

**CFA Research Brief #4**  
**The State Audit of CSU's**  
**Common Management System (CMS)**

***Summary***

- The State Auditor reports that CMS, the CSU's new administrative computing system, will cost the university \$662 million over a nine-year period (1998-99 to 2006-07), three hundred million more than originally anticipated;
- The CSU is making a mammoth one-time investment in a computer system that will cost more to operate and maintain than the old administrative system and may not have been necessary in the first place. Moreover, after making this huge investment, some campuses will actually lose some degree of functionality;
- The State Auditor reports that the CSU's planning and procurement processes were riddled with problems and potential improprieties;
- The State Auditor uncovered serious conflicts of interest among senior CSU administrators who may have benefited financially from CMS contracts.

***Introduction***

In April 2002, with the assistance of Assembly member Manny Diaz and Senator Richard Alarcon, the California Faculty Association (CFA) and the CSU Division of the California State Employees' Association (CSEA) asked the California Bureau of State Audits to conduct an in-depth examination of the CSU's Common Management System (CMS). On March 11, 2003, the State Auditor released a scathing analysis of the CMS project entitled *California State University: Its Common Management System Has Higher Than Reported Costs, Less Than Optimal Functionality and Questionable Procurement Practices and Conflict-of-Interest Practices*. This CFA Research Brief presents a brief synopsis of the Auditor's findings. The complete 179-page report can be found on the Bureau of State Audit's website, <http://www.bsa.ca.gov>

***What is CMS?***

The Common Management System (CMS) is the CSU's effort to integrate and streamline its existing administrative computing functions. 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 "live" on PeopleSoft by 2006-07.

In addition to implementing PeopleSoft software, the CMS project is intended to result in data center consolidation. The Chancellor's Office has outsourced the CSU's data warehousing function to the Unisys Corporation, which will consolidate existing campus-based data centers into one large data warehouse located in Salt Lake City, Utah.

### ***CMS Costs Have Ballooned***

The CSU originally estimated that CMS implementation would cost the university approximately \$350 million over a seven-year period. CFA has long argued the \$350 million figure could vastly understate the actual cost of CMS implementation. The State Auditor confirms CFA's suspicion, reporting that the CSU will spend \$662 million on the implementation, operation and maintenance of CMS through 2006-07, a cost overrun of more than \$300 million. The auditor projects that the CSU will spend over \$92 million on CMS in 2003-04 alone.

**Table 1. Total Projected CMS Costs Through 2006-07**

	<b>Auditor's Projected Total Project Cost</b>
Chancellor's Office Costs	
Personnel	\$ 73,714,004
Training and Travel	5,144,228
Consultants	31,264,032
Hardware	1,313,555
Data Center	75,176,426
Software	4,126,357
PeopleSoft License	39,876,812
Other	5,800,515
Chancellor's Office Subtotal	236,415,929
Campus Costs	
Personnel	74,374,321
Training and Travel	21,869,074
Consultants	127,679,650
Hardware and Software	15,214,506
Other	6,236,258
Campus Subtotal	245,373,809
In-Kind Costs	63,378,034
Maintenance and Operations	116,714,146
<b>Total Project Costs</b>	<b>661,881,918</b>

CSU administrators initially argued that while the CMS project requires a significant up-front investment, it will reap long-term savings because the annual cost of operating the university's administrative systems will be reduced. However, the Auditor found no evidence that CMS will save the CSU money. Rather, the report indicates, "The university may spend about \$23 million more annually to maintain and operate [CMS] compared with its pre-CMS environment."

The CSU argues that it is inappropriate for the Auditor to include operations and maintenance costs when accounting for total CMS expenses. Rather, the CSU administration claims the Auditor should only examine new costs associated with the project. However, as the Auditor points out, including operations and maintenance costs provides "the most comprehensive and consistent accounting of the university's costs." Furthermore, as indicated above, the Auditor anticipates the CMS-related operations and maintenance costs will exceed those associated with the pre-CMS systems.

**Table 2. Annual Operation and Maintenance Costs of Pre-CMS Systems and CMS**

	<u>Pre-CMS Maintenance &amp; Operations Costs</u>	<u>Projected CMS Annual Maintenance &amp; Operations Cost</u>	<u>Difference</u>
Chancellor's Office	\$ 1,380,000	\$ 29,346,376	\$ 27,966,376
Campuses	\$ 40,340,730	\$ 35,760,740	\$ (4,579,990)
<b>Total</b>	<b>\$ 41,720,730</b>	<b>\$ 65,107,116</b>	<b>\$ 23,386,386</b>

The vast majority of CMS funding comes from general fund sources, money that could otherwise be used to support the CSU's instructional program, students service programs and campus libraries. In fact, CFA has uncovered a document that indicate "Funds for...CMS came from a variety of sources, including: redesignation of salaries [and] use of undesignated enrollment growth funds<sup>1</sup>." This is a prime example of the CSU administration's misplaced priorities. Rather than using enrollment growth money and salary dollars for the classroom, the CSU administration instead chose to fund an ill-conceived administrative computer system that is several hundred million dollars over budget.

***CMS In Trouble From the Start***

The CSU began planning the CMS project in 1996 as a part of its Integrated Technology Strategy (ITS). According to the State Auditor, the CSU's planning process was riddled with problems and contributed to myriad concerns and cost over-runs currently at issue. The Auditor raises specific concerns over the CSU administration's failure to conduct a comprehensive cost-benefit analysis prior to or during the project's the initial planning phase. Furthermore, the Auditor failed to find evidence demonstrating that CSU campuses needed to replace their existing administrative computing systems.

The Auditor concludes that the CSU's "stated reasons for CMS and the data center are not sufficient to justify the significant investment." In fact, the audit report states that the "university cannot ensure that the CMS project is a worthwhile expenditure of more than \$662 million."

***CMS Will Not Achieve All of Administration's Objectives.***

One of the CSU's stated reasons for implementing CMS was to streamline and integrate its administrative computing system. Amazingly, the Auditor concludes that, despite spending \$662 million over nine years, the CSU may not realize this objective. The name "Common Management System" implies a fully integrated data management system capable of producing system-wide or campus-specific reports with little more than a keystroke. According to the audit report, however, CMS will not achieve this level of functionality. In fact, system-wide reporting mechanisms will remain ostensibly unchanged. As with the pre-CMS system, campus administrators will not be able to

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<sup>1</sup> INPUT. *Case Studies in IT Outsourcing in Higher Education.*

access system-wide reports. Furthermore, the CSU will continue to use some old systems, not CMS, to generate certain reports.

The Auditor also reports that certain campuses will actually lose some functionality. In other words, several campuses will be able to do less with CMS than with their old systems. This stems directly from the CSU administration's failure to anticipate the number of modifications it would need to make to the off-the-shelf (or "vanilla") version of the PeopleSoft software. Because the software modifications were so numerous (over 200 in all) and so costly, the administration needed to limit the number of changes campuses could make to the software, thus limiting the system's functionality.

In the Auditor's view, many of these problems could have been avoided if the CSU administration had began the project by conducting a comprehensive planning process and a full evaluation of potential vendors' software products, neither of which occurred.

### ***CMS Procurement Process Raises Significant Concerns***

The process of selecting CMS software vendors and implementation consultants was highly problematic. Specifically, the CSU failed to modify or restart the vendor selection process after it made substantial changes to the procurement objectives. The CSU initially planned on selecting one or more vendors to provide integrated human resources, financial and student services systems. In other words, under the CSU's objectives, one company could have been responsible for the student administration module while another may have been responsible for providing the human resources and financial systems. However, four months after it received vendors' best offers, the CSU changed the procurement objectives, deciding it was best to recommend a single vendor responsible for all three modules. According to the Auditor, the CSU administration's failure to restart the procurement process after objectives changed "raises questions about the propriety of the procurement process used in the CMS software vendor selection."

The Auditor also raised concerns over the CSU's use of sole-source contracts<sup>2</sup>. According to the Auditor, "the university has established a pattern of awarding sole-source consulting contracts for reasons that appear questionable." This practice runs directly contrary to the CSU's policies meant to ensure fair and open competition. One such contract (awarded to IO Consulting) was amended seven times without a formal bidding process, increasing the contract's \$350,000 initial value to \$5.1 million.

### ***CSU Administrators Have Serious Conflicts of Interest***

The auditor uncovered serious conflicts of interest among senior CSU executives. In one instance, David Ernst, the CSU's Vice Chancellor for Information Technology, was receiving compensation from PeopleSoft at the same time he was participating in the

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<sup>2</sup> A "sole-source contract" is issued without any formal bidding process. These contracts can be issued when there is only one vendor that can provide a given service at the level of quality acceptable to the university.

procurement process that ultimately resulted in PeopleSoft receiving a \$39 million software contract. In another instance, a senior level executive in the CSU Chancellor's Office Department of Business Planning and Information Management purchased between \$10,000 and \$100,000 of stock in Dell (a leading computer hardware corporation) one day before the CSU awarded the company a lucrative CMS-related contract.

The Auditor reports "Conflicts of interest cast a shadow over the university's reputation for fair and honest business practices and undermine public confidence in the university's procurement decisions. Moreover, if an employee uses information not available to the general public for personal financial gain, it not only harms the university's reputation but also is unlawful."

### ***CMS and the Budget Crisis***

Many CSU faculty have reported that CMS is an "untouchable" expense on their campuses. In other words, campus administrators will not consider delaying the CMS in an effort to accommodate impending budget reductions. This means that any necessary CSU budget reductions must be extracted from a small proportion of the budget (i.e. Total Campus Budget – CMS Costs). Obviously, this strategy exposes instruction, student services and libraries to even more significant cuts.

Campus administrators should be taking a hard look at how much money could be saved by delaying CMS. Such savings could go a long way towards protecting the core educational mission of the CSU.

**For additional information, or for copies of previous CFA Research Briefs (Teaching Assistants, Student Fees, or the 2003-04 Budget), please contact: Andrew Lyons, CFA Research Specialist**  
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## Appendix: Total Actual and Projected CMS Costs

	<u>Total Actual CMS Expenditures To Date</u> <u>(FY 1998/99 to FY 2001/02)</u>	<u>Total Projected CMS Costs</u> <u>(FY 1998/99 to FY 2006/07)</u>
Bakersfield	\$ 386,455	\$ 8,463,801
Channel Islands	256,580	861,667
Chico	3,444,891	18,446,140
Dominguez Hills	85,600	13,829,800
Fresno	8,060,226	18,382,126
Fullerton	933,440	19,323,633
Hayward	5,059,187	18,495,626
Humboldt	813,242	11,642,864
Long Beach	13,204,585	37,108,128
Los Angeles	1,673,200	13,420,500
Maritime Academy	2,007,733	4,638,185
Monterey Bay	1,821,852	15,383,637
Northridge	10,481,563	18,218,829
Pomona	3,781,988	20,237,439
Sacramento	2,270,200	19,272,500
San Bernardino	5,439,044	19,908,984
San Diego	0	37,596,358
San Francisco	249,400	33,282,000
San Jose	4,915,889	15,464,202
San Luis Obispo	8,874,561	33,652,074
San Marcos	1,140,200	10,822,300
Sonoma	8,318,340	20,785,414
Stanislaus	187,547	9,516,547
Campuses Total	83,405,723	418,752,754
Central Costs/Chancellor's Office	92,125,420	243,129,164
<b>Total CMS Project Costs</b>	<b>175,531,143</b>	<b>661,881,918</b>