department of Tax and Fee Administration's budget listed here is from the Governor's Budget for fiscal year 2018–19 because it did not have its own line item in the fiscal year 2017–18 budget.

Table 2
Some Entities That Implemented FI$Cal Before 2018 Report Ongoing Challenges

ENTITY	IMPLEMENTATION YEAR	ENTITY HAS NOT PRODUCED MONTHLY FINANCIAL STATEMENTS THROUGH AT LEAST APRIL 2018	ENTITY DOES NOT EXPECT TO PRODUCE THE YEAR-END FINANCIAL STATEMENTS BY THE STATE CONTROLLER'S DEADLINE OF AUGUST 20, 2018	USERS HAVE EXPERIENCED SYSTEM PERFORMANCE ISSUES SUCH AS TIME OUTS AND DELAYS	FI$CAL HAS NOT PROVIDED ADEQUATE TRAINING AND USER MANUALS
Department of Alcoholic Beverage Control	2014	•		•	•
Department of Finance	2014				
California Department of Resources, Recycling and Recovery	2015	•		•	•
California High-Speed Rail Authority	2015	•		•	
Department of General Services, Contracted Fiscal Services (34 entities)	2015	*			
Department of Toxic Substances Control	2015	•	•	•	•
State Controller's Office	2015			•	•
State Treasurer's Office	2015			•	
Department of General Services	2016	•			
California Community Colleges Chancellor's Office	2017	•		•	•
California Department of Fish and Wildlife	2017	•	•	•	•
California Department of Food and Agriculture	2017	•	•	•	•
California Energy Resources Conservation and Development Commission	2017	•	•	•	•
California Student Aid Commission	2017	•	•	•	•
Department of Child Support Services	2017	•		•	•
Department of Consumer Affairs	2017	•	•	•	•
Department of Parks and Recreation	2017	•	•	•	•
Total Number of Entities		**13**	**7**	**14**	**12**

Source: Responses by June 2018 to State Auditor's survey and information produced by FI$Cal.

* Three of the 34 entities for which the Department of General Services provides accounting and budgeting services did not produce monthly financial statements on time.

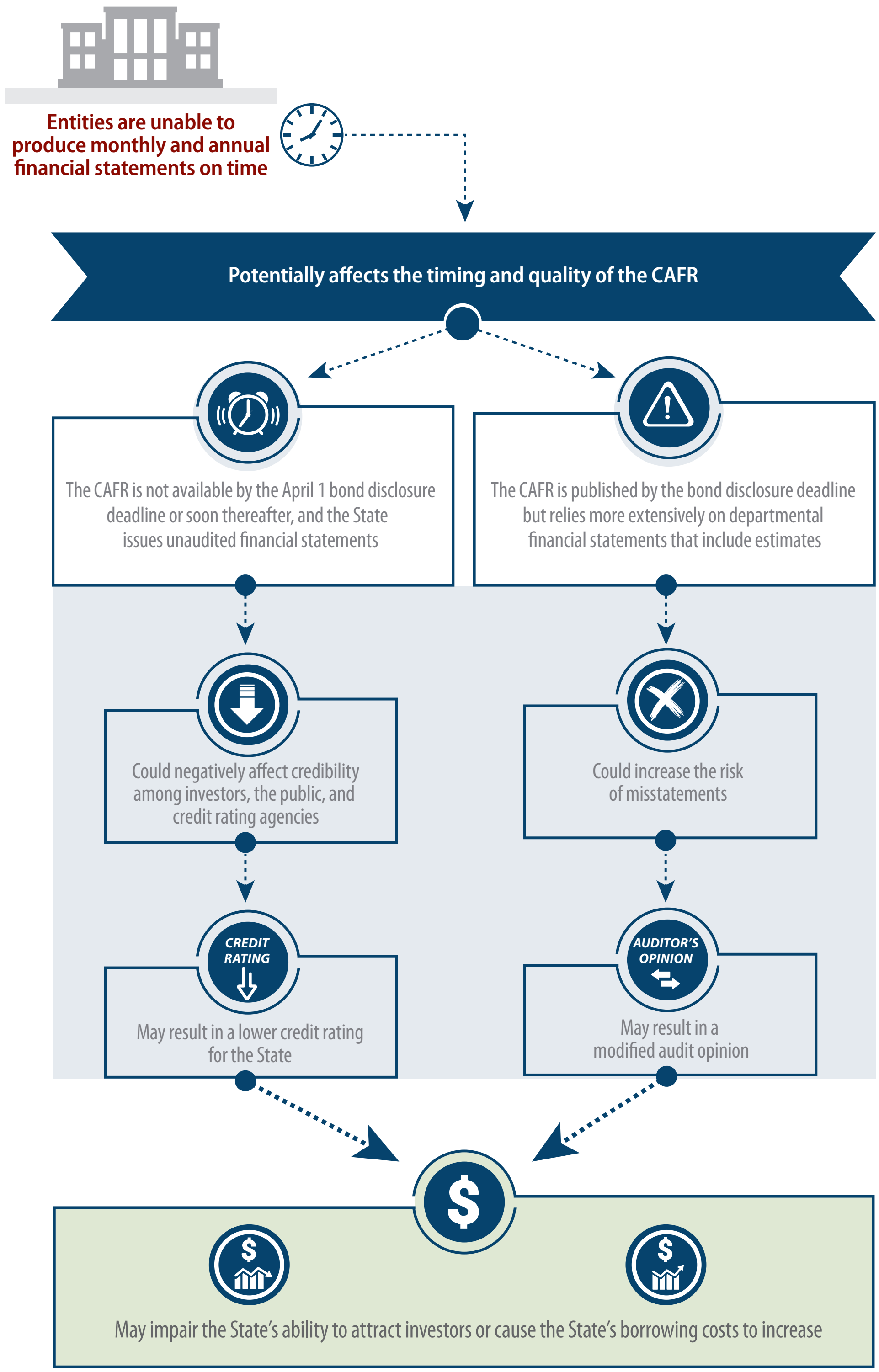
Entities Continue To Experience Problems Producing Financial Statements

Most of the 17 entities we surveyed reported multiple problems using FI$Cal, including challenges processing routine month-end accounting transactions, which make producing annual financial statements with FI$Cal difficult. The entities' inabilities to prepare month-end financial statements on time could be the result of a number of factors including user error, system limitations, and insufficient support and training from the project office. Internally, entities must be able to produce timely financial information to make informed decisions related to matters such as resource allocation and personnel management. Externally, entities must submit their annual financial statements on time to the State Controller in order for it to produce California's CAFR within nine months after fiscal year end. For fiscal year 2017–18, the State Controller's deadline to receive all entities' annual financial statements is August 20, 2018. However, the challenges entities face in producing timely year-end financial statements may prevent them from meeting the State Controller's deadline.

The threat of this scenario presents real risks for the State. With more entities expected to rely upon FI$Cal for financial reporting purposes for fiscal year 2017–18, the State faces an increased risk of publishing the next CAFR late, which would obligate the State to issue unaudited financial statements to meet existing bond disclosure requirements. California's general obligation bonds require the State to submit an annual report, which must include audited financial statements, if available, by April 1 of each year. According to the Government Finance Officers Association, demonstrating a solid disclosure track record will benefit an issuer of bonds by enhancing credibility among investors, credit rating agencies, and the public. Therefore, as Figure 1 illustrates, an audited CAFR that is significantly late could impair the State's ability to attract investors and potentially lower the State's credit rating, increase borrowing costs for the State, and, ultimately, cost California taxpayers. Such a delay could also weaken the State's credibility with federal agencies that award the State billions of dollars.

Figure 1 on the following page also shows that a CAFR that is published on time but is inaccurate or incomplete could result in serious consequences. For instance, a number of entities may rely more extensively on estimates if they are unable to produce accurate and complete financial statements on time using actual financial data from FI$Cal, thereby increasing the risk of misstatement. Any estimates not based on sound methodologies or complete or accurate information could ultimately result in the State Auditor issuing a modified opinion on the State's CAFR. An auditor's modified opinion indicates that material accounting misstatements either have or may have occurred, and it could erode stakeholders' and investors' confidence in the State's ability to produce an accurate CAFR.

Figure 1
The State Faces Potential Consequences if Entities are Unable to Prepare Year-End Financial Statements Accurately and On Time



Source: Articles and guidance from financial and educational institutions, bond disclosure agreements, and auditing standards.

Note: This illustration is not inclusive of all possible scenarios.

The IPO reported last year that entities were experiencing problems completing month-end accounting activities using FI$Cal, and the current status remains troubling:

- As of June 2018, 13 of the 17 entities we surveyed, as well as three entities for which DGS provides accounting and budgeting services, did not produce month-end financial statements on time.

- Seven entities said that they do not expect to submit on-time fiscal year 2017–18 financial statements to the State Controller using FI$Cal.

- FI$Cal's June 2018 steering committee report shows that 41 of 89 entities currently using FI$Cal for their accounting functions did not fully complete their procedures to prepare month-end financial statements for April 2018, with nearly half of these entities reporting an inability to produce financial statements for any month since July 2017—the first month of the fiscal year.

The IPO reported that problems producing the month- and year-end financial statements have persisted since the first entities implemented FI$Cal in 2014. It recommended that the project office determine the root causes of the problem, make appropriate corrections, and implement changes that ensure the cause of the problem does not reoccur. However, the IPO noted that as of May 2018 the entities made no significant progress related to completing month-end accounting activities, despite a coordinated effort by the project office and stakeholders.

The chief deputy director (chief deputy) of the project explained that the project office has created a team to prioritize answering entities' questions related to the year-end process for preparing financial statements. He stated that the project office offers a variety of assistance, including providing weekend support and expanding user support labs. He also stated that the project office will meet with the top 10 departments that are significantly late producing their financial statements to provide additional support. Further, he asserted that the project office met with the State Controller and DOF to discuss entities' uses of estimates to produce year-end financial information and will issue comprehensive guidelines to those entities that plan on doing so. However, as we noted earlier, entities' potential reliance on estimates increases the risk of financial misstatements.

Entities Report Problems with System Performance, Training, and Support

Many of the entities we surveyed also reported problems with system performance, training and documentation, and technical support, all of which may further delay entities' work.

Entities reported a variety of intermittent system performance issues, including slow system response and unexpected system timeouts, which consume more staff resources and delay operations. Specifically, some entities noted that FI$Cal's report generation is particularly slow and can be time-consuming for staff. One department asserted that staff sometimes use the system during the evenings because FI$Cal's general processing time is especially slow during work hours. Additionally, many entity staff indicated that they have often experienced unexpected system timeouts in which the system becomes unresponsive or logs the user out.

Some staff who experienced these system timeouts reported that they must then invest more time repeating their work because FI$Cal often does not allow users to save their progress. The project's chief deputy noted that the project office is aware of these issues and is working on addressing them.

Many of the surveyed entities also expressed concerns regarding the training, user documentation, and technical support that the project office provides. The text box provides some key concerns that entities reported related to these factors.

Many of the surveyed entities reported that online and in-person trainings were limited to overviews and generic scenarios that did not guide their staff through real-world operations, and that the documented job aids and manuals that the project office provides were insufficiently detailed. Some entities noted that the training or documentation materials do not provide instructions for troubleshooting issues and do not always reflect changes that have occurred to FI$Cal. The project's chief deputy says that improving documentation is an ongoing process and that the project office is committed to improving user documentation to ensure that it provides a current and real-world representation of how to use the system.

Entities Report That FI$Cal Support Resources Are Insufficient

In-Person and Online Training

- Generic and does not guide staff through real-world operations
- Lacks guidance for troubleshooting

User Documentation

- Not sufficiently detailed
- Does not always reflect system changes
- Lacks guidance for troubleshooting

Technical Support

- Sometimes closes out users' requests for assistance without resolving the problems that generated them
- Does not provide entities with timely responses to requests for assistance

Source: Responses to the State Auditor's survey of 17 entities.

Both IV&V findings and our previous reviews have also noted the project's insufficient technical documentation. Specifically, our office has reported since 2014 that the project office was missing opportunities to transfer technical knowledge to state staff. Further, the IV&V reported in March 2018 that FI$Cal's absence of complete and current system documentation may result in less timely troubleshooting, system modifications, and customer service. As of June 2018, the IV&V continued to report on this problem but had not yet provided its suggested recommendation for mitigating this risk. Our IT expert indicated that if the project office does not address these issues, the State will have to rely more extensively on external contractors for support after the project is complete, which will likely cost the State more than if the project office provided adequate training and documentation during implementation.

Many entities also reported that the project office's technical support is inadequate for meeting their business needs. For example, they reported that the technical support center sometimes closes out a user's request for assistance without resolving the issue, and it sometimes takes a long time for staff to receive an answer from the project office's support staff, further delaying resolution of the problem. Entities reported they have received these unsatisfactory or slow responses to various requests for support, including ones related to frequent system timeouts, loss of access to certain functionalities, and accounting errors that need to be fixed.

Moreover, several entities we surveyed expressed concern that FI$Cal's system performance—such as the system speed and users' transaction time—will decline when the project office implements 64 additional entities in the July 2018 release. Some entities were also concerned that the already-strained technical support they currently receive would only worsen. The project's chief deputy noted that support staff that were previously dedicated to the July 2018 implementation are now focused on ongoing support, and the project office has established a command center that will operate for 90 days after the July 2018 release to support entities in the release and entities using FI$Cal to prepare fiscal year 2017–18 financial statements. However, the IPO has stated that the project office's limited ability to assist current state entities with producing financial statements may be exacerbated with the July 2018 release and that the project office's continued high staff vacancy rate and resource shortage could negatively affect its ability to support entities.

Most Entities Reported That FI$Cal Implementation Required Additional Resources

Our survey results revealed that entities incurred costs related to FI$Cal implementation outside the scope of the project. State law explains, among other things, that FI$Cal is intended to eliminate fragmented reporting, automate manual processes, and streamline various other business processes, but the entities we surveyed reported otherwise. The project office also recently reiterated that FI$Cal is intended "to reduce the workload required" by the entities to access and prepare financial information. However, our surveyed entities' needs for additional resources to meet their business needs does not align with FI$Cal's expectations. Table 3 on the following page summarizes these additional resources in two categories: external contractor services and internal or temporary staff.

Although the project office reports that it provides entities with support throughout implementation, seven of the 17 entities we surveyed found it necessary to enter into agreements for services—such as additional accounting support services or redesigning business processes to meet system requirements—and the entities absorbed the associated costs internally. For example, DGS retained several contractors to support the implementation of FI$Cal at a cost to the department of more than $6 million. Further, the California Natural Resources Agency contracted with a consultant to provide 12 state entities, including three of our surveyed entities—the Department of Parks and Recreation, the Department of Fish and Wildlife, and the Energy Resources Conservation and Development Commission (Energy Commission)—services such as project management activities and support for organizational readiness. The external consultant came at a total cost of nearly $5 million over the course of about three years. In fact, some of the July 2018 release entities surveyed had already contracted with external sources for assistance with FI$Cal implementation. For example, the Employment Development Department committed to a contract of more than $1 million for this purpose. When individual entities bear these costs and they are not included in the project's budget, it understates the true costs of FI$Cal and diminishes the transparency of the project's full costs.

Table 3
Some Entities That Implemented FI$Cal Before 2018 Incurred Some Additional FI$Cal-Related Costs

ENTITY	IMPLEMENTATION YEAR	CONTRACTED FOR SERVICES TO SUPPORT USE OF FI$CAL	REPORTED NEED FOR ADDITIONAL STAFF RESOURCES TO USE FI$CAL*
Department of Alcoholic Beverage Control	2014	• $135,000†	•
Department of Finance	2014		
California Department of Resources Recycling and Recovery	2015		•
California High-Speed Rail Authority	2015	•‡	
Department of General Services—Contracted Fiscal Services (34 departments)	2015		
Department of Toxic Substances Control	2015	• $500,000	•
State Controller's Office	2015		•
State Treasurer's Office	2015		•
Department of General Services	2016	• $6,319,750	•
California Community Colleges Chancellor's Office	2017		•
California Department of Fish and Wildlife	2017	• $464,704§	•
California Department of Food and Agriculture	2017		•
California Energy Resources Conservation and Development Commission	2017	• $480,271§	•
California Student Aid Commission	2017		•
Department of Child Support Services	2017		•
Department of Consumer Affairs	2017		•
Department of Parks and Recreation	2017	• $2,620,313§	•
Total Number of Entities		**7**	**14**

Source: Responses by June 2018 to State Auditor's survey and information produced by FI$Cal.

* We consider entities to fall into this category if they asserted that they either need additional staff, redirected internal staff, hired student assistants or retired annuitants, or hired other full-time staff on a limited-term basis in order to use FI$Cal. Responses generally ranged from authorizing staff overtime to hiring one to eight additional limited term or full-time staff.

† This contract is an interagency agreement that the Department of Alcoholic Beverage Control (ABC) entered into with the Department of Housing and Community Development to provide ABC with additional accounting services for a limited period of time.

‡ California High Speed Rail Authority asserted its two contracts cover services in addition to FI$Cal support, but its contracts do not provide a breakdown of costs related to FI$Cal.

§ California Natural Resources Agency entered into a contract to support several of its entities, including California Department of Fish and Wildlife, Department of Parks and Recreation (State Parks), and California Energy Resources Conservation and Development Commission. We provide each selected entity's share of the total contract value. The amount listed for State Parks includes $630,983 for its share of the California Natural Resources Agency agreement and $1,989,330 for its additional contracts related to FI$Cal.

Most of the entities we surveyed reported concerns with inadequate staff resources and the increase in workload due to FI$Cal. Fourteen of the 17 entities we surveyed said that they either needed additional staff resources, redirected existing staff, hired temporary staff, or worked large amounts of overtime to use FI$Cal. The Energy Commission, for example, reported a notable increase in workload, which it mitigated by hiring retired annuitants and student assistants and by having permanent staff work large amounts of overtime. Further contributing to increased workload, some entities reported that they continued to use their legacy systems alongside FI$Cal to process payments to vendors, complete month-end transactions, and meet federal reporting requirements. For example, State Parks reported that it continued to use its legacy system due to FI$Cal-related delays in processing payments to its vendors, which in accordance with state law, must be met in order to prevent hardship to its vendors, avoid closure of parks statewide, and prevent penalty payments to the vendors. Despite the increased additional staff resources required for this duplicative effort, the entities asserted that their extended use of legacy systems was necessary to access adequate reports and accurate financial data until they can fully rely on FI$Cal.

To mitigate the increased workload, some entities informed us that they plan to hire or have already hired additional permanent staff, may request additional funding for new positions through the state budget process, or have diverted current staff resources. The project office's chief deputy acknowledged that FI$Cal requires its users to input more information than what was required of the previous system so that FI$Cal can create a proper audit trail and follow accounting best practices, but some of the extra workload should subside once all entities have successfully implemented FI$Cal. He also noted that FI$Cal requires users to have accountant-level skill sets and that current department staff skills may only match what is required by their legacy systems. Although a portion of the additional FI$Cal-related workload may subside once the initial implementation issues are resolved, many entities reported that the overall workload will remain greater than it had been with their legacy systems.

Entities Implementing FI$Cal in the July 2018 Release May Face Similar Challenges but on a Larger Scale

Based on conclusions in our prior reports and the results of our recent survey, we continue to be concerned about the success of the July 2018 FI$Cal release. The concerns raised by entities already using FI$Cal and their inabilities to produce financial statements on time, as well as uncertainties voiced by those entities scheduled for the July 2018 release whom we surveyed, suggest that the issues described in this report have the potential to be magnified and will continue into fiscal year 2018–19. If the entities that currently use FI$Cal cannot produce individual monthly financial statements on time, it would stand to reason that producing year-end financial statements for the State Controller would create an even larger challenge for entities. Furthermore, if the 64 entities scheduled for the July 2018 release—many of them with large budgets—experience similar issues, the situation could affect publication of the State's fiscal year 2018–19 CAFR at a greater scale. If so, the State faces an increased risk of publishing inaccurate financial information, issuing unaudited financial statements, or receiving a modified audit opinion on the State's CAFR, any of which could potentially affect the State's ability to attract investors and increase its borrowing costs. Additionally, the entities we surveyed that were scheduled for FI$Cal's July 2018 release were generally uneasy about their readiness to use FI$Cal for various other reasons, such as the inadequacy of some aspects of the pre-implementation training and testing.

Of similar importance, several of the entities scheduled for the July 2018 FI$Cal release receive billions of dollars in federal funding, and some have raised concerns that their potential inability to produce accurate and timely financial information and meet various federal requirements may threaten their access to mission-critical federal funds. Similarly, the IV&V reported that the difficulties users experience performing necessary closing activities and federal reporting could result in delayed federal funding. Consequently, if entities are unable to use FI$Cal to meet these requirements to receive federal funds, the Legislature may then choose to provide the funding necessary to cover any shortfalls. For example, the Department of Fish and Wildlife—which implemented FI$Cal prior to 2018—cited system limitations and technical issues as reasons it was unable to bill for state or federal reimbursements, and it had to obtain a $50 million loan in February 2018 from the State's General Fund to maintain operations until it received reimbursements. We can thus expect FI$Cal implementation challenges to escalate with the many and larger entities scheduled for the July 2018 FI$Cal release.

In part, to meet various federal requirements, a number of entities scheduled for the July 2018 release—including those with large public programs such as the Employment Development Department and the Department of Health Care Services—will continue to use their legacy systems after implementing FI$Cal. The California Department of Social Services for example, found it necessary to continue to use its legacy system in order to meet federal reporting requirements and receive funding for programs that offer services benefitting children, families, and elderly or disabled recipients. According to project documents, 21 of the 64 entities scheduled for the July 2018 implementation intend to continue using their legacy systems for periods ranging from three months to a year. Fifteen of these 21 entities plan to use both FI$Cal and their legacy systems and six have such significant concerns that they plan to operate only in their legacy systems. Although this may be a suitable temporary solution to the departments' problems, we are concerned that the increased workload created by the dual entry of information is unsustainable for the long term. Further, entities operating solely in their legacy systems for the first few months may have a large backlog of transactions they will need to input into FI$Cal, which could create a downstream impact and a resource problem for those that process a high volume of transactions. At the time of the implementation, the project office asserted that it had some long-term solutions for meeting federal requirements. However, these solutions had not yet been verified by the entities concerned with meeting federal requirements. Thus, it is unclear whether or when their concerns will be properly addressed.

CDT Failed to Provide Stakeholders with Timely Information Before Key Project Decisions

We continue to be concerned about some aspects of CDT's oversight of the project. CDT has consistently failed to publish its monthly oversight reports on time even during critical points leading up to the project's largest release. Publishing these reports is a key way that CDT communicates to the project office and other stakeholders about potential problems that could negatively affect the project's cost, schedule, and scope. The *Statewide Information Management Manual* requires CDT to issue its oversight reports by the 10th working day of each month for a project as critical as FI$Cal. However, similar to last year, CDT was late in submitting its monthly oversight reports throughout 2018.

In fact, CDT did not publish its May 2018 oversight report until two weeks after it was due—which happened also to be one day after the steering committee unanimously approved the decision in late June to move forward with the implementation of all 64 entities in the

July 2018 release. In this report, the IPO escalated its previously expressed concerns and indicated that the project is at significant risk, in need of immediate corrective action, and had a low probability of realizing the full scope of the July 2018 release. It also reported that the project office had still not sufficiently addressed all of the conditions CDT established for approving the project's most recent SPR, including the need to develop a contingency plan for addressing risks associated with the July 2018 departmental implementation. The IPO also reported significant risks in the areas of time, resource, and risk management and recommended that the steering committee consider delaying the 2018 departmental implementation until issues related to month-end and year-end processing are resolved and stabilized.

As the oversight entity for the State's information technology projects and a participant in FI$Cal steering committee meetings, CDT has a key role in overseeing the FI$Cal project and informing stakeholders of its concerns. However, in the two steering committee meetings in June that led up to this decision, the CDT representative did not share any specific information about its significant concerns when oversight entities were asked to comment. Instead, the representative indicated that CDT fully supported the decision to proceed with the July 2018 release. While it is unclear to what extent this untimely report, or concerns raised by CDT, would have affected the steering committee's June 27, 2018, decision to move forward with implementing all 64 entities, these omissions hindered the committee's ability to make informed decisions that fully accounted for all potential risks involved. A chief with CDT's project approvals and oversight branch stated that, given the size and complexity of the project, these reports require additional review from CDT management to ensure sufficient levels of detail as well as accuracy of the reports. He further stated that CDT responds to comments from the project office prior to the report's release. Although neither CDT's oversight concerns nor the project office's failure to meet SPR conditions were discussed at the steering committee meetings leading up to the July 2018 FI$Cal release, he stated that the project office was already aware of the issues from prior meetings between project leadership and CDT. Nonetheless, we question the inconsistency between CDT's oversight reports and discussions at critical project meetings. In addition, CDT's website continued to award an overall satisfactory rating as of the end of June 2018, indicating that no corrective action was necessary for the FI$Cal project. CDT's actions are contradictory to its report findings and a disservice to stakeholders who rely on timely and accurate information.

FI$Cal Leaders and Oversight Entities Must Address Project Risks and Develop a Realistic Timeline

Based on the result of our recent survey and the issues discussed in our past reports, it is clear that the FI$Cal project will take more time and resources than originally planned in its most recent SPR. The risks we discuss are particularly significant if some of these large entities are unable to produce timely and accurate financial statements. Project officials should consider the larger business impact on the State if entities are unable to use FI$Cal successfully.

Recommendations

Legislature

To ensure successful implementation of FI$Cal, the Legislature should require the project office to include the following metrics in its annual reports to the Legislature:

- Status of month-end close for all entities, indicating whether each entity produced its monthly financial statements for the preceding six months, and a description of the project office's corrective actions for each entity with delays exceeding 30 days after month-end.
- The identities of any entities that did not prepare year-end financial statements using FI$Cal by the State Controller's deadline.
- Total number of users' service requests by priority level, the number of service requests successfully resolved, and the number of resolutions that took longer than the service level objectives defined by the project.
- Number and length of unplanned outages that occurred during normal business hours since the July 2018 release.
- Number of entities that reported concerns with using FI$Cal to meet federal requirements and descriptions of the project office's efforts to resolve those concerns.
- Project office's vacancy rate for staff positions, including technical support center positions, and a description of the project office's efforts to fill vacancies since the July 2018 release.
- Number of entities that are operating their legacy systems, including each entity's projected date to retire its legacy system, and the volume of backlog transactions that entities still need to input into FI$Cal.

FI$Cal Project Office

The project office should include metrics listed under the recommendation for the Legislature in its February 2019 annual report and any annual reports thereafter.

Within 30 days, the project office should consider postponing to the following fiscal year state entities whose migration to FI$Cal in fiscal year 2018–19 could cause a loss of federal funding or a delay in publishing the State's CAFR.

The State Controller, DOF, and the project office should meet in September 2018 to discuss the status of delinquent entity financial statements and develop corrective measures to ensure that the CAFR is produced with timeliness and accuracy.

Department of Technology

To ensure transparency of the total project costs, within 30 days, CDT should require the project office to submit a new SPR that includes, at a minimum, changes in cost, scope, and schedule for the following:

- Ensuring that all entities are able to use FI$Cal to meet all of their accounting and reporting needs.

- Fully implementing the 2018 release entities that may not be successfully transacting in FI$Cal by June 2019.

To ensure that stakeholders are able to make informed decisions, CDT should formally communicate any significant concerns regarding the project at the monthly steering committee meetings.

To ensure that stakeholders receive timely information regarding project risks and issues, CDT should ensure that it meets the *Statewide Information Management Manual* deadline for publishing the monthly IPO reports within 10 working days of the subsequent month.

Respectfully submitted,

Elaine M. Howle

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