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The California Bottom Line

Outsourced Projects Run Amok, Waste Billions

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>
> *—President Yvonne Walker, SEIU Local 1000*

Commentary on California's Budget Crisis from SEIU Local 1000

Information technology outsourcing wastes billions of taxpayer dollars

The state is wasting nearly $1.8 billion dollars through cost overruns and other shortcomings on just five information technology projects in which contractors played a leading role.

These contracts, entered into by five departments, are only a sliver of the thousands of contracts the state signs every year.[1] The state's massive, complicated contract database defies even the most intrepid efforts to analyze state spending and effectiveness on a wide scale. Looking at the expenditures for just the five projects reveals exorbitantly costly flaws and blunders in outsourcing, even as the state struggles to balance its budget. A recent review of several large information technology (IT) projects by the state's own Legislative Analyst's Office concluded that the state could avoid unnecessary costs by relying less on outsourcing and more on its own civil service IT professionals.[1]

Improve transparency around state contracts; invest more in state workforce

The state's "Reporting Transparency" web site is incomplete, contracts are not organized by year, and data can't be downloaded for independent analysis. All of this confounds true cost analysis. A 2010 independent evaluation of state governments' efforts to make spending details available online ranked California 29th among states and bestowed upon California a "D" for its progress.[2]

Still, even these few examples of costly overruns and delays in projects suggest that the system is out of control. A Legislative Analyst's Office report in 2009 on the Department of Motor Vehicles' (DMV) $350-million portfolio of eight IT projects detailed cost overruns on four and delays on six of them. The report noted that "one of the major obstacles to DMV delivering IT projects on schedule and within their original budgeted cost has been a shortage of IT staff and expertise."[3]

With billions of tax dollars at stake, the state needs a truly transparent means for analyzing contracts that will allow independent scrutiny, monitoring of waste and clearer solutions for remedying that waste. Such transparency is crucial in times of economic crisis to enable wise decision-making on where to cut fat from bone.

In addition, to prevent further "meltdowns" of large-scale IT upgrade projects, state departments need more of their own skilled staff to thoroughly manage the bidding process, contract oversight and post-contract maintenance of the new systems.

Examining merely a handful of IT contracts reveals nearly $1.8 billion in waste

SEIU Local 1000's Research Department identified five projects that have encountered problems that increased costs by $1.77 billion. Just two contractors, BearingPoint Inc. and Deloitte LLP, are responsible for four of the troubled IT projects. Notably, Deloitte acquired BearingPoint's public sector unit after the latter filed for bankruptcy in 2009.[12] The stories of the bungled projects are summarized in the following table.

Contracting contributes to outrageous cost overruns

Delays by the state in getting a contract underway contribute to cost increases in IT projects, but contractors themselves are also a significant factor in delays and the spiraling costs that result. Even relatively small-scale projects seem to encounter the

1 Between March and December of 2009 the state entered into 1,239 contracts with IT vendors worth $849.3 million. (Analysis of eSCPRS 2009 data by the SEIU Local 1000 Research Department.)

IT mishaps and what they will cost the state

Department	Contractors	What happened	Extra costs
Development Disabilities Services	**Deloitte Consulting**	Three years after the deadline to get an integrated case management and accounting system installed, the state abandoned the project in 2007, even though the department had already invested more than $10 million during the six-year project. Finishing the project would have cost up to $60 million, the state concluded. The state Senate Budget Committee reported that the delay had also cost the state $50 million in federal funding during a two-year period. Plus, a consultant's review of the project cost another $2 million.[13]	**$62** million
Employment Development Department	**Verizon, Deloitte Consulting**	These companies were hired to improve the department's call-center services and automate unemployment claims filed online or by telephone. By 2010, the state Legislative Analyst's Office estimated that the cost of the project, delayed four years, had escalated from $96 million to $159 million. A 2009 independent review of the project blamed Verizon for a 19-month delay on a portion of the project. The state agreed to pay Deloitte, the only bidder for its portion, almost twice the originally estimated costs. In 2010 the project was still slipping.[14]	**$63** million
State Controller's Office	**BearingPoint**	A $69 million contract ended in 2009 after the vendor failed to deliver on time a new system to manage payroll and related tasks. The department said the state had spent about $70 million developing the project, including $25 million paid to BearingPoint. In February 2009, the company filed for bankruptcy protection and sold its public services division to Deloitte LLP in 2010.[15]	**$70** million
Public Employees Retirement System	**Accenture**	After a project fell five months behind schedule, a top executive from Accenture assured the CalPERS board that the $361-million contract would get back on track. The project was supposed to cost about $278 million, but by 2010 the budget grew to $361 million, mostly because of add-ons requested by the department.[16]	**$83** million
California State Courts	**BearingPoint, Deloitte**	In 2002, the Administrative Office of the Courts proposed creating a central computer system that would have involved a modest upgrade in a few counties. A state court budget in 2004 projected a $260.2 million cost. Still years from completion, the project total cost could be $1.75 billion. BearingPoint was hired in 2002 for work in two counties, but after a class-action suit was filed against the company for allegedly misstating earnings, court administrators switched to Deloitte. Deloitte had collected $226.7 million by October 2009 on its contract, which had been amended 96 times. In 2010 a system malfunction in Sacramento Probate Court allowed public access to confidential documents. The presiding judge blamed Deloitte for the mishap.[17]	**$1.49** billion
Total of cost increases and waste			**$1.77** billion

same cost problems as larger ones, faltering with delays, vendor quality-assurance failures and other cost issues. Below we describe two where vendor costs increased by $30 million.[2]

In 2009, a DMV two-year project intended to supply drivers' licenses and identification cards was 19 months overdue and $16.5 million—170 percent—over budget in vendor costs.[4] The Department of Motor Vehicles contracted with a vendor to provide the software and hardware to create 8 million driver and identification cards issued annually.[5] Lack of competition in bidding contributed to rising costs: only two vendors submitted bids and the proposed costs they submitted were double the estimates DMV had projected.[6] In 2009, the vendor was awarded a five-year $63 million contract to issue driver's license cards. In January 2011 it was reported that up to 80 percent of some batches have had errors, causing tens of thousands of people to wait as long as six weeks instead of 48 hours to get their cards.[7]

In a second project starting in November 2004, the Bureau of Automotive Repair planned to initiate a system to transmit smog reports. The Next Generation Electronic Transmission System was scheduled to be up and running by September 2005.[8] Yet a January 2009 report monitoring progress on the still-incomplete project predicted that work on at least one portion would continue through September 2010—a five-year delay.[9] An independent oversight report in 2006 faulted the vendor for its poor quality control: "The level of quality control necessary to complete a project of this magnitude was also seriously underestimated and further constrained by vendor resources required to correct other shortfalls. The lack of quality controls resulted in significant re-work."[10] Meanwhile, the total project had escalated 63 percent in costs, from $27.4 million to $44.5 million, including a $13.6 million dollar –or 69 percent—increase in the vendor's project budget alone.[11]

2 State agencies assign their own IT staff to these projects. We believe IT cost inflation would be worse if the state did not have its own in-house capacity to keep costs down.

Recommendations to cut billions in waste

SEIU Local 1000's sample findings of $1.8 billion in cost overruns shows the state's vulnerability to risk on IT projects where outside contractors play a leading role. The ongoing budget crisis makes reining in these costs all the more urgent. Some ways to improve oversight and efficiency include:

- Ensure that departments have sufficient expert staff to properly manage contract procurement and implementation. The practice of having contractors oversee contractors is a poor substitute, and costs taxpayers more.
- Avoid concentrating risk in the hands of a few contractors with questionable histories.
- Reduce costly contracts and rely more on the state's IT staff who can perform the same duties at one-third to one-half the cost.
- Improve the new "Reporting Transparency" website to effectively track spending.

Improving oversight and efficiency can be accomplished by supporting an SEIU Local 1000-sponsored bill by Assemblyman Mike Eng, D-Monterey Park, to ensure transparency in state government contracting.

Endnotes

i. Legislative Analyst's Office, LAO 2009-10 Budget Analysis Series: Transportation: DMV: Management of IT Projects, "What Have Been Some of the IT Project Challenges?", p.2. *http://www.lao.ca.gov/analysis_2009/transportation/trans_anl09004011.aspx*.

ii. Phineas Baxandall and Kari Wohlschlegel, "Following the Money: How the 50 States Rate in Providing Online Access to Government Spending Data," issued by U.S. PIRG Education Fund, April 2010. *http://www.uspirg.org/home/reports/report-archives/tax--budget-policy/tax--budget-policy--reports/following-the-money-how-the-50-states-rate-in-providing-online-access-to-government-spending-data*.

iii. Legislative Analyst's Office, LAO 2009-10 Budget Analysis Series: Transportation: DMV: Management of IT Projects p.2.

iv. For initial two-year timeline, see Feasibility Study Report for Driver License /Identification/ Salesperson Contract, June 2, 2006, p.3; Delays detailed in LAO 2009-10 Budget Analysis Series, "Department of Motor Vehicles – Management of IT Projects," 2009, p.4. *http://www.lao.ca.gov/analysis_2009/transportation/trans_anl09004011.aspx*. Compare vendor costs in feasibility study to a "special project report" issued nearly three years later. See Feasibility Study Report on Driver License /Identification/ Salesperson Contract, June 2, 2006, Section D., Budget Information, p.7. Compare to vendor budget in Special Project Report on Driver License/Identification/Salesperson Contract, Oct. 29, 2008, p.7.

v. See Feasibility Study Report on Driver License /Identification/ Salesperson Contract, June 2, 2006, cover letter p.i.

vi. DMV, "Special Project Report on Driver License/Identification/Salesperson Contract," OCIO # 2740-182, December 18, 2008, p.16.

vii. Martha Groves, "New California driver's licenses so complex, manufacturer has struggled to get them right," Los Angeles Times, January 9, 2011. *http://www.latimes.com/news/local/la-me-adv-drivers-license-20110109,0,4585400,print.story.*

viii. Feasibility Study Report for the Next Generation Electronic Transmission System, cover letter, September 10, 2004.

ix. Meta Vista Consulting Group, "IV and V Task Report – 'Next Generation' Electronic Transmission System Project, Monthly IV&V Activity Report – December 2008," January 7, 2009, p.2.

x. Bureau of Automotive Repair, "Special Project Report: 'Next Generation Electronic Transmission Project,'" Dec. 13, 2006, pp.10-11.

xi. Compare total vendor project budget costs of $19.8 million in "Section D: Project Information" listed in the NGET Feasibility Study Report on pp.2.0 - 5 and 2.0 - 6 with the revised figure of $33.4 million in the same section of the 2006 Special Project Report, pp.vi-vii.

xii. Michael S. Rosenwald, "BearingPoint to Sell Off Its Key Businesses," *Washington Post*; March 24, 2009.

xiii. State of California, Interagency Coordinating Council on Early Intervention, General Meeting Minutes for February 27, 2004; J. Clark Kelso, "Annual Report on the Executive Branch's Information Technology Program - 2006-2007," November 8, 2007; Senate Budget and Fiscal Review, Subcommittee No. 3, Agenda, Health, Human Services, Labor & Veteran's Affairs, Items for Discussion, B.3,. "CA Developmental Disabilities Information System--$50 million Loss in Federal Funds," April 3, 2006.

xiv. Employment Development Division, "What is UIMOD?" *http://www.uimodrfp.ca.gov/*; Greg Thompson, MGT of America, Inc, UIMOD Independent Project Oversight Report, February 10, 2009, p.2; Legislative Analyst's Office, "Unemployment Insurance Automation Projects," presented to Assembly Committee on Insurance, February 3, 2010 pp.2-3. *http://www.lao.ca.gov/handouts/socservices/2010/Unemployment_Automation_Projects_02_03_10.pdf*. Greg Thompson, MGT of America, Inc, UIMOD Independent Project Oversight Report, February 10, 2009, p.2; *http://www.uimodrfp.ca.gov/*; Unemployment Modernization Special Project Report #3, Sept. 9, 2009, pp.12, 17 and 19; California Technology Agency (Office of Chief Information Officer before January 2011), Reportable IT Projects Employment Development Department, October and November 2010 "score card rating" of yellow "indicates a project that is slipping," see *http://www.cio.ca.gov/Government/IT_Policy/IT_Projects/ProjectDetails.html?work_guid=0x1216AFF52EE6EE49B923A896F5C8DA4F&WorkItem=0x1216AFF52EE6EE49B923A896F5C8DA4F* and *http://www.cio.ca.gov/Government/IT_Policy/IT_Projects/Definitions.html#Score_Card_Rating.*

xv. Legislative Analyst's Office, LAO 2009-10 Budget Analysis Series: General Government: State Controller's 21st Century Project, *http://www.lao.ca.gov/analysis_2009/general_govt/gen_anl09004005.aspx*; "Billions spent, yet data systems in peril," *Los Angeles Times*, November 22, 2009; Michael S. Rosenwald, "BearingPoint to Sell Off Its Key Businesses," *Washington Post*, March 24, 2009; Mark Glover "Deadlines Missed; State cancels computer modernization contract," *Sacramento Bee*, January 8, 2009; Patrick McGreevy, "Billions spent, yet date systems in peril," *Los Angeles Times*, November 22, 2009.

xvi. Dale Kasler, "Computer exec apologizes to CalPERS for delays," *Sacramento Bee*, February 18, 2010; Dale Kasler, "CalPERS board blasts delays as computer upgrade's cost rises," *Sacramento Bee*, December 17, 2009.

xvii. Robert Lewis, "State court deal nears $2 billion; Problems slow effort to link 58 counties via computer," *Sacramento Bee*, October 25, 2009; see also California State Assembly, Committee on Accountability and Administrative Review, "Administrative Office of the Courts: Improving Transparency," background document, October 28, 2009, at p.3-6. Report cites total project costs as high as $1.75 billion at p.4 *http://www.assembly.ca.gov/acs/newcomframeset.asp?committee=423*; an April 2010 report Administrative Office of the Courts shows total development and deployment costs for its court case management system will be $1.3 billion, a figure that does not appear to consider hundreds of millions in extra spending amounts local courts and law enforcement agencies must pay for additional hardware and training that according to the *Sacramento Bee*'s October 25, 2009 report could push the final price tag over $2 billion. See Administrative Office of the Courts, "Status of the California Court Case Management System and the Phoenix Program 2009 Report to the Legislature" April 2010 *http://www.courtinfo.ca.gov/reference/documents/status-ccms-2009.pdf* ; Robert Lewis, "Public Eye: Glitch in state court computer system opens confidential documents," *Sacramento Bee*, June 14, 2010. *http://blogs.sacbee.com/the-public-eye/2010/06/more-glitches-with-sac-court-computer-system.html*.

Service Employees International Union Local 1000 is the is the largest union of state employees, representing more than 96,000 state employees, including prison teachers and the overwhelming majority of white collar professionals, clerical workers, auditors, information technology professionals, planners, inspectors, printers, librarians, custodians, nurses and other health care professionals.