

Child Support Enforcement Program:

The Procurement of a Single, Statewide Automated Child Support System is Taking Longer Than Initially Estimated, With Several Challenges Remaining



December 2002
99028.1

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December 11, 2002

99028.1

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

Dear Governor and Legislative Leaders:

As required by Chapter 479, Statutes of 1999, the Bureau of State Audits (bureau) presents its audit report concerning the procurement of a single, statewide automated child support system by the Department of Child Support Services (department) with the Franchise Tax Board (board) acting as its agent. The statute requires the bureau to monitor the evaluation and selection process for any signs of bias or favoritism toward any bidder.

This report describes the progress made during the past 2 years toward procuring a single, statewide automated child support system. While a team made up of personnel from the department and the board used a predefined and approved performance-based contracting approach, it received only one final proposal for the main system. The proposal included a total system cost estimate of over \$1.3 billion covering 10 years. Following an example from a previous state procurement where only a single proposal was received, the project team hired a consultant to examine the reasonableness of the cost, the results of which are still confidential.

During our evaluation of the process used by the project team to score the proposal, nothing came to our attention that would cause us to conclude that the team deviated from the evaluation criteria, nor did anything come to our attention to indicate that the project team materially deviated from the predefined evaluation process, resulting in bias or favoritism toward any potential bidders.

For the main procurement, the project team needs to complete contract negotiations, a feasibility study of viable options, and obtain approvals. Recent uncertainties may cause the contract award for the main system to extend from February 2003 to July 2003. Furthermore, the project team still needs to complete the procurement of the state disbursement unit, the second part of California's procurement of a single, statewide automated child support system that is less complex and in the early stages of the process.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE
State Auditor

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SUMMARY

Audit Highlights . . .

Our review of the Department of Child Support Services and Franchise Tax Board's (project team) procurement of a single, statewide automated child support system (child support system) revealed the following:

- Regardless of its use of a competitive performance-based contracting model, the project team only received a single final proposal.*
 - The single proposal received was evaluated and found to be responsive and viable, with an estimated total system cost of \$1.3 billion over 10 years.*
 - Nothing came to our attention during our review of the evaluation process to indicate bias or favoritism toward any bidder.*
 - The project team still needs to complete contract negotiations and a feasibility study as well as obtain approvals. It also needs to procure a state disbursement unit function for the child support system.*
-

RESULTS IN BRIEF

The federal Family Support Act of 1988 requires each state to establish a statewide automated system to track and collect court-ordered child support payments and to locate nonpaying parents. Such a system would replace California's current county consortia systems, which do not meet federal requirements for a single, statewide automated child support system. Previous attempts by the State to comply with federal requirements have been unsuccessful, resulting in sanctions in the form of penalties and reduced funding imposed by the federal government.

In 1999, the California Legislature outlined a process for establishing a single, statewide automated child support enforcement system (child support system). Chapter 479, Statutes of 1999, assigns the responsibility for procuring, developing, implementing, and maintaining such a system to California's Department of Child Support Services (department), with the Franchise Tax Board (board) as its agent. Although the department is the single state agency responsible for the child support enforcement program, the board has a major role in procuring the child support system, in part because of its previous successful tax automation projects. The legislation also requires the Bureau of State Audits (bureau) to monitor the evaluation and selection process for any signs of bias or favoritism toward any bidder. This report describes the progress made toward procuring a child support system and our review of the process.

The statute requires, among other things, that the board develop a plan, subject to federal approval, for procuring a child support system. In developing the plan and procuring the system, the board is to use techniques that have proven successful in its previous technology efforts.

Because of the State's previous failure to meet federal deadlines for a child support system, the federal government is imposing sanctions on the State in the form of penalties that may cumulatively total approximately \$1.3 billion by 2006. In addition, the federal government has reduced its funding

support for the State's child support system from the 90 percent it allowed in 1990 for the planning, development, and installation of transfer systems to its current support level of 66 percent. The federal government is also weighing in on major milestones in connection with the development of the child support system and is monitoring the current procurement process. For example, it has reviewed or authorized the release of certain documents, such as the solicitation document and the criteria used to evaluate the proposal, that are critical to the process.

A project team made up of staff from both the department and the board separated the procurement into two parts: a statewide system (the main system) and a state disbursement unit, a centralized system for collecting and disbursing child support payments. According to the project team, the state disbursement unit procurement, which is in the beginning stages, is anticipated to be more straightforward than the main system because it will be a service contract. Therefore, the team believes the time necessary to procure that system should be shorter.

The procurement of the main system has been underway for more than two years. The early estimates by the project team called for the contract for developing the main system to be awarded in July 2002. Due to unforeseen schedule changes, the project team now estimates that it will award the contract in February 2003. However, because the project team has identified further uncertainties, the contract award date may be extended to July 2003.

The project team has overcome several obstacles. For example, shortly before the final proposal deadline of February 28, 2002, the project team decided to significantly change the scope of the quality assurance services. As a result, the project team determined that it was necessary to replace its quality assurance contractor. According to industry standards, the role of quality assurance is to provide adequate assurance that processes in the project life cycle conform to their established plans. Another obstacle was the withdrawal of all but one team of qualified vendors from the competition. As a result, the project received only a single proposal from a group of companies that includes International Business Machines, Accenture, and American Management Systems (IBM group). Regardless of these obstacles, the project team continued following the process it developed before soliciting proposals.

The main system that the IBM group proposed had an estimated total system cost of more than \$1.3 billion over 10 years. The project team evaluated and scored the proposal and found that it met the requirements set forth in the document that solicited proposals, known as the solicitation document, for the child support system. However, because it received only a single proposal, the project team engaged a consulting firm to examine the reasonableness of the costs. The resulting report is still confidential due to the ongoing nature of the procurement. The project team has moved forward with the IBM group and issued a letter of intent to enter into contract negotiations in June 2002. The cost reasonableness assessment is scheduled for completion at the end of contract negotiations, but before the contract is awarded.

During our evaluation of the process used to score the proposal, nothing came to our attention that would cause us to conclude that the project team deviated from the evaluation criteria, nor has anything come to our attention to indicate that the project team materially deviated from the predefined evaluation process in a way that would have resulted in unfair treatment of the potential vendors.

The project team still faces a number of challenges before it completes the procurement of the main part of the child support system. It must finalize contract negotiations, complete the feasibility study of viable options, and obtain approvals before awarding the contract. In addition, the majority of the steps necessary to procure the state disbursement unit remain.

AGENCY COMMENTS

The department and the board agreed with the information contained in this report and felt that it accurately described the progress made and the processes used for this procurement. ■

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INTRODUCTION

BACKGROUND

In 1988, Congress passed the Family Support Act of 1988 (act), a legislative initiative directed at enforcing the payment of court-ordered child support. Among other provisions, the act required each state to have an operational automated child support enforcement system by October 1, 1995. This federal deadline was later extended to October 1, 1997. In 1992, the State of California entered into a contract to develop and implement the Statewide Automated Child Support System (SACSS). However, the State declared SACSS a failure in November 1997, after spending more than \$111 million and nearly five years designing, developing, piloting, and implementing it. As we noted in our March 1998 report titled *Health and Welfare Agency: Lockheed Martin Information Management Systems Failed to Deliver and the State Poorly Managed the Statewide Automated Child Support System*, a cascade of events contributed to the ultimate failure of the SACSS.

In 1998, the State made another attempt to comply with the act by beginning to develop a consortium of selected systems from four counties—Kern, Los Angeles, Riverside, and San Francisco. However, in April 1999, the federal Department of Health and Human Services rejected the State’s consortia-based approach and required it to implement a single, statewide automated child support system (child support system).

In 1999, the Legislature passed several laws that restructured the way the State conducts its child support enforcement activities. Chapter 478, Statutes of 1999, created the Department of Child Support Services (department) and transferred responsibility for enforcing child support from the Department of Social Services to the new department. This law also required counties to establish new local child support agencies, separate and independent from other county departments, and transferred child support enforcement operations from the county district attorneys to these new local agencies. Chapter 479, Statutes of 1999, designated responsibility for procuring, developing, implementing, and maintaining the statewide automated system, now referred to as the California Child Support

Automation System (project), to the Franchise Tax Board (board) as the agent for the department. The statute defines the roles of these two distinct organizations as being that of an owner (the department) and an agent (the board). In other words, the department is responsible for a child support system that meets the federal requirements, with the board playing a major role on the department's behalf. As shown in Figure 1, the team working on this project (project team) consists of both board and department personnel.

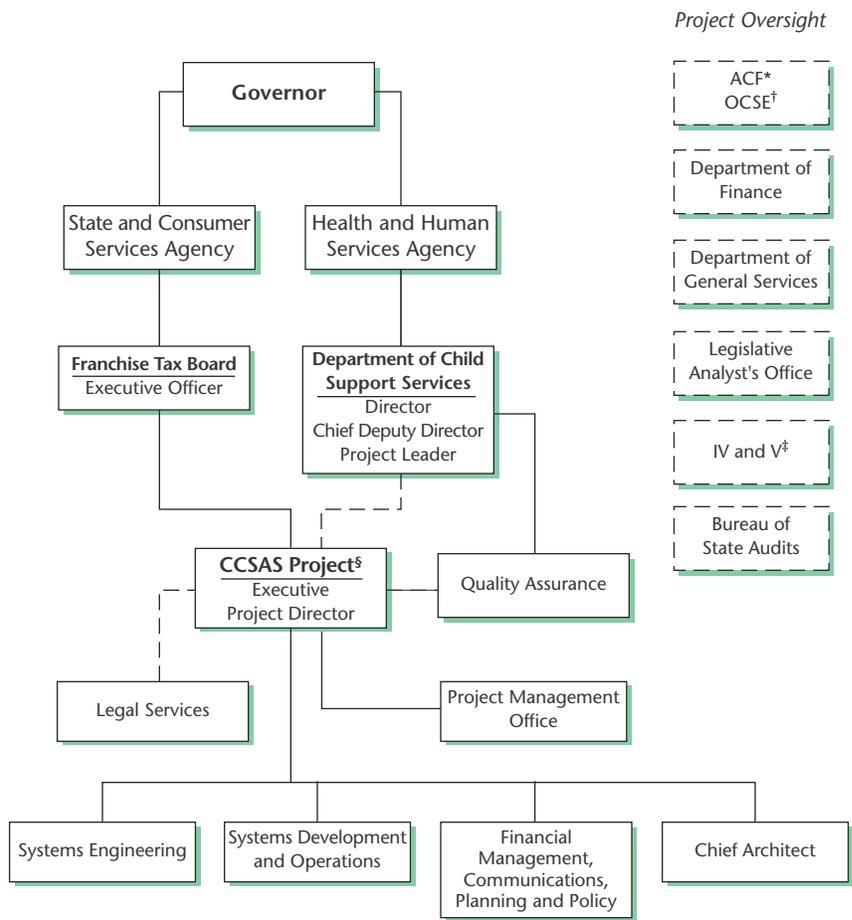
The act requires the child support system to be a single, statewide automated data processing and information retrieval system. Functional requirements of the new system include, but are not limited to, the following:

- Locating parents or alleged parents who are not financially supporting their children.
- Establishing paternity through blood testing and court hearings and assessing the amount of financial support owed.
- Processing, tracking, and controlling cases after initiation.
- Billing absent parents regularly for all obligations and collecting, distributing, and disbursing payments.
- Monitoring, tracking, and remedying cases with delinquent payments, through such means as attaching wages and intercepting tax refunds and other income.
- Generating various reports for federal, state, and county managers.

The procurement of this child support system is planned in two separate parts: the procurement of the main system and a separate procurement for the state disbursement unit. The main system procurement will consist of the design, development, and implementation of the child support system, including data conversion and system integration. The procurement of this system has been underway for approximately 28 months, while the procurement of the state disbursement unit is in the early stages. The state disbursement unit will be a centralized system for collecting, disbursing, and recording child support payments, and it will be linked with the main system. According to the project team, the procurement and development of the main system is highly complex. The board's executive officer expects the procurement for the state disbursement unit to be much smoother because it is a relatively straightforward service contract.

FIGURE 1

California Child Support Automation System Project



Source: California Child Support Automation System as of November 2002.

* Federal Administration for Children and Families.

† Federal Office of Child Support Enforcement.

‡ Independent Verification and Validation.

§ California Child Support Automation System Project.

The Procurement Process

As we mentioned previously, Chapter 479, Statutes of 1999, requires the board to serve as the department’s agent in procuring and developing a single, statewide automated child support system, and it further requires that the board employ techniques proven to be successful in its previous tax automation efforts. It also requires the board to develop a procurement plan that includes, but is not limited to, elements that accomplish the following:

- Provide for full and open competition among qualified vendors.
- Specify the goals the project needs to accomplish, not how to accomplish those goals.
- Maintain maximum vendor commitment to the project success and minimize the risk to the State.
- Use evaluation methods that select the best solution based on business performance measures, not necessarily the lowest price.
- Consider the future ability of the selected system to provide enhancements that will improve the long-term effectiveness of child support management.
- Base payments to the vendors primarily on achieving predefined performance measures.

The project team addressed the key provisions in its procurement strategy by using a performance-based contracting approach, an alternative form of procurement that the board has used successfully in the past for tax automation projects. According to a 1998 presentation by the board, this procurement approach lessens the risk associated with large procurements through risk sharing.

While both the traditional procurement approach and the performance-based approach are designed to solicit bids from multiple vendors, the performance-based contracting approach differs from a traditional procurement in several ways. Figure 2 illustrates the two approaches, using color to identify steps that are comparable. For example, according to the board, instead of focusing on business and technology requirements, the performance-based contracting approach seeks to obtain proven solutions to business problems and to identify new and innovative ways of achieving business goals. Further, the performance-based contracting approach results in solutions that provide the best value to the State rather than simply the lowest bid. This is achieved through an objective method that critically reviews and competitively scores each solution based upon the merits of the solution, the risk of implementing the new technology and work processes, and the net benefit produced. Moreover, under the performance-based contracting approach, a vendor receives payment only if and when benefits are realized after the solution has been implemented. Theoretically, if vendors do not receive payment until the system works and generates benefits, they will remain on task until the system achieves the desired business goals.

FIGURE 2

Comparison of Procurement Models

Steps/ Stages	Traditional Procurement (Request for Proposal)	Steps/ Stages	Alternative Procurement Performance-Based Contracting Approach (Solicitation for Conceptual Proposal)
1	Approval of feasibility study report	1	Approval of alternative procurement business justification
2	Advertise and request for interest	2	Advertise and request for interest
3	Release request for proposal	3	Identify qualified business partners (QBPs)
4	Receive intent to bid	4	Hold nonconfidential discussions
5	Hold bidder's conference	5	Release solicitation document to QBPs
6	Negotiate contract	6	Hold QBP conference
7	Bidders submit conceptual proposal, detailed technical proposal	7	Receive intent to respond
8	Hold confidential discussions	8	Hold confidential discussions with QBPs
9	Bidders submit draft proposal	9	QBPs submit draft proposal
10	Bidders submit final proposal	10	Hold confidential discussions with QBPs
11	Evaluate technical response	11	QBPs submit final proposal
12	Cost opening	12	Evaluate technical response
13	Evaluate and select winning bidder	13	Cost opening
14	Issue letter of intent to award	14	Evaluate and select winning QBP
15	Award contract	15	Debrief QBPs on selection rationale
16	Debrief bidders on selection rationale	16	Issue notice of intent to enter into contract negotiations
17	Begin development and implementation	17	Negotiate contract
		18	Approval of feasibility study
		19	Issue letter of intent to award
		20	Award contract
		21	Begin development and implementation

Source: California Child Support Automation System Project.

Another difference between the two approaches resides in the development of the feasibility study. In the traditional model, a feasibility study is one of the first steps, and it is used to justify the approach the State will take on a project, generally serving as a basis for the request for proposals. The state agency normally performs the analysis and documents the requirements for the feasibility study in isolation, before receiving the vendors'

proposed solutions. In contrast, under the performance-based contracting approach, the project team develops the feasibility study after evaluating the proposals received from potential vendors. In other words, in the traditional approach the feasibility study generally drives the solution identified in the solicitation document, whereas in the performance-based contracting approach the solutions that vendors propose are used as viable options for the feasibility study.

Federal Action and Oversight

The State's failure to develop a child support system by the federal deadline continues to have consequences that affect the methods and cost to the State of developing a new system and operating the current child support program. Specifically, the federal government reduced the enhanced funding rate available for the costs of developing and implementing a statewide child support system. In 1990, the federal government reimbursed states for 90 percent of the cost of planning, developing, and installing transfer systems. Currently, the federal Office of Child Support Enforcement (OCSE) is providing California a funding rate of only 66 percent for its efforts.

Another consequence at the federal level is the imposition of penalties on the State for failing to develop a child support system by the federal deadline of October 1, 1997. According to the terms of the act, a state's failure to comply will eventually result in the loss of federal funding for its welfare and child support programs. California's penalties started in fiscal year 1998–99 at \$11.9 million and have grown to approximately \$157 million for fiscal year 2001–02. Depending on whether the federal government relieves California of some of its future penalties, the department estimates that the cumulative total for the penalties may range from approximately \$700 million to almost \$1.3 billion by 2006. The percentage applied has risen from 4 percent to 30 percent since the State first failed to comply with the act. The penalties are calculated on a percentage of a base amount of the department's expenses in a given year.

Finally, as a result of California's failure to comply with the act, the federal government required the State to have an independent verification and validation team review the processes the State is using to develop its child support system. This team also oversees the existing county consortia systems

that the department is currently using for child support activities. The independent verification and validation team produces periodic reports to the OCSE and the State. These reports include findings and recommendations regarding the State's project and risk management activities related to the county consortia systems and the procurement of the single, statewide automated child support system.

As part of its oversight, the OCSE provides technical assistance in the form of conference calls, on-site visits, and document reviews. Through this technical assistance and the work of the independent verification and validation team, the OCSE has reviewed, concurred with, or authorized a number of critical documents related to the procurement process. For example, the OCSE reviewed the procurement handbook prior to its release, authorized the State to release the project solicitation document, and approved the criteria used by the project team to evaluate proposals.

SCOPE AND METHODOLOGY

Chapter 479, Statutes of 1999, requires the Bureau of State Audits (bureau) to monitor the process of evaluating and selecting a vendor for its child support system to determine whether the evaluation is based on the criteria contained in the solicitation document. Further, it requires the bureau to monitor the process to determine whether the vendor or vendors were chosen according to the methodology in the solicitation document and to determine if these activities were carried out without bias or favoritism toward any bidder.

To monitor the selection of the vendors, we reviewed the qualification process and outcomes. To monitor the selection of a final proposal, we observed the nonconfidential and confidential discussions between the qualified business partners and the project team. We monitored the evaluation process for bias and favoritism and for consistency with the approved procurement evaluation criteria. We also had a consultant review the impact that the absence of a quality assurance vendor had on bias and favoritism during the procurement. We have completed our work through the evaluation of the single proposal submitted in response to the solicitation document.

At the time of this report, the project team was in contract negotiations with a group of companies known as the IBM group. Details of the negotiations are still confidential. The project team still needs to complete the feasibility study and obtain approvals before it awards the contract. We plan to continue monitoring the contract negotiation process as well as observe the process used to develop the feasibility study. The procurement process for the state disbursement unit, the second part of the child support system, is in the early stages. The project team has begun developing the solicitation document for the state disbursement unit and plans to finish the entire procurement before implementation of the main system is completed. As required by the statute, we will monitor the evaluation and selection process for the procurement of the state disbursement unit. ■

AUDIT RESULTS

THE PROJECT TEAM DEVELOPED AND IMPLEMENTED A PLAN TO PROCURE THE NEW COMPUTER SYSTEM

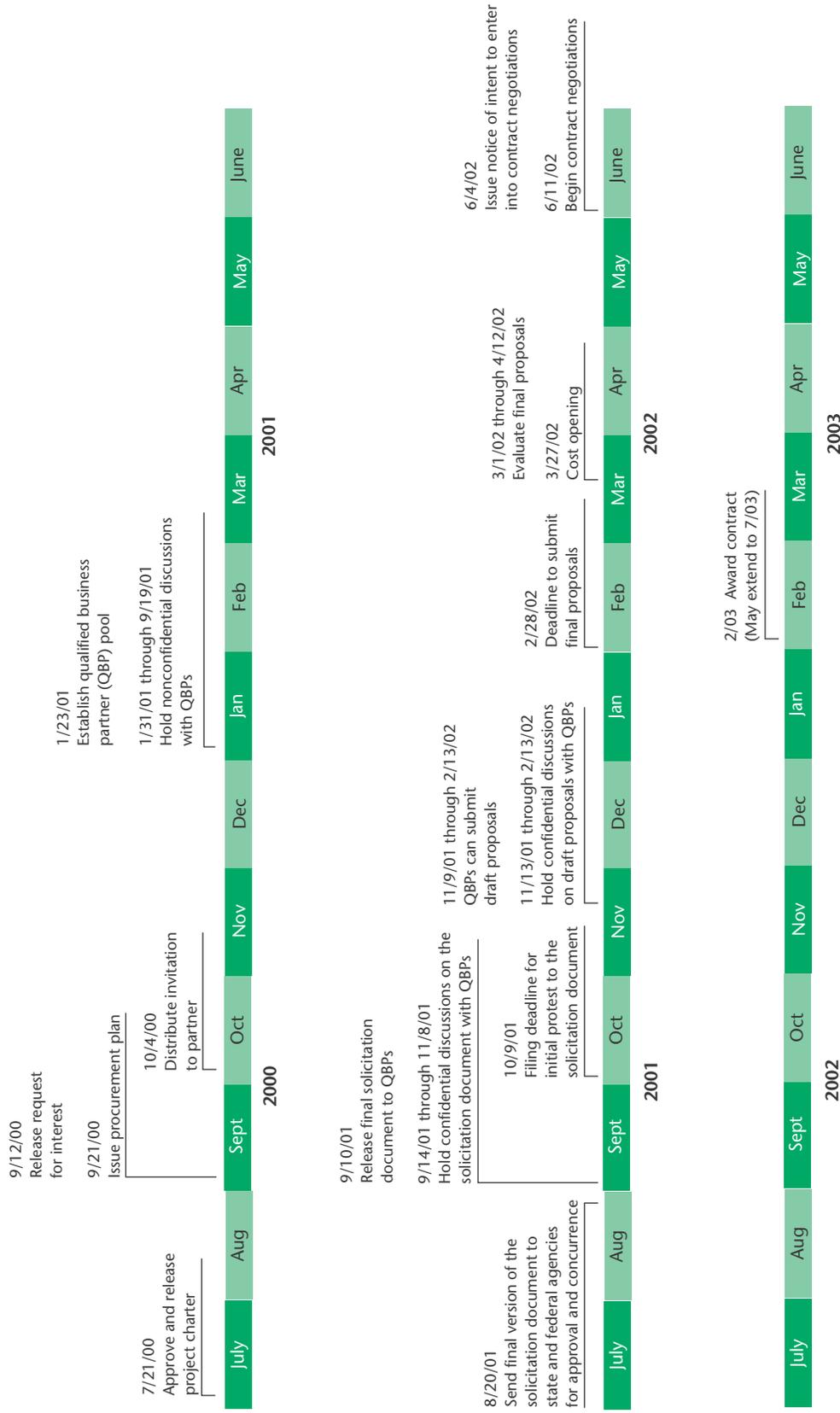
The project team developed a framework that it is following for the procurement of a single, statewide automated child support enforcement system (child support system). However, the process has taken longer than initially estimated. In the early stages of the procurement documents, the project team estimated that it would award the contract for the main system in July 2002. As a result of unforeseen delays, the project team currently estimates that it will award the contract in February 2003. However, the project team has identified further uncertainties, such as finalizing the negotiated cost of the system and the duration of federal reviews, which could extend the contract award date to July 2003. Figure 3 on the following page shows the revised timeline for the process.

In July 2000, the project team released a project charter that provides a high-level description of the project scope, project governance, and contracting authority, as well as project strategies and approach. Because the charter represents an agreement at a particular point in the project life between the Department of Child Support Services (department), the Franchise Tax Board (board), and the Health and Human Services Agency, the project team expects that significant changes in project direction will result in updates to the charter. In September 2000, the project team released a procurement plan, the purpose of which was to define the activities, processes, and procedures to be used during the procurement of a single, statewide automated child support system. As required by the Welfare and Institutions Code, Section 10083, the procurement plan includes strategies proven successful in previous technology efforts of the board. In addition, it employs a form of the alternative procurement model referred to as the performance-based contracting approach in an effort to avoid mistakes made during the State's previous failed attempts to develop a statewide child support system.

Using the performance-based contracting approach, the project team identified eight companies with experience delivering systems and the financial qualifications to undertake an information

FIGURE 3

Timeline of Key Events



Source: California Child Support Automated System Project.

Qualified Business Partners

- Deloitte Consulting
- Electronic Data Systems
- IBM, Accenture, American Management Systems (AMS)
- Lockheed Martin Technology Services
- TRW
- Unisys Corporation

technology project of the size and complexity needed to service the State's 58 counties. The project team deemed these companies "qualified business partners." After the qualification process, three of the original eight qualified business partners formed an alliance, leaving six qualified bidders in the pool.

Under the performance-based contracting approach, the project team held nonconfidential meetings with the pool of qualified business partners to discuss the early drafts of its solicitation document and to hear concerns about the document. These meetings were held so that the

project team and the qualified business partners could gain a basic understanding and a set of expectations about the process. Even though the nonconfidential discussions resulted in the project team making changes to the solicitation document, the pool of qualified vendors had dwindled to only three bidders by September 24, 2001, two weeks after the release of the final solicitation document. The three companies that withdrew from the competition provided either vague reasons or no reason for their action. For example, one company indicated that the State's proposed compensation model was the basis for not continuing.

In August 2001, the project team submitted its solicitation document to the federal Office of Child Support Enforcement (OCSE) for review and authorization to release the document to the public as the final solicitation document. The solicitation document is similar to the request for proposals used in a traditional procurement in that it solicits proposals from qualified bidders to design, develop, implement, operate, and maintain a child support system. After the project team asserted that it had revised the solicitation document to include all changes required by the OCSE, it received the federal government's authorization on September 10, 2001, to release the final solicitation document for the single, statewide automated child support system. Within the final solicitation document, the project team identified California's child support enforcement business needs as a federally certified system that will improve case worker effectiveness, customer service, and system maintainability, as well as allow for a successful implementation in all 58 counties.

On October 9, 2001, Unisys, one of the three qualified business partners remaining, filed an initial protest regarding certain provisions in the solicitation document. Specifically, Unisys

claimed that the solicitation document process was defective and needed amending. Unisys based its potential withdrawal from the procurement process on the following factors:

- Prohibiting the use of software components by “transfer” from an existing operating system is restrictive and unduly burdens the project with significant risk.
- The evaluation guidelines are vague and subjective.
- The compensation and performance-based models presented in the solicitation document are neither fair nor appropriate for this type of project.

Following the provisions of Chapter 479, Statutes of 1999, the board’s executive officer held a meeting on October 18, 2001, to allow Unisys to present additional information to substantiate its position. After reviewing points raised in the meeting and the protest documentation, the executive officer ruled, on October 26, 2001, against Unisys’s protest on the grounds that it lacked merit and did not present any reasonable basis upon which to amend or withdraw the solicitation document. Chapter 479, Statutes of 1999, allows the executive officer to consider and decide initial protests as well as to make a decision that shall be final. The statute does not provide for an administrative appeal.

One qualified business partner filed an initial protest to the solicitation document on October 9, 2001, however, the executive officer of the Franchise Tax Board ruled that the initial protest lacked merit.

In his determination, the executive officer stated that, contrary to Unisys’s assertion, nothing in the solicitation document restricted the use of “transfer” software components. Further, he stated that the evaluation guidelines were deliberately described at a high level in the solicitation document in order to motivate qualified business partners to propose their best solution to the stated business problems. Moreover, he stated that Unisys ignored provisions in the Welfare and Institutions Code, Section 10083, which require the project to base payments to vendors primarily on achieving predefined performance measures. Finally, he stated that while the use of performance measures are new to government human service agencies, they are being embraced as a measurement of achievement at both the State and federal levels. At this point, Unisys did not withdraw from the procurement process.

Of the three qualified business partners left, only one, the group made up of IBM, Accenture, and AMS (IBM group), took the opportunity to submit a draft proposal by November 9, 2001. At this point, the project team recognized that it might receive only one final proposal, which prompted it to begin contingency

planning for that occurrence. Although submitting a draft proposal was optional, in doing so the IBM group took advantage of the opportunity to receive feedback in confidential discussions with the project team about potential ambiguities in the draft proposal. The confidential discussions were intended to focus on the contents of the solicitation document and the preparation of the qualified business partners' final proposals. The goal of the discussions was to increase the likelihood that the qualified business partners would submit responsive final proposals.

The deadline to submit final proposals was extended from January 15, 2002, to February 28, 2002.

During the confidential discussions, the project team and qualified business partners exchanged significant amounts of information. As a result, the project team requested approval from the federal government to extend from January 15, 2002, to February 28, 2002, the deadline for qualified business partners to submit final proposals, recognizing the need to allow additional time for them to modify their final proposals to reflect the feedback and clarifications obtained in the confidential discussions. During the same timeframe, the IBM group and TRW separately requested the State to extend the deadline to submit their final proposals. The federal government approved the State's request to extend the deadline, and the project team issued a modification to the solicitation document on December 28, 2001, to reflect the extension.

The Board Released Its Quality Assurance Contractor

While the project team was preparing to receive final proposals, it terminated its quality assurance (QA) contractor. According to industry standards, the role of QA is to provide adequate assurance that processes in the project life cycle conform to their established plans. The executive project director notified the project QA contractor 30 days in advance that the board was terminating its contract as of February 28, 2002, the deadline for the qualified business partners to submit their final proposals. The letter stated that the project team was realigning the roles and responsibilities of the department and the board, and it had become clear that to enhance the department's leadership over the project, the QA contractor should report directly to the department rather than to the board. In addition, the letter stated that the new scope of the QA services would differ significantly from that set forth in the original statement of work. Therefore, the project team determined that it was necessary to replace the QA contractor.

At about the same time that it sent the dismissal letter to its original QA contractor, the project team began developing a new statement of work for the QA role. This new statement of work took more than a month to create, and the project team released its request for offer on April 19, 2002, under the Master Service Agreement (MSA) procurement rules. MSAs are generally statewide agreements that have already been competitively bid, and therefore individual state agencies do not have to repeat the bidding process each time they want to contract for a certain product or service.

On May 20, 2002, while the project team reports that it was in negotiations with a QA vendor it had selected under the MSA rules, the governor issued executive order D-55-02, which, among other things, restricted the execution of certain contracts using these rules. According to the project team, it was not informed until approximately a month later that it needed to request an exemption from the new restrictions before submitting the contract to the various state control agencies for approval. The control agencies did not approve the exemption request until the beginning of October 2002, and they approved the QA contract itself in early November 2002, creating a gap of approximately eight months during which no QA contractor was working on the project. The contract start date for the new QA vendor was November 4, 2002.

The absence of a QA contractor did not materially affect the fairness of the procurement.

According to our consultant, the absence of a QA contractor during the procurement stage of the project did not materially affect the fairness of the procurement, nor did it subject the project to legitimate claims of bias in the evaluation or vendor selection process. He did, however, indicate that the absence reduced the project's progress toward establishing a quality assurance infrastructure for the project.

The Project Received Only One Final Proposal

On February 28, 2002, nearly two years after the project team embarked on the process of procuring a child support system under a competitive process mandated by the Legislature, the project received only one final proposal. On March 27, 2002, the project team announced that the proposal submitted by the IBM group had a fixed contract price of almost \$1.2 billion. At this point in the procurement process, the majority of the details in the proposal are still confidential. However, the solicitation document requires that the contract price include all costs for system development and implementation as well as for two years of maintenance and operations.

The proposal's estimated total system cost over 10 years will be more than \$1.3 billion.

The proposal also included an estimate that the total 10-year system costs, including the fixed contract price of almost \$1.2 billion, will be over \$1.3 billion. The financial instructions for final proposals described in the solicitation document state that the 10-year system cost estimates identified in the proposal include not only the cost of developing, implementing, maintaining, and operating the system, but also the associated costs of state and local child support agencies.

Because there are still too many unknown variables for this project, the costs of operating and maintaining the new child support system after its implementation are still unclear. However, according to department documents, the department currently estimates that it costs approximately \$110 million annually for the electronic data processing and to operate and maintain the systems it is currently using. This cost is in addition to federal penalties the State is subject to for not complying with federal requirements to have a certifiable child support system, which according to the department could reach a cumulative total of almost \$1.3 billion by 2006.

The Procurement Team Did Not Deviate From Its Predefined Evaluation Steps

Even though the project team received only a single proposal, it did not materially deviate from the procurement process, and it used predefined criteria to evaluate the proposal. During the evaluation period, we observed the scoring process, and nothing came to our attention that would cause us to conclude that the project team deviated from the evaluation criteria, nor did anything come to our attention to indicate that the project team materially deviated from its established and approved process that would result in bias or favoritism toward any bidder. After completing the evaluation process, the project team found that the single proposal was responsive, viable, and responsible. Out of a possible 1,300 points, the proposal received a total score of 848 points, or 65 percent. Based on a rating guide used to assess the quality of the elements in the proposal, a satisfactory response would receive 780 points out of 1,300 points, or 60 percent.

Before releasing the solicitation document, the project team completed and labeled confidential the criteria that it would use to evaluate the proposals. In addition, the federal government approved the criteria during the same time frame, according to the board's executive officer. This

occurred in September 2001, before the draft or final proposals were received. To maintain the integrity of the evaluation process, these criteria did not change.

One of the critical evaluation areas of the qualified business partner's proposal is the cost and benefit information provided. Therefore, the project team, following the example from a prior competitive procurement in which the State received only a single proposal, hired a consultant to examine the reasonableness of the costs set forth in the final proposal. The preliminary results of this report are still confidential due to the ongoing nature of the procurement. However, the project team moved forward by issuing, on June 4, 2002, a notice of intent to enter into contract negotiations with the IBM group and within days it began contract negotiations. The project team expects to complete the cost reasonableness assessment after the completion of contract negotiations, but before the contract award.

The Procurement Team Still Has Several Challenges Ahead

The project team still faces a number of challenges before it completes the procurement of the main part of the child support system and awards the contract. It must finalize contract negotiations, complete the feasibility study of the viable options, and obtain approvals before it can award the contract. Regardless of when the contract is awarded for the main system, the procurement of the state disbursement unit also remains before the State can achieve its goal of implementing a federally certifiable single, statewide automated child support enforcement system.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE
State Auditor

Date: December 11, 2002

Staff: Debbie Meador, CPA
Phillip Burkholder
Gayatri Patel
Leonard Van Ryn

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Agency's comments provided as text only.

Health and Human Services Agency
1600 Ninth Street, Room 460
Sacramento, CA 95814

December 4, 2002

Elaine M. Howle, State Auditor
555 Capitol Mall
Suite 300
Sacramento, California 95814

Dear Ms. Howle:

We have reviewed your report regarding the procurement of the California Child Support Automated System and concur with the findings. The procurement has been conducted in a fair and unbiased manner consistent with the statutory direction and provides a firm basis to continue the effort.

We will continue the procurement in the same manner as we work to finalize the contract to build the system. This is vital work. The development of a new child support system for California will not only relieve the State of the burden of the extraordinary penalties that we now pay, as well as provide the best possible level of support for the child support program. We will also make sure that the State gets the most it can out of the dollars it invests in this endeavor.

Thank you for your continued effort to monitor our work.

Sincerely,

(Signed by: Grantland Johnson)

(Signed by: Aileen Adams)

GRANTLAND JOHNSON
Secretary
Health and Human Services Agency

AILEEN ADAMS
Secretary
State and Consumer Services Agency

December 3, 2002

Elaine M. Howle, State Auditor
555 Capitol Mall
Suite 300
Sacramento, California 95814

Dear Ms. Howle:

We appreciate the time and effort that the Bureau has taken to monitor the procurement activities of the California Child Support Automation System Project's (CCSAS Project) project. We concur with your findings that the CCSAS Project's procurement has been, up to this point, both competitive and unbiased.

We find your report balanced and accurate in its description of the California Legislature's guidance and direction to the Department of Child Support Services and FTB regarding this procurement. The report correctly describes our compliance with that guidance and direction. The report also provides a useful reminder of the jeopardy faced by the State, in the form of continued federal penalties that result from the State's lack of compliance with federal requirements for the State's automated child support system and disbursement unit.

We offer two comments to expand on the report's findings.

First, the report finds that the originally projected contract award date of July 31, 2002, first published in November of 2000 as the preliminary planning date, proved to be unrealistic once the detailed schedule was laid out. The original date did not take into full account the complexity of the project, the complexity of the federal Feasibility Report (FS), the requirements for federal review, and additional tasks resulting from receiving only one bid. We should also point out that the tentative July 2003 contract award date described in the report is still under internal review, and is subject to review and approval by the federal Office of Child Support Enforcement (OCSE).

Second, the State Auditor's report covers the procurement only through the beginning of contract negotiations. The next important step in the procurement is contract negotiations where we will settle the final details of the contract. Our departments assembled a highly experienced negotiating team, supported by a detailed cost analysis. Over the course of the negotiations, the team anticipates it will be able to negotiate a reduction in the price below the proposed cost of the contract.

Elaine M. Howle, State Auditor
December 3, 2002
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We look forward to continuing the procurement effort for this important project. The resulting contract will form a solid basis to enable the State to meet federal certification requirements at the earliest possible point.

Sincerely,

(Signed by: Curtis L. Child)

CURTIS L. CHILD
Director
Department of Child Support Services

(Signed by: Gerald H. Goldberg)

GERALD H. GOLDBERG
Executive Officer
Franchise Tax Board

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press