
MEMORANDUM

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To: Joint Legislative Committee on Information Management and Technology

From: Robert L. Cummings, Principal Legislative Analyst (IT)
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Date: February 5, 2016

Subject: DOJ Child Support Enforcement Automated System (CSEAS) Project Request
LFO Analysis and Recommendations

Agency Request: Due to changes in the scope, costs, and schedule of the Child Support Enforcement Automated System (CSEAS) Project, the Department of Justice (DOJ) has submitted a budget request to the Joint Committee on Ways and Means for the following three key legislative changes to its 2015-17 CSEAS Project funding, bonding, authorities, and limitations:

1. Additional bonding authority - \$4,072,824 in additional project bonding authority (plus \$117,176 cost of issuance for a total of \$4,190,000 in bond issuance) as well as a shift in existing sale date amounts to enable the Department to fully fund the Project through the 2015-17 biennium and a few additional months, up to the October 2017 bond sale.
2. Additional expenditure limitation - \$14,422,728 (\$5,068,660 Other Funds and \$9,354,068 Federal Funds) in additional expenditure limitation to include both the additional bonding authority needed to meet 2015-17 Project expenses and the total bond funding carried forward from 2013-15 that resulted from changes in the project schedule. The additional limitation also will enable the Department to correct an error in the initial federal/state split that resulted from a miscommunication about the accurate accounting of bond issuance fees in the Project request.
3. Debt service, cost of issuance, and loan fee limitation - Updated 2015-17 debt service, cost of issuance, and loan fee limitation totaling \$1,512,854 (\$117,176 Other Funds and \$1,395,678 General Fund) based on the additional bond authority needed to meet 2015-17 project expenses.

A. LFO Analysis

1. Original business case project costs

The original feasibility study for the CSEAS Project estimated total development costs at \$92.7 million and recurring costs after development of \$23.6 million for a total cost of ownership of \$116.3 million (through fiscal year 2026). During the 2015 legislative interim, DOJ determined that it would be necessary to perform a rebaseline of its project schedule and budget based upon changes to project scope and its contractual negotiations with Deloitte, the winning vendor selected to develop and implement the new CSEAS system.

2. Subsequent schedule and cost rebaselines

A rebaseline is a standard practice for large scale projects where original estimates are further refined as more definitive information on scope, schedule, and cost become known (e.g., finalized vendor contract terms). Large scale projects, in particular those projects that span multiple biennia, are rebaselined, as appropriate, throughout the life of a project. In the absence of rebaselining, the reporting of a project's scope, schedule, and budget can often be compromised as the original estimates that were provided for the project very early in its lifecycle no longer accurately reflect the estimated actual costs and schedule for the work to be completed.

As the final stage gate #3 deliverables have been updated and finalized for the CSEAS Project, and as the final integrated costs and schedule for CSEAS have been developed through the contract negotiation process between DOJ and Deloitte, the need for a rebaseline of both schedule and costs has become apparent. The resulting preliminary rebaseline of the CSEAS Project developed in November/December 2015 has already increased the total estimated costs for the project, and has also significantly impacted the project's 2015-17 legislatively adopted budget resulting in a shortfall of bonding authority, expenditure limitation, and cash liquidity. The final version of the rebaseline will impact the project's schedule, budget, and, potentially, scope and will be completed in late January, or early February of 2016. The preliminary rebaseline has not been approved by the project's steering committee as that committee is advisory only in nature, rather than a formal decision-making body.

The preliminary rebaselined budget estimates development costs at \$109 million, with recurring ongoing costs after development of \$13 million (but only for fiscal year 2020 to fiscal year 2026), for a total cost of ownership of \$122.9 million. Development costs have increased from the original estimate of \$92.7 million to \$109 million, or \$16.3 million (18%).

A preliminary rebaselined estimate for ongoing operations and maintenance costs (for an estimated 10 to 15 year operational life of the new system) is in the process of being developed and will need to take into account currently budgeted operation and maintenance (offsetting) costs for the existing child support system.

The original CSEAS project budget and the preliminary rebaselining estimates do not yet account for all project-related costs. During the 2015 session, the Legislature segregated the CSEAS project budget and Debt Service from the Child Support Division budget in order to provide greater transparency of the CSEAS budget and actual expenditures; however, Child Support Division resources have continued to be expended for the CSEAS Project apart from the adopted CSEAS budget. There is no firm estimate of such expenses, except non-bondable expenditures which are estimated at \$1.5 million. This would bring total one-time development costs to \$123.7 million.

The preliminary rebaseline of the CSEAS project is driven by more definitive information on scope, schedule, and cost. The largest of these cost changes is the addition of \$10.3 million in personal services cost; \$3.4 million for private data center services; \$1.2 million in additional agency overhead charges that are related to the increase in personal services; and a reduction of \$2.7 million for professional service contracts savings. The net change adds \$12.9 million to the project development budget. It is not known at this time how much larger these cost

changes may be once the finalized rebaselined scheduled and budget are provided to the Office of the State Chief Information Officer (OSCIO) and LFO.

The preliminary rebaseline of the CSEAS Project has resulted in a 2015-17 biennium budget shortfall. As such, DOJ has submitted a supplemental budget request to the 2016 legislative session based on its preliminary rebaseline of the CSEAS budget. The supplemental CSEAS request, as compared to the 2015-17 legislatively adopted budget, is shown in the following table:

CSEAS Budget/Supplemental Request (in millions)	GF Debt Service	Other Funds	Federal Funds	All Funds	Psn./FTE
Legislatively Adopted Budget	\$4.0	\$15.4	\$30.0	\$49.4	22/21.1 3
Rebaselined Budget	5.4	20.6	39.4	65.4	--/--
Treasury Loan(s)/Interest processing costs	.005	--	--	.005	--/--
Deficit/Supplemental Request	\$1.4	\$5.2	\$9.4	\$16.0 1	0/0.00
Percent Change	+35%	+34%	+31%	+32%	--/--

The 2015-17 legislatively adopted budget totals \$49.4 million dollars and includes 22 positions (21.13 FTE). This includes \$15.2 million of Other Funds for project planning costs, which is to be financed with Article XI-Q bonds and \$30 million in Federal Funds. The adopted budget also includes \$4 million General Fund Debt Service and \$205,330 Other Funds for the cost of bond issuance. The Legislature approved all requested funding and positions for the project (pre-rebaselined budget).

The supplemental budget request represents a \$15.9 million (or 32%) increase over the legislatively adopted budget. The supplemental request is for: additional bond authority (\$4.1 million) with associated General Fund Debt Service; additional Other Funds expenditure limitation; and additional Federal Funds expenditure limitation. Within the agency's supplemental request is a request to advance previously authorized bond sales from the spring of 2017 to the spring of 2016. There is also additional bond funding for the first quarter of the 2017-19 biennium, which would provide the cash flow needed for continued operations until an expected fall 2017 bond sale. The agency did not request any additional positions or full-time equivalent authority.

The supplemental budget request is driven primarily by cost adjustments plus a change in schedule for the current biennium. Some cost adjustments reduce future biennia project costs. The main changes are: a \$14.3 million increase in professional services; \$3.5 million in capital outlay; \$791,958 in personal services; and \$518,229 for private data center services accessed via contracts held by the OSCIO. Some of the cost increases are offset by \$3.6 million in data processing savings and \$1 million in expendable property and other services and supplies savings.

3. 2015 Legislative Interim Progress

Since the 2015 legislative session, DOJ has been working on a wide-range of activities related to completing the requirements for the Joint State CIO/LFO Stage Gate Review Process in

anticipation of gaining both the OSCIO stage gate #3 endorsement and the LFO's "readiness/ability" approval prior to the 2016 Legislative Session. During the 2015 legislative session, the Joint Committee on Ways and Means Information Technology (JWMIT) Subcommittee recommended approval of continued CSEAS Project planning funding through stage gate #3, and recommended that the Legislature request the Department of Administrative Services (DAS) to unschedule any remaining "execution/construction phase" expenditure limitation pending DOJ's satisfactory completion of nine key expectations, including the completion, and quality control reviews, of all remaining stage gate #2 and #3 related foundational documentation.

During the 2015 legislative interim, DOJ has focused upon the following major activities (many of which were specifically identified in the 2015 JWMIT-adopted recommendations on this project):

- Identify and complete all remaining outstanding stage gate #2 and #3 foundational project management documentation artifacts.
- Conduct independent quality control (QC) reviews of all outstanding stage gate #2 and #3 foundational project management documentation.
- Acquire a qualified project manager and systems integrator to help guide all work on the CSEAS Project.
- Acquire a qualified quality management, quality assurance, and quality control vendor.
- Conduct an objective RFP process to identify qualified vendors and solutions for replacing the existing COBOL-based "child support enforcement system."
- Conduct "fit-gaps" and develop revised estimates and costs for completing the construction, development, testing, and implementation phases of the CSEAS Project.
- Update all key CSEAS Project foundational documentation including the project business case, project workplan (schedule, costs, resources, and scope). Assure that each of these updated foundational documents are re-QC'ed.
- Negotiate contracts, SOW's, etc. with the "winning" vendor.
- Work closely with the OSCIO to complete all requirements for the stage gate #3 endorsement.
- Work closely with LFO to make sure that the stage gate review process "LFO Review" and readiness-ability assessment, are completed in a timely manner.
- Regularly report project status to project stakeholders, the OSCIO, and LFO.

On December 4, 2015, the OSCIO and LFO oversight staff met with CSEAS Project management staff to verify project status and readiness for the 2016 legislative session. At that time, the OSCIO indicated that it felt that DOJ had completed all necessary requirements for receiving OSCIO stage gate #3 endorsement. LFO did not completely concur with the OSCIO position on stage gate #3 readiness and expressed concerns related to the fact that there were a number of remaining questions, concerns, and incomplete "legislative direction" items that still needed to be addressed. Simultaneously, DOJ shared at this meeting that there were additional funding needs for the CSEAS Project and that the finalized, integrated rebaselined project schedule and budget were still not complete.

LFO agreed to immediately document its questions, issues, and concerns, and provided these documented observations to CSEAS Project management. On December 21, 2015, CSEAS Project Management staff met with LFO project oversight and walked LFO through each one of the LFO's documented concerns. At that time, LFO agreed to conduct a detailed review of the five binders of information that DOJ had provided in support of its position, that with the exception of the integrated project schedule and budget, and the LFO "readiness/ability" assessment, that they felt they had completed all legislatively required directives provided to them by the 2015 JWIMT subcommittee.

Shortly thereafter, CSEAS Project Management staff and LFO oversight staff met to walk through DOJ's recently completed CSEAS Project "readiness/ability" questionnaire. In general, CSEAS project management showed strong evidence that many elements of the project were indeed ready to move into the execution phase (post stage gate #3). However, it was also very clear that several key foundational documents were not completed and QC'ed (including a current integrated rebaselined project schedule and budget - which has not yet been provided to LFO or the OSCIO).

During early January 2016, CSEAS financial management staff obtained a short-term \$10 million treasury note for needed planning-related funding to allow it to carry on project work through April 1, 2016 (thus providing LFO with sufficient time to complete any additional needed reviews and product/artifact assessments required to verify that CSEAS has met all nine key 2015 JWMIT "legislative directives," that it has addressed LFO concerns identified in early December 2015, and that CSEAS has also addressed any remaining LFO "readiness-ability" assessment related concerns).

While the OSCIO provided its stage gate #3 endorsement to DOJ on the CSEAS Project on December 10, 2015, there still remain a number of outstanding questions, concerns, and reviews that LFO must address prior to providing its recommendation to allow the CSEAS Project to move into full execution without condition. In particular, LFO has not yet been provided a finalized integrated rebaselined project schedule or budget for the project. These are essential documents for any project, and LFO does not believe it is prudent to endorse a project of this magnitude for full readiness to proceed to project execution when finalized QC'ed versions of these key project management deliverables are not yet in place. LFO has communicated to both the CSEAS Project management staff and the OSCIO, that it needs approximately six weeks (after the 2016 legislative session) to complete its remaining reviews of the five binders of CSEAS-related materials recently provided to LFO and for LFO to complete any remaining "LFO Review-related" tasks identified in the Joint State CIO/LFO Stage Gate Review process. The CSEAS Project has sufficient planning funding to take it through the timeframe needed by LFO to complete the final steps in its readiness-ability review process.

B. LFO Recommendations

LFO recommends incremental, conditional approval of DOJ's budget request, assuming the requested funding resources and expenditure limitation are made available to DOJ by the Joint Committee on Ways and Means. Specifically, LFO recommends that a plan be developed to unschedule the

requested expenditure limitation and, DOJ be required to request and receive the Department of Administrative Services (DAS) Chief Financial Office (CFO), OSCIO, and LFO approval that a portion, or all of the remaining unscheduled expenditure limitation, be rescheduled for the agency use to initiate and complete project execution activities. LFO further recommends that the Department of Justice:

- Work with LFO to facilitate completion and delivery of any remaining materials needed by LFO to complete its “LFO Review” and readiness-ability assessment of the CSEAS Project’s readiness-ability to proceed into execution.
- Provide the OSCIO and LFO with a copy of the finalized rebaselined integrated project schedule and cost plans, including quality control reviews of each plan.
- Work with the OSCIO and LFO to finalize a corresponding incremental funding release plan to guide expenditures and release of funding in a timely manner throughout the remaining project lifecycle.
- Continue to follow the Joint State CIO/LFO Stage Gate Review Process.
- Regularly report project status to the OSCIO and LFO throughout the project’s lifecycle.
- Continue to utilize a qualified project manager and systems integrator with experience in planning and managing programs and projects of this type, scope, and magnitude.
- Work with the OSCIO to retain independent quality management services. The contractor shall:
 - Conduct periodic risk assessments as appropriate and respond to DOJ, OSCIO and LFO feedback.
 - Perform quality control reviews on the key CSEAS Project deliverables including the business case, individual cost benefit/alternatives analysis documents, and foundational project management documents as appropriate.
 - Perform ongoing, independent quality management services as directed by the OSCIO.
- Provide both OSCIO and LFO with copies of all QA vendor deliverables.
- Conduct a quality project shutdown phase upon project completion, including the development of lessons learned reports.
- Utilize the Office of the State CIO’s Enterprise Project and Portfolio Management (PPM) System as it is deployed for all project review, approval, and project status and QA reporting activities throughout the life of the CSEAS Project.

- Motion on the LFO recommendations

C. Final IT Subcommittee Action

Transmit the Information Technology Subcommittee recommendations to the Public Safety Subcommittee of the Joint Committee on Ways and Means.