CALIFORNIA LEGISLATURE

2021–22 REGULAR SESSION

ASSEMBLY DAILY JOURNAL

Thursday, January 14, 2021

FIFTH SESSION DAY

THIRTY-NINTH CALENDAR DAY

AT SACRAMENTO, CALIFORNIA

NOTE: Official record of rollcall votes. All amendments considered by the Assembly on this day are on file with the Chief Clerk of the Assembly and available on request. All Senate amendments to Assembly measures considered by the Assembly on this day are on file with the Secretary of the Senate and available on request. A list of all measures amended and on which amendments were offered in the Assembly is shown on the final page of this day's Assembly Journal.

(Please direct any inquiries and report any omissions or errors to Minute Clerk: Phone 916-319-2360)

PROCEEDINGS OF THE ASSEMBLY

IN ASSEMBLY

Assembly Chamber, Sacramento
Thursday, January 14, 2021

The Assembly met at 7 a.m.

Hon. Brian Maienschein, Assembly Member, 77th District, presiding.

Chief Clerk Sue Parker at the Desk.

Reading Clerk David A. Bowman reading.

ROLLCALL

The following were placed upon the morning rollcall—65:

Aguiar-Curry	Dahle	Lee	Rodriguez
Arambula	Daly	Levine	Rubio
Bauer-Kahan	Davies	Low	Santiago
Bennett	Flora	Maienschein	Seyarto
Berman	Fong	Mathis	Smith
Bigelow	Friedman	Mayes	Stone
Bloom	Gallagher	McCarty	Ting
Boerner Horvath	Garcia, E.	Medina	Valladares
Bonta	Gipson	Nguyen	Villapudua
Burke	Gonzalez	O'Donnell	Voepel
Calderon	Gray	Patterson	Waldron
Carrillo	Grayson	Petrie-Norris	Ward
Chau	Holden	Quirk-Silva	Wood
Choi	Irwin	Ramos	Mr. Speaker
Cooley	Jones-Sawyer	Reyes	
Cooper	Kalra	Rivas, L.	
Cunningham	Lackey	Rivas, R.	

Quorum present.

At 1:30 p.m., Hon. Steve Bennett, 37th District, presiding

REGULAR BUSINESS DISPENSED WITH

By unanimous consent, the regular order of business of the Assembly was dispensed with for this legislative day.

LEAVES OF ABSENCE FOR THE DAY

By unanimous consent, the following Assembly Members were granted leaves of absence for the day:

On personal business, and waiving per diem: Assembly Members Cristina Garcia, Mullin, Muratsuchi, and Wicks.

Because of illness: Assembly Member Chen.

Because of illness in her family: Assembly Member Cervantes.

Because of a death in their families: Assembly Members Kamlager and Salas.

On medical leave: Assembly Members Chiu, Frazier, Gabriel, Nazarian, and Weber.

On medical leave, and waiving per diem: Assembly Member Quirk.

The following Assembly Member was not excused for the day:

Not excused, and per diem waived: Assembly Member Kiley.

REPORTS

The following letters of transmittal were presented by the Speaker and ordered printed in the Journal:

California State Auditor

2020-806
December 1, 2020

The Honorable Speaker of the Assembly
The Honorable Members of the Assembly
of the Legislature of California
State Capitol, Room 3196
Sacramento, California

Members of the Assembly: As directed by the Joint Legislative Audit Committee, my office presents this audit report regarding the city of West Covina (West Covina), which we conducted as part of our high-risk local government agency audit program.

This report concludes that West Covina is a high risk city because of the significant risks it faces related to its financial and operational management. West Covina reduced its year-end general fund reserve balance by $10.6 million—more than half—during the past several fiscal years, primarily due to its inability to address substantial increases in citywide expenditures and its significant pension liability. The city has also likely underestimated the financial impact of the COVID-19 pandemic during this current fiscal year.

West Covina made certain financial decisions that appear questionable or were based on insufficient analyses. Moreover, the city has not developed a formal financial recovery plan with specific timelines, monitoring, and reporting to improve its long-term financial health. We also identified instances of inadequate management that limit West Covina’s ability to ensure that public funds are used appropriately and that its procurement efforts provide the best value.

To address these concerns, we present several recommendations, such as pursuing opportunities to better manage or reduce spending, preparing multiyear financial forecasts to quantify the impact of its decisions, and establishing and following procurement policies. We also recommend that West Covina develop a formal financial recovery plan to prioritize resources and assign responsibility for monitoring progress in implementing the plan.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

Above report referred to the Committee on Local Government.

California State Auditor

2020-043
December 17, 2020

The Honorable Speaker of the Assembly
The Honorable Members of the Assembly
of the Legislature of California
State Capitol, Room 3196
Sacramento, California

Members of the Assembly: As Senate Bill 853 (Chapter 717, Statutes of 2010) requires, we have been monitoring the design, development, and implementation of a replacement for the California Medicaid Management Information System (CA-MMIS). In 2018 we reported that the Department of Health Care Services (DHCS) had made significant changes to its implementation approach to replacing CA-MMIS: it is moving to a modular approach that replaces discrete system components over time instead of replacing the entire system at once. In this letter, we provide an update on DHCS's efforts to replace CA-MMIS, and we highlight the following issues:

- DHCS recently decided to incorporate the CA-MMIS modernization into a broader effort to modernize all of its Medi-Cal information technology systems. This change has created uncertainty about the budget and schedule for the replacement of CA-MMIS.
- DHCS lacks an adequate governance structure for managing the development of CA-MMIS modules as part of its broader Medi-Cal modernization effort.
- The California Department of Technology (CDT) is in the very early stages of developing standards for overseeing state agencies' modular modernization efforts to ensure that modules ultimately function together as a system.

Background

DHCS is in the process of modernizing CA-MMIS, the computer system originally developed in the late 1970s to process payments to health care providers who participate in the Medi-Cal fee-for-service program. The textbox presents key facts about Medi-Cal. CA-MMIS is a collection of about 92 subsystems that perform a variety of functions related to determining eligibility and enrolling members in Medi-Cal, as well as managing provider information. According to DHCS, in 2019 CA-MMIS processed approximately $19 billion in payments to health care providers, including physicians, pharmacies, and hospitals. DHCS stated that CA-MMIS needs replacement because it is more than 40 years old, its operations are inefficient, its maintenance is difficult, and it has a high risk of failure.

In addition, DHCS explained that CA-MMIS is not currently compliant with federal Medicaid Information Technology Architecture standards, which are national guidelines for technologies and processes that can enable improved program administration. According to DHCS, compliance is a key strategic driver of the current system replacement.

When DHCS first began its efforts to replace CA-MMIS in 2010, its intention was to replace the whole system at once as a single project; however, in 2016 DHCS began shifting to using a modular approach, in part to comply with the requirements that the Centers for Medicare & Medicaid Services (CMS) has established. This modular approach splits the complex functions of CA-MMIS into multiple stand-alone components, or modules, that DHCS can implement independently instead of replacing the entire system all at once. DHCS is responsible for integrating the modules to ensure that they function together and with the legacy components that will stay operational until their replacement. In 2018 we reported that neither DHCS nor CDT had significant experience using or monitoring this modular approach on such a large and complex project. We recommended in our 2018 report that CDT examine the individual modules closely and oversee DHCS's efforts to integrate the multiple modules into a complete functioning system.

DHCS's New Approach for Modernizing Its Medi-Cal IT Systems Has Created Uncertainty About the Budget and Schedule for Modernizing CA-MMIS

DHCS reported in October 2019 that it was once again shifting its approach for modernizing CA-MMIS and that it now planned to incorporate CA-MMIS into a wider effort to modernize all of its Medi-Cal information technology systems. It refers to these systems collectively as its Medi-Cal Enterprise System (MES), which it defines as the business processes that support the administration of Medi-Cal. Figure 1 presents the timeline of DHCS's effort to modernize CA-MMIS. As of July 2020, CA-MMIS became part of the broader MES modernization effort to align with practices encouraged by CMS, and DHCS no longer considers the replacement of CA-MMIS to be a distinct project. However, DHCS has not yet provided details about the new approach or its impact on CA-MMIS's modernization. Because DHCS's new approach represents a significant change, the State will likely need to adjust the way it oversees DHCS's progress and the cost of modernizing CA-MMIS functionality.

Thus far, DHCS has provided only high-level descriptions of its new MES modernization approach. In an October 2019 legislative briefing about this approach, it reported that it is shifting its approach to modernizing its Medi-Cal systems and further explained in a January 2020 legislative briefing that it planned to transition from an individual project approach to an enterprise-focused approach. This change means that DHCS will no longer be modernizing systems such as CA-MMIS as separate, discrete projects with their own modules; instead, it will identify and prioritize modules of functionality that can be used across MES. Although DHCS has stated that it will be a multiyear transformation, it has not yet established a timeline. It expects its shift in approach to yield the following benefits:

- Improve its modernization efforts' alignment with department, agency, and federal strategies.
- Improve clarity of funding.
- Improve visibility of the holistic roadmap for MES modernization.

- Strengthen its governance so that it can better make decisions, prioritize, and guide the modernization efforts.

Although DHCS's use of an enterprise-wide modular approach could provide certain benefits, tracking CA-MMIS as a distinct project will be difficult as DHCS incorporates it into the broader MES modernization effort. In addition to CA-MMIS, DHCS intends MES modernization to include the Medi-Cal Eligibility Data System (MEDS), the Comprehensive Behavioral Health Data Systems Project, and future Medi-Cal technology modernization needs. The text box describes MEDS and the Comprehensive Behavioral Health Data Systems Project. We are concerned that the intermingling of all of these system updates into one modernization effort significantly reduces the transparency of DHCS's efforts to modernize all of the legacy CA-MMIS functionality and inhibits monitoring of those efforts. For instance, CDT—the agency responsible for providing independent oversight of information technology (IT) projects—stated that because CA-MMIS was officially incorporated into the MES modernization effort effective July 1, 2020, it would no longer use the term "CA-MMIS modernization project" in its oversight reports. Further, CDT reported in its September 2020 MES oversight report that its oversight focus had changed to MES modernization from CA-MMIS modernization and that starting in October 2020, it would change its oversight report frequency to quarterly instead of monthly. The focus of that reporting will be on the governance and cost of the MES modernization effort. Although the current scope of CDT's oversight for MES includes only governance and cost, as the MES effort becomes more complete with established baselines, CDT indicated it will oversee the full scope of this effort.

DHCS's lack of a detailed approach for MES modernization further complicates the tracking of CA-MMIS's modernization and creates concerns about the shift's impact. In 2018 DHCS indicated that the CA-MMIS modernization would require roughly 10 years to complete and cost approximately $500 million, which would make the State's share $50 million after accounting for federal reimbursements. However, CDT stated in a June 2020 oversight report that because of the transition to the MES modernization, the business objectives, scope, timeline, and budget for CA-MMIS's modernization were uncertain and could not be evaluated. A year has passed since DHCS first reported the shift to MES modernization in its October 2019 legislative briefing, yet it continues to lack a detailed plan.

DHCS has not developed plans for modernizing the remainder of CA-MMIS beyond the three modules currently in progress. Table 1 shows the status of these modules, which DHCS and CDT are handling as individual projects. However, DHCS has not yet developed a long-term plan for replacing all of the CA-MMIS functionality, such as a budget, schedule, or description of future modules. In fact, DHCS does not know how many modules it will need to develop to replace CA-MMIS. According to DHCS, it will prioritize its efforts to modernize CA-MMIS functions based on its business strategy. DHCS explained that it has not fully developed its plans for MES modernization because the size and scope of this effort requires additional funding and staff resources to support the transition from individual projects to an enterprise modernization approach. Nevertheless, until DHCS develops a more detailed approach, it cannot identify the impact the transition to MES modernization will have on the priority and timing of its efforts to modernize the remaining CA-MMIS functionality.

DHCS must provide a plan for its MES modernization to ensure that the State can adequately monitor its efforts. CDT has recommended that DHCS map the current 92 CA-MMIS subsystems to the expected modules to validate that those modules fully cover the functions of the legacy system. CDT has also recommended that DHCS develop a new MES approach document to identify its new strategy for its CA-MMIS modernization, the revised proposed modules, and the estimated time frame and cost. We believe these actions will greatly enhance the transparency of DHCS's efforts to modernize CA-MMIS. However, despite CDT's making these recommendations several months ago, DHCS has not yet implemented them. In its September 2020 oversight report, CDT indicated that it understood that the complete MES modernization strategy might not be available for some time; however, CDT also indicated that a preliminary, high-level document would clarify the current MES modernization approach. According to DHCS's chief information officer, DHCS intends to develop a high-level approach document and map the modernization of CA-MMIS subsystems and it is working toward securing funding for this effort. However, he indicated that it is unlikely that it will complete this work before November 2021. We believe that DHCS needs to prioritize the mapping of CA-MMIS subsystems to future modules to provide transparency into its modernization efforts.

DHCS Lacks Adequate Governance and Experience for Managing and Integrating CA-MMIS Modules

DHCS's inadequate governance structure for incorporating CA-MMIS modules into the broader MES modernization effort creates a risk of duplicated effort and increased costs. DHCS has been managing each CA-MMIS module as an individual project rather than managing the modules collectively, and it does not have an executive-level governance body overseeing the entire CA-MMIS modernization. Consequently, DHCS risks a lack of strategic alignment and consistency among the modules. This lack of alignment may lead to duplication of development effort and failure to identify common issues or dependencies among the modules, which might result in delays and additional costs to the State. Appropriately managing the risk of developing multiple CA-MMIS modules will be a significant and critical task for DHCS—a task that will become more challenging with CA-MMIS development transitioning to the larger, more complex MES modernization effort with its additional projects and functionality.

Implementing a management process known as portfolio management as part of its governance would help DHCS to oversee and minimize these risks. According to the Project Management Institute, organizations can manage their projects at three levels: project management, program management, and portfolio management.[1] As Figure 2 shows, portfolio management is fundamentally different from project management and program management. According to a

1 The Project Management Institute is a not-for-profit professional membership association for the project management profession, and it develops standards for project, program, and portfolio management.

conference paper published on the Project Management Institute's website, project and program management are about execution and delivery—doing projects right.[2] In contrast, portfolio management focuses on doing the right projects at the right time by selecting and managing projects as a portfolio of investments. It requires different techniques and perspectives. Good portfolio management increases business value by aligning projects with an organization's strategic direction, making the best use of limited resources, and building synergies between projects.

However, DHCS has not implemented a portfolio approach for managing CA-MMIS's modernization, nor has it done so for the larger MES effort. CDT reported for more than a year that the CA-MMIS modernization— and more recently the MES modernization—lacked a portfolio-level governance structure and management processes, including reporting structures for portfolio management. Although each individual module is expected to have its own project management plan, DHCS's overall process for managing the CA-MMIS and MES modernization is deficient. In its January 2020 legislative briefing, DHCS did indicate that it would build a strategic project portfolio management approach as part of the organizational changes that it would make to enable the MES modernization efforts. CDT also indicated in its June 2020 oversight report that DHCS was working on draft changes to governance, and DHCS stated that it anticipates finalizing its new governance plans within the next 12 months. However, we find this year-long delay concerning. Until it develops a portfolio-level governance structure, DHCS will lack an adequate strategic management process to guide its implementation of the multiple projects under MES, which could lead to misaligned priorities and an inefficient use of resources.

Furthermore, because of the complexity of CA-MMIS and its modernization needs, we remain concerned about DHCS's ability to integrate CA-MMIS modules into a functioning system—a concern that is heightened by DHCS's inclusion of CA-MMIS into the broader MES modernization effort. Failure to appropriately manage the integration effort significantly raises the risk of system failure, which might result in delayed or unpaid claims and system outages. We previously reported that the work of systems integration is highly specialized and is not a role with which the CA-MMIS division has direct experience, a concern which CDT echoed in its July 2020 report. Further, in its June 2020 report, CDT cited a lack of information on DHCS's approach to integrating modules both with the legacy system and with other modules; on data exchange and data management strategy, which are critical areas for a project's success; and on plans for the overall CA-MMIS modernization project.

According to CDT's June 2020 report, DHCS will need to identify and manage the risks and issues related to these significant focus areas in the modular development approach to ensure CA-MMIS functions correctly.

2 Oltmann, J. (2008). Project portfolio management: how to do the right projects at the right time. Paper presented at PMI® Global Congress 2008—North America, Denver, CO. Newtown Square, PA: Project Management Institute.

CDT Is in the Very Early Stages of Developing Its Approach to Overseeing Modular Modernization Efforts

Although we believe CDT is raising important issues related to CA-MMIS's modernization, we remain concerned that it does not yet have standards for monitoring modular efforts on large and complex systems, which could become more prevalent in the future. For example, and as we indicated in our 2018 report, the State's Information Technology Project Oversight Framework—the criteria that CDT uses to assess the risk, level of criticality, and oversight for IT projects—does not offer detailed guidance for modular projects. Furthermore, state IT approval processes have historically expected the entire project to be planned and budgeted at the outset, whereas under the modular approach, an agency incrementally contracts for and manages the individual components or projects that make up the overall system. Although CDT decided to approve and oversee individual modules as discrete projects of the CA-MMIS modernization effort, it does not have detailed standards for how it will oversee future modular efforts. Additionally, as Figure 3 shows, CDT does not yet have detailed standards for overseeing the integration of modules into an overall system.

CDT has outlined a preliminary plan for overseeing the MES modernization that it could refine to function as an oversight template for future modular efforts. Specifically, it is proposing to oversee the development and implementation of the strategy and roadmap for the MES modernization effort but with a focus limited to governance, status, and risks. CDT indicated that it is also developing a process for annual reporting and monitoring of iterative projects, such as those employing a modular approach. The iterative project report process will include a focus on progress, expenditures, and any plan changes or refinement. CDT added that the iterative project report will be a planning and commitment document, similar to a special project report, in which a department commits to making a specified amount of progress based on the planned, scope, schedule, and budget (cost) constraints. The annual iterative project report will be the basis for and confirmation of annual funding requested through the budget process. We believe CDT should refine, formalize, and implement these processes for overseeing future modular modernization of IT systems in California. CDT should further establish guidelines for how state agencies must plan and budget for such efforts, develop overall strategies or roadmaps, and track and report progress toward completion. The processes should identify both how CDT will approve and oversee the development of individual modules and the integration of those modules into an overall functioning system. This will help to ensure that the individual module projects benefit from identifying and sharing common risks and lessons learned, as well as resolving discrepancies and compatibility issues. Without such processes, the State will lack a consistent approach for approving and monitoring any future modular modernization projects.

Our Monitoring Will Focus on DHCS's Progress Toward Developing a Strategic Approach for Modernizing CA-MMIS Functions

Because the nature of DHCS's CA-MMIS modernization effort has shifted significantly since the Legislature first tasked us with monitoring the CA-MMIS project, we will focus on the risks associated with this shift in approach. As we specify throughout this report, DHCS's move to an enterprise approach and away from a project-specific approach leaves us with significant uncertainty about its future CA-MMIS-specific modernization efforts. Currently, DHCS has not planned any CA-MMIS modules beyond those already in progress, and it remains unclear when DHCS will prioritize modernizing additional CA-MMIS functions. As we have previously noted, DHCS faces risk in the strategic planning for, and integration of, CA-MMIS modules into a complete system. We will therefore focus our future monitoring efforts on DHCS's development of a strategic approach for its CA-MMIS modernization efforts as a subset of its MES modernization and on integration of CA-MMIS modules into a functioning system. We will continue to report concerns in these areas and provide recommendations as necessary.

Recommendations

As soon as possible, DHCS should implement CDT's recommendations, including, but not limited to, the following:

- Develop an MES modernization approach document that includes the strategy, time frame, and cost for modernizing CA-MMIS.
- Map the CA-MMIS subsystems to the proposed modules.
- Implement a portfolio-level governance structure for the MES project.
- Implement a process for identifying and mitigating risks related to its MES modernization effort, including the modernization of CA-MMIS.

The Legislature should amend state law to require CDT to implement processes for overseeing the State's modular modernization efforts, including a process for approving and overseeing the development of modules and their integration into an overall system. This process should set expectations for state agencies to plan and develop cost estimates for such projects, including developing an overall strategy or roadmap and reporting progress toward completion. The process should also require state agencies to establish a plan for integrating modules into a complete system.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

Above report referred to the Committee on Accountability and Administrative Review.

California State Auditor

2019-046
January 5, 2021

The Honorable Speaker of the Assembly
The Honorable Members of the Assembly
of the Legislature of California
State Capitol, Room 3196
Sacramento, California

Members of the Assembly: As required by Revenue and Taxation Code sections 30130.56 and 30130.57, my office conducted an audit of the calculation, distribution, and administration of Proposition 56 tobacco tax funds, and the following report details our audit's findings and conclusions. In general, we determined that the California Department of Tax and Fee Administration (CDTFA) used inaccurate data to calculate the tax; that some state agencies should implement stronger safeguards to ensure that they spend Proposition 56 funds in accordance with the law's requirements; and that many state agencies did not properly disclose to the public their use of the funds.

Voters passed Proposition 56 in 2016, increasing the tax on tobacco products and generating more than a billion dollars per year in tax revenue for various health, education, and enforcement programs. However, CDTFA used arbitrary and inaccurate data when calculating the tax rate on certain tobacco products. These inaccuracies reduced the tax revenue designated for programs to reduce tobacco use and improve the health of Californians by more than $6 million in fiscal year 2018–19 alone.

Furthermore, certain state agencies did not implement adequate safeguards to ensure that they properly awarded and monitored the use of Proposition 56 funds. Without these safeguards, some agencies failed to apply Proposition 56 funds for their intended purposes. For example, the Department of Health Care Services (Health Care Services) receives Proposition 56 funds for its Physicians and Dentists Loan Repayment Act Program. One of this program's priorities is to reduce geographic shortages of health care providers. However, Health Care Services awarded tens of millions of dollars to physicians and dentists located in areas of the State that do not have such provider shortages. Many state agencies also failed to publish the amounts of Proposition 56 funds they received and spent, as Proposition 56 requires, which limits the public's ability to monitor agencies' spending of these funds.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

Above report referred to the Committee on Revenue and Taxation.

California State Auditor

2020-039
January 7, 2021

The Honorable Speaker of the Assembly
The Honorable Members of the Assembly
of the Legislature of California
State Capitol, Room 3196
Sacramento, California

Members of the Assembly: This letter report follows up on significant concerns raised in our previous assessments on the development and implementation of the Financial Information System for California (FI$Cal). In August 2018, we issued a letter report that discussed how agencies using FI$Cal struggled to submit critical financial reports to the State Controller's Office (State Controller) on time. In December 2019, we issued another letter report, in which we identified several issues with a 2019 project plan update, including a misleading timeline that deferred some development and costs associated with that development until after the project's formal conclusion. This letter report highlights the following concerns with the FI$Cal project and provides an update on the status of recommendations we made in prior reports:

- The project missed its June 2020 completion date despite removing features from the project scope in 2019. The project's governing entities—composed of the steering committee members, the

California Department of Technology (CDT), and the Department of FI$Cal (project office), which we discuss in the text box—have issued a project plan update that extends the project timeline by two years, uses a new budget methodology, and reflects a reduced project scope. The budget methodology the governing entities used does not describe the full cost of the project and deviates from the information they presented in previous project plan updates because it excludes certain development costs.
- State agencies using FI$Cal still struggle to complete required financial reports on time. Consequently, the State released its annual audited financial statements months late for the second year in a row. A late release of critical financial information increases the risk to the State of a lower credit rating, which could result in increased costs to taxpayers.
- The project office and CDT have not addressed some of our recommendations to ensure that agencies using FI$Cal produce timely financial reports and to improve oversight and transparency of the project.

The Project Office Missed Its Completion Deadline and Its Updated Plan Extends the Project Schedule, Uses a New Budget Methodology, and Reflects Some Scope Reductions

The project office was unable to complete the project by its June 2020 deadline, further delaying a project that has extended years beyond previous estimates. The governing entities set this deadline in an August 2019 project plan update after the project office missed its July 2019 completion target. However, shortly after approving the new schedule, CDT called the timetable ‘‘aggressive’’ and noted there was little room for error if the project office was to complete the project as planned. We reported in December 2019 that this tight schedule, as well as CDT identifying months of delays in development and testing, posed risks to the project office meeting its new June 2020 deadline.

Development and testing delays led the governing entities to issue a ninth project plan update in September 2020. In that plan, the governing entities estimate a much longer timeline in order to complete the project's remaining tasks. The governing entities now propose to complete the project in June 2022. As Figure 1 shows, the project office has missed many project completion dates and has extended the current completion date by two years. According to the project plan update, extending the project completion date will give the project office one more year to develop FI$Cal and to perform time-intensive tests of system features; specifically, developing and then testing FI$Cal's report production functions for the State Controller's use.

Our first concern with the updated project plan is that the reported budget changes the way the project reports its costs and further obscures the real cost of FI$Cal. The project plan update shows that the current total cost for the FI$Cal project is slightly less than $1 billion. However, the total project cost for July 2020 and onward presented in the project plan update includes only estimated costs for the specific project tasks described in the document—development and testing of features that allow the State Controller to transition to FI$Cal—and excludes development costs for other project activities such as implementing features related to bond and loan accounting. The differences in costs due to this exclusion are significant. For example, the 2020 project plan update reports $14 million in project costs for fiscal year 2020–21, whereas the previous project plan budget showed $100 million in the same year. The project plan update does not indicate how the project will save $86 million; rather, it notes only that the project office's $115 million non-project departmental budget will cover costs outside the reported $14 million.

The project office's chief deputy asserted that this method of reporting costs better differentiates the project office's yearly departmental costs from those of the actual work on the project. We agree that this calculation may be useful for determining the cost of work the project office is currently performing to support the State Controller's transition. However, it is incomplete in describing the full cost of the project and deviates from the information previous project plan updates have provided about total project costs. Without complete cost information prepared using consistent methods, the Legislature and other stakeholders lack an important tool for evaluating whether the project is further exceeding its planned expenditures.

We are additionally concerned that the governing entities continue to exclude important tasks from the formal project scope. In our 2019 report, we noted that the 2019 project plan update classified the implementation of certain features—including FI$Cal's ability to produce the State's key financial reports on its own—as a form of system maintenance that the project office would undertake after the project's official end date. The 2020 project plan update continues this trend and reflects that the project office will defer developing several more FI$Cal features, such as automating certain cash transfers for departments, until the maintenance phase. Regardless of progress on deferred tasks, when the items within the formal project scope are finished, the governing entities will be able to declare the project complete in 2022. Thus, we remain concerned that the project office will not complete deferred tasks and all promised features promptly, or at all, once the project is declared complete.

The Project Office Should Continue Independent Oversight Through to Project Completion and Promptly Address the Concerns That Oversight Raises

The plan update does budget for independent project oversight, but until the project office issues a contract for continuing oversight, we remain concerned about it maintaining oversight for the duration of the project. The FI$Cal project's oversight includes two principal mechanisms: CDT's reports on the project's status and technical reports a consultant (oversight contractor) prepares. In December 2019, we recommended to the project office that it arrange for both oversight mechanisms to continue until the State Controller publishes the State's annual financial statements exclusively using FI$Cal. The project plan update reflects that the State Controller will finish its transition and produce reports exclusively in FI$Cal in spring 2023 or later and, accordingly, the plan includes an oversight budget through June 2023. However, the oversight contractor's current contract will expire six months earlier, in January 2023. Thus, there is a risk that full project oversight will end before the State Controller is exclusively using FI$Cal. According to the project office's chief deputy, the project office will secure a new contract for technical oversight at a date closer to 2023. We believe that the project office should do so to ensure the oversight contractor will be able to continue to monitor risks to the project while the project office supports the State Controller's final transition. In Appendix A, we summarize the status of our past recommendations the project office and CDT have not yet fully implemented.

In addition to ensuring that oversight continues, the project office should work to promptly address risks that the oversight entities identify. Although the latest project plan update represents a significant time extension to accomplish scheduled work, there is still a risk that the project office will not deliver a quality product by the new deadline. CDT and the oversight contractor released oversight reports in 2020 identifying ongoing difficulties the project office has with addressing risks promptly. For example, CDT reported in January 2020 that the project office was behind in tasks to build, test, and validate all of the remaining project milestones. At that time CDT also found that the project office had trouble managing the project scope including by adding unanticipated features to make FI$Cal usable. The logical result of CDT's finding is that the added tasks are increasing the project staff's remaining work. In its September 2020 report CDT indicated that the project office had not resolved either of these issues. For example, CDT reported that many added features were still in draft or development stages and that in the future the project office may need to add scope to the project. CDT's ongoing concerns indicate that the project office may face difficulties in meeting even its new, extended deadlines.

Similarly, the oversight contractor has repeatedly reported that the project office has not developed adequate processes and requirements for FI$Cal and the State Controller's existing system to run in parallel. The project plan update identifies the parallel operation of these two systems as a key project goal because this operation will allow the State Controller to verify the accuracy of data in FI$Cal and prepare for a final transition to using FI$Cal exclusively. However, as of September 2020, the oversight contractor repeated its finding that the project office lacked processes to ensure that parallel operations run smoothly. The oversight contractor tempered its report by noting that the issue had shown some improvement. For example, the contractor observed improvements in test procedures and related error resolution that allowed staff to more efficiently perform testing tasks. Yet, at the same time, the contractor identified areas where the project office should continue working to improve these processes. Lack of proper processes and procedures could ultimately introduce inefficiencies for State Controller staff as they attempt to reconcile these complex, interconnected systems.

The chief deputy of the project office stated that the project faces inherent risks of delays because of the complicated process to release new features for the State Controller when other departments are already using FI$Cal, and because there are a limited number of knowledgeable State Controller staff available to perform system testing. He also explained that the project office agreed to better communicate to CDT its plans to modify the project's scope and agreed that having robust documentation on running the parallel systems was important. The chief deputy noted that many of the current discrepancies identified when reconciling data between the two systems have to do with system settings such as transactions posting at different times.

It is not uncommon for large projects like FI$Cal to have unforeseen issues or limitations from resource constraints. We are encouraged that the project office acknowledges some of the issues facing the project and the importance of working to resolve them. However, our concern is that CDT and the oversight contractor documented the issues needing correction in multiple oversight reports, and noted that the issues remained outstanding months later. If the project office does not mitigate areas of ongoing risk, recurring issues in development and testing such as those described here may hinder its ability to complete development by project deadlines and support FI$Cal users.

The Transition to FI$Cal Has Caused Delays to Critical State Financial Reporting for the Second Consecutive Year

Agencies transitioning to FI$Cal continue to struggle to produce financial reports on time, a problem that may impact the State's ability to secure low-cost financing for important projects. For the fiscal year 2018–19 reporting cycle, 12 large entities using FI$Cal, including the California Department of Education and the Employment Development Department, did not submit timely reports to the State Controller because they had difficulties with FI$Cal. The departments' late submissions significantly delayed the State Controller's ability to publish the State's annual financial statements for fiscal year 2018–19. The financial statements are typically published by April 1, but in 2020 they were delayed 6 months to October 2020.

Fiscal year 2018–19 is the second reporting cycle in a row in which the State published untimely financial statements. Agencies' difficulties with FI$Cal previously contributed to a two-month delay in the State publishing its financial statements for fiscal year 2017–18. In addition, the number of large agencies that encountered difficulties using FI$Cal increased from one for the 2017–18 cycle to 12 for the 2018–19 cycle as more departments transitioned to FI$Cal. In the past, agencies reported to us that their difficulties with using FI$Cal included user error, insufficient training, and system limitations. For fiscal year 2018–19, agencies continued to report a need for staff training, as well as an unfamiliarity with FI$Cal and its complexity.

Financial reporting delays may ultimately prove costly for the State. Each year the State Controller prepares a comprehensive set of financial statements, which our office audits for accuracy and compliance with accounting standards. In accordance with bond agreements, the State Treasurer typically publishes an annual report by April 1 that includes these audited financial statements. The State's ability to publish accurate and timely financial statements is critical for the State to sustain the trust of financial markets and maintain a high credit rating. A high credit rating helps ensure access to low-interest debt. If the State suffers a downgraded credit rating, it could substantially increase borrowing costs, affecting the State's ability to pay for debt-financed projects such as schools and levees. The State maintaining low borrowing costs may be particularly important in upcoming years, as the Legislative Analyst's Office has projected multiple years of reduced state revenue growth from a potential recession related to COVID-19.

This second year of FI$Cal-related delays occurred despite governing entities reporting in 2019 that the project office was providing support for agencies to finalize their monthly and annual financial reports. Further, the chief deputy of the project office explained that the office is working with Finance and the State Controller to provide dedicated support for the largest agencies, and many of the agencies' issues from

2018–19 were about knowledge gaps and converting data from their old systems. The project office expects these to be less problematic in the future. However, we remain concerned about agencies' late reporting in the future, given that late reports increased over the last two reporting cycles and the project office has acknowledged that some large agencies are still experiencing delays. Multiple years of the State issuing its financial statements late increase the likelihood of a negative effect on future borrowing costs. Thus, the State's ability to use FI$Cal to produce timely financial statements remains a significant concern until agencies are able to submit their reports on schedule.

Agencies' struggles with implementing and using FI$Cal, in addition to ongoing concerns regarding project scope reductions and significant unreported costs, represent significant risk to the State. Thus, in January 2020 our office added the issue of state financial reporting and accountability to our State High Risk List, which documents agencies and issues facing major challenges associated with their efficiency or effectiveness. In our January 2020 High Risk update, Report 2019-601, we concluded that the issues surrounding the FI$Cal project represented increasing impediments to the State's ability to efficiently and accurately report on its finances, and that many of these issues could persist beyond the project's formal completion date. Further, reliable tracking of expenditures is an issue of increasing importance during the COVID-19 pandemic as it helps allow state agencies to take full advantage of federal relief funding. However, as we discussed in our August 2020 update to the State High Risk List, Report 2020-602, agencies' struggles with FI$Cal may impede the State's ability to produce information it needs to satisfy federal funding requirements. Finally, in our October 2020 Internal Controls report, Report 2019-001.1, we noted a material weakness because of a series of deficiencies in FI$Cal's safeguards. Those deficiencies increase the risk that the State may not be able to rely on the financial reports FI$Cal generates. Due to these significant concerns, we will continue to report on issues related to state financial reporting and the FI$Cal project as part of both our State High Risk program and our annual FI$Cal monitoring mandate.

We prepared this report pursuant to Government Code section 11864.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

Above report referred to the Committee on Accountability and Administrative Review.

California State Auditor

2020-301
January 14, 2021

The Honorable Speaker of the Assembly
The Honorable Members of the Assembly
of the Legislature of California
State Capitol, Room 3196
Sacramento, California

Members of the Assembly: As required by state law, my office conducted an audit of certain judicial branch entities' compliance with the requirements of the California Judicial Branch Contract Law (judicial contract law), Public Contract Code sections 19201 through 19210. The judicial contract law requires the Judicial Council of California (Judicial Council) to adopt and publish a Judicial Branch Contracting Manual (judicial contracting manual) that is consistent with the Public Contract Code and establishes the policies and procedures for procurement and contracting that all judicial branch entities, including superior courts, must follow.

This report concludes that the five courts we reviewed for this audit—the superior courts in Alameda, Contra Costa, Lake, Orange, and San Bernardino counties—adhered to most of the required and recommended procurement and contracting practices that we evaluated, but they could improve in certain areas. Specifically, three courts did not always follow required or recommended payment practices that help to safeguard public funds. For example, the Alameda court made $16,000 in questionable payments because it did not match invoices to appropriate supporting documentation for two payments we reviewed. In addition, four courts have failed to consistently comply with state law requiring them to notify my office when they enter into high-value contracts, which limits my office's ability to identify in a timely and accurate manner contracts that may warrant review. Finally, two courts could improve their local contracting manuals by including certain information, such as a policy on legal review of contracts, that the judicial contracting manual recommends and the courts had no compelling reason to exclude.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

Above report referred to the Committee on Judiciary.

SPECIAL COMMITTEE MEETINGS

By unanimous consent, the following committees were permitted to meet:

Budget, on Monday, January 25, 2021, at 10:30 a.m., in Room 4202;

Budget, on Thursday, January 28, 2021, at 8 a.m., in Room 4202;

Arts, Entertainment, Sports, Tourism, and Internet Media, to convene jointly with the Joint Committee on Arts, on Tuesday, February 2, 2021, at 10 a.m., in the Assembly Chamber.

INTRODUCTION AND FIRST READING OF ASSEMBLY BILLS

The following bills were introduced and read the first time:

ASSEMBLY BILL NO. 248—Choi. An act to add and repeal Sections 17053.2 and 23664 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

ASSEMBLY BILL NO. 249—Choi. An act to amend Sections 17052.12 and 23609 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

ASSEMBLY BILL NO. 250—Choi. An act to add and repeal Section 17055.2 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

ASSEMBLY BILL NO. 251—Choi. An act to amend Section 66022.5 of the Education Code, relating to postsecondary education.

ASSEMBLY BILL NO. 252—Robert Rivas and Salas. An act to add and repeal Division 10.6 (commencing with Section 12285) of the Public Resources Code, relating to land use.

ASSEMBLY BILL NO. 253—Patterson. An act to amend Section 599aa of the Penal Code, relating to animal welfare.

ASSEMBLY BILL NO. 254—Jones-Sawyer. An act relating to state prisons.

ASSEMBLY BILL NO. 255—Muratsuchi. An act relating to COVID-19 relief.

ASSEMBLY BILL NO. 256—Kalra, Kamlager, Robert Rivas, and Santiago (Principal coauthor: McCarty) (Principal coauthors: Senators Bradford and Gonzalez) (Coauthors: Bonta, Carrillo, Friedman, Lee, Levine, Stone, and Ting) (Coauthors: Senators Durazo, Laird, Skinner, and Wiener). An act to amend Sections 745 and 1473 of the Penal Code, relating to criminal procedure.

The following resolution was offered:

HOUSE RESOLUTION NO. 8—Choi. Relative to Dosan Ahn Chang Ho Day.

AUTHOR'S AMENDMENTS
Committee on Public Safety

January 14, 2021

Mr. Speaker: The Chair of your Committee on Public Safety reports:

Assembly Bill No. 38

With author's amendments with the recommendation: Amend, and re-refer to the committee.

JONES-SAWYER, Chair

ASSEMBLY BILL NO. 38—An act to add Section 1269d to the Penal Code, relating to bail.

Bill read second time.

Author's amendments, presented pursuant to Assembly Rules, read and adopted; bill ordered reprinted, and to be re-referred to the committee.

ADJOURNMENT

At 3 p.m., the Assembly adjourned until 9 a.m., Friday, January 15, 2021.

ANTHONY RENDON, Speaker

TAMMY WEIS, Assistant Minute Clerk

AMENDMENTS CONSIDERED BY THE ASSEMBLY ON JANUARY 14, 2021

The following measure was amended in the Assembly on this day:

AB	RN
38	2103053

Daily Total: 1

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