

BUDGET LETTER

SUBJECT: CONTROL SECTION 11.00—INFORMATION TECHNOLOGY PROJECT REPORTING REQUIREMENTS CONTROL SECTION 11.10—STATEWIDE SOFTWARE LICENSE AGREEMENTS	NUMBER: 16-17
REFERENCES: BUDGET ACT OF 2016 (CHAPTER 23 OF THE STATUTES OF 2016)	DATE ISSUED: July 25, 2016
	SUPERSEDES: BL 15-13

TO: Agency Secretaries
Agency Information Officers
Department Directors
Department Budget Officers
Department Chief Information Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Purpose

Pursuant to Control Sections 11.00 and 11.10 of the Budget Act of 2016, the Department of Finance (Finance) must notify the Legislature of reportable information technology (IT) project cost increases and statewide software license agreements. The reporting must be made prior to entering into a contract resulting from project cost changes that exceed specific dollar thresholds approved for the project or a statewide software license agreement. Control Sections 11.00 and 11.10 reporting affords the Legislature an opportunity to review the status of an IT project and/or enterprise license commitments, and the associated future funding obligations **before** those obligations are made.

- Control Section 11.00 is the Legislature's means of being informed of an IT project's status and is triggered by cumulative cost increases of *\$5 million or 20 percent of the budgeted cost of the project*, whichever is less. For purposes of Section 11.00 requirements, an IT project is considered subject to reporting until the department has submitted a Post-Implementation Evaluation Report (PIER) to the California Department of Technology, as required by State Administrative Manual [Section 4947](#).
- Control Section 11.10 is the Legislature's means of being informed of statewide software license agreements that: (1) have not been previously approved by the Legislature *and* (2) obligate state funds in the current or future budget years, whether or not the obligation will result in a net expenditure or savings. A statewide software license agreement is defined as a software license contract that can be used by multiple state agencies.

It is each department's responsibility to determine whether a project or license agreement meets the Control Section 11.00 and/or 11.10 reporting requirements. If the reporting requirements are not clear for any given project or enterprise license agreement, the department should contact Finance's Information Technology Consulting Unit (ITCU). Additionally, in the interest of time and to avoid unnecessary delays, departments are encouraged to submit a draft version of the Section 11.00/11.10 Report to ITCU for review prior to submittal of a signed final version. After review and approval of the final report, Finance will notify the Legislature.

Departments should be aware that, if notification is not provided and the Legislature later determines that notification should have been given, the project or enterprise agreement and its associated funding will be at risk.

Control Section 11.00 Definitions

For the purposes of this Budget Letter, the following definitions apply:

1. **Reportable IT Project**—An IT project is subject to Section 11.00 requirements if it meets the Department of Technology's [reporting criteria](#) and the project was approved. As stated above, an IT project is considered subject to reporting until the department has submitted a PIER to the Department of Technology.
2. **Contract**—A contract is any of the following enforceable agreements: (A) service agreements for consultant services, including independent project oversight, independent verification and validation, and telecommunications (any CALNET contract included), and (B) contracts, purchase orders, and rental and lease agreements for hardware, software, and facilities. Interagency agreements are not considered contracts.

Reporting Requirements for Control Section 11.00

Each Section 11.00 Report shall include all of the following:

- (1) The total change in project cost, scope, and schedule;
- (2) The reason for the change or changes;
- (3) A description of new or amended contracts required as a result of the project change or changes;
- (4) A list of the open risks and issues identified in the last two Independent Project Oversight and Independent Verification and Validation Reports, as well as any risks or issues that have been identified since publication of those reports; and
- (5) The department's planned mitigation of these risks and issues.

Finance is required to submit the Section 11.00 Report to the Legislature **at least 30 calendar days before** any commitment is entered into for a new contract or contract amendment that is a result of the project change(s), or a lesser period if requested by the department and approved by the Chairperson of the Joint Legislative Budget Committee, or his or her designee.

Reporting Requirements for Control Section 11.10

The Section 11.10 reporting requirements apply when:

- (1) The proposed agreement is for a statewide software license that has not been previously approved by the Legislature and that obligates state funds in the current year or future years, whether or not the obligation will result in a net expenditure or savings; and
- (2) The total amount of the proposed agreement or amendment is \$1 million or greater in the aggregate.

In addition, **all** statewide software license agreements, regardless of the amount, require business proposals which, at a minimum, must include all of the following information:

- (1) An analysis of the current number of base licenses covered under the statewide software license agreement, including the software products, the license type, and the number of users associated with each license;
- (2) Projections of anticipated use over the term of the agreement, including the products to be covered under the agreement, the license type, and the number of users associated with each license. The business proposal must include the assumptions used to develop the projections;
- (3) An analysis of feasible alternatives, including a justification for selecting a statewide software license agreement over other alternatives, such as a volume purchase agreement. The justification must include a detailed cost/benefit analysis comparing the proposed statewide software license agreement against the alternatives discussed; and
- (4) A cost allocation methodology and funding plan that explains how costs will be allocated across user departments and identifies the associated funding sources for each entity utilizing the agreement.

Finance approval of the business proposal is required for statewide software license agreements exceeding the \$1 million Control Section 11.10 reporting threshold. For statewide software license agreements and their associated amendments that do not exceed the specified reporting threshold, departments must develop a business proposal, but approval is delegated to the department. Subsequent amendments that increase the agreement over the \$1 million aggregate threshold require amended business proposals, which must be submitted to ITCU for review and approval. In these cases, the department should be prepared to provide copies of prior versions of business proposals prepared under its delegated authority, if requested by Finance.

Submittal to Finance

To report transactions subject to Control Section 11.00 and 11.10, departments are required to submit the completed [Section 11.00/11.10 Exhibit A \(DF-12\)](#) and the report to the [ITCU mailbox](#).

As previously noted, departments are encouraged to contact ITCU staff to discuss any questions or concerns regarding submittal of Section 11.00/11.10 Reports. In the interest of time, and to avoid unnecessary delays, departments are encouraged to submit a draft version of the Section 11.00/11.10 Report to ITCU for review prior to submittal of a signed final version.

If you have any questions, please contact Erica Gonzales, Chief, Information Technology Consulting Unit at (916) 445-1777, extension 3256.

/s/Eric Stern for

Justyn Howard
Program Budget Manager

Attachment