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Evaluating FI\$Cal— The Financial Information System for California

LEGISLATIVE ANALYST'S OFFICE

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On State Administration and General Government

Hon. Gloria Negrete McLeod, Chair





What Is FI\$Cal?

- ☑ ***The FI\$Cal Project.*** The Financial Information System for California (FI\$Cal)—an information technology (IT) project currently underway by a partnership of control agencies including the Department of Finance (DOF), the State Controller’s Office (SCO), the State Treasurer’s Office (STO), and the Department of General Services (DGS)—would provide the state with a centralized, integrated financial information system based on modern, proven technology. The new system would eventually replace the state’s multiple aging, decentralized, and in some instances unsupported financial infrastructure. The new system would include budgeting, accounting, procurement, and cash management functions.



Key Milestones of the FI\$Cal Project



Original Concept

- In 2005, DOF initially proposed building a system to replace its stand-alone, aging systems to better support the state budget process and reduce redundant and highly manual workload.
- The system was estimated to take three years to build (beginning in 2009) at a cost of \$140 million.
- The Legislature appropriated \$1.8 million for FI\$Cal in the *2005-06 Budget Act* for planning purposes.



Expanded Project Scope

- In 2006, DOF expanded the scope of the project to include building an integrated financial information system for the entire state.
- The project would be governed by a partnership of control agencies including DOF, SCO, STO, and DGS.
- The new system was estimated to take about five years to build (beginning in 2009) at a cost of \$1.3 billion.
- The Legislature appropriated \$6.6 million in the *2007-08 Budget Act* to continue with planning activities. The Legislature also adopted budget language adding oversight by the Bureau of State Audits and requiring FI\$Cal staff to present additional information to the Legislature on planning, funding, and implementation strategies.



Key Milestones of the FI\$Cal Project

(Continued)



Updates to the FI\$Cal Proposal

- In December 2007, project staff extended the project by two years (it was now estimated that development work would begin in 2011) for additional planning and other project activities. This increased the estimated total project cost to \$1.6 billion.
- Project staff proposed borrowing \$1.2 billion through bond financing, with a mix of special fund and General Fund monies covering the remaining \$400 million.
- The Legislature approved the continuation of the FI\$Cal system and appropriated \$40 million in the *2008-09 Budget Act* for further planning efforts.
- The Legislature also adopted language requiring the FI\$Cal project be developed in two phases. The initial phase would implement FI\$Cal in a limited number of departments. Afterward, the project would pause as staff submitted a status report to the Legislature for review. Only upon legislative approval would the project be able to continue to phase two—implementation of FI\$Cal in the remainder of state departments.



Key Milestones of the FI\$Cal Project

(Continued)



Project Review Prompts More Changes

- Based upon a third-party external project review (beginning in January 2009), FI\$Cal staff revised the implementation strategy, moving away from a planned “big bang” approach to a phased implementation.
- Project staff proposed a two-stage procurement approach to select vendor services. A two-stage procurement is a single procurement that is divided into two stages. During the first stage, the state awards contracts with vendors who have met a minimum level of qualification. These vendors move on to participate in the second stage of the procurement process where they compete with each other for the final contract to build the proposed system. This second stage competition, sometimes referred to as a “bake-off” or “fit-gap” analysis, requires vendor staff to participate in activities to learn the state’s business goals and IT infrastructure needs. At the end of this stage, vendors will submit a final proposal for the development of the entire system, which will be evaluated and scored on criteria spelled out in the original request for proposals (RFPs). The vendor with the highest scoring proposal will be awarded the contract to develop the system.
- In the *2010-11 Budget Act*, the Legislature appropriated about \$40 million for FI\$Cal to commence with its procurement.
- Additionally, through Chapter 727, Statutes of 2010 (AB 1621, Blumenfield), the Legislature adopted language that replaced the pause and status report planned between phases one and two and instead required that project staff submit a written report upon completion of the multistage procurement for a 90-day review. Only upon legislative approval could the project continue with development.



The FI\$Cal Project Procurement



Two-Stage Procurement Approach

- Project staff has spent nearly two years engaged in a two-stage procurement effort.
- As mentioned above, this approach allows for enhanced knowledge transfer and two-way communication between state project and vendor staff during the stage two competition.
- The end result should be receipt of higher quality, more accurate vendor proposals that better meet the state's needs and reduce the occurrence of future costly change requests.



Stage 1—Screening for Qualified Vendors

- The state awarded contracts (\$1.4 million each) to three vendors that met specified minimum qualifications.



Stage 2—The Bake-Off Competition

- State and vendor staff participated in extensive activities to impart relevant information to the vendors such as the state's existing business processes, project scope, and proposed system requirements *and* to help state staff assess vendors' skills and understanding of the state's business needs.
- State staff conducted 78 presentations and 72 confidential vendor discussions, responded to over 2,000 vendor questions, and issued 13 addenda to the RFP to provide additional clarification of the state's needs and expectations.
- All three vendors submitted cost and technical proposals during the summer of 2011.



The FI\$Cal Project Procurement *(Continued)*



Selected Proposal

- After a lengthy evaluation and negotiation process, on March 1, 2012, the state selected Accenture LLP's bid for the FI\$Cal system.
- The estimated cost for the FI\$Cal system—including pre-construction planning costs already incurred—is \$620 million (\$330 million General Fund). The estimated time line is five years (beginning in 2013) to build and deploy to the entire state.
- See the table below for costs by fiscal year based on the selected proposal.
- The vendor will employ a phased implementation approach by functionality (such as accounting and budgeting) and by department over five successive phases.

Costs for the Financial Information System for California		
<i>(In Millions)</i>		
Fiscal Year	General Fund	Total Funds
2005-06	\$0.5	\$0.9
2006-07	2.2	5.0
2007-08	6.2	6.2
2008-09	2.1	5.6
2009-10	2.1	12.3
2010-11	1.8	25.8
2011-12	2.7	38.8
2012-13	53.5	89.0
2013-14	50.8	84.6
2014-15	61.2	101.9
2015-16	78.1	130.0
2016-17	50.6	84.2
2017-18	19.5	32.5
Totals	\$331.5	\$616.8



Report to Legislature



Statutorily Required Report Just Submitted. Pursuant to Chapter 727, the FI\$Cal project team submitted its required report to the Legislature on March 2, 2012 upon completion of the two-stage procurement. The report includes the following:

- A review of possible alternative approaches to implementing the FI\$Cal system, including details on functional phasing, phasing by department, and the use of a managed service model.
- Results of a benchmarking effort that concluded that upon full implementation of the FI\$Cal system the state would see annual savings and cost avoidance of \$415 million.
- High-level information on the proposed system's ability to implement different budgeting approaches, including zero-based and performance-based budgeting.
- The process and rationale for selecting the winning vendor along with cost, schedule, and implementation plans of the selected proposal.
- Identification of pay-as-you-go as the least costly alternative to fund the project (as it avoids interest and fees associated with debt financing).



Governor's 2012-13 Budget

- Governor's FI\$Cal Budget Proposals.*** In the Governor's January budget and a Spring Finance Letter (submitted March 5, 2012), the Governor requests a total of \$89 million (\$53.5 million General Fund) to fund the first year of building the FI\$Cal system. This includes 86 new positions (72 project positions and 14 partner agency positions).



Issues for Legislative Consideration

An evaluation of the FI\$Cal project from our office is pending. However, as the Legislature reviews recently submitted project reports and the associated budget requests, it may wish to consider some important questions:

- Has project staff justified the state's business need for the FI\$Cal system at the current time?
- What are the short- and long-term advantages/disadvantages of implementing FI\$Cal now versus later?
- Have possible feasible alternatives to FI\$Cal development been adequately vetted?
- To what extent has project staff mitigated the risks associated with developing a large automation system?
- How can we be sure the state is getting the best cost and solution for the FI\$Cal system?
- What is the selected vendor's track record for implementing large enterprise-wide financial information systems?
- What is the selected vendor's experience working with the proposed software?
- How else could the state reduce the pressure on the General Fund during the costly years of system development?
- What efforts are underway to encourage buy-in and provide training for department users?
- What business processes must be transformed to ensure full use of the FI\$Cal system once it is deployed across departments?