TECHNOLOGY AND EFFICIENCY IN MANAGING CALIFORNIA GOVERNMENT

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The authors have more than 70 years of combined experience in corporate management, technology, and finance with leading California businesses.

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ABOUT THE AUTHORS

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Mr. Basler has considerable experience in information systems and communications service operations, engineering, and capital management. He was Vice President in charge of Pacific Bell's Support Services with an annual budget of $9 billion. Mr. Basler managed the company's real estate with 2400 properties, a motor vehicle fleet of 25,000 vehicles, and all procurements initially totaling $3.5 billion. For several years his responsibility included information systems and corporate training organization. In addition, he is a former Chief Engineer and Vice President of Network Operations, and was Assistant Treasurer of AT&T where he was the Stock Transfer Agent and Manager of the Stock and Bond Division including shareholder computer systems.

Mr. Basler was Chair of the Western Construction Consumers, a member of the Construction Committee of the Business Roundtable; a Commissioner on the Senate Advisory Commission on Cost Control in State Government; and, Chair of the Facilities Committee of the San Francisco Opera Company Board of Directors.

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Mr. Austel has over thirty years experience in the Bell System in a variety of positions including Assistant Vice President of Procurement at PacBell for ten years. In that capacity, he established a complete contracting and supply chain organization as a result of AT&T's divestiture of Pacific Bell. He was responsible for strategic planning and establishing change management business processes (just-in-time), initiating the design of new computer systems using emerging technologies, such as electronic data exchange (EDI) and bar coding. His efforts resulted in a system that reduced the expense of ordering supplies by 70% and eliminated 44% of warehousing expenses. In addition, purchasing managers using procurement systems and accurate forecasts of material requirements reduced contract costs of telephone and network equipment from $3.5 billion to $1.75 billion. Prior to that position, Mr. Austel was a Division Manager at AT&T where he coordinated the implementation of data and computer services with Bell Laboratories, Western Electric, and the Bell Operating Companies

Mr. Austel served as Director for Corporate Seminar – an educational program that draws on academic and corporate leaders to train middle and upper management in entrepreneurship. He is also a Commissioner on the Senate Advisory Commission on Cost Control in State Government.

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TABLE OF CONTENTS

TECHNOLOGY AND EFFICIENCY IN MANAGING CALIFORNIA GOVERNMENT

I. PREFACE

- The management and operation of California state government are at a critical juncture. During the second year of a grave budgetary predicament, and with citizens of California expecting and even demanding change and reform, policy makers have an opportunity for profound governmental transformation. The authors of this report, with more than a combined 70 years of expertise in corporate management, finance, and information technology systems, draw from their business skill and acumen to focus on the most substantive opportunities that will lead to the state's economic and managerial recovery.

- While the Governor, the Legislature, and countless stakeholders contemplate an array of options – from massive government reorganization to elimination of important programs and services – the authors present an ambitious plan for sound business practices supported by currently available information technology for consideration. The authors' Findings are described in Section II through Section XI. Specific Recommendations, and the critical steps needed to create an up-to-date, successful IT system to manage California government in the 21st Century, are found in Section XII.

- Mr. Basler and Mr. Austel interviewed more than a hundred state employees, visited field offices and computer centers, and examined the practices and systems in use in many of the departments and divisions of the state. They reviewed reports and audits by the California State Auditor, the Office of the Legislative Analyst, the Little Hoover Commission, and pertinent studies issued by many organizations.[1] The authors also have participated in the development of a series of reports by the Senate Advisory Commission on Cost Control in State Government.

[1] See Appendix A for a complete bibliography.

II. LACK OF INFORMATION TECHNOLOGY STANDARDS AND MANAGEMENT DATA

- Lack of statewide information systems is evident in all agencies and departments. Each agency and department has an accounting system – some are sophisticated, some are inadequate, some are obsolete. Agencies and departments have been autonomous in designing data systems and in determining what management information they need to manage their specific operations.

- There are no standards for hardware or software so the hundreds of systems are on different platforms and do not interface. Hence, statewide data compilation is not possible.

- Setting organizational objectives on cost and service levels, without the ability to measure actual performance against them, discourages their use – ultimately, losing their potential effectiveness.

- Accountability is not possible without actual results data. Several state agencies – California Department of Parks and Recreation, a winner of the Malcolm Baldridge Award, and the California Department of Transportation – have done outstanding jobs of managing by objective.

III. NO STATEWIDE COST ACCOUNTING SYSTEM

- The California State Controller's antiquated, paper-based Disbursement and Receipts System costs approximately $2 billion per year to operate. It processes more than 25 million claims (input) and prints checks (output). The system cannot summarize management reports which indicate who spent the money or for what purpose. Real accountability is lacking, and audits are made using back-up paper.

    - The State Auditor maintains that a paper trail is not required for an audit and that audits can be made on electronic accounting systems. No efficient private sector enterprise uses outmoded, paper-based accounting systems. The estimated cost of the approval process of the paper system is very high, but exact figures are unknown. And there is the question of cost efficiency – the forms pass through multiple hands on the way to the State Controller for final payment.

- CALSTARS is a very limited State Cost Accounting System under the direction of the Director of the Department of Finance. It does not serve all departments; therefore, statewide cost summaries are not possible.

- CALSTARS' users have very few fields of data for their specific applications. Most organizations have their own accounting and management information systems – some of which were developed when centralized performance measures were discontinued in 1983.

- An original Deloitte Haskins and Sells study specified an expanded statewide accounting and reporting system – performance accounting that can cross departmental lines and be responsive to special requests for information. While some of the DH&S concepts were incorporated in the CALSTARS design, and the Department of Finance has continued to make improvements in the system, it remains a system of antiquated software running on ancient hardware with little capacity to handle more data.

IV. INFORMATION TECHNOLOGY IS NEITHER EFFICIENT NOR EFFECTIVE

- There is no long range strategic IT plan for California.

- Agencies and departments have autonomy in system design resulting in over 2000 disparate systems on various platforms that do not interface with each other or have common data bases, thus preventing statewide reports. Operating costs of these mostly obsolete systems have been estimated to be $2.2 billion annually.

- Scandals in procurement involving new systems that do not work have cost the state billions of dollars.

- A recent scandal (Oracle) involved an illegal political donation of $25,000 by a vendor, resulting in the termination of several state employees and the elimination of the entire Department of Information Technology. The responsibility for IT is now assigned to a State Chief Information Officer – one person. This critical function is virtually unstaffed.

V. BUDGET PROCESS

- The budget process frequently fails to meet the Constitutional time requirements.

- The lack of detailed cost information and program effectiveness measures and outcomes hampers intelligent decision making. Moreover, the process is complicated by complex political conflicts.

- Accountability for good budget management is not evident. No recognition is given for under-running the budget. In fact there is a tendency to commit unspent funds before the end of the fiscal year so as not to lose funds in the next budget year.

- Staff vacancies are retained just in case they are needed.

- Zero-based budgeting methods are not employed. Budget levels are usually set by ratcheting everyone by some rather arbitrary percent. Performance-based budgeting has been voluntarily tried out in several organizations, but not adopted even though the trial departments were positive on their experience.

- Program outcomes are rarely tracked to determine the value of continued funding or to terminate completed programs or programs that fail to achieve expected results. Programs are added but seldom canceled.

VI. PERFORMANCE MEASUREMENT

- Any well-managed organization sets objectives and targets every year and maintains a management information system in order to track actual performance in meeting those targets throughout the organization.

- Objectives and specific targets provide guidance to an organization. Measuring actual performance results against the targets motivates employees to achieve, provides accountability, and establishes the basis for performance evaluation, and thus, the basis for appropriate salary administration.

- Many states have established extensive internet websites to display the results measurements and accomplishments for the public to monitor. Accountability is made accessible.

- The Governor's Office for Innovation in Government (www.ca.gov) created an initiative to display 60 performance measures. Several departments volunteered to participate. This initiative appears to be dead as personnel involved have either resigned or transferred to other duties. This is another valuable effort limited by lack of data.

VII. PROCUREMENT PRACTICES

- The state's procurement process is cumbersome with excessive red tape and limitations. And, the process is not timely.

- Lack of information continues to inhibit an effective procurement function. Current data is not available on purchases by vendor, by product, by volume, or by price. Thus, volume discounts and supplier concessions on deliveries and other services are not achieved. A 1996 report by the Senate Advisory Commission on Cost Control in State Government on procurement[2] estimated a savings of over $3 billion is possible.

    - It is not known what the state spends each year on procurement. Potential savings are based on an estimate of the total level of procurement of goods and services and applying the potential savings estimated by many state procurement managers currently in contract negotiations with suppliers.

    - Volume discounts with professional procurement negotiators have achieved savings of 50% at Pacific Bell. To realize these savings, the state must institute a modern procurement system that collects the critical data used in contract negotiations.

- Some quality suppliers avoid doing business with the state according to some procurement managers who were interviewed.

- Several efforts have been undertaken to develop a Procurement Information System with considerable effort and cost to the state:

    - Procurement 2000 (Ernst & Young Consultants). No software code was ever written.

[22] "State Procurement Practices," April 1996, Senate Advisory Commission on Cost Control in State Government.

- California Acquisition Reform Act (CARA), an attempt to change the law to simplify the procurement process by reforming codes, legislative requirements, and practices, never passed the Legislature.

- Procurement System (Ariba Vendor) subsequently evolved into CALBUY. Six state agencies (not all divisions) and six local agencies were established as users. One of the six agencies – Department of Transportation – has rarely used the system. And one of the designated local agencies ordered only sparingly through CALBUY – placing three orders and spending $7.7 million, a small percentage of the estimated total procurement expenditures for the state. Yet, this little used system has cost California taxpayers $13.6 million in yet another failed attempt to provide state agencies technology through a piecemeal approach.

- The various efforts to develop a modern electronic procurement system have absorbed extensive staff time, large expenditures on private consultants, and the involvement of stakeholders throughout the state. Even with all the cost and effort, no statewide procurement system is available to provide the critical data needed for intelligent procurement practices. (See the article in the May 2004 issue of *Government Technology Magazine*, "Strategic Sourcing in Pennsylvania," where that state realizes significant savings from their smart procurement practices.)

- Inventory management and asset utilization is another significant savings opportunity. The Cost Control Commission report on procurement[3] identified 78 supply warehouses containing huge stocks – most without inventory management systems to ensure stocked material is used before additional supplies are ordered. Sharing of material between warehouses was not evident. Implementation of just-in-time acquisition concepts would reduce unproductive investments and substantially reduce warehouse space requirements.

- Obsolete and unused material should be sold through professional auctions with an effective disposition process. Again, IT systems could serve to control asset use. Expenditures for assets, once spent, are no longer managed at the state level as is common practice in the private sector.

[3] "State Procurement Practices," April 1996, Senate Advisory Commission on Cost Control in State Government.

VIII. AUDITS

- The California State Auditor issues professional audits of the state's financial and operational activities and, based on the audit, makes recommendations to state leaders identifying areas where change is needed to effectively and efficiently run state operations. Yet, there appears to be little follow-up to ensure that identified problems are corrected. Audits often identify that the same problems still exist when operations are revisited. Some accountability for resolving bad practices should be built into the audit process so improvements are carried out.

IX. USE OF TECHNOLOGY IN THE STATE'S PRISON SYSTEM

- Another report[4] issued by the Senate Cost Control Commission found:

    - The California Department of Corrections (CDC) has failed to take advantage of the huge advances in information technology that have occurred in the past decade, leaving its 33 prisons with disparate systems that do not communicate with other facilities within the whole prison system.

    - The department's leadership neither has neither established an overall plan for integrating modern technology into its system, nor has it aggressively pursued the state funds (Department of Finance) needed to upgrade its aging system.

    - As a result, the ability of the department to manage its operations in a cost-effective and efficient manner has been severely impacted by the amount of inmate management operations that must be done manually or on outdated computer systems.

    - There are a number of commercial off-the-shelf software (COTS) applications available for reasonable cost. Other states have made significant progress in using IT products developed in other states' Departments of Corrections with great success.

    - Yet, California remains in the Dark Ages in managing its prisons. Most information about inmates is still kept in unwieldy paper-based files called Central Files (C-Files). Many C-Files reach a

[4] "Utilizing Technology in the Department of Corrections," August 2002; Senate Advisory Commission on Cost Control in State Government.

thickness of 12 inches or more. As inmates are transferred from institution to institution, these cumbersome, hard to review C-Files are transferred with them. When a parolee is returned to custody, the C-File must be requisitioned from the department archives, often taking up to two months to obtain. This adds to the costs as well as jeopardizes the safety of inmates and staff.

- In an effort to make the department more cost-effective and efficiently managed, CDC must:

  - Aggressively pursue the development of a comprehensive technology master plan for building a system capable of meeting today's prison needs. The Master Plan should envision a comprehensive modern criminal justice information system to serve state and local law enforcement, courts, jails, and prison parole programs. And adequate and immediate funding to implement such a master plan should be provided.

  - Develop a Strategic Offender Management System, using readily available commercial off-the-shelf software developed by other states to replace current outdated systems. The considered COTS system must meet the needs of the corrections' staff, and be capable of tracking inmates between prisons, following inmate histories, and performing specialized functions such as transportation scheduling.

  - Participate in a multi-state prison software development consortium and benefit from the successful programs already implemented in other states – thus saving California millions of dollars in software development costs.

X. CONTROLLING PRISON PHARMACY COSTS

- The Senate Cost Control Commission's companion report[5] to the CDC technology report found:

[5] "Controlling the Costs of California's Prison Pharmacy Operations," July 2002; Senate Advisory Commission on Cost Control in State Government.

- California's prisons have an outmoded pharmacy system and an unmonitored, yet soaring, pharmaceutical drug budget. The lack of an up-to-date information technology system cripples the health care system staff, making it impossible to track inmates' location and health history, to track physicians' drug prescribing patterns, and to monitor a closed drug formulary. And there is a lack of personnel with expertise in the critical areas of managed care principles, pharmacy management, and available technology.

- In an effort to control prison pharmacy costs, and to make the overall prison system more manageable and cost effective, CDC must:

  - Implement an integrated technology information system in all 33 institutions that is capable of tracking each inmate's medical and drug history regardless of location, and one that instructs physicians in diagnosis and drug therapy guidelines established by the department.

  - Demand technology modernization as the top budget priority for the department and aggressively pursue funding through the budget process for its purchase and implementation.

  - Establish a central drug-purchasing agency within the Administration that is responsible for negotiating with drug manufacturers on pharmaceuticals that are purchased for all state agencies that purchase drugs in bulk – especially the tremendous volume-purchasing Department of Health Services. The new agency must benefit from management data and analysis that can only be provided through modern information technology systems.

XI. OTHER GENERAL OBSERVATIONS

- There is no clear direction, vision, or set of objectives from the leadership of the state to guide the autonomous state organizations.

- Because the California Constitution provides for separately-elected state leaders, a coordinated team approach to solving state problems is virtually impossible. The Lieutenant Governor, Controller, Treasurer, Attorney General, and Secretary of State come to their respective offices with differing agendas, goals, and perspectives – and they do not report to the Governor.

- Therefore, Californians must rely on each constitutional officer's statesmanship and desire to do what is best for the state as a whole. But unfortunately, because top state leaders are not part of an integrated management team, and because political division is rampant and often divisive, change has not come – and the public is left with an inefficient and unmanageable state government.

- Term limits and personnel turnover have created a level of inexperience and lack of knowledge in the Administration and in the Legislature. Appointments to key jobs are often political rather than based on qualification and leadership qualities.

- Private consulting firms are often retained to provide expertise – often at great cost and limited payoff. Moreover, some consultants involved in those studies complained that recommendations were rarely implemented, leading to a waste of resources and a continual rehash of the same issues.

- A study by the Director of Procurement (Department of General Services) to determine the top 10 vendors supplying goods and services to the state included a number of these private consultants.

    - Current information on top vendors was recently requested from the Controller's office and the Procurement Division on the top vendors, but neither organization was able to supply this information. A modern procurement system would be able to provide countless diverse management reports to allow controls, performance evaluations, and accountability on where the money goes.

XII. STEPS REQUIRED TO MOVE CALIFORNIA INFORMATION TECHNOLOGY INTO THE 21ST CENTURY

- Unify the state's leadership behind a commitment to implement a modern, integrated, statewide information technology system as the key management tool needed to successfully govern California in the 21st Century.

- While recognizing the tremendous difficulty involved in bringing top leadership together in support of this goal, it is nonetheless imperative that a group be formed – an Information Technology Leadership Council. The Council would be led by the Governor, in full partnership with the Legislature, as well as the Constitutional officers, for any hope of commitment and success.

- Such concerted efforts have been successful in Kentucky with the "Empower Kentucky" campaign, and also in Florida. Legislatures in these states put in place the necessary legislation and resources to create statewide integrated information systems serving state employees and the general public.

- Information technology should not be considered a political issue – but an economic issue –benefiting taxpayers, consumers of state services, local governments, and the overall economy of California.

- It is a win-win effort for everyone if successfully achieved.

- In addition to the leadership council, the Governor must appoint a Director of Information Technology (who would report directly to the Governor) to coordinate this large and complex undertaking. The director must have the full support of the top leadership council and full authority to manage the statewide system, including systems designed and operated by the different state agencies. IT must be managed as a statewide system.

- Create an extensive inventory of all existing IT systems. Considerable effort went into defining existing systems during Y2K. Projects on the "to be designed" list must be tabled until it is determined that they fit into the future plan. Officials from the state's previous Department of Information Technology indicated there was a backlog of design projects totaling $2.3 billion. These projects must be put on hold.

- Develop a partnership with private industry in developing an appropriate long range strategic IT plan for California. Much experience has been gained in the development of large enterprise management systems around the world using software already in use in the private sector.

- Include in the basic elements of an enterprise system a comprehensive activity-based cost accounting system with individual responsibility codes designed to classify all expenditures, who incurred them, for what purpose, and with what authorization.

- Allow for summarization by organization, by function, and by appropriation in the cost accounting system so cost analysis is possible across department lines, as recommended by Deloitte Haskins & Sells in the design of CALSTARS. In addition to financial management elements, the enterprise system should include elements for human resources, procurement, inventory management, performance data for operations

management, and controls and results measurement. It is possible that some legacy systems may be retained in the overall design plan.

- Streamline business processes to design efficiency into the system rather than designing in bad business practices.

- Define outputs to ensure that all necessary data is input into the system so desired reports and summaries can be provided to the Governor, the Legislature, supervising managers, and users.

- Ensure that system analysts design a system that is user friendly and that it meets the needs of all users.

- Design new technology systems that will meet the future needs of the state. This requires expertise, resources, and effective project management, including well thought out implementation planning to make sure users are well trained – ready to realize the savings and work improvements available in modern information technology. Such a "change management process" has been successful in numerous complex applications around the world. A design period of three to five years would be required to achieve success.

- During the overall design and implementation phase, it may be necessary to put online applications that are required to meet federal requirements or imposed by a state initiative, or to produce immediate savings. Examples might include the Department of Corrections' systems described in Section IX. Also, the eGovernment internet systems already serving consumers could be expanded to the advantage of everyone.

XIII. CONCLUSION

- Change in the management and operation of state government, especially the state's information technology systems, are long overdue – possibly even 50 years overdue in the case of IT.

- Any governmental reform must bring savings to the taxpayer, more responsive services to the general public, and greater efficiency and job satisfaction to the employees of the state.

- State leaders now have a rare opportunity to join together, speak with one unifying voice for a better future, and pursue substantive changes in the way the state does business.

- Specifically in IT, this means bringing California into the 21st Century – designing and implementing a world class, integrated technology system that will be used uniformly throughout all state government. Efficiency in managing state government operations in the future depends on it.

XIV. ACKNOWLEDGEMENTS

- The authors of this report are grateful to the many managers they interviewed in state agencies and departments – many of whom were motivated, responsive, and knowledgeable, but genuinely frustrated by the lack of professional tools and information to help them successfully do their jobs. It takes strong leadership from the top to direct the efforts of these employees so they may provide better services and improve efficiency in state government. Most managers welcome performance measures in order to receive recognition for their contributions.

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APPENDIX A

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