



*Testimony Submitted to the Committee on Government Modernization, Efficiency, and Accountability February 18, 2005*

Chairperson Figueroa and Members of the Committee –

My name is Margarita Maldonado.

I am an IT worker in the Department of Justice. For the last 10 years my job has been to help create paperless environments and electronic updates of information to California's Criminal History System.

I am currently the Chair of Bargaining Unit 1, the unit which represents information technology workers. As a member of the Information Technology Committee, I am working with SEIU Local 1000 to design an efficient and strategic IT program for the State of California.

Should Government be run like a business?

Yes, but it shouldn't be run by business.

To operate as a business, the state has to meet the goals of providing efficient, cost-effective and secure service to the public. To meet these goals, the state must develop a strategic process for determining the most cost-efficient and secure ways to provide service to the public before deciding the most effective way to do that.

Numerous problems exist with the state's current approach to operating its IT program:

**First, the current system is not cost efficient:**

The system is fraught with excess costs and the inability to review the bulk of contracts it has. For example, the state has over 400 contracts with the Franchise Tax Board and Teale Data Center for IT work with little to no information on the type of work outsourced or the cost effectiveness of the work. The union has begun to uncover problems with these contracts and to dedicate resources to determine how to identify contracts which could be brought in-house at a saving to the state. A union investigation last year of contracts at DHS determined that the state was overpaying by at least \$5 million dollars for private vendors. More recently, it has come to our attention that a large portion of CalSTRS IT work is outsourced. Of the approximate 200 current CalSTRS IT shop positions, 125 are filled with contractors. These contractors do the same work as the state IT employees but at a much greater price. While state IT employees may be paid in the \$30 - 50/hour range, CalSTRS IT contractors earn anywhere from \$60 - \$200/hour.

**Second, private contractors run the risk of increased security breaches:** While state workers are subject to the HIPA oath for privacy protection, contractors and their employees are not bound as easily to these protections. Often, there are no explicit requirements in state law or contracts to insure that contractors maintain accurate background checks on their employees or follow federal guidelines to preserve patient records. Citizens' confidential data is vulnerable to the outside, opening the state up to liability. Just look at the news about ChoicePoint this week. Hackers may have stolen as many as 145,000 personal records. We must make privacy protection a priority on all levels. Millions of Californians are depending on us.

**Third, the lack of oversight on state contracts results in overbilling, redundant systems and redundant design and development.** The complex, decentralized system prohibits much cost savings and interdepartmental cross-training that hopefully will proliferate under the new emphasis on IT.

**Fourth, the ideological approach in the current process results in outsourcing without evaluating the cost-saving potential.** High-level participants of the CPR process come from private industry, either from organizations ideologically dedicated to outsourcing, or from large businesses themselves. For examples, Carl DeMaio, advisor to the CPR process, is a Senior Fellow at the Reason Foundation, a think tank dedicated to outsourcing state government. Chon Gutierrez, the co-director of the CPR, in a hearing last August, admitted that though the CPR consistently makes the case for improving efficiency through trimming the workforce and contracting-out, the Review *didn't even consider* efficiencies gained through *expanding* the state workforce and eliminating costly private contracts: "We had no policy discussions on the notion of trying to determine the incremental cost of contracting out versus having a State employee do [the work]."<sup>ii</sup> In fact, the CPR's Co-Executive Director was so unfamiliar with the concept of bringing services back in-house to improve efficiency, that when asked why the CPR report did not include any discussion of insourcing, Gutierrez responded with a question: "Help me with what insourcing is?"<sup>iii</sup>

In approaching solutions to these problems with the question, should government operate more like a business, at least one similarity and one significant difference could be noted.

On the one hand, competitive businesses identify their core capacities and invest in their workforce and technology to remain competitive. The state, on the other hand, risks losing the ability to perform its core services and remain competitive by indiscriminate outsourcing. This happens in two ways. First, if there are problems with a contract, the government is reduced to the role of middleman, going to the vendor and hoping the vendor will fix the problem. Second, over time, the government can lose its expertise and experience for providing a service and become unable to pull the outsourced work back in-house quickly, even if it wants to. This means the public entity is left totally at the mercy of the private company to which it has outsourced a service.

**We have collected numerous examples of how this is a problem**

In Connecticut in 1997, due to inadequate contract provisions and an inability to provide obligatory child-care services on its own, Connecticut was forced to continue a child-care contract with [MAXIMUS, Inc.](#) and increase its fee payments. Within months of winning the payment processing contract MAXIMUS had shown impressive levels of ineptitude, making almost 10% of their payments in error and more than 10,000 out of 17,000 payments late, according to reports. Parents trying to contact the company encountered “telephone-system collapse,” and daycare centers, whose bills were past due, worried about having to turn away children or let staff go. This dramatically low performance prompted Connecticut to threaten to fire MAXIMUS. But instead, in an incredible turn of events, the company was able to negotiate a 50% fee *increase* just *three months* after this threat. It turned out that MAXIMUS, not the state, held the power in threatening an end to the contract. By privatizing, Connecticut lost its capacity to provide the service itself, leaving the state totally vulnerable to the private company.

Alternatively, a short-sighted private approach to employment decisions should be avoided. We are hoping to avoid how managers make financial decisions at the departmental level, rather than centrally or across spending areas. Many departmental managers respond to cost-cutting mandates by reducing the workforce, then hiring consultants under a different line-item, although it may be more costly. They also consider investment in technology on a short-term basis, unable to make large capital investments in a down year, even when cost savings could be significant over time. This is also a result of a fluctuating market, and the fact that businesses often tie investment decisions to inventory levels as a proxy for determining future demand.

California is lucky that it does not have to operate under these conditions. We could determine centrally that we will invest in workers to reduce the costs of consulting. We could determine centrally that we will invest in technology to improve productivity and reduce waste of time and money across departments over time. Government knows its market won't be reduced; if anything, it will increase. Government has the luxury, in a sense, of being more efficient and strategic over time than many firms are allowed to be.

Over the last few years, as a member of the IT committee and bargaining chair for SERIU Local 1000, I have witnessed numerous attempts to collaborate with the state to plan training and education systems for the State's IT workforce. This was accomplished first by fighting for contract language to establish a training system for state departments to meet their training needs and give opportunities for employees to secure training.

Currently we are working to advance an Information Technology classification and pay system with the new administration. Among our goals lies the desire to ensure that the pay structure and classification system will attract and retain a workforce capable of meeting the needs of the state. SPB concurred in a report that found the work would be provided more effectively if the department developed standardized testing, recruitment and training systems across departments. This does not necessarily imply the need for a central office, but it does indicate the need for the standard format for development of IT workers that our union is developing.

In a larger sense, Local 1000 is seeking to pursue greater partnerships with the state to provide government services more efficiently and effectively, as Bob Brownstein suggested in his testimony. Numerous examples exist of saving money and improving service without laying off state workers or outsourcing jobs.

### **Efficiency Training and Employee Innovation Lead to Savings in Miami-Dade**

In 1998, with talk of government failure and privatization looming over its head, the Miami-Dade Water & Sewer Department (WASD) proposed, and got the county to pass, an efficiency improvement program that enabled employees to participate in the decision-making process and share in the savings generated. The program resulted in a \$52 million reduction in operation and maintenance costs from FY97 to FY01.

The first step in the initiative was training. More than 40 Efficiency Workshops were held and the program established process improvement teams to evaluate the thousands of suggestions generated by employees participating in the workshops. Changes stemming from these suggestions were financially beneficial to all parties involved. Employees received \$1,133 for saving \$9.4 million in 2000, \$519 for saving \$4.32 million in 2001, and \$408 for savings of \$3.6 million in 2002. The department has not had a rate increase for customers since the program began.<sup>iii</sup>

### **Innovative Public Offices Outperform Private Child Support Offices in Maryland**

Public-sector, staff-developed innovations enabled child support offices in Maryland to significantly outperform private offices in a 22-month study. In 1995, Maryland's General Assembly crafted a pilot program compromise between corporate and labor recommendations. Baltimore City and Queen Anne County child support enforcement programs would be contracted out to private business, while in three counties (a fourth was added later) public employees would do the work using innovative methods to improve morale and performance.<sup>iv</sup> Among these strategies was to pay bonuses to the entire staff when a local agency met its goals and to design an analysis of current workflow to use as a basis for a staff-developed corrective action plan.<sup>v</sup> A study conducted by Johns Hopkins and Towson Universities, lasting from November 1999 to September 2001, concluded that these public employees outperformed traditional government agencies and the private contractor (MAXIMUS) on several measures including securing court orders, establishing paternity, and making collections.<sup>vi</sup>

### **Labor-Management Committee Improves Service Delivery and Cost-Effectiveness of L.A. Bureau of Sanitation**

*Spurred by a severe, city-wide budget crunch, the Los Angeles Bureau of Sanitation formed a joint labor-management committee with SEIU Local 47 in 1994 with the twin goals of trimming costs and improving service delivery. Thanks to the work of this committee, the Bureau increased truck availability from 75 percent to 94 percent, largely by improving cooperation between drivers and mechanics and their respective departments; and reduced overtime by 54 percent due to increased truck availability. Over the ensuing three years, it expected a 25 percent departmental cost reduction without lay-offs.<sup>vii</sup>*

Concrete returns for the public can be delivered by pursuing innovative strategies and increasing efficiency. At the Franchise Tax Board and the Board of Equalization, for example, when our technology is up to date, our workers have access to technologic support that matches their needs, our auditors have ways to communicate with the office while on the road, and our systems process data about tax returns and possible fraud—results in millions and perhaps billions of increased revenue to the state. Because we represent all state workers, and not just IT workers, adequate staff to meet technology needs of multiple state departments is a core mission of SEIU Local 1000.

In sum, we are submitting to this commission the core principles of SEIU’s Information Technology Strategy (see appendix included with submitted testimony). We look forward to partnering with the legislature, the private sector, and the new office of Information Technology to develop an efficient, cost effective department of technology that meets the needs of state workers and the public of California.

### **PRINCIPLES**

- 1) Develop a Unified Vision for Information Technology in State Government**
- 2) Centralize IT infrastructure and provide centralized service as a technological utility**
- 3) Implement change through a stakeholder based, pragmatic strategy**
- 4) Centralize planning, project development, and major expenditure management.**
- 5) Establish clear benchmarks and objectives**
- 6) Protect the security of systems and data**
- 7) Create and maintain a state IT workforce with current skills and expertise**
- 8) Maintain a high commitment to training and staff development**
- 9) Improve the cost effectiveness of IT operations**
- 10) Require high ethical standards in decision-making and management**

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SEIU Local 1000 is the largest union of state employees in California. We represent almost 90,000 state employees, of whom approximately 7,600 are IT professionals.

## **APPENDIX**

### **SEIU's Unified Information Technology Strategy (Working Draft)**

#### **1) Develop a Unified Vision for Information Technology in State Government**

California needs a comprehensive and unified vision of how information technology should be applied to state government. The vision should be based on the overriding goals of service to the public and the effectiveness of government operations. It should reflect the expectations of the state's residents, the expertise of its workers, and the foresight of its leaders. A vision can enunciate the extent to which the expansion of IT is envisioned as well as its priority in relation to other government objectives. Since trade-offs are unavoidable in the design of any expanding program, a vision can provide a foundation for deciding amongst multiple goals - such as the relationship between security and cost. It can also help insulate the IT plan both from partisan and/or ideological strategies and from the proposals of self-interested vendors.

#### **2) Centralize IT infrastructure and provide centralized service as a technological utility**

State government departments should concentrate on performing their core business functions. As CIO J. Clark Kelso has observed, "there are precious few departments that can or should have IT as a core business activity." Following the successful models of Virginia and New York, California should develop central IT services, operated by a focused department. The result should be standard systems, interoperable across departments. In addition, the IT department should hold responsibility for establishing standards for most routine IT procurement, enabling the state to leverage its buying power.

To be effective, the central IT department must have the authority to enforce responsiveness to its decisions. Input from departments and users is essential. However, once final directions have been established, they must be consistently implemented.

#### **3) Implement change through a stakeholder based, pragmatic strategy**

While numerous states have developed different models to achieve IT reform, the more successful efforts tend to emphasize a participative management style that emphasizes collaboration and communication. This approach enhances the exchange of ideas and information and fosters buy-in from staff. IT initiatives are undertaken only after substantial planning. The organization's continuing commitment to its employees is emphasized, and workers are encouraged to become agents of change. Input into IT planning should be welcomed from both management and rank and file employees. In particular, should the state adopt new employment classifications designating highly skilled staff members to be at the "principal" level, these individuals should be encouraged to play a significant role in designing and reviewing new IT strategies.

States like Virginia and Pennsylvania that have received NASCIO awards for the innovative nature of their IT improvements demonstrate this collaborative approach

and apply it to stakeholders at all levels. For example, when Virginia directed its DMV to participate in VIPnet - a system providing information via the internet - executive management used the opportunity to restructure the department to make it more efficient. The project outcome was compulsory, but the agencies affected by the required changes were given freedom to determine how to implement the directives. This flexible strategy established a framework allowing staff to exercise creativity. In combination with the state's no layoff pledge and its commitment to cross train personnel, the strategy encouraged and produced positive participation by employees in the implementation of innovation and change.

#### **4) Centralize planning, project development, and major expenditure management.**

A central organizational unit should have responsibility for planning the state's major IT objectives, evaluating potential innovations, recommending investment priorities, reviewing vendor proposals, and approving major purchases. Its activities should be transparent and open to public oversight. This agency should have the assistance of a technical advisory group that includes both external sources and state personnel.

To provide checks and balances over major acquisitions the approval of the office of at least one statewide elected official other than the Governor should be required. The Office of the Controller would appear to be well situated to fulfill this role.

The planning unit should also determine standards for IT software and hardware purchased at the department level. It should be responsible for determining and sharing best practices. It should also establish standards for the skills and training of state personnel.

#### **5) Establish clear benchmarks and objectives**

IT initiatives should have specific, concrete and realistic objectives, linked to improved service to the public or greater efficiency of state operations. Measurable benchmarks should be structured to assure the ability to determine the extent to which objectives have been achieved. A fundamental component of every set of objectives should be customer satisfaction, and mechanisms providing for customer feedback should be included in the project design whether the system serves the public at large or other state departments.

#### **6) Protect the security of systems and data**

Security of the state's IT systems should be a high priority. Not only is security essential to guarantee the privacy of residents and the stability of operations, it is necessary to protect the state from liability. Mechanisms need to be established to protect systems from disruption or interference and to restrict access to data to authorized personnel. Both state information and information concerning state residents and clients should be secure.

A primary strategy to achieve security goals is the reliance on state employees. As part of the hiring process, state personnel should pass appropriate background checks that increase in rigor for staff that play more significant decision-making roles.

### **7) Create and maintain a state IT workforce with current skills and expertise**

The overwhelming preponderance of IT work performed for the State of California should be carried out by state employees. This goal assures the state of reliable staff committed to public service. It is also highly compatible with other components of this strategy including the objectives of a unified vision, high levels of security, cost effectiveness, and high ethical standards. In both Virginia and Delaware, state governments specifically replaced high priced IT consultants with state employees as part of large scale IT restructuring strategies to improve services and contain costs.

To maintain a capable work force, the state must offer adequate compensation, engage in serious recruiting activities, and produce training programs designed to sustain state-of-the-art skills. As part of an overall IT reform strategy, the CIO should establish baseline performance objectives for competitive personnel compensation and IT training.

### **8) Maintain a high commitment to training and staff development**

State employees will be the key personnel that assure the success of an expanded IT program. To secure state-of-the-art performance from staff, training and staff development programs must receive increased emphasis. Apprenticeship systems should be instituted to enable new employees to gain experience and skills. Resources should be allocated to enable career staff to participate in lifelong learning classes. In those circumstances when specialized tasks require the use of consultants, contracts should require that state personnel be fully trained in the operation and maintenance of the new systems.

To encourage the fullest support by current employees of major changes in operations, the state should adopt a no lay-off pledge as was included in the award winning Virginia Information Technology Transformation Initiative. In addition, expanded training opportunities should be made available to personnel to facilitate transfer to new assignments.

### **9) Improve the cost effectiveness of IT operations**

The state's goal should be long term savings through innovations and reforms of IT operations. In the short run, investments in staff, training, and infrastructure may require increased expenditures. However, the ongoing effects of these commitments should be superior service and cost savings.

### **10) Require high ethical standards in decision-making and management**

Decisions regarding the planning of IT innovations, the purchasing of infrastructure, and the implementation of changes should be made in an open, and transparent manner. Conflicts of interest should be prevented, and regulations against favoritism should be enforced. To this end, the reliance on consultants with a financial incentive to recommend the products or services of specific firms should be avoided. Restrictions should be placed on "revolving door" patterns through which individuals move back and forth between state service and private businesses, mixing their interests and allegiances.

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<sup>i</sup> CPR Commission Hearing. Hearing Transcript. San Jose State University. Aug. 27, 2004.

[http://www.cpr.ca.gov/updates/archives/pdf/08\\_27\\_2004/Aug\\_27\\_Hearing\\_Transcript.pdf](http://www.cpr.ca.gov/updates/archives/pdf/08_27_2004/Aug_27_Hearing_Transcript.pdf)

<sup>ii</sup> *ibid*

<sup>iii</sup> Public Sector Labor Management Committee (PSLMC). “Case Study: Miami-Dade County Water and Sewer Department and American Federation of State, County and Municipal Employees (AFSCME), Local 121, and Government Supervisors Association of Florida, Local 100.” Miami-Dade, FL.

<http://www.pslmc.org/casestudies.asp?caseID=27>

<sup>iv</sup> Dresser, Michael. “Child Support Bill Hits Snag.” *Baltimore Sun*. Feb. 15, 2002.

<http://www.optimalsolutionsgroup.com/docs/CSBill.pdf>

<sup>v</sup> Clark, John, Bienia, Nancy, & Deimeke, Linda. “Hagerstown: Maryland’s Model Office.” United States Department of Health & Human Services, Office of Child Support Enforcement. Child Support Report. Washington D.C. Dec. 1996.

<http://www.acf.hhs.gov/programs/cse/new/csr9612.htm#9612i>

<sup>vi</sup> Dresser, Michael. “Child Support Bill Hits Snag.” *Baltimore Sun*. Feb. 15, 2002.

<http://www.optimalsolutionsgroup.com/docs/CSBill.pdf>

<sup>vii</sup> *ibid*