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REVIEW OF CONTRACT PERFORMANCE

FOR THE STEPHEN P. TEALE

CONSOLIDATED DATA CENTER

MAY 1974

Joint Legislative Audit Committee

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California Legislature

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May 21, 1974

The Honorable President of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is the report of the Auditor General on the performance under the contracts for electronic data processing (EDP) equipment and services for the Stephen P. Teale Consolidated Data Center.

The Auditor General has found that performance by IBM, the primary contractor, has been untimely to date and concludes that continued performance under the contract will create excess hardware resulting in additional costs, without giving the state the ability to meet mandated programs such as year-round vehicle registration and various clean air programs before 1976.

The Auditor General has recommended that further funding of the IBM contract beyond the 1973-74 level be discontinued and that IBM and the state renegotiate the contract to require added performance by IBM for the monies already appropriated in fiscal year 1973-74 in exchange for IBM's failure to perform in a timely manner.

To minimize the effects of IBM's stated failure to perform on time, the Auditor General has recommended withdrawing the Department of Motor Vehicles (DMV) from the IBM equipment at Teale Data Center on an interim basis and upgrading the existing Univac equipment to perform the tasks originally called for under the IBM contract. Such action will make a portion of the IBM equipment redundant, allowing the state to return it to IBM.

The Honorable Members of the Legislature
of California

May 21, 1974

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Also recommended is the formal removal of the State Payroll System and the Department of Water Resources from the Teale Data Center, as the Teale Data Center and IBM have proposed to do.

These recommendations, if adopted, would save the state \$8,000,000 during fiscal year 1974-75, would satisfy all the computing needs of the Teale Data Center and its user agencies, and would allow sufficient time for the complete consolidation of computer activities of user agencies in the Teale Data Center within realistic time schedules.

Further, the Auditor General has recommended that competitive procurement for a single vendor's hardware should be effected as soon after completion of the conversion of programs by IBM, as is economically justified. Such procurement should include all interested vendors, including IBM, Univac, other mainframe manufacturers, and third party leasing companies.

Respectfully submitted,



VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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INTRODUCTION

Pursuant to a legislative request, we have reviewed the facts relating to the Stephen P. Teale Consolidated Data Center subsequent to the award of contracts for electronic data processing (EDP) equipment and services. The scope of this review was to evaluate performance under the contracts for such equipment and services let primarily with the International Business Machines Corporation (IBM). The scope of this review did not include the propriety of consolidation of computer use, but focused on the best method of implementing such consolidation.

The Teale Data Center, which has centralized EDP equipment and services responsibilities for 34 state agencies, was established by statute on August 11, 1972.

Subsequent to a series of unsuccessful competitive EDP procurement attempts for the Teale Data Center, and in order to encourage competition, but without requiring at least two bids, Senate Bill (SB) 804 was enacted in September of 1973. This bill permitted the Business and Transportation Agency to negotiate with all interested EDP vendors and permitted the award of the contract pursuant to such negotiations "...if such award is determined to be in the best interests of the State".

Pursuant to SB 804, and pursuant to the agency's request for proposal 73-04, 12 bids were received. The bids received from IBM and Univac included cost projections over a 58-month period. Subsequent negotiations

resulted in initial two-year contract awards to IBM for \$19,900,000, Data 100 for \$700,000, and Boeing Computer Services for \$250,000, or total awards of \$20,850,000. The contracts were signed on December 13, 1973.

The Legislature appropriated \$4.3 million for the Teale Center conversion for fiscal year 1973-74. The scope of work which IBM was contractually required to perform by July 1, 1974 included: (1) the complete conversion of the computer programs of the Department of Motor Vehicles (DMV), (2) partial conversion of the computer programs of six other departments, and (3) the installation of hardware at the Teale Data Center.

This report reflects contract performance at the Teale Data Center up to May 18, 1974.

FINDING

CONTRACT PERFORMANCE BY IBM FOR
THE STEPHEN P. TEALE CONSOLIDATED
DATA CENTER IS UNTIMELY

The contract for providing EDP equipment and services to the Teale Data Center (CD 6-20) includes requirements that IBM perform program conversion for seven state agencies whose EDP operations are to be consolidated in the Teale Data Center by specified dates.

Program conversion essentially consists of converting computer programs from the capability to run on one particular configuration of hardware to the capability of running on a different configuration and to standardize programming language.

The most critical stipulated contractual date in the entire project was the July 1, 1974 date by which the computer programs of the Department of Motor Vehicles (DMV) were to be converted.

It should be noted that DMV and the Department of Finance officials previously stated that failure to meet the July 1, 1974 conversion date for year-round vehicle registration would result in a significant one-time loss of state revenues. A recent report by the Office of the Auditor General pointed out that these statements were based on inaccurate studies and the report recommended a valid analysis must still be completed prior to a determination of the true revenue benefits.

The Department of Finance has previously stated the absolute last "conversion window" date (the period during which program conversion can physically be made) available for DMV to effect the implementation of several "clean air" programs and year-round vehicle registration by the statutorily required date of January 1, 1975 is June or July of 1974.

This deadline date, as reflected in the contract, was originally October 1, 1973, was slipped to June 1, 1974, and was then slipped to July 1, 1974.

Failure to meet this date for conversion of DMV will, according to previous statements by the Department of Finance, postpone conversion of DMV for one year. Therefore, if DMV were to operate during that year, it would require the retention of the existing Univac equipment leased by DMV. The cost of leasing this equipment after July 1, 1974 will be \$219,000 per month.

This Univac equipment would be a necessary addition to the IBM equipment already on rent for this purpose under the Teale Data Center contract. This means that the state would, during fiscal year 1974-75, pay \$2,628,000 in addition to the cost under the IBM contract to meet the DMV requirements of the Teale Data Center, unless the Department of Finance now states that the "conversion window" date of July 1974 can once again be slipped.

On April 30, 1974, IBM announced that, at the earliest, program conversion of DMV will not be completed until August 4, 1974, and to determine if this date is realistic, has assigned additional personnel to review the situation and make a determination.

state technical personnel employed by DMV and assigned to work with the development of a significant portion of the software (the real monitor) necessary to accomplish the major portion of the conversion. DMV personnel stated that not only is the August 4, 1974 date unrealistic, also that December would even be "tough", and sometime between March and June of 1975 would be "more realistic".

Based on the statements of DMV technical personnel, our independent analysis, and the contract performance to date, in our judgment the August 4, 1974 date will not be met.

If IBM does not convert DMV before August 4, 1974, as previously noted, DMV will be required to duplicate IBM equipment procured under contract by retaining the existing Univac equipment at a rate of \$219,000 per month. If IBM performs according to its current schedule of August 4, 1974, the state will pay in excess of \$219,000 for computer equipment from August 4, 1974 to the date of conversion. If DMV technical personnel are correct, the excess rental will be for a period of nearly a year at \$219,000 per month. Regardless of when conversion is actually completed, it is clear that every month after the contract required July 1, 1974 conversion date that IBM fails to convert DMV equipment, the state \$219,000 in excess Univac equipment rental.

In addition to the stated impossibility of meeting the conversion date of DMV of July 1, 1974, the conversions of programs of the Teachers' Retirement System (STRS) and the Department of Veterans Affairs are experiencing technical problems and are behind schedule. The c

of programs for the Department of Water Resources (DWR), required under the IBM contract, has been tentatively eliminated from the Teale Data Center with the concurrence of both IBM and the Teale Data Center. The conversion of the State Controller's Office, required by the contract, would be substantially reduced in scope, if a decision initiated by the State Controller's Office to maintain the state payroll system in existing computer equipment in the State Controller's Office is effected.

An effect of the failure to meet program conversion dates is the necessity to retain existing leased hardware and programs while paying for the new hardware and conversion of programs at the same time -- in other words, paying twice for the same capability.

In addition to the conversion of programs for the various involved state departments, the contract for the Teale Data Center calls for a hardware conversion, or cutover, from the interim data center located in the Department of Transportation to the Teale Data Center equipment. By the terms of the contract, IBM was to have installed and made ready for acceptance by the state its new hardware in the Teale Data Center by May 1, 1974. The state started paying rent for the new IBM Teale Data Center hardware, which was to replace the interim center hardware, on May 1, 1974. The hardware cutover did not occur until May 18th. The additional unnecessary rent paid was \$45,000 per week since May 1.

Based on the foregoing events, IBM's Teale Data Center contract performance has been untimely. Further, in our judgment, continued performance under the contract will create excess hardware resulting in additional costs and will not give the state the ability to meet mandated programs such as year-round vehicle registration and various clean air programs before 1976 or approximately one year later than existing statutory requirements.

We, therefore, recommend that existing computer capabilities be maintained and that the necessary time be provided to fully equip and service the Teale Data Center in an orderly fashion. To accomplish these ends, we recommend the following:

RECOMMENDATION #1

Do not appropriate any further funds for the IBM contract, but instead, renegotiate the IBM contract to require IBM to complete program conversions within the \$4.3 million of funds currently available from the fiscal year 1973-74 budget. If IBM does not agree to renegotiate, the state should commence legal action against IBM.

RATIONALE

It is clear that the admitted failure by IBM to perform the DMV conversion by July 1, 1974 justifies legal action by the state. Forbearance of this legal action would be an incentive to IBM to agree to perform under such a renegotiated contract. If IBM agrees to such a contract, we estimate the state will have received reasonable fair value for monies already encumbered under the contract.

RECOMMENDATION #2

Reduce the IBM hardware in the Teale Data Center from two to one IBM 370/165 central processors and maintain the existing Univac equipment at DMV until the conversion of programs by IBM has been effected. Small increases in peripheral equipment should be allowed to support the slightly greater Teale Data Center workload than the interim center workload. Further, the operational and management personnel contingent should also be reduced consistent with the reduced IBM hardware.

RATIONALE

This recommendation will provide adequate computing services to affected departments for a reasonable time period and will eliminate the necessity to pay twice for duplicate capacity.

RECOMMENDATION #3

Upgrade the existing rented Univac equipment at DMV on an interim basis until the implementation of Recommendation No. 6 can be effected. This recommendation is in accordance with the DMV "Univac System Upgrade Pilot Study" dated July 19, 1973.

RATIONALE

Failure of IBM to meet the DMV conversion date has committed DMV to the use of existing Univac equipment until such conversion is physically possible. Such Univac equipment is now marginal

in terms of computing capacity for the coming year, without considering year-round registration and clean air requirements. An equipment upgrade using Univac equipment as proposed in the DMV study will provide adequate computing power to meet the state's needs for a sufficient time to allow the state to proceed on future conversion on a non-crisis basis. This can be accomplished at a price which is almost \$5,000 per month less than the DMV Univac equipment rental prices, as of July 1, 1974, if the state agrees to a year's lease with Univac. This interim solution should meet or exceed the computing performance capability of the system which would have existed had IBM met the July 1, 1974 conversion date, and when completed, will have the capability for year-round registration and the clean air requirements, according to the DMV study. This interim DMV computing solution removes all urgency associated with consolidation schedules.

RECOMMENDATION #4

Apply purchase credits existing from Univac equipment at DMV to upgrade the Univac computer at the Department of General Services to a Univac Spectra 70/55 which could serve the needs of the Printing Plant, Legislative Counsel, and a portion of the Department of General Services for two to three years at no additional cost for hardware.

RATIONALE

Purchase credits from DMV can be applied to obtain a state-owned upgraded computing system. The Spectra 70/55 would have twice the capacity of the existing Univac equipment. This option will save over \$31,000 per month on hardware rental as well as the \$250,000 necessary to convert programs to IBM hardware. At some future date when computing capacity becomes marginal, the above users could be converted to the Teale Data Center in an orderly manner using state personnel.

RECOMMENDATION #5

The Department of Water Resources and State Payroll programs should be formally dropped from the contract for the Teale Data Center conversion at this time.

RATIONALE

DWR owns essentially all of their computing equipment which should have adequate computing power for the next few years. Conversion, therefore, cannot be economically justified at this time. DWR can be converted to the Teale Data Center at a future date when it becomes justified economically. Eventually, program conversion could be performed by the state if stringent time requirements are removed. The Controller's payroll programs will be included in the Personnel Information Management System (PIMS) activity in the near future, so it is

uneconomical to convert these programs for such a short period of time. These programs can be run on existing state equipment until the PIMS project assumes this function.

The parties to the contract have agreed that DWR and the payroll system should be dropped. The contract has not been revised to reflect that action, however.

RECOMMENDATION #6

Competitive procurement for a single vendor's hardware should be effected as soon after completion of the conversion of programs by IBM as economically justified. Such procurement could and should include all interested parties, including IBM, Univac, other mainframe vendors, and third-party leasing companies.

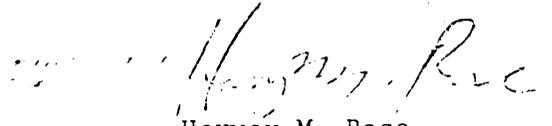
BENEFITS OF RECOMMENDATIONS
AND COST SAVINGS

The prime consideration at the present time is that all state agencies maintain uninterrupted operations and at the same time have adequate computing power. If the above recommendations are followed, all departments will maintain essentially the same computing capability as proposed in the IBM contract, yet the risk to individual users by failure to meet conversion dates is minimized. Had IBM successfully executed their contract through July 1, 1974, the Teale Data Center would consist of one IBM 370/165 primarily servicing DMV, while another 370/165 would be used for batch processing. The proposed recommendations will

produce a Teale Data Center which is functionally equivalent to the one provided for by the contract with IBM, except two vendors' equipment (that is IBM and Univac) will be used. Under the existing IBM contract, there would be only marginal backup to DMV, while if our recommendations are implemented, more than adequate backup would be provided to DMV.

The above recommendations, if implemented, would allow release of redundant IBM equipment. We estimate that the savings resulting from the release of redundant IBM equipment, along with the reduction in the cost of conversion of programs, would be at least \$8,000,000 during fiscal year 1974-75. In addition, the urgency of conversion of other departments to the Teale Data Center has been removed. The state would be able to perform its own project management and future program conversion in an orderly manner.

The above recommendations increase the probability of successfully obtaining an effective and economical Teale Data Center, allowing for an orderly step-by-step increase in computer capacity as needed.


Harvey M. Rose
Auditor General

May 20, 1974

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