CMS Briefing Paper 6/7/02

On April 8, 2002 the Joint Legislative Audit Committee agreed to conduct a comprehensive examination of the Common Management System (CMS), the California State Universityís massive administrative computing project. It is anticipated that the audit will be completed in Fall 2002. The following briefing paper provides background on the CMS project and a synopsis of CFA concerns.

What is CMS?

In 1998/99 the CSU Chancellorís Office mandated that CSU campuses begin phased implementation of CMS. The Chancellorís Office hopes to accomplish two main goals through CMS implementation. First, CMS is intended to integrate existing administrative computing functions. The CSU plans to replace its existing human resource, financial and student administration information systems with a Enterprise Resource Planning (ERP) system. To accomplish this goal, the CSU has contracted with PeopleSoft, Inc., a major provider of higher education management software. It is anticipated that all CSU campuses will be ìliveî on PeopleSoft by 2006.

Second, CMS implementation is intended to result in data center consolidation. Currently, most CSU campuses house student administration, financial and human resource data in on-campus data centers. The Chancellorís Office has outsourced the CSUís data warehousing function to the Unisys Corporation, which will consolidate existing centers into one large data warehouse to be located in Salt Lake City, Utah.

CFA Concerns

Cost

CMS is a hugely expensive project. Full CMS implementation is anticipated to cost the CSU approximately $400 million over 7 years. Implementation

costs are shared between the CSU Chancellorís Office and the 22 CSU campuses. Budget forecasts prepared by the CSU information technology staff indicate the Chancellorís Office has budgeted a total of $190.7 million for CMS. Campuses are anticipated to expend $216.1 million.

The CSU administration reports it has spent $151.4 million on CMS to date. However, a close reading of CMS-related documents indicates that the CSU does not know exactly how much CMS is costing at the campus level. Rather than collecting actual expenditures ? data that, in some cases, has been finalized for years - the CSU continues to rely on cost estimates when reporting campus expenditures in previous years. Unfortunately, the veracity of these cost estimates is unknown. For example, it is unclear what these estimates are based on or what costs the estimates include/exclude.

The CSUís practice of using cost estimates rather than actual expenditure data is especially problematic in light of information received from CSU, Long Beach. Attachment A indicates that administrators at CSU, Long Beach initially estimated CMS implementation would cost approximately $12 million. However, campus administrators later revised earlier figures, putting the new estimate at $22 million, nearly double the original estimate. The CSU may be understating the true cost of CMS if it is basing its expenditure data on old, outdated cost estimates.

Financing

Even more worrisome than the shear size of the CMS budget is the manner in which the CSU opted to finance the project. The CSU never asked for a specific legislative appropriation to cover the $400 million total estimated cost of CMS. Rather, the CSU chose to use existing resources to fund the project. The CSU was therefore forced to reallocate funds away from existing programs in order to cover the costs of CMS implementation.

This funding strategy has had a negative impact upon the CSUís most essential program area: instruction. For example, the CSU used undesignated salary dollars for CMS rather than using those resources to lower the student-faculty ratio. In addition, a portion of the CSUís enrollment growth funding was used to cover CMS costs, not to accommodate the ìtidal waveî of new students registering for classes.

Financing CMS through the reallocation of existing resources has contributed to the long-term shift in funds away from the CSU instructional program. In the early 1990ís, well over half of the CSUís general-purpose fund expenditures were devoted to instruction. By 2000/01, instructional spending represented only about 43% of general-purpose fund expenditures.

Unfortunately, this trend will only grow worse as the state enters a period of severe budget reductions. CMS costs are anticipated to peak in fiscal year 2002/03 at an estimated $77.9 million. Meanwhile, the overall 2002/03 CSU budget is expected to decline. The intersection of increasing CMS-related costs and an overall decrease in revenues means that the CSU will need to move additional funds away from important instructional and student service programs if CMS implementation is to remain on schedule (a stated goal of the CSU administration).

Lack of Accountability

From the initial planning phases through physical implementation, the CMS project has suffered from a lack of accountability. This lack of accountability stems, in part, from the flexible nature of the CSUís budget framework. In 1992/93, the CSU discontinued use of the Orange Book, a detailed set of budget formulas that generated funding and positions for CSU programs. The CSUís traditional ìline-timeî budgeting framework was replaced in 1995/96 with a more flexible arrangement under which the CSU administration was granted wide ranging discretion over how CSUís resources are spent.

In addition to having a more flexible budget than most state agencies, the CSU is also not subject to many important state oversight mechanisms. For example, unlike most state agencies, the CSU does not require prior approval from the DOF and the Department of Information Technology (DOIT) prior to initiation a large-scale information technology project. DOF and DOIT evaluate projects to determine the merits of the proposed investment and assess risks that may impact the expected benefit to be derived from the proposed expenditure. In addition, DOF and DOIT require agencies to assemble extensive feasibility reports. CSU information technology projects are not subject to these oversight mechanisms.

Finally, the CSU administration never subjected CMS to a formal Return on Investment analysis (ROI) or cost/benefit study. Even the report the CSU

administration uses to justify CMS expresses the need for additional study. The 1996 report states, ìEstimating the savings that might exist throughout the system through Data Center consolidation is difficult because detailed information on Data Center expenditures is not available. To do a proper estimate, each facility should be thoroughly examined and costed on a life-cycle basis.î In sum, the cost/benefit tradeoff of the CMS project is still in question. It is unclear whether or not the potential benefits justify the CMS projectís $400 million dollar price tag. This question is impossible to answer without a formal return on investment study or cost/benefit analysis.

Consultants

The CSU has contracted with over 20 consulting firms during the CMS-implementation process. These consultants earn rates that range between $81.00/hr. and $317.00/hr. The utilization of consultants, who perform project management, functional support, and technical support duties, is consistently more expensive than using represented CSU employees. It would be significantly more economical for the CSU to maximize the usage of represented employees.

Problems with PeopleSoft

The PeopleSoft suite of higher education management software has been riddled with problems. The Chronicle of Higher Education reports that numerous colleges and universities have been ìFrustrated by [PeopleSoft implementation] projects that run months behind schedule and go millions of dollars over budget.î Cleveland State, the University of Wisconsin-Madison, Boise State and Ohio State University are just a handful of the institutions that have reported difficulties with the PeopleSoft software. Problems have ranged from studentsí inability to check grades to delayed financial aid to significant cost overruns.

CSU campuses have expressed reservations about the PeopleSoft software. Cal Poly, San Luis Obispo has opted not to implement PeopleSoftís student administration module. Campus information technology personnel expressed concerns over the student administration moduleís lack of functionality and believed it to be insufficient to meet current campus needs.

The California State Employeeís Association, which represents information technology, clerical, administrative and other support personnel employed in

the CSU, reports that PeopleSoft implementation will result in a series of inefficiencies that will increase employee workload and impede the smooth operation of the CSUís data systems. Many of these inefficiencies stem from length of time it will take employees to key information into the new system.

Conclusion

CFA wants to be clear: we believe that information technology such as consolidated data centers and integrated data management software could hold great promise for the CSU. However, the question and concerns surrounding the CMS project clearly necessitate a formal state audit.