

California's \$1.2 billion computer fiasco

by Ed Mendel

SACRAMENTO - California has paid \$1.2 billion in federal penalties during the past decade because it could not create a statewide computer system to track and help collect court-ordered child support payments.

The state that gave birth to Silicon Valley and the high-tech revolution has struggled for nearly two decades to comply with a 1988 federal law requiring states to have a single automated child support system.

In human terms, the failure has meant that many children growing up in low-income families did not get financial support from an absent parent.

In addition to the penalties, the financial loss to the state includes the abandonment of a failed \$111 million computer system in 1997 and a \$46 million court award in 2002 to a computer firm that said it was underpaid.

If the state had met the original 1995 deadline for having a statewide system, the federal government would have paid 90 percent of the cost. The federal share dropped to 66 percent after the deadline.

The only other state that has failed to meet the federal requirement is South Carolina, which has paid \$49 million in penalties, according to the federal Administration for Children and Families. The penalties are based in part on the size of a state's population.

Now California is nearing completion of a \$1.6 billion child support computer system that officials hope will end the penalties, give the state a \$180 million penalty refund and end a string of state computer fiascos.

Federal inspectors, who looked at the California system in January and February, are scheduled to return in June and August before deciding whether to certify that the state is in compliance with federal regulations.

"They have never had a certification process that is this complex and this large," said Greta Wallace, director of the state Department of Child Support Services. "I don't believe there will be any surprises in what they will see."

The state child support department served more than 2 million children last fiscal year and collected \$2.3

billion in payments, an increase from \$2 billion collected five years earlier.

But the current estimate of the unpaid child support owed by absent parents in California is \$19 billion, up from \$14.4 billion in 2000. The amount includes a 10 percent interest penalty on payments not made each year.

"It's a difficult population to collect from," Wallace said. Some officials believe payments set by the courts, based on parent incomes and time spent with the child, tend to be too high.

Another problem is that about 70 percent of the parents who owe child support payments report low or even no income, which could mean some are in the "cash" economy where incomes are unreported to avoid taxes.

"The arrears are growing," Wallace said of the amount of unpaid child support payments. "It's a national problem."

She said a federal report issued two years ago found that seven states had reduced the total amount of unpaid and overdue child support payments. The amount of unpaid child support continued to grow in other states.

Part of the reason for the federal drive to increase child support payments is to collect more money from absent parents whose children are in low-income families receiving welfare payments.

In California, the state gives a family on welfare \$50 from each monthly child support payment collected from a parent and keeps the rest to offset welfare costs, said Maria Caudill, a child support department spokeswoman.

As policy changes reduced welfare enrollment, the amount of child support collected for welfare families dropped from \$714 million of the \$2 billion total in fiscal 2000 to \$613 million of \$2.3 billion last year.

The federal penalties paid by California were triggered a decade ago when the state missed the deadline for having a centralized computer system for child support payments. The deadline was extended from 1995 to 1997.

After five years of work, the state abandoned a troubled child support computer system in 1997 that

auditors said cost \$111 million. The contractor, Lockheed Martin IMS, and the state sued each other for breach of contract.

An appellate court awarded Lockheed Martin \$46 million in a ruling in 2002 that criticized state management of the project.

The court said counties refused to accept a "one-size-fits-all system" and demanded numerous changes. A state official was quoted as saying that the problems were not only technical but "political, emotional, visceral."

As federal penalties mounted, the state moved cautiously to create a new child support system as its long history of computer management problems continued.

A report issued by the nonpartisan Legislative Analyst's Office in 1973, more than 30 years ago, said the state had been wasting money on abandoned computer systems.

"Many of these efforts have been characterized by cost and schedule overruns, user dissatisfaction and operational problems which have resulted in either major modification or abandonment," said the analyst's 1973 report.

A state computer oversight office, the Department of Information Technology, was created in 1995 after a \$50 million Department of Motor Vehicles computer system turned out to be unworkable.

But the department was scrapped in 2002 after another fiasco - a \$95 million no-bid contract with Oracle that critics said would have the state paying for data-based software it did not need. The contract was canceled.

Then-Gov. Gray Davis appointed a chief information officer, J. Clark Kelso, who has remained in the post under the Schwarzenegger administration and thinks the new child support system will receive federal approval.

"We are keeping our fingers crossed," Kelso said. "It does reflect a more sophisticated approach to doing big information technology projects in California."

He said the Legislature took the important step of seeking aid from the state Franchise Tax Board, which has experience in developing large computer systems.

In an annual report issued last month, Kelso said the state has 117 information technology projects under way that will cost more than \$5 billion when completed.

A list of the 10 most expensive projects is topped by the child support system, at \$1.4 billion, and the fourth most expensive project is a \$236 million unit that sends out child support payments.

Kelso's report lists four failed state computer projects (child support, motor vehicles, corrections and welfare) that cost the state roughly \$500 million during the past decade.

But in the past 4 1/2 years, said the report, the state has abandoned only one computer project: a developmental disabilities system stopped last November on which \$10 million had been spent.

The report said that a study of private sector computer systems done in 2004 by the Standish Group, an information technology consulting firm, found a success rate of only 29 percent and 18 percent failed. In the remaining 53 percent of the cases, the buyers claimed the systems did not meet contract standards.

A study conducted a decade earlier had similar conclusions.

"The hard truth established by these results is that IT (information technology) projects - whether undertaken in the private sector or the public sector - are risky, complete success is difficult to achieve, and outright failure or abandonment is common," said Kelso's report.