

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL

214.2

REPORT ON THE STEPHEN P. TEALE
CONSOLIDATED DATA CENTER

FEBRUARY 1975

TO THE
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February 17, 1975

Honorable Bob Wilson
Chairman, and Members of the
Joint Legislative Audit Committee
Room 4126, State Capitol
Sacramento, California 95814

Dear Mr. Chairman:

Transmitted herewith is our report on the operations of the Stephen P. Teale Consolidated Data Center. This report concerns a total of \$2,612,273 of pending budget augmentations to supplement the Center's 1974-75 budget.

The Teale Data Center has requested a budget augmentation of \$2,508,273 to continue its operations at their current level for the balance of fiscal year 1974-75.

As a result of the removal of the Department of Motor Vehicles (DMV) and the Department of Water Resources (DWR) from the Teale Data Center's operations, the Center's estimated revenues for fiscal year 1974-75 have decreased by \$11.7 million. In an attempt to meet the lowered revenue estimates, the Teale Data Center has effected some but not sufficient expenditure savings.

The removal of DMV and DWR enabled the Center to cut back further than it did. If such additional cutbacks had been made early in the fiscal year, the Center would not have needed this pending budget augmentation.

Teale Data Center officials advised us that there is no detailed breakdown of the expenditures requested in the pending augmentation. Based on our review of the Controller's payroll records, we estimate that the payroll expenditures from March 1, 1975 through June 30, 1975 will be \$964,000 to operate the Teale Data Center at its current levels of operation.

Honorable Bob Wilson
Chairman, and Members of the
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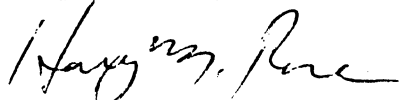
Based on the data furnished by Teale Data Center, we conclude that a budget augmentation of \$2,508,273 will be necessary to fund the Center for the balance of fiscal year 1974-75 at current levels of operation.

The Teale Data Center has requested a budget augmentation of \$104,000 to initiate purchase of its two IBM 370/168 computers, currently under short-term lease, since a purchase of the computers would result in a long-term cost savings to the state. However, higher costs would be incurred in fiscal year 1974-75.

Any purchase of the two existing computers at the Teale Data Center should be delayed because the Center has not made a sufficient analysis of its computer requirements since the time of the removal of DMV and DWR from its operations. Further, a purchase of the computers could preclude taking advantage of cost/performance benefits of new computer technology which could result in the computers becoming economically obsolete. The same objection to the purchase of the two computers would apply to a long-term lease of such computers.

We recommend that the Legislature prohibit the purchase or long-term lease of the two IBM 370/168 computers at the Teale Data Center until a detailed analysis, including consideration of economic obsolescence factors, of the Center's computer needs is effected.

Respectfully submitted,



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INTRODUCTION

In response to a legislative request, we have monitored the operations of the Stephen P. Teale Consolidated Data Center.

This report deals only with the current financial crisis facing the Teale Data Center and the request for \$2,612,273 to finance center operations through the balance of fiscal year 1974-75.

The Teale Data Center, which has centralized EDP equipment and services responsibility for 34 state agencies, is supposed to recover its costs of operation from the user agencies which it services. No general fund appropriation directly to the center would normally be expected once it is in complete operation.

FINDINGS

THE STEPHEN P. TEALE CONSOLIDATED DATA CENTER HAS REQUESTED A BUDGET AUGMENTATION OF \$2,508,273 TO CONTINUE TEALE DATA CENTER OPERATIONS AT THEIR CURRENT LEVEL FOR THE BALANCE OF FISCAL YEAR 1974-75.

The Budget Act of 1974-75 removed the Department of Motor Vehicles (DMV) and the Department of Water Resources (DWR) from the Stephen P. Teale Consolidated Data Center. With the removal of these two departments, the Teale Data Center's revenue projection was reduced from \$23.5 million to \$11.8 million.

In an attempt to reduce expenditures to meet the lowered revenue estimates, the Teale Data Center transferred some operational employees to DMV, and reduced equipment costs by returning some leased equipment and reducing the size of other leased equipment. Such reductions in expenditures were not enough, however, to reduce expenditures to the level of the reduced revenue.

Our analysis of Teale Data Center operations, expenditures, and revenues has established that the reductions in personnel and equipment which the Teale Data Center made were not consistent with the removal of DMV and DWR from the Teale Data Center. That is, the removal of DMV and DWR enabled Teale Data Center to cut back further than it did. If such additional cutbacks had been made early in the fiscal year, the center would have had sufficient funds to continue operations through June 30, 1975 without an

augmentation. As an example of excessive or avoidable costs, the Teale Data Center employs 137 operations personnel, whereas, the interim center, which the Teale Data Center replaced, only had 52 full time positions assigned to computer operations. The Teale Data Center workload is only 5 to 10 percent greater than that experienced in the interim center.

A portion of the augmentation is proposed to be paid from the State Highway Account, which is administered by the Department of Transportation. The funds in the State Highway Account are constitutionally dedicated to highway purposes.

No additional services to the Department of Transportation resulting from the augmentation from the State Highway Account could be identified by us or the Department of Transportation.

Teale Data Center officials advised us that there is no detailed breakdown of the expenditures requested in the pending augmentation. As a result, we were unable to determine how much of the augmentation is necessary for equipment and other operating expense for the balance of the fiscal year. We were able to obtain from payroll records in the Controller's Office the average monthly payroll of the Teale Data Center, which is approximately \$241,000. On that basis, salary costs from March 1, 1975 through June 30, 1975 would total approximately \$964,000.

CONCLUSION

Based on data supplied by the Teale Data Center, the center will require an augmentation of \$2,508,273 to fund it for the balance of the fiscal year at current levels of operation. We make no judgment as to whether the current level of operation is an appropriate one.

THE TEALE DATA CENTER HAS REQUESTED A
BUDGET AUGMENTATION OF \$104,000 TO
INITIATE PURCHASE OF ITS TWO IBM 370/168
COMPUTERS.

The largest item of expense for the Teale Data Center is EDP equipment at an annual cost in fiscal year 1974-75 of \$5.8 million. Most of this amount represents short-term lease expense. However, the proposed budget augmentation includes \$104,000 to purchase both of the center's IBM 370/168 computers currently on short-term lease since such purchase will result in a long-term cost savings. It would, however, result in higher costs in fiscal year 1974-75.

Any purchase of the two existing computers at the Teale Data Center should be delayed because the Teale Data Center has not made a sufficient analysis of its computer requirements since DMV and DWR have been removed.

The same objection to the purchase of the two computers would apply to a long-term lease of such computers. Further, a purchase of the computers could preclude taking advantage of cost/performance benefits of new computer technology, which could result in the computers becoming economically obsolete. For example, the state used IBM 370/165 computers for only two years and then it was determined that the IBM 370/168 was more cost effective.

CONCLUSION

The requested budget augmentation amount includes funds to initiate the purchase of the Teale Data Center computers. Such purchase will permanently commit the state to a

particular computer configuration prior to a sufficient analysis of the center's needs. Such purchase also may permanently commit the state to computers which may experience economic obsolescence in the future.

RECOMMENDATION

We recommend that the Legislature prohibit the purchase or long-term lease of the two IBM 370/168 computers at the Teale Data Center until a detailed analysis, including consideration of economic obsolescence factors, of the center's computer needs is made.

BENEFITS

Implementation of this recommendation will allow the state to avoid making long-term commitments to an excessive or potentially obsolete computing equipment configuration.

Office of the Auditor General

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