

Analysis

Department of Justice

Child Support Enforcement Automated System Information Technology Project

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Request: Authorize \$3,210,000 in bonding authority; increase General Fund Debt Service by \$1,161,194; increase Other Funds expenditure limitation for the cost of bond issuance by \$123,240; appropriate \$34,683 General Fund for interest on a Treasury loan; increase Other Funds expenditure limitation by \$4,404,051; increase Federal Funds expenditure limitation by \$8,072,846; establish ten permanent part-time positions (1.31 FTE); and reclassify four permanent full-time positions.

Recommendation: See recommendation below.

Analysis: The Department of Justice (DOJ) has submitted a supplemental budget request for the Child Support Division's Child Support Enforcement Automated System (CSEAS) information technology project. A significant change in preliminary schedule for the project, completed after the close of the 2015 session, has increased the total cost of ownership and has impacted the project's 2015-17 legislatively adopted budget resulting in a shortfall of bonding authority, expenditure limitation(s), and cash liquidity.

In January of 2016, DOJ reported to the interim Joint Committee on Ways and Means and the interim Joint Legislative Committee on Information Management and Technology on the project.

The interim Joint Committee on Ways and Means acknowledged receipt of the report, but noted that future legislative actions are dependent upon the submission of a finalized CSEAS rebaselined schedule, scope, and budget, with associated independent quality assurance vendor quality control reviews of these key deliverables. Also noted was need for complete total cost of ownership information, including ongoing operations and maintenance costs.

Background

Since 2010, DOJ - Division of Child Support (DCS) has been working on a multi-biennia plan to replace its current COBOL-based mainframe child support case management and financial system. CSEAS is expected to process \$350 million in child support payments a year for more than 227,000 child support cases. CSEAS will be used by approximately 750 state and county staff. There is no federal mandate directing that a new system be put in place and there is no statutory deadline for CSEAS to be completed. CSEAS is expected to be completed by 2020.

The CSEAS project solution is a transfer or hybrid solution with custom development that will use software from three states: California - base case management system, financial system, and workflows; Michigan - data warehouse, business intelligence, and document generation; and New Jersey - reporting.

The Office of the State Chief Information Officer (OSCIO) characterizes the project as high risk due to "...high technology risk, high business transition risk, and some funding risk. The hybrid alternative

has the best cost benefit ratio but also brings the highest risk.” OSCIO goes on to report that “This project touches all DCS and DA [District Attorney] offices across the state therefore implementation risk is high.”

DOJ will own and operate the CSEAS application, once completed, but the application will be hosted by a private vendor, rather than by the Department of Administrative Services State Data Center.

DOJ believes that long-term savings will be achieved through a reduction in operational and maintenance costs between the new and the existing application. No other direct cost savings are anticipated.

Federal Funds will provide 66% of eligible program costs under Title IV-D of the federal Social Security Act for both development and ongoing operations and maintenance costs.

State matching funds from Article XI-Q bonds sales, with General Fund Debt Service, will fund the state’s portion of development costs. Ongoing operations and maintenance costs are to be funded with General Fund and matching Federal Funds, which parallels Child Support Division funding.

Master Project Schedule and Budget

On February 1, 2016, CSG Government Solutions, the independent quality control vendor for the CSEAS project, produced a quality control review of a *draft* CSEAS master schedule, as a final master schedule is still under development. The quality control review identified a number of deficiencies in the *draft* master schedule, which DOJ is working to remedy. A timeline for release of the final master schedule has not been identified.

Rebaseline/ Total Cost of Ownership

A rebaseline is standard practice for large scale projects as original estimates are refined and as more definitive information on scope, schedule, and cost become known (e.g., finalized vendor contract terms). Large scale projects rebaseline, as needed, throughout the life of a project. In the absence of rebaselining, the reporting of a project’s scope, schedule, and budget can be compromised.

The CSEAS rebaseline impacts the schedule and cost of the project. The scope of the project remains unchanged.

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 (TCO) of \$116.3 million (through fiscal year 2026). The rebaselined TCO is now estimated at \$122.7 million, which includes \$12 million in ongoing operations and maintenance costs. This is a \$6.4 million increase (+5.5%).

The rebaselined estimate includes estimates for all ongoing operations and maintenance costs (for an estimated 10 to 15 year operational life of the new system), but excludes offsetting budgeted operational and maintenance costs for the existing child support system.

The original project budget failed to account for all project-related costs (including all existing internal state staff costs); however, the rebaselined budget now accounts for all costs, including those ineligible for bond funding, according to the agency.

The largest cost changes are: \$11 million in personal services cost; \$2.2 million for private data center services; \$1.3 million in additional agency overhead charges that are related to the increase in personal services; and a reduction of \$2.9 million for professional service contracts savings. The net change adds \$11.6 million to the project development budget.

Two project costs are of concern. The vendor contract for a private data center appears to be far more costly than the Department of Administrative Services State Data Center. Second, there is little justification for significant indirect agency administrative charges for the project.

Budget Update (February 2016)

Since DOJ's January report on the CSEAS project, the supplemental budget request has been updated. DOJ has reduced its original request by \$2.1 million. These changes were due to preliminary master schedule changes that moved vendor costs from this current biennium to next biennium, according to the agency.

The revised 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	22/21.13
Rebaselined Request	\$1.2	\$4.5	\$8.1	\$13.8	10/1.31
Total	\$5.2	\$19.9	\$38.1	\$63.2	32/22.44
Percent Change	+29%	+29%	+ -27%	+28%	+45%/+6%

The supplemental budget request represents a \$13.8 million (or 28%) increase over the legislatively adopted budget. The supplemental request is for: additional bond authority (\$3.2 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 (\$1.8 million).

The agency is requesting ten additional positions (1.31 FTE) in order to fully reflect project staffing levels. The agency is also asking to reclassify upward four existing permanent full-time positions approved during the 2015 session. Three of the positions were unintentionally requested at too low of a classification; this was discovered after refinement of position descriptions and reviews were conducted by the Department of Administrative Services. One position's classification was changed to better reflect actual duties.

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: \$11.8 million increase in professional services; \$3.9 million in capital outlay for computer software; \$912,959 in personal services; and \$220,987 for private data center services. Some of the cost increases are offset by \$3.3 million in data processing savings and \$581,265 in expendable property and other services and supplies savings.

Noteworthy is that fact that the project does not have a contingency set-aside, as is the case for some other large scale projects. All major IT projects are expected to have sufficient contingency funding to deal with potential problems (including inaccurate estimates) during the development phase. Not having this contingency puts the project at a higher risk. The fact that the project exceeded its legislatively adopted budget clearly provides evidence of the need for contingency funding.

Scheduling of Expenditure Limitation

A significant portion of the previously approved legislatively adopted budget (70%) was administratively unscheduled based upon the instruction of the Legislature in the 2015 session when the project was directed to obtain OSCIO Stage Gate 3 endorsement and a LFO readiness assessment prior to proceeding to the development execution phase of the CSEAS project.

In early December of 2015, and prior to the complete satisfaction of all budget note requirements, the rebaseline of the CSEAS project necessitated an administrative request from DOJ to schedule (or make available for expenditure) \$3.4 million Other Funds and \$6.6 million Federal Funds by the end of calendar year 2015. This increase in expenditure limitation was approved administratively only to avoid a project shutdown and to allow the program to operate through the first quarter of 2016, whereupon legislative decisions may be made about the project's supplemental budget request.

The balance of Other and Federal Funds expenditure limitation that remains unscheduled is \$7.9 million and \$15.8 million, respectively.

Treasury Loan(s)/Agency Self-Financing

The State Treasurer's decision to delay an anticipated October 2015 bond sale (\$4.725 million) until May 2016 created a short-term cash flow issue for the program and required a State Treasury loan as bridge financing even after the project used \$2.9 million of bond proceeds carried over from the 2013-15 biennium. However, the rebaseline of the CSEAS budget itself created another cash shortfall. The project may need to obtain another bridge loan from the State Treasurer until spring 2016 bond proceeds become available or temporarily self-finance the needed cash flow. The loan amount needed is approximately \$1.3 million.

The agency's rebaseline request includes \$34,683 General Fund for repayment of interest cost for the loan.

Project Operational Status

The financial issues currently facing the CSEAS project are not indicative of the project's operational performance to-date. The project is generally viewed as being prudently and professionally managed by DOJ staff. DOJ has undertaken practically every reasonable effort to mitigate project risks, including the hiring of: a project management firm (Maximus); an implementation firm or system integrator (Deloitte); an independent quality assurance vendor (CSG); and a separate independent verification and validation firm (SLI Global), all of which have direct experience with child support systems in other states, according to DOJ.

In addition to independent quality assurance (QA) oversight, and OSCIO and LFO oversight, it is important to note that there is federal oversight from the Department of Health and Human Services - Administration for Children and Families - Office of Child Support Enforcement. This federal

oversight also includes, as noted, a separate Independent Verification and Validation (IV&V) vendor (SLI Global) who provides additional oversight on behalf of the federal government.

The most current quarterly independent quality assurance and agency status reports (November 2015) rate the overall CSEAS project health as “yellow.” However, QA reports note the following:

“The Project Executive reviews and approves the financial information prior to it being included in the [QA] Report. Financial information is for the month prior to the Project Monthly Status Report.”

For a project’s QA to report on two-month old financial data is not a best practice and undermines the credibility of QA status reporting. The fact that the project has run into major financial issues highlights the need for timely reporting and tracking by the QA vendor.

The agency’s internal project reports also require improvement as many times such reports are task or activity list rather than status reports.

The governance structure for the project is also of concern. For example, the preliminary rebaseline was not approved by the project’s steering committee as that committee is *advisory* only rather than a decision-making body. For a project of this magnitude, in terms of cost and stakeholder impact, an *advisory* steering committee likely fails to meet the standard of being a best practice. The steering committee should be fully empowered to make key project decisions, rather than having the project rely on a single individual [project executive sponsor] to be accountable for project oversight.

Joint Committee on Information Management and Technology

The Joint Legislative Committee on Information Management and Technology (JLCIMT) recommends incremental, conditional approval of the CSEAS request (attached), with a number of conditions. Although the OSCIO provided Stage Gate #3 approval without having a final schedule and budget, such information will be required for the Legislative Fiscal Office’s (LFO) Stage Gate #3 review process to be completed. This review is estimated to take an additional six weeks (after legislative session) to finish in order to formally review of Stage Gate #2 documentation, including a final master schedule and budget, with associated quality control reviews. Stage Gate #3 is the final check to ensure that the project is ready to proceed and that all major risks have been identified and are currently being mitigated by DOJ.

Recommendation

In absence of a final comprehensive integrated rebaselined master schedule, a primary driver of the project budget, and final Stage Gate #3 approval, LFO recommends a conservative, controlled release funding approach for the project. The recommendation provides full project funding through June 30, 2016, at which point the agency will need to request additional expenditure limitation from the Emergency Board. This recommendation will allow the agency to initially proceed to Stage Gate #3; however, the project should not operate for an extended period of time until “Stage Gate 3” review is officially completed and full endorsement granted.

The Legislative Fiscal Office recommends the following be included in the budget reconciliation bill during the 2016 session, if additional bond authority is approved by the Joint Committee on Ways and Means - Capital Construction Subcommittee:

1. Recommend that the Joint Ways and Means - Capital Construction Subcommittee approve the issuance of Article XI-Q bonds in the amount of \$3,210,000 for the project;
2. Increase Other Funds expenditure limitation by \$3,210,000 for new bond proceeds and the associated cost of issuance;
3. Increase General Fund Debt Service by \$1,161,194;
4. Appropriate \$34,683 General Fund for interest on a Treasury loan;
5. Establish ten permanent part-time positions (1.31 FTE) and reclassify four permanent full-time positions;
6. Direct the Department of Administrative Services to unschedule \$3,086,760 Other Funds expenditure limitation (Article XI-Q bond project proceeds); and
7. Direct the Department of Administrative Services to schedule \$3,632,932 Other Funds and \$6,864,723 Federal Funds for the second quarter of fiscal year 2016.

The Legislative Fiscal Office also recommends the adoption of the Joint Legislative Committee on Information Management and Technology recommendations and that the following budget note also be adopted:

Budget Note:

The Department of Justice is to report at each meeting of the Emergency Board and the Interim Joint Committee on Information Management and Technology at each interim meeting with detailed project status reports (performance against plan) on the Child Support Enforcement Automated System (CSEAS). As part of the agency's report for the Emergency Board meeting in May of 2016, the agency is to: (a) justify why an advisory steering committee is appropriate form of governance; (b) provide a detailed cost-benefit analysis of decision to use a private vendor vs. Department of Administrative Services State Data Center; (c) provide a justification for the indirect agency administrative charges to the CSEAS project, which may need to be repurposed and used for a general project contingency fund; and (d) report on improvements to quality assurance and agency status reporting.