



CWDA

January 23, 2008

To: The Honorable Patty Berg, Chair
Assembly Budget Subcommittee No. 1

Honorable Members
Assembly Budget Subcommittee No. 1

From: Frank J. Mecca, Executive Director

Re: **Proposed Termination of ISAWS Migration Project – CONCERNS
[Item 5180: BBR Pages 616 and 617]**

The County Welfare Directors Association of California (CWDA) is concerned that the Administration's proposal to terminate the ISAWS Migration Project will not result in the savings estimated; will seriously impair 35 counties' ability to accurately determine client benefits for the CalWORKs, Food Stamp, and Medi-Cal programs; and will require the Administration to immediately launch another process to replace or reprocur this system.

As you deliberate on the Governor's budget proposals, we wanted to provide you with the following information on the impact of the proposed termination of the ISAWS Migration Project:

Background

All 58 counties currently use one of four Statewide Automated Welfare Systems (SAWS) to determine eligibility for the CalWORKs, Food Stamps, and Medi-Cal programs. In 2006, the counties, Administration, Legislature, and federal government agreed to reduce the number of systems from four to three. The ISAWS Migration Project was initiated to move the 35 counties using the oldest system (known as ISAWS – the Interim Statewide Automated Welfare System) to the C-IV system. At the conclusion of this project, the 35 counties will join the four existing C-IV counties, and the C-IV system will provide benefits to more than 1.8 million beneficiaries (27 percent of the statewide caseload) and support more than 13,000 workers.

Over \$31 million already spent will be wasted if project scrapped

A total of \$31.7 million (\$14.3 million General Funds) has already been spent in this on-time, on-budget effort to move all 35 ISAWS counties to the C-IV system. It is unlikely that any significant portion of the work done to date could be used in a new or renewed effort initiated after the budget year. Current contracts will have been terminated. New procurements will need to be conducted. Preparatory work in the counties will need to be

reviewed and reinitiated as key staff, processes, and technology infrastructure may have changed.

Projected savings are unlikely to materialize

Terminating the ISAWS Migration Project is unlikely to result in the savings in the current year. Because contractual commitments have been made with multiple vendors to complete the ISAWS Migration Project, negotiations must occur with each in order to close out the project. All of these contracts contain clauses that require payments for certain costs in the event of an early termination. The vendors will thus need to be compensated for work on partially completed deliverables. Commitments for items such as leased facilities also will require final payments for early termination. We estimate that close-out costs will total \$7.7 million (\$3.5 million General Fund), virtually eliminating the Administration's projected current year savings.

Moreover, savings for 2008-09 also appear to be overstated. State staff have acknowledged that there is a good possibility that the federal government will require repayment of all federal funds expended on the ISAWS Migration Project, totaling at least \$13 million through project close-out (and possibly as much as \$21.6 million).

Finally, the state will continue to incur costs for continuing to operate ISAWS. Completion of the ISAWS Migration Project would have allowed the Administration to discontinue the current ISAWS system in April 2010. Without this effort, ISAWS must be maintained at an annual cost of \$37 million (\$19 million General Fund). The current vendors are the only companies that are able to maintain the system. Both California protocols and federal requirements demand that the 35 ISAWS counties be moved to a system that allows for fair competition. Because of this, it is unlikely that the Federal government will continue to fund ISAWS after 2010. The result could be an annual loss of \$18 million in federal funds, further diminishing any savings the state hopes to achieve.

ISAWS must be replaced; C-IV strategy is sound

The current ISAWS system is obsolete, cumbersome, and deficient. The Administration aptly summed up the situation in its own approval documents submitted to the federal government in 2003:

“As a result, county dependence on the aging ISAWS system must be ended without delay. Migration is the quickest and least expensive approach to reduce the risks and the continued loss of worker productivity caused by required manual intervention to the system in the Counties.”

The Legislature relies on the SAWS automation systems to help implement numerous policy changes across the CaWORKs, Food Stamps, and Medi-Cal programs. Because the ISAWS system is built on obsolete technologies, the state is encountering increasing difficulty incorporating program changes in a timely manner. This undermines the Legislature's policy direction as you contemplate programmatic changes in the three programs.

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The C-IV system provides a modern web-based approach that will enable the 35 ISAWS counties to more efficiently and accurately determine CaWORKs, Food Stamp, and Medi-Cal eligibility. If they do not move to a more complete, up-to-date system, the 35 ISAWS counties will be increasingly unable to meet performance expectations leading to a risk of federal penalties for Food Stamp errors and failure to meet Work Force Participation rates. In addition, counties are unlikely to be able to meet state Medi-Cal performance measures, resulting in increased state expenditures for medical services.

Planning activities to continue ISAWS must begin in 2008-09 if the ISAWS Migration Project is terminated

According to the Administration, the current contract for ISAWS ends in 2012. Transitioning to a new system of this magnitude typically requires at least four years to complete. If the ISAWS Migration Project is terminated, the Administration will need to recommence planning in 2008-09. Ironically, this means that one project will be terminated only to immediately begin another strategy.

Summary

Given the General Fund expenditures that will be wasted, the unaccounted-for costs of terminating this project, and the likely loss of federal funding, the savings associated with this proposal appear to be significantly lower than estimated by the Administration. This fiscal impact, taken in conjunction with the significant technological and programmatic concerns with continuing to operate the outdated ISAWS system, places significant doubt on the viability of this proposal.

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