

January 5, 2017

Letter Report 2016-039

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter reports on the Financial Information System for California (FI\$Cal) project, which continues to face scheduling challenges, despite having significantly extended its schedule and increased its budget in its sixth Special Project Report (SPR) less than a year ago. SPRs provide a basis for understanding and agreement among stakeholders and justify any changes to those agreements. This letter report also describes other concerns and provides an update on previously reported issues. Below is a list of the highlights contained in this letter:

- The FI\$Cal project (project) team's sixth SPR has not remedied the project's significant scheduling slippage.
- The project is failing to promptly respond to its oversight entities' concerns and recommendations, many of which have been outstanding for more than a year.

Background

FI\$Cal is a business transformation project for state government in the areas of budgeting, accounting, procurement, and cash management. The goal of the project is to implement a unified and consistent financial system that will eventually be used by most state entities. Accenture LLP (Accenture) is the project's system integrator responsible for incorporating the various components of FI\$Cal into a single product and ensuring that those components function together. In addition, the California Department of Technology (Technology Department) provides Independent Project Oversight (IPO) and the project contracts with Public Consulting Group for Independent Verification and Validation (IV&V) services. IPO provides an independent review and analysis of project management practices to determine if the project is being well managed, will be completed within the estimated time schedule and cost, and will provide the functionality the client requires. In contrast, IV&V provides technical oversight of an information technology (IT) system as it is being developed and implemented. IV&V provides an early warning to ensure the software satisfies specified requirements to prevent the need for late system changes that would result in greater costs and schedule delays. In addition, FI\$Cal receives its governance from a steering committee composed of stakeholders from various departments and the chair of the Customer Impact Committee, which acts as the primary customer representative for all departments. Furthermore, state law established the Department of FISCAL in July 2016, which provides a permanent administrative structure for the project. We provide some key facts on FI\$Cal in the text box on the following page.

By July 2015, the project had experienced significant deviations from its plans as presented in its fifth SPR such that the Technology Department required it to develop a sixth SPR. In December 2015, the project prepared its sixth SPR to update information provided in the previous SPR regarding FI\$Cal's costs, schedule, and implementation approach. The Technology Department approved the sixth SPR in February 2016 under the condition that the project would develop detailed plans to complete the following: deploy FI\$Cal to the remaining state entities; transfer technical knowledge from Accenture staff to state staff (knowledge transfer); and transfer operational control and maintenance of the system from Accenture to the State. The Technology Department required the project to submit these plans to it by August 8, September 8, and October 8, 2016, respectively. The Technology Department also required the project to submit by August 8, 2016, an updated project schedule and a staffing plan to identify the number of staff that the project will need. We discuss the status of these items later in this letter report. Furthermore, as part of its approval conditions, the Technology Department indicated that if, at any time, either the project's schedule changes by six months or the cost changes by approximately \$10 million or more, the project would be required to submit another SPR within 30 days of the project's management becoming aware of such changes.

Key Facts on FI\$Cal as of October 2016

- Total estimated cost of project: \$910 million
- Scheduled completion date: July 2019
- Costs through June 2016: \$479.4 million*
- System Integrator: Accenture LLP is the project's selected systems integrator, with a \$298 million, seven year contract.
- Independent Verification and Validation (IV&V): Public Consulting Group has been contracted to provide IV&V services, with a \$6.4 million, five year contract.
- Independent Project Oversight (IPO): The California Department of Technology (Technology Department) provides IPO services.
- Number of project staff: 277 of the 352 authorized positions are filled.
- Steering Committee Members: Department of Finance, Department of General Services, State Controller's Office, State Treasurer's Office, Department of Technology (nonvoting member), and the chair of the Customer Impact Committee.

Sources: Sixth Special Project Report, February 2016; October 2016 IPO Report; Accenture LLP's fifth contract amendment; Public Consulting Group's first contract amendment.

* According to the October 2016 IPO Report, the project was only able to provide financial information through the month of June 2016 as a result of problems encountered related to month-end closing activities.

The sixth SPR extended the project's implementation schedule by two years, pushing out the completion date from July 2017 to July 2019. It also increased the total estimated project cost to \$910 million—representing a \$237 million increase from the fifth SPR's projection of \$673 million as of January 2014—of which more than \$61 million pertains to additional costs related to Accenture. In addition, the sixth SPR moves the project away from the prior “wave” planning and implementation phases to a series of “releases.” Previously, the project planned to roll out FI\$Cal as a series of waves that would deliver incremental functionality to a growing number of departments at key milestones over a four-year period. According to the sixth SPR, instead of implementing functionality in rigidly planned waves, each release will instead have flexibility already built into its schedule, thereby allowing the project to deploy either major or minor changes to functionality as they become ready. For example, the project reported that it implemented accounting functions for the Department of General Services (General Services) in 2016 as a major release, but it will not implement General Services' minor functions related to accounting for real property leasing and project costing until 2017. The project intends to use such major releases for initial deployment of FI\$Cal to state departments—a process similar to its former wave rollouts. Because of the sixth SPR's change in rollout process, Waves 3 and 4 are now referred to as the July 2016 and July 2017 releases, respectively. In addition, the sixth SPR does not provide sufficient information to determine which departments were affected by the project's changes to the deployment schedule. Whereas the project's past SPRs reconciled these changes to previous SPRs, the project did not include such an analysis in the sixth SPR. We compare the key changes between the fifth and sixth SPRs in Table 1 on the following page.

Table 1
Comparison of Key Changes Between Fi\$Cal's Fifth and Sixth Special Project Reports

FIFTH SPECIAL PROJECT REPORT (SPR)				SIXTH SPR			
WAVE	NUMBER OF DEPARTMENTS [†]	KEY FUNCTIONALITIES	GO-LIVE DATE	RELEASE	NUMBER OF DEPARTMENTS [†]	KEY FUNCTIONALITIES	GO-LIVE DATE
Wave 2	Department of General Services (General Services), 49 contracted fiscal services departments, Department of Consumer Affairs (procurement only), California Department of Resources Recycling and Recovery (CalRecycle), and Department of Toxic Substances Control	<ul style="list-style-type: none"> General Services control agency function Fi\$Cal becomes the procurement system of record 	July 2015	Wave 2 was split into the August 2015 and December 2015 Releases	Thirty-two contracted fiscal services departments, Department of Consumer Affairs (procurement only), CalRecycle, Department of Toxic Substances Control, and nine other departments	<ul style="list-style-type: none"> General Services control agency function Fi\$Cal becomes the procurement system of record 	August 2015 December 2015
Wave 3	State Controller's Office (State Controller), State Treasurer's Office (State Treasurer)	<ul style="list-style-type: none"> State Controller and State Treasurer control agency functions Fi\$Cal becomes the general ledger book of record, which departments will use to reconcile their financial records Fi\$Cal is used for cash management control functions 	July 2016	July 2016 Release (Major Release)	General Services and nine other departments	<ul style="list-style-type: none"> General Services accounting, budgeting and procurement functions Deploys statewide budgeting to all state entities Department-level accounting, budgeting, and procurement functions for the other nine departments 	July 2016
Wave 4	68 (all remaining departments)	<ul style="list-style-type: none"> Fully implemented and stabilized Fi\$Cal functionality is deployed to remaining departments Public transparency website 	July 2017	February 2017 Release (Minor Release) June 2017 Release (Minor Release) July 2017 Release (Major Release)	General Services 50	Project costing function Real property leasing function	February 2017 June 2017 July 2017
		Not applicable		July 2018 Release (Major Release)	65 (all remaining departments)	<ul style="list-style-type: none"> Department-level accounting, budgeting, and procurement functions Fully implemented and stabilized Fi\$Cal functionality is deployed to remaining departments Public transparency website 	July 2018
		The fifth SPR intended for the project to be complete before July 2018.		Fiscal Year 2018–19 Support	Accenture LLP (Accenture) will provide a full year of knowledge transfer to Fi\$Cal, including hands-on training for state staff while being shadowed by knowledgeable Accenture staff.		
					The sixth SPR's estimated completion date is July 1, 2019.		
Total project cost							\$910 million
Accenture contract amount							\$298 million

Sources: Fi\$Cal's Fifth Special Project Report, January 2014, and Sixth Special Project Report, February 2016; Accenture's fourth and fifth contract amendments; interviews with Department of Technology's independent project oversight staff.
 Note: The project reported it implemented Wave 1 on July 16, 2014, which included department-level accounting, budgeting, and procurement functionality for 11 state entities, as well as making Fi\$Cal the budget-system of record.
 * This amount includes the \$10.8 million that the project added in its amendment to Accenture's contract.
 † The number of departments cannot be reconciled between the fifth and sixth SPR because the project did not provide sufficient information in the sixth SPR to determine which departments were affected by changes to the deployment schedule.

In January 2016, we reported on the project's problems with schedule and scope and our observation that project leadership was not adequately addressing its oversight entities' concerns and recommendations. We discuss these issues later in this letter report and detail how they were affected by the sixth SPR.

In our April 2012 letter report, we recommended that the Legislature require the project to track costs for state department subject matter expert staff, monitor the benefits that FI\$Cal is projected to provide, and report the cost and reasons for any significant and unanticipated customizations that the project team makes to the FI\$Cal software. The project is already required to include in its annual report to the Legislature, among other things, any significant software customizations and the reasons for them, but not the associated cost. We are unaware of any legislative action taken to address our recommendations.

The Project's Sixth Special Project Report Has Not Remedied Its Past Scheduling Problems

The project continues to experience significant scheduling challenges, despite its release in early 2016 of a sixth SPR that extended the project's completion date by two years. In the fifth SPR, the project intended to implement FI\$Cal's statewide procurement function at General Services as part of Wave 2 in July 2015. The project also intended to replace General Services' Activity Based Management System (ABMS)—a financial system that handles its accounting functions. However, as we reported in January 2016, the project delayed its implementation of the procurement functionality at General Services and FI\$Cal's steering committee voted to move the launch date of ABMS from Wave 2 to Wave 3. Although the sixth SPR—created, in part because of these concerns and delays—suggested that ABMS' core accounting functionality would be implemented in July 2016, the project team and General Services agreed to continue testing the software to determine if it is acceptable. According to the IPO, as of October 2016, this testing is taking approximately 10 weeks longer than planned.

In addition, the IPO reported that as of October 2016 the project is behind schedule in its implementation of the State Controller's Office's (State Controller) and State Treasurer's Office's (State Treasurer) control agency functionality. These two control agencies maintain the State's financial records, which other departments use as a *book of record* to reconcile their accounts and to determine the State's financial status. The State Controller's and State Treasurer's control agency functionality would make FI\$Cal the book of record for the State. With the release of the sixth SPR, the project decided to implement the State Controller's and State Treasurer's control agency functionality in the July 2017 release instead of the originally promised release date in July 2016's Wave 3. According to the sixth SPR, deployment of the State Controller's and State Treasurer's control agency functionality was delayed to allow a full year of testing. However, since that SPR was approved, the project has reduced testing time from 12 months to 10 months. According to the Technology Department's deputy director of the IT project oversight division, the planned 12 months of testing was affected by the delay in completing the design and development phases. She also noted that additional delays will have a commensurate effect on the time available to test. It is unclear whether this reduced testing time will present quality issues for the project. Additionally, the IPO reported that as of October 2016 the new compressed schedule was two weeks behind—an increase from the one-week delay that the IPO reported in September 2016. Moreover, the IPO also reported that the project's schedule for deploying FI\$Cal to departments in the July 2017 release was five weeks behind schedule. If these delays continue and start to compound, the project team may find it necessary to extend the schedule yet another

year, which the sixth SPR estimates could increase the project's costs by roughly \$100 million. Alternatively, if these delays continue and the project chooses not to extend the schedule further, it will potentially have to reduce the features or the quality of its delivered product in order to meet its deadlines.

Throughout the year, the project has experienced difficulties with departments failing to close out their month- and year-end financial statements. According to the sixth SPR, a significant driver for the new SPR was the unanticipated need for the project to provide continuing support for Wave 1 departments to reconcile and close their month- and year-end financial statements. The IPO reported that as of October 2016 delays in month- and year-end reconciliations may prevent Wave 1 and Wave 2 departments from completing their fiscal year 2015-16 financial statements on time. The State Controller uses the year-end financial statements to prepare the State's Comprehensive Annual Financial Report (CAFR), which informs stakeholders, such as credit agencies that rate the State's bonds, of the State's financial position and how the State manages public resources. The IPO also reported that 20 of the 42 FI\$Cal departments that missed the State Controller's September 1 deadline for submission of year-end financial statements completed them by October 2016. However, some of these departments that completed their fiscal year 2015-16 financial statements had difficulties closing their statements on time, even though they implemented FI\$Cal more than two years ago. For example, the project deployed FI\$Cal as part of Wave 1 to the California State Summer School for the Arts with its four authorized positions and the Department of Alcoholic Beverage Control with its 411 authorized positions. Using the project's methodology for categorizing the size of an entity based on the number of authorized positions, these departments are considered small and medium-sized departments. Given the difficulties that the project has had with smaller departments being unable to close out their financial statements on time, the project may face challenges in July 2017 when deploying FI\$Cal to large departments, such as the Department of Parks and Recreation, which has more than 3,500 authorized positions and receives funds from more than 20 different sources.

The chief deputy director of the project explained that, under the direction of the steering committee, the project has already added resources to assist departments with these issues. He said the added resources, along with the project's high prioritization of month- and year-end financial statement issues, are additional levels of support for department staff who may need additional training or assistance. Nevertheless, we are concerned that departments in future releases will continue having trouble closing month- and year-end financial statements, particularly because future releases will include more departments than previous releases, and those departments will be larger and more complex. For example, the July 2018 release includes the Department of Health Care Services, the Department of Social Services, and the Employment Development Department—three large and complex departments that, if unable to close their year-end financial statements on time, would affect the State Controller's ability to produce the CAFR.

As we reported in our January 2015 letter report, we remain concerned by the number and size of departments that have yet to implement FI\$Cal and the compressed time frame proposed for implementing them. According to the sixth SPR, the July 2017 release consists of 50 State entities (14 large, 14 medium, and 22 small entities). In addition, the July 2018 release consists of 65 State entities (24 large, 11 medium, and 30 small entities).¹ Previously, we reported that the project experienced challenges in releasing functionality for fewer, smaller, and less complex departments,

¹ The project indicated that it has shifted some departments between the 2017 and 2018 releases since it issued the sixth SPR in February 2016.

such as when the project had to revise its Wave 3 implementation schedule because it had to redirect resources to focus on delayed Wave 1 and Wave 2 activities. Furthermore, the IPO stated as of October 2016 that the project continues to miss the majority of its scheduled milestones. Specifically, the project had been achieving an average of 46 percent of its scheduled milestones for the period between May and October 2016. These milestones help the project track its work and determine whether it is on schedule—a low milestone achievement percentage indicates that the project is not meeting its published schedule objectives. This condition could be further exacerbated if the project does not reduce its staff vacancy rate, which the IPO reports is 21 percent as of October 2016. Given these challenges our information technology expert (IT expert) believes there is a significant risk that the project's resources will be overwhelmed when it tries to implement releases that include large and complex departments.

Despite all of the scheduling issues previously described, the project team does not currently have plans to submit a new SPR. The *State Administrative Manual* requires a state entity to submit an SPR to the Technology Department for review when the state entity exceeds certain benchmarks on Technology Department-approved projects, such as deviating by 10 percent or more of the project's budget. However, the *State Administrative Manual* allows the Technology Department to take the initiative by requiring a state entity to submit an SPR under other circumstances, such as when the entity fails to meet a critical milestone. The Technology Department stated that it would require the project to create a seventh SPR if the project schedule changes by six months or more, or if its costs change by \$10 million or more. According to the Technology Department's deputy director of the IT project oversight division, the project has not yet experienced either of those conditions; however, she reported at the November steering committee meeting that the schedule had now become a significant risk for the project, and she mentioned the low likelihood of the July 2017 release being on time. The project has also failed to meet certain deadlines set by the Technology Department. Specifically, the Technology Department placed several approval conditions on the project's sixth SPR, most of which the project has not sufficiently met, according to the IPO. One of the conditions is that the project submit to the Technology Department for its review an updated project schedule that allocates resources to tasks and milestones. According to the IPO, the project appears to have insufficient resources to meet its published schedule. For example, the schedule indicates that some staff members would need to work for more than 160 hours in a week. The project was also required, as part of the SPR approval conditions, to submit a plan for transferring knowledge from Accenture to state staff, which would allow the State to maintain and operate FIsCal without Accenture's ongoing assistance. However, the IPO reported that the project's attempt to fulfill this condition was simply to resubmit a compilation of mostly outdated documents rather than a detailed, stand-alone plan. Given the number of issues that the project is currently facing and its failure to address the approval conditions for its sixth SPR, we believe the Technology Department should consider requiring the project to submit a new SPR.

The Project Has Not Adequately Addressed Concerns and Recommendations From Its Oversight Entities

We continue to track concerns raised by the IPO and IV&V and the resulting recommendations those entities have made to the project's management team. Although the project has taken action to address some of the oversight entities' concerns and recommendations, it has left several unaddressed and has been very slow in addressing others. By failing to respond adequately, the project exposes itself to risks that could threaten a successful system implementation and result in additional schedule delays and costs overruns.

As of October 2016, the IPO reported that it had 12 concerns, two of which date back to 2015. The IPO rated seven of those concerns as having a significant impact on the project. Two significant concerns relate to contract requirements for accessibility and an issue with converting and archiving vendor information, while the remaining five significant concerns pertain to issues that may negatively impact the project's schedule. For example, the IPO reported that the project may experience delays in testing and support activities because the project's computer lab cannot accommodate the number of requests associated with the project's concurrent activities. Currently, the project is overdue in taking action to mitigate three of the IPO's concerns related to schedule delays.

We also reviewed the concerns and recommendations reported by the IV&V as of October 2016 and found several issues that the project has not adequately addressed.² The IV&V reported that 25 of its recommendations were outstanding with one dating back to 2012. However, over the past four months, the project appears to have become more responsive to the IV&V's concerns. For example, of the 25 open IV&V concerns in October 2016, the IV&V stated that the project had improved on nine and expected the project to resolve another 11 shortly. According to the IV&V, the project appears to be making improvements in the areas of knowledge transfer between Accenture and state staff, security, and operations and management. In Table 2 on the following page, we categorize the significant concerns raised by the IV&V that have been open for more than a year.

Despite its recent improvements, the issue of transferring technical knowledge from Accenture to state staff has been a continuing problem. In one example, the IV&V noted that for over a year only a single Accenture key staff member had knowledge of several FI\$Cal processes and that the IV&V was not aware of whether Accenture had any fallback plans in case this person were to leave the project. In addition, our IT expert explained that by having state staff work more closely with Accenture, future mistakes and misunderstandings might be avoided. Although the chief deputy director of the project stated that the project had developed robust training and knowledge transfer plans and has started work on the actual knowledge transfer activities, the IV&V still has concerns, such as the project's lack of consistency among its knowledge transfer plans. As a result, if the project does not take more initiative to transfer knowledge from Accenture to state staff, we believe the State will have to continue to rely on external contractors for support after the project is complete. This would likely end up costing the State much more than if state staff were adequately involved in knowledge transfer activities and were able to effectively operate and maintain FI\$Cal after Accenture's departure.

One of the IV&V's past concerns related to the project failing to track and follow up on corrective actions highlights the importance of implementing the IV&V's recommendations. After a system outage in February 2015 that was caused by Accenture staff, the IV&V reported that Accenture would implement a peer review process to mitigate this problem in the future. However, after a similar system outage occurred again in June 2016, the IV&V determined that the State had not verified Accenture's implementation of the peer review process; thus, the State may have needlessly lost productivity due to the avoidable system outage. By not adequately addressing the concerns raised by its oversight entities, the project places itself at greater risk of experiencing further delays and additional costs.

² The most recent IPO and IV&V reports available during our fieldwork were issued in mid-November 2016 and covered the month of October 2016.

Table 2
Significant Unaddressed Recommendations the Independent Verification and Validation Service Provided to FI\$Cal as of October 2016

DATE ISSUE IDENTIFIED	CATEGORY	CONDITION	INDEPENDENT VERIFICATION AND VALIDATION SERVICE (IV&V) SUMMARY RECOMMENDATION	MONTHS OUTSTANDING
December 2012	Knowledge Transfer to FI\$Cal Personnel	Accenture LLP (Accenture) is making changes to certain key software configurations settings.	Ensure Accenture provides proper documentation that will allow the state to maintain and upgrade software without the help of consultants after Accenture completes the project.	46
March 2014	Knowledge Transfer to FI\$Cal Personnel	The State does not have the ability to independently produce key reports that will identify software changes applied to the production environment.	Request that Accenture either periodically provide software configuration change logs or ensure that state resources have the capability to produce such logs when desired.	31
June 2014	Security	State personnel are unable to review users and access rights for the accounting and budgeting functions.	Request that Accenture identify how it will provide audit reports on software/technical environments to which its technical staff has access rights.	28
October 2014	Project Planning	Future delivery schedule restructuring may be necessary to address IV&V observation that the project is facing ongoing and increasing schedule and resource challenges that were not anticipated in the fifth Special Project Report (SPR).	Per the sixth SPR approval condition, submit to the California Department of Technology (Technology Department) an updated project schedule that includes resource assignments.	24
October 2014	Project Planning	There are competing priorities of production operations and in-progress project work.	Per the sixth SPR approval condition, submit to the Technology Department an updated project schedule that includes resource assignments.	24
March 2015*	Knowledge Transfer to FI\$Cal Personnel	Accenture resources are not consistently providing knowledge transfer to FI\$Cal staff. IV&V is concerned that FI\$Cal staff are not receiving the necessary knowledge transfer due to Accenture resource constraints.	IV&V recommends that Accenture and FI\$Cal management ensure that essential knowledge transfer activity sessions are being scheduled and provided on a regular basis.	19
June 2015	Knowledge Transfer to FI\$Cal Personnel	Only one Accenture resource has knowledge of the project's key function related to user roles and workflow. There is no documentation of how the associated data are created and used in the testing environment.	Request that Accenture provide documentation that describes how workflow data are created and used in the testing environment so that the State can maintain and support key software when the single Accenture resource leaves FI\$Cal.	16
June 2015	Operations and Management—Production Operations	The project's practices for monitoring the quality of operations and the response to anomalies (event management) may not be sufficient to effectively and proactively manage major incidents that affect delivery of services.	Consider identifying a FI\$Cal staff responsible for event management, documenting an inventory of necessary events, identifying gaps, reviewing existing events with subject matter experts, documenting all of the data about each event, and developing a definition and implementation processes.	16
July 2015	Operations and Management—Resources	State personnel do not have sufficient time to obtain the required expertise and prepare documentation for all software configurations.	Consider using state personnel to configure and maintain software, and determine the necessary contingency actions for training state personnel.	15
July 2015	Project Planning	Accenture has not clarified whether it will be providing, as a deliverable, a hosting transition plan that contains the agreed-upon roles and responsibilities of Accenture and the State.	Per the sixth SPR approval condition, complete development of a detailed plan for operational takeover and operations and maintenance of the system.	15
July 2015	Project Planning—Project Resources	The final transition plan for transitioning the project from Accenture to the State might not include all of the content recommended by the IV&V.	Per the sixth SPR approval condition, complete development of a detailed plan for operational takeover and operations and maintenance of the system.	15

Source: California State Auditor's analysis of *Independent Verification and Validation Reports* for December 2015 through October 2016.

Note: When the IV&V rates an issue as "significant," it means there is a possibility of substantial impact to product quality, manageability, cost, or schedule; a major disruption is likely and the consequences would be unacceptable; a different approach is required and mitigation strategies should be evaluated and acted upon immediately.

* This issue was raised to "significant" in August 2016.

The California State Auditor's Monitoring and Project Oversight Activities

As part of our statutory role, we continue to attend monthly oversight meetings and monthly steering committee meetings. In addition, we monitor other issues related to the project, such as its contract for IV&V services. We noted that the project posted a Request for Information (RFI) for IV&V services in July 2016. Public Consulting Group has provided IV&V services to the project for seven years since fiscal year 2009-10. The term of Public Consulting Group's contract is set to expire in January 2018 shortly after the fifth SPR's expected completion date of the project; however, because the sixth SPR has moved the expected completion date further into the future, the project is responsible for considering whether it should extend the contract or pursue a new one. The *State Contracting Manual* allows departments to use an RFI to survey the marketplace to understand what products or services may be available and to estimate the cost of procurement. According to the chief deputy director of the project, the project team issued an RFI to assess the market for IV&V services and to determine whether its contract with Public Consulting Group was competitive with the rates offered by other IV&V consultants. Based on the results of the RFI, the project has decided to extend its contract with Public Consulting Group.

Even though we believe it is appropriate for the project to evaluate the market for IV&V services, the fact that the project continues to be primarily responsible for selecting and paying for IV&V services constitutes an unnecessary threat to the independence of its IV&V contractor. Accordingly, to preserve the independence of IV&V services, we believe that the project should not directly manage the IV&V contract and that this responsibility should reside with some other state entity, such as the Government Operations Agency.

Role of the California State Auditor

Pursuant to Government Code section 11864, the California State Auditor (State Auditor) is required to independently monitor the FI\$Cal project throughout its development and in whatever manner the State Auditor deems is appropriate. Our independent monitoring includes, but is not limited to, monitoring the contracts for IPO and IV&V services, assessing whether the FI\$Cal steering committee and the FI\$Cal project team appropriately address concerns about the project raised by the IPO and IV&V, and assessing whether the FI\$Cal project is progressing within schedule and budget. We are required to report at least annually on the project's status: this is the 13th report that we have issued since we began our monitoring in 2007 and our sixth report since the project began the design, development, and implementation phase in June 2012.

We will continue to monitor and report on these topics in addition to others that come to our attention, at least annually on or before January 10.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: January 5, 2017

Staff: Nicholas Kolitsos, CPA, Audit Principal
Andrew Lee
Hunter Wang

IT Expert: Catalysis Group

Legal Counsel: Wayne Strumpfer, Chief Legal Counsel
Stephanie Ramirez-Ridgeway, Sr. Staff Counsel
Joseph L. Porche, Staff Counsel

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.