



## Oversight Hearing

Senate Business, Professions, and Economic Development Subcommittee on California's Innovation, Technology, and Life Sciences Economy

### High Risk Update— California Department of Technology

Lack of Guidance, Potentially Conflicting Roles, and Staffing Issues Continue to Make Oversight of State Information Technology Projects High Risk

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## CalTech Testimony

Mr. Chair, Madam Vice-chair, and committee members, my name is John Baier and I am here to speak about our recent report on the independent project oversight role of the California Department of Technology or CalTech.

Under state law, CalTech is charged with providing oversight of information technology (IT) projects under development, and currently employs 38 staff known as independent project oversight analysts, or IPO analysts for short, to provide this oversight. These IPO analysts are currently assigned to oversee and monitor 45 IT projects, which have an estimated cost of over \$4.6 billion to develop.

Our report, titled *California Department of Technology: Lack of Guidance, Potentially Conflicting Roles, and Staffing Issues Continue to Make Oversight of State Information Technology Projects High Risk*, was issued a week ago. The report focuses on two areas of CalTech's oversight of IT projects under development:

- CalTech's processes for oversight and
- CalTech's IPO analyst staffing.
- In addition, we also assessed the sufficiency of CalTech's oversight on four large IT projects.

### **CalTech Lacks Certain Procedures to Make Its Oversight More Effective**

In regards to CalTech's processes for oversight, we concluded that despite clear statutory authority to intervene on troubled or floundering IT projects, CalTech lacks certain procedures that could make its oversight more effective.

1. First, CalTech lacks guidance in two critical situations:
  - When and under what conditions that its IPO analysts should recommend corrective actions to CalTech management and
  - When and under what conditions that CalTech will suspend or terminate an IT project.
  - Although we agree these decisions would rely heavily on professional judgment—based on how numerous and severe the problems are and how effectively the sponsoring agency is working to correct them—we believe that it is a good business practice to have in place a high-level structure to guide those professional judgments and to ensure consistency in CalTech's oversight of IT projects.
2. Second, CalTech does not formally set expectations for its oversight authority with sponsoring agencies.
  - These expectations would include that CalTech has access to all project records and meetings, and
  - That when an IT project experiences problems, CalTech has authority to require remedial actions to address those problems, or that it can suspend or terminate the IT project.

- By not clearly setting expectations with sponsoring agencies, CalTech misses an opportunity to set the ground rules for effective oversight, which may contribute to an environment where sponsoring agencies view CalTech as a service provider whose oversight they do not have to follow rigorously.
3. Third, although IPO analysts need to be objective and independent when doing their jobs—in fact, their role is to provide *independent* project oversight—there is a potential conflict between IPO analysts' role to oversee IT projects and CalTech's expectation that IPO analysts also will provide coaching and advice to sponsoring agencies. These potentially conflicting roles create a risk that CalTech's IPO analysts will not be sufficiently independent and objective while overseeing IT projects.
  4. Fourth, although CalTech indicates that its management periodically meets with sponsoring agencies to discuss project status and to give advice and direction, CalTech does not memorialize the action items from meetings.
    - Because these meetings occur between the State CIO and executives of different sponsoring agencies to discuss potentially critical project issues, we expected that CalTech would document the issues discussed, any advice and directions it gave, and the agreements reached with the sponsoring agencies.
    - Documenting these action items would allow CalTech to systematically track the issues that it has raised and what, if any, corrective actions it proposed to help ensure that sponsoring agencies have properly addressed problems.
    - Moreover, documenting these action items would provide transparency into CalTech's oversight of IT projects.

### **Although Staffing Problems Still Pose a Risk to CalTech's Oversight Effectiveness, It Is Taking Actions That May Reduce That Risk**

In regards to CalTech's staffing practices for independent project oversight, our audit found that several concerns including high turnover among IPO analysts, an insufficient state job classification, and an inconsistent training approach.

1. Over the past three years, CalTech has experienced high turnover among IPO analysts, ranging from 17 percent to 81 percent of its IPO analysts per year.
  - High turnover results in a loss of project knowledge and perspective, which disrupts the consistency and reliability of CalTech's oversight of IT projects.
  - For example, we reported that the FI\$Cal Project had five different individuals serving as the IPO analyst during a 15-month period between May 2012 and July 2013.<sup>1</sup> As a result of the frequent turnover of IPO analysts on the FI\$Cal Project, we found that CalTech had not always provided timely analysis of the project's status. In fact, one of these five IPO analysts noted that “[without the stability of a long-term IPO analyst, oversight of the FI\$Cal project may not be as thorough and comprehensive as a project of this size and complexity requires].”

<sup>1</sup> *FI\$Cal Status Letter* (Report 2013-039, September 2013)

- Furthermore, during this same three-year period, there were three different deputy directors in charge of the division that performs project oversight and there were seven months during that time when the deputy director's position was vacant.
2. Second, the job classification CalTech currently uses for the IPO analyst role may not ensure that it hires candidates with adequate experience. In fact, our audit found the 21 most recently hired IPO analysts only averaged one-and-a-half years of project oversight experience, which we believe is insufficient.
- The job classification that CalTech is currently using—the *data processing manager series*—is better suited for individuals that working in a data center setting rather than individuals that work in the dynamic environment of developing a new IT system.
  - To address this problem, CalTech is working to change the job classification to the *project manager series*, which is more relevant to the project oversight role. The new job classification may result in attracting better qualified candidates to the IPO analyst job.
3. Third, CalTech lacks a consistent approach to train new IPO analysts on how to provide effective and reliable oversight for IT projects.
- CalTech is aware of this problem and to address the lack of a consistent training process, CalTech contracted with UC Davis to provide training to IPO analysts over a two-year period, starting this month. This training includes project risk management, vendor management, project health, and portfolio management courses, among others.
  - Although this training is a good start, we believe it should also include standard IT project oversight training regarding systems engineering, requirements definition, organizational change management, and project assessment. And, to help ensure that IPO analysts remain independent, CalTech should incorporate training on how to maintain independence while performing oversight of an IT project.

### **CalTech Allowed Significant Problems to Continue Without Correction on Two of the Four IT Projects We Reviewed**

Lastly, with the assistance of our IT expert, we reviewed the sufficiency of CalTech's oversight on four state IT projects:

- the Department of Motor Vehicles' IT Modernization Project,
- the State Controller's Office's MyCalPays Project,
- the Employment Development Department's Unemployment Insurance Modernization Project, and
- the Franchise Tax Board's Enterprise Data to Revenue Project

Based on this review, our IT expert concluded that CalTech's oversight actions were appropriate for the Employment Development Department and Franchise Tax Board projects and that there were no significant issues the sponsoring agencies were not adequately addressing that would require CalTech's intervention.

However, for the remaining two projects, our IT expert concluded that although CalTech was aware of significant problems with the Department of Motor Vehicles' IT Modernization and the State Controller's Office's MyCalPays projects, it did not intervene to require the sponsoring agencies to correct such problems. CalTech ultimately suspended the MyCalPays Project and terminated the IT Modernization Project. It is impossible for us to state with any certainty whether earlier and more active CalTech oversight and intervention would have changed the outcome of either project, however, allowing these issues to persist likely contributed to the projects degrading to the point that suspension or termination was the only option.

## Recommendations

To address the concerns that our audit raised, we made a number of recommendations.

Related to improving CalTech's process for oversight of IT projects, we recommended that:

- CalTech develop and adopt criteria to guide the type and degree of intervention it will take to prevent projects with significant problems from continuing without correction.
- CalTech clarify and reinforce its oversight authority by formally communicating its expectations with the sponsoring agencies when it starts oversight of an IT project.
- To help ensure the independence of its IPO analysts, CalTech should develop a policy outlining expectations for IPO analysts' independence and objectivity and provide IPO analysts with regular training regarding how to be independent.
- To better track its oversight actions and sponsoring agencies' responses to these actions, as well as ensuring transparency in its oversight, CalTech should record action items from meetings with sponsoring agencies.

To addressing staffing issues related to project oversight, we recommended that:

- To attract and retain employees with appropriate experience and qualifications to perform IT project oversight, CalTech should continue its efforts to use the project manager classification for the IPO analyst role.
- To improve training for IPO analysts, CalTech should continue with its plan to implement a consistent training approach for IPO analysts, but also ensure that it includes training for contract management, project assessment, IT systems engineering, organizational change management, and, to address our concern regarding IPO analysts needing to be independent, this training should include instruction for how IPO analysts will maintain independence while providing project oversight.

We will be following up with CalTech on a regular basis to monitor its implementation of our recommendations—at intervals of 60 days, six months, and one year after the audit was released, and annually thereafter for any recommendations that CalTech has not resolved within the first year after the audit was released. We will provide the status of the recommendations from our report on our Web site.

That concludes my comments. We would be happy to answer any questions that you have.