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Framing the California's IT Issues:
Presentation to the California Little Hoover Commission

Presented by:

FORWARD OBSERVER

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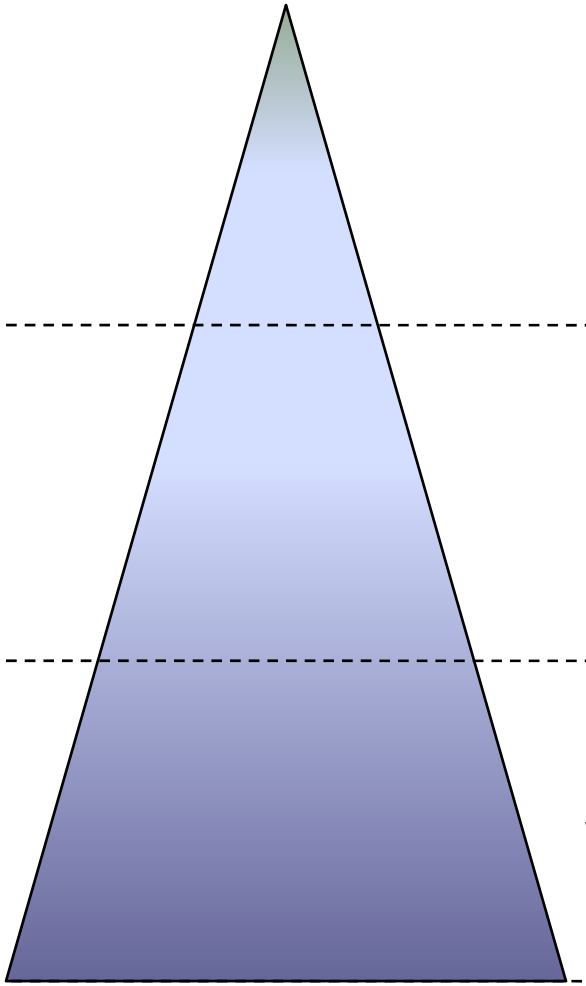
My understanding of the current situation

- There are many perceived issues about State's IT projects that have been subject to review by policy makers and the public
- Depending on their interests, each stakeholder group has a different perspective of what the "true" problem is with State IT projects. The problems commonly discussed include State IT terms and conditions, project management and oversight, technical specifications, change management, obtaining qualified bidders on projects, cost and time over runs, overarching State strategy and IT governance and program operations
- The State continues to pursue a number of multi-million dollar IT projects and is seeking to establish the proper systems and safeguards to ensure that the State has access to the proper technology to make government cost effective, service oriented and open
- I have been asked to share my perspective on how IT is framed in the State, but will focus on the operational issues

There are three levels of issues with the State's IT projects



Governance: Who is responsible and accountable and for which parts?

Strategy: What are the State's priorities? What systems should be centralized? What standards should the State adopt?

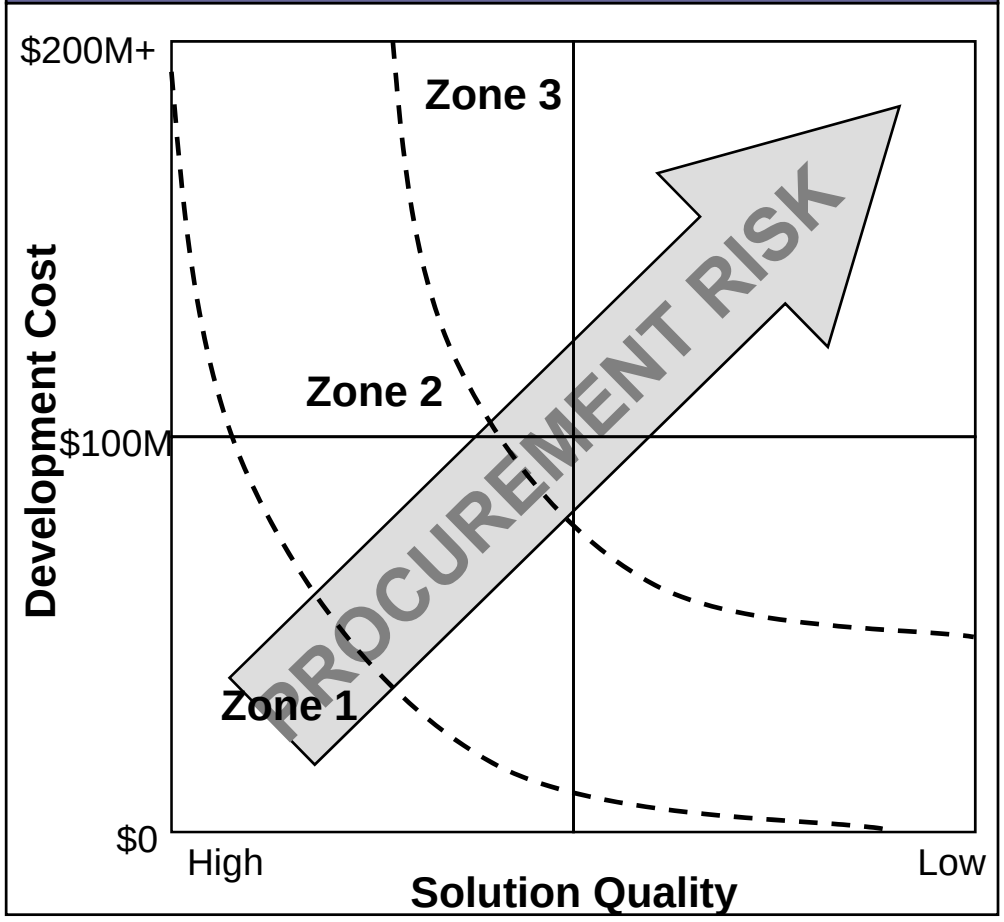
Operations: How is each function performed? What is the optimal means of delivering and maintaining IT to support our programs?

At an operational level, there are four distinct phases of State IT projects

	Authorization	Procurement	Project	Program
Key Activities:	▪ Develop business case for system ▪ Obtain approval to proceed	▪ Specify solution specifications ▪ Acquire necessary hardware, software and consulting services to develop solution	▪ Develop solution ▪ Plan and train for systems implementation	▪ Implement solution ▪ Maintain systems ▪ Troubleshoot
Primary Process Owners:	▪ Program Department ▪ State Chief Information Officer ▪ Department of Finance ▪ Legislature	▪ Program Department ▪ Department of General Services	▪ Program Department	▪ Program Department
Required State Resources:	▪ State staff time ▪ Consultant /s cost to develop business case and/or FSR (optional)	▪ State staff time ▪ Consultant /s cost to develop specifications, and perform IV&V (optional)	▪ State staff time ▪ Hardware and software costs ▪ Consultant costs for systems development and integration ▪ IPOC costs (optional)	▪ State staff time ▪ Consultant maintenance costs
Key Risks:	▪ Wrong problem definition and business case	▪ Poor solution ▪ Pay too much	▪ Cost overruns ▪ Time overruns ▪ Failure to deliver all requirements	▪ Failure to meet effectively program objectives – may result in federal fines, penalties or damages to constituents

Procurement risk is based on the notion of getting the best quality solution for the lowest price

Procurement Risk Matrix (Illustrative)

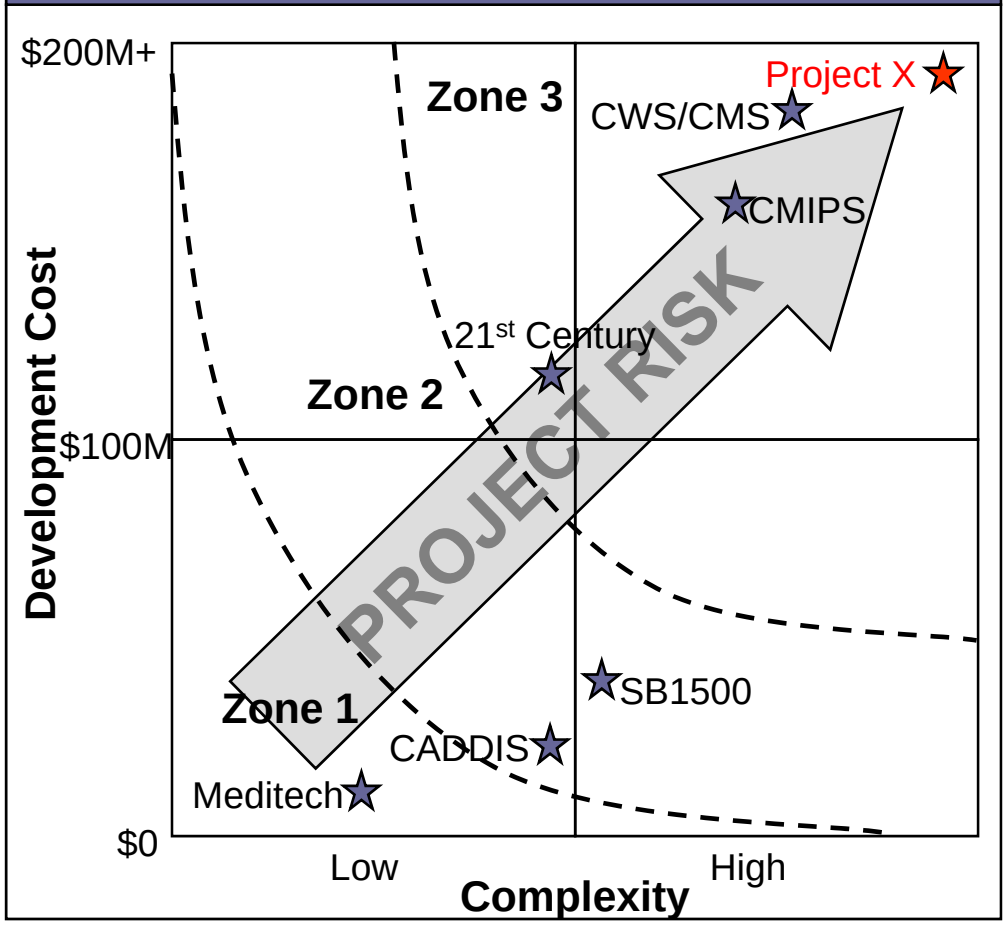


Key Observations

- Procurement risk centers around the concept of buying either a poor solution or paying too much for the solution
- Procurement risk is very difficult to gauge directly during the course of the procurement. Often don't know if a procurement successfully met the price and quality issues until after the project has been completed and in the phase of operations
- Procurement quality and reasonable pricing often measured in other substitute measurements, such as "competition" or number of bidders

Project risk is a function of project size and complexity

Project Risk Matrix (Illustrative)

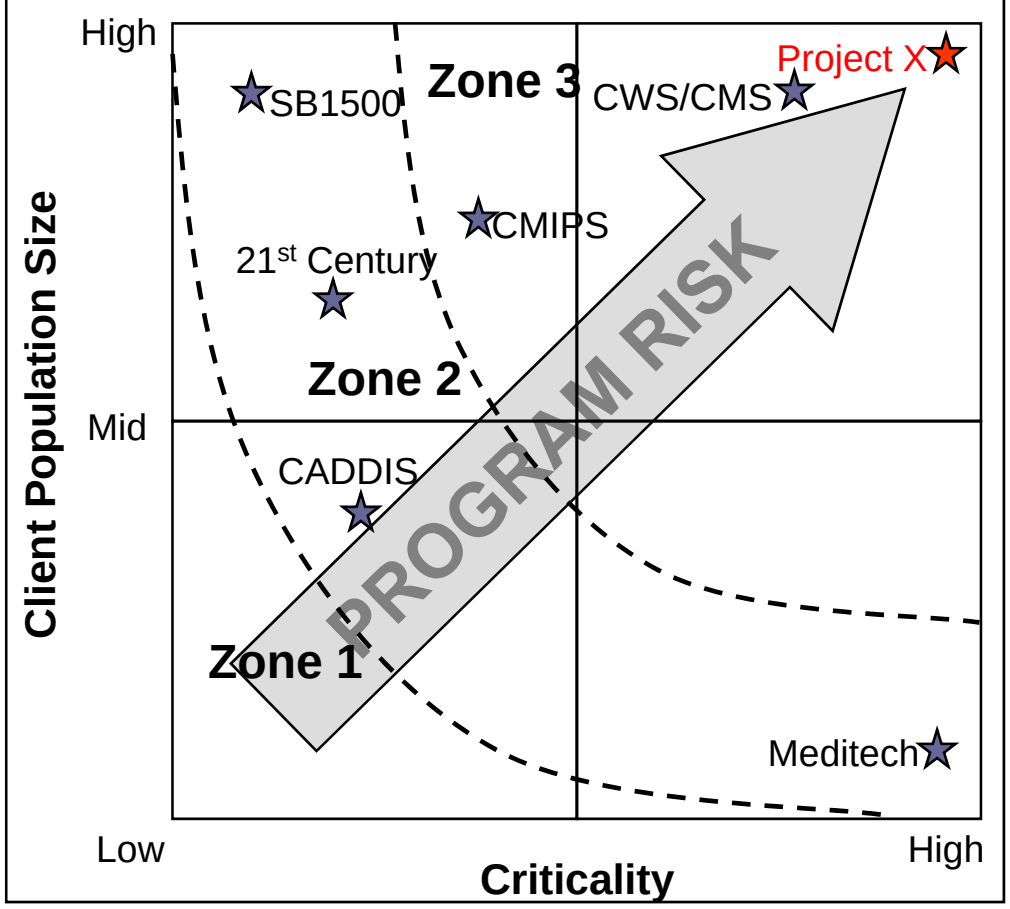


Key Observations

- Project risk involves the risk of delivering the specified solution on-time and on-budget. Project risk also centers around delivering solutions that fully meet specifications and is fully functional
- The higher the project risk, the higher the likelihood of failure
- Project risk is a function of size of he project and the likelihood of project failure. In the matrix presented, we have operationalized these issues into development cost and project complexity.
- Projects with low development costs and technical complexity are considered low risk. This includes projects such as CDVA's Meditech contract which is relatively low in both factors
- Conversely, projects with high development costs and complexity are high risk. This includes high dollar and custom developed projects like CWS/CMS and CMIPS

Program risk is a function of the size of the client population served and the criticality of the function

Program Risk Matrix (Illustrative)

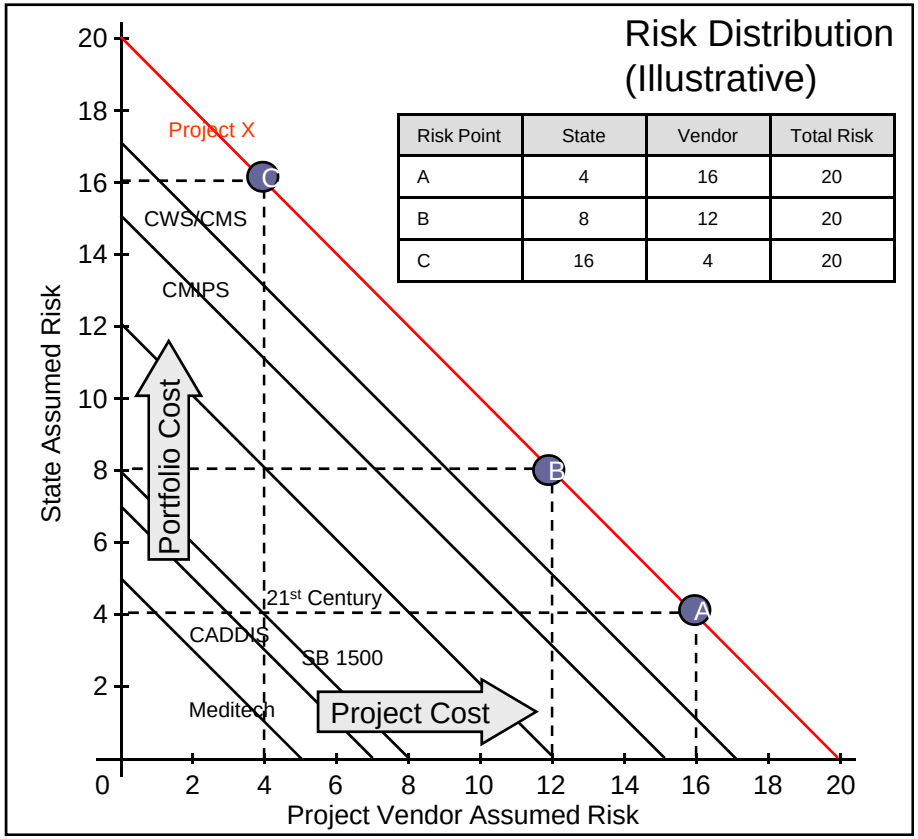


Key Observations

- Program risk focuses on the risk that in the IT system may fail and damage the client population. The risk is a function of the size of the population that the system is proposing and the criticality of the function. For example, Meditech tracks pharmaceuticals for CDVA hospital and if there were a failure in that system patients could get sick or worse. Inasmuch the criticality is high. On the other hand 21st Century is the new state payroll system. If it fails, state workers may not get their paycheck timely. There are risks , but the magnitude of criticality is different
- Keep in mind that averall program risk is NOT related to the project risk. For example, Meditech has a higher overall program risk than project risk

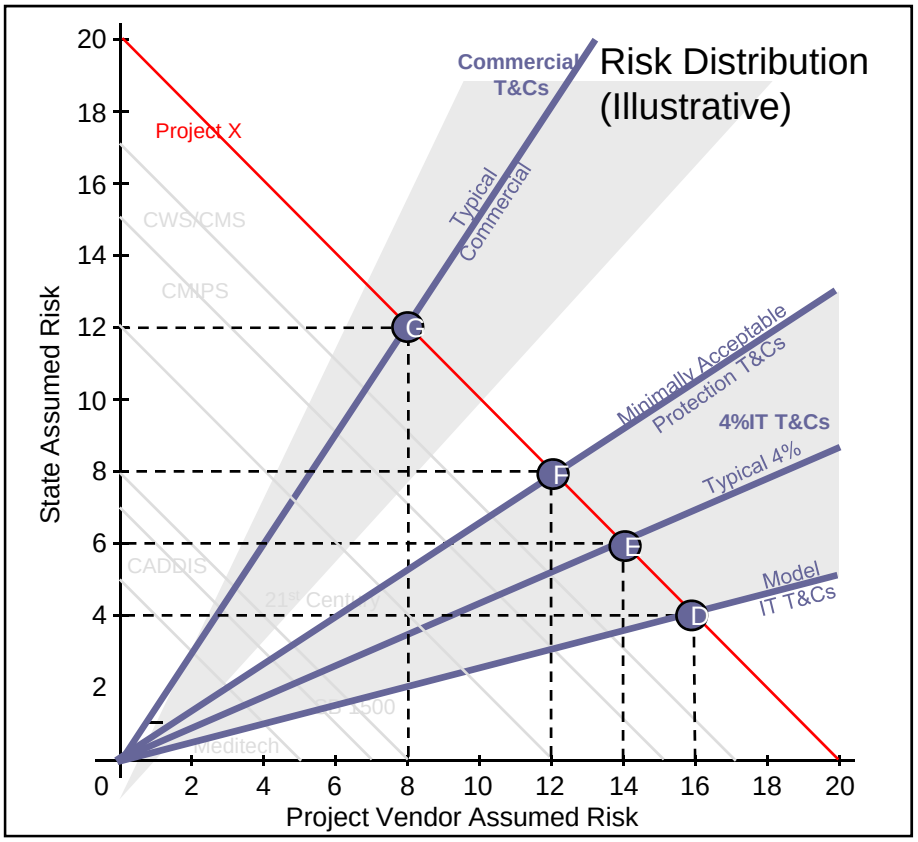
The total sum of project and program risk is assumed by the State and the Project Vendors

Risk Summary (Illustrative)				
Project Name	Procurement Risk	Project Risk	Program Risk	Total Risk
Project X	**8**	**6**	**6**	**20**
CWS/CMS	6	6	5	17
CMIPS	5	5	5	15
21st Century	4	4	4	12
SB 1500	3	3	2	8
CADDIS	3	2	2	7
Meditech	2	2	1	5



The assumption of risk is a zero sum game between the State and the Project Vendors

The three different model T&Cs distribute risk in varying combinations between the State and the Project Vendors

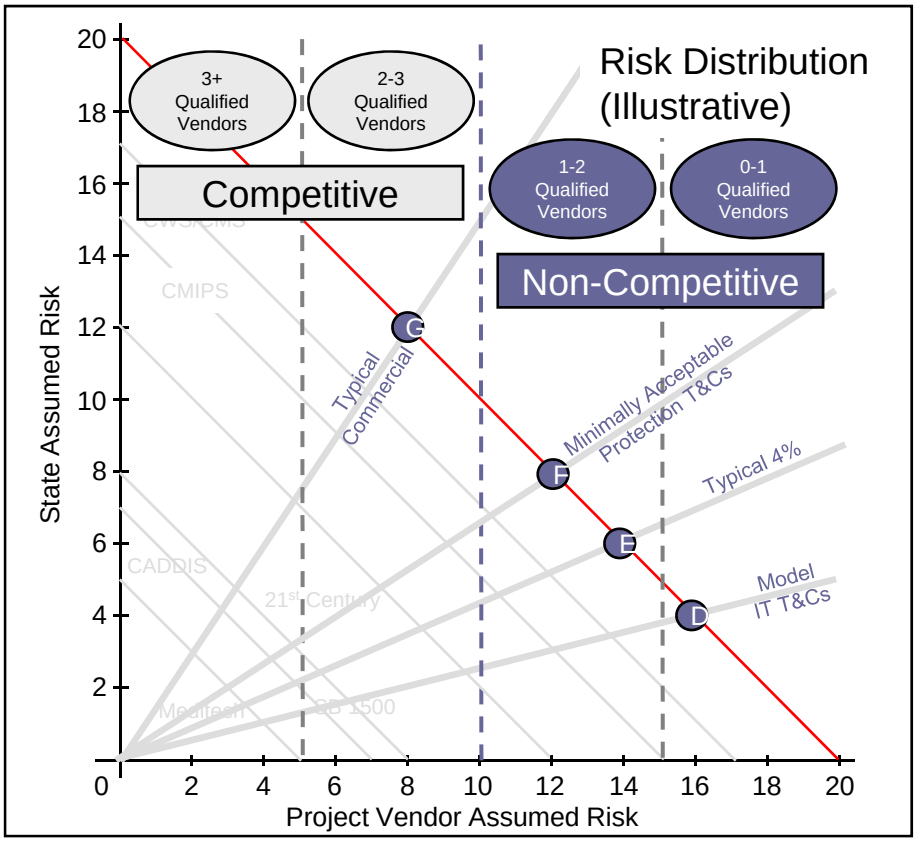


Key Observations

- **G** Commercial T&Cs may impose more risk on the State than is acceptable to the State
- **F** The Minimally Acceptable Protection T&Cs would enable the floor level of risk that the State should take for any given IT deployment
- **E** The State's Typical 4% IT T&Cs generally offers less protection than the State's Model T&Cs, but may be more acceptable to the vendors
- **D** The State's Model IT T&Cs provide the highest amount of protection for the State, but the vendor must assume a heavier burden of risk

The State must determine how much program and project risk it is willing to assume

The State must trade off competition for protection



Key Observations

- Due to financial resource constraints and the need to generate earnings for shareholders, project vendors can assume only a finite amount of risk responsibly. Only a limited number of vendors can responsibly back up the risk liability associated with particular projects
- The greater amount of risk that vendors are required to absorb, the fewer qualified vendors will be able to bid on a procurement
- Using State standard IT T&Cs, a growing number of procurements are falling into the non-competitive arena

At any set risk level, increased competition comes at the cost of lowered protection to the State

On a strategy level, the State should be focused on the end customer, cost-effectiveness and establishing priorities

Customer

- Help departments and programs meet end customer needs to make government more accessible, open and streamlined

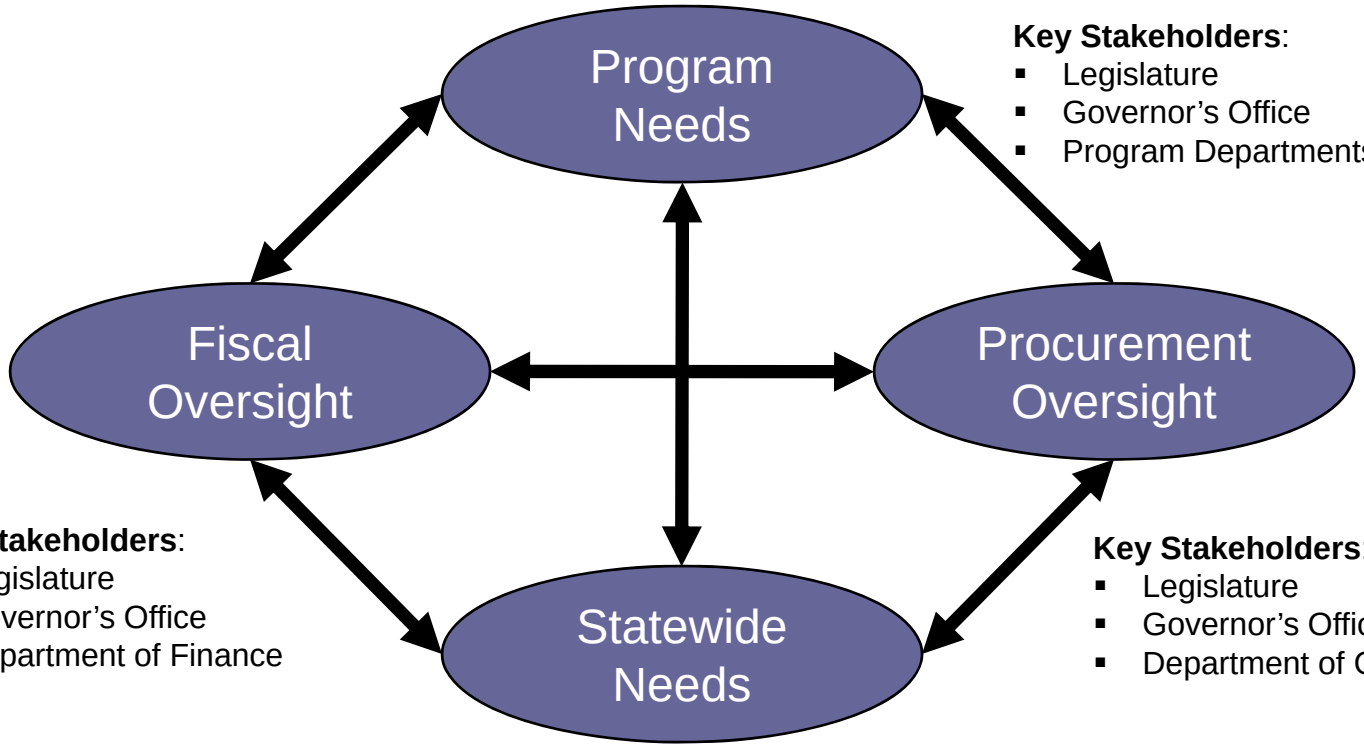
Cost-Effectiveness

- Determine centralizaed/de-centralized model
- Establishing statewide standards when it makes sense

Prioritization

- Help to establish priorities and allocate the State's scarce resources

IT governance is focused on balancing State needs and interests



Key Stakeholders:
- Legislature
- Governor's Office
- Program Departments

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- Legislature
- Governor's Office
- Department of Finance

Key Stakeholders:
- Legislature
- Governor's Office
- Department of General Services

Key Stakeholders:
- Legislature
- Governor's Office
- State Chief Information Officer

Discussion

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