Budget Report Back and Discussion

November 29, 2017

Agenda

- Introductions
- Background and context for this meeting
- Report back and observations from interviews
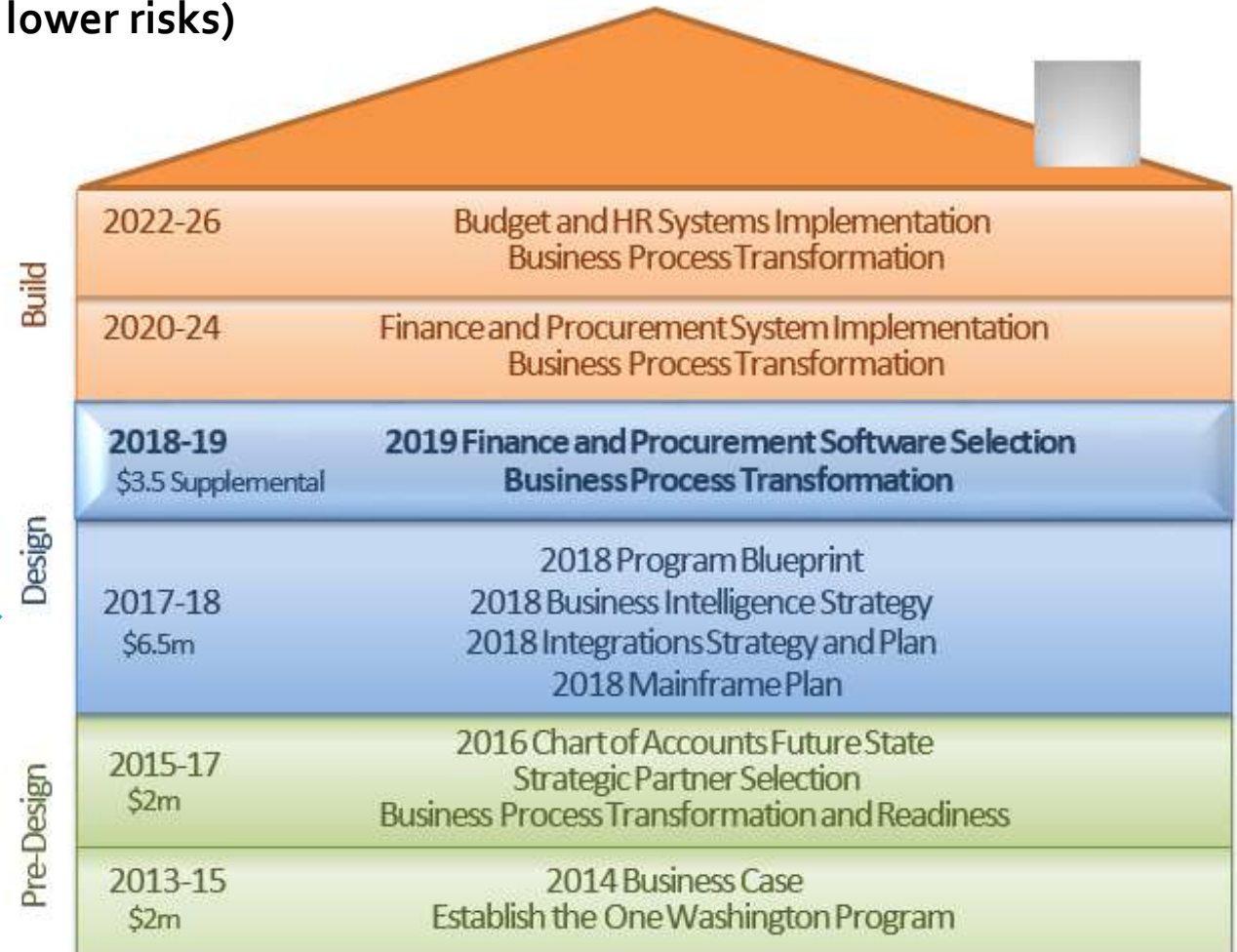- Discussion of possible initiatives
- Next steps

2017-19 Program Design: "The Blueprint"

Business benefit: Establish long term benefits case including 'hard dollars' plus other benefits (e.g., improved services, lower risks)

- Detailed design phase (implementation plan, schedule, estimates) of One Washington program over 8 years
- Scope: enterprise Finance, Procurement, Budget, Human Resources/Payroll
- Refresh of needed data to make business decisions for program and state of Washington
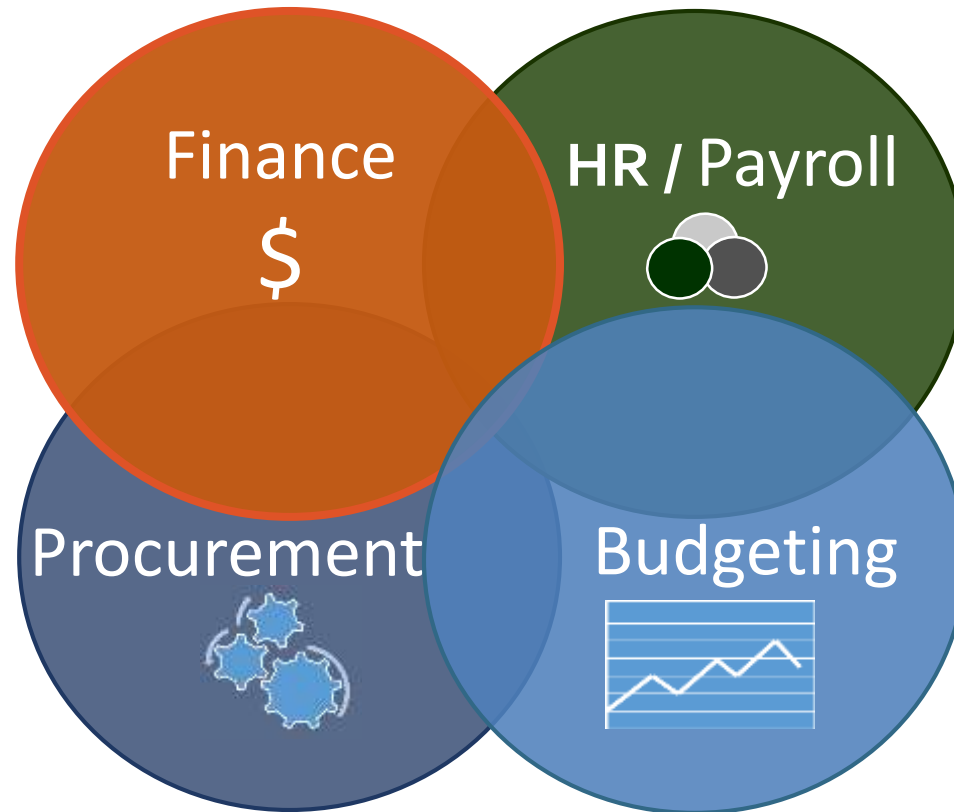- Methodology to incorporate planning for analytics, latest capabilities in ERP industry

We are here

One Washington Program

Build	2022-26	Budget and HR Systems Implementation Business Process Transformation
Build	2020-24	Finance and Procurement System Implementation Business Process Transformation
Design	**2018-19** $3.5 Supplemental	**2019 Finance and Procurement Software Selection Business Process Transformation**
Design	2017-18 $6.5m	2018 Program Blueprint 2018 Business Intelligence Strategy 2018 Integrations Strategy and Plan 2018 Mainframe Plan
Pre-Design	2015-17 $2m	2016 Chart of Accounts Future State Strategic Partner Selection Business Process Transformation and Readiness
Pre-Design	2013-15 $2m	2014 Business Case Establish the One Washington Program

Enterprise Resource Planning: Functional View

- General ledger accounting
- Specialized accounting, e.g. project accounting, cost accounting
- Budgetary control
- Accounts payable
- Accounts receivable
- Asset management
- Grant management
- Treasury management*
- Travel and expense
- Master data, e.g. chart of accounts, payees, customers
- Reporting

Finance $

HR / Payroll

- Payroll
- Core HR functions
- Benefits administration*
- Position classification
- Time and attendance
- Compensation planning
- Labor relations
- Recruitment
- Development
- Performance evaluation
- Health and safety
- Master data, e.g. positions, job descriptions
- Reporting

Procurement

Budgeting

- Requisitions and purchase orders
- Contract management
- Receiving
- Sourcing, e.g. RFP, RFQ, RFX
- Supplier Relationship management
- Category management
- Catalog purchasing
- Inventory management
- Master data, e.g. suppliers, commodities
- Reporting

- Operating and capital budget
- Revenues and expenses
- Scenario planning and forecasting
- Master data, e.g. appropriations, allotments
- Reporting and monitoring

* Out of Scope for One Washington

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1. Executive and Management Direction

1.1 Strategic Direction

1.1.1 Strategic Mgmt. & Budgeting

- 1.1.1.1 Enterprise Mission & Strategy
- 1.1.1.2 Enterprise Performance Planning and Management
- 1.1.1.3 Enterprise Budget Development
- 1.1.1.4 Enterprise Value Arch & Realization

1.1.2 Enterprise Risk Mgmt. & Governance

- 1.1.2.1 Audit & Compliance Mgmt.
- 1.1.2.2 Internal Controls
- 1.1.2.3 Fraud & Abuse
- 1.1.2.4 Risk Management

1.1.3 Finance Function Management

- 1.1.3.1 Budget Org. Mgmt.
- 1.1..3.2 Finance Performance Mgmt.
- 1.1.3.3 Finance Value Arch & Realization

2. Operational Services

2.1 Finance

2.1.1 Budget Execution

- 2.1.1.1 Budget Execution

2.1.2 Financial Accounting

- 2.1.2.1 General Accounting
- 2.1.2.2 Accounts Payable
- 2.1.2.3 Revenue Cycle Mgmt - Tax.
- 2.1.2.4 Revenue Cycle Mgmt. – Non-Tax
- 2.1.2.5 Project Accounting
- 2.1.2.6 Grants Mgmt.
- 2.1.2.7 Cost Accounting & Controlling
- 2.1.2.8 Asset Mgmt.
- 2.1.2.9 Travel & Expense

2.1.3 Treasury

- 2.1.3.1 Cash & Banking Mgmt.
- 2.1.3.2 Investment Mgmt.
- 2.1.3.3 Debt Mgmt.

3. Enablement

3.1 Reporting & Analysis

3.1.1 Finance

- 3.1.1.1 Enterprise Statutory Reporting
- 3.1.1.2 Enterprise Performance Reporting & Decision Support
- 3.1.1.3 Finance Performance Reporting & Decision Support
- 3.1.1.4 Enterprise Analytics

3.2 Data & Technology

3.2.1 Data

- 3.2.1.1 Enterprise Data Governance & Architecture
- 3.2.1.2 Enterprise Info. Creation & Distribution

3.2.2 Technology

- 3.2.2.1 Technology Strategy & Blueprint
- 3.2.2.2 Platform, Integration & Process Architecture
- 3.2.2.3 Service Management

Report back from interviews

- Between October 30 and November 21 we interviewed representatives from 12 agencies, LEAP, and higher education
- We asked seven questions related to the budget development and management process
- Engagement and participation was excellent

THANK YOU

In your opinion, what are the three most successful aspects of how Washington develops and manages its budget today?

- Effective communication and collaboration between members of the budget community (agencies, OFM, and LEAP)
- Effective caseload and revenue forecasting by neutral parties
- Budget development process is generally consistent and predictable
- Recognized for good fiscal management and strong bond rating
- Avoidance of budget gimmicks and securitization
- Intuitive public-facing resources and open checkbook site

Volcker Alliance rates WA highly for budget forecasting

STATE	BUDGET FORECASTING			BUDGET MANEUVERS			LEGACY COSTS			RESERVE FUNDS			TRANSPARENCY		
US 3-YR. AVERAGE (GRADE/TREND)	B ↗			B ↘			C ↗			B ↗			B ↘		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Texas	D	D	D	A	B	A	D-	D-	D-	A	A	A	B	B	B
Utah	C	C	C	A	A	A	A	A	A	A	A	A	C	C	C
Vermont	D	C	C	B	A	A	D	D	D	B	B	B	B	B	B
Virginia	C	A	A	D-	D	C	D-	D-	D-	A	A	A	C	C	C
Washington	A	A	A	B	C	C	C	D-	D-	A	A	A	B	B	C
West Virginia	C	C	C	C	B	C	C	C	C	B	B	B	B	B	B
Wisconsin	D-	D	D	C	B	B	A	A	A	B	B	B	B	B	B
Wyoming	B	B	B	A	B	B	D-	D-	D-	D	D	B	C	C	C

"States should use a consensus approach to establishing single, binding numbers for revenues and expenditures...Washington stands out in this regard, getting top grades for fiscal 2015 through 2017."

Truth and Integrity in State Budgeting: What is the Reality?. The Volcker Alliance. 2017

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What are the top three aspects of how Washington develops and manages its budget today that could be improved?

- Systems supporting the budget lifecycle are not integrated ("do not talk") and are not user friendly
- Many processes and requirements for the biennial budget are collected but do not seem to be used (e.g. performance measures, activity-based budget)
- Compensation planning and forecasting is highly interrelated with the budget development process and is a consistent challenge

Place yourself one year after a new statewide Budget system has gone live – what would indicate to you that it has been a success?

- New system has equal to or better than current functionality, and be user friendly (i.e. like excel)
- Ability to support specialized budgeting (i.e. by project and/or grant)
- Visibility and tracking of versions through the entire lifecycle, with effective version control and security
- Strong and user-defined reporting
- Ability to link performance planned with performance actuals
- Facilitates public transparency
- Does not require an army of IT personnel each time budget information is shared between branches of government

What would be the top two or three challenges that would get in the way of making that vision a reality?

- Inadequate training and change management leading to agency adoption
- Entrenched work-around processes
- Lack of funding
- Ensuring budget personnel are empowered to provide solutions
- Flexibility to adjust the program taxonomies
- Appropriate security and ability to "hide" work-in-progress scenarios
- Insufficient standards promoting consistent data quality across the enterprise
- Legislative participation in system and/or business rules

If you had the ability to change anything with how the state develops and manages the budget, what would you change?

- Remove requirement for the activity-based budget
- Eliminate all "busy work" that does not have a clear purpose/outcome
- Create a higher level program taxonomy
- Create a lower level program taxonomy
- Receive timely budget enactments
- Track and report on revenue in an easier way, especially how agencies are spending against non-GF-S revenue sources
- Develop the ability to easily answer the question "did we accomplish the outcomes we funded"?
- Reduce complexity (e.g. over 600 funds)
- Integrate and generate updates to monthly spending plans based on prior months adjustments

Relative to other agencies, are there any aspects of the budget process that are unique to your agency that we should be aware? What are the reasons for the uniqueness and what business value does that uniqueness deliver?

- Transportation Budget includes both operating and capital
- Student and other caseload projection models based on caseload data from the Caseload Forecasting Council
- Being reorganized/merged with other agencies
- Entitlement programs driven by caseloads and policy
- Cost allocation across multiple funding sources
- Decentralization of systems and processes among higher education institutions
- Managing multiple lines of business in higher education
- Overspending and eventual reimbursement for large fire suppression expenses

The current plan is for Budget requirements definition and software selection in FY24, system implementation in FY25, and a new system live on January 1, 2026 (FY26). What are interim activities that would need to happen between now and then?

- Do not shortchange support to current systems
- Engage the budget community during requirements definition and design of the new financial system
- Continue short-term process and system improvements
- Launch an initiative to define master data, clean up current data, and to the extent possible simplify business processes
- Improve four year forecasting

Summary Observations/Pain Points

1. Lack of an integrated/unified system is the root cause for many pain points, for example
   - Data does not migrate from one version/step in the process to the next, causing **data reconciliation** and **duplicate data entry**
2. Separate systems also cause many pain points, for example:
   - Analysts **spend significant time acquiring data** rather than analyzing data
   - Complex systems **breed user errors** and necessitate **additional training and support**
3. Different data definitions and a detailed level of granularity cause complexity and extra work, for example:
   - Agencies need to **"translate"** data used to manage operations into definitions used to develop the state budget and outcomes of the budget need to be **"re-translated"** to data the agencies use for operational management purposes
   - The Legislature **does not have easy access and visibility** into the information they want
4. Inconsistent linkages between performance/outcome measures to funding requests cause misunderstandings and extra work, for example
   - **"Fire drills"** to satisfy additional data requests
   - Perceived **non-value added work**, for example the activity inventory and 10 year recast

Modern Budget Systems Address Washington Pain Points

All the major ERP providers offer **unified and integrated** public sector planning and budgeting systems

Each participant has **security to create "versions"** and decide which "versions" are visible by others

Data can be imported electronically, for example from financial, payroll, and procurement systems

Data is organized in a relational data base, optimized for queries and modelling

Unique public sector requirements are supported, for example mass changes and position based budgeting

Systems are **user friendly and intuitive**, with spreadsheet functionality

Discussion of possible initiatives

Since the needs for improvement are immediate and apparent, but the schedule for replacing the budget system does not result in a new system operational until FY26, the question arises if some initiatives in the intervening time are merited.

Let's discuss several possibilities for inclusion in the Program Blueprint.

Review end-to-end budget process for efficiencies and identify statute changes in advance of a new budget system

An assessment of the budget development and management process would aim to identify opportunities to simplify and ensure that all tasks and artifacts continue to add value to stakeholders, including agencies, elected officials, and the public.

This initiative would include a review of laws, regulations, and policies. This activity would consist of both identifying outdated guidance, as well as considering new leading practices.   The result is information to support changes to the budget operating model and the implementation of a new system.
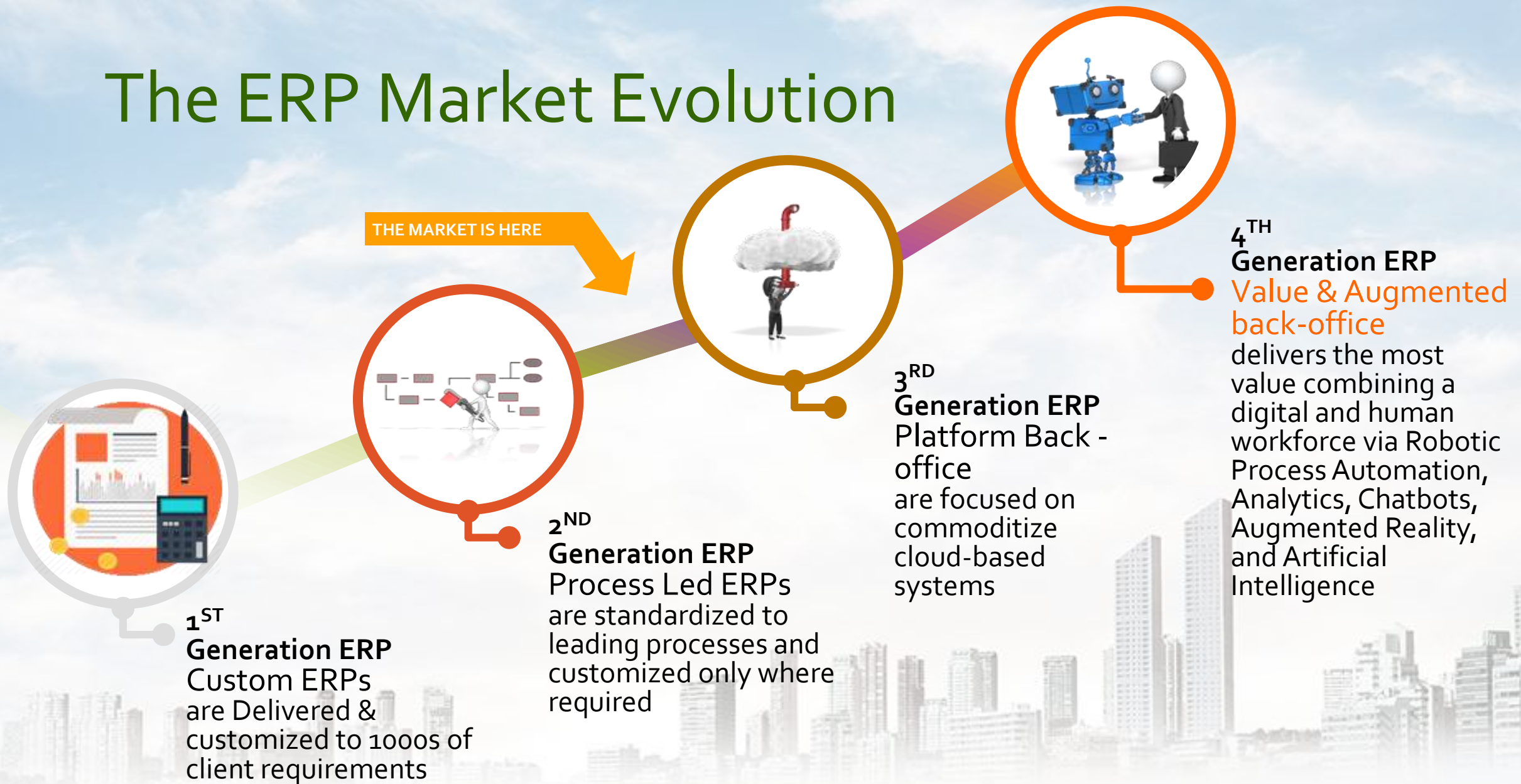
Create a workgroup for budgeting

A Community of Practice would formalize a group of interested cross-government budget personnel and offer resources, knowledge sharing, and technical assistance in topics such as budget development, forecasting, analytics, budget management, and systems.
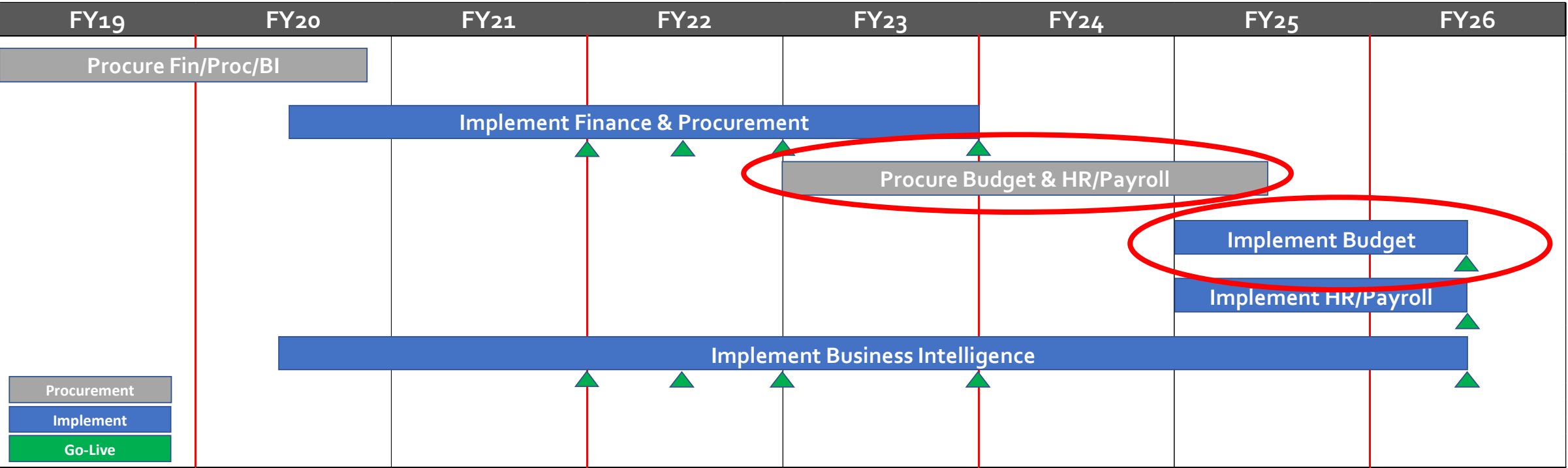
Key elements of launching and sustaining a community of practice include:
- Identifying a leadership sponsor
- Defining the vision and scope
- Collating and curating relevant materials into a shareable location
- Providing valuable content in the form of e-mail communications, guest speakers, and discussions

The ERP Market Evolution

THE MARKET IS HERE

1ST Generation ERP
Custom ERPs are Delivered & customized to 1000s of client requirements

2ND Generation ERP
Process Led ERPs are standardized to leading processes and customized only where required

3RD Generation ERP
Platform Back - office are focused on commoditize cloud-based systems

4TH Generation ERP
Value & Augmented back-office delivers the most value combining a digital and human workforce via Robotic Process Automation, Analytics, Chatbots, Augmented Reality, and Artificial Intelligence

One Washington Timeline

FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26

Procure Fin/Proc/BI

Implement Finance & Procurement

Procure Budget & HR/Payroll

Implement Budget

Implement HR/Payroll

Implement Business Intelligence

Procurement

Implement

Go-Live

Next Steps

In December we will be updating the Program Blueprint to include more details pertaining to budget. Topics will include:

- Unified vs. Best of Breed
- Technology Deployment Model
- Implementation/Phasing Approach
- Master Data Management
- Reporting/Business Intelligence Approach
- Security
- Staffing Plan, Project Costs, and Budget Estimate

Thank you for your participation!

http://one.wa.gov

For Questions, Comments, or Concerns:
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