State software deal looks like $41 million blunder

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For a place that prides itself as the high-technology capital of the world, California's state government does a horrible job buying computers and software. The latest debacle -- a $95 million contract to buy computer programs the state doesn't need -- might not be the most expensive blunder in history, but it has to be one of the most embarrassing.

Assuming the state's buyers were trying to do the right thing, they were duped like rookies walking into the local electronics store for the first time. The salesmen made a too-slick pitch, used bad numbers to inflate the potential savings, offered confusing terms on a complicated transaction and rushed the state to sign on the dotted line before it was too late.

Three separate state agencies, meanwhile, failed to heed huge red flags that should have warned them off this deal. The one unit that did its job, within the Department of Finance, was ignored by decision-makers in a hurry to get the deal done.

The result is so ugly that it might prompt lawmakers to kill the Department of Information Technology, which was created in 1995 to guard against disasters like this one. Instead of fixing the problem, the department has become the problem.

The contract with Oracle Corp., signed a year ago, was supposed to save the state $111 million by giving the government a bulk discount on database programs used to keep track of information collected and stored by various departments. Instead, the contract is probably going to cost between $6 million and $41 million more than if the state had simply bought the product off the shelf, state auditor Elaine Howle said.

Howle's report provides a detailed documentation of the entire affair. In the end, anything that could go wrong did go wrong. But two pieces of the story are especially damning because they reveal not just bad judgment but a careless disregard for the taxpayers and the good of the state.

The first was the way the state assessed, or failed to assess, its need for the product. The second was the way it calculated the potential savings.

Anybody can make a mistake. But these mistakes easily could have been avoided if somebody somewhere in the chain of command had simply followed some common-sense business practices.
The state, for starters, agreed to pay for 270,000 licensed copies of the programs -- plus a maintenance contract for each user -- even though the government has only 234,000 employees. That sounds stupid enough. But it's even worse than that. In the weeks before the state signed the deal, the Department of Information Technology sent a survey to 127 state departments and agencies asking if they needed any of the Oracle software.

The department received just 21 responses, only five of which indicated any interest in buying the product within the next three years. Only 12 departments reported that they used any type of Oracle software at all. Assuming that every employee in each of those departments would want to use the database -- a very generous assumption -- the state still would have needed only 50,000 licenses, fewer than one-fifth the number the government eventually agreed to pay for.

The department, the audit said, "ignored this strong evidence that state entities had little or no need for additional Oracle database software." Rather than follow up with the survey respondents or design a new survey to better measure the state's need for the product, the department instead approved the agreement less than two months later.

The other inexcusable error came in the calculation of the potential savings to the state. To do this work, the Department of General Services relied on an outside consultant -- Logicon -- that had a stake in the deal and might eventually earn $28 million from the contract.

Logicon's projections were seriously flawed, the state auditor said. The company supposedly went back through three years of purchase orders and totaled what the state had paid to Oracle each year, then estimated how much the state would spend over the next 11 years with and without a volume discount.

But the consultant's calculations included costs that weren't covered by the new agreement, double-counted others and put still others in the wrong year. For one year alone, Logicon overstated the state's costs by almost 100 percent -- $3.2 million -- a mistake that led directly to an inflated estimate of the government's potential savings from the pending deal.

In the rush to get the contract signed, nobody in state government bothered to check the consultant's numbers. One person -- the director of the technology review unit in the Finance Department -- saw the boondoggle coming and recommended that the deal be shelved for a year to give the Department of Information Technology time to do an appropriate analysis. But her warnings were ignored, and 21 days later, the state signed the agreement.
Despite the urgency to get the deal done, not a single state department had received a copy of the software as of March, 10 months after the agreement was signed -- and with the cost of the contract already approaching $17 million.