Modernizing the state's enterprise financial and administrative systems

What is the business problem?

The state is required by RCW 43.88.160 to provide "a modern and complete accounting system for each agency. . ." The current suite of enterprise financial and administrative systems, managed jointly by the Office of Financial Management and the Department of Enterprise Systems, can no longer be considered complete and modern. About two thirds of the enterprise financial and administrative systems are at least 10 years old. The state's mainframe accounting system was implemented in 1984.

The older systems can't meet modern expectations for lean business processes, decision support and transparency. The technology is obsolete and limiting. Integration with other systems is costly and difficult. The lack of basic functionality available in the suite leads to system duplication across state government as agencies have been required to meet these needs on their own.

Our current enterprise financial systems capture the data from the common financial and administrative functions all agencies must perform. However, the systems don't really support the *processes* themselves. Each agency spends valuable time and resources to determine the approach and tools their organization will use to meet their requirements. The lack of a modern enterprise financial system is a significant barrier to the process streamlining and standardization objectives of our process improvement efforts.

The streamlining and transformation of government cannot be sustained without an infrastructure that makes it possible. Flexible financial and administrative systems are a critical part of this infrastructure.

What is the recommended approach for modernizing these systems?

We are proposing the state begin the process of replacing the outdated enterprise financial and administrative systems with an Enterprise Resource Planning (ERP) system.

ERP refers to an integrated computer system which supports the enterprise-wide financial, administrative, and business activities of an organization. An ERP has the following characteristics which distinguish it from other systems:

- All components of the system are integrated and operate in real-time with no periodic batch updates. For example, when a purchase is made, the accounting system is immediately updated.
- All components of the system access one database to prevent redundant data entry, data storage, and multiple data definitions.
- All components should have the same look and feel.
- Users should be able to access any information in the system without needed integration work on the part of their agency's IT department.

Most major companies and governments now use these kinds of systems to support their enterprise financial and administrative processes.

Project scope

Agencies previously identified around 25 common state business functions that should considered in the planning for statewide financial and administrative system modernization. The highest priority business functions to address include:

- General ledger accounting (replacement of AFRS and TRAINS)
- The procurement-to-pay cycle (e-procurement)
- Labor distribution
- Accounts receivable management
- Capital asset accounting
- Cost accounting
- Financial and management analytics and reporting.

The table at the end of the document provides a listing of common functions that might be considered in an enterprise financial and administrative system modernization effort.

Key benefits

- Transform and streamline financial and administrative business processes across the enterprise
- Provide necessary tools to complete business transformations already underway (e.g. procurement reform)
- Ability to reduce systems duplication in state government
- Provide opportunity to redirect agency capacity from back office processes to agency core missions
- More complete, accurate and timely information for analysis, management and decision-making
- Reduce training and increase productivity when financial and administrative staff move between agencies as most tools and processes will be common
- Increase transparency and public access to information.

Key opportunities and challenges

It is important to note the significant impact and opportunities this multi-biennia project will generate.

- **This is a business process transformation project.**

  This is first and foremost a business transformation project, not an IT project. The majority of the effort, cost, frustration, change, and benefit will be related to the redesign of the state's business processes for financial and administrative activities. The project must put a high priority on change management, training, and communication throughout the effort.

- **New kinds of leadership, governance, and partnerships will be required.**

  Because this project will touch most corners of state government, effective, strong and consistent leadership, governance and stakeholder engagement will be critical to success.

  The state will need to clarify which groups, existing or new, will have decision rights in areas that haven't been well defined to date. For example, who will make the decisions about which business processes should be standardized and which are unique enough that they should not be included in the new ERP system? The project will need to have the ability to make durable decisions and resolve issues decisively and quickly.

- **Achieving benefits will require some compromise and loss.**

  There are trade-offs in any move from long-used or customized systems. There will be tough decisions on how to balance project costs, enterprise needs, ERP sustainability, and specialized information needs. The trade-offs are likely to be most pronounced in agencies converting from custom-built, in-house systems that have been tailored specifically to their business needs. In these cases there will likely be some loss of capabilities at least in the short term.

  The state should expect trade-offs in the area of performance as well. In the course of making overall performance gains, some specific processes may become less efficient. Sometimes this is due to system limitations, sometimes due to the lack of sufficient project budget or expertise. Some major transformations may take several years to achieve.

- **This will require a significant commitment of time and energy.**

  No budget estimate will capture the full contribution of time and energy that state employees will make to generate this kind of significant change. The $110 million-$150 million project estimate captures the cost of the time for the central project team and offers some estimates for state agency staff involvement in business process analysis, requirements, integration of agency-unique systems to the ERP, and training. But these do not capture the cost of all the effort it will take for people to transition from old ways to new. The project cannot be successful without these contributions and efforts.

  This kind of transformation is necessarily disruptive. Agencies cannot contribute the required expertise to the project if it compromises the integrity of the agency mission. Project funding must be sufficient to ensure both needs can be met. The state may also want to consider putting other potentially competing state-wide initiatives on hold.

- **A new standard chart of accounts must be implemented.**

  The state will have an opportunity to design a new chart of accounts that can better meet the state's needs today. The current structure imposes some constraints on flexibility to meet emerging needs. This project provides an opportunity to correct these kinds of deficiencies. It also means that the standard chart of accounts will become more comprehensive and include more data elements. This will be a significant task. The state may also need to let go of particular codes and titles we've used for over 25 years in order to minimize customization of the new system product.

- **We will take to heart the lessons of others.**

  This kind of major transformation project will always experience some rough waters along the way. An internet search will quickly return dozens of articles about ERP project nightmares. This state has had its own painful system implementations. But there are many, many successful implementations across the world as well. This state has the opportunity to learn lessons from our own history in major projects, as well as from others. We have already found other states and governments to be very generous in sharing what they've learned from their experience.

- **Project timing may provide intriguing risk/reward options to consider.**

  The state's long delay into the ERP solution market means it may be possible to skip a whole generation of ERP technology. Early previews of next generation ERPs point to the possibility of profound and exciting leaps in employee productivity. However, these new tools are not yet fully tried and tested in the state government market. We may have the opportunity to consider entering into a development partnership with a vendor to create a government version of a new product. While such a partnership could offer substantial rewards, it would also come with significant risks to project budget, schedule, and scope.

  The permanent challenge of state budget capacity, as well as changes in how software is sold, will also likely require the development of creative financing solutions for the project.

What work is proposed for the 2013-2015 biennium?

The work proposed next biennium includes:

- **Establishing a Governance Framework –** Identify and establish the groups of state leaders and experts with advisory and decision-rights responsibility for the system modernization effort.
- **Establishing a Strong Project Management Framework –** Establish and hire staff to support a distinguished project management office (PMO) specifically assigned to this project.
- **Conducting a Readiness Assessment –** The project would bring in independent, experienced consulting expertise to evaluate the level of preparedness for each agency, and state government as a whole, to carry out a system replacement project of this scale.
- **Developing an Implementation Strategy and Action Plan** – Prepare an implementation strategy that takes into account priority business needs, readiness gaps, and implementation challenges. The assessment would provide analysis and recommendations on:

- Project scope
- Expected outcomes measures of success
- Product strategy
- Project staffing and organization
- Critical issues
- Risk mitigation plan
- Project phasing strategy and timeline
- Financial management information needs
- Project timeline and budget
- Training and communication plans
- Readiness gaps and closure strategy
- Financing strategy options

- **Refining the Business Case –** The performance audit published in 2013 by the State Auditor includes a cost-benefit analysis of pursuing modernization and will help in refining this business case.

The efforts of these activities will provide a clearer picture of concerns that must be addressed within the agencies to allow their full engagement in the business transformation, what the system modernization effort will take, and will surface the key next steps and decision points. Future efforts will depend on the outcomes and information gathered during these first efforts.

What common functions might be included in a financial & administrative system modernization effort?

Recommendations of the interagency Roadmap Advisory Group – Fall 2008. "In scope" means we should consider this component in the planning to modernize the core financials. The planning effort may result in different decisions about the ultimate scope of the project.

System (or function)	Likely in scope	Likely not in scope	What enterprise systems are currently provided by DES? (estimated implementation date)
General ledger accounting - the process of collecting, preparing and recording accounting transactions to the appropriate fiscal period and accounts, reconciling subsidiaries with the general ledger and managing the chart of accounts	✓		AFRS – 1984 (29 yrs)
Financial reporting - the process of analyzing and presenting formal and informal financial information to support GAAP, managerial, compliance and performance reporting for agency and statewide purposes on a periodic and ad-hoc basis for internal and external use. This includes reporting for entities with enterprise and proprietary fund activities such as the Liquor Control Board and Lottery.	✓		SAP Business Objects – 2006 (7 yrs) AFRS – 1984 (29 yrs) CAFR reporting—early 2000s
Cost accounting - the process of recording transactions for activities, products and services (cost objectives) for which costs need to be measured; implementing a formal or informal cost methodology and/or plan; and records, accumulates and distributes direct, indirect, and overhead costs to those cost objectives according to the established methodology.	✓		CAS—2003 (10 yrs) (used only by DSHS and HCA; very specific functionality)
Contract Management - the process of planning for, establishing, amending, and monitoring contractual agreements, from managing standard sets of terms and conditions to drafting, approving, executing, and recording agreements, and evaluating the effectiveness of contracts and suppliers in meeting contract performance objectives.	✓		ECMS very limited functionality – 2007 (6 yrs)
Grant Management – the process of acquiring grant funding from federal, state or other sources, expending grant and loan funds in support of program objectives, reporting grant and loan activities to funding authorities, and evaluating the effectiveness of grant and loan programs. The process also includes cost sharing and all steps necessary to make and monitor subgrant awards to recipients, and the management and tracking of loans receivable.	✓		None
Activity-Based Costing. A costing model that identifies activities in an organization and then assigns the cost of each activity resource to products and services according	✓		None

System (or function)	Likely in scope	Likely not in scope	What enterprise systems are currently provided by DES? (estimated implementation date)
to the actual consumption by each in order to generate the actual cost of products and services. The organization learns about the product and service cost, and also about the costs of the efforts that go into the production or delivery of the product or service.	(There is interest in exploring the need for this)		
Revenue Cycle			
Revenue Management/ Accounts Receivable/ Collection Management/ Revenue Distribution - the process of receiving, classifying, recognizing and recording receipts; distributing receipts to the appropriate jurisdictions, accounts, coding element; and invoicing, monitoring, and collecting receivables from or on behalf of the state's customers, refund/credit management, and evaluating bad debts. Could include point of sale systems and billing support for services.	✓		AFRS – 1984 (29 yrs) ?? AR – 1998 (15 yrs) (limited functionality and users)
Treasury Management - manage treasury funds, investment management, receive deposits and issue and redeem checks and electronic payments; maintain check registers; bond/debt management.	**?**	**?**	
Local Fund Management -manage local funds: receive deposits, issue and redeem checks and electronic payments, maintain check records, investment management, local fund bond/debt management.	✓		AFRS – 1984 (29 yrs) ??
Tax Revenue Management – includes the tax management processes of tax collection agencies.		✘	
Performance Management			
Performance measurement - the process of defining specific measures that relate to organizational goals; collecting and analyzing relevant, timely and consistent data about inputs, outputs, outcomes, and benchmarks. (In this sense we're talking about system capacity to do these things, rather than plans to develop an enterprise-wide set of standard performance measures.)	✓		RPM – 2010 (3yrs) Dataview – 2007 (6 yrs) (Supports GMAP)
Performance Management - Combines financial, budget, activity and performance information from many of these process to aid managers in assessing the effectiveness and efficiency of organization efforts.	✓		Somewhat aided by SAP Business Objects reporting tools– 2006 (7 yrs)
Statewide Management Reporting - the process of analyzing and presenting formal and informal performance information to facilitate reaching conclusions efficiently with accountability.	✓		Somewhat aided by SAP Business Objects reporting tools– 2006 (7 yrs)

System (or function)	Likely in scope	Likely not in scope	What enterprise systems are currently provided by DES? (estimated implementation date)
Agency Management Reporting – the process of utilizing available reporting tools and data to provide visibility to agency unique business operations.	✓		Somewhat aided by SAP Business Objects reporting tools– 2006 (7 yrs)
Procure to Pay (E-procurement)			
Vendor Relationship Management - the process of managing information about vendors who currently do business with the state, or want to in the future. The process includes registration of new vendors and maintenance of registration and banking information, including vendor status and performance history.	✓		Statewide Vendor Table –1984 (29 yrs) (limited functionality)
Vendor Solicitation Management -the process of identifying purchase requirements, determining sources, and bid management	✓		WEBS – 2003 (10y rs) (limited functionality)
Order Management – the process of ordering, receiving, accepting, and distributing goods and services	✓		None
Payables Accounting - the process of paying for goods and services. The process encompasses tracking and managing encumbrances and accruals, approving requests for payment, processing approved payments, canceling and reissuing payments as necessary, and providing timely and accurate payment information to stakeholders.	✓		AFRS – 1984 (29 yrs)
Asset Management			
Consumable Inventory Management – the process of receipting, issuing and valuing consumable inventories; managing stock levels to meet agency needs; and facilitating periodic physical inventories.	✓		None
Asset Lifecycle Management - the process of planning, acquiring, designing, operating, maintaining, replacing and reporting on state owned and leased capital assets including facilities, infrastructure, land, information technology and fleet. It also involves collecting revenues and calculating return on investment**.**	✓		CAMS - 1991 (22 yrs) Limited functionality
Capital Asset Accounting – the process of recording and tracking the acquisition, ownership, funding source, depreciated value, location and disposition of capital assets; facilitating periodic physical inventories; and reporting**.**	✓		CAMS - 1991 (22 yrs) Limited functionality
Project Management			
Project Accounting - manage and monitor project budgets; account for project revenues and direct and indirect expenditures during the project period; track and	✓		None

System (or function)	Likely in scope	Likely not in scope	What enterprise systems are currently provided by DES? (estimated implementation date)
account for project-funded assets and contracts.			
Capital Project Management - In accordance with state and federal (if applicable) laws and policies, estimate, budget, schedule and forecast authorized transportation and non-transportation capital projects; validate cost estimates and risks; manage and monitor the project budget; perform project oversight, design, procurement, and construction, inspection and acceptance activities; manage escrow accounts; administer project-funded contracts.		✘	
Human Resource Management			
Benefits Management – the process of administering employee benefit packages and performing health insurance accounting.	✓		Pay 1 – 1984 (29 years)
Time and Attendance and Labor Distribution – the process of tracking and entering employee time by time worked as well as distribution of costs in the accounting records according to the agency cost distribution methodology.	**TLA project underway**		
Payroll – the process of calculating employee pay, processing employee deductions, and creating paychecks to employees and remittances to outside parties for employee deductions and other employer benefits contractors.	✓ **HRMS enhance-ments**		HRMS – 2006 (7 yrs)
Position Management – the process of managing the full-time equivalent positions authorized in the budget, as well as the number of employees processed in the payroll system.		✘	HRMS – 2006 (7 yrs)
Recruitment – the process advertising position vacancies, conducting interviews and hiring employees.		✘	Neo Gov - 2011 (2 yrs)
Learning Management - Tracking employee or contractor certification and training requirements		✘	LMS - 2011 (2 yrs)
Employee Performance Management – the process of managing and tracking required employee performance evaluations.		✘	None, but DSHS is implementing new system with the intent this would be expanded for the enterprise
Labor Relations Management - Includes contract administration		✘	
Employee Grievance Management		✘	

System (or function)	Likely in scope	Likely not in scope	What enterprise systems are currently provided by DES? (estimated implementation date)
Budget			
Allotment Development and Management – The process of developing revenue and expenditure plans based on the enacted budget constraints, and comparing actual performance against plan	✓		TALS – 2007 (6 yrs) (Primarily supports submittal and approval)
Budget Development - Development and submittal of agency budget requests, develop and publish Governor's budget, legislative budget development and enactment, governor signature/veto	✓		WinSum suite –1992 (21 yrs) BDS suite – 2000 (13 yrs) CBS – 2008 (5 yrs) TEIS
Financial projection and modeling – the process of developing financial projections and scenarios using trend analysis, cost and other assumptions, and other data.	✓		None
Forecasting - Economic and caseload forecast processes		✘	
Strategic plan development		✘	
Fiscal note process		✘	FNS – 2001 (12 yrs)
Other agency Line of Business Systems		✘	✘