



Statewide Financial Management System Needs Assessment Study Update

December 15, 2006



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December 15, 2006

Duncan Friend
Director, Enterprise Technology Initiatives
Kansas Department of Administration - DISC
900 SW Jackson RM-751S
Landon State Office Building
Topeka, Kansas 66612

Dear Mr. Friend:

Salvaggio, Teal & Associates is pleased to submit our final report documenting the results of the Updated Needs Assessment Study for a new Financial Management System. We are providing our report in hard-copy and in electronic format.

We enjoyed working with you and the State's management and subject matter experts who contributed to the Study, and we are grateful for all the hard work you and the others put into this effort.

We greatly appreciate having had the opportunity to assist the State with this important study and look forward to being of further assistance to the State in the future. Should you have any questions or comments regarding our report, please do not hesitate to contact me at 512-797-7338 or by e-mail at mitt.salvaggio@staconsulting.net.

Sincerely,

Mitt A. Salvaggio
President



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Section 1 Executive Summary

Project Background

This report documents the results of a Needs Assessment Study completed as a follow-up to update a prior study conducted by the State of Kansas (the State) in 2001.

2001 Needs Assessment Study

The State conducted a needs assessment of its Statewide Financial Management System (FMS) in July 2001. The assessment included a cost-benefit study of various alternatives associated with meeting the State's administrative business needs, including the possibility of acquiring and implementing a new statewide FMS.

The final report included a recommendation that the State proceed with replacing the Statewide Accounting and Reporting System (STARS) with a FMS that would focus on providing improved management information, in addition to processing financial transactions, and that would include, at a minimum, the following functional modules:

- ◆ Accounts Payable,
- ◆ General Ledger,
- ◆ Purchasing,
- ◆ Asset Management, and
- ◆ Inventory Management.

The Project Steering Committee approved this recommendation on scope, along with the use of a pilot approach for rolling out the new system to the user agencies. In addition, the Steering Committee approved an approach that allowed major State agencies with significantly different requirements to operate their own instances of the software. The study also determined that interfaces would be required between a new FMS system and the Regents Institutions, as well as the newly implemented Budget Management System (BMS) and Statewide Human Resource and Payroll System (SHARP). The Study estimated the cost for the proposed FMS to be between \$25 million and \$36 million, spanning a 2.5 to 3.5 year implementation timeframe.

The recommendations from the assessment were not implemented due to a brief downturn in the Kansas economy, resulting in a lack of funding to proceed with the FMS initiative.

2006 Needs Assessment Study Update

In June of 2006, the Department of Administration sponsored a Request for Proposal (RFP), soliciting assistance in updating the original 2001 Needs Assessment. The State decided to take this step for the following reasons:

- ◆ *Changes in philosophy and approach to execution of State administrative functions.* When the administration of Governor Kathleen Sebelius took office in



January 2003, the State began to pursue a more decentralized approach to the governance of administrative functions, delegating authority to State agencies while fostering collaborative decision-making to achieve the best benefit for the state as a whole. This approach placed an increased focus on analyzing data about the state's operations and pursuing efficiencies on an enterprise basis. As a byproduct of these efforts over the last few years (organized as the Governor's Budget Efficiency and Savings Teams, or BEST), managers have become acutely aware of deficiencies in the state's financial and procurement systems that make it difficult to obtain the information needed to adequately assess the efficiency of many aspects of operations.

- ◆ *Changes associated with agency internal business processes.* Since 2001, when the decision was made not to pursue the replacement of the existing statewide financial system, some agencies have begun to develop small and large scale custom applications to automate their processes. In addition, an evolving statutory and regulatory environment means that agencies are likely to have developed new and different processes in some areas since the previous study examined them, and programs supported by these processes may have changed significantly. Thus, the State felt it was necessary to reexamine agency requirements to bring them up-to-date with any changes in state operations since 2001.
- ◆ *Advances in technology and changes in the marketplace since 2001.* There have been considerable advances in technology (e.g., Web-enablement and service-oriented architecture) and in functionality for the public sector (e.g., new eProcurement functionality and vendor/employee self-service) in recent years. Additionally, there has been considerable product consolidation in the Tier 1 software marketplace as both PeopleSoft and JD Edwards software solutions are now owned by Oracle Corporation. Tier 1 software vendors are considered the most viable companies for meeting the needs of the largest and most sophisticated governmental organizations.

The RFP led to the State engaging the consulting firm of Salvaggio, Teal and Associates (STA), headquartered in Austin, Texas, to assist in updating the 2001 Needs Assessment.

The primary objectives of the Needs Assessment Update project were to:

- ◆ Review the existing financial management systems and processes throughout State government;
- ◆ Update statewide and agency-specific administrative system requirements, and
- ◆ Update the business case analysis associated with the implementation of a new FMS and determine whether or not there is a compelling business case for procuring and implementing an integrated statewide FMS.

The results of the Update project are contained in this report.



Scope of the Needs Assessment Update

Project scope is defined from a current systems, functional, and organizational perspective as follows:

Current Systems Scope

The following components of the State's current statewide systems environment were included in the Update project:

- ◆ STARS (accounting),
- ◆ SOKI3+ (interfunds, journal vouchers, receipts),
- ◆ Budget Management System,
- ◆ Procurement Manager Plus,
- ◆ Kansas Debt Recovery System (Central Set-off System), and
- ◆ STARS Ad Hoc Reporting System.

Functional Scope

The functional scope of the Update project included the functionality provided by the current statewide systems listed above, as well as certain system functionality beyond what is currently provided by the existing statewide systems, including:

- ◆ General Ledger (including Budgetary Control, Project/Grant Accounting, Cash Management, and Cost Allocation);
- ◆ Accounts Payable;
- ◆ Procurement;
- ◆ Asset Management;
- ◆ Budget Development;
- ◆ Data Warehousing (for reporting);
- ◆ Fleet Management;
- ◆ Inventory Management; and
- ◆ Accounts Receivable / Billing.

As described later in this report, the functional scope was reduced for the purposes of developing the business case for a new FMS. This reduction in functional scope is described in greater detail in *Section 2: Introduction*.

Organizational Scope

The FMS will be utilized by all state agencies. However, the study assumed that Regents Institutions would be excluded from the organizational scope of analysis for the Needs Assessment Update project. Regents Institutions have made significant



investments in “stand-alone” financial management systems that support their current business processes, systems that are frequently integrated with other university specific systems such as student administration. However, they will be required to maintain interfaces to the FMS as they do today with STARS and high-level information about these interfaces has been cataloged as part of this report. We also recommend that the Regents Institutions be encouraged to utilize the FMS Procurement functionality and strategic sourcing to allow the State to further leverage the combined spend as a means of obtaining better pricing from the vendor community.

Project Deliverables

The Needs Assessment Update project produced the following deliverables:

- ◆ **Business Case Analysis** – Developed to determine whether there is a compelling business case for undertaking a project to acquire and implement a new statewide FMS.
- ◆ **System Requirements Validation (functional and technical)** – Developed to validate and document the functional and technical requirements for a FMS as well as document data conversion and interfacing system requirements, which will be included in a RFP(s) for acquiring FMS software and implementation services.
- ◆ **Implementation Best Practices** – Developed to provide the State an understanding of viable deployment strategies, including pros and cons of each strategy, major decision drivers associated with deploying a new FMS, and our recommended approach and timeline for the deployment.
- ◆ **Organizational Best Practices** – Developed to provide recommendations regarding the composition and structure of the project organization and to provide best practices for recruiting, staffing, and retaining State staff for the project.
- ◆ **Budget Development Integration Analysis** – Developed to provide background information on the State’s budget development process, document how the BMS currently interfaces with other statewide administrative systems, document any problems and functional deficiencies with the current BMS as noted during our visits with Stakeholder Agencies, provide an overview of the budget development software marketplace, document how budget development functionality will be addressed in the new Financial Management System (FMS), and make any recommendations that impact the integration between budget development and the proposed FMS.
- ◆ **Human Resources / Payroll Integration Analysis** – Developed to document how the current SHARP system should interface with the new FMS, document any problems identified as part of this study that impact HR/Payroll functionality, identify any advantages to be obtained by continuing the State’s investment in



the PeopleSoft software family, and make any recommendations that impact the integration between SHARP and the proposed FMS.

- ◆ **Reporting Approach** – Developed to document our findings regarding the reporting deficiencies associated with statewide administrative systems and provide a recommended solution for addressing those deficiencies.
- ◆ **Analysis of Alternative Solutions** – Developed to provide alternative solutions for the State to consider if the State elects not to move forward with implementing a new FMS.

All of the project deliverables outlined above are contained in this report.

Approach

In performing this project, we utilized our proven methodology for planning for and acquiring enterprise-wide FMS software and associated implementation services that we have used successfully for numerous projects of this type for state and local governments. The primary components of our methodology used for the FMS Project are Business Case Analysis and System Requirements Validation, which we tailored to this particular project. Refer to *Section 3: Business Case Analysis* and *Section 4: System Requirements Validation* of this report for detailed information regarding the approach we applied in developing those sections.

Our approach to performing projects, in general, is highly collaborative as we understand that in order for us to bring real value to our clients, we must not only have a clear understanding of the business drivers for the projects we undertake, but also our clients' business issues, cultural environment, operating philosophy, and overall business strategy. In keeping with our methodology and our overall approach to performing projects, among the activities we performed are the following:

- ◆ Worked closely with the State's project leadership to gain an understanding of business drivers for the FMS initiative, formulate assumptions regarding the implementation and operation of FMS, obtain information on existing statewide systems and future plans for statewide systems (assuming a statewide FMS is not implemented) and identify potential process-improvement opportunities;
- ◆ Conducted numerous interviews with management and other appropriate personnel from a number of the agencies (referred to as "Stakeholder Agencies") with larger budgets, complex business process and reporting needs, and/or significant internal systems outside the State's current administrative systems to gain their insights and perspectives on various aspects of the project, in general, and to obtain specific information necessary for us to successfully complete our work;
- ◆ Conducted surveys to obtain information necessary to quantify system savings (i.e., system costs that would be avoided if FMS were implemented), as well as quantify process-improvement benefits/savings for the Business Case Analysis; and



- ◆ Facilitated work sessions and conducted interviews to (1) validate system requirements from the previous Needs Assessment study conducted by Accenture in 2001, (2) document the FMS system requirements at a level of detail sufficient to differentiate FMS software offerings, and (3) obtain information required for developing the other deliverables for this project.

State Participation

As stated above, our approach to performing enterprise projects of this size and complexity is highly collaborative. As such, the Study included considerable participation from across State government as follows:

- ◆ Leadership from three (3) agency sponsors;
- ◆ Input and guidance from a Steering Committee representing thirteen (13) State organizations; and
- ◆ Participation of 225 state employees from 47 separate agencies in Requirements Focus Group work sessions and in interviews/meetings with Stakeholder as well as other agencies. The purpose of the Requirements Focus Groups is provided in *Section 4: System Requirements Validation*.

Key Points and Recommendations

We made numerous recommendations as a result of the work we performed in conducting this study which are included in various sections of this report. The principal study points and recommendations are summarized as follows:

Recommended Functional Scope

The following functionality will be implemented:

- ◆ General Ledger (including Budgetary Control, Cost Allocation, Grant/Project Accounting, and Cash Management)
- ◆ Accounts Payable
- ◆ Asset Management
- ◆ Procurement
- ◆ Budget Development Integration (based on the use of one of three options discussed in *Section 7: Budget Development Integration with FMS*)
- ◆ Data Warehousing (for reporting)

Recommended Deployment Approach

“Big Bang” deployment in which the State simultaneously “rolls out” all functionality that is within scope to all agencies. Details of the analysis supporting this recommendation can be found in *Section 5: Implementation Best Practices*.



Recommended Project Organization

The Project Management Office should be established independent of the Department of Administration. The State should position the FMS initiative as an enterprise-wide business transformation effort and not a technology project owned by the Department of Administration.

The FMS Project Team will be composed of a combination of:

- ◆ State personnel from the Department of Administration;
- ◆ State personnel from the other “user” State agencies;
- ◆ Implementation contractors; and
- ◆ Independent project oversight contractors.

During the implementation period, the Project Team will be made up of, on average, approximately 1.5 State personnel for each (1.0) contractor. It is anticipated that the Project Team at peak staffing will include approximately 50 State employees and 33 contractors.

Estimated Project Cost

We estimate that the total cost to implement FMS will be approximately \$40.7 million as summarized in the table below.

Cost Category	Cost Amount
Consulting Fees	\$ 27,371,600
Compensation for State Employees*	\$ 5,265,246
Software License Fee	\$ 4,000,000
Software Maintenance Fees (1 st year)	\$ 800,000
Facilities and Other	\$ 1,250,000
Data Center Costs (during implementation effort)	\$ 2,040,000
Total Cost of Implementation	\$ 40,726,846

* “Compensation for State Employees” represents compensation for “backfill” resources which are those that replace State project team members in performing the jobs they leave to join the project team. For additional information regarding “backfill”, refer to (1) assumptions regarding “State Employee Implementation Cost (Backfilling Cost)” in *Section 3: Business Case Analysis* and (2) “Strategy for Backfilling” in *Section 6: Organizational Best Practices*.

Estimated Payback Period

Taking into account the estimated cost to implement and operate a new FMS, as well as the savings/benefits that could be realized from the implementation, the financial breakeven/payback is estimated to occur in Year 12 (in the 13th year of the initiative taking into account Year 0) of the planning timeframe (as referenced in the schedule that follows).



Schedule of Estimated Net Costs and Benefits/Savings from Implementing FMS
(in thousands of dollars)

Cost and Benefits/Savings Categories	Acquire		Implement		Support								Total	
	Yr 0 FYE 2007	Yr 1 FYE 2008	Yr 2 FYE 2009	Yr 3 FYE 2010	Yr 4 FYE 2011	Yr 5 FYE 2012	Yr 6 FYE 2013	Yr 7 FYE 2014	Yr 8 FYE 2015	Yr 9 FYE 2016	Yr 10 FYE 2017	Yr 11 FYE 2018		Yr 12 FYE 2019
FMS Costs <i>(implementation & operation)</i>	(317)	(633)	(15,426)	(19,804)	(8,391)	(3,869)	(3,894)	(8,974)	(3,947)	(3,975)	(4,004)	(9,085)	(4,060)	(86,379)
Avoided System Costs														
Retirement of existing systems					1,278	2,559	2,654	2,614	2,624	2,670	2,670	2,670	2,670	22,409
Avoidance of new systems and enhancements to existing systems	525	5,360	1,465	185	428	428	428	428	428	428	428	428	428	11,387
Process-Improvement Benefits <i>(Value Pockets)</i>														
FTE reduction/redirection					1,735	3,469	3,469	3,469	3,469	3,469	3,469	3,469	3,469	29,488
Procurement -- reduction in the cost of goods/services					1,500	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	25,500
Other process-improvement savings/benefits					35	71	71	71	71	71	71	71	71	599
Net	208	4,727	(13,961)	(19,619)	(3,415)	5,658	5,727	608	5,645	5,663	5,634	553	5,578	3,005
Cumulative Net	208	4,935	(9,026)	(28,645)	(32,060)	(26,402)	(20,675)	(20,067)	(14,422)	(8,760)	(3,126)	(2,573)	3,005	

Please note that the totals in the schedule above may reflect variances due to rounding.

Note that we estimate the State will begin to realize savings/benefits of approximately \$5.7 million per year from the FMS implementation for each year in which an upgrade is not performed starting in Year 5 (see above). The schedule above includes estimates for FMS upgrades in Years 7 and 11.

Conservative Approach Used for Estimating

Based on our experience with similar projects in other states, we believe that the estimates presented for “Avoided System Costs” savings and “Process-Improvement Benefits” in the schedule above are significantly understated, and that the payback is likely to occur in Year 10, or earlier. However, the limited timeframe in which the study was conducted precluded our performing analyses to delve further into this matter. Refer to *Section 3: Business Case Analysis* of this report for more information on our observations and analysis regarding each of these two (2) components of the Business Case Analysis.

Also, note that we assumed that the benefits/savings in the categories of “Retirement of Existing Systems” and “Process-Improvement Benefits” would not begin to be realized until after the new FMS is put into production at the beginning of the State’s 2011 fiscal year and that only 50% of the estimated annual benefits/savings would be realized during the first fiscal year the FMS is in production.

Project Duration

The anticipated project timeline is as follows:



Project Phases	Target Months from Inception
Pre-Implementation Services Phase	0—18
Implementation Phase	19—39
Post-Implementation Support Phase	40—48

The current plan is for the FMS to “go live” at the beginning of the State’s 2011 fiscal year in July 2010.

Alternatives

The following alternatives to a FMS implementation for the State, have been considered by our public sector clients as well as other state and local governments; however, most organizations have chosen the FMS path where there was a viable business case to support it:

1. Status Quo (Do Nothing)
2. Custom Development
3. Implement a “Best-of-Breed” Solution to Address Immediate Needs
4. Enhance Existing Systems and Processes
5. Outsourced Hosting
6. Outsourced Business Processes

We consider only *Outsourced Hosting* and *Outsourced Business Processes* as viable options for the State to consider in lieu of implementing an FMS through traditional means; however, additional analysis should be performed before undertaking one of these options as they can be expensive, have shown mixed results in providing the actual cost savings, improvement in service delivery, and other benefits as anticipated, and it is difficult to reinstate in-house functions without impacting services when such need arises.

Pre-Implementation Tasks

Though the implementation of a new FMS may be a few years away, there are a series of critical pre-implementation tasks essential for project success that have been identified and must be completed prior to initiating the Implementation Phase of the FMS Project (refer to the *Section 5: Implementation Best Practices* of a detailed discussion of specific tasks).

Compilation of Recommendations

Following is an inventory of all recommendations made as a result of completing this study:

1. We agree with the recommendation made in the 2001 Needs Assessment report that the State should move forward with implementing a statewide FMS as:



- ◆ The State could potentially realize a significant financial return on its investment in a new FMS. Refer to the Business Case Analysis section of this report for an analysis of the estimated costs that would be incurred to implement and operate a new FMS, as well as the estimated benefits that could be realized from the implementation.
- ◆ The FMS would provide a number of significant intangible benefits to the State that are not addressed by the financial calculations performed in this Study, such as:
 - Improved level of service provided to many of the State's internal customers and external customers (i.e., citizens and stakeholders) through Web-based functionality of the FMS, which would make certain information readily available to the customers via the Inter/Intranet and would reduce process cycle times—reducing the amount of time customers would have to wait to receive products/services, as well as potentially expanding the hours during which such services would be made available;
 - Improved information (i.e., information that would be more accurate, timely, and useful/meaningful) for management decision-making that will aid system users in maximizing the return on citizens' investments. This improvement in information would result from the availability of reporting tools that would be available in the FMS;
 - Reduced staff effort and process cycle times due to more efficient processing and control of documents through enterprise-wide use of automated workflow technology, which would provide for electronic document routing, review and approval, online inquiry into document status, and more efficient document filing and retrieval;
 - STARS operates on a cash basis of accounting and has very limited capabilities to maintain multiple bases of accounting (cash, accrual, modified accrual), while GAAP and GASB Statement No. 34 now require the use of accrual and modified accrual bases of accounting, functions that are readily accommodated in modern FMS software products; and
 - Realized benefits from moving to more modern technology. The technology of the State's administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, and as a result:
 - The State is unable to "plug-and-play" with new (and even not so new) technologies (e.g., Internet-based technologies, bar coding);
 - It is often difficult to modify the systems as the changes require "hard-coding" (i.e., changes must be made to the actual computer code instead of simply changing data table entries to make the changes as is the case in more modern systems);
 - The State is exposed to significant risk (e.g., some technologies are becoming obsolete and will eventually become difficult to replace, and it



- will become increasingly difficult to find technical staff to maintain these systems);
- The staff with skills required to maintain these systems are rapidly approaching, or have reached, retirement age; and
 - The systems are difficult to use as they lack the modern, Windows-based, common user interfaces that system users are accustomed to using (e.g., e-mail, office applications, Internet browsing). This technology also negatively impacts the ability to gain efficiencies in related business processes.
- ◆ Agencies continue to spend, and have plans to spend, significant amounts on enhancing their existing agency-specific legacy systems or purchase their own agency-specific integrated systems – this funding could be applied toward the implementation of a single, statewide FMS. As part of this project, agencies reported 243 agency-specific systems (including automated tracking tools such as PC-based spreadsheets and databases) that are currently in place, or are planned, to address their business needs in the functional areas included within the scope of this project.
2. The functional scope of the FMS should include the following functional areas (refer to *Section 5: Implementation Best Practices* of this report):
 - ◆ General Ledger (including Budgetary Control, Cost Allocation, Grant/Project Accounting, and Cash Management)
 - ◆ Accounts Payable
 - ◆ Asset Management
 - ◆ Procurement
 - ◆ Budget Development
 - ◆ Data Warehousing (for reporting)
 3. As noted above, the functional scope of the FMS implementation should include a data warehouse (or a reporting database that is separate from the production system) for reporting on financial and operational data. The data warehouse will allow properly-trained end users to develop ad hoc reports and queries through the use of a report development toolset without impacting performance of the production FMS.
 4. While a “Big Bang” deployment (i.e., simultaneously deploying all functionality that is within scope at all agencies) and a “Phased” deployment each have associated positive attributes and negative attributes, we recommend that the State employ a “Big Bang” deployment approach over a 21-month period.

The specifics associated with this recommendation are documented in *Section 5: Implementation Best Practices* of this report.



5. As part of the initial deployment, FMS should be interfaced with the SOKI3+ system and the Central Set-Off System. Consideration should be given to replacing the Set-Off System and SOKI3+ with FMS functionality in a future phase.
6. Consideration should be given to implementing the PeopleSoft Time and Labor module or an alternative, industry-standard, third party Time and Effort Reporting solution to address time and effort reporting deficiencies critical to user agency grant and other financial reporting requirements that cannot be addressed within the FMS effort.
7. The RFP(s) for FMS software and associated implementation services should include Budget Development in the functional scope. After completing a comprehensive evaluation process, the RFP response evaluation committee can make a decision on which of the following three (3) options to pursue:
 - 1) *Option 1: Discontinue the Use of BMS and Replace with FMS Budget Development Module.* This option should be selected if it is determined that all statewide and user agency functional requirements can be met through the new FMS.
 - 2) *Option 2: Utilize the FMS Budget Development Module to Build Initial Agency Budget Requests and Interface to BMS.* This option should be selected if Option 1 is not viable and if it is determined that user agency functional requirements associated with building agency budget requests can be met by the FMS and the proper interfacing with the BMS if feasible.
 - 3) *Option 3: Continue Use of the BMS and Interface to FMS General Ledger.* This option is recommended only if Options 1 and 2 are not viable. This is the "status quo" option as automated interfaces would be built between the BMS and the new FMS General Ledger module to load prior-year actual (expenditures and revenues) data, and between the BMS and SHARP to load personnel data. Agencies would develop their operating budgets locally using their existing processes/systems and interface/manually enter the data into the BMS at the appropriation level and to the General Ledger module of the FMS at the operating budget level once the budget has been finalized. Agencies would use a standard interface to upload the "approved" operating budget to the FMS.

The specifics associated with this recommendation are documented in *Section 7: Budget Development Integration with FMS* of this report.

8. While we recognize that the State has made significant progress in its effort to analyze and manage its statewide "spend", we believe such efforts have been hindered by a clear window into the details of current statewide spending due to deficiencies in the tracking and reporting available on statewide expenditures in STARS and Procurement Manager Plus. As a result, we recommend that the State leverage the new capabilities provided by implementation of a FMS to aggressively expand and restructure its strategic sourcing efforts to achieve the significant reduction in the cost of goods and services procured that are estimated in this study. As part of this ongoing effort, the State should dedicate staff to performing spend



- analyses that focus on identifying and analyzing spending trends, including top suppliers, locations, spend categories, and items.
9. As part of this study, we have made the assumption that Regents Institutions will maintain their stand-alone administrative systems, and interface to a future statewide FMS to make use of the features of the state General Ledger and Accounts Payable functions. However, we recommend that the Regents Institutions also be strongly encouraged to participate in the Procurement and strategic sourcing functionality of the system. This will allow the State as a whole to further leverage the combined spend as a means of obtaining better pricing from the vendor community.
10. The State should provide dedicated resources for the ongoing catalog/contract eProcurement effort. Activities to be performed by these resources include:
- ◆ Maintaining catalog/contract data from vendors to get new contracts loaded into eProcurement catalogs and auditing the data in catalogs to ensure compliance with vendor agreements that are in place.
 - ◆ Developing general, as well as vendor-specific, processes and procedures relating to vendor enablement, such as the following:
 - How and when vendors will update their information in catalogs maintained at the State's site in accordance with contractual agreements. This would also include processes and procedures pertaining to the State's, as well as vendors', auditing activities.
 - How performing "roundtrip" transactions will be set up and conducted. "Roundtrips" involve State personnel "punching out" to shop from catalogs maintained by vendors at vendors' sites while ordering goods/services via the catalog/contract eProcurement functionality of FMS.
 - ◆ Performing vendor outreach activities, such as identifying specific vendors and vendor groups to recruit, and then performing vendor conferences, one-on-one meetings, Webcasts, etc. to explain the State's eProcurement value proposition for vendors. Some of the primary benefits that form the value proposition for vendors include the following:
 - Quicker order receipt through electronic, e-mail, or fax submission;
 - Faster processing of orders and payments due to reduced cycle time from order through payment;
 - Reduced supplier printing and mailing costs;
 - Reduced errors through increased automation; and
 - Lower administrative processing costs.
11. We recommend that an appropriate governance structure be put in place for the FMS Project. Establishing an appropriate governance structure will be essential for obtaining the initial buy-in and long-term support of agency and enterprise stakeholders, especially given the size and complexity of a project of this nature.



The governance structure should be comprised of the following three (3) groups:

- 1) *Executive Sponsor(s)*. The project should have at least one part-time Executive Sponsor that can act as either a representative of the Governor's Office or as a representative of a small, key group of sponsors charged by Governor's Office with responsibility for the successful delivery of the project.
- 2) *Steering Committee*. The State should establish a Steering Committee to provide leadership and guidance for all future FMS activities.
- 3) *Project Management Office (PMO)*. We recommend that a FMS PMO be established independent of the Department of Administration. The State should position the FMS initiative as an enterprise-wide business transformation effort and not a technology project owned by the Department of Administration.

Refer to *Section 6: Organizational Best Practices* of this report for additional information on our recommendations regarding the governance structure for the FMS Project.

12. The State should review the entire Chart of Accounts structure with the goal of preparing for conversion, and improving the classification of data prior to initiating the FMS Project. This review should address:

- ◆ Financial accounting coding structure;
- ◆ Budgetary coding structure; and
- ◆ Procurement commodity code structure.

13. We would not recommend the state to seek to replace its state-of-the-art ERP-based Human Resource/Payroll system, SHARP. Consequently, a decision needs to be made as to whether or not it is in the State's best interests to continue its relationship with Oracle - PeopleSoft as a provider of the FMS software in lieu of conducting a competitive procurement process for the software due to the benefits associated with "integration" vs. "interfacing". The State will only achieve "true" integration of its human resources, payroll, financial management, procurement, budget development, and other administrative business processes by continuing its relationship with Oracle - PeopleSoft.

If a decision is made to pursue negotiations with Oracle only to obtain the PeopleSoft modules needed for the FMS, a competitive bid process would be utilized to procure the required implementation services. Utilizing this approach would provide the State with significant leverage to:

- ◆ Obtain a considerable discount for FMS software licenses below list price;
- ◆ Obtain a considerable reduction/capping of annual maintenance for both SHARP and the FMS; and
- ◆ Allow the State to negotiate terms, conditions, and other items / issues associated with the SHARP system to the satisfaction of the State.



A “sole source” agreement with Oracle - PeopleSoft would require provisions that protect the State against having to perform a “re-implementation” of SHARP and the FMS to the future generation PeopleSoft/JD Edwards/Oracle collaborative product code named “Fusion” that is currently under development. Quoting a Gartner Research Bulletin dated March 27, 2006, “The transition costs, particularly for JD Edwards and PeopleSoft customers, will be close to the cost of a reimplementation.”

The State would pursue a competitive bid process for the FMS software and associated implementation services if an acceptable agreement with Oracle cannot be reached.

If a decision is made to procure the FMS software through a competitive process, the State needs to consider the benefits of integration vs. interfacing when developing the evaluation criteria for selection of the new FMS.

14. As part of the study, we have examined the recommendations of the 2001 Needs Assessment Study for the operational model to be used at the State. This evaluation included a discussion and evaluation of all three operational models as they relate to the current State business environment and processes, and the risks and costs associated with each approach. While there are several advantages and disadvantages of each model, we consider only *Option 3: Central System with Each Agency Using Central Database* to be a valid option for the State to pursue at this time. The recommended deployment strategy provided later in this report assumes this operational model is used. In our prior experiences and those of other statewide FMS projects, the exception to such model is typically made only for the state transportation departments when their needs cannot be met by the Central System. In such cases, the transportation departments have typically interfaced their existing systems with the new FMS in lieu of implementing their own copy of the FMS software. We would consider the feasibility of the Kansas Department of Transportation utilizing their own copy of the FMS software only if the agency’s needs could not be met through use of the statewide FMS (Central System).
15. We recommend that the State pursue a fiscal year-end conversion if the actual project timeline supports such cut-over without leaving significant “downtime” between the completion of Pre-Implementation Activities (see *Pre-Implementation Activities: The Need for Project Readiness* section later in this report) and the initiation of the FMS implementation project. The actual project timeline can best be determined after funding has been obtained for completion of the pre-implementation activities and the FMS project has been formally recognized for proceeding.



Section 2 Introduction

Background

The State conducted a needs assessment of its statewide financial management and procurement business processes in July 2001. The assessment included a cost-benefit study of various alternatives associated with meeting the State's business needs, including the possibility of acquiring a new statewide FMS.

The results of the study indicated that a new statewide FMS should include, at a minimum, the following modules:

- ◆ General Ledger,
- ◆ Accounts Payable,
- ◆ Procurement, and
- ◆ Asset / Inventory Management.

A pilot approach toward implementation was suggested, allowing major agencies with significantly different requirements to operate their own instances of the software. It was determined that interfaces would be required between a new FMS and the Regents Institutions, as well as the BMS and SHARP system. The study estimated that the cost for the proposed FMS system at \$25-36 million, spanning a 2.5-3.5 year implementation timeframe.

As summarized, the results of the 2001 Needs Assessment Study determined that:

- ◆ It would be cost-effective for the State to acquire a centralized statewide FMS solution;
- ◆ Some of the larger, more complex agencies would be authorized to acquire agency-specific copies of the system, and to interface with the central FMS;
- ◆ The seven Regents Institutions (State universities) would be allowed to maintain their own financial management systems and would interface with the statewide FMS;
- ◆ The implementation effort would utilize a "pilot" approach in which five (5) to ten (1) State agencies would participate in a pilot testing program in parallel with their existing systems for approximately three months before all remaining agencies were deployed on the FMS; and
- ◆ The Project timeline should be structured to support a fiscal year-end conversion to the new FMS.

The study concluded with a recommendation to replace STARS with a FMS that would focus on providing management information, in addition to processing financial transactions. The recommendations of the study were not implemented due to a downturn in the Kansas economy resulting in a lack of funding to proceed with the FMS initiative.



In June 2006, the Department of Administration issued a RFP to obtain consulting services to update of the original 2001 Needs Assessment Study. As a result of this procurement effort, the State engaged the services of STA to assist with the Study. STA had performed similar studies for the states of Arkansas, Minnesota (in progress), Nevada, Nebraska, Tennessee, and Wisconsin.

Project Objectives

The primary objectives of the Needs Assessment Update were to:

- ◆ Update the Business Case Report completed during the previous study to determine whether there is a compelling business case for undertaking a project to acquire and implement a new statewide FMS.
- ◆ Validate the System Requirements developed during the previous study. The requirements validation process addressed functional and technical system requirements, as well as data conversion and interfacing system requirements. This information will be included in a RFP(s) for acquiring FMS software and implementation services should a decision be made to move forward with the FMS project.
- ◆ Documentation of Implementation Best Practices for the FMS Project to provide the State with an understanding of viable deployment strategies, including pros and cons of each strategy, major decision drivers associated with deploying a new FMS, and our recommended approach and timeline for the deployment.
- ◆ Documentation of Organizational Best Practices for the FMS Project to provide recommendations regarding the composition and structure of the project organization, and best practices for recruiting, staffing, and retaining State staff for the Project.
- ◆ An analysis of how the Budget Development function (currently completed through a combination of spreadsheets and the Budget Management System) will be integrated with the FMS.
- ◆ An analysis of how the HR/Payroll function [currently Statewide Human Resource and Payroll System (SHARP)] will be integrated with the FMS.
- ◆ Documentation of reporting deficiencies identified with the current statewide administrative systems and recommendations for addressing those deficiencies.
- ◆ An analysis of alternative solutions to be considered if the State elects not to move forward with implementing a new FMS.

Scope of the Needs Assessment Update

Project scope is defined from a current systems, functional, and organizational perspective as follows:



Current Systems Scope

The following components of the State's current statewide systems environment were evaluated as part of this study:

STARS. The statewide accounting and reporting system being utilized by the State is called STARS. STARS was developed in the 1980's, implemented for the State of Kansas in 1990 and is currently being utilized for controlling appropriations, processing payables, and general accounting purposes. Because STARS is the system of record, all agencies must use STARS, although many also utilize stand-alone systems as well. Twenty-three (23) State agencies electronically interface with STARS, while the remaining agencies enter required information manually. The STARS Ad Hoc Reporting System supports financial reporting from STARS.

SOKI3+. SOKI3+ is a custom-developed, Windows-based software application that provides agencies with the ability to easily generate inter-fund and journal voucher entries. This application directly interfaces with STARS.

SHARP. For administering human resources and payroll processes, the State utilizes the PeopleSoft HRMS/Payroll application suite, known within the State as SHARP. This application interfaces with STARS at a summarized level of account distribution. SHARP is only included in this study for the purposes of determining how it will interface with the FMS. SHARP is not being considered for replacement as an upgrade project is currently underway to move to the most recent version of a modern ERP product (Oracle/PeopleSoft Enterprise HCM v8.9).

Budget Management System. The State utilizes a "stand-alone" budget development software application known as the Budget Management System (BMS) that is used by all State agencies to prepare their annual budgets. The BMS is based on the baseline budget preparation software purchased from Legacy Solutions (now Affinity Global Solutions, Inc.). The code structure for the BMS is different than for STARS. The BMS may or may not be replaced by functionality in a new FMS. If not replaced, the BMS will need to be interfaced to the FMS.

Procurement Manager Plus. This application provides limited purchase requisition functionality for purchases that are processed through the Division of Purchases. This system does not interface with STARS.

Central Setoff System. The Central Setoff System matches several payment sources (including Payroll, Income Tax Refunds, Homestead Property Tax and Food Sales Tax, Miscellaneous Payments, Unclaimed Property, KPERS Retirement Benefits, and Direct Payments) against the debtor file containing debts owed to state agencies.

We also evaluated systems that are maintained in the State agencies to perform financial management, procurement, budget development, and other administrative functions not met by the systems listed above. It should be noted that agency-specific

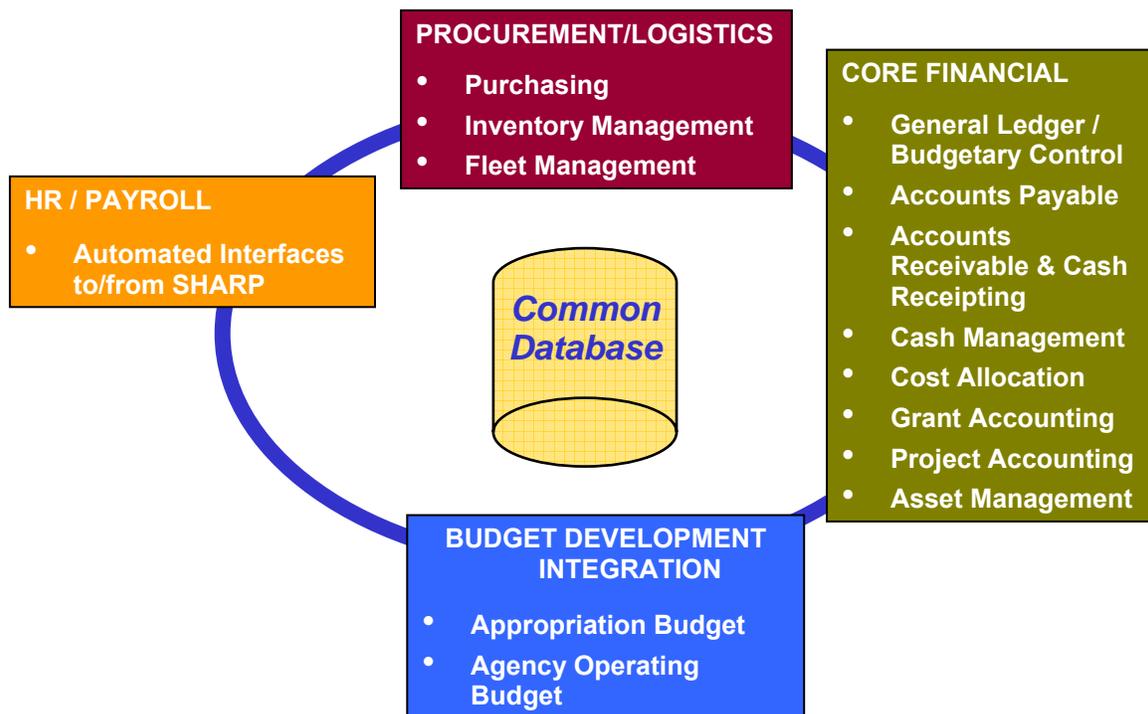


systems that support specialized programs (e.g., Medicaid, Workers' Compensation, Child Support, Retirement, Permit and Licensing Systems) such as the systems listed below, are not candidates for being replaced by a statewide FMS and were excluded from the scope of this study.

Functional Scope

A FMS is composed of a suite of fully integrated software applications that are used to perform administrative business functions such as financial accounting, procurement, asset management, and budget development. What distinguishes FMS software from "stand-alone" best-of-breed administrative software solutions is the integration that allows for more efficient processing and eliminates redundant data entry.

The functionality provided by a FMS usually consists of integrated modules such as General Ledger, Accounts Payable, Purchasing, and Asset Management. Additionally, certain features such as automated workflow, security, and reporting cross all functional modules. The chart that follows summarizes the functional scope evaluated as part of this study:



Following are brief summaries of the functionality typically provided in FMS modules for the public sector:

General Ledger/Budgetary Control

The General Ledger is an integrated central repository of statewide financial data. Numerous types of financial transactions are recorded in the General Ledger, both



directly and through data received from other FMS modules as well from interfacing external systems. The General Ledger is the key module used in financial reporting. The chart of accounts is established and maintained in the General Ledger. Budgetary control is also established and enforced through this module. Traditionally, this module is implemented first as most other modules require some interaction with the General Ledger.

Additionally, the General Ledger provides:

- ◆ Basic fund accounting;
- ◆ Corrective and/or adjusting journal entries;
- ◆ Inter-fund transfers (functionality is currently provided by SOKI3+ system);
- ◆ Month-end and year-end closing;
- ◆ State and federal reporting;
- ◆ Real-time budget checking;
- ◆ Budget maintenance and monitoring;
- ◆ Budget adjustments;
- ◆ Governmental Accounting Standards Board (GASB) Statement No. 34 compliance;
- ◆ Cost allocation; and
- ◆ Labor distribution.

A General Ledger module should be integrated with other functional modules to allow for efficient and effective sharing of data. A sophisticated chart of accounts structure allows agencies to have fields specified for their own use. Agency-specific chart fields will assist agencies in meeting their needs for tracking and reporting information in a meaningful way that may be specific to that agency.

Accounts Payable

The Accounts Payable module addresses the various means by which the State pays for goods and services. The module is used to record liabilities and payments. The automated matching process takes place in this module. Before a payment is processed, a successful "match" must be completed and sufficient budget must exist to cover the payment. The Accounts Payable module shares the vendor file with the Purchasing module. Additional functionality provided by this module includes:

- ◆ Invoice processing;
- ◆ Automated matching process (purchase order, receiving report, invoice);
- ◆ Payment and remittance processing (discounts, holds, warrant/check printing, direct deposit, and handling);
- ◆ Automated bank reconciliation;



- ◆ Form 1099 processing;
- ◆ Employee reimbursement;
- ◆ Automatic budget checking prior to payment processing;
- ◆ Automatic reversal of encumbrances when payments are made; and
- ◆ Ability to process payments across fiscal years (in cases of encumbrances).

Accounts Receivable and Cash Receipting

The Accounts Receivable and Cash Receipting module is used to record receivables and payments received against specific customer accounts. Billing functionality supports the processing of billings and generation of new receivables. Most systems also provide functionality to support the collection process (e.g., dunning notices). The module also supports cash drawer and lockbox processing. This module is typically designed to work with industry-standard third party cash register products.

Asset Management

The Asset Management module is used to capture and maintain information associated with the government's leased, capitalized, and non-capitalized assets. Information maintained in this module includes acquisition cost, asset type, location, asset description, model number, serial number, insurance information, and replacement cost. Depreciation schedules are used to maintain current asset value.

Specific areas of functionality include:

- ◆ Asset creation,
- ◆ Asset maintenance (including transfers),
- ◆ Asset depreciation,
- ◆ Asset disposal, and
- ◆ Asset retirement.

State agencies are required by the Division of Accounts and Reports to track assets over \$5,000. Due to this high threshold, most agencies have a very limited number of capital assets they are required to track. However, the majority of agencies track assets below this level for internal control purposes. The software should support the:

- ◆ Ability to track assets for internal control purposes versus capital assets tracked for reporting to Accounts and Reports.
- ◆ Automatic "flagging" of an item as an asset when it is processed in the Purchasing module and automatic recognition of the asset at the time of receipt or payment in the Accounts Payable module.
- ◆ Automatic depreciation that provides the ability to define what assets will need to be depreciated, as well as the method of depreciation appropriate for each asset.



Grant Accounting

Grant Accounting modules support the establishment of a grant budget, and the recording of expenditure activity against the grant budget and pre-defined grant budget categories. These modules also allow for the reporting of grant activity by period or over the life of the grant award.

More sophisticated Grants Management modules are just starting to make their way into the governmental FMS marketplace. These modules allow for the recording of detailed information about each grant, grant application activity, as well as grant drawdown activity.

Project Accounting

Project Accounting modules address the recording, tracking, and reporting of financial data for projects and contracts. These modules typically address the key processes for operating and capital projects, including budget development, project development, execution, and the project close process.

Project Accounting modules typically support the establishment of a project budget (which is typically linked to a funding source), and the recording of expenditure activity against the project budget (by pre-defined project task or activity). These modules also allow for the reporting of project activity by period or over the life of the project.

Purchasing

The Purchasing module provides traditional procurement functions such as requisitioning, solicitations, purchase order processing, contract management, and goods and/or services receipt. Vendor and commodity maintenance is also addressed in this module.

New eProcurement technology supports Web-based vendor registration, on-line catalog procurements, Web-based solicitations, and reverse auctions.

The Purchasing module will automate and integrate the entire purchasing process, from purchase requisition to the receipt of goods and services, eliminate a significant amount of duplicate data entry, and “shuffling” of hard copies of documents. This integration will facilitate efficient and effective communication between the State agencies, Accounts and Reports, and the Division of Purchases. The following functionality is included:

- ◆ Online or Web-enabled entry of purchase requisitions.
- ◆ Automatic creation of a pre-encumbrance when a purchase requisition is approved.
- ◆ Automatic creation of a purchase order from an approved purchase requisition.
- ◆ Automatic approval and routing of purchasing documents according to agency and Division of Purchases approval requirements, based on pre-determined thresholds.
- ◆ Online or Web-enabled receiving.
- ◆ Automatic creation of an encumbrance when a purchase order is approved.



- ◆ Automatic budget checking prior to purchase order approval.
- ◆ Online or Web-enabled maintenance of state contracts.
- ◆ Online or Web-enabled maintenance of bids and quotes.
- ◆ A vendor file supporting multiple vendor locations, and that can be accessed by both the Purchasing and Accounts Payable modules.

Budget Development

The Budget Development module enables the development of the State's budget at the agency (operating) and the statewide (appropriation) levels. This module is intended to support the analysis of historical expenditure and budgetary data, allow "what if" analyses, salary and position budgeting, salary projections, and other types of forecasting.

Budget development functionality required by sophisticated governments has been the "weak link" in FMS software to this point, so many governments address their budget development needs through electronic spreadsheets or third party budget development applications. The BMS may or may not be replaced by functionality in a new FMS. If not replaced, the BMS will need to be interfaced to the FMS.

Inventory

The Inventory module supports the establishment, storage, tracking, and disposal of inventory items, automated inventory replenishment at pre-defined reorder points, and recording of all inventory activity. The Inventory module is typically integrated with the Purchasing and Accounts Payable modules, and checks the General Ledger for funds availability when replenishing goods in inventory.

Fleet Management

Fleet management functionality has just recently become an offering of FMS vendors. Traditionally, this functionality has been provided by specialized "stand alone" software applications. Fleet Management functionality includes asset identification, parts inventory maintenance and processing, and work order processing. More advanced applications also provide fuel supply management, driver licensing, accident tracking, and risk management functionality.

The following enterprise components are utilized across the entire FMS:

Security

Security is used to regulate who has access to what information. FMS software typically offer a comprehensive security function that provides for:

- ◆ User log-in
- ◆ Row level (record) security
- ◆ Data field level security
- ◆ Restricted access to specific screens or processes
- ◆ Object security
- ◆ User group security



Workflow

Workflow allows for the establishment of business rules, roles, and routings that are used to route electronic documents (e.g., purchase requisition, timesheet) to proper supervisors and management for approval. It should be noted that workflow functionality is being used in a very limited manner in the public sector because it is typically complicated and expensive to configure. Governments most often use workflow in conjunction with procurement processes. Workflow facilitates an organization's transition to a "paperless" environment. To work properly, Workflow typically requires extensive configuration and a degree of standardization of approval processes across the enterprise. For this reason, it is best to limit the number of workflows to be implemented.

Reporting

FMS software typically provides a suite of reporting tools that are used to develop ad hoc reports and on-line queries.

Recommended Functional Scope

The functional scope for this Study included all of the functional areas discussed above. Functional requirements were developed for each of these areas and are included in *Appendix C: Functional Requirements*.

However, after considerable analysis, a decision was made to reduce the functional scope to the following modules for purposes of building the Business Case and for finalizing the recommended FMS deployment strategy:

- ◆ General Ledger (including Budgetary Control, Project/Grant Accounting, Cash Management, and Cost Allocation);
- ◆ Accounts Payable;
- ◆ Procurement;
- ◆ Asset Management;
- ◆ Budget Development Integration (3 options are discussed in *Section 7: Budget Development Integration with FMS*); and
- ◆ Data Warehousing (for reporting).

The reduced functional scope is based on the following driving factors:

◆ **Functional Needs**

- The recommended modules address many of the functional needs, problems and inefficiencies identified as part of the study.
- The recommended modules provide a viable and timely solution to the State agencies with compelling functional needs and/or pending software obsolescence that will otherwise move forward with new "shadow systems" independent of the FMS Project.



- The modules removed from scope (Fleet Management, Inventory, Accounts Receivable) are not required by all agencies to meet their administrative business process needs.
- An Accounts Receivable module is not required because most State agencies require payments prior to processing customer requests (i.e. licenses, training registrations, vehicle registrations) and do not bill or age receivables. Cash receipts will continue to be maintained by the Treasurer's current system, and agencies will continue to use the same process for these receipts.
- An Inventory module is not required because the consumable inventories at most agencies are small enough that they are not tracked in an inventory system. A few agencies (e.g., KDOT) have inventory requirements that are either being met with current systems or, are extensive and unique enough to merit specialized functionality.
- A Fleet Management module is not required because only a small number of agencies have the vehicle volume required to justify the use of fleet management software, agency fleet management requirements are being met with current systems, and "best-of-breed" fleet management software is robust and can be easily interfaced with the other FMS modules.

Favorable terms and conditions can be negotiated for those agencies wanting to purchase these modules as part of the FMS procurement effort.

◆ **Value Proposition**

- The recommended modules provide the greatest benefits and savings to the State as documented in the *Section 3: Business Case Analysis*.

◆ **Organizational Change Impact**

- Limiting the implementation to the core functional modules of General Ledger, Accounts Payable, Asset Management, Procurement, and Budget Development integration should make the change impact manageable.

◆ **Project Staffing Considerations**

- The size of the project team and skill sets required was reduced from 58 to 50 resources due to the reduced scope.

◆ **Risk Avoidance / Mitigation**

- The recommended modules are the most mature modules offered by Tier 1 FMS vendors for public sector use, and are the most commonly-implemented modules for statewide FMS/ERP projects.
- The SOKI3+ System and the Central Set-Off System will not be part of the original implementation and deployment effort. These systems will be interfaced to the FMS initially, and will be considered for replacement by FMS functionality during a second phase of the project if it is determined to be



feasible to do so.

◆ **Funding**

- Total project costs were reduced by approximately \$2.2 million due solely to the reduced scope.

Organizational Scope

The organizational scope of the FMS includes all State agencies, including the Kansas Department of Transportation.

The Regent Institutions participated in this study through representation on the project steering committee, through attendance at some requirements sessions, and in meeting to identify and document interface requirements to an FMS. However, the study assumes that the Regents systems will remain in place, with one notable exception. We recommend that they be encouraged to participate in the procurement and strategic sourcing functionality of an FMS. This will allow the State to further leverage the combined spend as a means of obtaining better pricing from the vendor community. As noted, automated interfaces will be required between the Regent Institution financial systems and the FMS, just as they are required today with STARS.

Why Should the State Implement a FMS?

World-class businesses have found that implementing a FMS is a fundamental way to improve the efficiency and effectiveness of their business operations. Until recently, the government functionality of FMS software has lagged behind private sector functionality, but FMS functionality for the public sector has matured considerably in recent years. Numerous states have employed a FMS as a way to achieve more efficient government, streamline administrative business processes, and provide improved service to employees, vendors, and other stakeholders.

There are numerous reasons why the State should consider implementing a FMS system. The major drivers toward FMS can be grouped into 3 categories: (1) legacy system deficiencies, (2) technology enablers, and (3) the results of a Business Case Analysis. The Business Case Analysis is discussed in *Section 3: Business Case Analysis* of this report. Legacy system deficiencies and technology enablers are discussed below.

Legacy System Deficiencies

Deficiencies associated with the existing legacy statewide administrative systems include:

- ◆ Limitations on meeting statewide and user agency business needs without costly modification.
- ◆ Inefficiencies and staffing costs associated with maintaining multiple stand-alone systems at the statewide level as well as additional “shadow” systems in the user agencies to provide functionality not met by the statewide systems.



- ◆ Limited accessibility to information as reporting is limited to a set of standard reports and queries and a sixteen (16) week “data window” for ad hoc reporting. A major benefit of a FMS is to provide properly trained end users with access to the current and historical data needed for timely analysis and decision-making.
- ◆ Data is maintained in multiple “stand-alone” systems and is not updated across systems in a “real-time” mode. Data maintained in independent databases or shadow systems can produce conflicting information.
- ◆ The technology of the State’s administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, and are nearing / have reached obsolescence.
- ◆ STARS operates on a cash basis of accounting and has very limited capabilities to maintain multiple bases of accounting (cash, accrual, modified accrual), while GAAP and GASB Statement No. 34 now require the use of accrual and modified accrual bases of accounting.

Increased Functionality/Best Business Practices

Today’s FMS software provides a considerable amount of functionality to meet governmental financial management, procurement, and other administrative business needs. The application modules that often comprise the FMS have typically been designed in accordance with industry-standard best business practices.

While best business practices have not been defined by any governing body or research firm for the private or public sector, such practices have evolved over the years with each new software release and have been validated with each FMS implementation. Best business practices, together with the flexibility provided by technology enablers inherent in FMS software today, allow governments to conduct their administrative business processes in a more efficient and timely manner. Best business practices promote standardization of business processes across government, and it is critical that the government embrace these “best practices” in order to implement the FMS software with minimal customization.

Technology Enablers

The most compelling reasons for implementing a FMS system lie within the technology enablers that support the system. Typical technology enablers found in FMS software include:

Integration with a Common Database

The most distinguishing factor of a FMS is its integration across all system modules vs. the current environment that utilizes separate “stand-alone” systems, some of which have automated interfaces between them. This integration is supported by a single database across all functions. In this way, data elements (e.g., account codes) are not duplicated when used for more than one purpose. With no duplication, every function has access to the most recent information; once any change is made, it is immediately available to all functional modules.



Real-Time Processing

Unlike the current systems that often have delays from the time an action is recorded by the user until that information is available to others due to batch or nightly updates, FMS software use real-time processing, so processing results are immediately available to all other modules. Reports are generated using up-to-date information.

Web-Based / Open Architecture

Today's leading FMS solutions are designed to be accessed through the use of an industry-standard Web browser. Vendor products are transitioning to a "pure Web-based" architecture whereby no code resides on the client other than the Web browser. Web-based FMS solutions result in easier deployment and lower costs of IT infrastructure, network administration, and information access. They also give access to the FMS system at any time as long as they have access to a Web browser.

The leading FMS software solutions comply with open architecture standards as well. Open architecture provides a means whereby the FMS system can be linked to specific "best-of-breed" software if the need arises (e.g., possibly to meet fleet management requirements). Open architecture also provides the ability to interface the FMS to common desktop "office suite" applications (see *Desktop Software Integration* below).

Scalability

Allows the State to size its system components to meet its ever-changing business needs. Increased capacity can be added, upgraded or removed as computing needs change, without substantial changes to the application. Scalability considerations include increasing memory, adding additional processors, and installing additional disk storage.

Portability

Provides flexibility for application software systems to run on multiple hardware platforms or provides built-in capabilities for switching between platforms without requiring re-installation or additional customization.

Graphical User Interface

FMS software utilize a graphical user interface (GUI) that provides user-friendly features similar to other office functions on the user's desktop, such as intuitive icons, pull-down menus, point-and-click navigation, pop-up windows, scroll bars, radio buttons, the use of color for clarity and emphasis, and tool bars to assist in the user's learning and ongoing use of the System. They also provide on-line help menus and on-line documentation, as well as screens that can be customizable to user roles, to enhance the end user experience. The same interface and commands are used for all functions, thereby facilitating training for users that access multiple functions and functional areas.



Efficient Modification Where Necessary

Assuming that an open (n-Tier) architecture is used (browser-based user interface, database, business rules, and Web server), the business rules associated with the system are separated from the rest of the architecture, thus it is easier to change the business rules (a common occurrence in government) than if they were included in the user interface or the database design.

Extensive Development Toolset

The major FMS software solutions provide for a single (often proprietary) toolset to support software configuration, customization, and ongoing administration of the system. Use of the toolset requires specialized training and knowledge. The development tools are also utilized in establishing workflow, security, and in implementing a software upgrade.

Relational Database Technology

Today's FMS software utilize powerful relational database technology, which organizes records into a series of tables that may be connected by common "data". Relational databases facilitate ad hoc reporting and querying without the use of extensive programming knowledge.

Application Modularity

A FMS consists of a series of application modules (e.g., General Ledger, Accounts Payable, Purchasing, and Asset Management). These application modules are designed to be "stand-alone" if necessary though some modules require that others (e.g., General Ledger) be in place to fully utilize the functionality provided. This modular approach allows governments to selectively implement FMS functionality based on priorities, funding availability, and staff availability to implement and support the system. The entire FMS solution may be built on a "piece-meal" basis. Additionally, the government can substitute a third party solution in lieu of the FMS module if necessary to meet the government's functional needs.

Advanced Reporting Tools

FMS software typically provides a suite of ad hoc reporting /query tools to allow properly trained end users to develop their own custom reports. Electronic report routing capabilities are often provided with some of the systems.

Security

FMS software provide a robust security function across all FMS modules, including role-based security, screen and field level security, and a comprehensive testing program to detect and correct potential security weaknesses.

Automated Workflow and Approvals

FMS software provide automated workflow capabilities that support electronic document routing, review and approval, provides for inquiries on document status, and an efficient document filing and retrieval process. Automated workflow also facilitates the implementation of a "paperless" environment.



Automated workflow eliminates “paper document shuffling” and oftentimes reduces the layers of approval.

Drill-Down Capability

FMS “drill-down” capabilities allow an end user to drill down on a field on a screen or report through successively lower levels of detail all the way to the initial entry source document.

Comprehensive Audit Trail

FMS software provide on-line access to a comprehensive history of all changes made to a record in the system.

Flexible Chart of Accounts

The flexibility provided by the chart of accounts is the greatest factor in determining the usefulness of a financial system. FMS software provide for a flexible and customizable chart of accounts structure that is supported by relational database technology, sophisticated ad hoc reporting tools to improve financial and budgetary reporting, and minimization of the proliferation of “shadow” systems across state government.

Desktop Software Integration

FMS software provides the ability to easily extract data from the FMS into common desktop “office suite” applications such as the Microsoft Office suite for data manipulation and analysis. Most FMS software also supports the import and export of data to/from the FMS; this can facilitate the uploading and downloading of information from different systems or sources.

Remote Access

As FMS functionality matures, the need will arise to grant access to those not considered traditional users of FMS software – vendors, mobile managers, staff working on specific grants, and all employees for self-service functions to name a few. A Web-based system facilitates providing this access at a lesser cost to the State.



Section 3 Business Case Analysis

Introduction

The State engaged us to perform an analysis to determine whether or not there is a compelling business case for undertaking a project to acquire and implement a new statewide FMS. Such a system would replace STARS, the State's current financial accounting system of record, and Procurement Manager Plus, which provides limited purchase requisition functionality for purchases that are processed through the Division of Purchases.

The system to be acquired would be a fully-integrated, Web-based, and commercially-available, with broad adoption and support in the market. This system would expand the functionality provided beyond what is available in the existing accounting and procurement systems, including such areas as:

- ◆ eProcurement (includes, among other functionality, enabling State personnel to order goods/services from negotiated State contracts by shopping via a Web browser; also enables vendors to be notified electronically of bid opportunities for goods/services the vendor has registered with the State as providing);
- ◆ Vendor Self-Service (includes, among other functionality, enabling vendors to update commodities/services they provide, change/update their contact information, and view relevant events on the system such as whether an invoice has been entered into the system and paid);
- ◆ Asset Management;
- ◆ Cost Allocation; and
- ◆ Project and Grant Accounting.

This section of the report describes the approach used to perform this portion of the Study, and includes key assumptions, findings, and recommendations regarding the Business Case. The information is organized into the following subsections:

- ◆ **Overview of Approach for Business Case Analysis.** High-level description of the approach used to perform the Business Case Analysis.
 - (1) **FMS Costs.** The approach used to estimate FMS Costs, estimating assumptions, and estimated results.
 - (2) **System Savings.** The approach used to estimate System Savings, along with findings, estimating assumptions, and estimated results.
 - (3) **Process-Improvement Benefits.** The approach used to estimate Process-Improvement Benefits, along with findings, estimating assumptions, and estimated results.

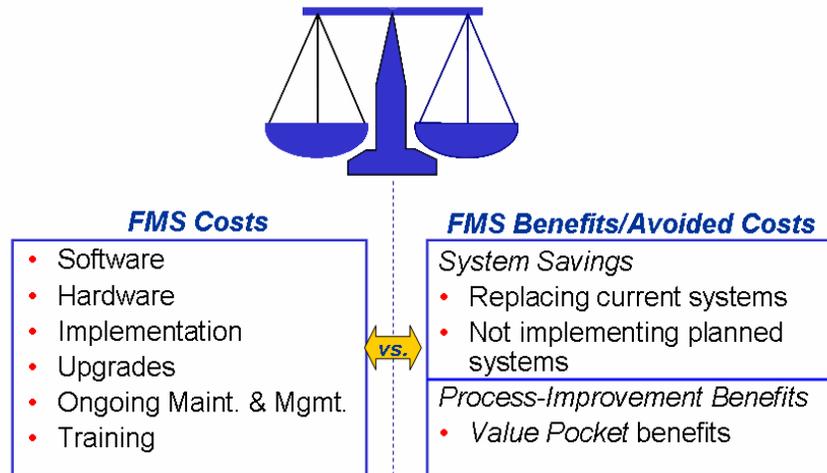


- ◆ **Financial Cost-Benefit and Payback Analysis.** Summarized, combined results of an analysis to evaluate FMS Costs against System Savings and Process-Improvement Benefits.
- ◆ **Recommendations.** Recommendations regarding the Business Case Analysis.

Overview of Approach for Business Case Analysis

We utilized our proven Business Case Analysis Methodology in performing this project. The methodology involves evaluating the estimated cost of implementing and maintaining a statewide FMS vs. the potential benefits/savings from such an implementation, including: (1) retiring current systems and avoiding the implementation of planned/anticipated systems, and (2) realizing benefits/savings from process improvements. The diagram below depicts the primary components of our methodology.

Primary Components of STA's Business Case Analysis Methodology



“Value Pockets[®]” is used to refer to the most likely sources of significant value (i.e., cost savings and other benefits) to be found in each process/functional area within the scope of an implementation such as FMS.

Each of the three (3) components of the business case analysis depicted in the diagram above (represented by the three boxes: FMS Costs, System Savings, and Process-Improvement Benefits) is discussed in its own section of this report below.

The Business Case Analysis included:

- ◆ Interviews with management and other appropriate personnel from a number of the agencies with larger budgets, complex accounting and reporting processes, and/or significant internal systems outside STARS. These agencies, referred to in this study as “Stakeholder Agencies”, comprise approximately 86% of the State’s operating budget, excluding Regents Institutions and K-12 educational pass-through monies. The interviews were conducted to obtain information regarding current systems in use, plans for enhancing existing systems and implementing new



systems, administrative business needs currently not being met by existing systems, and information regarding the current business processes in place, as well as to obtain State personnel's input on potential process-improvement opportunities. The following Stakeholder Agencies were interviewed:

- Adjutant General
 - Department on Aging
 - Department of Agriculture
 - Department of Administration
 - Department of Health and Environment
 - Department of Transportation
 - Highway Patrol
 - Department of Labor
 - Department of Commerce
 - Juvenile Justice Authority
 - Department of Corrections
 - Department of Revenue
 - Social and Rehabilitation Services
 - Kansas Health Policy Authority
 - State Treasurer
 - Judicial Branch
 - Department of Wildlife and Parks
- ◆ Surveys to obtain information necessary to quantify system savings (i.e., system costs that would be avoided if FMS were implemented), as well as quantify process-improvement benefits/savings. Information regarding these surveys can be found below in the sub-sections that pertain to two of the primary components of STA's methodology: (1) System Savings, and (2) Process-Improvement Benefits.
- ◆ Work with the State's project leadership to (1) gain an understanding of business drivers for the FMS initiative, (2) formulate assumptions regarding the implementation and operation of FMS, (3) obtain information regarding existing statewide systems and future plans for statewide systems, assuming a statewide FMS is not implemented, and (4) identify potential process-improvement opportunities.

The approach, findings, estimating assumptions, and estimated results specific to each of the three primary components follow:



1. FMS Costs

The costs in this category include the estimated costs to acquire, implement, and operate a statewide FMS. Also, the estimated cost of performing a technical upgrade of FMS is included. It is assumed this upgrade will occur in Year 7 and in Year 11 of the 11-year estimation period.

Approach

The FMS cost estimates developed for this study were based on input from State personnel and on our experience assisting public sector clients in evaluating, selecting, acquiring, and implementing integrated enterprise-wide systems. To develop these estimates, we utilized our proprietary estimating model, which incorporates estimating standards/metrics and provides an overall framework for developing estimates of this type.

The approach taken to estimate the cost of acquiring and implementing a statewide FMS was to:

- ◆ Estimate the number of hours to implement the functional modules within scope. The estimated number of hours addressed the following services:
 - Project Management;
 - Independent Project Oversight;
 - Software Installation, Configuration & Process Reengineering;
 - Custom Development, including:
 - Automated Interfaces
 - Software Modification / Enhancements
 - Report Development
 - Data Conversion / Loading
 - Workflow Configuration
 - Data Warehouse Implementation;
 - Organizational Change Management;
 - End User Training and Documentation; and
 - Post-Implementation Support.

After estimating the total number of consulting hours, we estimated the average “loaded” consulting rate that would be used by the implementation firm. The term “loaded” rate refers to a rate that includes labor and travel-related costs. The loaded rate was then multiplied by the total estimated project hours to determine the total implementation vendor cost.

- ◆ Estimate the costs of other items associated with acquiring and implementing the FMS, which included the following:



- Software License(s);
- Project Team Training;
- Infrastructure Development & Project Support; and
- Compensation for State Personnel Backfilling for the Implementation. “Backfill” resources are those that replace State project team members in performing the jobs they leave to join the project team.

The cost of these items was added to the total implementation cost to determine the total cost of acquiring and implementing the FMS.

We also estimated the ongoing cost of operating and supporting the FMS after being put into production. These estimates were based on our experience with similar statewide system implementation.

Estimating Assumptions

We assume that the State will acquire and implement commercially-available software with a strong market position to replace the existing components of the current statewide administrative systems. The high-level assumptions regarding FMS (functional scope, organizational scope, size and composition of the implementation team, project timeframe) are provided immediately below; more detailed assumptions regarding the FMS implementation and operation are provided below the high-level assumptions that follow.

Functional Scope

The functional scope of a FMS implementation that was assumed for this Business Case Analysis differs from the broader functional scope of the overall Study (see the table below).

Functional Scope		
Functional Areas	Included in Overall Study	Included in Business Case Analysis
General Ledger <i>(including Budgetary Control, Project/Grant Accounting, Cash Management, and Cost Allocation)</i>	√	√
Accounts Payable	√	√
Procurement	√	√
Asset Management	√	√
Budget Development	√	√
Data Warehousing <i>(for reporting)</i>	√	√
Fleet Management	√	
Inventory Management	√	
Accounts Receivable / Billing	√	



Section 2: Introduction provides a discussion of the criteria used to develop the recommendations for project scope, which were also used for business case purposes.

Agency-specific systems that support specialized programs, such as the systems listed below are not candidates for being replaced by a statewide system. Examples of these systems include:

- ◆ Medicaid System;
- ◆ Workers' Compensation System;
- ◆ Child Support System;
- ◆ Unemployment Compensation System;
- ◆ Revenue Taxpayer System;
- ◆ Retirement Systems; and
- ◆ Permit & Licensing Systems.

Organizational Scope

The FMS will be utilized by all state agencies. Regents Institutions will maintain their stand-alone administrative systems, and interface to a future statewide FMS to make use of the features of the state General Ledger and Accounts Payable functions. However, we recommend that the Regents Institutions also be strongly encouraged to participate in the Procurement and strategic sourcing functionality of the system. This will allow the State as a whole to further leverage the combined spend as a means of obtaining better pricing from the vendor community.

Implementation Team

The proposed solution will be implemented by a team composed of implementation contractors and State personnel. During the implementation period the team will be made up of, on average, approximately 1.5 State personnel for each (1.0) contractor. Assumptions regarding the specific number of hours and timing of the delivery of those hours are provided in the *Detailed Assumptions sub-section* within this section of the report below. Funding for the implementation contractors and State staff is included in the costs presented later in this section of the document.

Project Timeframe

The following guidelines were used in determining the FMS Project timeline for business case analysis purposes:

Project Phases	Target Months from Inception
Pre-Implementation Services Phase	0—18
Implementation Phase	19—39
Post-Implementation Support Phase	40—48



The current plan is for FMS to go live at the beginning of the State's 2011 fiscal year in July 2010. More information on this assumption is provided in *Section 5: Implementation Best Practices*.

Detailed Assumptions

Detailed assumptions regarding the FMS cost estimates follow:

- ◆ As indicated above, the implementation period is assumed to be twenty-one (21) months and the system will go live at the beginning of the State's 2011 fiscal year.
- ◆ Prior to first year of the actual implementation project (Year 2), the planning schedule contains Year 0 and Year 1. During this time period, it is assumed that the State will move forward with procuring software and associated implementation services (e.g., issue a RFP, develop vendor demonstration scripts, conduct a vendor evaluation process, select software and implementation services vendors, execute contracts, etc.), along with performing certain activities that will help the State prepare for implementing the new FMS
- ◆ An average hourly, loaded rate of \$210 is assumed for all contractors, except for the work performed by contractors during Year 0 and Year 1, and for the Independent Project Oversight activities, which is assumed to be performed at an average hourly, loaded rate of \$180.
- ◆ All amounts are in current dollars (i.e., no adjustments have been made for inflation).
- ◆ It is assumed that a full-time equivalent number of hours per year is 1,920 for State workers, which takes into account time off for vacations and holidays.
- ◆ A technical upgrade will occur during Year 7 of the project. This further assumes that no significant additional functionality will be implemented and FMS will not have been modified by the vendor or the State to the extent that a full reimplementation will be required.

Project Team Composition

The staffing model used for our cost estimates is based on our recommendation for the functional scope of the project, as depicted in the table below. The model is based on our experience with similar implementations of this type and on input from the State's project leadership. Not all of the team members will be applied throughout every aspect of the initiative. Therefore, for information on the total assumed number of hours that resources will work on the project, please refer to the appropriate assumptions below.



PROJECT TEAM MEMBERS	CONTRACTOR	STATE	POST GO-LIVE (State only)
PROJECT MANAGEMENT			
Project Manager	2	2	2
Independent Project Oversight	2	0	0
TOTAL PROJECT MANAGEMENT	4	2	2
FUNCTIONAL TEAM			
Functional Team Lead	1	1	1
Budget Development	1	2	1
General Ledger/Budget Control/Cost Allocation	1	3	2
Projects/Grants Accounting	1	3	2
Procurement	2	5	3
Accounts Payable	1	2	2
Asset Management	1	2	2
TOTAL FUNCTIONAL TEAM	8	18	13
DEPLOYMENT/HELP DESK TEAM			
Deployment Lead	1	1	
Change Management	4	4	3
Training/Agency Support	4.5	8	0
TOTAL DEPLOYMENT/HELP DESK	9.5	13	3
TECHNICAL TEAM			
Technical Lead	1	1	1
Workflow	0.5	2	1
Reports	1.5	2	2
Interfaces	1.5	2	2
Conversion	1	3	0
Enhancements (Baseline Modifications)	3	3	2
Infrastructure/Data Warehouse	3	4	2
TOTAL TECHNICAL	11.5	17	10
GRAND TOTAL	33	50	28

Project Management

For this analysis, we assume that 2.0 FTEs will be required for the duration of the 21-month implementation period—Project Manager (1.0 FTE) and a Project Administration Support Resource (1.0 FTE).

Independent Project Oversight

Years 0 – 1

As indicated above, during this time period, it is assumed that the State will move forward with procuring software and associated implementation services (e.g., develop an RFP[s], develop a vendor evaluation process, develop vendor demonstration scripts, execute the evaluation process, etc.), and will perform other pre-implementation activities that will help the State prepare for implementing a new FMS. The estimated number of hours required to perform this activity is based upon our experience with similar efforts. No independent project oversight is assumed for this period.



Years 2 – 4

We estimate that two (2) FTEs would perform the oversight role throughout the 21-month implementation period and for the first four (4) months of the assumed post-implementation support period.

Software Configuration and Process Reengineering

This category includes the contractor effort involved in:

- ◆ Developing “To Be” business processes in keeping with the processes embedded in the selected FMS software;
- ◆ Configuring the software in accordance with the defined “To Be” processes; and
- ◆ Performing configuration unit testing, and assisting in integration, system, and stress testing.

We estimate that this activity would require approximately 28,000 hours based on the functional scope and the implementation duration.

Workflow Configuration

This category includes defining the State’s workflow business rules and configuring the system’s workflow functionality in accordance with those rules. Included are the hours necessary for analysis, design, construction, testing, and moving the technology into the production environment

We estimate that this activity would require approximately 2,000 hours to provide the baseline workflow functionality necessary to support key business processes (e.g., Procurement).

Custom Development – Interface Development

This category includes the entire effort required to develop an interfaced/integrated environment which would include the new FMS, the State’s legacy systems that remain in operation, and user agency systems that remain in operation. This effort includes analysis, design, construction, testing, and moving the interfaces into the production environment.

The estimates we have developed for this analysis are based on the implementation contractor providing standard inbound and outbound interface file formats and training State staff on how to use the interfaces, which would require approximately 6,000 hrs of effort.

Custom Development – Software Modifications

This category includes all the effort necessary to develop modifications/enhancements to the new FMS in order for the system to meet the State’s business requirements (i.e., analysis, design, construction, testing, and moving the modifications/enhancements into the production environment).

This estimate is based on the assumption that the State will attempt to limit the number of modifications and/or customizations as much as possible, and will change business



process in lieu of modification when possible. The assumptions shown reflect approximately 10,000 hours for baseline modifications.

Custom Development – Report Development

This category includes all the effort required to develop the reports necessary for the FMS to meet the State's reporting needs (i.e., analysis, design, construction, testing, and moving the reports into the production environment).

We assume that approximately 6,000 contractor hours will be required for this activity.

Custom Development – Data Conversion / Loading

This category includes all the effort necessary to convert/load data into the system (i.e., analysis, design, construction of the conversion/loading programs, testing, and loading the necessary data into the production system). Manual and automated data loading efforts are included in this category.

The estimate is based on our experience with system conversions. It is also based on the assumption that the implementation vendor will provide standard conversion programs to assist with automated conversion activities. The State will be responsible for extracting the appropriate data from existing administrative systems. We estimate that the implementation contractor will provide approximately 4,000 hours of assistance.

Organizational Change Management

This category includes the work effort required to mentor the State's Change Management activities, including (but not limited to):

- ◆ Readiness assessment of end users;
- ◆ Leadership alignment and executive sponsorship;
- ◆ Role mapping and end user skills fit/gap analysis;
- ◆ Training;
- ◆ Workforce transition;
- ◆ Communications; and
- ◆ Elimination of barriers to success.

We estimate that this activity would require approximately 12,000 hours to successfully transition the user community onto the new system.

Training and Documentation – Project Team Training

This category includes the expenditures necessary to train the project team. We estimate that training costs for the project team will be approximately \$600,000, assuming each of the fifty (50) team members attends three (3) vendor-provided classes at an average cost of \$4,000 per class.



Training and Documentation – End User Training and Documentation

This category contains the effort for contractors to assist in (1) developing end-user training materials based on the “To Be” process designs, (2) training the State trainers, and (3) delivering the training.

We estimate that this activity will require approximately 9,400 hours of effort.

Infrastructure Development and Project Support

This category includes the cost of three (3) resources to:

- ◆ Apply updates/patches to the software during the implementation period;
- ◆ Install the software;
- ◆ Control the movement of software configuration changes through the development environment and into the production environment;
- ◆ Direct system stress testing (i.e., volume testing);
- ◆ Tune system performance; and
- ◆ Assist in developing procedures for ongoing system operations.

Also included in this total is one (1) resource to implement the data warehouse infrastructure, establish data flows into the warehouse from the FMS and other data sources, develop the reporting data cubes, and similar, related activities.

We assume approximately 10,500 hours of assistance will be required for these activities.

Post-Implementation Support

Based on our previous experience, we assume that the implementation contractor will be retained to provide post-implementation support for six (6) months following go-live. It is also assumed that the Post Go-Live Support Team will average eighteen (18) full-time resources over the 6 month post-implementation support period. In addition, the implementation contractor will provide three (3) months of support for the first fiscal year-end close. The assumptions result in an estimate of approximately 20,000 hours of post-implementation support.

State Employee Implementation Cost (Backfilling Cost)

We assume that the State will provide resources to participate in performing the activities relating to all of the cost categories presented above, including deployment. The costs estimated in this category (backfilling costs) are the compensation that will be paid to resources that will backfill for the State employees that join the FMS implementation team. At the State’s request, we have assumed that 100% of State project positions will be backfilled at an average hourly rate of \$33.85 (\$50,000 salary; 30% benefits; 1,920 hours per year). For a more detailed discussion of the State’s backfilling strategy for the FMS Project, refer to *Section 6: Organizational Best Practices* of this report.



Application Software License and Software Maintenance Fee

We estimated that the software license fee for the new FMS will be approximately \$4.0 million, and that the annual software maintenance fee will equal approximately 20% of the software license fee for the first year of maintenance. We assumed that the maintenance fee will be negotiated to increase annually by the amount of the Consumer Price Index (CPI), which we assumed to be 3% for the purposes of this analysis.

All Other

We estimate a cost of \$300,000 per annum for project facilities and other miscellaneous costs. In addition, we estimate that \$500,000 will be required in Year 3 for bar code and scanning equipment, as well as vendor assistance, in order to "bar code enable" the FMS Asset Management functionality.

Annual Operating Costs (Data Center)

We provided a high-level estimate of the costs in this category based on our experience with similar statewide projects. It is difficult at this stage of the study to estimate the cost for this category as neither the FMS software nor the FMS technical platform is known at this point. We assumed that \$2.0 million is a reasonable preliminary estimate for hardware acquisition and for operating costs during the implementation. After go-live, the hardware operating costs are estimated to decrease to \$1.2 million per year.

Ongoing Support/Operations – Management

We assumed that only State resources will fill the positions included in the Ongoing Support/Operations categories. In developing estimates for this category, we took into consideration the staffing levels associated with other public sector implementations and our experience in determining support costs from a best practices perspective.

We estimate that two (2) FTEs will be assigned to the management of this effort.

Ongoing Support/Operations – Functional Support

We estimate that thirteen (13) FTEs will be required to support the functional areas of the FMS. The estimate includes the addition of one FTE in the procurement area to perform data and spend analysis in support of strategic sourcing efforts using the new, more detailed information produced by the system.

Ongoing Support / Operations – Technical Operations and Support

This category includes all activities to support the technical environment (e.g., software operation and maintenance, the application of software patches/fixes, moving development items into the production environment). The category also includes resources necessary to support the system interfaces and modifications/enhancements.

We estimate that ten (10) State FTEs will be required to provide ongoing technical operations and support.



Ongoing Support / Operations – Ongoing Training

We assume that three (3) full-time staff will be required for change management and ongoing support, including help desk and training. The training effort will be supplemented by the ongoing functional and technical support personnel.

Upgrade in Year 7 and Year 11

For the purposes of these estimates, we assumed that the number of contractor hours that will be required for the upgrade will be 15% of the total contractor hours estimated for the initial implementation. While it is our experience that an ensuing upgrade can usually be performed for significantly less cost, we have taken a conservative approach and included an identical amount in Year 11.

Estimated FMS Costs

The table below is a summary schedule of the estimated FMS Costs for the 11-year estimating period (Years 0-10). A more detailed schedule of these costs is contained in *Appendix A* of this report.

Estimated FMS Cost Schedule

Cost Category	Phases -> Acquire		Implement		Support							Total
	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	
Implementation Costs												
Consulting Fees	316,670	633,330	8,447,280	13,577,760	4,396,560	-	-	-	-	-	-	\$ 27,371,600
Compensation for State Employees	-	-	1,938,920	3,326,326	-	-	-	-	-	-	-	\$ 5,265,246
Software License Fee	-	-	4,000,000	-	-	-	-	-	-	-	-	\$ 4,000,000
Software Maintenance Fees (1 st year)	-	-	-	800,000	-	-	-	-	-	-	-	\$ 800,000
Facilities and Other	-	-	300,000	800,000	150,000	-	-	-	-	-	-	\$ 1,250,000
Data Center Costs	-	-	740,000	1,300,000	-	-	-	-	-	-	-	\$ 2,040,000
Total Cost of Implementation	316,670	633,330	15,426,200	19,804,086	4,546,560	-	-	-	-	-	-	\$ 40,726,846
Ongoing Operations												
Software Maintenance Fees	-	-	-	-	824,000	848,720	874,182	900,407	927,419	955,242	983,899	\$ 6,313,869
Data Center Costs	-	-	-	-	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	\$ 8,400,000
Support / Operations	-	-	-	-	1,820,000	1,820,000	1,820,000	1,820,000	1,820,000	1,820,000	1,820,000	\$ 12,740,000
System Upgrade	-	-	-	-	-	-	-	5,053,134	-	-	-	\$ 5,053,134
Total Cost of Ongoing Operations	-	-	-	-	3,844,000	3,868,720	3,894,182	8,973,541	3,947,419	3,975,242	4,003,899	\$ 32,507,003
Grand Total	316,670	633,330	15,426,200	19,804,086	8,390,560	3,868,720	3,894,182	8,973,541	3,947,419	3,975,242	4,003,899	\$ 73,233,849

Please note that the totals in the schedule above may reflect variances due to rounding.

We compared our estimates with the prior study Needs Assessment Study conducted by Accenture in 2001 and with the bids from two (2) vendors for a similar implementation for the State of Tennessee that were received by that state in February 2006. Based on these comparisons, we are confident that the FMS acquisition, implementation, and operation costs estimated in this report are reasonable and accurate within +/- 10% (refer to details of these comparisons in the Summary Results sub-section within this section of the report).



2. System Savings

The State will potentially realize System Savings by (1) retiring existing systems as a result of FMS being put into production, and (2) avoiding costs that would likely be incurred to procure, implement, maintain, and upgrade planned/anticipated systems if a new statewide FMS were not implemented. For information on the functional areas being considered in this analysis, refer to the Scope sub-section within this section of the report. The costs in this category are system operation and support costs, not user-related costs.

Approach

In performing this aspect of the study, we conducted interviews with personnel from a number of State agencies in order to obtain information regarding current systems in use, plans for enhancing existing systems and implementing new systems, administrative business needs currently not being met. We also worked with the State's project leadership in order to (1) gain an understanding of business drivers for the FMS initiative, (2) formulate assumptions regarding the implementation and operation of FMS, (3) obtain information regarding existing statewide systems and future plans for statewide systems, assuming a statewide FMS is not implemented. Furthermore, we conducted a survey to collect costs from agencies, including the central administrative agencies, to obtain information necessary to quantify System Savings. Meetings and follow-up discussions were also conducted to collect system cost information. The results of the survey are presented in the Findings Section below.

System Surveys were sent to the seventeen (17) Stakeholder Agencies listed previously in this section of the report and all agencies responded, along with Kansas Corporate Commission, Kansas Correctional Industries (submitted separate response from remainder of Department of Corrections), and the Kansas Public Employee Retirement System. . Additionally, the System Survey was made available to all other State agencies through the FMS Project Web site.

Findings

The results of the System Survey confirmed that agencies meet many of their administrative business needs through the use of a wide variety of systems, many of which are agency-specific. Agencies reported 243 systems (including automated tracking tools such as PC-based spreadsheets and databases) that are currently in place or are planned to address their business needs in the following functional areas that were considered for the overall Study:



-
- General Ledger (GL)
 - Budget Development (BU)
 - Project Accounting (PA)
 - Asset Management (AM)
 - Cash Management (CM)
 - Activity Based Costing (AB)
 - Accounts Payable (AP)
 - Cost Allocation (CA)
 - Procurement (PO)
 - Accounts Receivable (AR)
 - Grant Accounting (GA)
 - Inventory Management (IN)
 - Fleet Management (FM)

A total of 207 systems were reported as supporting the functional areas within the scope of this Business Case Analysis (see table above, excluding Accounts Receivable, Fleet Management, Activity Based Costing, and Inventory Management).

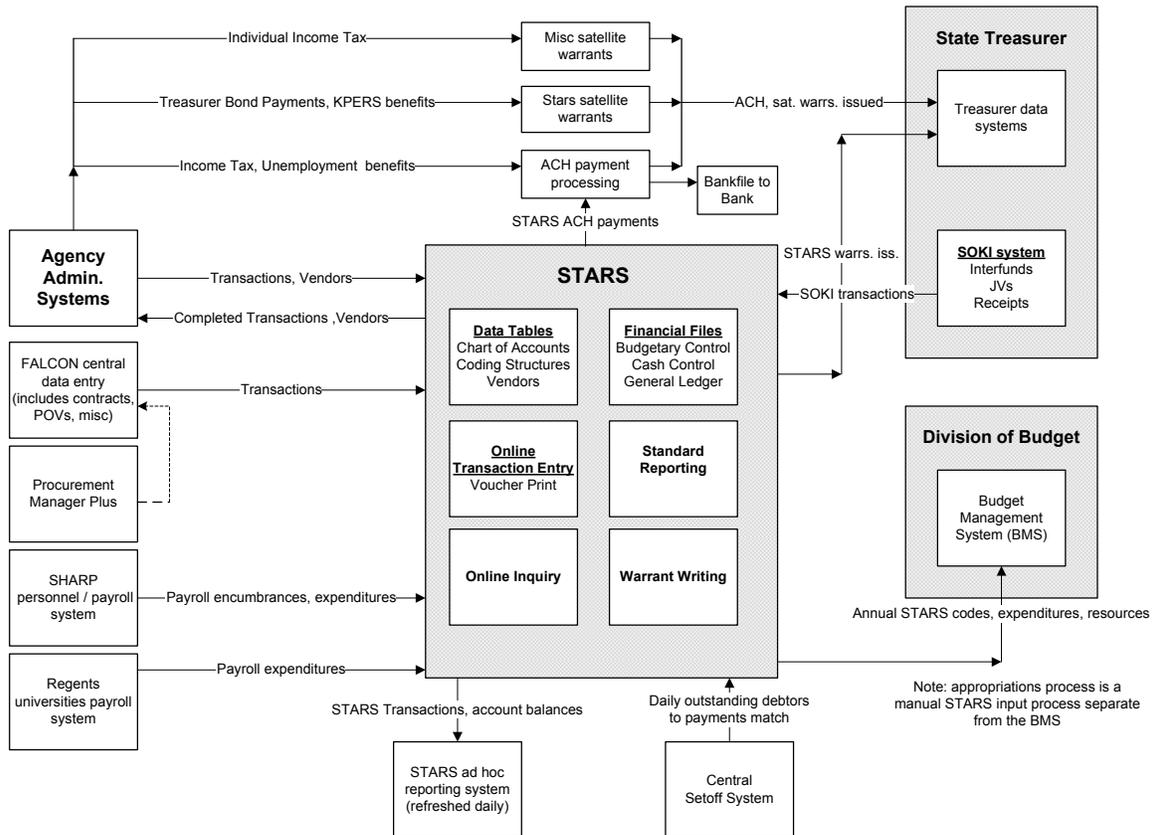
“As Is” vs. “To Be” Business Models

The following “As-Is” vs. “To-Be” Systems models were created based on interviews with Stakeholder Agency personnel and responses to the agency Systems Survey.

The first model identifies the current “As Is” statewide systems environment, including STARS, SOKI3+, the Budget Management System, SHARP, Procurement Manager Plus, and the Central Set-Off System. The model also shows the numerous interfacing “touch points” and/or data sharing opportunities between the various statewide administrative systems and agency-specific administrative “shadow systems” (referred to as “Agency Administrative Systems in the model).



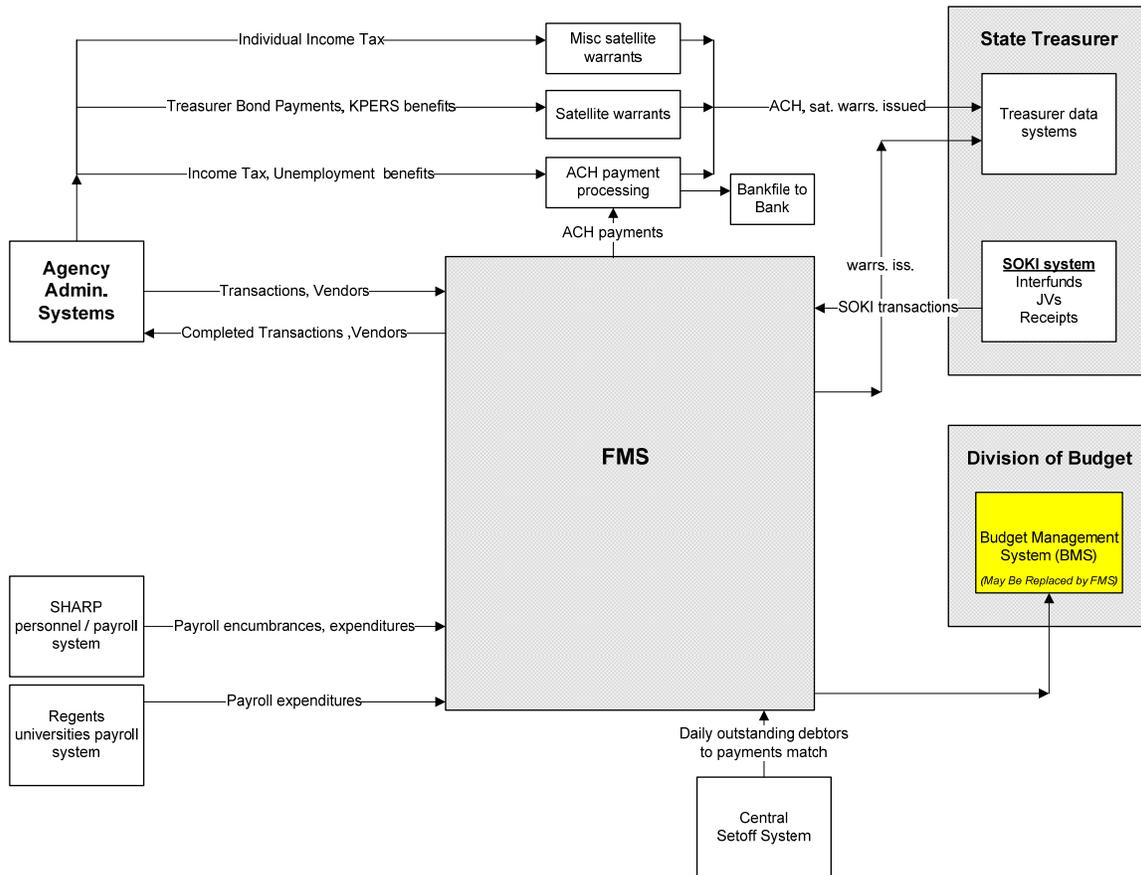
State of Kansas
As-Is Environment – Administrative Systems



The second "To Be" model that follows depicts the statewide administrative systems environment if a fully-integrated FMS is implemented. Note that all statewide administrative systems other than SOKI3+, SHARP, and the Central Set-Off System are replaced by FMS functionality. The Budget Management System may be replaced if the new FMS can meet Division of the Budget and user-agency budget development functional needs.



State of Kansas
To-Be Environment – Administrative Systems after FMS Implementation



The final diagram that follows expands on the “Agency Administrative Systems” box in the previous model by showing all agency-specific administrative “shadow systems” that were reported via the System Survey and/or identified during interviews with executive / financial management at the Stakeholder Agencies. We anticipate that all systems shaded may be replaced with a new FMS. As evidenced by this model, the need for numerous agency “shadow systems” may be eliminated through the successful implementation of a new FMS.



State of Kansas
Current Agency-Specific Administrative Systems

<p>Adjutant General</p> <ul style="list-style-type: none"> Fiscal System 	<p>Corrections</p> <ul style="list-style-type: none"> Asset Manager Financial Management System Vendor Management System 	<p>Juvenile Justice</p> <ul style="list-style-type: none"> Fiscal DB POSSUM DB (Accounts Payable) Payroll DB 	<p>Transportation</p> <ul style="list-style-type: none"> Integrated Financial Information System (IFIS) Voucher Entry System (VES) Budget System Capital Inventory System (CPIN) Cash Receipts and Credits City Connection Link (KLINK) Comprehensive Program Management System (CPMS) Computer Cost System (KOMMAND) Construction Mgmt System (CMS) Consumable Inventory Management System (CINV) Cost Center Feedback (CCFB) Employee Time System Equipment Management System (EMS) Equipment Rental System Federal Aid Billing System (FAB) Fuel Tracking System Photo Duplicating System
<p>Aging</p> <ul style="list-style-type: none"> AutoCad Filer Purchase Order / Procurement Shop Factory Fleetmate 	<p>Health and Environ.</p> <ul style="list-style-type: none"> Contract Routing and Accounting System (CMS) Purchase Order and Voucher System (POVS) Budget Tracking and Reconciliation System CR RPT (financial reporting) Grants Management System (GMS) (perhaps replace) 	<p>Labor</p> <ul style="list-style-type: none"> State Employment Security Agency Accounting System (Cost Accounting) 	
<p>Agriculture</p> <ul style="list-style-type: none"> Filepro (fin. Mgmt) 		<p>Public Employ. Retire. Syst.</p> <ul style="list-style-type: none"> Lawson (General Ledger) 	
<p>Commerce</p> <ul style="list-style-type: none"> Budget Travel Tracking Time Allocation System Percent Allocation System 	<p>Health Policy</p> <ul style="list-style-type: none"> Risk Master Time Log 	<p>Revenue</p> <ul style="list-style-type: none"> Inventory (Asset Mgmt.) System Purchasing Requisitioning System Budget Development 	
<p>Corporate Commission</p> <ul style="list-style-type: none"> CARES (Oracle) Receipts (Oracle) Inventory (Oracle & Access DB) Timesheet (Oracle) 	<p>Highway Patrol</p> <ul style="list-style-type: none"> Asset Management System HTE Purchasing System HTE Fleet Management System 	<p>Social and Rehab. Services</p> <ul style="list-style-type: none"> Asset Management System (PC-based database application) Financial Acctg. & Rptg. Mgmt. System (FARMS) Procurements (DB of all grants and contracts) Purchasing (log of purchases and Prior Authorizations) Service Data (cost allocation) PerformanceSoft (Executive Reporting) System Receipting 	
<p>Correctional Industries</p> <ul style="list-style-type: none"> Asset Manager Xdata (manufacturing & Cost Accounting) 	<p>Judicial</p> <ul style="list-style-type: none"> Voucher Log Projected Salary Monthly Expenditure Reporting Grant Tracking Setoff Tracking System Asset Management System 		<p>Wildlife and Parks</p> <ul style="list-style-type: none"> Cost Information System Inventory (Asset Mgmt.) System Federal Aid System (perhaps replace) Planning (project planning)

Systems with names that are shaded are those likely to be replaced by FMS

Key findings relating to the State's current systems environment follow:

- ◆ Numerous statewide systems (e.g., STARS, SOKI3+, Procurement Manager Plus) and agency "shadow systems" are required to meet the statewide and user agency administrative business needs. The term "shadow system" is used to refer to agency-specific systems that provide functionality required to meet agencies' administrative business needs that are not met by the State's central administrative systems (e.g., STARS and Procurement Manager Plus). As indicated above, agencies reported 243 systems that are currently in place or are planned to support financial management, procurement, and other administrative areas. Having such a fragmented legacy system and PC-based environment has the following drawbacks:
 - Data is fragmented, making it difficult to generate management information timely and accurately, especially on a statewide basis;
 - Systems are costly to maintain and operate (e.g., data must be reconciled among the various systems, numerous interfaces must be maintained, etc.); and
 - Systems are difficult to use – often State employees must work with several of these systems, and each system has its own unique "look and feel".



- ◆ The technology of the State's administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, and as a result:
 - The State is unable to "plug-and-play" with new (and even not so new) technologies (e.g., Internet-based technologies, bar coding);
 - It is often difficult to modify the systems as the changes require "hard-coding" (i.e., changes must be made to the actual computer code instead of simply changing data table entries to make the changes as is the case in more modern systems);
 - The State is exposed to significant risk (e.g., some technologies are becoming obsolete and will eventually become difficult to replace, and it will become increasingly difficult to find technical staff to maintain these systems);
 - The staff with skills required to maintain these systems are rapidly approaching, or have reached, retirement age; and
 - The systems are difficult to use as they lack the modern, Windows-based, common user interfaces that system users are accustomed to using (e.g., e-mail, office applications, Internet browsing). This technology also negatively impacts the ability to gain efficiencies in related business processes.
- ◆ A number of the State's business needs are not being met by the current systems. Examples of these unmet needs include lack of comprehensive procurement functionality that is fully-integrated with other financial and asset management business processes, no grant accounting functionality, no ability to perform "real-time" budget checking, and lack of the ability to track actual financial activity against agency operating budgets. As a result of these unmet needs:
 - The State's business processes are significantly less efficient and effective than they could be.
 - Agencies continue to spend, and have plans to spend, significant amounts on enhancing their existing "stand-alone" legacy systems or purchase their own agency-specific integrated systems – this funding could be used toward the implementation of a single, statewide FMS. Based on interviews with Stakeholder Agencies, it appears that at least four (4) Stakeholder Agencies will need to enhance their existing legacy systems significantly or replace them with new agency-specific systems within the estimating timeframe of this analysis if the State does not proceed with implementation of a statewide FMS.
 - Continued investments in standalone systems – whether custom extensions to existing systems, new commercial "off-the-shelf" products, or home grown have other disadvantages, too. Such systems require significant duplications of resources on an ongoing basis to design, implement, upgrade, and maintain significantly increasing the State's overall investment in this function above what would be required to perform those same duties for a centralized system. More importantly, this approach would continue to fragment and "silo" data, perhaps increasing the view of state agency management into their own operations, but



making it increasingly problematic to obtain financial data in aggregate in a timely manner that is needed to manager the State as a whole.

- ◆ The State currently has no enterprise-wide procurement and asset management systems in place:
 - Some agencies utilize the Procurement Manager Plus (PMP) system that is maintained by the Division of Purchases for the processing of purchase requisitions or have built their own purchase requisition / tracking systems that in some cases are interfaced to the PMP system.
 - Numerous asset management systems are being used to meet financial reporting, asset management, and inventory control purposes at the user agency level (typically maintained in spreadsheets or PC databases).
- ◆ The State does not currently have the ability to track State and Regent Institution spend on goods and services at the commodity level.
- ◆ Without a statewide Asset Management system in place, considerable effort is required to compile fixed asset data required for statewide financial reporting purposes. The Department of Administration must rely on state agencies for compiling and validating much of this data. Lack of the availability of such aggregated data on an ongoing basis also makes it very difficult to assess the use of, and make decisions about, the use and deployment of assets on a statewide/enterprise basis.

The table that follows identifies the functional areas for which the State agencies currently maintain administrative “shadow systems” or have planned systems as reported on responses to the System Survey, followed by the number of those systems reported by agencies. It should be noted that 146 of the 243 “shadow systems” are maintained in the Department of Administration.



**Statewide Financial Management System
Needs Assessment Study Update**



Salvaggio, Teal & Associates

Agency	Functional Areas Reported													# of Systems Reported
	GL	AM	AP	AR	BU	CM	CA	GA	PA	AB	PO	IN		
Adjutant General														2
Administration (Admin.)														128
Admin - Central														15
Admin. - DISC														3
Aging														5
Agriculture														1
Commerce														5
Corp. Commission														5
Correctional Industries														2
Corrections														-
Health and Environment														6
Health Policy														5
Highway Patrol														6
Judicial														9
Juvenile Justice Authority														4
Labor														2
Public Employee Retirement System														1
Revenue														3
Social and Rehab.														25
Transportation														5
State Treasurer														6
Wildlife and Parks														4

Total **243**

	Functionality Provided by Existing Systems
	New Functionality Provided by Planned Systems
	Functionality of Planned Systems That Expands Functionality in Areas Provided by Existing Systems



**Statewide Financial Management System
Needs Assessment Study Update**



The following legend is provided to assist in identifying the functional areas in the table above:

- General Ledger (GL)
- Budget Development (BU)
- Project Accounting (PA)
- Asset Management (AM)
- Cash Management (CM)
- Activity Based Costing (AB)
- Accounts Payable (AP)
- Cost Allocation (CA)
- Procurement (PO)
- Accounts Receivable (AR) / Billing
- Grant Accounting (GA)
- Inventory Management (IN)

Note that responses to the System Survey were received from all seventeen (17) Stakeholder Agencies. In addition to the Stakeholder Agencies, responses to the Survey were received from Kansas Corporate Commission, Kansas Correctional Industries (submitted separate response from remainder of Department of Corrections), and the Kansas Public Employee Retirement System.

The table below summarizes the estimates of annual System Savings reported by agencies via the System Survey for systems that support the functional areas within the scope of the Business Case Analysis.

Agency	Annual Systems Costs											
	FYE 2006	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	Total
Adj. General	32,000	33,000	33,000	33,000	33,000	59,000	33,000	33,000	33,000	33,000	59,000	414,000
Administration (Admin.)	791,440	1,292,440	793,440	834,440	860,440	801,440	802,440	797,440	798,440	802,200	806,236	9,380,396
Admin. - DISC	704,844	727,517	745,706	764,349	783,458	803,044	823,120	843,698	864,790	886,410	908,569	8,855,505
Aging	-	-	189,000	244,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	580,000
Agriculture	20,000	13,000	13,000	20,000	19,000	13,000	20,000	13,000	19,000	20,000	13,000	183,000
Commerce	-	-	-	-	-	-	-	-	-	-	-	-
Corp. Commission	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	2,090,000
Correctional Industries	12,500	162,575	13,250	13,650	14,075	14,500	15,000	15,500	16,000	16,500	17,000	310,550
Corrections	-	-	-	-	-	-	-	-	-	-	-	-
Health and Environment	121,000	121,000	121,000	121,000	121,000	121,000	121,000	121,000	121,000	121,000	121,000	1,331,000
Health Policy	-	25,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	70,000
Highway Patrol	-	-	-	1,000,000	149,000	149,000	149,000	149,000	149,000	149,000	149,000	2,043,000
Judicial	-	-	-	-	-	-	-	-	-	-	-	-
Juvenile Justice Authority	10,310	11,253	11,534	11,823	12,118	12,421	12,732	12,732	12,732	12,732	12,732	133,118
Labor	106,355	106,355	106,355	106,355	106,355	106,355	106,355	106,355	106,355	106,355	106,355	1,169,905
Public Employee Retirement System	-	19,000	19,000	30,000	20,000	20,000	20,000	30,000	20,000	20,000	20,000	218,000
Revenue	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	165,000
Social and Rehab	342,800	414,800	346,800	346,800	344,800	344,800	344,800	420,800	345,800	345,800	345,800	3,943,800
Transportation	75,000	575,000	5,075,000	215,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	7,620,000
State Treasurer	35,421	35,421	35,421	51,421	35,421	35,421	35,421	35,421	51,421	35,421	35,421	421,628
Wildlife and Parks	35,000	35,000	135,000	75,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	511,000
Total	2,491,669	3,776,361	7,847,506	4,076,837	3,002,667	2,983,981	2,986,868	3,081,946	3,041,538	3,052,418	3,098,113	39,439,902

Please note that the totals in the schedule above may reflect variances due to rounding.



Estimating Assumptions

- ◆ We assume that the potential System Cost Savings from retiring existing systems (hardware, software, and support personnel) would be phased-in as follows:

1 st year following go-live	50%
2 nd and remaining years following go-live	100%

- ◆ We assume that System Costs Savings from avoiding planned system enhancements to existing systems and the implementation of new systems would be realized as they have been planned to occur.

Estimated System Savings

Presented in the table directly below are the estimated System Savings based on the results of the System Survey. The table also depicts the timing of the realization of the System Savings as described in Estimating Assumptions above. The table that follows it presents a subset of those numbers and is intended to highlight only those new systems planned for implementation during the estimating period.

System Savings Category	Estimated Annual System Savings											Total
	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	
	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	
Retiring Existing Systems					1,277,990	2,558,868	2,653,946	2,613,538	2,624,418	2,670,113	2,670,113	17,068,984
Avoiding System Implementations and Enhancements*	525,000	5,360,000	1,465,000	185,000	428,000	428,000	428,000	428,000	428,000	428,000	428,000	10,531,000
Total	525,000	5,360,000	1,465,000	185,000	1,705,990	2,986,868	3,081,946	3,041,538	3,052,418	3,098,113	3,098,113	27,599,984

* The table below contains costs agencies reported for planned implementations of new systems and/or enhancements to existing systems during estimating timeframe (projects already underway were excluded)

Agency	Reported Implementation Costs (excludes ongoing operating costs)	Start Date	End Date	System Description
Aging	580,000	Sep-08	Dec-08	Accounting System (GL, AR, PO, AP, CM)
Health Policy Authority	25,000	Jan-07	Jan-07	Cost Allocation System
Highway Patrol	1,000,000	Jul-08	Jun-09	Agency Financial Management System
Transportation	5,500,000	Jan-07	Jun-09	General Ledger and Budget Management
Wildlife and Parks	140,000	Jul-07	Dec-08	Cost Information System (GL, AP, CA, GA, PA)
Total	\$ 7,245,000			

Please note that the totals in the schedules above may reflect variances due to rounding.

3. Process-Improvement Benefits

The State can realize process improvements in a number of areas of the organization as a result of implementing a FMS statewide. We have coined the term “Value Pockets[®]”



to refer to the most likely sources of significant value (i.e., cost savings and other benefits) to be found in each functional/process area within the scope of a possible FMS implementation.

In applying our Business Case Analysis Methodology, dollar-quantifiable (tangible) and non-dollar-quantifiable (intangible) *Value Pockets*® are composed of:

- ◆ Dollar-quantifiable process-improvement benefits/cost Savings
 - Improved process outcomes/results (i.e., improve process efficiency), for example:
 - Lowering the cost of goods and services procured
 - Decreasing inventory levels and associated carrying costs
 - Reduced cost of process execution (i.e., improved process effectiveness), for example, reassign/reduce headcount (FTEs) by:
 - Reducing the number of FTEs required to enter data into systems
 - Reducing the number of FTEs required to generate needed information by no longer being required to obtain and consolidate data from multiple sources (also results in faster and better decision making)
 - Reducing the number of FTEs required to reconcile data among multiple systems
 - Reducing the number of FTEs required to track transactions spread over multiple systems (e.g., avoid maintaining tracking data in spreadsheets, using paper logs, etc.)

Note: savings from reducing the number of FTEs that perform certain activities can be obtained in ways such as repurposing personnel from redundant and/or unnecessarily labor-intensive activities to valued-added activities and by eliminating unfilled positions. Also, FTE-related savings can be achieved over the long run through retirements and attrition.

- ◆ Non-dollar-quantifiable process-improvement benefits/cost savings (intangible items), for example:
 - Reduced cycle times
 - Realignment processes in support of strategic initiative(s)
 - Increase data and reporting accuracy
 - Improve usefulness of information

Approach

In performing this portion of the study, we conducted a number of interviews with personnel at State agencies in order to obtain information regarding the business processes currently in place, as well as obtain State personnel's input on potential



process-improvement opportunities. We also worked with the State's project leadership to identify potential process-improvement opportunities, in particular, those that should be considered *Value Pockets*[®], both dollar-quantifiable and non-dollar-quantifiable.

Dollar-quantifiable *Value Pocket*[®] benefits were estimated from data collected from the State agencies via a *Value Pocket*[®] survey and from data collected through interviews with central sources (e.g., Accounts and Reports). Meetings and follow-up discussions were also conducted to collect information used to estimate benefits/savings from process improvements. The compiled results of the survey are included in *Appendix B* of this report.

Our Business Case Analysis Methodology includes the use of proprietary formulas and calculations that are used to quantify *Value Pocket*[®] benefits. Savings Factors are key variables in these formulas and the values that were used for these Factors for this study were derived from a variety of sources, including the experiences of other government organizations, and estimates made by us based on our analysis of the respective processes and our experience, in general, in these matters, as well as input from the State's project leadership.

Findings

We noted numerous process improvement opportunities during the execution of this study. Process improvement benefits include (1) the reduction of process execution costs (improved efficiencies), and (2) improvement in process service levels/results (improved effectiveness). These benefits would be realized primarily from the FMS' improved integration and state-of-the-art functionality. These process improvement benefits have been categorized and described below as: (1) general (i.e., those that apply to several processes—not process-specific), and (2) specific to processes in functional areas within the potential scope of the planned FMS implementation.

General Process Improvement Benefits

The general process improvement benefits described below pertain to several process/functional areas (i.e., Accounts Payable, Procurement, Grant Accounting, etc.) performed at many of the State agencies. They are as follows:

1. Reduction in the amount of time being spent on the following tasks that are required due the current system's lack of real-time integration (note: the proposed system would have real-time integration among the system's functional modules that would be built and maintained by the vendor of the software) :
 - Researching, troubleshooting, and reconciling transactions and account balances across multiple systems (i.e., between user agency administrative systems, between user agency and statewide administrative systems, and between statewide administrative systems). This reconciling effort involves:
 - Investigating failed interface transactions;
 - Reconciling balance discrepancies between systems; and
 - Making adjustments in the appropriate system(s).



-
- Tracking the status of transactions spread across multiple systems on an ongoing basis using spreadsheets, paper logs, etc.
 - Manually entering the same data into multiple systems, and having to correct data-entry errors that result from entering data more than once.
 - Generating ad hoc and standard management reports that require retrieving data from multiple systems. This reporting effort involves:
 - Extracting data from multiple sources;
 - Compiling and reviewing data;
 - Formatting data into the reports; and
 - Distributing the reports.
2. This cost reduction opportunity would apply to end users of the system, as well as technical/programming personnel.
 3. Better information (i.e., information that would be more accurate, timely, and useful/meaningful) available for improved management decision-making that would result from the availability of software tools for decision support, such as ad hoc reporting, that would provide timelier access to data by a greater number of users. For example, the current maximum ad hoc reporting window in STARS is sixteen (16) weeks – a number that all agencies interviewed found woefully inadequate.
 4. Reduction in technical/programming costs over time by making more efficient and accurate reporting capabilities available to end users through enhanced ad hoc reporting and inquiry functionality.
 5. Improvement in level of service would be provided to many of the State's internal and external customers through Web-based functionality of the proposed system. A new FMS would make certain information readily available to the customers via the Inter/Intranet and would reduce process cycle times, reducing the amount of time customers would have to wait to receive products/services. Examples of this type of functionality include the following:
 - Vendor Self-Service;
 - Customer Self-Service; and
 - Automated Workflow.
 6. Reduction in effort and process cycle times due to more efficient processing and control of documents through enterprise-wide use of automated workflow technology, which would provide for electronic document routing, review and approval, online inquiry into document status, and more efficient document filing and retrieval. Physical storage needs and costs would also be reduced.
 7. Reduction in effort in a number of functional/process areas due to the adoption of "best practice" processes, as well as the standardization of business process and supporting technology across agencies.



8. Reduction in training and support costs through the use of a consistent enterprise-wide graphical user interface (GUI) that would provide an easy-to-use, intuitive interface, as well as user-friendly features such as pull-down menus, point-and-click operation, pop-up windows, scroll bars, radio buttons, and on-line help that would enable users in continue to learn about the system on their own. Users could also solve more of their own system-related problems than with the current mainframe-based systems.
9. Reduction in the cost required to maintain, update, and administer the independent security mechanisms, profiles, and passwords for multiple agency-specific "shadow systems".

Process-Specific Process Improvement Benefits

General Ledger

1. Reduction in the amount of time spent preparing the Comprehensive Annual Financial Report (CAFR) for agencies that prepare their own CAFR report. This is the amount of time agency personnel and contractors spend performing system-related tasks pertaining to the preparation of the CAFR report, such as distributing data, compiling data, etc. Since data will be maintained in a single database in the FMS, users will no longer need to compile data from several sources to generate standard reports required for the CAFR.
2. More consistent statewide reporting through the use of standardized Chart of Account elements. One account structure will be shared by all agency users of the FMS. For example, the state agencies currently have to submit information to the Department of Administration for compiling Federal grant reports such as the Schedule of Federal Domestic Assistance.
3. Reduction in the amount of time required to monitor and report actual expenditures against budget status. Currently, agencies must obtain data from multiple sources (i.e., STARS and agency-specific systems) in order to be able to monitor/report budget status. The FMS will have real-time budget checking and integrated encumbrance accounting, all maintained in a single database, which will significantly reduce the amount of time required to monitor/report budget status.
4. Reduction in the amount of time required to develop, maintain, and report against agency operating budgets. This is the amount of time agency personnel and contractors spend in developing and maintaining the agency's operating budget -- preparing and distributing historical data; collecting and compiling data; entering data into STARS and other systems; and managing the operating budget during the fiscal year. The planned system will allow authorized users to load their budgets in the FMS at both the appropriation and operating budget levels, monitor and control these budgets, and record budget adjustments in the FMS. Currently, the appropriation budget is manually entered in STARS for budgetary purposes, and then state agencies maintain their budgets in greater detail (at the operating budget level) in their own "shadow" systems, with ongoing adjustments having to be reflected in each system separately.



5. Several agencies must prepare financial statements in accordance with GAAP. STARS operates on a cash basis of accounting and has very limited capabilities to maintain multiple bases of accounting (cash, accrual, modified accrual), while GAAP and GASB Statement No. 34 now require the use of accrual and modified accrual bases of accounting. The differences in the basis of accounting and scope of transactions require significant effort on the part of these agencies to reconcile and maintain separate general ledgers and reporting models.

Accounts Payable

1. Reduction in the amount of time spent performing 3-way and 2-way matching process for accounts payable. The matching process performs the matching of purchase orders for goods and services, receiving reports, and the associated invoices through automated means based on business rules configured in the FMS. The current matching process is manual for all agencies.
2. Reduction in the amount of time spent entering recurring payments. Currently, State personnel must enter a significant number of recurring payments from scratch each time a payment is to be made and are not able to use system functionality to automatically generate recurring payments. The FMS will provide recurring payment functionality.
3. Reduction in the amount of time required to respond to vendor inquiries and to maintain certain vendor data. Vendor Self-Service functionality will allow vendors to update their basic information (e.g., address, e-mail address, phone number, commodity codes serviced, direct deposit payment information) and view relevant events in the FMS, such as determining whether an invoice has been entered into the system and paid.
4. Reduction in the amount of time and postage required to print and mail remittance advices to vendors. Vendor Self-Service functionality in FMS will enable vendors to obtain remittance advice information via the Internet.
5. Reduction in the amount of time spent on 1099 reporting. FMS would provide integrated 1099 processing that would automatically generate the appropriate reports for staff, 1099 forms for vendors, and electronic files for the IRS. Currently a significant amount of 1099 processing is manually performed.
6. Reduction in the amount of time required to obtain approval for employee travel and other similar expenses, process employee-reimbursement transactions, and respond to employee inquiries regarding the status of reimbursements. Currently, State employees must complete hard-copy travel authorization forms and expense reimbursement forms. The FMS will enable employees to initiate travel authorizations and submit expense reimbursement data by utilizing the FMS' self-service functionality through a Web browser or kiosk, and obtain proper approvals through pre-defined workflow rules. Employees will also be able to inquire about the status of their reimbursements via this self-service system functionality.
7. Reduction in the amount of time required to identify and account for set-offs (i.e., matching amounts due to a customer that is also a vendor with amounts due from



that vendor for outstanding liabilities to the State, due to unresolved contractual problems, failure to pay taxes, court-ordered garnishments, or for other reasons as dictated by State law). With virtually all agencies using the planned system that will have integrated Accounts Payable and Accounts Receivable/Billing functionality, as well as set-off functionality, the process of identifying and accounting for set-offs would be much more efficient. Furthermore, this set-off functionality will help reduce the amount paid to vendors that should be set-off. Note that in the scope of the project currently recommended in this report, it is assumed that both the central Kansas Automated Debt Recovery System (KDRS) and the Department of Revenue's set-off system will remain in place after FMS is implemented.

8. Reduce the amount the State pays for procured goods and services. The integration of FMS should make the State's procure-to-pay process more efficient and effective by improving data accuracy, visibility, and related communication, which in turn could help the State take advantage of more discounts offered by vendors.

Procurement

1. Reduction in the cost of goods and services procured by the State. Significant savings could be realized from the implementation of the catalog/contract Electronic Procurement (eProcurement) functionality in FMS. This functionality would enable State employees to shop via a Web browser for goods/services maintained in catalogs that contain items the State has on contract, and these catalogs would have the State's negotiated prices, terms, etc., as well as commodity-level data maintained in accordance with an industry-standard commodity structure such as the structure maintained by the National Institute of Governmental Purchasing (NIGP) or United Nations Standard Products and Services Codes (UNSPSC). These catalogs could be inside the State's firewall and/or at vendors' sites, in which case, the State employee would "punch-out" to shop the external catalogs. A Requisition would automatically be created for the items the State employee selects when he/she checks out, and the Requisition would have commodity-level data in it from the catalog. The system would electronically route the Requisition via workflow technology for approval, and if approved, the Requisition could generate a PO for the items, and the PO could then be sent electronically to the vendor. Purchases could also be made via P-cards using the new system.

The reduction in the cost of goods and services resulting from the implementation of catalog/contract eProcurement would come primarily from the following sources:

- Reduced "maverick" spend (i.e., in general, purchases made that are not in compliance with State policy, and in particular, not utilizing contracts the State has negotiated with vendors). The new system's ease of use, along with State's mandated and enforced use of the system, would result in the State procuring more goods and services through contractual agreements the State has negotiated with vendors.
- Improved spend intelligence. Capturing more commodity-level data on items that are procured would put the State in a significantly stronger negotiating position with vendors. The current commodity-code structure is not well



maintained—many of the codes are not applicable. Furthermore, few procured items are coded at the commodity level.

Significant savings in the cost of goods/services procured could also be realized from the implementation of eSolicitation functionality in the FMS. The reduction in the cost of goods and services resulting from the implementation of eSolicitation functionality would come primarily from increased competition. More qualified vendors would have access to more bid opportunities through the use of e-mail-based “push” technology that would be used to notify vendors of bid opportunities based on the commodities they are registered to provide.

2. Reduction in the amount of time spent processing purchase requests. Currently, purchase requests are processed by agencies manually, directly into Procurement Manager Plus, or through agency requisition tracking systems. Functionality in FMS would enable authorized State employees to initiate an online requisition, obtain approval via workflow technology, and optionally, pre-encumber the funds in the State's accounting system.
3. Reduction in the amount of time spent processing *formal (i.e., published) solicitations in Procurement Manager Plus* (the portion of the process occurring after approved request through award). These processing tasks include (but are not limited to):
 - Identifying and notifying registered vendors of the solicitation;
 - Distributing the solicitation—posting on the Web, mailing, etc;
 - Receiving and recording vendor responses;
 - Tabulating/scoring vendor responses;
 - Notifying vendors of award decision; and
 - Documenting award information.

The solicitation process would be Web-enabled, and thereby help reduce the time/cost required to process formal solicitations. The FMS would provide the ability to create solicitations from Requisition information entered into the System, post the solicitation to the Web from the eProcurement application, automatically “push” solicitations to prospective vendors via e-mail or fax, receive the vendors' responses electronically (where applicable), feed the vendors' responses into the system's tabulation functionality, notify the selected vendor via e-mail, and post the award information to the Division of Purchases Web site.

4. Reduction in the amount of time spent processing *formal (i.e., published) solicitations produced outside Procurement Manager Plus*. Currently, commodity and service contracts, professional technical service contracts, building construction contracts, and some larger orders are procured via solicitations produced outside FMS. Processing these solicitations in a statewide integrated system would result in fewer keystrokes, more standardization, as well as better reporting and an improved audit trail. The eProcurement functionality that would be available in FMS would Web-enable the solicitation process and help reduce the cost of processing solicitations.



The FMS system would provide the ability to create solicitations from Requisition information entered into the system, post the solicitation to the Web from the eProcurement application, automatically notify vendors of solicitations via e-mail, receive the vendors' responses electronically, feed the vendors' responses into the system's tabulation functionality, notify the selected vendor via e-mail, and post the award information to the Web for the eProcurement application.

5. Reduction in the amount of time spent processing *informal* solicitations (i.e., solicitations not published but performed via phone call, e-mail, etc.). The solicitation process would be Web-enabled, and thereby help reduce the time/cost required to process formal solicitations. The functionality would allow buyers to select appropriate registered vendors, generate solicitations from requisition information entered into the system, and then receive the vendors' bids via e-mail.
6. Reduction in the amount of time required to (1) perform budget validation and verification of account distribution for Procurement transactions (e.g., requisition, purchase order), and (2) post appropriate financial impact in the General Ledger to support Procurement activities (e.g., post pre-encumbrance for an approved purchase requisition, post encumbrance and liquidate pre-encumbrance for a purchase order). Currently, these accounting processes are largely manual; however, the planned system will be fully integrated with the system's General Ledger functionality which will automate a significant portion of these accounting processes.
7. Reduction in the amount of time spent printing, and then faxing and mailing Purchase Orders (POs), as well as reduce the postage required to mail the POs. A large number of POs are printed and then either faxed or mailed to vendors. Procurement functionality in the FMS would enable the transmission of POs via e-mail or auto-fax, neither of which can be done in STARS today. Not only will this new functionality reduce the time/effort spent printing, and then faxing or mailing POs, mailing costs will also be reduced.
8. Reduction in the amount of time spent entering information into State systems on Web purchases made for "discount off catalog" contracts. Currently, purchases against these contracts are made via the Web, and then the information about the purchase is entered into Procurement Manager Plus after the purchase has been processed. The FMS would provide functionality that would enable the State employees to create a requisition for these items, electronically route the requisition via workflow technology for approval, and the FMS would generate a PO for the item(s) that would be tied to the requisition and that could be sent electronically to the vendor. The need for entering procurement information into the vendor's systems and then again into the State's procurement system would be eliminated.
9. Generation of revenue from fees charged to vendors for value-added services that would be provided to vendors via the FMS. Currently, the State charges a \$10 fee for merely placing vendors on the approved vendor list, but no significant value is provided to the vendors. The FMS would provide "push" technology that automatically notifies vendors of bid opportunities for commodities they service via e-



mail, and some portion of vendors currently registered with the State, as well as new registrants, would likely pay a fee higher than the current \$10 for this service (e.g., \$35) because they are gaining access to bid opportunities that they would most likely not otherwise know about. These fees could be applied toward the cost of the ongoing configuration and maintenance of this functionality.

10. Improved vendor performance via tracking of historical performance. Currently, the State does not have a process in place to track vendor performance; however, the FMS will have functionality that will support a process for the ongoing evaluation of vendor performance.
11. Reduction in the amount of time spent processing Contract Cover Sheets. Currently, the agencies fill out Contract Cover Sheets, send them to the Division of Purchases, and the Division of Purchases tracks them in a spreadsheet and makes the associated accounting entries. Once the agencies are on the FMS, they will be able to enter the information that goes on the Sheets directly into the FMS, and the need for the Division of Purchases to track the information in a spreadsheet will be eliminated.
12. Reduction in the paperwork and the amount of time required to process Prior Authorizations (PA). With statutes primarily based upon a competitive bid statute, non-competitive purchases must be approved by the Director of Purchases and reported to the Kansas Legislature. The PA form is used to facilitate the approval and reporting process. Currently, agencies fill out the PA Form, send it to the Division of Purchases for review and approval, and a copy is returned to the agency for transaction audit trail documentation. A copy of the form is retained by the Division of Purchases, and data is manually entered into a Microsoft Excel spreadsheet to facilitate the legislative report.
13. Reduction in the amount of time spent receiving and preparing procured items that are deemed capital or controlled assets such as Personal Digital Assistants (PDA), guns, and video cameras. This process includes recording receipt data in a Procurement system(s) and setting assets up in Asset Management system(s), including asset tracking systems. The FMS will establish "asset receiving record" information when the assets are sourced via FMS' Procurement functionality, and information about the assets is carried forward in the System. Procuring and receiving the assets in a single, statewide system, would reduce the effort now required to receive assets and set up asset information in multiple systems. Currently, the receiving process is largely manual.
14. Reduction in Procurement cycle time significantly (expect at least a 50% reduction). The current Procurement process has a number of manual steps that will be eliminated through the use of the planned integrated, Web-based, electronic-workflow-enabled system, thereby reducing the cycle time of the existing Procurement process.



Asset Management

1. Reduction in the amount of time required to capture assets and asset-related information. Currently, the State does not maintain a statewide Fixed Asset system, so agencies use a variety of systems and processes to maintain Fixed Asset data. The FMS would be available to all agencies and would provide the ability to establish "asset receiving record" information when the assets are sourced using FMS' Procurement functionality, and information about the assets will be carried forward in the system and serve as a "starting point" for recording asset data when it is received. The FMS Asset Management functionality will be fully integrated with the System's General Ledger and Asset Management modules to support the recording of capitalized assets related to specific proprietary funds and trust funds, and to the General Fixed Asset Account Group. Furthermore, the new system will also support automated methods of collecting asset data through the use of bar-coding or Radio Frequency Identification (RFID) technologies.
2. Improved accuracy and timeliness, as well as reduced amount of time required to maintain and report on asset information. Currently, the State does not maintain a statewide Fixed Asset system, so agencies use a variety of systems and processes to maintain Fixed Asset data. By having all agencies on the same statewide system, the FMS will provide improved reporting and report compliance on items such as:
 - Assets that meet the State's capitalization threshold for financial reporting purposes.
 - "Controlled" assets as required by State or user agency policy. Controlled assets are property items that are not to be capitalized per State financial reporting policy but are secured and/or tracked by State or user agency policy (e.g., handguns, computers).
3. Reduction in the amount of time spent (1) calculating and maintaining asset depreciation, and (2) manually entering the resulting accounting entries into accounting and tracking systems. Currently, the State does not maintain a statewide Fixed Asset system, so agencies use a variety of systems and processes to maintain Fixed Asset data. Some agencies calculate depreciation manually. The FMS will provide depreciation functionality that will be accessible to all agencies.
4. Reduction in the amount of time required to perform the annual certification of assets. Currently, the asset certification process is performed manually by most agencies. The FMS would provide functionality to expedite this process, including bar-coding and RFID technologies.
5. Provide for integration with the Accounts Payable and Purchasing modules to automatically identify expenditure transactions as asset acquisitions when items meet user-defined criteria (e.g., State capitalization policy and control by specific GL accounts or commodity codes). This will ensure that new purchases (both capitalized and controlled) are accurately recorded in the fixed asset records. The Asset Management functionality of FMS will be fully integrated with Accounts



Payable and Purchasing modules to carry forward relevant purchasing, descriptive, invoice and accounting information as a starting point for recording the asset.

Project/Grant Accounting

1. Improve the accuracy and timeliness, as well as reduced amount of time required to administer grants. The FMS would provide the ability to establish grants, as well as a lower levels of detail for grant reporting (e.g., grant phase, grant object, grant budget category), establish budgets at the lower level, and track/monitor transactions against the budget. The FMS would also provide the ability to maintain grants that span more than one State fiscal year and/or biennia.
2. Improve the accuracy and timeliness of project and job accounting. The FMS would allow projects to be budgeted and controlled over the entire life of the project. Projects can also be divided into phases and/or jobs that can be managed at a detail or summary level.
3. Reduce the amount of time required to accumulate/account for project costs by work-breakdown-structure (WBS) element, and post those costs in the FMS. Currently, some agencies manage projects without the benefit of systems that enable users to post/accumulate project costs by WBS element and must track detailed project costs manually, as well as make associated accounting entries in STARS. The FMS would provide this project cost tracking functionality and will be integrated with the System's financial accounting functionality.

Quantification of Process-Improvement Benefits

We did not attempt to quantify all of the *Value Pocket*[®] process-improvement benefits identified and described above as some of them could not be accurately quantified (e.g., the financial impact of improved decision-making resulting from better reporting capability) and others were not considered to be sufficiently material to warrant the effort required to quantify them. In keeping with our Business Case Analysis Methodology,[®] only the benefits considered significant dollar-quantifiable (i.e., tangible) *Value Pockets*[®] were included.

As mentioned previously in this report, STA has defined two (2) types of dollar-quantifiable *Value Pockets*[®]:

1. Reduction in the cost of process execution (i.e., improve process efficiency). For example, reassign/reduce headcount (FTEs), and
2. Improvement in process outcomes/results (improve process effectiveness). For example, lower the cost of goods and services procured.

Our findings relating to each of these two (2) dollar-quantifiable *Value Pocket*[®] types are described below.

Reduced Cost of Process Execution

Costs for this category were collected via a *Value Pocket*[®] survey that was sent to the seventeen (17) Stakeholder Agencies. Additionally, the Survey was made available to all other State agencies through the project Web site.



Responses to the *Value Pocket*® survey were received from all Stakeholder Agencies. In addition to the Stakeholder Agencies, Kansas Corporate Commission, Kansas Correctional Industries, Kansas State Board of Nursing, and Kansas Public Employee Retirement System responded to the *Value Pocket*® survey. The FTE-based results from the *Value Pocket*® survey are presented in the table below.

Totals Reported Via Value Pocket Survey			Estimated Savings	
Estimated Total Annual Hours Worked on Value Pocket Activities Each Year (includes all hours reported)	Estimated Total Number of FTEs Worked on value Pocket Activities Each Year (assumes full-time year is 1,920 hours)	Estimated Total Hours of Compensation Paid for Work Performed Value Pocket Activities on This Activity Each Year (includes all comp. reported)	Estimated Total FTE Savings Each Year (after Savings Factors applied)	Estimated Total Compensation Savings Each Year (after Savings Factors applied)
380,154	201.6	\$ 8,973,755	112.7	\$ 4,944,149

More information on the results from the *Value Pocket*® survey, as well as the savings estimates derived from the application of Savings Factors, are included in *Appendix B* of this report.

As indicated above, not all of the agencies responded to the *Value Pocket*® survey; only the seventeen (17) Stakeholder Agencies, as well as Kansas Corporate Commission, Kansas State Board of Nursing, and Kansas Correctional Industries responded. Combined, those agencies comprise approximately 86% of the State's total budget, excluding the budget amounts for Regent Institutions and the Department of Education's pass-through monies for K-12. Because those agencies that make up the remaining 14% of the budget were not surveyed, we used our experience in other states to extrapolate from the benefits identified by those who did respond to attribute some level of savings to those agencies as well for estimating purposes. We assumed that the agencies that did not report *Value Pocket*® benefits would have reported at least an additional 5% in process-improvement benefits above what was reported by the responding agencies. As a result, the agency-reported *Value Pocket*® benefits were increased by 5% for the purposes of this study. Based on our experience, we feel this percentage is very conservative.

We also assumed that not all of the preliminarily-estimated FTE-based *Value Pocket*® Savings presented above could realistically be realized. For example, some of the reported hours (and associated compensation) are (1) significant in total but are the accumulation of small amounts of time spread across multiple agencies and/or departments within agencies for some of the *Value Pocket*® activities, or (2) small amounts in total that would not likely pose an opportunity for reducing State resources. As a result, we assumed that approximately two-thirds (67%) of the total preliminary estimated FTE-based *Value Pocket*® Savings could actually be realized by the State.

The assumptions described above pertaining to *Value Pocket*® Savings are reflected in the following table:



Estimated Savings Categories	Estimated Savings	
	Estimated Total Annual <u>FTE Savings</u> (after Savings Factors applied)	Estimated Total Annual <u>Compensation Savings</u> (after Savings Factors applied)
Preliminary Estimate of Value Pocket Savings	112.7	\$ 4,944,149
Increase the Preliminary Estimated Value Pocket Savings for Agencies That Did Not Respond to the Survey (adjust the amounts in rows above for the 5% underestimation)	118.7	\$ 5,204,367
Assume 67% of the Preliminary Estimated Value Pocket Savings Could be Realized (reduce amounts in row above by 33%)	79.1	\$ 3,469,231

It is also assumed that most of the adjusted FTE-based annual savings presented in the table above would be realized over time through attrition, employee retirement, reassignment to approved but unfilled positions, and the like. In keeping with this assumption, it is assumed that a certain percentage of the annual \$3.5 million of FTE-based Value Pocket© savings would be realized after FMS goes live as follows:

1 st year following go-live	50%
2 nd and remaining years following go-live	100%

Improved Process Outcomes/Results

The non-FTE-based *Value Pockets*© that were quantified for this analysis included the following:

- ◆ **Reduction in the Cost of Goods and Services Procured by the State** (refer to the description of this process-improvement opportunity in the Process-Specific Process Improvement Benefits sub-section of this report).

We estimate that at least \$300 million of State’s annual spend that is managed by the State’s Division of Purchases could be positively impacted by the use of the new catalog/contract eProcurement functionality included in a FMS. This functionality would help reduce the amount of “maverick” spend the State currently experiences



and would significantly improved spend intelligence used to generate additional savings. We have made the assumption that this \$300 million in spend could be reduced by 1% which equates to an annual savings of approximately \$3 million. This assumption of 1% is based on the recent experience of other organizations. For example, in a study published by AberdeenGroup on May 19, 2006 entitled, “*Spend Intelligence: the Next Generation of Spend Analysis*”, AberdeenGroup stated that “For each dollar under management, an enterprise can save 5% to 20%.” We assume that in the Public Sector, estimated savings of 1% to 5%, instead of 5% to 20%, can be expected due to the nature of Public Sector purchasing, specifically:

- Public Sector’s goal is to increase access to suppliers; Private Sector’s goal is to rationalize/reduce suppliers.
- Private Sector forms strategic alliances with suppliers; Public Sector rules and regulations preclude forming these types of alliances due to the requirement for more open competition.
- Private Sector can better enforce change.

Note that the estimated savings above are based on the savings that could be realized from the implementation of catalog/contract eProcurement (i.e., reduced “maverick” spend and improved spend intelligence). The savings in the cost of goods/services that could be realized from the increased competition resulting from the implementation of eSolicitation’s “push” technology in FMS have not been quantified for this analysis, and would be in addition to the estimated annual \$3 million in savings.

It is assumed that this annual \$3 million in savings would be realized according to the following schedule:

1 st year following go-live	50%
2 nd and remaining years following go-live	100%

◆ **Reduction in Postage Paid to Mail Remittance Advices to Vendors**

Vendor Self-Service functionality in the FMS will enable vendors to obtain remittance advice information via the Internet, and thereby reduce the need and cost to mail remittance advices to vendors. The Department of Administration estimated that the annual number of remittance advice mailings is approximately 235,000.

We assumed that these mailings cost the State approximately \$73,000 each year (235,000 mailings at roughly \$0.31 each – the State has negotiated a reduced rate for mailing Remittance Advices). It is further assumed that approximately 90% of this cost could be avoided by enabling vendors to obtain remittance advice information directly via the Internet through FMS’ Vendor Self-Service functionality (i.e., a 90% Savings Factor was applied). Additionally, it is assumed that this \$66,000 in savings would be realized according to the following schedule:



1 st year following go-live	50%
2 nd and remaining years following go-live	100%

◆ **Reduction in Postage Paid to Mail Purchase Orders (PO) to Vendors**

The eProcurement functionality FMS would enable to State to auto-fax POs and attach POs to e-mail messages, neither of which can be done in STARS or Procurement Manager Plus today. Agencies reported, via the *Value Pockets*® survey, an estimated 14,362 mailings of POs to vendors each year.

We assumed that these mailings cost the State approximately \$5,600 each year (14,362 mailings at \$0.39 each). It is further assumed that approximately 80% of this cost could be avoided (i.e., an 80% Savings Factor was applied), resulting in an estimated annual savings of \$4,500. Additionally, it is assumed that this \$4,500 in savings would be realized according to the following schedule:

1 st year following go-live	50%
2 nd and remaining years following go-live	100%

Estimated Value Pocket Savings

The estimated process-improvement benefits/savings based on data collected via the *Value Pocket*® Survey and through interviews with central administrative agencies such as Accounts and Reports are presented below. The table below presents a summary of the estimated annual *Value Pocket*® process-improvement benefits/savings that could be realized from the implementation of FMS.

Value Pocket Benefits/Savings	Estimated Annual Value Pocket Savings/Benefits											
	Yr 0 FYE 2007	Yr 1 FYE 2008	Yr 2 FYE 2009	Yr 3 FYE 2010	Yr 4 FYE 2011	Yr 5 FYE 2012	Yr 6 FYE 2013	Yr 7 FYE 2014	Yr 8 FYE 2015	Yr 9 FYE 2016	Yr 10 FYE 2017	Total
FTE-Based Value Pocket Benefits					1,734,616	3,469,231	3,469,231	3,469,231	3,469,231	3,469,231	3,469,231	22,550,003
Reduction in the Cost of Goods/Services Procured					1,500,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	19,500,000
Reduction in Postage for Mailing Remittance Advices to Vendors					33,000	66,000	66,000	66,000	66,000	66,000	66,000	429,000
Reduction in Postage for Mailing POs to Vendors					2,250	4,500	4,500	4,500	4,500	4,500	4,500	29,250
Total	-	-	-	-	\$ 3,269,866	\$ 6,539,731	\$ 6,539,731	\$ 6,539,731	\$ 6,539,731	\$ 6,539,731	\$ 6,539,731	\$ 42,508,253

Please note that the totals in the schedule above may reflect variances due to rounding.

Financial Cost-Benefit and Payback Analysis

The schedule below presents a summary of estimated FMS Costs applied against estimated System Savings and *Value Pocket*® benefits/savings, developed using our Business Case Analysis Methodology.



**Schedule of Estimated Net Costs and Benefits/Savings from Implementing FMS
(in thousands of dollars)**

Cost and Benefits/Savings Categories	Acquire		Implement				Support						Total	
	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11		Yr 12
	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018		FYE 2019
FMS Costs (implementation & operation)	(317)	(633)	(15,426)	(19,804)	(8,391)	(3,869)	(3,894)	(8,974)	(3,947)	(3,975)	(4,004)	(9,085)	(4,060)	(86,379)
Avoided System Costs														
Retirement of existing systems					1,278	2,559	2,654	2,614	2,624	2,670	2,670	2,670	2,670	22,409
Avoidance of new systems and enhancements to existing systems	525	5,360	1,465	185	428	428	428	428	428	428	428	428	428	11,387
Process-Improvement Benefits (Value Pockets)														
FTE reduction/redirection					1,735	3,469	3,469	3,469	3,469	3,469	3,469	3,469	3,469	29,488
Procurement -- reduction in the cost of goods/services					1,500	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	25,500
Other process-improvement savings/benefits					35	71	71	71	71	71	71	71	71	599
Net	208	4,727	(13,961)	(19,619)	(3,415)	5,658	5,727	608	5,645	5,663	5,634	553	5,578	3,005
Cumulative Net	208	4,935	(9,026)	(28,645)	(32,060)	(26,402)	(20,675)	(20,067)	(14,422)	(8,760)	(3,126)	(2,573)	3,005	

Please note that the totals in the schedule above may reflect variances due to rounding.

* Note: "Avoided System Costs" does not include all the costs presented in the schedule that contains the results of the System Survey on Page 3-23 of this report as the schedule above does not include "Retirement of existing systems" costs until after the FMS is scheduled to go live. Also, "Avoidance of new systems and enhancements to existing systems" in the schedule above does not include the costs for FY 2006 in the schedule on Page 3-21.

As illustrated above, the breakeven/payback occurs in Year 12 (in the 13th year of the initiative taking into account Year 0) of the planning timeframe.. The schedule above was expanded beyond the 11-year timeframe of the study (i.e., beyond Years 0-10 to include Years 11 and 12) to show the period in which payback/breakeven is reached. Also, note that a second upgrade was included in Year 11 to remain consistent with the State's expected upgrade strategy (initial upgrade in Year 7). We estimate the State will begin to realize savings/benefits of approximately \$5.7 million per year from the FMS implementation for each year in which an upgrade is not performed starting in Year 5 (see schedule above). The schedule above includes estimates for FMS upgrades in Years 7 and 11. Due to the estimated ongoing savings that will be realized, the Internal Rate of Return (IRR), the discount rate at which the Net Present Value (NPV) is equal to zero, for the project increases over time (see table below).

Year	IRR
10	-2.2%
11	-1.8%
12	1.7%
13	4.1%
14	5.9%

Assuming a discount rate of 5% per annum, the NPV through Year 14 is \$1.6 million (see table that follows).



Year	NPV (\$ million)
10	(7.6)
11	(7.3)
12	(4.2)
13	(1.3)
14	1.6

No contingency/risk amounts have been applied to the estimates presented in the table above. The estimates are considered to be sufficiently conservative for the following reasons:

◆ **FMS Costs**

We compared its FMS Cost estimates with the prior Needs Assessment study conducted by Accenture in 2001 and with bids submitted by two (2) vendors in February 2006 for a similar implementation for the State of Tennessee. The results of the comparison are shown in the table below.

LOCATION	SOFTWARE	SERVICES
Tennessee - Vendor 1 ^{1,2}	\$ 4,700,000	\$ 37,021,600
Tennessee - Vendor 2 ^{1,2}	\$ 3,300,000	\$ 36,409,100
Accenture Study ^{3,4}	\$ 4,500,000	\$ 23,000,000
STA Estimate	\$ 4,000,000	\$ 27,367,520

- ¹ The State of Tennessee is approximately 64% larger than the State of Kansas based on FTE comparison (41,000 vs. 25,000)
- ² Tennessee estimated implementation cost adjusted downward to reflect 21-month implementation and the module scope.
- ³ Accenture estimated between \$21 and \$28 million for software and services in the Needs Assessment study it conducted from July 2001 to November 2001.
- ⁴ There are differences in the cost elements included in the STA estimates vs. the Accenture estimate. The STA estimate is more inclusive of total project costs. For example, the STA estimate includes the costs associated with 100% backfill for State project team resources and the Accenture study contained no estimate of backfill.

Based on our comparison to the Accenture Study and the bids received by the State of Tennessee, we are confident that the FMS acquisition, implementation, and operational costs estimated in this report are reasonable and accurate (within +/- 10%). We assume that the potential 10% underestimate of these costs would be



more than offset by the combined underestimates of savings/benefits described in the following areas:

◆ **System Savings**

- Only nine (9) agencies provided estimates of costs to enhance existing systems and/or implement new systems during the 11-year estimating period. Furthermore, the amount estimated totaled only about \$8.2 million, with \$6.5 million of that amount coming from two (2) agencies, the Department of Transportation and the Kansas Highway Patrol. Note that only \$7.2 million of the \$8.2 million total was included in the System Savings estimates as approximately \$1 million of the reported amount was for projects that are already underway. Given the limited response from the agencies regarding these costs, and based on our experience in other states, we assume that the actual total cost could be far more significant over the next eleven (11) years than the cost estimates provided by the agencies to:
 - Upgrade/enhance existing administrative systems; and
 - Implement new systems in order to meet agencies' business needs.

Also, the estimated System Savings from retiring existing systems have been discounted by assuming only 50% of the savings would be realized during the first year the FMS is in production. If these shadow systems were retired upon implementation of the FMS, more savings would be achieved.

◆ **Process Improvement Benefits/Savings**

- The estimated FTE-based *Value Pocket*[®] benefits/savings have been significantly discounted by way of the following assumptions:
 - Only two-thirds (67%) of the reported FTE-based process-improvement benefits will be realized as some of the reported hours (and associated compensation) are (1) significant in total but are the accumulation of small amounts of time spread across multiple agencies and/or departments within agencies for some of the *Value Pocket*[®] activities, or (2) small amounts in total that would not likely pose an opportunity for reducing State resources.
 - The assumed discounted FTE-benefits will be realized according to the following schedule:

1 st year following go-live	50%
2 nd and remaining years following go-live	100%

- The estimated non-FTE-based process-improvement benefits included in this analysis have been significantly discounted by way of the following assumptions:



1 st year following go-live	50%
2 nd and remaining years following go-live	100%

It is our opinion that the financial metrics for the FMS Project presented above (i.e., NVP, IRR, and Payback/Breakeven) are significantly understated based on our interpretation that the FMS Costs estimates are reasonable and accurate, but that the offsetting System Savings and the *Value Pocket*® (process-improvement) Benefits are both significantly underestimated. Below are our observations and analysis regarding each of the three (3) primary financial components of the Business Case Analysis listed above.

◆ **FMS Costs**

As mentioned previously, we compared our estimates of FMS Costs with the prior Needs Assessment study conducted by Accenture in 2001 and with bids submitted by two (2) vendors in February 2006 for a similar implementation for the State of Tennessee, and based on the comparison of our estimates to those estimates, we are confident that the FMS acquisition, implementation, and operational costs estimated in this report are reasonable and accurate (within +/- 10%).

◆ **System Savings**

Agencies continue to spend, and have plans to spend, significant amounts on enhancing their existing agency-specific legacy systems or purchase their own agency-specific integrated systems – this funding could be applied toward the implementation of a single, statewide FMS. Based on interviews with Stakeholder Agencies, it appears that at least four (4) Stakeholder Agencies will need to enhance their existing legacy systems significantly or replace them with new agency-specific systems if the State does not fund the statewide FMS within the estimating timeframe of this analysis (i.e., three [3] agencies in addition to KDOT). However, as mentioned previously in this report, only nine (9) agencies provided estimates of costs to enhance existing systems and/or implement new systems during the 11-year estimating period. Furthermore, the amount estimated only totaled approximately \$8.2 million, with \$6.5 million of that amount coming from two (2) agencies, the Department of Transportation and the Kansas Highway Patrol. Note that only \$7.2 million of the \$8.2 million was included in the System Savings estimates as approximately \$1 million of the reported amount was for projects that are already underway.

When we discussed the issue of potential underreporting in a meeting with stakeholder agency CFO's, several stated they had a major need but did not include costs for replacement systems and/or enhancements to existing systems because they did not think they would receive funding for them. In addition, it seems likely that a number of agencies who might consider moving forward to request systems in future years if the statewide FMS project is not approved may



have been waiting on the results of the study before quantifying those plans and obtaining estimates and developing timelines for such implementations, which would make estimating difficult.

In response to that issue, we made preliminary high-level estimates of the cost to (1) enhance the existing legacy systems significantly, and/or (2) replace the legacy systems with new agency-specific systems, of three (3) “sample” aforementioned Stakeholder Agencies, assuming the State does not fund a statewide FMS. Note that, because these estimates were to be illustrative for the purposes of the study, the specific agencies identified were not involved in developing these estimates, given that in some cases funding may not have been budgeted, and we did not want to subject the agencies’ staff to intense marketing by prospective FMS vendors;

We have estimated that the total implementation cost for three (3) of the four (4) Stakeholder Agencies would be approximately \$11.3 million. Including the \$5.5 system replacement cost estimate reported by the Department of Transportation for this study, the estimated implementation cost for four (4) major State agencies within the estimating timeframe of this analysis is \$16.8 million. Given that this estimated \$16.8 million is for only four (4) agencies, we assumed the total statewide investment in agency-specific systems during the estimating timeframe of this analysis (assuming an FMS is not implemented) could be significantly greater than what is included in the financial analysis in this report. In fact, based on our experience in other states, we feel it could easily represent a significant portion of the \$40.7 million estimated FMS implementation cost. However, while the overall amount might be similar to that required for a statewide system, we must emphasize that investing that money on an agency-by-agency basis to develop and maintain shadow systems could not yield the significant process-improvement benefits that would be realized by implementing a single statewide, integrated system (i.e., FMS).

If this additional \$11.3 million in System Savings had been included in the estimates within the 11-yr planning period of the Study, Payback/Breakeven would have occurred in Years 9 or 10.

◆ **Process Improvement Benefits**

In all, seventeen (17) Stakeholder Agencies (as well as three [3] agencies outside the Stakeholder group) responded to the *Value Pocket*[®] survey. As part of the survey, we polled agencies on the level of effort and staffing associated with fifty-four (54) low-value, inefficient activities that could be eliminated or significantly reduced if a FMS were implemented (i.e., reconciling transactions and balances with the statewide systems, manually entering the same data into multiple systems, etc.). However, some of the agencies in the stakeholder group with larger budgets and staffing reported significantly fewer FTEs (and associated compensation) than we would expect based on our experience in performing business case analyses of this type for other states. For example, seven (7) of the Stakeholder Agencies each reported that fewer than four (4)



FTEs in their agencies perform the fifty-four (54) *Value Pocket*[®] activities. After Savings Factors were applied to these reported FTEs and associated compensation, virtually no resulting *Value Pocket*[®] Benefits were added to the estimates.

Without more specific information regarding key aspects of these agencies (i.e., business processes, organizational structures, systems, etc.), we are unable to determine to what extent, or even if, the reported *Value Pocket*[®] amounts are underestimates. However, based on our experience, we believe it is likely that the data reported significantly underestimates the benefits that could be achieved.

Recommendations

The following recommendations are based on the results of the Business Case Analysis:

1. We agree with the recommendation Accenture made in its 2001 Needs Assessment report that the State should move forward with implementing a statewide FMS given the significant return the State could potentially realize from this investment.
 - ◆ We believe the financial metrics calculated for this project (i.e., NPV, IRR, Payback/Breakeven) were derived using a highly conservative approach to benefits and cost avoidance estimation that may not adequately reflect the benefits that can be achieved (refer to our analysis above regarding this matter):
 - The FMS Costs estimates are reasonable and accurate, but that the offsetting System Savings and the *Value Pocket*[®] (process-improvement) Benefits are both significantly underestimated.
 - Very conservative estimates were made regarding the amount of savings/benefits to include in the analysis, as well as the timing of the realization of those savings/benefits.
 - ◆ The FMS would provide a number of significant intangible benefits to the State that are not addressed by the financial calculations performed in this Study, such as:
 - Improved level of service provided to many of the State's internal customers and external customers (i.e., citizens and stakeholders) through Web-based functionality of the FMS, which would make certain information readily available to the customers via the Inter/Intranet and would reduce process cycle times—reducing the amount of time customers would have to wait to receive products/services as well as potentially expanding the hours during which such services would be made available;
 - Improved information (i.e., information that would be more accurate, timely, and useful/meaningful) for management decision-making that will aid system users in maximizing the return on citizens' investments. This improvement in information would result from the availability of reporting tools that would be available in the FMS;



-
- STARS operates on a cash basis of accounting and has very limited capabilities to maintain multiple bases of accounting (cash, accrual, modified accrual), while GAAP and GASB Statement No. 34 now require the use of accrual and modified accrual bases of accounting;
 - Reduced staff effort and process cycle times due to more efficient processing and control of documents through enterprise-wide use of automated workflow technology, which would provide for electronic document routing, review and approval, online inquiry into document status, and more efficient document filing and retrieval;
 - Realize benefits from moving to more modern technology. The technology of the State's administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, and as a result:
 - The State is unable to "plug-and-play" with new (and even not so new) technologies (e.g., Internet-based technologies, bar coding);
 - It is often difficult to modify the systems as the changes require "hard-coding" (i.e., changes must be made to the actual computer code instead of simply changing data table entries to make the changes as is the case in more modern systems);
 - The State is exposed to significant risk (e.g., some technologies are becoming obsolete and will eventually become difficult to replace, and it will become increasingly difficult to find technical staff to maintain these systems);
 - The staff with skills required to maintain these systems are rapidly approaching, or have reached, retirement age; and
 - The systems are difficult to use as they lack the modern, Windows-based, common user interfaces that system users are accustomed to using (e.g., e-mail, office applications, Internet browsing). This technology also negatively impacts the ability to gain efficiencies in related business processes;
 - ◆ Agencies continue to spend, and have plans to spend, significant amounts on enhancing their existing agency-specific legacy systems or purchase their own agency-specific integrated systems – this funding could be applied toward the implementation of a single, statewide FMS.
2. The functional scope of the FMS should include the following functional areas (refer to the *Section 5: Implementation Best Practices* of this report):
- ◆ General Ledger (including Budgetary Control, Cost Allocation, Grant/Project Accounting, and Cash Management)
 - ◆ Accounts Payable
 - ◆ Asset Management



-
- ◆ Procurement
 - ◆ Budget Development
 - ◆ Data Warehousing (for reporting)
3. As noted above, the functional scope of the FMS implementation should include a data warehouse (or a reporting database that is separate from the production system) for reporting on financial and operational data. The data warehouse will allow properly-trained end users to develop ad hoc reports and queries through the use of a report development toolset without impacting performance of the production FMS.
 4. As part of the initial deployment, FMS should be interfaced with the State of Kansas Interactive Internet Interfund (SOKI3+) and the Kansas Automated Debt Recovery System (KDRS - Set-Off System). Consideration should be given to replacing the Set-Off System and SOKI3+ with FMS functionality in a future phase.
 5. While we recognize that the State has made significant progress in its effort to analyze and manage its statewide "spend", we believe such efforts have been hindered by a clear window into the details of current statewide spending due to deficiencies in the tracking and reporting available on statewide expenditures in STARS and Procurement Manager Plus. As a result, we recommend that the State leverage the new capabilities provided by implementation of a FMS to aggressively expand and restructure its strategic sourcing efforts and achieve the significant reduction in the cost of goods and services procured that are estimated in this study. As part of this ongoing effort, the State should dedicate staff to performing spend analyses that focus on identifying and analyzing spending trends, including top suppliers, locations, spend categories, and items.
 6. We also recommend the inclusion of the Regents Institutions and local governments for Procurement and strategic sourcing. This will allow the State to further leverage the combined spend as a means of obtaining better pricing from the vendor community.
 7. The State should provide dedicated resources for the ongoing catalog/contract eProcurement effort. Activities to be performed by these resources include:
 - ◆ Maintaining catalog/contract data from vendors to get new contracts loaded into eProcurement catalogs and auditing the data in catalogs to ensure compliance with vendor agreements that are in place.
 - ◆ Developing general, as well as vendor-specific, processes and procedures relating to vendor enablement, such as the following:
 - How and when vendors will update their catalogs maintained at the State's site in accordance with contractual agreements. This would also include processes and procedures pertaining to the State's, as well as vendors', auditing activities.



-
- How performing “roundtrip” transactions will be set up and conducted. “Roundtrips” involve State personnel “punching out” to shop from catalogs maintained by vendors at vendors’ sites while ordering goods/services via the catalog/contract eProcurement functionality of FMS.
 - ◆ Performing vendor outreach activities, such as identifying specific vendors and vendor groups to recruit, and then performing vendor conferences, one-on-one meetings, Webcasts, etc. to explain the State’s eProcurement value proposition for vendors. Some of the primary benefits that form the value proposition for vendors include the following:
 - Quicker order receipt through electronic, e-mail, or fax submission;
 - Faster processing of orders and payments due to reduced cycle time from order through payment;
 - Reduced supplier printing and mailing costs;
 - Reduced errors through increased automation; and
 - Lower administrative processing costs.
 - 8. While a “Big Bang” deployment (i.e., simultaneously deploying all functionality that is within scope at all agencies) and a “Phased” deployment each have associated positive attributes and negative attributes, we recommend that the State employ a “Big Bang” deployment approach over a 21-month period.

The specifics associated with this recommendation are documented in *Section 5: Implementation Best Practices* of this report.



Section 4

System Requirements Validation

In 2001, the State engaged Accenture to review the State's financial systems and statewide business processes in order to determine if the State needed to replace its present systems with one integrated solution to address the State's financial management and reporting needs. The 2001 Needs Assessment report recommended that the State implement a statewide FMS, but the economic conditions immediately following completion of the Study prevented the State from moving forward with the implementation of a new FMS at that time. Due to the lapse in time, it was important that we review the results of the 2001 Needs Assessment report and provide updates as necessary.

Approach

The approach we selected for completing the System Requirements Validation involves the development/updating of requirements for four (4) major areas as follows:

- ◆ Functional requirements;
- ◆ Technical and General Requirements;
- ◆ Interfacing Systems Requirements; and
- ◆ Data Conversion Requirements.

It is essential that a current, comprehensive set of detailed system requirements be developed as they will:

- ◆ Identify the system requirements necessary to support the State's business processes at both the statewide and user agency levels;
- ◆ Be included in the Request for Proposal for FMS software and will be used as a checklist against which to evaluate vendor offerings;
- ◆ Become part of the contract entered into between the State and the selected vendor(s); and
- ◆ Be monitored during implementation to ensure the FMS was properly designed and configured to ensure all requirements were met, and that work was not performed to develop functionality that did not support the documented requirements.

Each of these sets of requirements were developed for inclusion in a RFP(s) for FMS software and implementation services should funding be provided for moving forward with the project. Following is a brief description of how each type of requirement was addressed:



Functional Requirements

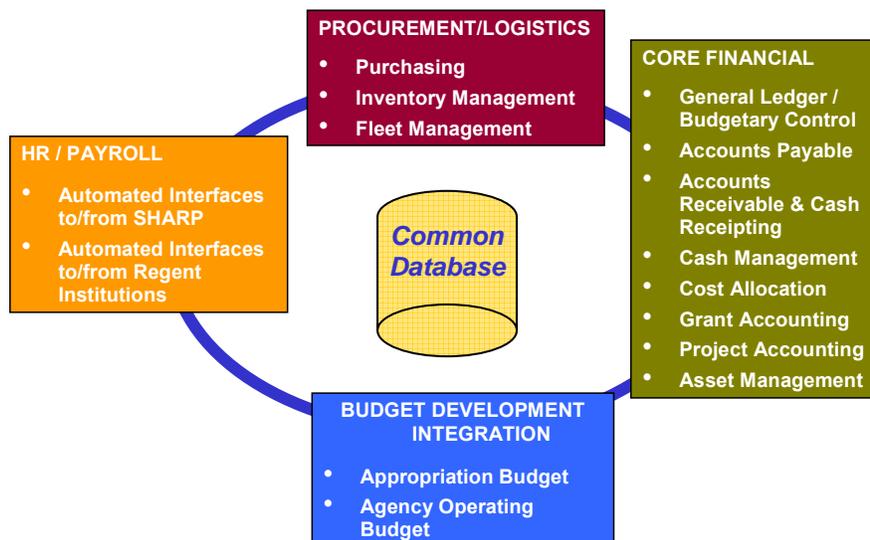
The original scope of the requirements development effort as negotiated during the Best and Final Offer process between the State and STA was as follows:

- ◆ Financial Management
 - General Ledger and Budgetary Control
 - Accounts Payable
 - Accounts Receivable
 - Cash Management
 - Project Accounting
 - Grant Accounting
- ◆ Inventory Management
- ◆ Asset Management
- ◆ Procurement (including eProcurement functionality)

The following functional areas were added to the Requirements Validation scope based on input received during Stakeholder Agency visits:

- ◆ Fleet Management
- ◆ Cost Allocation

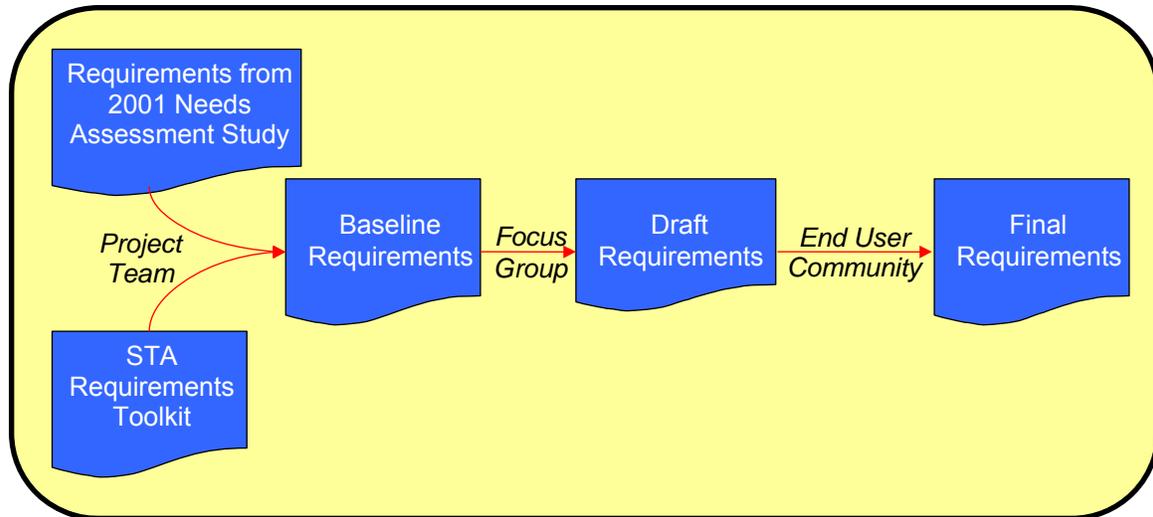
Finally, Budget Development requirements were added to the scope based on meetings with the Division of the Budget management to address Budget Development Integration and feedback received from the Stakeholder Agencies. This resulted in the following final scope for Requirements Validation:





A description of each functional area described above is included in *Section 2: Introduction* of this report.

The chart that follows depicts the process used to complete the Requirements Validation process for the Functional Requirements:



As depicted in the chart above, the steps taken to finalize the Functional Requirements were:

- ◆ We conducted a series of high-level work sessions with the project management and key stakeholders in the Department of Administration to finalize the functional scope and to determine the baseline set of requirements to be extracted from STA's Requirements Toolkit for the purpose of developing the Baseline Requirements to be used by each specific Focus Group.
- ◆ We then added all requirements developed during the previous Needs Assessment Study completed by Accenture in 2001 to the Baseline Requirements and removed any duplicate requirements between the Accenture and STA requirements. These requirements were then designated as the Final Baseline Requirements. Since the purpose of our study was to prepare requirements that can be used as part of a competitive procurement, we went into much greater detail in documenting the requirements than did the previous study in order to be able to differentiate between proposed FMS software solutions when the RFP is issued.
- ◆ We then converted the Final Baseline Requirements into a matrix format that was organized by major functional area to facilitate inclusion in a future RFP. The matrix is formatted to include the following:
 - Requirement Reference Number,
 - Description of Requirement,
 - Vendor Response (would be completed by the vendor as part of their RFP submission), and



- Comments (would be required to be completed for certain vendor responses to each requirement.

A sample of the requirements matrix format is presented below:

Reference Number	Business Requirements	Vendor Response	Comments
	Vendor Files		
PU 19.00	System provides the ability to track and to report/inquire on vendor performance including delivery, complaints (including complaints about discrimination allegations) and resolution.		
PU 20.00	System provides the ability to search for a vendor by commodity code/number/description and by vendor number/name. (Attach vendor to commodity).		
PU 21.00	System can infer default vendor information from the vendor master file when creating requisitions and purchase orders.		
PU 22.00	System provides the ability to automatically carry forward a vendor number to the next transaction (i.e., requisition to PO and PO to invoice), optional on requisition.		
PU 23.00	System provides the ability to assign status codes to vendors (i.e., inactive) and this status can vary by agency or facility (i.e., a vendor can be blocked from use by certain agencies/facilities but not blocked for other agencies/facilities).		
PU 24.00	System maintains pricing information, quantity breaks, freight terms and shipping information for each vendor.		
PU 25.00	System tracks vendor by performance / history, date added / deleted or inactivated and reason.		
PU 26.00	System provides the ability to classify one-time vendors and to check whether already on file based on multiple criteria (e.g., FEIN, SSN, etc.).		
PU 27.00	System can delete or deactivate vendor from vendor listing by date with reason. Historical data would be retained.		
PU 28.00	System rates vendor at each event point based on user-defined criteria and these ratings are displayed at each point in the procurement process.		
PU 29.00	Vendor numbers (numeric and alphanumeric) can be system generated or assigned manually.		

When included in the RFP, the functional matrices will require each vendor to respond to each functional requirement using the following recommended legend:

Response	Response Definition
SF – Standard Functionality	The FMS software provides the requested functionality without screen, code, or design changes. The product can satisfy the specification “out-of-the-box” without any modification to the standard baseline software offering. Only use “SF” if the baseline software as delivered in the current release fully meets the requirement “as is” or through software configuration.
NR – Provided in Next Release	The next release of the FMS software will provide the requested functionality without screen, code, or design changes. Only use “NR” if the very next release of the baseline software will fully meet the requirement. Only formal releases that have been published and are accessible on the Internet shall be considered when addressing this requirement. A brief identifier/description of the referenced release should be included in the “Comments” section.



Response	Response Definition
<p>MI – Minor Modification</p>	<p>Minor modifications must be made to the standard software offering utilizing the FMS-delivered “Development Toolset” to satisfy the specified requirement. Examples of minor modifications include changing a field length and creating a new view. In no case, however, can a modification exceeding 80 hours estimated work effort be considered minor, regardless of the development method.</p> <p>A brief explanation is required to support any proposed minor modification; explanations should be provided in the “Comments” section of the matrix.</p> <p>Estimated costs and work effort associated with each minor modification will be addressed in the separate cost proposal.</p>
<p>MA – Major Modification to Source Code Required</p>	<p>Modifications meeting either of the conditions listed below must be made to the standard software offering (FMS or third party) to satisfy the specified requirement:</p> <ul style="list-style-type: none"> • Estimated work effort for design, coding, and unit testing exceeds 80 hours; or • Change to underlying source code. <p>A brief explanation is required to support any proposed modification; explanations should be provided in the “Comments” section of the matrix.</p> <p>Estimated costs and work effort associated with each modification will be addressed in the separate cost proposal.</p>
<p>RQ – Provided through Reporting or Query Tool</p>	<p>The software (FMS or third party) supports the data elements necessary for the report/inquiry, but a custom report/inquiry would need to be developed to meet the requirement.</p> <p>A brief explanation is required to support any proposed modification; explanations should be provided in the “Comments” section of the matrix.</p> <p>Estimated costs and work effort associated with each custom report will be addressed in the separate cost proposal.</p>
<p>CD – Custom Development</p>	<p>The desired feature or functionality is not available as part of the standard (baseline) FMS software functionality but can be custom built to satisfy the specified system requirement. Only use “CD” if the functionality can be custom developed as a “bolt-on” to the FMS software without requiring changes to the underlying FMS software source code.</p> <p>A brief explanation is required to support any proposed custom development; explanations should be provided in the “Comments” section of the matrix.</p> <p>Estimated costs and work effort associated with each custom development effort will be addressed in the separate cost proposal.</p>



Response	Response Definition
TP – Third Party Software Required	The desired feature or functionality is not available as part of the standard (baseline) FMS software functionality but is a standard feature of third-party software proposed to satisfy the specified system requirement. The third-party software, which is fully integrated with the FMS system, provides the requested functionality without screen, code, or design changes. The proposed third-party product can satisfy the specification “out-of-the-box” without any modification to the standard baseline software offering. Only use “TP” if the third party software fully meets the requirement.
NA – Cannot Meet Requirement	The desired feature or functionality is not available as part of the standard (baseline) FMS software functionality, in the next software release, through modification/enhancement, reporting tools, or third party software. The requirement would most likely need to be met by a process workaround or by interfacing an existing legacy application.

Using this approach, the State’s Functional System Requirements are developed in accordance with the best business practices commonly found in commercially-available FMS software. In developing requirements, we follow four guiding principles:

- We develop the system requirements at a level of detail required to differentiate among available products.
 - We focus on what the system must do – not how. The system design will be completed after product selection – not during.
 - We emphasize process change in lieu of software modifications to protect software warranties and facilitate future system upgrades.
 - We leverage our requirements templates that we have developed and enhanced over the years in performing projects of this nature for numerous public sector clients. These requirements are based on best business practices and current technologies to ensure a thorough set of requirements and to avoid “reinventing the wheel”.
- ◆ Focus Groups were then developed to address each functional area within the project scope. These Focus Groups consisted of 7 to 15 subject matter experts (SMEs) that were “recruited” from the user agencies based on their specific knowledge and experience with the assigned topic. As an example, SMEs from grant-intensive agencies composed the Grant Accounting Focus Group, while agencies with sophisticated cost allocation needs made up the Cost Allocation Focus Group.
 - ◆ A Focus Group Kick-Off Meeting was held on October 9, 2006. Seventy-five (75) agency representatives attended the meeting.



- ◆ Numerous Focus Group work sessions were conducted for the various functional areas. Some functional areas required only one work session, while others required numerous follow-up sessions to address the entire scope of functionality. As an example, it took three full days of work to complete all procurement requirements. Over 140 participants representing 25+ agencies participated in the various Focus Groups. The list of Focus Group Participants is provided in *Appendix G*.
- ◆ Once all Focus Group work sessions were completed and required changes were made to the Baseline Requirements, the revised version of the requirements were referred to as the Final Draft Requirements, which were posted to the Project Web Site for review by the end user community on November 17, 2006.
- ◆ Agency Requirements Outreach Briefings were conducted on November 14 and 17, 2006 for all agency subject matter experts that were not previously involved in the Focus Groups. The objectives of these meetings were to provide background information on the purpose and status of the study, to share preliminary findings that had resulted from the study to-date, and to provide instructions for the SMEs to use to download the Final Draft Requirements for review and for submitting their recommended changes (adds, changes, and deletions) back to the project team for consideration.
- ◆ Remaining feedback to the Final Draft Requirements was obtained from the Focus Group participants as well from the non-Focus Group agencies based on the process outlined in the Agency Requirements Outreach Briefings. Required changes were then made to the Final Draft Requirements and the resulting version was then referred to as the Final Requirements.
- ◆ Finally, our consultants performed a qualitative review of the requirements to ensure the requirements are of the highest quality and are consistent across functional areas.

All completed Functional Requirements are included in *Appendix C*.

Technical and General Requirements

It is also important to develop general system and technical requirements that will be incorporated into the RFP for the acquisition of FMS software and implementation services.

The Technical and General Requirements addressed the following topics:

- ◆ Technical and architectural requirements;
- ◆ System performance;
- ◆ Security;
- ◆ Accessibility compliance;
- ◆ System navigation and user friendliness;



- ◆ System administration;
- ◆ Automated workflow and electronic approvals; and
- ◆ Data warehousing and both standard and ad hoc reporting / forecasting requirements.

Using a process similar to the process used to finalize the Functional Requirements, the following steps were taken to finalize the Technical and General Requirements:

- ◆ We extracted the Technical and General Requirements from STA's Requirements Toolkit and combined them with the requirements developed during the previous Needs Assessment Study completed by Accenture in 2001 for the purpose of developing the Baseline Requirements to be used by the Technical and General Focus Group. These requirements were then designated as the Final Baseline Requirements. Since the purpose of our study was to prepare requirements that can be used as part of a competitive procurement, we went into much greater detail in documenting the requirements than did the previous study in order to be able to differentiate between proposed FMS software solutions when the RFP is issued.
- ◆ We then converted the Final Baseline Requirements into a matrix format that was organized by major topic (e.g., Technical and Architectural Requirements, Security) to facilitate inclusion in a future RFP. The matrix is formatted to include the following:
 - Requirement Reference Number
 - Description of Requirement
 - Vendor Response (would be completed by the vendor as part of their RFP submission)
 - Comments (would be required to be completed for certain vendor responses to each requirement).
- ◆ The Technical and General Focus Group was established and consisted of twenty (20) technologists and system SMEs that were "recruited" from the Department of Administration's Division of Information Systems and Communications (DISC) and the user agencies based on their specific knowledge and experience with the assigned topics.
- ◆ The Technical and General Focus Group participants attended the Focus Group Kick-Off Meeting was held on October 9, 2006.
- ◆ Focus Group work sessions were conducted to address the various topics in the Technical and General Requirements. Specific technical requirements were addressed by DISC participants in the Focus Group, while the general and global system requirements were addressed by the entire Focus Group membership. The list of Technical and General Requirements Focus Group Participants is provided in *Appendix G*.



- ◆ Once the Focus Group work sessions were completed and required changes were made to the Baseline Requirements, the revised version of the requirements were referred to as the Final Draft Requirements, which were posted to the Project Web Site for review by the end user community on November 17, 2006.
- ◆ As addressed above for the Functional Requirements, the Agency Requirements Outreach Briefings were conducted on November 14 and 17, 2006 for all agency subject matter experts and technologists that were not previously involved in the Focus Groups. The objectives of these meetings were to provide background information on the purpose and status of the study, to share preliminary findings that have resulted from the study, and to provide instructions for the SMEs to use to download the Final Draft Requirements for review and for submitting their recommended changes (adds, changes, and deletions) back to the project team for consideration.
- ◆ Remaining feedback to the Final Draft Requirements was obtained from the Focus Group participants as well from the non-Focus Group agencies based on the process outlined in the Agency Requirements Outreach Briefings. Required changes were then made to the Final Draft Requirements and the resulting version was then referred to as the Final Requirements.
- ◆ Finally, our consultants performed a qualitative review of the requirements to ensure the requirements are of the highest quality and are consistent across functional areas.

All completed Technical and General Requirements are included in *Appendix D*.

Interfacing System Requirements

The nature of FMS software requires that special emphasis be placed on automated interfaces to and from certain legacy administrative and programmatic systems that will not be replaced by the FMS. We utilized the following process to document all automated interfacing system requirements associated with the FMS:

- ◆ We built our initial inventory of interfacing systems based on documentation of current interfacing system needs maintained by the Division of Accounts and Reports.
- ◆ We then made necessary adjustments to the inventory of interfacing systems as some interfaces were no longer needed because the target systems were being replaced by FMS functionality and some new interfaces would now be required based on interviews with Stakeholder Agencies and the development of the new "To Be" Business Model.
- ◆ Based on the final inventory of interfacing systems, a meeting was scheduled with appropriate staff within each user agency and an Interfacing Systems Template was completed for each system. Each Interfacing Systems Template documented the following information for each automated interface:
 - Target systems – the systems that are to be interfaced with the FMS;



- Interface description – brief description of what the interface will do;
- Direction of transmission – inbound to, or outbound from, the FMS;
- Data transmitted – high-level description of data that will be sent;
- Triggering event – the condition(s) that will cause the interface to be executed;
- Frequency of interface – how often the interface will be executed (e.g., on demand, weekly, etc.);
- Type of interface – batch, near-real-time, real-time; and
- Level of complexity to build – simple, average, or complex.

All completed Interfacing System Templates are included in *Appendix E: Interfacing Systems Documentation*.

Data Conversion Requirements

As the final component of the Requirements Validation process, we documented high-level data conversion requirements for the new FMS. These requirements will need to be refined for inclusion in a future RFP for FMS software and implementation services as the more data that is converted from the legacy systems, the greater the expense and risk to the project. The State will have to make decisions as to which data truly needs to be converted to the new FMS vs. being archived and retrieved through more cost-efficient means.

The following steps were taken to finalize the high-level Data Conversion Requirements:

- ◆ Two Focus Groups were established for data conversion purposes. The Purchasing Focus Group included nine (9) participants, while the Financial Management Focus Group consisted of twenty (20) participants. Both Focus Groups included SMEs from the Department of Administration and the user agencies.
- ◆ Focus Group work sessions were conducted to address the various data conversion efforts that will be required to support a successful “cut-over” to the FMS. Our analysis addressed the following for each type of data to be converted:
 - Type of data to be converted;
 - Source of data;
 - Targeted module(s) of FMS;
 - Timing of conversion;
 - Automated or manual; and
 - Level of complexity to convert (simple, average, or complex).
- ◆ The information documented as part of this analysis will also be included in the “Data Conversion” section of a future RFP to provide vendors with enough detail to properly address the State’s data conversion requirements.



- ◆ Finally, our consultants performed a qualitative review of the requirements to ensure the requirements are of the highest quality and are consistent across functional areas.

All completed data conversion documentation is included in *Appendix F*.

Detailed Requirements

The System Requirements Validation involves the development/updating of requirements for the four (4) major areas discussed in the Approach above. Due to the large size of the requirements, they have been included as appendices to the final report as follows:

Type of Requirement	Location
Functional Requirements (in matrix format)	Appendix C
Technical and General Requirements (in matrix format)	Appendix D
Interfacing Systems Requirements (in template format)	Appendix E
Data Conversion Requirements (in table format)	Appendix F



Section 5 Implementation Best Practices

Overview

Implementing any system across all agencies of state government is a complex and challenging undertaking. Our experience working with large public sector organizations, including the States of Arkansas, Kentucky, Minnesota, Nebraska, Nevada, Tennessee, and Texas, has shown us that various deployment strategies can be successful when implementing a new statewide Financial Management System (FMS). No single, "preferred" deployment approach exists; the unique requirements and decision drivers for each organization dictate which strategy or strategies are most suitable.

The purpose of this section of the report is to provide the State of Kansas (State) with an understanding of the available deployment strategies, including pros and cons of each strategy, major decision drivers associated with deploying a new FMS, and STA's recommended approach and timeline for deployment in the State.

The remainder of this section is organized as follows:

- ◆ Implementation Deployment Options;
- ◆ Driving Factors Impacting Deployment Strategy Selection;
- ◆ Other Special Considerations;
- ◆ Deployment Strategies of Other States;
- ◆ Recommended Deployment Strategy and Timeline; and
- ◆ Pre-Implementation Activities.

Implementation Deployment Options

There are numerous ways to deploy a FMS within a large and complex enterprise environment. The most commonly used deployment strategies are:

- ◆ Big Bang;
- ◆ Pilot Project – All Functionality (Prototype Model);
- ◆ Pilot All Functionality with Phased Deployment;
- ◆ Big Bang Deployment of Core Functionality at All Agencies / Phased Deployment of Future Functionality; and
- ◆ Function-By-Function Deployment.

Following is a brief description of each deployment strategy, together with the benefits and risks associated with each option.



Option #1: Big Bang

A Big Bang deployment strategy is one in which all state agencies within the project scope “go live” with all planned FMS functional modules simultaneously. Using this strategy for the State, all state agencies would implement general ledger, accounts payable, asset management, and procurement functionality at the same time. Additionally, this option would address budget development integration. This option involves no “phasing in” of software functionality or agencies.

Benefits

- ◆ Supports a “true” enterprise focus as all agencies “go live” on all FMS functionality simultaneously
- ◆ Provides for a reduced implementation timeframe when compared to other deployment strategies
- ◆ The State will begin realizing the benefits and efficiencies associated with the FMS business case earlier than with other options, and has the greatest potential to maximize realization of all benefits and efficiencies
- ◆ Potentially least costly strategy as all system components are implemented in shorter time period
- ◆ Efficient approach to data migration from legacy systems and ultimate elimination of legacy system usage
- ◆ Eliminates the need for temporary interfaces that are required when deployment “phasing” is utilized
- ◆ Less likely to have to implement a new software release before FMS has been deployed at all state agencies due to shorter time period for software implementation and deployment [new software releases are typically issued by the major FMS software vendors every three to five years]
- ◆ Most likely to keep agencies with compelling functional needs and/or pending software obsolescence from moving forward with new “shadow systems” independent of the FMS project due to simultaneous deployment at all state agencies; thus, each agency has all software deployed at the earliest possible time when compared with other deployment options
- ◆ Risk of project team member turnover is reduced substantially due to compressed deployment time period for all state agencies

Risks

- ◆ Greatest change management impact to organization as all functionality goes “live” simultaneously
- ◆ Major training impact as high volume of end users must be provided with “just in time” training within a narrow window of time
- ◆ No benefits and/or savings are realized until all functionality has been deployed



- ◆ May require largest project team size
- ◆ Considerable testing required at each test stage (e.g., unit, integration, acceptance) due to compressed timeline required to complete all system configuration, customization, data conversion, and other integration activities
- ◆ User participation is required for a limited but intense period of time
- ◆ Extensive data migration activities must be completed simultaneously
- ◆ Higher risk of problems due to compressed timeline and large functional scope with less margin to correct / mitigate problems that arise
- ◆ Inability to take advantage of lessons learned from previous phase(s) of deployment

Option #2: Pilot Project - All Functionality (Prototype Model)

The Pilot Project approach involves the development of a “prototype” for implementing all functionality at a single representative agency or group of agencies within the State. The Pilot Project is often used as a baseline for the remainder of the State. This approach can be used as a successful method when the State is having difficulties in obtaining funding for the entire project, or has an unproven or unsuccessful track record with similar enterprise projects. A successful Pilot Project that validates the State’s business case can be used in acquiring funding for the remainder of the projects.

This option differs from *Option #3: Pilot All Functionality with Phased Deployment* in that there is no commitment and/or deployment plan beyond the initial pilot agency(s), and system planning, design, and configuration would focus only on those agencies included in the Pilot Project.

Benefits

- ◆ Provides ability to validate the “proof of concept”
- ◆ Provides the ability to fund project over multiple budgetary periods
- ◆ Change management impact is dispersed across a longer period of time – can be focused on only those agencies that are part of Pilot Project
- ◆ Knowledge gained and lessons learned from Pilot Project can be used for remainder of implementation / deployment of system throughout state government if such initiative is undertaken

Risks

- ◆ Lack of inclusion of all agencies in pilot approach can lead to “fragmentation” and “silo” thinking with focus on agencies participating in Pilot Project only, which can ultimately lead to functional needs not being met and/or the need to reconfigure certain components of the system at a later date, with the associated potential for increased costs, rework, and complexity.



- ◆ Requires concurrent operation of legacy systems and new FMS for long period of time (possibly indefinitely)
- ◆ Requires greater timeline to complete entire deployment across state government
- ◆ Can be very costly to the State due to increased timeline required to complete deployment to all state agencies
- ◆ May lead to difficulties in completing deployments for agencies scheduled for deployment late in project due to possible loss of momentum, lack of funding, and other issues that may arise due to an expanded rollout schedule
- ◆ Complex data migration from legacy systems and ultimate elimination of legacy system usage due to deployment “phasing”
- ◆ Requires the use of temporary interfaces due to deployment “phasing”
- ◆ Will take a longer period of time to realize the benefits and efficiencies associated with the FMS business case
- ◆ There may be inconsistencies in enterprise data and reporting due to the continued use of the FMS for the agencies participating in the Pilot Project and continued use of legacy systems (e.g., STARS) by the remaining state agencies until all agencies have been deployed on the FMS
- ◆ Need may arise to implement a new software release before FMS has been deployed at all agencies due to unknown future deployment time period
- ◆ Some agencies may have compelling functional needs and/or pending software obsolescence that may cause them to move forward independent of the FMS project since there is no commitment to a future statewide deployment; such actions may erode executive support and will prevent some benefits and efficiencies associated with the FMS business case from ever being realized
- ◆ Major risk of project team member turnover due to “unknowns” and “uncertainties” associated with future deployment to the remainder of state government

Option #3: Pilot All Functionality with Phased Deployment

This approach involves the development of a “prototype” for implementing all functionality at a single representative agency or group of agencies within the State, to be followed by a planned deployment of the FMS to all remaining state agencies in phases upon successful deployment at the pilot agency(s).

Benefits

- ◆ Provides ability to validate the “proof of concept”
- ◆ Provides the ability to fund project over multiple budgetary periods
- ◆ Change management impact is dispersed across longer period of time – can be focused on only those agencies that are part of Pilot Project and then on specific



deployment phases

- ◆ Knowledge gained and lessons learned from Pilot Project and deployment phases can be used for remaining deployments of the FMS throughout state government
- ◆ Supports statewide enterprise focus
- ◆ Project team focus is on Pilot Project and then on a single phased deployment at a time

Risks

- ◆ Requires concurrent operation of legacy systems and new FMS until all agencies have been successfully deployed on the FMS
- ◆ Requires greater timeline to complete entire deployment across state government
- ◆ Can be very costly to the State due to increased timeline required to complete deployment to all state agencies
- ◆ May lead to difficulties in completing deployments for agencies scheduled for deployment late in project due to possible loss of momentum, lack of funding, and other issues that may arise due to an expanded rollout schedule
- ◆ Complex data migration from legacy systems and ultimate elimination of legacy system usage due to deployment “phasing”
- ◆ Requires the use of temporary interfaces due to deployment “phasing”
- ◆ Will take a longer period of time to realize the benefits and efficiencies associated with the FMS business case
- ◆ There may be some inconsistencies in enterprise data and reporting due to the continued use of the FMS for the agencies participating in the Pilot Project and continued use of legacy systems by the remaining state agencies until all agencies have been deployed on the FMS
- ◆ All state agencies may be involved in the initial system design and configuration, but may have to wait a considerable period of time before they can actually access to the FMS. In addition, accommodating business process changes that have occurred in the interim due to changes in legislation or business environment could cause rework and additional cost.
- ◆ Need may arise to implement a new software release before FMS has been deployed at all agencies due to extended deployment time period
- ◆ Numerous iterations of training must be provided concurrently with deployment phasing, and may require updating due to system enhancements/changes associated with new software releases and “fixes” that are applied during the extended deployment time period
- ◆ Some agencies may have compelling functional needs and/or pending software



obsolescence that may cause them to move forward independent of the FMS project; such actions may erode executive support and will ensure that some benefits and efficiencies associated with the FMS business case will never be realized

- ◆ Major risk of project team member turnover due to lengthy deployment time period could cause problems for state agencies scheduled for the late phases of deployment

Option #4: Big Bang Deployment of Core Functionality at All Agencies / Phased Deployment of Future Functionality

Using this deployment strategy, all state agencies within the project scope “go live” with all **core** FMS functional modules simultaneously. **Non-core** functionality would then be prototyped and deployed in a future phase(s) to those agencies having a functional need for said functionality.

For purposes of this report, “core” and “non-core” functionality are defined as follows:

Core Functions

- General Ledger (including Budgetary Control, Grant/Project Accounting, Cash Management, and Cost Allocation)
- Accounts Payable
- Procurement
- Asset Management
- Budget Development (may be deployment of FMS Budget Development module or integration of existing Budget Management System with FMS General Ledger module)
- Data Warehousing

Non-Core Functions

- Fleet Management
- Inventory Management
- Accounts Receivable/Billing

Benefits

- ◆ Supports a “true” statewide enterprise focus as all agencies “go live” on core FMS functionality simultaneously
- ◆ Provides for an accelerated implementation and deployment to all state agencies due to limited functional scope
- ◆ The State will begin realizing the benefits and efficiencies associated with the FMS business case earlier due to the focused implementation of core functionality only



- ◆ Efficient approach to data migration from legacy systems and ultimate elimination of legacy system usage
- ◆ Reduces the need for temporary interfaces that are required when deployment “phasing” is utilized
- ◆ Likely to keep agencies with compelling functional needs and/or pending software obsolescence from moving forward with new “shadow systems” independent of the FMS project due to simultaneous deployment of core functionality at all state agencies, though some stakeholder agencies have business needs that require the deployment of non-core functionality
- ◆ Risk of project team member turnover is reduced substantially due to compressed deployment time period for deployment of core functionality at all state agencies
- ◆ Provides the ability to fund project over multiple budgetary periods

Risks

- ◆ Requires greater timeline to complete entire deployment of all (core and non-core) functionality across state government
- ◆ Considerable change management impact to organization as all core functionality brought up simultaneously for all state agencies
- ◆ Major training impact as high volume of end users must be provided with “just in time” training within a narrow window of time
- ◆ Will require project team to remain intact for longer period than with a “big bang” approach
- ◆ Considerable testing required at each test stage (e.g., unit, integration, acceptance) due to compressed timeline required to complete all system configuration, customization, data conversion, and other integration activities for all core functions
- ◆ User participation is required for a limited but intense period of time
- ◆ Extensive data migration activities must be completed simultaneously
- ◆ Higher risk of problems due to compressed timeline and large functional scope with less margin to correct / mitigate problems that arise
- ◆ Inability to take advantage of lessons learned from previous phase(s) of deployment (other than lessons learned from core functionality deployment that can be applied to non-core functionality deployment(s))
- ◆ Can be costly to the State due to increased timeline required to complete deployment of non-core functionality to specific state agencies
- ◆ Risk that non-core functionality will never be implemented due to funding limitations, change in strategic direction, or other reasons



- ◆ Will take a longer period of time to realize some benefits and efficiencies associated with the FMS business case (e.g., grant accounting, fleet management, inventory management “value pockets”); no benefits are realized until all core functionality has been deployed
- ◆ Some agencies may have compelling non-core functional needs and/or pending software obsolescence that may cause them to move forward independent of the FMS project to meet said needs; such actions may erode executive support and will ensure that some benefits and efficiencies associated with the FMS business case will never be realized
- ◆ Some stakeholder agencies have an immediate need for some “non-core” functionality (e.g., grant accounting, fleet management)

Option #5: Function-by-Function Deployment

This strategy is one in which major functional modules are deployed in a logical manner, usually one module after another. A single module is deployed across all state agencies before work is initiated on the next module. This approach is sometimes used for software custom-development projects. This strategy is also occasionally considered for the Human Resources / Payroll components of an Enterprise Resource Planning (ERP) system, but not for financial management and procurement modules such as those being implemented in a FMS project.

Benefits

- ◆ Supports small functional module deployments across state government, which theoretically could increase likelihood of success and reduce project risk
- ◆ Reduces overall impact on existing business operations due to limited functionality scope at any period of time
- ◆ Project team focus is on one functional implementation and deployment at a time
- ◆ Provides the ability to fund project over multiple budgetary periods
- ◆ Provides ability to validate the “proof of concept” (but on a module-by-module basis only)
- ◆ Change management activities can be focused on deployment of limited functionality only
- ◆ Knowledge gained and lessons learned from specific functional module deployments can be used for deployment of remaining functional modules across state government

Risks

- ◆ Due to the complexities and modular integration associated with FMS system designs, this solution is impractical as a set of core modules are typically required in order to properly configure and obtain value from use of the new FMS



- ◆ Requires greater timeline to complete entire deployment across state government
- ◆ High risk that the initial design and configuration of the targeted module may fail to take into account the requirements of other functional modules to be implemented at a later date, which can lead to “fragmentation” and “silo” thinking with focus on targeted functional modules only -- this can ultimately lead to functional needs not being met and/or the need to reconfigure certain components of the system at a later date
- ◆ May be the most costly option to implement due to the extensive time period required to implement all FMS functional modules
- ◆ Considerable change impact as state government business operations are in constant state of change
- ◆ Requires concurrent operation of legacy systems and new FMS modules for a long period of time
- ◆ May lead to difficulties in completing implementation of functional modules scheduled for deployment late in project due to possible loss of momentum, lack of funding, and other issues that may arise due to an expanded rollout schedule
- ◆ Most complex data migration from legacy systems and ultimate elimination of legacy system usage due to functional deployment “phasing”
- ◆ Requires the use of extensive temporary interfaces due to functional deployment “phasing”
- ◆ Will take a significantly longer period of time to realize the benefits and efficiencies associated with the FMS business case
- ◆ There may be considerable inconsistencies in enterprise data and reporting due to the use of specific deployed FMS functions and continued use of legacy systems until all functionality has been deployed in the FMS
- ◆ Need will most likely arise to implement a new software release before all planned FMS functionality has been deployed at all agencies
- ◆ Training may require updating due to system enhancements/ changes associated with new software releases and “fixes” that are applied during the extended deployment time period
- ◆ Some agencies may have compelling functional needs and/or pending software obsolescence that may cause them to move forward independent of the FMS project; such action may erode executive support and will ensure that some benefits and efficiencies associated with the FMS business case will never be realized



Driving Factors Impacting Deployment Strategy Selection

This section provides a discussion of the various factors that must be considered when determining the best FMS deployment strategy to be utilized by the State. Major drivers that need to be carefully considered in determining how to deploy the FMS across all state government include:

- ◆ **Value Proposition** – Do specific functional modules offer greater financial or service benefit than others?
- ◆ **Mandate** – Is there an executive, legislative or federal mandate that requires a portion of functionality to be in production use on a specified date?
- ◆ **Strategic Initiative** – Does the functionality support an on-going or new business program?
- ◆ **Organizational Readiness** – Are the State’s end users ready for the new FMS, and the change associated with an enterprise project of this nature? How much change can the organization handle simultaneously?
- ◆ **Risk Avoidance** – Is there risk associated with implementing or not implementing a portion of the functionality? Deferring the deployment of the FMS to specific agencies?
- ◆ **Organizational Scope** – What is the organizational scope of the FMS project? Are all state agencies expected to utilize the FMS, including the Department of Transportation, which typically has unique financial reporting and comprehensive project management needs? Is higher education in scope? Will agencies be allowed to maintain their existing systems and build interfaces to / from the FMS in lieu of using the FMS as the agency’s administrative system of record?
- ◆ **Organizational Size** – An organization’s size and geographical dispersion often determines the feasibility of a “big bang” implementation. Typically, the larger the organization and the more geographically dispersed the organization is, the less feasible a “big bang” deployment is as a viable option.
- ◆ **Functional Scope** – What functionality is to be included in the FMS functional scope? Are all agencies required to utilize all functionality, or are some functional modules considered to be optional for agency use?
- ◆ **Funding Availability** – The longer the period of time it takes to implement and deploy the FMS across state government, the greater the cost to implement. Deployment options that involve the phasing of functionality will cost considerably more because it will require the project team (State and consulting staff) to remain “staffed up” for a longer period of time, the use of temporary interfaces, and continued, concurrent operation of the State’s legacy administrative systems (e.g., STARS, Procurement Manager Plus, agency shadow systems) and the new FMS.



- ◆ **User Agency Needs** – Does the State’s user agencies have a history of developing / procuring their own “shadow systems” to meet their administrative business needs? Are any such projects underway and/or being planned for at this time?
- ◆ **Politics** – Does the possibility of a change in the State’s executive leadership exist? Will such change put the project at risk? If so, what is the timing associated with a potential leadership change?
- ◆ **Track Record with Similar Projects** – Has the State previously taken on projects with the magnitude and complexity of the FMS project? If so, were such projects successful from the viewpoint of the project team, State leadership, and the general public? Often previous projects similar to the FMS that were implemented by large public sector organizations incurred significant budgetary and time overages, and failed to deliver the functionality and other benefits as intended. If such conditions exist, organizations sometimes pursue the option of completing a successful Pilot Project to obtain the sponsorship and funding necessary to complete the statewide deployment of the system.
- ◆ **End User Training** – Regardless of the deployment method selected, “just-in-time” training is critical to project success. How many users can the State train utilizing a Big Bang or phased deployment strategy? Is it necessary to provide training in locations other than Topeka?
- ◆ **Availability of Best and Brightest Resources** – The ability to commit and retain the State’s best and brightest resources on a full-time basis is critical to project success. If this is not possible, it may be more appropriate to utilize a Pilot Project that is composed of a smaller number of the State’s subject matter experts, followed by a phased deployment effort.
- ◆ **Legacy Systems** -- The age, flexibility, stability, cost-effectiveness, and availability of the State’s existing administrative systems, and their ability to meet end user business needs may impact decisions regarding how to deploy the new FMS.

Special Considerations

This section of the report addresses two additional special considerations that must be considered when determining the best deployment strategy for the State’s FMS project as follows:

Small Agency Implementation Issues and Concerns

Care must be taken to consider the numerous small agencies, boards, and commissions that will be included in the organizational scope for the FMS project. Small agency issues and concerns include the following:

- ◆ Because the business officers in small agencies typically perform all administrative functions, they are typically impacted much more by the implementation of a FMS than their peers in larger agencies in which the



administrative duties and responsibilities are typically distributed across multiple functional experts. Of major impact is the time and effort required to attend all the training sessions required to learn and be able to utilize all of the FMS functionality required to meet their business needs, while completing all their normal work responsibilities. We recommend that the State develop specialized training for small agency business officers regardless of the deployment strategy selected.

- ◆ While this may be true in larger state agencies as well, in smaller agencies, it is not uncommon for employees with basic bookkeeping skills (but no formal GAAP accounting educational background) to be promoted into roles involving major financial management responsibilities over time. Due to the implementation of GASB 34 (which requires a thorough knowledge of accrual and modified accrual accounting) and the fact that most FMS solutions are no longer transaction code driven (in which a user could enter a code for a particular accounting event and the system would assign the proper debit and credit), some financial staff or managers may require additional training in basic governmental accounting principles as well as FMS application training.
- ◆ Though their functional needs within the FMS are typically less complex than the larger stakeholder agencies, a disproportionate share of post-implementation support must be dedicated to the small agencies due to their sheer volume and small staffing. Care must be taken to ensure the State can support these organizations appropriately regardless of deployment strategy selected.

FMS Operational Models

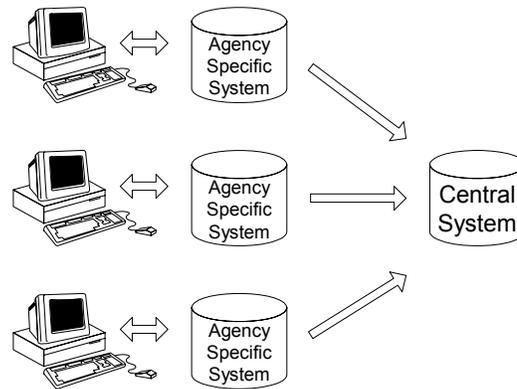
The previous Needs Assessment Study completed by Accenture in 2001 provided for three operational models for the FMS as follows:

Option 1 – Central System and Agency Specific Systems

Description: The STARS system is retained or a new financial system is implemented for central accounting only (Department of Administration - Accounts and Reports and Division of Purchases). Each agency continues to utilize their current accounting system. The agency software is either interfaced into the central system or the data is re-keyed into the central system. This is the current operational model at the State of Kansas.



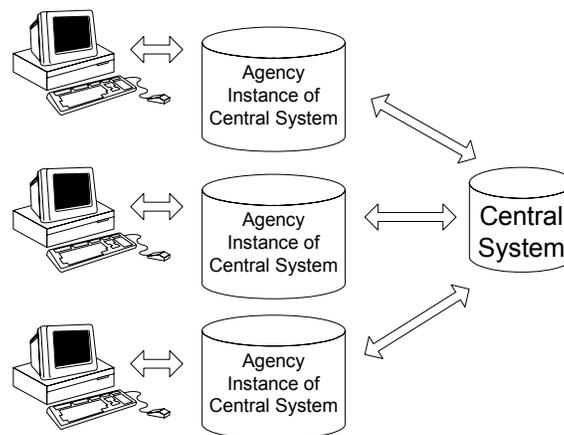
Operational Model Diagram



Option 2: Central System with Agency Specific Copies

Description: A financial system is implemented for central accounting (Department of Administration - Accounts and Reports and Division of Purchases). Copies of the software and database supporting “core” statewide requirements are made after implementation for the agencies. Each agency or group of agencies can modify the software to meet their specific requirements. The agency software will be interfaced to the central system. Each agency would use the basic chart of account structure and values. Agencies would have some flexibility to define detailed values for some of the chart of accounts to attempt to reduce/eliminate shadow systems.

Operational Model Diagram

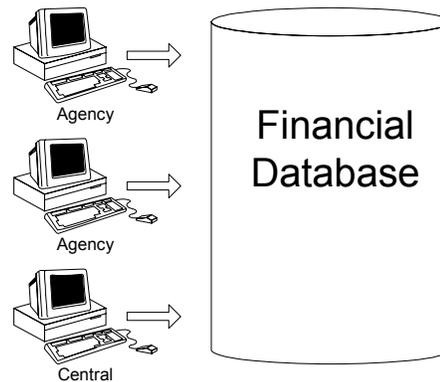


Option 3: Central System with Each Agency Using Central Database

Description: A financial system is implemented for central accounting (Department of Administration – Division of Accounts and Reports and Division of Purchases) and all agencies. One copy of software including both “core” requirements and “agency unique” requirements is used so any modification would affect all agencies.



Operational Model Diagram



Recommendation:

As part of the study, we have examined the recommendations of the 2001 Needs Assessment Study for the operational model to be used at the State of Kansas. This investigation included a discussion and evaluation of all three operational models as they relate to the current State of Kansas business environment and processes, and the risks and costs associated with each approach. While, as described above, there are several advantages and disadvantages of each model, we consider only *Option 3: Central System with Each Agency Using Central Database* to be a valid option for the State of Kansas at this time. The recommended deployment strategy provided later in this report assumes this operational model is used. In our prior experiences and those of other statewide systems, the exception to such model is typically made only for the state transportation departments when their needs cannot be met by the Central System. In such cases, the transportation departments have typically interfaced their existing systems with the new FMS in lieu of implementing their own copy of the FMS software. We would consider the feasibility of the Kansas Department of Transportation utilizing their own copy of the FMS software only if the agency's needs could not be met through use of the statewide FMS.

Mid-Year vs. Year-End FMS "Cut-over"

Based on our analysis of a number of variables, we have recommended that the State consider a twenty-one (21) month implementation period. This period of time is adequate for the State to properly configure and test the new FMS, and train end users. A critical decision that must be made as part of the pre-implementation effort is whether the FMS will go into production or "Go Live" at the fiscal year-end or at some point during the fiscal year. For purposes of this study, "Go Live" is considered to be the date in which the new FMS becomes the State's financial system of record, and is used to request goods, produce checks, and store financial balances.



Fiscal Year-End Conversion

A Fiscal Year-end “go live” date is used if the State intends to utilize the legacy system (STARS) for processing all business through the end of the current fiscal year, and “cut-over” to the new FMS on the first date of the new fiscal year processing all business for the new fiscal year. The State’s financial balances are recorded in the new FMS as of the first date of the fiscal year. In a typical year-end conversion, the nominal financial activity (e.g., expenses) and real account balances (e.g., cash) are converted from the legacy system to the new FMS as of the last date of the prior fiscal year. Specific year-end programs are then run in the new FMS to close the prior year nominal activity to the prior year real accounts, and roll the resulting real account balances to the first date of the new fiscal year. If budgetary control has been established in the new FMS, budgetary balances will be loaded in the new FMS at this time. The procurement cut-over process is usually addressed by halting procurement operations in the legacy procurement system a few weeks prior to “go live” and performing a manual or automated conversion of open purchase orders.

An issue that is often encountered during a cut-over process is the timing associated with interim closing balances vs. final closing balances in the legacy financial system. Typically, there can be a 30 - 90 day gap between the date the new FMS goes into production and the date by which all closing entries and adjustments have been made in the legacy financial system to arrive at final account balances. Clients have addressed this timing issue with two similar strategies:

- (1) Convert balances as of the cut-over date, place the new FMS into production, continue close-out activities for the legacy financial system, and convert the net difference (i.e., make a net adjustment to the new FMS) between the previously converted balances and the final closed balances; or
- (2) Load only the accounts absolutely necessary for operations in the new FMS (usually cash and its balancing equity amount), and then convert all remaining balances, and adjust any already converted accounts, when the legacy financial system has been closed.

Mid-Year Conversion

A Mid-Year “go live” date is used when the system is brought into production at any time other than the fiscal year-end. A Mid-Year conversion usually occurs at the end of a fiscal month so the nominal financial activity (e.g., expenses) and real account balances (e.g., cash) can be transferred to the new FMS. In addition to converting nominal activity and real account balances, a Mid-Year conversion must also address available budget (original budget plus/minus adjustment transactions) and open purchase orders.

As depicted in the table that follows, each conversion approach has its pros and cons:



FISCAL YEAR-END CONVERSION	
Pros	Cons
<ul style="list-style-type: none"> ◆ Fiscal year activity is located in one system – annual reports and other financial reporting can be produced using data from a single system ◆ Maximum amount of time to adjust to new FMS prior to first year-end close ◆ Easier reconciliation as prior year budgetary balances are not included in the conversion reconciliation efforts 	<ul style="list-style-type: none"> ◆ Requires a firm commitment and potentially increased level of effort to make the target “go live” date ◆ Intense work effort required for short period of time as State personnel close the year in the legacy financial system and begin utilizing the business processes in the new FMS

MID-YEAR CONVERSION	
Pros	Cons
<ul style="list-style-type: none"> ◆ Provides schedule flexibility as the “go live” date can be moved without requiring development of new data conversion programs ◆ Spreads work effort as State staff can focus their efforts on year-end closing activities in the legacy system and new business processes in the new FMS during different time periods 	<ul style="list-style-type: none"> ◆ State must combine and reconcile data from two systems in order to produce the Comprehensive Annual Financial Report, and to research any accounting items/events for that fiscal year ◆ Must convert additional data from the legacy system chart of accounts to the new FMS chart of accounts, including: <ul style="list-style-type: none"> • Budget balance (original plus/ minus adjustments) • Available budget (budget balance less expenditures/encumbrances /pre-encumbrances) ◆ Decreased amount of time to prepare for year-end close /reporting in the new FMS ◆ Conversion program must be reconciled more quickly to ensure that the available budget in the legacy system and new system are in balance.



As a part of this study, we surveyed the following states regarding the “cut-over” strategy used for their respective ERP/FMS implementation projects. The results of the survey follow:

STATE	FISCAL YEAR END	MID-YEAR
Arkansas	✓	
Connecticut	✓ (GL, AP, AR, Purchasing)	✓ (Grant, Project, Asset Mgmt.)
Georgia	✓	
Indiana	✓ (Central Agency)	✓ (User Agencies)
Missouri	✓	
Montana	✓ (Financials, Procurement)	✓ (Asset Mgmt., Budget Dev.)
Nebraska		✓
New Mexico	✓	
North Dakota		✓ (Federal Fiscal Year)
Oklahoma		✓ (Federal Fiscal Year)
Pennsylvania	✓ (Central Agencies)	✓ (User Agencies)
Tennessee	✓ (Central Agencies)	✓ (User Agencies)

Recommendation:

We recommend that the State pursue a fiscal year-end conversion if the actual project timeline supports such cut-over without leaving significant “downtime” between the completion of Pre-Implementation Activities (see *Pre-Implementation Activities: The Need for Project Readiness* section later in this report) and the initiation of the FMS implementation project. The actual project timeline can best be determined after funding has been obtained for completion of the pre-implementation activities and the FMS project has been formally recognized for proceeding.

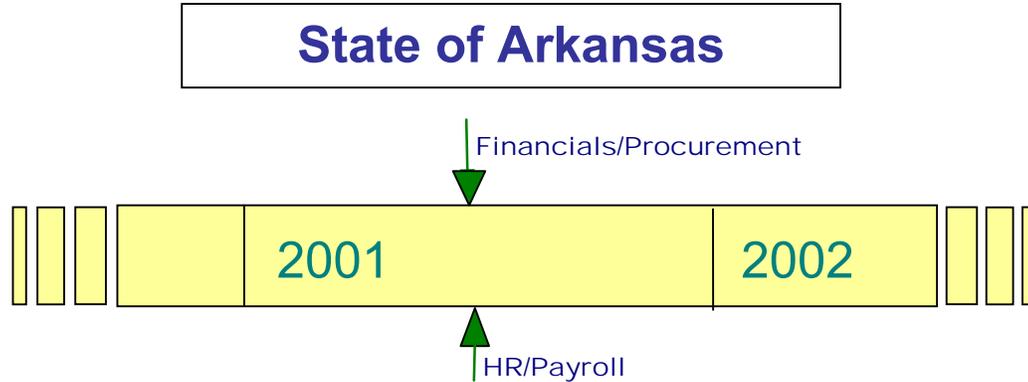


Deployment Strategies of Other States

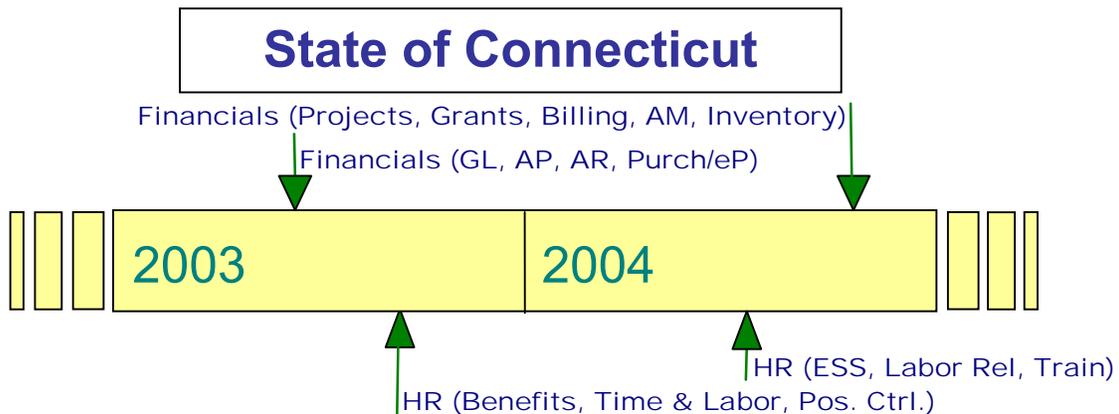
As a part of this report, we surveyed the following states regarding the deployment strategy used in their ERP/FMS implementation projects:

- ◆ Arkansas
- ◆ Connecticut
- ◆ Georgia
- ◆ Indiana
- ◆ Louisiana
- ◆ Missouri
- ◆ Montana
- ◆ Nebraska
- ◆ Nevada
- ◆ New Mexico
- ◆ North Dakota
- ◆ Oklahoma
- ◆ Pennsylvania
- ◆ Tennessee
- ◆ Utah

Summaries of each statewide FMS/ERP implementation follow.

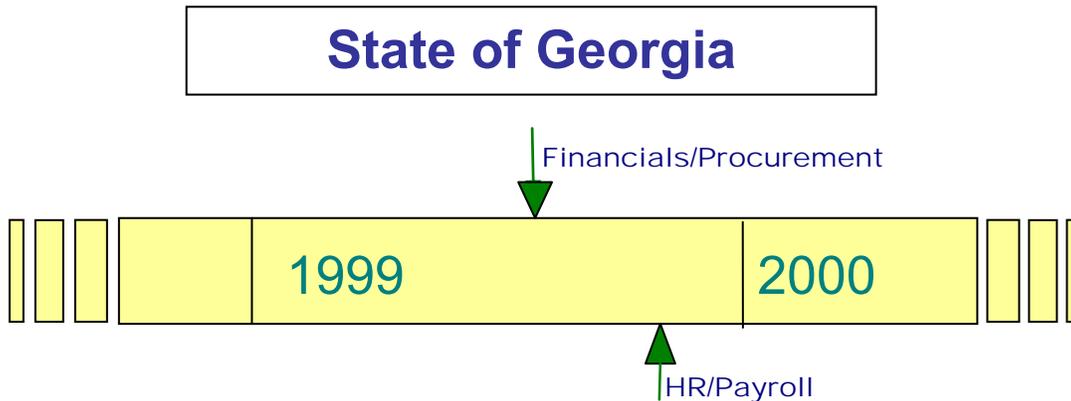


The State of Arkansas utilized a “big bang” approach to implement all HR/Payroll, Financial, and Procurement functionality simultaneously across all state agencies in July 2001.

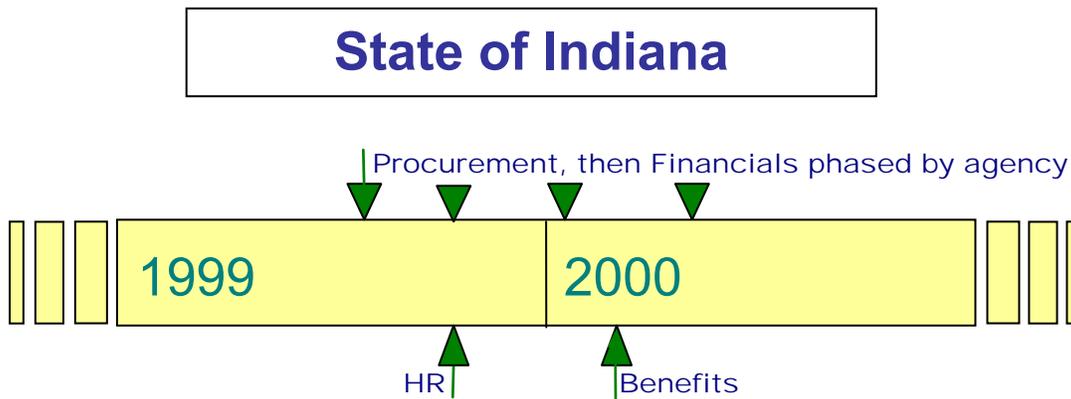


The State of Connecticut utilized a phased deployment approach based on functionality phases. Utilizing this approach, the software was grouped into four functional components as follows:

- ◆ Core Financials and Procurement were implemented across all agencies in June 2003.
- ◆ These components were followed by Payroll and most Human Resource functions in September 2003.
- ◆ The Extended Human Resource functions were deployed in June of 2004.
- ◆ Lastly, Extended Financials (projects, grants, billing, asset management, and inventory) were deployed in September 2004.



The State of Georgia utilized a phased deployment approach. Financials and Procurement were deployed in July 1999. HR/Payroll was deployed in October 1999.

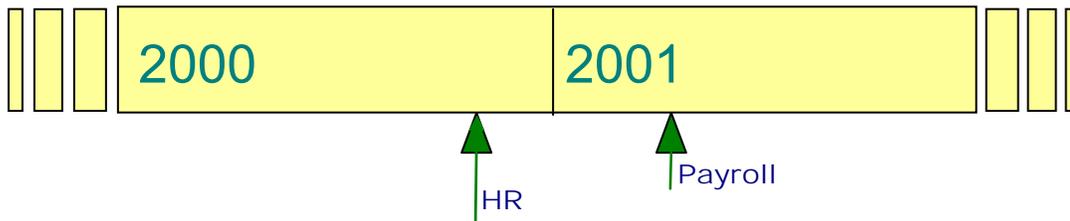


The State of Indiana implemented HR functions in the State Personnel Department in October 1999. The Benefits Administration module was then rolled out in February 2000. In July 1999, the Department of Administration implemented Procurement, followed by Financials within the agency only. The Financial modules were then phased out to the other state agencies. The DOT was not part of the project scope as they maintain their own financial and procurement systems.



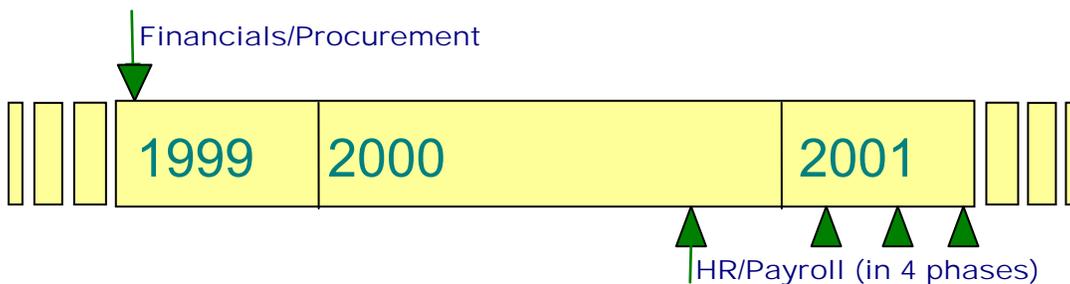
State of Louisiana

(Financials/Procurement not in scope)

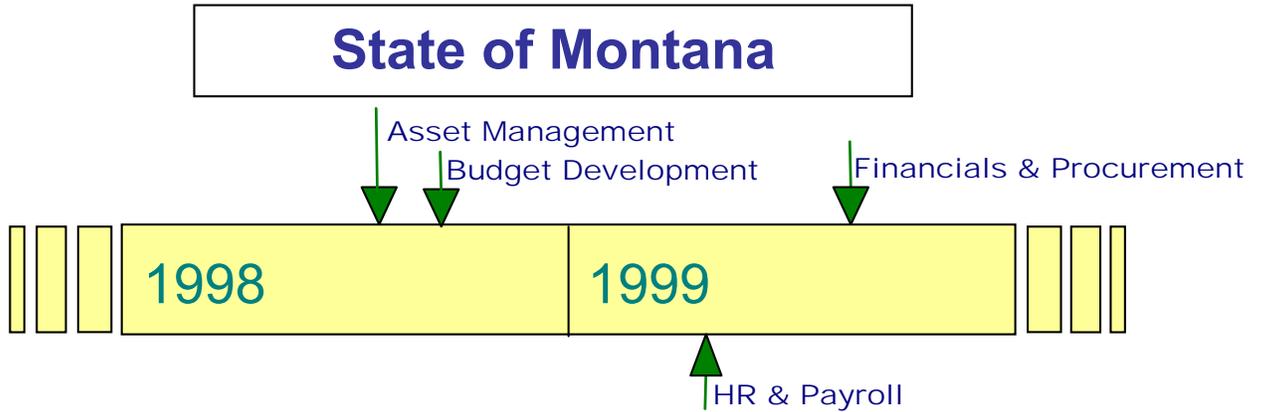


All HR functionality was deployed by the State of Louisiana to all state agencies in October 2000. Payroll functionality was deployed at all state agencies in March 2001. Financials and Procurement were not in the scope of the initial project; however, the State is currently in the process of acquiring the implementation services required to implement the Financials and Procurement modules.

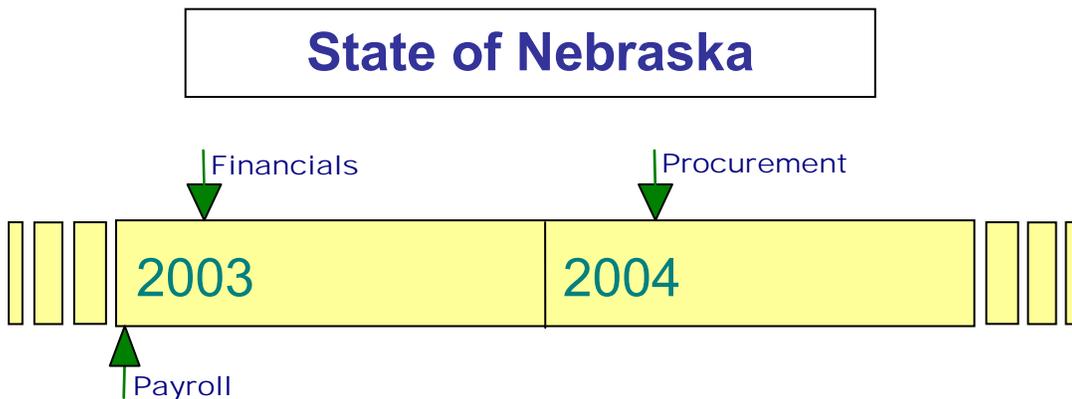
State of Missouri



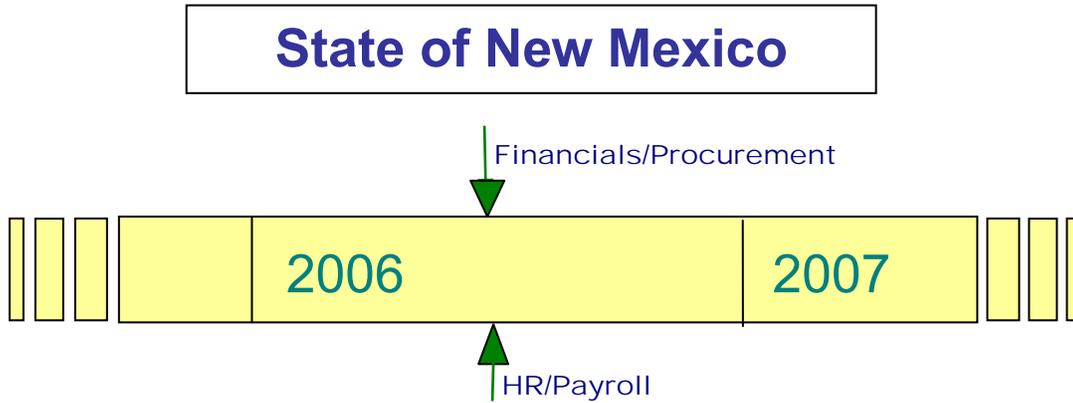
The State of Missouri deployed all functionality for Financials and Procurement at all state agencies in July 1999. HR and Payroll were deployed to state agencies in four phases of agency groupings in October 2000, February 2001, April 2001, and June 2001.



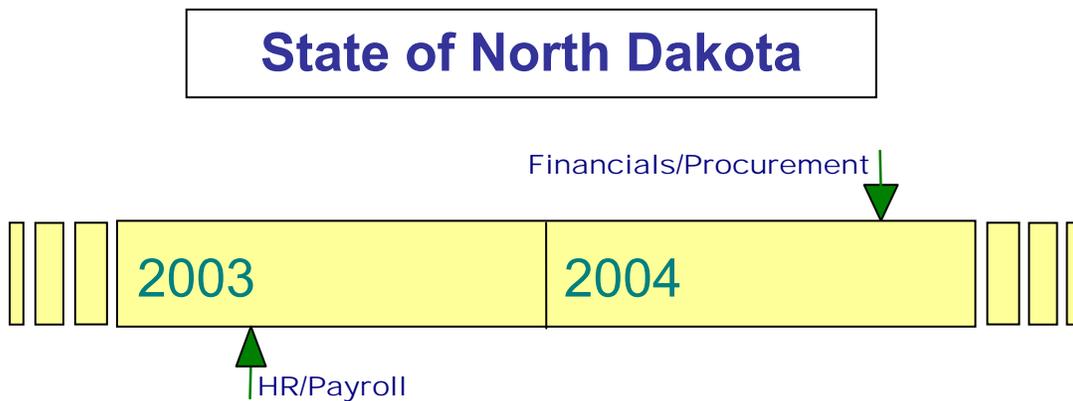
The State of Montana deployed Budget Development at all agencies in August 1998. Asset Management was rolled out to all agencies in September 1998, while HR and Payroll were implemented at all state agencies in April 1999. The remaining Financial and Procurement modules were deployed at all state agencies in July 1999.



The State of Nebraska implemented Payroll in January 2003, followed by Financials in March 2003, and Procurement in March 2004. All modules were implemented across state government on a statewide basis through the use of a “big bang” approach. The DOT was included in the project.



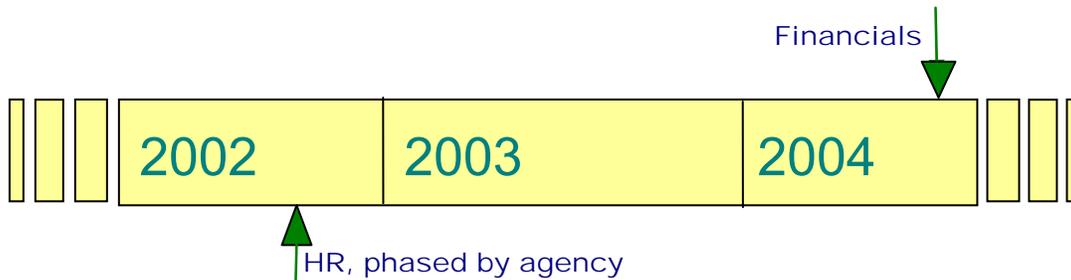
The State of New Mexico implemented all state agencies, including DOT, and all functionality, including Financials, Procurement, HR and Payroll, on a statewide basis through the use of a “big bang” approach in July 2006.



The State of North Dakota deployed the HR/Payroll modules first on a statewide basis in April 2003 through the use of a “big bang” approach. In October 2004, the Financials and Procurement modules were implemented for all agencies, including DOT, through the use of a “big bang” approach.

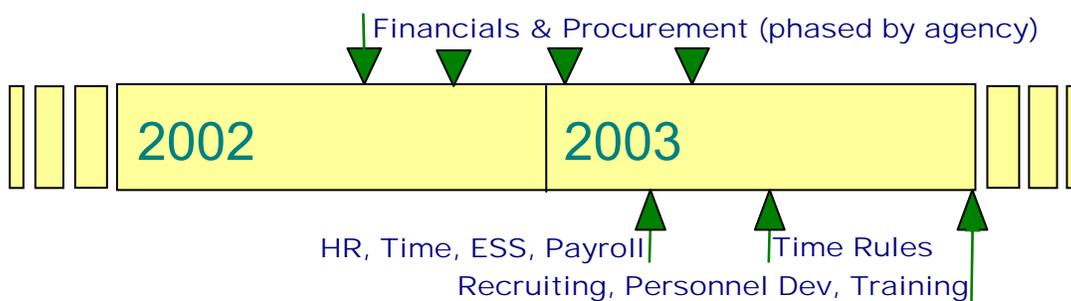


State of Oklahoma



The State of Oklahoma began a phased roll-out by agency of HR functionality in August 2002. As of Fall 2006, the roll-out was still in progress, and DOT was not planning to adopt the new system. Financials were implemented in September 2004 for all agencies through the use of a “big bang” approach, but the implementation did not include Procurement functionality.

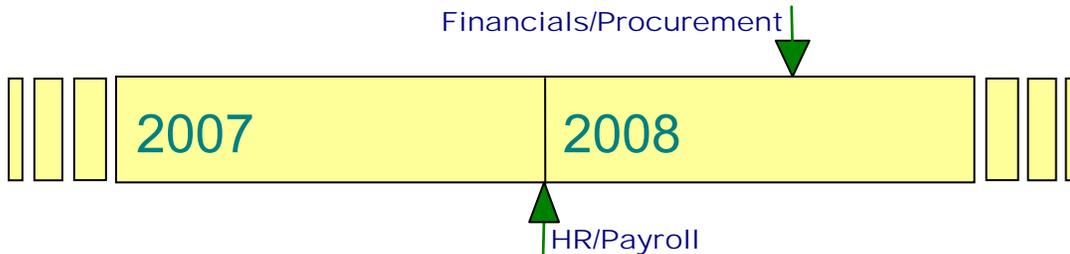
State of Pennsylvania



The State of Pennsylvania deployed Financials and Procurement in agency groupings in July 2002, October 2002, January 2003, and April 2003. All Payroll functionality plus HR, Time, and Employee Self-Service were deployed in March 2003. Automated time rules followed in June 2003 and lastly Recruitment, Personnel Development, and Training were implemented in December 2003.



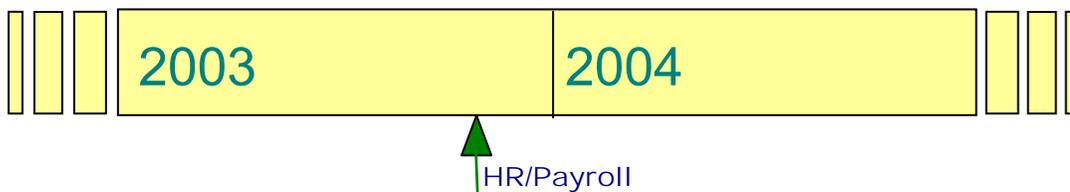
State of Tennessee



The State of Tennessee's implementation is in progress as of the Fall 2006. HR/Payroll functionality will be deployed on a statewide basis through the use of a "big bang" approach in December 2007. The Financials/Procurement modules will be implemented on a statewide basis, starting in July 2008. The Financials/Procurement modules will be phased-in by agency groupings. The DOT is participating in the implementation of all functional modules.

State of Utah

(Financials/Procurement not in scope)



The State of Utah deployed HR and Payroll functionality at all state agencies in September 2003. Financials and Procurement were not in the scope of their project. They upgraded their existing Financials software in July 2006.



Recommended Deployment Option and Timeline

Implementing a FMS across all agencies in the State of Kansas will be a challenge regardless of the deployment option selected. As evidenced by our survey of other state's deployment strategies, the FMS can be implemented using each of several deployment options if proper funding, staffing, time, and executive support are provided.

Recommended Deployment Strategy

Based on information we have collected and evaluated as part of this study, we believe that the *Option #1: Big Bang* approach is the most appropriate for the State's FMS project. This recommendation is based on the following "driving factors" as discussed previously in this report:

Value Proposition

- ◆ This option allows the State to implement the functional modules (general ledger, accounts payable, asset management, procurement, and budget development integration) that provide the greatest benefit to the State at the lowest possible cost and with considerably less risk than other deployment options. Similar statewide FMS projects that have provided for extensive deployment phasing have incurred costs well above \$100 million; we believe that by limiting functionality to the core modules discussed above, we are eliminating the need for a complex and time-intensive phased deployment.
- ◆ The State will begin to realize the benefits and efficiencies associated with the FMS business case earlier than with "phased" deployment options, and has the greatest potential to maximize realization of all benefits and efficiencies due to "true" integration across all agencies.
- ◆ This option provides for the following technology benefits and savings:
 - Elimination of concurrent operation of legacy administrative systems (e.g., STARS) sooner than other options
 - Most efficient approach to data migration
 - Elimination of the need for temporary interfaces that are required when deployment "phasing" is utilized

Mandate

- ◆ There are no executive, legislative or federal mandates that would impact a decision regarding the best deployment option for the State to use.

Strategic Initiative

- ◆ To the best of our knowledge, there are no strategic initiatives that would impact a decision regarding the best deployment option for the State to use.



Organizational Readiness

- ◆ The “big bang” approach will include considerable change management impact to the State as a whole as all functionality goes “live” simultaneously. However, limiting the implementation to the core functional modules of general ledger, accounts payable, asset management, procurement, and budget development integration should make the change impact manageable.

Risk Avoidance

- ◆ This option eliminates/reduces numerous risk exposures, including (but not limited to):
 - Problems associated with an extended deployment period (e.g., difficulties in completing deployments for agencies scheduled for deployments late in project due to possible loss of momentum, lack of funding, and other issues that may arise due to an expanded rollout schedule).
 - The need for temporary interfaces that are required when deployment “phasing” is utilized.
 - Less likely to have to implement a new software release before FMS has been deployed at all state agencies due to shorter time period for software implementation and deployment [new software releases are typically issued by the major FMS software vendors every three to five years].
 - Most likely to keep agencies with compelling functional needs and/or pending software obsolescence from moving forward with new “shadow systems” independent of the FMS project due to simultaneous deployment at all state agencies.
 - No need for concurrent operation of STARS and other legacy systems and the new FMS for a long period of time.
 - Complex data migration from legacy systems and ultimate elimination of legacy system usage due to deployment “phasing”.
 - No data inconsistencies in enterprise data and reporting as with deployment “phasing”, in which case some state agencies would be using the new FMS while the remaining agencies that have not been deployed on the FMS would continue to use their legacy systems (e.g., STARS) by the remaining state agencies until deployed on the FMS.

Organizational Scope

- ◆ The FMS will be utilized by all state agencies, including the Department of Transportation. Exception may be made for the state agencies under the operation of elected officials.
- ◆ Regents Institutions will maintain their stand-alone administrative systems, and interface to a future statewide FMS to make use of the features of the state General Ledger and Accounts Payable functions. However, they will be strongly



encouraged to participate in the Procurement and strategic sourcing functionality of the system. This will allow the State as a whole to further leverage the combined spend as a means of obtaining better pricing from the vendor community.

Organizational Size

- ◆ The size and geographical dispersion of the State of Kansas is considered acceptable to support a “big bang” implementation.

Functional Scope

- ◆ We recommend that the State limit the implementation to the core functional modules of general ledger, accounts payable, asset management, procurement, and budget development integration. This functional scope will provide the greatest benefit to the State and address many of the problems and inefficiencies identified as part of the study.
- ◆ It is expected that all user agencies will implement and utilize each of the core modules with the possible of exception of asset management. Some agencies with very large and complex mission-critical asset management systems (e.g., KDOT) may continue to maintain their existing asset management systems and interface these systems to the FMS Asset Management module for statewide financial reporting purposes.
- ◆ SOKI3+ and the Set-Off System will not be part of the original implementation and deployment effort. These systems will be interfaced to the FMS initially, and will be considered for replacement by FMS functionality during a second phase of the project if it is determined to be feasible to do so.

Funding Availability

- ◆ The longer the period of time it takes to implement and deploy the FMS across state government, the greater the cost to implement. The “big bang” approach provides for a reduced implementation timeframe when compared to other deployment strategies, and is considered the least costly strategy as all system components are implemented in a shorter time period, the need for temporary interfaces is eliminated, and the need for continued, concurrent operation of the State’s legacy administrative systems (e.g., STARS, Procurement Manager Plus, agency shadow systems) and the new FMS is eliminated.

User Agency Needs

- ◆ This option provides a viable and timely solution to agencies with compelling functional needs and/or pending software obsolescence that will otherwise move forward with new “shadow systems” independent of the FMS project if other deployment phasing options are used. Results of our study indicate that at least four (4) stakeholder agencies may pursue administrative system replacement projects in the next few years if implementation of a statewide FMS solution is not pursued.



- ◆ This option provides for the integration of major functional processes that are currently fragmented across state government, including accounts payable, procurement, and asset management business processes.

Politics

- ◆ When FMS projects are deployed in phases over an extended period of time, the possibility of a change in the State's executive leadership exists. Such changes can place the project at risk. Such risks are minimized with a "big bang" approach due to the compressed deployment timeframe.

Track Record with Similar Projects

- ◆ The State's prior history of implementing similar projects has no impact on our recommended decision regarding the best deployment option for the State to use. However, it is notable that the State of Kansas has not implemented a statewide financial management system in over 15 years. The state is well-advised to review the Lessons Learned associated with the initial implementation of STARS, and previous SHARP implementations as part of preparation and risk mitigation efforts for this project.

End User Training

- ◆ The "big bang" approach provides for a major training impact as a high volume of end users must be provided with "just in time" training within a narrow window of time. Though we recognize this as a project risk, limiting the functional scope to the core modules referenced above should make the training effort manageable. Similar training has been satisfactorily provided to the end user community for numerous other statewide and large local government FMS projects.

Availability of Best and Brightest Resources

- ◆ The risk of project team member turnover is reduced substantially due to compressed deployment time period for all state agencies.
- ◆ This approach may require largest project team size; however, the team member commitment will be for a shorter period of time.

Legacy Systems

- ◆ The technology of the State's administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, and as a result:
 - It is often difficult to modify the systems as the changes require "hard-coding" (i.e., changes must be made to the actual computer code instead of simply changing data table entries to make the changes as is the case in more modern systems);
 - The State is exposed to significant risk (e.g., some technologies are becoming obsolete and will eventually become difficult to replace, and it will become increasingly difficult to find technical staff to maintain these systems); and



- The staff with skills required to maintain these systems are rapidly approaching, or have reached, retirement age.

Recommended Deployment Timeline

The recommended timeline for implementing and deploying the FMS at all state agencies is depicted in the graphic that follows:

PRELIMINARY FMS TIMELINE

Fiscal Year	2007			2008				2009				2010				2011																				
Calendar Year	2007				2008				2009				2010				2011																			
Task	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Pre-implementation Activities (18 mo)																																				
RFP Development and Award (12 mo)																																				
Implementation (21 mo)																																				
FMS Rollout (July 2010)																																				

A project to perform pre-implementation activities should commence as soon as possible after the conclusion of this study. The principal tasks that should be included in this phase are documented in the next section, "Pre-Implementation Phase Activities." The Pre-Implementation phase should be completed over a period not to exceed 18 months.

We further assumed that an award for FMS software and implementation services will be made by no later than September 2008 (the State may choose to conduct separate procurements for the software and implementation services).

Finally, we assume that the FMS Implementation Project will commence in approximately October 2008 and will be completed over a 21 month period of time. The FMS software would then be deployed to all agencies using the "Big Bang" approach in July 2010.

Supporting Assumptions

The recommended deployment strategy is based on the following assumptions:

- ◆ All State agencies are included in the organizational scope except for the Regents Institutions who will continue to interface to a new system.
- ◆ A single software solution will be maintained to meet both statewide and user agency business needs in accordance with Operational Model Option #3 from the previous Needs Assessment Study completed in 2001.
- ◆ It is the State's desire to maximize the realization of benefits and system savings associated with the implementation of a new FMS.
- ◆ We are not aware of any executive, legislative or federal mandate that will require a portion of functionality be delivered on a specified date.



- ◆ The functional scope is assumed to be all functionality as documented in the Functional System Requirements Matrices as part of this study.
- ◆ We assume that a minimum of four (4) stakeholder agencies are considering the replacement of their existing financial management systems.

Pre-Implementation Activities: The Need for Project Readiness

There are a number of reasons why statewide Financial Management System (FMS) projects may fail. Some common reasons include:

- ◆ Lack of effective project governance infrastructure;
- ◆ Perceived or real lack of executive support for the project;
- ◆ Failure to define and maintain tight project scope;
- ◆ Software fails to meet the end user's business needs;
- ◆ Underestimated level of change management required; and
- ◆ Failure to obtain adequate funding for the project.

As you can see, the seeds of failure are often sown long before the actual implementation project begins. A poor understanding of the project objectives, an ineffective sponsorship or governance structure, a lack of preparation and readiness on the part of the organization or project team, a failure to recognize and remediate risks, or a failure to address known issues in advance of implementation can all spell trouble for a FMS implementation.

Though the implementation date of a new FMS may be a few years away, there are a series of critical pre-implementation tasks essential for project success that have been identified and must be completed prior to the software implementation project. The pre-implementation tasks and activities can be divided into two large groupings: (1) FMS Software and Services Acquisition Activities and (2) Project Readiness Activities.

The FMS Software and Services Acquisition activities include:

- ◆ Developing the procurement strategy for the FMS project, including the scope of software and services that the State intends to purchase, the process that the State will use for the procurement, and the evaluation process and criteria to be used in selecting the FMS software and associated implementation services for award;
- ◆ Developing the RFP(s) for FMS software and associated implementation services;
- ◆ Validating the requirements for inclusion in the RFP;
- ◆ Creating the demonstration evaluation scripts that will be followed by vendor finalists during their software demonstrations; and,
- ◆ Executing the proposal evaluation process and contract negotiations with vendor finalists.



As depicted in the table that follows, the duration for completing all acquisition-related activities is estimated to be approximately one year:

Duration	Activity
3 months	State develops procurement strategy, and associated process and procurement instrument (RFP).
2 months	Vendors draft and submit response to RFP.
2 months	State reviews and evaluates all proposals received in response to RFP.
1 month	Vendor finalists conduct software demonstrations.
1.5 months	State drafts Request for Best and Final Offers (BAFO) and receives BAFO responses from vendor finalists.
1.5 months	State and vendor finalist(s) negotiates contract.
1 month	Project Ramp-Up

During this year in which acquisition-related activities are being completed, there will be “slack time” when the Project Team members will be able to engage in other Project Readiness activities that will help the State to prepare for the implementation project. For example, while the vendors are preparing their responses to the RFP for software and implementation services, the State Project Team can gather existing financial accounting and procurement reports or perform initial change readiness assessments of the end user community.

The Project Readiness Activities include:

- ◆ Formalize pre-implementation governance structure and project organization/staffing;
- ◆ Review and evaluate existing account coding structure;
- ◆ Research feasibility and business case for implementing SHARP Time and Labor module;
- ◆ Consolidation of Purchasing and STARS vendor files;
- ◆ Identify funding for FMS software and associated implementation services;
- ◆ Initial organizational change management activities;
- ◆ Development of existing legacy system reports inventory; and
- ◆ Organizational change readiness assessment.



The remainder of this section of the report provides a summary of the Pre-Implementation Activities to be performed. For each activity, the following information is provided:

- ◆ Description of activity;
- ◆ Activity owner;
- ◆ Estimated State level of effort required, including team members, steering committee members, and meeting time for agency personnel;
- ◆ Estimated consultant level of effort required; and
- ◆ Dependencies with other activities.

1. Formalize pre-implementation governance structure and project organization/staffing

The Governance Structure as outlined in *Section 6: Organizational Best Practices* should be implemented as soon as possible after the completion of the current FMS Needs Assessment Update project. This activity should also include the formalization and creation of an organizational structure comprised of co-located agency staff and consultants with a management structure that has the necessary decision-making authority to successfully carry out the project objectives;

In addition to establishing the structure, the State will begin recruitment of the State's best and brightest resources to the FMS Project Team, develop comprehensive project hiring, compensation, and backfilling strategies and associated processes, and begin searching for project office space and equipment. The consultant will assist the State by building and managing the project plan, developing documentation to facilitate/support decision-making, providing support to the State's recruiting process, and providing subject matter expertise in support of the project team compensation and backfilling strategies.

Activity Owner: State

Estimated State Level of Effort: 168 hours

Estimated Consultant Level of Effort: 168 hours

Dependencies: None. This should be the first step taken to initiate the Pre-Implementation phase of the project.

2. Review and evaluate existing account coding structure, document and obtain approval for recommended coding changes, and perform other related coding block "clean-up" activities as necessary.

The State should review the entire financial chart of accounts structure with the goal of preparing for conversion and improving the classification of data. Performing the



analysis prior to project initiation allows for thoughtful analysis without “slowing down” the implementation or using more implementation consultant time than necessary. The consultant will provide an overview of key decisions that must be made, and facilitate the approach to be used to successfully evaluate (and modify as necessary) the account coding structure.

Activity Owner: State

Estimated State Level of Effort: 252 hours

Estimated Consultant Level of Effort: 84 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

3. Research feasibility and business case for implementing SHARP Time and Labor module to alleviate agency time and effort reporting required for grant and cost allocation/accounting purposes

By analyzing the State agencies’ time and labor reporting requirements, a decision can be made as to whether it is in the State’s best interests to acquire and implement the PeopleSoft Time and Labor module or a third party time reporting software application to meet time and effort reporting requirements for addressing agency grant and cost allocation/accounting needs . The consultant will document specific agency time and labor requirements (limited to a small group of Stakeholder agencies), and perform a fit/gap analysis to determine whether the PeopleSoft Time and Labor module or alternative third party time reporting applications will best meet the agencies’ needs.

Activity Owner: Consultant

Estimated State Level of Effort: 420 hours

Estimated Consultant Level of Effort: 840 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

4. Consolidation of Purchasing and STARS vendor files

With the assistance of an experienced FMS consultant, the State will be able to lay the ground work for a successful conversion of the existing vendor data. Key decisions on how to merge the information from STARS, Procurement Manager Plus, and user agency vendor systems can be made, and a high-level conversion road map can be documented. By completing these activities before the implementation vendor is on-site, the Project Team will be able to spend minimal time during the implementation analyzing how to convert vendor data and maximize their time in designing and deploying the new system.



Activity Owner: State

Estimated State Level of Effort: 84 hours

Estimated Consultant Level of Effort: 84 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

5. Identify funding for FMS software and associated implementation services

Project leadership will seek funding for the project from the Legislature. For a project of this size and scope, a clear, focused message regarding the value and benefits of the new FMS must be prepared for all stakeholders. The consultant will assist in this effort by performing additional research where needed, assisting in the preparation of presentation materials, and speaking points for Executive Sponsors and other key leaders. Additionally, the consultant will be able to articulate his/her experience with similar projects in other states or large local governments.

Activity Owner: State

Estimated State Level of Effort: 84 hours

Estimated Consultant Level of Effort: 84 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

6. Initial organizational change management activities

Change management is critical to the success of any large administrative system implementation. When projects fail, the reasons are much more likely to be people-related issues than technology or software-related issues. Starting the change management activities prior to the implementation signals to project stakeholders and the agencies that the project is well aware of these cultural change risk areas and is willing to spend time and effort to address these areas. Spending face-to-face time with executives and key users at each impacted agency can create relationships and communication channels that will be invaluable to later efforts in the project, but these bridges take time to build. Investing the time and resources in communications and change management at this time will pay dividends during the system deployment. Another benefit to this effort is that central and user agency personnel will be better informed and more prepared for the project implementation. While the consultant will lead this effort, State staff participation is mandatory as user agency personnel typically prefer to work with State employees rather than consultants.

Activity Owner: Consultant

Estimated State Level of Effort: 252 hours



Estimated Consultant Level of Effort: 128 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

7. Development of existing legacy system reports inventory

During the implementation, the vendor will request a prioritized list of reports needed by the State's key business areas. These reporting requirements are not likely to change significantly over time, so there is little risk in gathering this information early. The State can save implementation time, and, therefore, reduce project risk and consultant cost by documenting the State's current reporting requirements, producing a prioritized reports list, and a complete inventory of existing reports before initiating the FMS implementation. The consultant will provide the framework for this activity and perform quality assurance reviews of the final deliverable; State personnel are responsible for building the reports inventory..

Activity Owner: State

Estimated State Level of Effort: 210 hours

Estimated Consultant Level of Effort: 84 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

8. Organizational change readiness assessment

A series of meetings with agency executives built around a set of structured interview/survey questions will help to determine the concerns and issues of key project stakeholders at the agencies. Moreover, the project team can assess perceptions of the project by key constituencies and identify the agencies and personnel that are the least prepared (or likely to be most resistant) to change so that the implementation readiness activities can focus on those most in need of change support. The consultant will create interview/survey templates and lead the State personnel through the assessment process.

Activity Owner: Consultant

Estimated State Level of Effort: 378 hours

Estimated Consultant Level of Effort: 252 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing



9. Documentation of the State's "As Is" business processes and workflow/approval processes, process improvement opportunities, and "To Be" vision

Prospective vendors will be better able to tailor their proposals if the State provides a clear description of the current business operations as well as a future vision of State business. "As Is" business process documentation shows the vendor how the State currently conducts business and where the improvement opportunities lie. In addition, the State can articulate how the "To Be" workflow environment might work so that the vendor can propose the most appropriate software for the State and forecast the level of effort and types of services required. In completing these tasks, special emphasis will be placed on documentation of SOKI3+, the Set-Off System, and KDOT existing business processes. This task will require significant effort from the State and from the consultant. Multiple subject matter experts (SMEs) must be available for each module in order for the consultant to gather the correct information. The consultant will facilitate each session, and create accurate and relevant documentation.

Activity Owner: Consultant

Estimated State Level of Effort: 2,850 hours

Estimated Consultant Level of Effort: 950 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

10. Research and decide on statewide commodity code structure for procurement

The State can gain valuable implementation time by making important decisions prior to the implementation. One key set of decisions that can be made at this time is to determine the commodity code structure that the State will use in the new FMS. This decision will be critical due to its strategic importance to future spend analysis/management efforts and reporting, and also given its role with use by vendors in identifying future business opportunities with the State. This will involve a series of meetings with the consultant, State team members, and procurement stakeholders to determine which codes will best fit State needs, and at what level of commodity detail those codes will be used, resulting in an approach paper documenting the State's decision.

Activity Owner: State

Estimated State Level of Effort: 240 hours

Estimated Consultant Level of Effort: 80 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing



11. Develop the procurement strategy for acquiring FMS software and associated implementation services

The State and the consultant will formulate a procurement strategy for acquiring new FMS software, together with associated consulting services required to successfully implement the software. The procurement strategy will answer important questions that help to build the framework for the RFP regarding the RFP's structure, content, timing, etc. Typical questions to be answered include:

- ◆ What process will be followed in developing and distributing the RFP to vendors?
- ◆ What are the targeted dates for each major milestone in the procurement process?
- ◆ Should the State request a fixed-price, time-and-materials, not-to-exceed, a combination thereof, or other form of contract(s)?
- ◆ Will the software provider or implementation integrator be held as the prime contractor (including a discussion of the pros and cons of having an implementation integrator versus having just the software provider manage the implementation process)?
- ◆ Will proposals be accepted from multiple implementation partners for the same software solution?
- ◆ Will the RFP include an option for a hosted solution?
- ◆ What is the evaluation process to be followed, including evaluation criteria?

Activity Owner: Consultant

Estimated State Level of Effort: 84 hours

Estimated Consultant Level of Effort: 168 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

12. Development of RFP(s) for FMS software and associated implementation services

A high-quality RFP, including a detailed statement of work and clear set of business, usability and technical requirements, provides a foundation for the vendors to submit reasonable bids that are not padded with contingency funds due to a lack of clarity, and result in fewer change orders during the implementation project. Moreover, by clearly stating contract responsibilities and the criteria for measuring results, the RFP and the vendors' responses can define the structure for the management of the vendor contract. The consultant is responsible for the RFP with input from appropriate State personnel (including State procurement and legal representatives).



Activity Owner: Consultant

Estimated State Level of Effort: 168 hours

Estimated Consultant Level of Effort: 336 hours

Dependencies: Develop the procurement strategy for acquiring FMS software and associated implementation services

13. Validate requirements for inclusion in RFP

The State has spent a significant amount of time documenting functional and technical requirements for the FMS. A minimum of one year will pass between drafting the requirements and issuing the RFP(s) for FMS software and implementation services. It is important that the State confirms that no new requirements have arisen during the “downtime” to ensure the FMS meets the State’s business needs when it goes into production. The consultant will lead all requirements validation work sessions to identify any changes to the system requirements originally developed as part of this study.

Activity Owner: Consultant

Estimated State Level of Effort: 168 hours

Estimated Consultant Level of Effort: 84 hours

Dependencies: Formalize Pre-Implementation Governance Structure and Organization/Staffing

14. Development of demonstration scripts to be used by vendor finalists during their software demonstrations

Software demonstrations allow the State to obtain a more in-depth understanding of the degree to which the proposed software will meet the State’s business needs than can be presented in a written proposal. When drafted by an experienced FMS consultant, the demonstration scripts can also provide an opportunity to identify important differences between the vendor offerings. The best way to ensure that there is an “apples to apples” comparison between the products is to require that each vendor follow the same demonstration script. Such scripts require the software vendors to focus on demonstrating if and how their products meet specific State business requirements instead of demonstrating “cute” features that have little to do with meeting the State business requirements.

Activity Owner: Consultant

Estimated State Level of Effort: 168 hours

Estimated Consultant Level of Effort: 168 hours

Dependencies: Validate requirements for inclusion in RFP



15. Proposal evaluation and contract negotiations

The independent consultant will guide the State through the evaluation steps, ensuring a process that is fair to the vendors, efficient for the State, and includes the necessary procedures that will avoid possible vendor protests. The process will include written proposal review and formal software demonstrations. At the end of the evaluation process, the apparent winner is identified and contract negotiations begin. The software and services vendor staff have considerable experience negotiating FMS contracts. The State, on the other hand, does not regularly negotiate FMS software or implementation services contracts. The consultant will assist the State's negotiating team in ensuring a fixed price contract (paid on completion and acceptance of major deliverables) for a reasonable total cost that best protects the State's interests.

Activity Owner: State

Estimated State Level of Effort: 6,720 hours

Estimated Consultant Level of Effort: 1,680 hours

Dependencies: Development of RFP(s) for FMS software and associated implementation services

16. Initial risk assessment and development of risk management plan

Risk management is an essential part of effective project management. The independent consultant will facilitate an initial Risk Assessment to identify and document potential risks to the project's success (i.e., conditions or events that could prevent achieving the expected project benefits, at or below the planned cost/budget, within the planned timeframe). This risk assessment will include Project Team members, Executive Sponsors, Steering Committee members, and Focus Group members at a minimum. Once the risks are identified and documented, they are prioritized according to a risk rating that is a function of the potential impact and the likelihood/probability the negative impact will occur (i.e., rating equals impact rating times probably impact will occur). Early identification of potential problems/risks and corrective action is critical to a system implementation's success. The risk management plan results in an action plan to communicate both preventive action, or risk avoidance, and corrective action, or risk mitigation, for each of the risk factors.

Activity Owner: Consultant

Estimated State Level of Effort: 240 hours

Estimated Consultant Level of Effort: 80 hours

Dependencies: None



Estimated Costs

The proposed cost for each of the aforementioned tasks is provided in the table below.

No.	Description of Activity	Consulting Cost
1	Formalize pre-implementation governance structure and project organization/staffing	\$30,240
2	Review and evaluate existing account coding structure, document and obtain approval for recommended coding changes, and perform other related coding block "clean-up" activities as necessary	\$15,120
3	Research feasibility and business case for implementing SHARP Time and Labor module to alleviate agency time and effort required for grant and cost allocation/accounting purposes	\$151,200
4	Consolidation of Purchasing and STARS vendor files	\$15,120
5	Identify funding for FMS software and associated implementation services	\$15,120
6	Initial organizational change management activities	\$23,040
7	Development of existing legacy system reports inventory	\$15,120
8	Organizational change readiness assessment	\$45,360
9	Documentation of the State's "As Is" business processes and workflow/approval processes, process improvement opportunities, and "To Be" vision	\$171,000
10	Research and decide on statewide commodity code structure for procurement	\$14,400
11	Develop the procurement strategy for acquiring FMS software and associated implementation services	\$30,240
12	Development of request for proposal(s) for FMS software and associated implementation services	\$60,480



Statewide Financial Management System
Needs Assessment Study Update



Salvaggio, Teal & Associates

No.	Description of Activity	Consulting Cost
13	Validate requirements for inclusion in RFP	\$15,120
14	Development of demonstration scripts to be used by vendor finalists during their software demonstrations	\$30,240
15	Proposal evaluation and contract negotiations	\$302,400
16	Initial risk assessment and development of risk management plan	\$14,400
	TOTAL	\$948,600



Pre-Implementation Phase Workplan

The following workplan provides a summary-level Work Breakdown Structure (WBS) and schedule for the Pre-Implementation Phase of the FMS Project. The schedule shown assumes this phase begins in May 2007.

ID	Task Name	Duration	Start	Finish	2008				2009				2010						
					Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	
1	Total Project	367.63 days	Tue 5/1/07	Thu 9/25/08	[Gantt bar spanning from Q2 2008 to Q3 2010]														
2	Phase 1: Project Start-Up	21 days	Tue 5/1/07	Tue 5/29/07	[Gantt bar from Q2 2008 to Q2 2008]														
3	Formalization and organization of the FMS work group as a "project"	21 days	Tue 5/1/07	Tue 5/29/07	[Gantt bar from Q2 2008 to Q2 2008]														
4	Phase 2: Pre-Implementation Activities	254.13 days	Wed 5/30/07	Tue 5/20/08	[Gantt bar from Q3 2008 to Q3 2009]														
5	Research feasibility and business case for implementing SHARP Time and Labor mo	52.5 days	Mon 8/13/07	Wed 10/24/07	[Gantt bar from Q3 2008 to Q3 2008]														
6	Seek funding for FMS software and associated implementation services;	10.5 days	Wed 5/30/07	Wed 6/13/07	[Gantt bar from Q3 2008 to Q3 2008]														
7	Initial organizational change management activities;	21 days	Thu 3/6/08	Fri 4/4/08	[Gantt bar from Q4 2008 to Q4 2008]														
8	Organizational change readiness assessment;	31.5 days	Fri 4/4/08	Tue 5/20/08	[Gantt bar from Q4 2008 to Q1 2009]														
9	Consolidation of Purchasing and STARS vendor files	10.5 days	Mon 7/30/07	Mon 8/13/07	[Gantt bar from Q3 2008 to Q3 2008]														
10	Review and evaluation of existing account coding block, documentation and approv	10.5 days	Mon 8/13/07	Mon 8/27/07	[Gantt bar from Q3 2008 to Q3 2008]														
11	Development of existing legacy system reports inventory;	10.5 days	Tue 8/28/07	Tue 9/11/07	[Gantt bar from Q3 2008 to Q3 2008]														
12	Research and decide on statewide commodity code structure for procurement;	15.75 days	Tue 9/11/07	Wed 10/3/07	[Gantt bar from Q3 2008 to Q3 2008]														
13	Documentation of the State's "As Is" business processes; Process impr	128.13 days	Wed 6/13/07	Mon 12/10/07	[Gantt bar from Q3 2008 to Q4 2008]														
14	Business process preparation	6.13 days	Wed 6/13/07	Thu 6/21/07	[Gantt bar from Q3 2008 to Q3 2008]														
17	Develop core "As Is" business processes maps	58 days	Thu 6/21/07	Tue 9/11/07	[Gantt bar from Q3 2008 to Q3 2008]														
25	Develop core "To Be" Workflowsbusiness processes maps	64 days	Tue 9/11/07	Mon 12/10/07	[Gantt bar from Q3 2008 to Q4 2008]														
33	PHASE 3: DEVELOP RFP	208 days	Mon 12/10/07	Thu 9/25/08	[Gantt bar from Q4 2008 to Q3 2009]														
34	Develop evaluation process and criteria to be used in procuring FMS software and i	21 days	Mon 12/10/07	Tue 1/8/08	[Gantt bar from Q4 2008 to Q4 2008]														
35	Development of request for proposal(s) for FMS software and associated implemen	42 days	Tue 1/8/08	Thu 3/6/08	[Gantt bar from Q4 2008 to Q1 2009]														
36	Stakeholder Requirement Approval	12 days	Mon 12/10/07	Wed 12/26/07	[Gantt bar from Q4 2008 to Q4 2008]														
37	Finance/Purchasing Stakeholder Approval	10 days	Mon 12/10/07	Mon 12/24/07	[Gantt bar from Q4 2008 to Q4 2008]														
47	General system requirements (GE)Stakeholder Approval	1 day	Mon 12/24/07	Tue 12/25/07	[Gantt bar from Q4 2008 to Q4 2008]														
48	Technical requirements (TE)Stakeholder Approval	1 day	Tue 12/25/07	Wed 12/26/07	[Gantt bar from Q4 2008 to Q4 2008]														
49	Development of demonstration evaluation scripts to be followed by vendor finalists i	21 days	Wed 12/26/07	Thu 1/24/08	[Gantt bar from Q4 2008 to Q1 2009]														
50	Proposal evaluation and contract negotiations;	105 days	Thu 5/1/08	Thu 9/25/08	[Gantt bar from Q1 2009 to Q3 2009]														



Section 6 Organizational Best Practices

Overview

A critical step in the initiation of any project is the establishment of the formal project organization and team structure. The purpose of this section of the report is to provide recommendations on the composition and structure of the project organization, and to provide the best practice for recruiting, staffing and retaining staff for the project. The document is organized into the following sections:

- **Project Governance Structure** – Identifies the mechanism that will be used to govern the project once the project has been formally recognized by the State through system implementation and beyond.
- **Project Delivery Structure** – Introduces the purpose of the project team organization structure and provides recommendations for the organization structure and staffing levels required in order for the State to be successful.
- **Project Team Roles and Skill Set Requirements** - Identifies the time commitments, role and responsibilities, as well as required knowledge and skills of the project team members in accordance with the recommended project organization chart.
- **Strategy for Backfilling** – Outlines an approach to fill positions in the participating agencies for positions vacated by staff that go to work for the FMS project and/or filling project team positions that are not filled through agency participation.
- **Incentives to Aid in Recruiting and Retaining Staff** – Identifies incentives that can be used to recruit and retain staff to the FMS Project Team.
- **Roadmap for Building Project Team** – Identifies the steps to be taken in order to assemble and retain FMS project team members.
- **Potential Organizational Risks to Project Success** – Discusses potential risks to the project and identifies potential strategies for mitigating these risks.

This report is intended to comply with the State of Kansas Information Technology Project Management Methodology (ITPMM). The objective of the project management methodology is to provide common standards to ensure that information technology projects are conducted in a disciplined, well-managed, and consistent manner. The ultimate goals of this methodology are to promote the delivery of quality products that result in projects which are completed on time and within budget. Where appropriate, this report references or includes information and perspectives from the State's ITPMM.

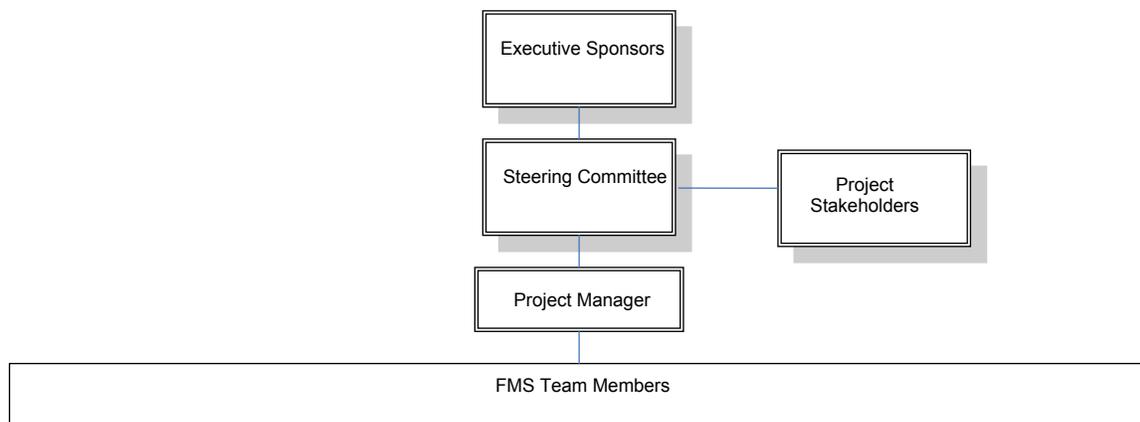


Project Governance Structure

Project governance identifies how the project will be organized, including executive management, sponsors, project management and project team personnel. The governance structure provides direction for the management, decision-making process, and ultimately the success of the project.

From a best practices standpoint, we recommend that the project governing body be composed of at least three groups: (1) Executive Sponsors, (2) Steering Committee, and (3) the Project Management Office. For purposes of this study, we are assuming that the Project Management Office is composed of a single Project Manager, a single project support resource, and two (2) independent project management/quality assurance contract staff.

The chart that follows provides a visual representation of the recommended governance structure for the project:



The remainder of this section of the report describes the recommended composition of each component group of the governance structure, their roles and responsibilities to the project, and their estimated time commitments to the project.

◆ Executive Sponsor

The role of Executive Sponsor requires the influence to ensure that the project has sufficient priority to enable success. The Executive Sponsor is also responsible for providing the funding and staffing resources to complete the project successfully.

The Executive Sponsor usually represents the recipient of the project's end result. A good Executive Sponsor is a prerequisite for a great project manager. The Executive Sponsor is usually head of a program area and not normally a day-to-day user. The Executive Sponsor is typically part of the state organization's management and should be a strong advocate for the project.



Recommended Sponsoring Agency Composition

- Governor's Office
- Secretary of Administration
- Secretary of Transportation
- Executive Branch Chief Information Technology Officer
- Other agencies that provide significant funding for the FMS

Time Commitment

- One day per month

Roles and Responsibilities

- Actively champion the project
- Establish and cultivate legislative sponsors
- Provide executive level support
- Articulate program or executive requirements and ensure requirements are met
- Provide guidance to Steering Committee and Project Team
- Review and approve project plan
- Participate in planning activities
- Monitor project progress
- Provide clear direction
- Ensure that the FMS initiative is aligned with the State's strategic goals and objectives
- Empower the Steering Committee and the Project Team
- Assist with issue resolution in accordance with project issue escalation policy
- Assist in removing obstacles to success
- Secure required resources
- Approve changes to project work plan that include an increase in project cost
- Ensure/approve funding necessary to achieve project objectives
- Ensure funding staff necessary to achieve project objectives
- Participate in post-implementation reviews and meetings regarding lessons learned



◆ **Steering Committee**

State organization management or the Steering Committee identifies the need for projects, assesses project risk, and approves project commitments. They are responsible for establishing the strategic information technology plans and for ensuring that projects are consistent with state organization and overall state information technology plans. They are also responsible for developing the procedures to ensure that IT policies are followed. We recommend continuing the approach used in the needs assessment phase of the project, as outlined below:

Recommended Steering Committee Composition

- Department on Aging
- Department of Health & Environment
- Legislative Research Department
- State Treasurer
- Department of Transportation
- Department of Social and Rehabilitation Services
- Department of Wildlife and Parks
- Medium-size Agency Representative (currently Department on Aging)
- Board of Regents
- Judicial Administrator
- Department of Revenue
- Department of Corrections
- Small Agency Representative (currently Board of Nursing)
- Department of Administration
- Department of Administration, Division of Budget

Time Commitment

- One to three days per month

Roles and Responsibilities

- Actively participate in Steering Committee meetings
- Remove obstacles to project success
- Actively champion the project
- Communicate project status within respective agencies
- Maintain thorough understanding of what the project involves



- Provide guidance to the Project Team
- Approve changes to project work plan
- Contribute resources to the Project Team
- Empower the Project Team to make decisions
- Make strategic-level decisions and resolve issues quickly
- Select project manager and assist in staffing effort.
- Review/approve Project Statement
- Review/approve project plan
- Review/validate and approve risk analysis
- Budget and establish financial reserves based on Risk Analysis Worksheet
- Ensure project staff availability
- Ensure project funding availability
- Regularly participate in Steering Committee Meetings
- Approve changes to the project plan
- Review risk mitigation plans and act on Project Manager recommendations
- Review/approve changes in contract commitments
- Review/approve project deliverables
- Participate in post-implementation reviews and meetings regarding lessons learned
- Approve project/phase completion

◆ **Project Manager**

The Project Manager has primary responsibility for the quality of a project's deliverables and its successful completion. To succeed, the Project Manager must work closely with the Executive Sponsor to ensure that adequate resources are applied. The Project Manager also has responsibility for planning and ensuring that the project is successfully completed on time and within budget. The Project Manager should be assigned early in the conceptual and planning processes so the plan can be owned by the person responsible for its execution.

Time Commitment

- 100%



Roles and Responsibilities

- Communications
 - Communicate the Project Leadership direction to the project team
 - Report to the Steering Committee regarding management of FMS implementation, including: progress, budget, risk assessment, and issues
 - Conduct all formal communications with contractors, and manage contractor relationships
 - Develop Project Statement including success criteria and constraints
 - Ensure that management, users, affected state organizations, and contractors commit to project
- Daily Management
 - Ensure progress in accordance with the project scope and work plan
 - Approve changes to project scope, timing, and project charter
 - Solicit advice and support from consultants, and provide direction regarding scope and content of consultant support
 - Direct Project Team Leads in the day-to-day management of the project
 - Review and approve project status
 - Provide direction and guidance on change management
 - Make timely decisions and set priorities
 - Implement project policies and procedures
 - Maintain staff technical proficiency and productivity, and provide training where required
 - Establish and maintain quality in project
 - Develop detailed project plan, tailoring methodology to reflect project needs
 - Finalize project baseline plan
 - Assign resources to project and assign work packages
 - Finalize project quality and configuration management plans
 - Regularly review project status, comparing budgeted to actual values
 - Ensure that project plan is updated and approved as needed
 - Review the results of Quality Assurance (QA) reviews
 - Participate in change control board to approve system changes



- Facilitate post-implementation reviews and meetings regarding lessons learned
- Develop an action plan for any product that does not receive user sign-off
- Obtain user and management approval of tested system and final deliverables
- Assist Division of Purchases in contract close-out
- Celebrate success
- Reporting and Logistics
 - Acquire resources through the Project Sponsor and Steering Committee
 - Identify and procure tools to be used on the project
 - Allocate and reallocate project resources as required
 - Approve and monitor project budget and expenditures
 - Establish the facilities, access, support facilities, and logistics for the Project Team
 - Conduct reviews of work completed, deliverables, and plans to ensure the project outputs meet required levels of quality
 - Conduct general cost/benefit analysis, if required
 - Develop Post Implementation Evaluation Report (PIER)
- Issue and Risk Management
 - Resolve implementation issues and escalate issues that cannot be resolved to the Steering Committee for resolution
 - Update project risks and establish prevention and mitigation procedures, as required. Analyze risks on an ongoing basis, and manage risk mitigation activities

Required Knowledge and Skills

- Identifies and resolves conflict in a timely manner
- Manages both people and activities proactively (Analyzes, assesses, and alleviates potential disruptions before they occur)
- Views the "big picture" of the project's goals and vision, while performing detailed analytical tasks
- Demonstrates time management skills and multi-tasking capabilities
- Demonstrates superior presentation, oral, and written communication skills



- Possesses strong organizational skills
- Makes timely decisions
- Uses influence to initiate action and impact decisions
- Obtains resources and approvals
- Possesses broad knowledge of the government
- Adjusts to varying demands, deals effectively with new, different, and stressful situations
- Demonstrates a thorough grasp of all major business process requirements
- Works effectively with all levels of management
- Provides detailed guidance to project team members

◆ **Project Stakeholders**

Project stakeholders are those with a vested interest in the success of the project. The identification and input of project stakeholders helps to define, clarify, change, and contribute to the scope and, ultimately, the success of the project.

To ensure project success, stakeholders should be identified early in the project, their needs and expectations should be determined, and their expectations should be managed over the course of the project.

Stakeholders on every project include (but are not limited to) the following:

- The Project Manager, who has ultimate responsibility for ensuring project success.
- The Executive Sponsor, who leads in getting the need for the project recognized.
- The User, who is the person or organization using the product of the project.
- State organization management, who refines business needs of the project.
- The project team members, who are responsible for performing the work on the project.
- Configuration management and quality control entities within a state organization.
- People who have funded the project (e.g., the Legislature).
- The ITEC, which is interested in the success of all IT projects.
- The Division of Purchases, which is interested in projects which involve a contractor.
- The Legislative Joint Committee on Information Technology (JCIT), which provides legislative oversight for major IT projects within the State.



- The Chief Information Technology Officers (CITO's) of the respective branches of government, who approve initial project plans and review project progress reports.

Customers, both internal and external to the organization, are to be considered important stakeholders. Without input from the user community, projects are more likely to fail. Having user needs defined early as part of the stated project goals, and directly traceable to the final solution, increases the potential success of a given project.

The management of stakeholder expectations is potentially difficult because of conflicting goals and expectations. The expectations may require more resources than are currently available. Finding appropriate resolutions to these differences is a key to successful project management. A major project that does not have backing of senior management, for example, will have difficulty achieving success.

Positioning of Governance Structure and Project Management Office (PMO)

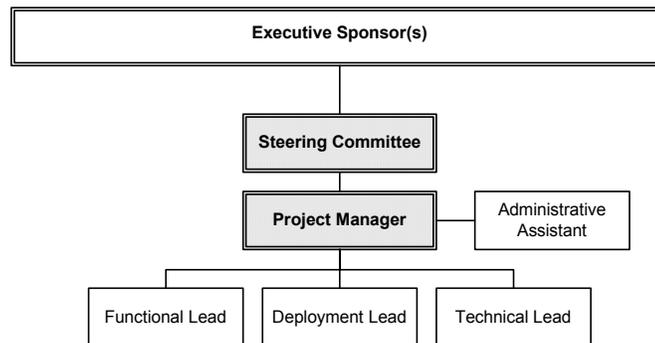
Because an enterprise project like the FMS impacts all user agencies, not just the central agencies, and because many user agency needs were not met as anticipated by STARS, it is critical that the FMS PMO and associated project governance structure that supports it be properly positioned for success. Our recommendations in this area follow:

- ◆ **Executive Sponsorship** -- It is critically important to the success of the implementation project that it be seen as a statewide or "enterprise" endeavor, rather than being driven only by the management of the Department of Administration. In addition, while information technology is a key part of the project, the project leadership should visibly demonstrate that the project is a "functional" project that is being sponsored by the business areas instead of the technology section in the organization. Therefore, key user agencies should be added to the project sponsorship to reinforce this message. Because of the FMS project's length and scope, its statewide nature, and the inevitable business process changes, the Executive Sponsors will need to be highly visible in representing and advocating the project to stakeholder groups, including the Legislature and outside parties.
- ◆ **Steering Committee** -- The State has already developed a successful approach to governing the FMS Needs Assessment Update Phase in the form of a Steering Committee composed of key stakeholders from state agencies (including medium and small agency representatives), elected officials, and all three branches of government. This Steering Committee structure and membership should be retained to oversee the activities that will be performed during the Pre-Implementation Phase of the project, and to participate in establishing the mission, vision, goals and objectives for the Implementation Phase of the project. In this way, the Steering Committee can begin to develop a functioning group dynamic and common approach that will greatly assist in driving progress and decision-making during the Implementation Phase of the project. The Steering Committee needs to include representation from the core financial management and technical functions in the Department of Administration.



- ◆ **Project Management Office (PMO)** – We recommend that a FMS Project Management Office be established independent of the Department of Administration, beginning with the initiation of the Pre-Implementation Phase. In this phase, the PMO should be staffed by at least one part-time Executive Sponsor that can act as either a representative of the Governor’s Office or as a representative of a small, key group of sponsors charged by her office with the responsibility for the successful delivery of the project. The day-to-day operations of the project will be performed by a Project Manager, who initially works on a part-time basis in the Pre-Implementation phase, but transitions to full-time as the workload requires. The Project Manager will drive the scheduling, staffing, and completion of all activities to be completed during the Pre-Implementation Phase. Additional staff should include part-time, dedicated administrative support that will also transition to full-time as the project continues. Additionally, it is likely that, as part of building the Project Team and beginning the process of developing the eventual RFP for FMS software and implementation services and the associated evaluation process to be followed, the Project Management Office will expand the Functional Lead, Deployment Lead, and Technical Lead (see *Project Delivery Structure* below for more information on these roles.

Following is a high-level organization chart that depicts the recommended organization for the Pre-Implementation Phase. This Organization would continue to exist through completion of the Implementation Phase of the project.





Project Delivery Structure

The FMS project team is comprised of a number of sub-teams, each of which is responsible for a series of tasks and activities in the detailed project work plan. Because the FMS will be an integrated software solution that addresses financial management, procurement, asset management, and other administrative business functions, it is necessary that the sub-teams design and configure the State's business processes in the FMS to also work together. The sub-teams must coordinate their efforts in order to integrate the business processes and enable the system within the required project timeline as dictated by the project work plan. To sustain this high degree of integration, the team members must exhibit excellent interaction, communication, and teamwork skills.

The recommended Project Team structure was developed in accordance with the following underlying principles:

- ◆ The Structure indicates clear points of accountability and responsibility;
- ◆ Project leadership is integrated across state government;
- ◆ Project sub-teams consist of functional, process, and technology specialists; and
- ◆ Team members are empowered for rapid issue resolution.

The Delivery Structure includes a single Functional Team and two support Teams (Technical Team and Deployment Team).

The Functional Team is responsible for all aspects of FMS business process and application design for the following modules:

- ◆ General Ledger (including Budgetary Control, Grant/Project Accounting, Cash Management, and Cost Allocation);
- ◆ Accounts Payable;
- ◆ Procurement;
- ◆ Asset Management; and
- ◆ Budget Development (may be deployment of FMS Budget Development module or integration of existing Budget Management System with FMS General Ledger module).

Support teams are responsible for assisting the functional teams in all communication and business transformation activities throughout the State. They also provide the environment that enables the delivery of the new FMS application and the associated process designs.

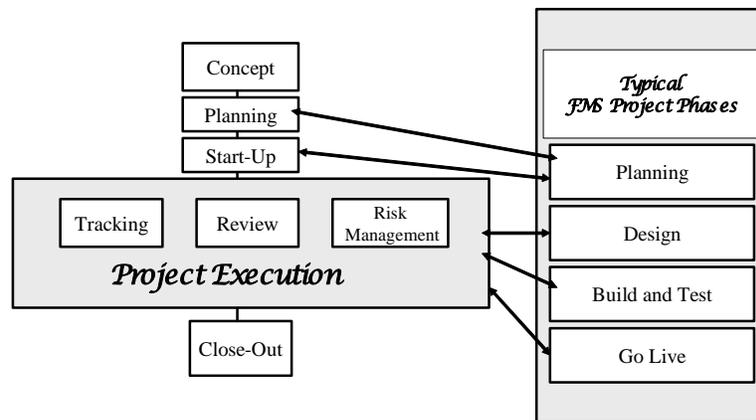
The Technical Team is responsible for the technical infrastructure, including network, hardware, software, application custom development (e.g., reports, interfaces, automated data conversions, software customizations, workflows), database administration, and security.



FMS implementation projects typically contain four distinct phases as follows:

1. **Planning** - The majority of State staff will transition onto the project during the Planning phase. In this phase, the project scope is confirmed and work plans are built to successfully execute all project tasks. The project should be fully staffed with functional team members by the start of the Design phase.
2. **Design** - In the Design phase, the “To Be” business processes will be documented and the planned usage of the software confirmed. The Technical Team members should arrive by the start of the Build and Test phase.
3. **Build and Test** - In the Build and Test phase, the software is configured and programs that support reports, conversions, modifications and interfaces are developed. It is during this phase that both the software and the custom development programs are tested.
4. **Post Go-Live** - After the system moves into a Post Go-Live environment, the number of staff is reduced substantially.

The following diagram provides a crosswalk between the four FMS phases described above and the State’s Project Management Methodology:



Following is the recommended staffing plan as required for each project phase.



PROJECT TEAM MEMBERS	PLANNING	DESIGN	BUILD & TEST	POST GO-LIVE
PROJECT MANAGEMENT				
Project Manager	2.0	2.0	2.0	2.0
TOTAL PROJECT MANAGEMENT	2.0	2.0	2.0	2.0
FUNCTIONAL TEAM				
Functional Lead	1.0	1.0	1.0	1.0
General Ledger/Budgetary Control/Cost Allocation/Cash Management	0.5	3.0	3.0	2.0
Accounts Payable	0.5	2.0	2.0	2.0
Project/Grant Accounting	0.5	3.0	3.0	2.0
Budget Development	0.5	2.0	2.0	1.0
Purchasing ⁽¹⁾	1.0	5.0	5.0	3.0
Asset Management	0.5	2.0	2.0	2.0
TOTAL FUNCTIONAL TEAM	4.5	18.0	18.0	13.0
DEPLOYMENT/HELP DESK TEAM				
Deployment Lead	1.0	1.0	1.0	0.0
Change Management	0.0	2.0	4.0	3.0
Training/Agency Support	0.0	4.0	8.0	0.0
TOTAL DEPLOYMENT/HELP DESK	1.0	7.0	13.0	3.0
TECHNICAL TEAM				
Technical Lead	1.0	1.0	1.0	1.0
Report Development	0.0	1.0	2.0	2.0
Interfaces/Conversion	0.0	1.0	5.0	2.0
Enhancements/Workflow	0.0	2.0	5.0	3.0
Infrastructure/Data Warehouse	0.0	4.0	4.0	2.0
TOTAL TECHNICAL	1.0	9.0	17.0	10.0
GRAND TOTAL	8.5	36.0	50.0	28.0

It should be noted that two-thirds of the Purchasing Team members will be dedicated to project activities associated with new eProcurement functionality, such as:

- ◆ Maintaining catalog/contract data from vendors to get new contracts loaded into eProcurement catalogs and auditing the data in catalogs to ensure compliance with vendor agreements that are in place.
- ◆ Developing general, as well as vendor-specific, processes and procedures relating to vendor enablement.
- ◆ Performing vendor activities, such as identifying specific vendors and vendor groups to recruit, and then performing vendor conferences, one-on-one meetings, Webcasts, etc. to explain the State's eProcurement value proposition for vendors. This work will also be supported by resources from the Deployment Team.



Work Environment

It is also important that we not overlook the value of the working environment. A properly configured facility and work environment for the project team is critical to its success. The team should have a designated work area and the use of several conference rooms. Placing the teams together in their own area fosters communication and integration. In addition, it facilitates the transfer of knowledge and increases the slope of the learning curve. To be fully functional, the work area should also include administrative support staff and the following equipment:

- ◆ Cubicles or offices with network and internet access
- ◆ High-speed printers, preferably at least one color printer
- ◆ Copiers
- ◆ Projector
- ◆ Basic office supplies
- ◆ Meeting rooms
- ◆ State e-mail account
- ◆ Parking (if possible)
- ◆ Personal computers
- ◆ Telephones
- ◆ FAX Machine
- ◆ Office furniture

Project Team Roles and Skill Set Requirements

Appendix J includes a summary of job responsibilities, time commitments, and requisite knowledge and skills required for the following Project Team positions:

- ◆ Functional Lead
- ◆ Functional Team Member
- ◆ Deployment Lead
- ◆ Change Management Team Member
- ◆ Training Team Members
- ◆ Technical Team Lead
- ◆ Infrastructure/Data Warehousing Team Member
- ◆ Custom Development Team Member (for all custom development activities such as reports, interfaces, automated data conversions, software customizations, and workflows)



The summary of job responsibilities, time commitments, and requisite knowledge and skills for the Project Manager were included in the Project Governance Structure sub-section within this section of report.

Strategy for Backfilling

The success or failure of a FMS project often hinges on the quality of the personnel assigned to the project. As shown in the *Project Delivery Structure section* above, the project team will require approximately 50 State staff at peak times. If an organization has a vested interest in the project being successful, it is well advised to place the organization's "best and brightest" employees on the Project Team. The best and brightest employees typically come from the central agencies and other participating user agencies. Leadership of these agencies may be reluctant to release key staff to the project as this causes hardships for the agency. In some cases, agencies assign staff to the project that are less qualified and experienced, but this is not a good recipe for success. Leveraging the State's best employees by assigning them to the FMS Project on a full-time basis not only increases the odds of the project's success but it also demonstrates trust in their abilities, and provides an opportunity for the remaining employees who take over their duties to obtain new skills. However, problems arise when the participating agencies cannot replace or "absorb" all the duties performed by the employee that has moved to the FMS project.

A best practice for easing the hardship on an agency that contributes a project team member is to fund the use of temporary or contract employees to fill roles vacated due to the permanent employees assignment to the project. This practice is referred to as "backfilling". Temporary employees provide a cost-effective means to ensure that daily operations are not impaired and at the same time can be assessed as potential candidates for permanent employment. Just like permanent employees, contract employees should be viewed as critical human resources –they are to be planned and budgeted for, as well as considered strategically important to the project's success.

Based on our experience with similar projects across state governments, we have found that organizations typically backfill from 60% to 100% percent of FMS project positions. The temporary employees are brought on board six to nine months prior to the start of the implementation to allow them to learn the duties and responsibilities of the staff member that is moving to the FMS project. At the start of the implementation, the permanent employee is assigned on a full-time basis to the FMS Project Team. At the end of the project, one of two actions are taken regarding the temporary employee: (1) he or she becomes a permanent employee at the state agency they have been working at as the person assigned to the project team remains with the project team; or (2) the temporary employee is terminated when the permanent employee returns from the implementation project team to take back his/her previous position.

When the State agency cannot afford to contribute an employee to the FMS Project Team, the backfilled position can be used to hire a new employee directly for the project team on a temporary basis. Under this scenario at the end of the project, one of two actions are taken regarding the temporary employee: (1) he or she is offered employment at another state agency; or (2) the temporary employee is terminated.



Staff assigned to the project should not have part-time duties at their “home” agencies once the project commences. Trying to have a key employee split time between the new project and existing duties will inevitably cause responsibilities at both sites to suffer, or lead to employee burnout. The project will demand a full-time (and often overtime) focus from its members.

Incentives to Aid in Recruiting and Retaining Staff

As noted above, the State’s best and brightest employees should be assigned to the FMS project. However, it is essential that staff are not coerced onto the project but actually have a desire to be a team member. There are various options for making the project attractive to recruits. Employees joining the selection team can be given a salary increase for joining the project. This incentive can also aid in retaining the employee as conditions for their continued employment with the project team are often included as terms of the bonus. Another option is to develop an incentive plan based on project success (e.g., meeting key work plan deadlines, or reaching project milestone events). Example project milestones include FMS vendor award, completion of system design, completion of acceptance testing, and system cut-over to production.

Other incentives that should be considered include:

- ◆ Educating the employee on how the FMS project will enhance his/her career;
- ◆ Confirming the opportunities that will be available to the employee upon completion of the FMS project, including the ability to return to their home agency;
- ◆ Offering flexible time schedules, compensation time or actual overtime pay to compensate for overtime;
- ◆ Organizing fun events to celebrate achieving milestones and other accomplishments; and
- ◆ Recognizing and rewarding individual contributions with small tokens of appreciation.

It is a best practice to utilize a combination of these types of incentives to recruit and retain staff.

Following are examples of how other public sector entities have used these incentives:

- ◆ The State of Tennessee gave core staff a 6% to 10% percent increase in base compensation for joining the project. Additionally, personnel were given bonuses for completing vendor selection, and will be given bonuses for successfully completing future project milestones. The total amount of each bonus may not exceed \$7,000 per person. Core staff members are also guaranteed a position with their home organization should he or she elect to leave the project team.
- ◆ Project team members at Texas State University were given bonuses for completing software selection, system design, and reaching production status. The bonuses were distributed based on individual performance and contribution



to the project's overall success. Project team members were also allowed to accumulate compensatory time for each hour of overtime worked. Core team members were also given a guarantee that they could return to their home organization if that was their desire. Individuals that remain in the post "go-live" organization were compensated on a higher salary scale than the positions in the home organization.

- ◆ The City of Houston utilized a number of incentives to retain and motivate staff. Project team members were permitted to work a "4-10" workweek schedule, which is four days at ten hours per day instead of the standard workweek schedule. This flexible schedule allowed the Project Team members to "mirror" the work hours of the implementation consultants. Project team members were also given bonuses for reaching project milestones such as successfully configuring and testing the system, and reaching production status.

Project bonuses can provide valuable incentives for accomplishment during the life of the Project, as well as work to limit the number of employees likely to leave the Project before completion. In addition, this approach is widely, and successfully used in the private sector to provide motivation to team members in meeting project timelines and goals. However, if, due to political considerations, this option is not available to the State of Kansas, it is possible that another salaried approach may be utilized, such as making all project positions part of the unclassified service.

Additional Considerations

Motivational Issues: Fair Labor Standards Act Impact, Funding for Project Team Building Activities

Recently, the State has begun examining the Federal Labor Standards Act (FLSA) status of employees, including IT staff. Executive sponsors should expect that a labor and technology-intensive FMS implementation project will include significant overtime in various phases of the Project, as well as the need for investments in funding for various project activities to bolster morale and increase team cohesiveness. Funding for overtime work, and for various meetings or events to celebrate success and foster team collaboration and unity throughout the Project are not currently included in the estimated project budget. However, these issues should be fully discussed, and an approach in this area identified by the State in advance of the start of any implementation project.

Unclassified Service

As an alternative approach to use of project bonuses, the State may consider use of temporary unclassified positions for the project. However, if such an approach is decided upon, we feel it is still important to consider some type of performance-based incentives related to particular key phases of the project. In addition, because a number of future team members may be leaving positions that are currently classified, it is likely that some agreements will need to be in place to ensure the stability of their employment in an unclassified position until they are able to return to their home agency.



Impact of Retirements on State Workforce

A high-level analysis of retirement eligibility for financial accounting and procurement-related positions within the user agencies, as well as central agency positions in the Division of Accounts and Reports and the Division of Purchases highlights another issue that may impact the State's ability to attract and retain Project Team members, and the magnitude of the change management effort that will be associated with the FMS Project.

Due to the numerous non-accounting/procurement job classifications that may be used for accounting/procurement staff at State agencies, precise statistics in this area are difficult to obtain. However, we worked with State management to analyze aggregate data across the State in classified accounting and procurement positions. As part of this analysis, we found the following retirement eligibility information at an assumed FMS implementation year of 2010:

- ◆ For the current Procurement staff, the following will be eligible to retire –
 - Agency Procurement – 14 Procurement staff, or 35.3% of the workforce
 - Division of Purchases – 6 Procurement staff, or 38.9% of the workforce
 - Statewide Procurement – 20 Procurement staff, or 37.7% of the total workforce
- ◆ For the current Accounting staff, the following will be eligible to retire –
 - Agency Accounting – 89 Accounting staff or 31.2% of the workforce
 - Division of Accounts and Reports – 32 Accounting staff or 43.2% of the workforce
 - Statewide Accounting – 121 Accounting staff, or 33.7% of the workforce

Retirement eligibility will continue to rise significantly in each group, and by 2015 will increase by an additional 23-31% for current employees. This has the potential to create an even smaller workforce pool from which to attract project team members. The Project Sponsors will be faced with the paradoxical decision of whether to invest in potential project team members that (1) may represent many of the State's best and brightest, and most knowledgeable subject matter experts, but (2) may also leave the State workforce in the near future, perhaps be less receptive to change, or have less stake in the successful outcome of the project.

Building out the Project Team at a time when retirement eligibility is significantly increasing highlights the importance of backfilling vacancies left in the agencies.

Roadmap for Building Project Team

This section provides a high-level roadmap for determining how to "ramp-up" the project team from zero resources to the estimated 50 State resources that will be required to satisfactorily implement the FMS. The tasks required to build the organization include:



1. Establishing the FMS Project's Organizational Infrastructure

Like any large organization, the State has rules and procedures that govern the establishment and filling of positions. The initial step is to create the management positions for the FMS project. Creation of the positions will require the State to document responsibilities and required skill sets for each position. This report provides guidelines for filling each position. In addition to the position descriptions, these positions should be created with the intent of having the compensation pay ten (10) to fifteen (15) percent more than the positions currently occupied by the persons who will be targeted for hire. In key project positions, this amount may be as high as twenty (20) percent, depending on the difference in job responsibilities involved. Along with establishing the positions, the State must also identify the incentives that will be used to entice State staff to join the project. These incentives can and should include the following:

- ◆ Salary increase to join the Project;
- ◆ Milestone-based performance bonuses (if bonuses are considered an acceptable form of compensation within the State); and
- ◆ Guarantee the employee's right to return to their original agency upon completion of their work on the FMS project. At a minimum, they should retain their compensation level at the time they initially left their agency to come serve on the FMS project.

Activity Owner: Pre-Implementation Manager

Estimated State Level of Effort: 40 hours

Duration: 1 month

Dependencies: None. This is the first step taken to build the project team.

2. Hiring the Project Manager

The most challenging position to fill will be the Project Manager position. The perfect candidate will have experience implementing enterprise resource planning (ERP) systems like the FMS in a large public sector entity. If this rare skill set cannot be acquired, then the next best candidate will have a project management background. The State should strongly consider reaching out to members of the "Big 4" consulting community or to large local governments that have implemented ERP systems to locate an appropriately-skilled candidate if such skills are not found within state government. The Project Manager's lack of ERP experience can be supplemented by having an independent consultant assist the Project Manager during the implementation.

Activity Owner: Pre-Implementation Manager and Steering Committee

Estimated State Level of Effort: 168 hours



Duration: 2 months

Dependencies: Establishing the FMS Project's Organizational Infrastructure

3. Hiring Candidates for Project Lead and Staff-Level Positions

The next step is to identify a pool of prospective candidates from the Department of Administration and the user agencies to fill project lead and staff positions. The Project Team Leads will report directly to the Project Manager. Each of the Project Team Leads will be supported by a number of staff-level employees that will assist in completing their assigned tasks in the project work plan. The Functional Team will design new business processes, and configure and test the software to ensure that the new business processes are met. The Technical Team will maintain the software and perform any development (modifications, conversions, reports, workflow, interfaces) tasks required to enable the software to meet the State's new business processes. The Deployment Team is responsible for developing and delivering the training, as well as guiding the organization through the transition from the old business processes to the new business processes.

Because the Functional and Technical Teams are more "internally" focused, it is important that these individuals come from the executive management within specific agencies that are responsible for the operations of the current business processes. These agencies will be referred to as "Business Process Owners". It should be noted that some Business Process Owners reside in the Department of Administration (e.g., most General Ledger processes), while others will reside in the user agencies (e.g., Grant/Project Accounting processes). It is critical that the Business Process Owners provide key staff from within their agency to the Project, as an empowered, knowledgeable Project Team will be able to quickly make decisions that are in the State's best interest. It is important to remember that the business case includes funding that allows the "home agency" (agency from which the contributed team member came) to "backfill" or hire a replacement resource for any resource placed on the Project.

The newly-hired Project Manager should meet with each Business Process Owner to explain:

- ◆ The FMS Project organization structure;
- ◆ The roles and responsibilities of Project positions;
- ◆ The timeline for filling the positions; and
- ◆ Why we need their candidate resources.

If the Business Process Owner does not have or is not willing to commit the required resource(s) to the Project that are empowered to make decisions, it can signal that either the Business Process Owner is not committed to the Project or that organization is not ready to support the FMS project. Every effort should be made to staff key Project Team positions with key resources provided by the Business Process Owner before pursuing alternative staffing options.



After the recommended resources have been identified, the Project Manager and the Business Process Owner should meet with the recommended candidate(s) on their staff individually, and explain why they should accept the position. The following key messages should be provided to each recommended candidate during this meeting:

- ◆ The candidate has expertise in the subject matter and leadership skills required by the State;
- ◆ The person expertise and leadership is key to project success;
- ◆ The candidate has a duty to the State to help achieve “world class” business processes;
- ◆ The candidate will receive specific compensation increases (as addressed in *Step 1: Establishing the FMS Project’s Organizational Infrastructure* above) while working on the project;
- ◆ The candidate has a right to return to his or her home agency at their compensation level at the time they initially left their home agency to come serve on the FMS project; and
- ◆ The candidate will receive a performance bonus for achieving project objectives (e.g., issuing proposal, selecting software and implementation vendor, entering production/going live status) if it is determined in *Step 1: Establishing the FMS Project’s Organizational Infrastructure* above that such bonuses are an acceptable form of compensation within the State.

It is likely that some positions will be staffed by user agency personnel. The Business Process Owner should assist by identifying staff from user agencies that would be of great value to the Project. After the user agency candidates have been identified, the Project Manager will meet with senior management of targeted user agency that employs the candidate for the purpose of explaining:

- ◆ The FMS Project organization structure;
- ◆ The roles and responsibilities of Project positions;
- ◆ The timeline for filling the positions;
- ◆ How backfilling will be funded for user agencies making a staffing contribution to the project; and
- ◆ Why the project need’s their candidate resources.

After meeting with the user agency senior management and obtaining their approval to “recruit” each prospective candidate, the Project Manager should arrange for an interview with each targeted resource. If the interview goes well, then the resource should be recruited using the previously-mentioned messages and incentives discussed above.

Activity Owner: Project Manager

Estimated State Level of Effort: 168 hours



Duration: 2 month

Dependencies: Hiring the Project Manager

4. Filling the Remaining Project Positions

After successfully recruiting resources from the Department of Administration and the user agencies, some positions on the Project may remain unfilled. The Project Manager should then designate a qualified resource as the primary Hiring Coordinator to complete staffing for the Project. The Hiring Coordinator will be responsible for:

- ◆ Posting the job description within and external to State government, including internet job sites (e.g., Monster.com);
- ◆ Reviewing resumes;
- ◆ Attending job fairs;
- ◆ Reaching out to qualified State retirees that may want to return to the State;
- ◆ Reaching out to local universities and colleges;
- ◆ Scheduling interviews; and
- ◆ Coordinating all other hiring activities.

Activity Owner: Hiring Coordinator

Estimated State Level of Effort: 168 hours

Duration: 2 months

Dependencies: Hiring Candidates for Project Lead and Staff-Level Positions

The Project Team may be built over the course of the Pre-Implementation Phase of the Project. The Project Manager should be hired to start the Pre-Implementation Phase. The Team Leads and other key project team members provided by the Department of Administration and the user agencies should be identified by the time the request for proposal is issued. This will provide time for each home agency to backfill and train their new employee.

It is important to keep in mind that the request for proposal(s), evaluation process, demonstration scripts, and other key pre-implementation activities are not prepared in isolation. Key staff from within the Department of Administration and the user agencies are expected to contribute to the successful completion of the key pre-implementation activities. Additionally, the Team Leads and other key project team members should be transferred to the FMS Project two months prior to the anticipated project start date or about the time that final contract negotiations are initiated. While the new project team members may be transferred, it is likely that they will keep close ties to their respective



home agencies until the project begins. The Hiring Manager, who was appointed by the Project Manager, should also begin to recruit and fill any unfilled positions.

Potential Organizational Risks to Project Success

The following section identifies potential organization risks that may be applicable to the State of Kansas FMS Project. These risks are based upon our knowledge of the State of Kansas and experience with other similar public sector projects. A description of each risk is provided, followed by a strategy for mitigating the risk.

Risk	Risk Description/Mitigation Strategy
Inexperienced Project Management	<p>It is important that the State's project manager have previous experience in implementing FMS systems in a public sector environment, preferably for a statewide or other large state or local government.</p> <p>➤ Risk Mitigation Strategy: Acquire the services of a full-time State project manager with good project management skills, together with a firm experienced in providing independent project oversight services on FMS projects for large governmental entities (if funding allows).</p>
The FMS is Considered an IT Project	<p>IT provides the technical knowledge and support (and the project management at times) for FMS Projects; however, the project must receive strong executive sponsorship, project team participation, and user agency subject matter expert (SME) involvement from the functional areas of State government, if the project is to be a success.</p> <p>➤ Risk Mitigation Strategy: Ensure that the project team and the levels within the governance structure have active participation from major business process owner agencies. Additionally, the FMS Project Management Office (PMO) should be established independent of the Department of Administration. The State should position the FMS initiative as an enterprise-wide business transformation effort and not a technology project owned by the Department of Administration.</p>



Risk	Risk Description/Mitigation Strategy
Failure to Obtain and Retain the State's Best and Brightest Resources on a Full-Time Basis	<p>Governments often do not meet their commitments to provide dedicated project team members on a full-time basis as required for project success. And often times when the government meets its commitments from a "numbers" standpoint, it fails to provide the skill levels needed (e.g., participating agencies sometimes volunteer less-productive staff instead of their best performers out of fear that they may never return).</p> <p>➤ Risk Mitigation Strategy: The State must commit to recruiting the best and brightest resources to the project team, and plan to provide incentives for keeping them. The agencies need to fully understand the commitment being made and that some resources may be asked to stay as part of the ongoing support organization. Most of these resources should be committed to the project on a full-time basis, and key positions should be back-filled as necessary to ensure the project team has access to the proper subject matter experts.</p>
Failure to Provide Adequate Change Management and Communications to the End User Community	<p>It is common for organizations to underestimate the level of change management required as part of a FMS implementation. Most projects that fail do so because the human aspects of the project fall short – not because the system does not work as designed. The new system will drive the implementation of new business processes that may radically change the work environment and job tasks of employees. The risks associated with not recognizing and properly managing organizational change impacts can disrupt the project implementation effort and system acceptance, decrease employee productivity, and increase employee stress and anxiety.</p> <p>➤ Risk Mitigation Strategy: Staff the project with an appropriate number of individuals that will help support the change management effort. Require the implementation vendor to assist in building the "framework" for all change management activities.</p>



Risk	Risk Description/Mitigation Strategy
Conflicting Objectives	<p>Turf battles over system ownership and software functionality may arise. Legacy systems were often developed to meet the business needs of specific agencies, while the entire government, as an enterprise, owns a properly implemented FMS. Conflicting objectives can greatly impact the success of a project.</p> <ul style="list-style-type: none"> ◆ Risk Mitigation Strategy: Place key system/process owners on the Steering Committee and provide a decision-making framework by which all key decisions will be made.
The FMS Implementation is Not Recognized as a Formal Project.	<p>Strong executive leadership guides successful software implementations. This leadership paves the way to success by establishing a vision, driving change throughout the organization, removing obstacles to success and resolving key issues. Without this leadership, implementation teams may lose sight of the principles that should guide the project.</p> <ul style="list-style-type: none"> ➤ Risk Mitigation Strategy: Ensure that the implementation effort is recognized as a project that includes a formal governance structure including executive sponsors, full-time dedicated staff, and active steering committee participation from the business process owners.
Minimizing the Impact of Staff Loss Due to Retirement	<p>Key employees may be scheduled for retirement during the project implementation phase or soon after the project is implemented. Losing a valuable resource at either stage would be detrimental to the success of the project.</p> <ul style="list-style-type: none"> ➤ Risk Mitigation Strategy: Identify a successor to the potential retiree and ensure that he/she is adequately trained and that there has been adequate transfer of knowledge prior to the retiree's departure. In addition, the State should staff the project with individuals with varying levels of State service.



Risk	Risk Description/Mitigation Strategy
Lack of Executive Support	<p>A perceived or real lack of executive support for the project almost certainly will ensure its failure; strong executive management support and commitment across government are a must. Widespread communication of executive support is essential to obtaining buy-in from all levels of the organization, especially since a FMS generates so much change across the enterprise and require considerable resources. Without such support, the project will have difficulty getting required resources, needed participation, and implementing significant changes to achieve the value of the FMS.</p> <p>➤ Risk Mitigation Strategy: Project management will clearly explain the role that the Executive Sponsor and Steering Committee members will play in the successful implementation of the system. In addition, project management must actively engage the Executive Sponsors and Steering Committee by providing opportunities to speak about the importance of the project to the end user community. The Project should have at least one part-time Executive Sponsor that can act as either a representative of the Governor's Office or a small, key group of sponsors charged by the Governor's Office with responsibility for the successful delivery of the project.</p>



Section 7

Budget Development Integration with FMS

Background and Purpose

The mission of the Division of the Budget (Division) is to provide for the effective and efficient management of Kansas state government. The Division has central responsibility for the state budget process and management of state government. Within broad guidelines set by law, the Division issues instructions, regulations and directives that determine how state agencies propose and justify requests for expenditure authority. Findings and conclusions arising from that analysis are submitted to the Governor and become the basis for the Governor's recommendations to the Legislature. Additionally, the Division provides support to the Governor on budget and related policy issues and is responsible for budget execution.

The Division utilizes its Budget Management System (BMS) as the major tool in building and finalizing the State's Budget. The BMS is based on the baseline budget preparation software purchased from Legacy Solutions (now Affinity Global Solutions, Inc.). This software maintains a significant national market share (approximately 20%) and is currently used by nine (9) states to meet their statewide budget development needs. Affinity maintains alliances with Oracle, PeopleSoft (now Oracle), and SAP as their budget solution is often interfaced with these ERP solutions.

The purpose of this analysis is to provide background information on the State's budget development process, document how the BMS currently interfaces with other statewide administrative systems, document any problems and functional deficiencies with the current BMS as noted during our visits with Stakeholder Agencies, to provide an overview of the budget development software marketplace, to document how budget development functionality will be addressed in the new Financial Management System (FMS), and make any recommendations that impact the integration between budget development and the proposed FMS.

Overview of State's Budget Development Process

This section of the report provides an overview of the State's current budget development process. The information documented in this section includes excerpts from *The Budget Process: A Primer*, which is prepared by the Division of the Budget in cooperation with the Legislative Research Department.

Appropriations for agency operating expenditures have been made on an annual basis since 1956. With enactment of legislation in 1994, the budgets of 20 state agencies were approved on a biennial basis starting with FY 1996. They were all financed through fee funds. Since then, two of these merged and a non-fee agency was added, leaving the total at 20.



Producing a budget is a continuous process. However, it does have certain discrete phases. In the Executive Branch, the budget process begins as soon as the legislative session ends. At that time, the budget staff prepares *The Comparison Report*. This report compares the budget recommended by the Governor for the current and budget fiscal years to the budget approved by the Legislature.

In June, the Division of the Budget (DOB) analysts prepare for the budget process and work with Affinity, the software vendor to make BMS ready for use. This preparation process includes any software updates/modifications released by the vendor (and/or requested by the Division of the Budget) to BMS, as well as data uploads from STARS and SHARP needed to assist agencies in completing their initial budget requests. Concurrent with this process, budget instructions are distributed by the Division of the Budget to state agencies. These instructions include allocations that each Executive Branch agency uses in budget preparation and instructions for preparing a capital budget for the budget year based on the approved budget for the current fiscal year, as adjusted for one-time expenditures, caseloads, and the annualization of partial-year funding.

On July 1, agencies use the budget instructions to prepare a capital budget using PC-based spreadsheets. The capital budget contains a five-year plan, which includes the capital improvement requests for the current year, the budget year, and four out-years following the budget year.

Concurrent with preparation of financial segments of the agency budget is completion of agency strategic plans that are submitted with the budget in September. Agency strategic plans establish a clear definition of mission and a direction for the future; develop agency-wide work plans and agency-specific objectives as well as strategies for fulfilling the agency mission; and allocate resources according to priority and ensure accountability for the use of those resources. As part of the strategic planning process, agencies identify an agency mission, agency philosophy, goals and objectives, and performance measures to track progress toward the plan.

Starting in mid-August, the BMS is opened for agency budget entry. Agencies are requested to prepare and enter into BMS one complete (operating/capital) budget for submission on September 15. For Executive Branch agencies, the submission is based on an allocation prepared by the Division of the Budget in June. Each Executive Branch budget submission also includes reduced resource packages that detail how the services provided by the agency would be affected under a reduced resource scenario. The Division of the Budget also prepares a reduction amount for these agencies to use in preparing their reduction packages. Agencies may also submit requests for incremental additions to their base budgets in the form of enhancement packages that represent new programs or the expansion of existing ones. All of the budget components are intended to reflect program priorities.

According to law, the Governor cannot make a recommendation with respect to the budget request submitted by the Judiciary.

As a matter of policy, the Governor treats the legislative budgets in the same way. Therefore, the Governor includes these budgets as requested to present a complete



state budget that accounts for all budget resources. Modification to the Judiciary and Legislative Branch budgets, if any, is the responsibility of the Legislature.

The individual budgets submitted by state agencies show program expenditures with appropriate funding sources for each program within the agency. These data are shown for the actual fiscal year, the current year, and the budget year. Budget submissions also document performance that relates to the outputs and outcomes identified in the agency's strategic plan. Evaluation of performance provides a means for weighing budget alternatives.

Beginning September 15, analysts in the Division of the Budget create DOB working versions of the agency budget requests submitted in BMS, and review each agency budget request. The working versions are finalized in BMS and become the DOB-recommended versions. The Division of the Budget recommendations, based on those analyses, are provided to each state agency by November 10. The agencies then have ten days to determine whether to appeal those recommendations to the Secretary of Administration. Many appeal the recommendations in writing; some also request an appointment to present an oral appeal.

Once the appeal process has been completed, the Division of the Budget staff prepares its presentations for the Governor. An analysis of the difference between the Division of the Budget recommendations and the agency's request, including the effect on performance, is presented to the Governor. The analysis includes the agency's request and the basis for it, the Division of the Budget recommendation and the basis for it, and the agency's appeal, if any.

Children's Budget. Applicable agencies are required to enter a Children's Budget in the Children's Budget module of BMS. KSA 75-3717(a) (2) requires that the Governor include in *The Governor's Budget Report* a listing of all state agency programs that "provide services for children and their families". The information is summarized in the Children's Budget, which includes expenditures from all funding sources and from the State General Fund, by agency and by project; the number of children or families served in each program; and a brief description of each of the agency programs.

The Governor uses this information to make budget determinations for all agencies. The Division of the Budget then aggregates final recommendations, enters change packets in BMS, and prepares *The Governor's Budget Report*. Usually at the end of the session, Division of the Budget analysts will enter change packets in BMS. Those change packets include Governor's Budget amendments issued during the session as well as any legislative changes. Once the budgets are approved, agencies can only view budgets in BMS and are responsible for allocating the change packets back to their internal agency budgets. During this same period, between September 15 and commencement of the legislative session in January, the Legislative Research Department's fiscal staff also are analyzing agency budget requests from BMS. Following receipt of the Governor's recommendations, legislative fiscal analysts begin updating their analysis in their own tracking system for each agency to reflect the recommendations of the Governor. These updated budget analyses are printed in the Legislative Research Department's annual analysis, and copies are distributed to each legislator.



Consideration by First House. The Governor's budget recommendations are drafted into appropriation language by the Office of the Revisor of Statutes. Appropriations are divided into three parts: supplemental appropriations, capital improvement appropriations, and budget year expenditure authority for all agencies except biennial agencies, whose expenditure authorizations cover a two-year period. The appropriations are simultaneously considered by the Ways and Means Committee of the Senate and the Appropriations Committee of the House.

The chairpersons of the committees appoint subcommittees to consider appropriations for various agencies. Subcommittees vary in size. Usually between two and five persons are named to a subcommittee. After reviewing the budget requests, the subcommittee drafts a report, which details all budgetary adjustments to the Governor's budget recommendations that the subcommittee wishes to make. The subcommittee report may contain administrative or programmatic recommendations.

The subcommittee report is presented to the full committee for consideration. A committee may adjust the recommendations of its subcommittee in any area or it may adopt the entire report as submitted. The appropriations are reprinted in order to reflect the recommendations of the full committee. The appropriations are then presented to either the House or Senate, which may amend or reject them.

Consideration by Second House. The process for review of the appropriations in the second house repeats the steps followed in the house of origin.

Conference Committee Action. Upon completion of consideration of the appropriations by both chambers, the bills typically go to a conference committee so that differences between the House and Senate versions can be reconciled. Each chamber then votes to accept or reject this appropriation bill. If either chamber rejects the conference committee report on the appropriation bill, it is returned to the conference committee for further review and for possible modification.

Omnibus Appropriation Bill. Traditionally, this has been the last appropriation bill of the session. It contains any appropriation necessary to carry out the intent of the Legislature that has not yet been included in another appropriation bill. Since the advent of the statutory requirement for an Omnibus Reconciliation Spending Limit Bill to be passed at the end of the session, the Omnibus Appropriation Bill has served as the reconciliation bill.

State Finance Council. The State Finance Council is a statutory body that provides a mechanism for making certain budgetary and personnel adjustments when the Legislature is not in session. The Council consists of nine members: the Governor, the Speaker of the House, the President of the Senate, and the House and Senate majority leaders, minority leaders, as well as Ways and Means and Appropriations Committee chairpersons.

The Governor serves as chairperson of the Finance Council. Meetings are at the call of the Governor, who also prepares the agenda. Items are eligible to receive Finance Council consideration only if they are characterized as a legislative delegation to the Finance Council. Approval of Finance Council items typically requires the vote of the Governor and a majority of the legislative members.



Present statutes characterize the following items of general application to state agencies as legislative delegations, allowing them to receive Finance Council approval under certain circumstances:

1. Increases in expenditure limitations on special revenue funds and release of State General Fund appropriations.
2. Authorization for state agencies to contract with other state or federal agencies, if the agencies do not already have such authorization.
3. Authorization of expenditures from the State Emergency Fund for purposes enumerated in the statutes.
4. Increases in limitations on positions imposed by appropriation acts on state agencies.
5. Approval of the issuance of certificates of indebtedness to maintain a positive cash flow for the State General Fund.
6. Approval to issue bonds for capital projects when an agency has been granted bonding authority.

Certain other items of limited application are characterized as legislative delegations by individual legislative acts, allowing them to be subject to Finance Council action. The Finance Council cannot appropriate money from the State General Fund, authorize expenditures for a purpose that specifically was rejected by the previous legislative session, or commit future legislative sessions to provide funds for a particular program.

At the end of the Legislative session, both the Division of the Budget and Legislative fiscal staff reconcile final budget amounts as tracked by the two organizations, and prepare post-session reports.

The chart on the next page is intended to capture the essential elements of the budget process on a single page over the course of a complete yearly cycle and to depict the roles and interactions of the primary agencies involved in developing and approving the state budget.



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Kansas Budget Cycle

	June	July	August	September	October	November	December	January	February	March	April	May
State Agencies	Prepare 5-year capital improvement plans for submission July 1		Prepare budgets in budget system & submit to Budget Division & Legislative Research						Review budgets & request amendments to update the Governor's recommendations			
Governor & Budget Division	Budget Division issues instructions & allocations to agencies in developing budget requests	Budget Division conducts agency budget training, analyzes capital projects, & makes on-site agency visits	Budget staff analyzes agency budget requests & makes preliminary recommendations	Budget Division recommends allocations to the Legislature & Budget Division prepares agency appeals are heard	Governor develops recommendations to the Legislature & Budget Division prepares budget documents	Governor submits Budget Report to Legislature by 8th calendar day of the session (21st day for new Governor)	Budget Division prepares fiscal notes on legislative bills, drafts introduced version of appropriation bills, tracks legislative amendments to Governor's original recommendations for the Omnibus Bill					Budget Division reconciles final budget numbers with legislative fiscal staff & prepares post-session report
Consensus Revenue Estimating Group					Project State General Fund revenues							Project State General Fund revenues
Legislative Fiscal Staff	Legislative fiscal staff prepares Fiscal Facts, Appropriations Report, & works with interim legislative committees				Legislative fiscal staff analyzes agency budget requests, begins to prepare Budget Analysis, & continues to work with interim committees			Fiscal staff analyzes Governor's budget recommendations & completes the Budget Analysis	Legislative fiscal staff works with subcommittees & budget committees of Senate Ways & Means & House Appropriations on finalizing the budget	Fiscal staff prepares items for Omnibus Bill consideration & works with Legislature to develop Omnibus Bill		Legislative fiscal staff reconciles final budget numbers with Budget Division & prepares post-session report
Legislature			Legislative interim committees review assigned topics; House Appropriations, Senate Ways & Means, Legislative Post Audit, & State Building Committee (four state (October of odd numbered years))					Subcommittees of House Appropriations & Senate Ways & Means begin review of agency budgets	Appropriations bills are reviewed & adopted upon differences in the House & Senate	Conference Committee resolve differences in appropriations bills	Omnibus Bill considered & acted upon	Legislature adjourns



Required Interfaces/Data Loads

Each state agency is responsible for developing its initial budget request and submitting the request to the Division of the Budget for review and final approval. The BMS is the application tool used to process initial agency budget requests that are built in accordance with budget instructions issued by the Division of the Budget through final approval of the State's Budget. The BMS contains sub-schedules required to complete an agency's budget request. Expenditure, funding and revenue data as well as change package information is accessed and updated through the System. Narrative data supporting the budget request items also exist in the System. Additionally, salary and fringe benefits projections are completed and incorporated as part of the overall budget request.

State agencies typically develop their budget requests at a lower level of detail than required by the Division of the Budget, instead using the level of detail required for internal agency budget monitoring purposes. We will refer to this level of detail as the "operating budget" level. The operating budget detail is typically developed and maintained in agency "shadow systems", spreadsheets, databases, or some combination thereof.

The operating budget data is then "rolled up" to a summarized level (PCA) as required by the Division of the Budget for entry into BMS. We will refer to this level of detail as the "appropriation budget" level.

BMS data is acquired from both on-line entry and data processed within other software applications. When data is retrieved from other applications, data files are manipulated by Division of Budget analysts and uploaded into BMS. Data loads are utilized to load prior-year actual (expenditures and revenues) data from STARS and personnel data from SHARP; however, no interfaces exist for loading budgetary data back from the BMS to STARS or SHARP.

Documentation of each data load noted above is included in *Appendix E: Interfacing System Documentation*. The following information is included for each interfacing system:

- Target systems – the systems that are to be interfaced with the BMS;
- Interface description – brief description of what the interface will do;
- Direction of transmission – inbound to, or outbound from, the BMS;
- Data transmitted – high-level description of data that will be sent;
- Triggering event – the condition(s) that will cause the interface to be executed;
- Frequency of interface – how often the interface will be executed (e.g., on demand, weekly, etc.);
- Type of interface – batch, near-real-time, real-time; and
- Level of complexity to build – simple, average, or complex.



State of Current Budget Management System

Based on interviews with seventeen (17) Stakeholder Agencies, several meetings with Division of the Budget management and staff, and input obtained during Requirements Validation Focus Group Work Sessions, it appears that the BMS is meeting the needs of the Division of the Budget for developing and finalizing the State's budget at the appropriation level as intended. However, functional deficiencies and concerns were noted:

- ◆ State agencies typically develop their budget requests at the operating budget level in agency "shadow systems", spreadsheets, databases, or through the use of other manual, labor-intensive processes. The operating budget data is then "rolled up" as required by the Division of the Budget at the appropriation budget level. The State agencies would like to have the ability to create their budget requests at the operating budget level in the BMS, and have the System automatically "roll up" the data to the higher appropriation level as required by the Division of the Budget.
- ◆ At present, the BMS contains only one year of data. The State agencies can better prepare their budget requests if they have more than one year of actual expenditure/encumbrance data available to assist them.
- ◆ The State agencies would like to have the prior year's budget available to them online; currently, the prior year budget availability is accessible through hard-copy reports only.
- ◆ The State agencies need the ability to track all budgetary changes/adjustments made from their original budget request to the current budget as modified by the Division of the Budget and/or the Legislature.
- ◆ All users of the BMS could benefit from improved ad hoc reporting and inquiry capabilities. They would also like the ability to print system reports remotely.
- ◆ All users of the BMS could benefit significantly through the use of automated workflow technology, which would provide for electronic document routing, review and approval, and online inquiry into document status.
- ◆ The entire budget development process lacks integration:
 - There is no integration from the BMS to other statewide systems, such as SHARP and STARS, once the budget has been finalized.
 - There is no integration from the BMS to agency budget development/tracking systems once the budget has been finalized.
 - This lack of integration results in duplicate data entry and reconciliation of data across multiple statewide and agency-specific administrative systems.
- ◆ When adjustments/changes are made by the Division of the Budget staff or the Legislature, such adjustments/changes are made at the appropriation level as maintained in the BMS. The State agencies must then apply such adjustments/changes at the operating budget level as maintained in their internal budget development/tracking systems.



- ◆ Stakeholder agency management expressed additional concerns that the BMS is not user-friendly, experiences significant downtime at times, and is not available soon enough in the agency operating budget development process.

Budget Development Software Marketplace

At this time, most state and local governments today utilize one of the following solutions for developing their enterprise budgets:

- ◆ Custom-Developed Software
- ◆ Personal Computer Spreadsheets
- ◆ Best-of-Breed Budget Development Software
- ◆ Budget Development Module within FMS Software

A brief description of each option follows:

Custom-Developed Software

It is common to find that large state and local governments custom-develop their own budget development systems as a way of ensuring that their functional needs are met – if it is being custom-developed, one should expect a high degree of fit with the State's functional requirements. Custom-developed applications often appear to be a cost-effective solution to meeting an organization's budget development needs because these systems are typically developed over a period of years using in-house developers and/or contract developers at reasonable rates. While this may be the case, the total cost of ownership may be much more than initially expected due to the following:

- ◆ It will typically take a minimum of three to four years to design, develop, properly test, and deploy a custom-developed budget development system.
- ◆ If the System is developed using fourth-generation or higher programming languages, and associated development tools, extensive training of existing personnel may be required on the latest system development tools and methodologies.
- ◆ Often times, custom-developed applications are not developed to be as flexible as commercially-available ERP or Best-of-Breed software. Adding new users, making changes to fields, and modifying application screens may require hard-coded changes to the underlying application source code. Such changes typically result in considerable effort and cost.
- ◆ The State would solely fund all initial development costs, as well as future ongoing software enhancements and maintenance, rather than leveraging commercial software development efforts that incorporate public sector best practices.



- ◆ As with any custom-development effort initiated to meet an organization's administrative business needs, this option carries the highest risk of project failure.
- ◆ This option would not address problems associated with the lack of integration between the State's budget development system and other statewide / agency-specific administrative systems (e.g., STARS).

Due to the numerous risks associated with a project of this magnitude and the ongoing costs associated with maintaining and enhancing the system for future use, custom development of a new budget development system is not a feasible alternative and will be given no further consideration.

Personal Computer Spreadsheets

At this time, personal computer spreadsheet (e.g., Excel, Lotus) applications are the most commonly-used tools to assist governments in building their budgets. This is largely due to the fact that these applications are inexpensive when compared to other solutions for meeting budget development needs, they are easy to learn and are user-friendly, and provide import-export functionality that facilitates moving data to/from other administrative applications. While spreadsheets are useful tools in preparing a budget, they do not serve as a "true" budget development system because of the following limitations:

- ◆ Spreadsheets are typically designed to meet a specific agency's budget development needs, which is the case in this State in that multiple State agencies currently use various spreadsheet formats to assist them in developing their initial budget requests at the "true" operating level", and then roll them up to the "appropriation level" as required for loading into the BMS. The spreadsheets lack automated workflow capabilities, which would provide for electronic document routing, review and approval, and online inquiry into document status. This approach eliminates central control and standardization of the budget development process at the "user agency" stage and reduces data consistency and integrity across state government.
- ◆ Spreadsheets do not facilitate standardization of the budget process unless standardized templates are utilized and maintained across all of state government and extensive macro programs are developed to link data in one "cell" to another "cell" within the "sheet" one is working in or to a new "cell" within another "sheet". The use of macro programs within a spreadsheet can be effective, but there are maintenance issues in that considerable macro program development is typically required to support a statewide budget development process across state government, the macros can be difficult for end users to understand, and for the developers of the macros to maintain as end users without a thorough knowledge of how the macros work can "break" the functional process supported by the macro, override the macro, and/or the linkages to other cells.
- ◆ Without extensive customization and development effort, spreadsheets are not designed to support collaboration efforts of multiple users.



- ◆ Depending on their design, budget development spreadsheets may not facilitate making required changes to the spreadsheet in an efficient manner.
- ◆ Spreadsheets do not typically provide the ability to access multiple years of actual expenditure/encumbrance data or prior year budget history to assist in budget forecasting.
- ◆ Due to limitations associated with textual entry into spreadsheets, the narratives that are used to support the budget “financials” are often required to be communicated through other means, such as word processing software.

State agencies will continue to utilize spreadsheets to build the detailed operating budgets that support their appropriation-level budget requests unless an alternative solution is provided that is robust enough to meet statewide and State agency budget development needs.

Best-of-Breed Budget Development Software

Several software applications exist that focus on providing budget development functionality often required to meet governmental budget development needs. The “Best-of-Breed” or “stand-alone” systems are typically designed to be interfaced with major FMS software solutions commonly used by large state and local governments, including CGI-AMS, Oracle, PeopleSoft (now Oracle), and SAP. The BMS is based on the baseline budget preparation software purchased from Legacy Solutions (now Affinity Global Solutions, Inc.), which is currently used by nine (9) states to meet their statewide budget development needs.

Best-of-Breed software tends to address the limitations of spreadsheets and custom-developed software, and often meets budget development needs at the “statewide” level. However, these applications are often limited in meeting user agency-specific budget development needs due to limitations in software flexibility and/or the focus of the initial software design and configuration being to address statewide budget development needs as its priority.

Best-of-Breed budget development software typically provides greater depth of functionality than is offered by other solutions, and can provide many of the same features commonly found in ERP/FMS software (e.g., automated workflow, ad hoc reporting tools, Web-based functionality); however, limitations associated with these solutions include:

- ◆ Lacks “true” integration of ERP/FMS systems, though some “best-of-breed” vendors now provide for integration points with common ERP systems that allow for “real-time” integration.
- ◆ Higher total cost of ownership than ERP/FMS over time because of the cost of integration, supporting multiple development environments, and managing multiple vendor relationships.
- ◆ Time-consuming reconciling tasks associated with maintaining duplicate data in multiple databases.



- ◆ Requires the State to maintain resources skilled in multiple development toolsets and programming languages for the FMS and the separate budget development solution.

Since the State already utilizes a “stand-alone” budget development solution that is widely used by state governments across the country, we consider its continued use to be a viable solution in meeting the State’s future budget development needs; however, efforts should be made to address the system deficiencies noted in the section of this report titled *State of Current Budget Management System*.

Budget Development Module Within FMS Software

We have assisted numerous state and local governments with the selection of ERP software over the past ten (10) years; yet none of our clients utilize the budget development module within the ERP software to build their budget requests. In fact, most of our clients have chosen not to purchase the budget development module after a thorough evaluation of the software’s capabilities. These observations support our belief that the budget development modules represent the greatest weakness and associated risks of implementing an ERP system.

ERP systems were originally developed for the commercial sector, and started to evolve toward public sector use in recent years only after commercial markets reached saturation. Since budget development in the commercial and public sectors differ greatly, ERP software vendors have failed thus far to truly gain a thorough understanding of how government entities build their budgets. Although ERP software vendors are making progress, the software has generally not had sufficient time to mature and remains functionally under-developed.

Public sector organizations that are utilizing budget development modules of ERP systems typically use the modules to facilitate the loading of budget appropriations to the general ledger and to monitor budget against actual activity.

It should be noted that there are exceptions to the general rule that ERP software cannot meet a public sector organizations budget development needs. As an example, a few years ago AMS acquired the Brass budget development software, which had been successfully implemented for numerous state and local governments as a “stand-alone” budget development system. AMS (now CGI-AMS) has since redesigned the software as a component of its Advantage 3 ERP solution.

State’s Options for Addressing Future Budget Development Needs

Following are three options that the State should consider in determining how to address future statewide budget development needs. A description of each option is provided, as well as some of the pros and cons associated with each option.

Option 1: Continue Use of BMS and Interface to FMS General Ledger Module

Description: This is the “status quo” option as automated interfaces would be built between the BMS and the new FMS General Ledger module to load



prior-year actual (expenditures and revenues) data, and between the BMS and SHARP to load personnel data. Agencies would develop their operating budgets locally using their existing processes/systems and interface/manually enter the data into the BMS at the appropriation level and to the General Ledger module of the FMS at the operating budget level once the budget has been finalized. Agencies would use a standard interface to upload the "approved" operating budget to the FMS.

The State could explore the possibility of building interfaces back to FMS and SHARP to load final approved budgetary data back from the BMS to FMS or SHARP. The State could also consider reconfiguring the BMS to allow budget development at the operating budget level and to interface to the FMS; however, this may not be a viable solution from a BMS system design and budget policy standpoint.

Pros:

- ◆ Low risk of failure as this is a proven process for budget development in the State of Kansas that requires only that new automated interfaces be built.
- ◆ Low change management impact to the organization as the budget development process does not change

Cons:

- ◆ Does not eliminate the problem whereby the State agencies develop their budget requests at the operating budget level in agency "shadow systems" and spreadsheets, and then re-enter/interface the data at the appropriation level in BMS and at the operating budget level to the FMS.
- ◆ Fails to provide more than one year of actual expenditure/encumbrance data or prior year budget history as desired by the State agencies.
- ◆ Does not provide improved reporting and inquiry functionality, or provide remote print capabilities as desired by State agencies.
- ◆ Does not address budget development integration issues between BMS and other statewide systems and agency-specific budget development/tracking systems once the budget has been finalized.

Option 2: *Discontinue Use of BMS and Replace with FMS Budget Development Module*

Description: Using this option, the State would replace all functions currently performed by the BMS with budget development functionality provided in the FMS.



The State would include budget development in the scope of the RFP(s) for FMS software and associated implementation services. Prospective FMS vendors would be required to respond to a set of detailed budget development requirements that represent the functional needs of both the Division of the Budget and the State agencies. The Budget Development Functional Requirements were developed as part of this study and are included in *Appendix C*. The State would also require an extensive software demonstration from vendor finalists based on a State-defined demonstration script to determine how well the budget development requirements can be met. Additionally, the State would require the vendors to separately itemize the costs of budget development software and implementation services in their FMS proposals so the State will have the option to include / exclude such functionality.

Pros:

- ◆ Should eliminate the problem whereby the State agencies develop their budget requests at the operating budget level in agency “shadow systems” and spreadsheets, and then re-enter the data at the appropriation level in BMS. Agency budget requests would be entered at the operating budget level in the FMS Budget Development module and would automatically be “rolled up” to the appropriation level for use by the Division of the Budget and the Legislature.
- ◆ Should provide multiple years of actual expenditure/revenue data history and prior years budget history as desired by the State agencies for forecasting purposes and trend analysis.
- ◆ Provides improved reporting and inquiry functionality, and remote print capabilities as desired by State agencies.
- ◆ Provides for full integration of FMS budget development module with the FMS General Ledger module, and eliminates agency-specific budget development/tracking systems.
- ◆ Provides robust automated workflow technology, which allows for electronic document routing, review and approval, and online inquiry into document status.
- ◆ Potentially provides an efficient process to address the issue whereby budget adjustments/changes are made by the Division of the Budget staff or the Legislature at the appropriation level (as currently maintained in the BMS), and the State agencies must then apply such adjustments/changes at the operating budget level (as maintained in their internal budget development/tracking systems).



- ◆ Potentially provides a method to import initial fiscal year salary and wage budget data from the Budget Development module into SHARP (HRMS Commitment Accounting) if Oracle - PeopleSoft is selected as the software. This would allow agencies to monitor encumbrances and actual expenditures for salary and wage data on a pay cycle basis.
- ◆ Potentially eliminates annual fiscal year interfaces from SHARP to the Budget Development module by providing integration of salary and wage budget monitoring and actual expenditure data in the Budget Development module, General Ledger, and SHARP if the software selected is Oracle - PeopleSoft.

Cons:

- ◆ High risk of failure due to the expectation that the FMS vendors will not be able to meet the State's Budget Development functional requirements as identified in *Appendix C*. This expectation is supported by the observation that no prior STA clients utilize the budget development module within FMS software applications to build their budget requests.
- ◆ High change management impact as Budget Development module of FMS and its supporting business processes replace the current combination of BMS and agency "shadow" systems and spreadsheets.

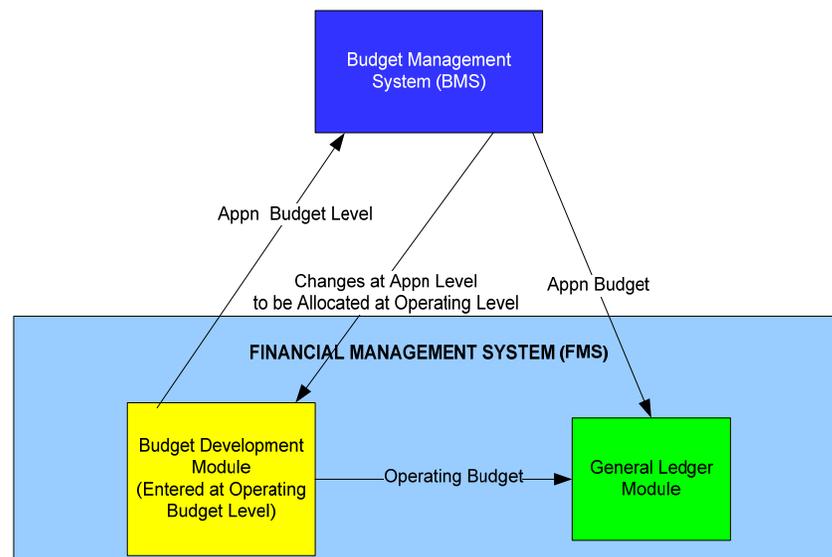
Option 3: Utilize FMS Budget Development Module to Build Initial Agency Budget Request and Interface to BMS

Description: The last considered option for meeting future budget development needs is a "hybrid" of the other two options. Specifically, the State agencies would initiate the budget development process by entering their initial budget requests at the "true" operating budget level in the Budget Development module of the FMS. The agency budget requests would then be "rolled up" and loaded into the BMS at the appropriation level through an automated interface. The "roll-up" process would most likely occur in the FMS Budget Development Module as State agencies would now enter their budget requests at the operating budget level in the BMS if such "roll-up" capability to the appropriation level currently existed in the BMS. Once the budget development process is completed, changes made at the appropriation level as part of finalizing the budget would be communicated back to the State agencies, and the changes would then be manually entered in the Budget Development module by the agency budget officer(s). Once this process has been completed, the General Ledger module of the FMS could then be loaded with the new Appropriation Budget from the BMS through an automated interface



and the new Agency Operating Budgets from the Budget Development Module of the FMS through system integration. Additional automated reconciliation processes could be developed to ensure the Budget Development and General Ledger modules of the FMS, and the BMS all reconcile.

The diagram that follows identifies the data flows associated with this option at a high level.



Pros:

- ◆ Low risk of failure as the State would revert to Option 1 if it is determined that this approach is not feasible.
- ◆ Moderate change management impact to the organization as State agencies would be utilizing a new, standardized “front-end” – the FMS Budget Development module -- for building their agencies budgets, but the remaining process would be completed utilizing the BMS.
- ◆ Should eliminate the problem whereby the State agencies develop their budget requests at the operating budget level in agency “shadow systems” and spreadsheets, and then re-enter the data at the appropriation level in BMS. Agency budget requests would be entered at the operating budget level in the FMS Budget Development module and would automatically be “rolled up” to the appropriation level for use by the Division of the Budget and the Legislature.



- ◆ Should provide multiple years of actual expenditure/encumbrance data history and prior years budget history as desired by the State agencies for forecasting purposes and trend analysis.
- ◆ Provides improved reporting and inquiry functionality, and remote print capabilities as desired by State agencies.
- ◆ Provides for integration of FMS budget development module with the FMS General Ledger module, and eliminates agency-specific budget development/tracking systems.
- ◆ Provides robust automated workflow technology, which allows for electronic document routing, review and approval, and online inquiry into document status, but only within the FMS.
- ◆ Potentially provides an efficient process to address the issue whereby budget adjustments/changes are made by the Division of the Budget staff or the Legislature at the appropriation level (as currently maintained in the BMS), and the State agencies must then apply such adjustments/changes at the operating budget level (as maintained in their internal budget development/tracking systems).

Cons:

- ◆ There is a possibility that the FMS Budget Development module may not meet the needs of the State agencies in completing their budget requests; however, we would revert to Option 1 if this was the case.
- ◆ Requires continued usage of the BMS and a series of automated interfaces between the BMS and the Budget Development and General Ledger modules of the FMS.

Recommendation

We recommend that the State pursue an approach that is inclusive of all three options discussed above. The RFP(s) for FMS software and associated implementation services should include budget development in the functional scope. After completing a comprehensive evaluation process, the Evaluation Committee can make a decision as follows:

- 1) Pursue Option 2 to *Discontinue Use of BMS and Replace with FMS Budget Development Module* only if it is determined that all statewide and State agency functional requirements can be met through this solution.

If not:

- 2) Pursue Option 3 to *Utilize FMS Budget Development Module to Build Initial Agency Budget Request and Interface to BMS* if it is determined that State agency functional requirements associated with building agency budget requests can be met and the proper interfacing with the BMS can be accomplished.



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If not:

- 3) Pursue Option 1 to *Continue Use of BMS and Interface to FMS General Ledger.*



Section 8

Human Resources and Payroll Integration with FMS

Background and Purpose

The State of Kansas implemented the Statewide Human Resource and Payroll System (SHARP) in 1995. SHARP utilizes the Oracle - PeopleSoft Human Resources Capital Management ERP software as configured and customized to meet the State's HR/Payroll needs. SHARP is composed of the following Oracle - PeopleSoft modules, which have been successfully implemented:

- ◆ Human Resources;
- ◆ Payroll;
- ◆ Benefits Administration;
- ◆ eDevelopment;
- ◆ ePay; and
- ◆ eProfile.

The State also owns licenses for the following additional modules, but they have not been implemented at the time of this report:

- ◆ eBenefits; and
- ◆ eRecruitment.

The State originally implemented version 4.02 of the PeopleSoft software in December 1995, followed by upgrades to version 7.0 in October 1998, version 7.01 in May 1999, version 7.02 in October 1999, and an upgrade to version 8.0 SP1 in June 2003. An upgrade to version 8.9 is currently in progress, scheduled for implementation in late June 2007.

During the implementation and subsequent upgrades, the State was able to significantly improve several business processes. These improvements included consolidation of five pay cycles (one bi-weekly, two semi-monthly, and two monthly) into one biweekly cycle and synchronization of the majority of the payroll deduction frequencies to a bi-weekly basis, which resulted in significant reduction in payroll adjustments. The State also implemented employee self-service for online paycheck view and leave balances, which resulted in discontinuance of the printing of pay checks for all employees on direct deposit. Approximately 90% of State employees currently utilize direct deposit.

The purpose of this analysis is to document how SHARP should interact with the new Financial Management System (FMS), document any potential enhancements identified as part of this study that impact HR/Payroll functionality, identify any advantages to be obtained by continuing the State's investment in the Oracle - PeopleSoft software family,



and make any recommendations that impact the interaction between SHARP and the proposed FMS.

Required Interfaces

The State processes payroll cycles on a biweekly basis within SHARP. The financial transactions from each payroll cycle are interfaced to STARS, the State's legacy financial management system. To accomplish this, STARS receives several updates through automated interfaces from SHARP during the standard payroll cycle. The detailed payroll data is summarized at the unique Chart of Account combinations. The interfaces are as follows:

- ◆ A summarized encumbrance file is loaded in STARS based on the expected actual expenditures for the pay period three business days prior to the pay day.
- ◆ A summarized file of the expenditure and receipt data for the pay period, as well as the encumbrance reversal, is sent to STARS on the pay day.
- ◆ For each pay cycle, three files are sent to STARS to support the remittance process (warrants and ACH) for payroll-related vouchers, including court-ordered payments for garnishments, child support, and levies. On the first business day following the pay day, two files are created. The first, KPAY324, includes all the bi-weekly remittances for levies, Federal continuing garnishments, and out-of-state child support. The second file, KPAY324x, includes the bi-weekly child support payments for the Kansas Payment Center. An addendum record is created for each recipient for this file. The third file, KPAY325, is created and sent approximately the 25th of each month. This file includes all of the monthly garnishment payments to all attorneys.

All files are created using the current STARS "IN" format. The STARS "IN" format includes the STARS coding block, the vendor number and vendor suffix (which indicates the address to be used), invoice number (if applicable), invoice description, voucher number, vendor name, city, state, and the transaction amount. The batch header information includes number of batches, record count, batch date, batch effective date, and total dollar amount.

In STARS, specific Department of Administration Payroll Clearing Fund accounts have overrides on index codes in order for the third party payment transactions to process without suspending due to Set-Off processing.

Each University within the Board of Regents maintains its own financial management and HR/Payroll systems. STARS processes summary financial transactions from the Regents through an automated interface as follows:

- ◆ Approximately one week prior to the pay day, the Regent's systems send the expenditure and receipt file (DA175) to STARS for the pay period – no encumbrance file is sent. Payroll expenditures are recorded against the Regent's agency budgetary accounts, and receipts are recorded to the Regent's agency Payroll Clearing Fund accounts.



- ◆ The Regents sends an interface file to STARS to record expenditures against the Regent's agency Payroll Clearing Fund accounts, and receipts into the Department of Administration Payroll Clearing Fund accounts for each payroll deduction, tax, and employer contribution. This file is processed in STARS each pay day.
- ◆ Regents send to SHARP a gross-to-net pay detail information file which is reconciled to the expenditure and receipt file (DA175) and STARS interfaces prior to processing checks and updating balances in SHARP.

Files and reports are created from SHARP for user agencies to reconcile payroll expenditures. The report, known as KPAYWAGE Salary & Wage Report, includes all expenditure data by document, fund, index, PCA code and position. The KPAYWAGE report includes expenditure data only, which is used by agencies to reconcile their own agency funds with STARS. In addition, data files created in SHARP, known as KPAYGL5C, are sent to agencies (as requested) which include salary and wage expenditure data that can be used to reconcile expenditures in STARS. The KPAYGL5C data file contains the same data as the KPAYWAGE Report.

SHARP also sends data files (KPAYTRS1, KPAYTRS2, and KPAYTRS3) to support warrant and direct deposit issuances to the State Treasurer's Warrant System for bank reconciliation. The State Treasurer sends documents related to direct deposit reversals to the A & R, Payroll Section. The Payroll staff creates the appropriate cash receipt and payment voucher entries in STARS. Payment vouchers are only processed in STARS in those situations where multiple financial institutions are involved, which results in a partial direct deposit reversal. If only one financial institution is involved, an EFT reversal would be processed in SHARP to reverse the direct deposit transaction and a supplemental payroll warrant would be issued to pay the employee.

A data extract, known as STARREC, is triggered by Payroll staff, through STARS Ad hoc/Focus Application, which extracts Department of Administration Clearing Fund data from the STARS transaction file. The data extract is created once a month except during year end when it is created twice. The data extract is used by Payroll staff to reconcile Department of Administration Clearing Fund accounts between SHARP and STARS.

At year-end, an interface is created from STARS to the Budget Management System (BMS), which includes salary and wage data totals for the fiscal year. The Division of Personnel Services creates an interface from SHARP to BMS, which includes position funding data, and employee and position data related data required for the budget process.

Currently, there are no interfaces between SHARP Benefits Administration and STARS.

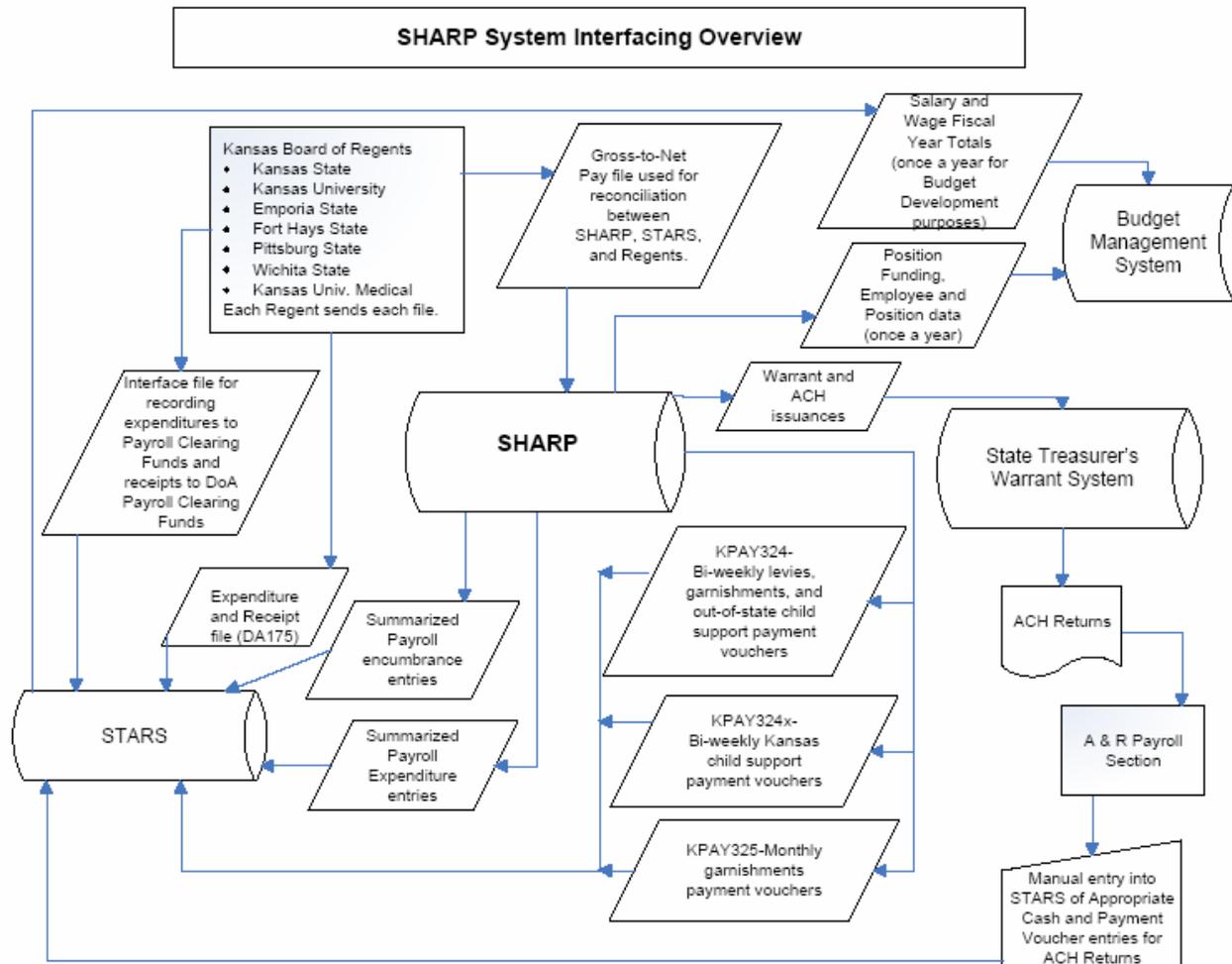
Documentation of each automated interface described above is included in *Appendix E: Interfacing System Documentation*. The following information is included for each interfacing system:

- ◆ Target systems – the systems that are to be interfaced with the FMS;
- ◆ Interface description – brief description of what the interface will do;



-
- ◆ Direction of transmission – inbound to, or outbound from, the FMS;
 - ◆ Data transmitted – high-level description of data that will be sent;
 - ◆ Triggering event – the condition(s) that will cause the interface to be executed;
 - ◆ Frequency of interface – how often the interface will be executed (e.g., on demand, weekly, etc.);
 - ◆ Type of interface – batch, near-real-time, real-time; and
 - ◆ Level of complexity to build – simple, average, or complex.

The chart that follows on the next page identifies the various interface “touch points” between SHARP and other statewide and user agency administrative systems.





Possible Enhancements to SHARP

Though SHARP is meeting the statewide personnel, payroll, and benefits administration needs for the State as envisioned, several possibilities for enhancements have been identified regarding improved business processes and better integration with STARS during interviews with Payroll Section personnel and stakeholder agency financial management. These enhancements include:

- ◆ Elimination of duplicate data entry between SHARP and STARS would provide more efficient business processes for both systems. For example, the vendor file and employee file are not shared or synchronized between STARS and SHARP. All updates to an employee's address in SHARP must also be entered in STARS. Without a shared Chart of Accounts, all coding block edits and validation must be completed once the data has been transmitted to STARS, which could result in suspended transactions in STARS. The corrections to the suspended payroll transaction must be made by the Payroll staff.
- ◆ STARS maintains the summarized payroll expenditure information and SHARP maintains the detailed salary and wage expenditure data. However, due to timing issues and prior period funding adjustments entered in STARS only, the user agencies must reconcile between STARS and SHARP. Integration of SHARP and the FMS system could potentially provide an automated reconciliation process.
- ◆ The user agencies need the ability to capture employee work effort through time reporting for each pay period and distribute this work effort across applicable projects, grants, and other reporting fields to meet their cost accounting and federal grant reporting needs. The State does not have the ability to provide such functionality at this time because the Time and Labor module within the PeopleSoft Human Resources Capital Management software solution has not been implemented at this time. At least seven (7) agencies have developed their own functional "shadow systems" to meet these needs but an efficient work effort reporting process is needed to meet specific user agency needs.
- ◆ Integration between SHARP, the FMS system and the Budget system is another enhancement possibility. This would eliminate the custom interfaces between SHARP and the Budget Management System as well as improve budget monitoring of salary and wages by the user agencies.



Integration vs. Interfacing

Should the State acquire funding to pursue the acquisition of a new FMS and associated implementation services, numerous procurement strategy decisions will be required, including a decision as to whether to acquire FMS software through a competitive bid process or seek to continue the investment it has already made in the Oracle - PeopleSoft Human Resources Capital Management software. We recognize that unique benefits exist should the State utilize the Oracle - PeopleSoft Financial Management suite as the baseline software for the FMS. These benefits include (but are not limited to):

- ◆ Oracle - PeopleSoft will provide the only truly integrated solution as utilization of non-PeopleSoft software for the FMS will require that automated interfaces be developed and maintained between the FMS and SHARP:
 - Utilization of a common database across all functions (or at least a single database for HR/payroll functions and another for financial management/procurement functions). In this way, data elements (e.g., account codes) are not duplicated when used for more than one purpose. With no duplication, every function has access to the most recent information; once any change is made, it is immediately available to all functional modules;
 - Full integration across all applications processes;
 - Sharing of some tables across SHARP and FMS (e.g., synchronization of employee and vendor files); and
 - Maintenance of a single Chart of Accounts across SHARP and FMS.
- ◆ Oracle - PeopleSoft is designed to be accessed through the use of an industry-standard Web browser. It is built on a pure "Web-based" architecture whereby no code resides on the client other than the Web browser. Web-based ERP solutions result in easier deployment and lower costs of IT infrastructure, network administration, and information access.
- ◆ The FMS and SHARP would utilize a common graphical user interface (GUI) that provides user-friendly features similar to other office functions on the user's desktop to assist in the user's learning and ongoing use of the Systems. The same interface and commands are used for all functions, thereby facilitating training for users that access multiple functions and functional areas.
- ◆ The FMS and SHARP would utilize a common proprietary toolset (PeopleTools) to support software configuration, customization, establishing security, and ongoing administration of the system, therefore, reducing the burden of training and retaining resources skilled in multiple proprietary ERP toolsets.
- ◆ The FMS and SHARP would utilize a common set of reporting tools (e.g., PeopleSoft Query, Crystal Reports, nVision) across all application software to



develop new custom reports, therefore, reducing the burden of training and retaining resources skilled in multiple proprietary reporting tools.

- ◆ The FMS and SHARP would utilize common terminology, standards, data fields and documentation across all application software modules.
- ◆ The FMS would utilize a technical architecture / environment with which the State has considerable experience obtained from the original SHARP implementation project and subsequent software upgrade projects.
- ◆ Configuring and maintaining security in a single software application will be less complicated and include less risk than when having to manage security in multiple systems.
- ◆ The need to develop automated interfaces between SHARP and the FMS will be eliminated. If the State implements a software solution other than Oracle - PeopleSoft, there will be a need to maintain each automated interface indefinitely, including maintenance required for each SHARP or FMS software upgrade, new release, fix or patch.
- ◆ It is expected that a fully-integrated solution will provide for a lower total cost of ownership over a solution that is composed of multiple "best-of-breed" software applications that are interfaced together to address data sharing needs.

Recommendations

Based on our review of the existing interfacing between SHARP and STARS, the anticipated best practice for future interfacing / integration, and comments documented during interviews with financial management at the stakeholder agencies, we offer the following recommendations for consideration:

1. We recommend that an assessment study be completed to determine whether implementation of the PeopleSoft Time and Labor module or some other industry-standard third party time reporting solution can be utilized to capture employee work effort through time reporting for each pay period, and to distribute said work effort across applicable projects, grants, and other reporting fields to meet their cost accounting and federal grant reporting needs.
2. A decision needs to be made as to whether it is in the State's best interests to continue its relationship with Oracle - PeopleSoft as a provider of the FMS software in lieu of conducting a competitive procurement process for the software due to the benefits associated with "integration" vs. "interfacing". The State will only achieve "true" integration of its human resources, payroll, financial management, procurement, budget development, and other administrative business processes by continuing its relationship with Oracle - PeopleSoft.

If a decision is made to pursue negotiations with Oracle - PeopleSoft only to obtain the PeopleSoft modules needed for the FMS, a competitive bid process would be



utilized to procure the required implementation services. Utilizing this approach would provide the State with significant leverage to:

- Obtain a considerable discount for FMS software licenses below list price;
- Obtain a considerable reduction/capping of annual maintenance for both SHARP and the FMS; and
- Allow the State to negotiate terms, conditions, and other items / issues associated with the SHARP project to the satisfaction of the State.

A “sole source” agreement with Oracle - PeopleSoft would require provisions that protect the State against having to perform a “re-implementation” of SHARP and the FMS to the future generation PeopleSoft/JD Edwards/Oracle collaborative product code named “Fusion” that is currently under development. Quoting a Gartner Research Bulletin dated March 27, 2006, “The transition costs, particularly for JD Edwards and PeopleSoft customers, will be close to the cost of a reimplementation.”

The State would pursue a competitive bid process for the FMS software and associated implementation services if an acceptable agreement with Oracle cannot be reached.

3. If a decision is made to procure the FMS software through a competitive process, the State needs to consider the benefits of integration vs. interfacing when developing its evaluation criteria for selection of the new FMS.



Section 9 Reporting Approach

Background

In executing the scope of services associated with this study, the issue of reporting was consistently raised as a major concern by the State agencies. One of the major benefits of implementing a new FMS is the ability for properly trained end users to gain access to the data needed for timely analysis and decision-making. Current-generation FMS software typically provides a wide variety of standard reports, as well as a suite of ad hoc reporting and query tools to allow properly trained end users to develop their own custom reports. These applications also support printing of reports locally (at each State agency).

Findings

Provided below are findings regarding the current administrative systems reporting environment. Our findings are based on the following sources of information:

- ◆ Interviews with financial and procurement management representatives from the Stakeholder Agencies;
- ◆ Input received and data collected during Requirements Validation work sessions and through feedback received from the State agencies as part of the Agency Requirements Outreach activities; and
- ◆ Original Needs Assessment Report completed by Accenture in 2001/2002.

Our findings are as follows:

- ◆ Financial, procurement, and other administrative data is stored in many different administrative systems across State government – even stand-alone PCs in small agencies. Because there is no integration between procurement and financial accounting that allows for real-time budget checking, there is a risk that some procurement transactions are processed without adequate budget to support them. Some transactions are then re-entered into STARS.
- ◆ These information “silos” make it very difficult to generate accurate, timely, and consistent enterprise reports. Enterprise data lacks consistency because the statewide and user agency administrative systems utilize different views of the data.
- ◆ Stakeholder Agency personnel interviewed feel that the current statewide administrative systems (STARS, STARS Ad hoc, BMS, Procurement Manager Plus, and SHARP) are not meeting the State agencies’ reporting needs. To assist in addressing State agency and Regents Institutions reporting needs, the



Department of Administration provides data extracts to the agencies to support their ad hoc reporting needs. The data is then imported into Microsoft Excel, Microsoft Access, or other similar applications for further manipulation and reporting. Though helpful to the agencies, this procedure further “fragments” the data.

- ◆ STARS utilizes a flat file management system (VSAM), which places limitations on the development of custom outputs. Today’s current-generation FMS solutions typically utilize a relational database structure, which eliminates many of these limitations.
- ◆ State agency personnel spend considerable amounts of time searching for information to respond to requests made by the Legislature, the Governor, agency executive management, other State agencies, the Federal government, and the general public.
- ◆ Access to or knowledge about where information can be found is limited to specific individuals.
- ◆ Per a survey completed as part of the previous Needs Assessment Study completed by Accenture, “The general consensus among all agencies surveyed indicated that the accuracy of the data maintained in STARS and in proprietary applications is quite high”.
- ◆ The State agencies have concerns with the amount of data history maintained:
 - BMS maintains only one year of history; and
 - STARS Ad Hoc Reporting currently supports a 16-week data window.

Recommendation

Based on the findings presented above, we recommend that the State implement a flexible, scalable reporting architecture that supports standard reporting and query capabilities, as well as ad hoc reporting and query capabilities at both the central agency (Department of Administration) and user agencies. The reporting architecture should include the following characteristics:

- ◆ Provide a comprehensive inventory of standard reports to address routine reporting requirements for the various “in-scope” FMS functional modules.
- ◆ Provide robust ad hoc reporting and query tools to allow properly trained end users to develop their own custom reports and queries.
- ◆ Separate the ad hoc reporting function from the FMS production database to eliminate potential performance issues that may arise otherwise.
- ◆ Provide access to multiple years of data (as defined during the Pre-Implementation Phase of the FMS Project) for each type of data stored to



support current and future trend analysis and reporting needs. In some agency interviews, a number as high as ten or more years was expressed as desirable

- ◆ Provide for proper security to ensure compliance with HIPAA and other federal and State laws governing the data that populates the system.
- ◆ Provide comprehensive security to control access to data by specific agencies and Department of Administration access for enterprise reporting across all State agencies.
- ◆ Maintain a repository of reports that stores every report run, including the resulting data set.
- ◆ Support the importing of non-FMS data to support future enterprise reporting needs.
- ◆ Support remote distribution of standard and ad hoc reports to the requesting end user. This should result in cost savings to the State and expedite report delivery.

We recommend that the State include a Data Warehousing function in its reporting architecture as part of the procurement for FMS software and implementation services. A Data Warehouse typically functions as the main repository of an organization's historical data; in the case of the State of Kansas, the Data Warehouse should maintain all financial and procurement data for all State agencies at both the transactional and analytical level. While the FMS is optimized for transaction processing (online transaction processing or OLTP), the data warehouse is optimized for reporting and analysis (online analytical processing or OLAP). The data warehouse will draw transaction data from the FMS, as well as other data sources, so user agency and Department of Administration management can perform complex queries and analysis without impacting performance of the FMS.

The business case that supports this study includes the costs for data warehousing software and implementation services.

The Data Warehousing requirements are provided in *Appendix C: Functional System Requirements*.



Section 10 Alternative Solutions Analysis

The maturity of public sector functionality commonly found in integrated Enterprise Resource Planning (ERP) software (including human resource management, payroll, financial management and procurement functionality) combined with deficiencies in the functionality provided by existing legacy administrative systems that are reaching or near obsolescence are driving governments to evaluate the need to make changes. However, budgetary constraints in recent years have led elected officials and government executive leadership to closely scrutinize this decision and consider possible alternatives to implementing an ERP system. The following alternatives to an ERP system implementation, or a FMS implementation for the State of Kansas, have been considered by our public sector clients as well as other state and local governments; however, most organizations have chosen the ERP/FMS path where there was a viable business case to support it.

Alternatives Available to the State

Based on our work performed in completing this study, our understanding of the State's existing administrative business processes and associated systems, and our knowledge of the public sector financial management and procurement software marketplace, we offer the following alternative solutions to implementing a new FMS for the State:

1. Status Quo (Do Nothing)
2. Custom Development
3. Implement a "Best-of-Breed" Solution to Address Immediate Needs
4. Enhance Existing Systems and Processes
5. Outsourced Hosting
6. Outsourced Business Processes

The remainder of this section of the report provides a summary of each alternative solution, including:

- ◆ Description of the solution;
- ◆ Solution pros;
- ◆ Solution cons;
- ◆ Constraints and risks associated with implementation of the solution; and
- ◆ Feasibility of solution.

These alternative solutions are presented for discussion purposes only and are not recommended for implementation at this time.



Alternative No. 1: Status Quo (Do Nothing)

Description of Solution

The "Status Quo" alternative is presented as a baseline for comparison with other solutions. This solution provides for keeping the existing statewide administrative systems in place, while making no enhancements in functionality to the current systems or new integration among these systems.

The State's current administrative business processes are conducted through the use of several "stand-alone" applications (e.g., STARS, Procurement Manager Plus, Budget Management System, SOKI3+, Set-Off System) as well as numerous user agency "shadow systems" composed of commercially-available software, custom-developed software, PC-based spreadsheets and databases that are used to meet specific agency needs (e.g., grant, project, and cost accounting/allocation needs). The agencies reported 243 systems that are currently in place or are planned to support financial management, procurement, and other administrative areas

There is a lack of integration across this fragmented administrative systems environment; however, there is limited interfacing across user agency administrative systems, between user agency and statewide administrative systems, and across statewide administrative systems.

The technology of the State's administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, at or near obsolescence, and need to be replaced.

The State's accounting system of record is no longer supported by the vendor and has not been supported for years, so no new releases or software upgrades are available to keep the software up-to-date with the latest technology and business process best practices.

The State currently has no enterprise-wide procurement and asset management systems in place. Some agencies utilize the Procurement Manager Plus system that is maintained by the Division of Purchases for the processing of purchase requisitions or have built their own purchase requisition / tracking systems that in some cases are interfaced to the PMP system. Agency asset management systems are being used for financial reporting, asset management, and inventory control purposes at the user agency level (typically maintained in spreadsheets or PC databases).

Pros

- ◆ No disruption of current business processes.
- ◆ Limits inherent risks associated with changing current systems (assumes ongoing maintenance will still occur where applicable).
- ◆ No additional costs beyond in-house costs to support and maintain the software (no vendor software maintenance is available)



Cons

Fails to address the following problems:

- ◆ Current administrative systems require considerable technical skills/resources and time to modify as system changes require “hard-coding” (i.e., changes must be made to the actual computer code instead of simply changing data table entries to make the changes, and the staff with skills required to maintain these systems are rapidly approaching, or have reached, retirement age.
- ◆ Continued reliance on paper documents and the inefficient workflow associated with processing them.
- ◆ Lack of real-time integration within and among statewide financial and procurement systems, and other agency-specific administrative systems.
- ◆ Fails to take advantage of best business practices inherent in ERP systems.
- ◆ Time-consuming reconciling tasks associated with maintaining duplicate data in multiple databases. Reconciling required:
 - Between user agency administrative systems,
 - Between user agency and statewide administrative systems, and
 - Between statewide administrative systems.
- ◆ Some low value-added activities that currently requires consider work effort would be automated or eliminated in a FMS. This type of inefficiency has significant downsides, often creating issues with data integrity resulting in mistakes, poor decisions, and/or rework, and also negatively affects employee morale.
- ◆ State agencies continuing to pursue the development and implementation of new administrative system projects to meet agency administrative business needs that are not being met by existing statewide systems. This results in duplication of both functional and technical effort and cost exceeding millions of dollars statewide as multiple agencies plan, implement, and maintain systems having similar functionality.
- ◆ Lack of adequate ad hoc reporting capabilities.

Constraints and Risks

The risk associated with the “Status Quo” solution is that it provides no additional functionality or technological improvements; therefore, current systems may not meet statewide and user agency future needs. Specifically, the existing systems lack real-time integration with one another, and do not include an adequate end user reporting facility. Additionally, the State’s legacy financial, procurement, and other administrative systems and associated support are not positioned to respond rapidly to changes in business processes or technology.

This option also includes a major risk of technical obsolescence. The State is exposed to significant risk as legacy system technologies are becoming obsolete and will



eventually become difficult to replace. Furthermore, it will become increasingly difficult to find technical staff to maintain these systems.

Feasibility of Solution

As stated above, this solution ensures that current financial, procurement, and other administrative systems will remain operational in the near term; however, it places the State's strategic direction on hold indefinitely. It is not considered a viable solution for addressing future administrative systems needs.

Alternative No. 2: Custom Development

Description of Solution

The "Custom Development" (Custom) option will provide for the in-house development of a new fully integrated, Web-based FMS application that will meet the State's functional and technical system requirements. System programs would be developed using fourth-generation or higher programming languages, development tools, and development environment. All data would be maintained in a single, uniform database. By adapting to an open system architecture, modern tools and design techniques would assist the State in achieving a flexible, interoperable, and modular system, which can meet the future needs of the State.

Pros

- ◆ Assumed to meet 100% of the State's functional system requirements since the State controls all development efforts.
- ◆ System will be designed to provide full integration across the core areas of functionality.
- ◆ Will be built in compliance with the State's strategic technology direction.
- ◆ State will own the software
- ◆ In-house expertise will be developed
- ◆ May not require reengineering of the State's business processes
- ◆ "Pay as you go" funding approach with no annual maintenance commitments
- ◆ State has total control – no involvement from software or implementation vendors

Cons

- ◆ Will take a minimum of three to four years (possibly as much as seven years) to design, develop, properly test, and deploy FMS
- ◆ Requires extensive training of existing personnel and/or outside support assistance in the latest software development tools and methodologies.
- ◆ The State solely funds all initial development costs and risks, as well as future ongoing software upgrades and maintenance costs (as opposed to the costs



being funded by all clients that pay annual maintenance costs for commercially-available software)

- ◆ Technical expertise must be developed
- ◆ Highest total cost of ownership over long period of time
- ◆ Potentially long period of time to complete the Project and obtain benefits/savings
- ◆ Likely staff turnover during the Project
- ◆ May not develop and utilize business processes based on industry-standard "best practices" as are available with commercially-available FMS software
- ◆ Ongoing maintenance and functionality/technology enhancements must be completed "in-house"
- ◆ High risk associated with developing a FMS from "scratch".

Constraints and Risks

Based on our experience with custom development solutions, we believe that the extremely high risk of project failure associated with the Custom Development option renders this option unacceptable to the State due to its size, complexity, project duration, and funding requirements. Only organizations with considerable funding can support the high cost of ownership and complexity associated with developing and maintaining custom-developed applications. Even if funding is available, a FMS is a very poor candidate for custom development due to the functional scope, complexities, integration requirements, and numerous other "risk points" that can lead to failure.

Feasibility of Solution

Due to the numerous risks associated with a project of this magnitude and the ongoing costs associated with maintaining and enhancing the System for future use, custom development of a new fully-integrated FMS is not considered a feasible alternative and will be given no further consideration. We know of no public sector organizations that are currently or have recently custom-built a new FMS.

Alternative No. 3: Best-of-Breed

Description of Solution

Increasingly, organizations are looking at commercially-available software solutions' ability to meet specific business requirements as the primary driver in determining the best solution. The "Best-of-Breed" option means that the State would choose the best software product available for each business function and then build the necessary interfacing "points" between such systems. Specifically, the State could focus its efforts on acquiring software and implementation services to address its most compelling need at this time – procurement - - and implement other "best of-breed" solutions to address general ledger, asset management, and other administrative systems needs as the need arises and funding is made available.



The State currently utilizes a “best-of-breed” solution to meet statewide budget development needs. The Budget Management System is based on the baseline budget preparation software purchased from Legacy Solutions (now Affinity Global Solutions, Inc.). This software maintains a significant national market share (approximately 20%), and is currently used by nine (9) states to meet their statewide budget development needs.

Pros

- ◆ Ability to meet a high percentage of the State’s business requirements in specific functional areas; potentially greater depth of functionality in these areas.
- ◆ Less time required to implement or upgrade the System.
- ◆ Typically costs considerably less, initially, than ERP software solutions
- ◆ Provides many of the same features commonly found in FMS software (e.g., automated workflow, ad hoc reporting tools, self-service functionality).

Cons

- ◆ Requires the State to maintain resources skilled in multiple development toolsets and programming languages.
- ◆ Lacks “true” integration provided by a FMS solution, though some “best-of-breed” vendors now provide for “integration points” with common ERP systems that allow for “real-time” integration.
- ◆ Higher total cost of ownership than a FMS over time because of the cost of integration, supporting multiple development environments, and managing multiple vendor relationships.
- ◆ Time-consuming reconciling tasks associated with maintaining duplicate data in multiple databases.
- ◆ Upgrade paths and support lack coordination and integration, resulting in less flexibility and increased cost, complexity, and risk in maintaining supported product release levels for both the application, and the underlying software stack (database, operating systems, etc.)

Constraints and Risks

Care should be taken in planning for the acquisition of “best of-breed” software to ensure a proper “breaking of the integration” – by this we mean that there are best practices for combining “best-of-breed” software applications to meet an organization’s administrative business needs. A common option is to acquire a “stand-alone procurement system, and interface it with the legacy financial management system.

Feasibility of Solution

“Best-of-Breed” solutions are viable alternatives for meeting the State’s administrative business needs as long as care is taken to select a high quality solution that is supported by a stable company. These solutions are especially attractive during difficult economic times when funding is limited. The State could implement a new procurement system and interface



it with STARS in order to address several major procurement process and integration issues, but such a solution will not address grant/project accounting, asset management, budget development integration, and other functional deficiencies or the nearing obsolescence of STARS.

Alternative No. 4: Enhance Existing Systems

Description of Solution

This alternative would provide for enhancements to the existing statewide legacy systems. Potential enhancements include:

- ◆ Deployment of sophisticated ad hoc reporting tools to allow end users to create many of their own reports; and
- ◆ Modification of the existing systems and/or acquisition of third party “add-on” software to enhance functionality and/or address process improvement opportunities.

This option has the potential to produce an improved reporting capability, but will provide only a marginal increase in productivity due to limited opportunities to improve integration and system functionality, and the lack of use of best business practices and automated workflow capabilities. In addition, enhanced reporting does not address the broad array of granular data required by State agencies to manage their operations that is not currently captured in STARS.

Pros

- ◆ Does not disrupt normal business operations as much as a system replacement project.
- ◆ Does not require the replacement of application software.
- ◆ Not necessary to train users on an entirely new system -- only certain software features.
- ◆ Leverages the skills of existing technical resources.
- ◆ Costs will be considerably less than with a replacement solution.

Cons

- ◆ High risk associated with modifying the existing legacy systems.
- ◆ Fails to provide the efficiencies and process improvements that other options will provide.
- ◆ Considered only a “stop gap” option.

Constraints and Risks

Any potential modifications to STARS will include high risk due to the fact that the System has been modified numerous times in the past, the State has limited IT resources that are



technically proficient with the System, and the System is no longer supported by the software vendor. Customization of any of the administrative systems includes inherent risks.

Feasibility of Solution

This option is considered feasible only as a “stop gap” until other more viable options can be implemented.

Alternative No. 5: Outsourced Hosting

Description of Solution

Outsourced Hosting allows a third party or the software vendor to provide the hardware for hosting the new system. Numerous hosting models exist today, but the most common model involves the client paying a subscription fee for use of specified software that is maintained by the Application Service Provider (ASP). The ASP provides the technical infrastructure and support services to the client organization.

Pros

- ◆ Expected cost savings (brief history has shown varied actual results).
- ◆ Reduced need to hire and retain highly skilled (and expensive) technical resources.
- ◆ Very high levels of “uptime” and maintenance that is seamless to the user.
- ◆ Improved levels of customer service (brief history has shown varied actual results).
- ◆ ASP stays current with software upgrades and new releases
- ◆ Providing IT services is the core business of the ASP (but not for the State)
- ◆ Reduced need to purchase new, rapidly depreciating hardware and software.
- ◆ Reduced initial investment and “pay-as-you-go” financing.
- ◆ Predictability of cash flow.
- ◆ Decreased cost of ownership.
- ◆ Operating expense versus capital expense.
- ◆ Provides for secure storage of data in off-site location
- ◆ ASP should have considerable expertise with the software being used
- ◆ ASP is responsible for data back-ups and other critical system management functions

Cons

- ◆ Negotiations typically involve multi-year “lock-in” contracts, which raise concerns of vendor stability and quality of service



- ◆ On multi-year contracts, vendor profits are often “backend loaded” into the later years of the contract, so that attractive first year pricing may be misleading
- ◆ Requires a good partnership with outside vendor
- ◆ Relies on outside vendor to provide system and services – requires that vendor be economically viable
- ◆ As needs and business grow, organizations see their use of computer services increase over the years, and vendor billings increase accordingly; however, additional work typically is priced higher than the initial services, so that anticipated cost savings may not materialize
- ◆ Political risk as State jobs may be eliminated (though jobs may be offered to impacted employees by ASP vendor)
- ◆ Relies on contractual relationship – service may be compromised if contract is deficient
- ◆ While potentially less expensive than a State owned and platformed solution, customizations required by changes in statute, regulation, programs or business environment will likely be more expensive than if developed in-house.
- ◆ The State has few, if any, immediate alternatives if problems develop, due to the time and expense of either bringing solutions in-house or moving between ASP vendors. This risk is particularly unpalatable with systems that support state financial processes on which the business of government depends.

Constraints and Risks

The potential for contract disagreement over what activities and services are included in the price is very high, particularly in later years when vendors expect their profits to increase.

Where hosting has failed to be cost-effective or does not yield satisfactory service delivery, the organizations involved have struggled to reinstate in-house functions without impacting services.

Feasibility of Solution

Hosting is a viable alternative if the delivery of technical services can be measurably improved, and/or costs controlled or reduced significantly without unacceptable levels of risk and side effects.

Should State leadership choose to initiate the acquisition of FMS software and associated implementation services, the RFP can be structured in such a way to allow vendors to propose alternative hosting models as part of their FMS offering, including an Outsourced Hosting model.



Alternative No. 6: Outsourced Business Processes

Description of Solution

The State would contract with an outside vendor to provide all financial management and procurement services within the scope of this project, or some sub-set thereof.

Pros

- ◆ Provides shorter implementation time and faster realization of projected benefits/savings
- ◆ Reduces risks associated with operating and maintaining the State's administrative business processes
- ◆ Typically makes use of vendor and employee self-service and latest technology
- ◆ All transactions are handled by the outside vendor, allowing State staff to focus on agency core competencies
- ◆ Expected cost savings (brief history has shown varied actual results)
- ◆ Reduced need to hire and retain functional and technical resources
- ◆ Improved levels of customer service (brief history has shown varied actual results)
- ◆ Reduced initial investment and "pay-as-you-go" financing
- ◆ Predictability of cash flow
- ◆ Operating expense versus capital expense

Cons

- ◆ Relies on outside vendor to provide system and services – requires that vendor be economically viable
- ◆ Relies on contractual relationship – service may be compromised if contract is deficient
- ◆ Requires a good partnership with outside vendor
- ◆ Major change impact to the organization
- ◆ Political risk as State jobs may be eliminated (though jobs may be offered to impacted employees by vendor)
- ◆ Some transactions may be inappropriate for processing by non-State employees (e.g., procurement awards)
- ◆ Negotiations typically involve multi-year "lock-in" contracts, which raise concerns of vendor stability and quality of service.
- ◆ On multi-year contracts, vendor profits are often "backend loaded" into the later years of the contract, so that attractive first year pricing may be misleading.



- ◆ Offer limited flexibility – these solutions work well in a standardized environment but tend to break down when an entity has unique needs.

Constraints and Risks

As with an Outsourced Hosting arrangement, an Outsourced Business Process arrangement is only as good as the contractual agreement that supports/enforces it.

Where the outsourced business processes have failed to be cost-effective or do not yield satisfactory service delivery, the organizations involved have struggled to reinstate in-house functions without impacting services.

This model typically works well in performing routine business processes that have been standardized across the organization; however, the model typically struggles in performing “exception” type processes in which prior institutional knowledge is a benefit.

Feasibility of Solution

Outsourced Business Processes are a viable alternative if service delivery can be measurably improved, and/or costs controlled or reduced significantly without unacceptable levels of risk and side effects.

Should State leadership choose to initiate the acquisition of FMS software and associated implementation services, the RFP can be structured in such a way to allow vendors to propose alternative hosting models as part of their FMS offering, including an Outsourced Business Process Model.

Outsourced Business Processes can be a viable option for consideration if there is a business case to support the change, and the new model will allow State resources to focus on agency core competencies. However, governments should proceed with caution as statewide projects to date have:

- ◆ Focused on human resources and payroll functionality only,
- ◆ Failed to realize all cost savings as planned, and
- ◆ Encountered difficulties in executing non-standardized, exception-based business process at a high level of customer service.