



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #115

Enterprise Resource Planning System (DOA -- Information Technology)

[LFB 2013-15 Budget Summary: Page 34, #1]

CURRENT LAW

Under 2007 Act 20, DOA was required to implement an integrated business information system for all executive branch agencies. However, the project was put on hold in April, 2008, and the agency suspended payments from the appropriation in 2010-11.

GOVERNOR

Provide \$1,000,000 GPR in 2014-15 and create a GPR-funded annual appropriation for a statewide enterprise resource planning (ERP) system. Specify that funds may be transferred to the PR appropriation for integrated business information systems. Rename the current continuing appropriation for "integrated business information system" the "enterprise resource planning system" appropriation. Retitle three other existing appropriations (one in DOA and two under Program Supplements) that relate to integrated business information systems as ERP system appropriations.

DISCUSSION POINTS

1. Under 2007 Act 20, DOA was required to implement, operate, maintain, and upgrade an integrated business information system (IBIS) for all executive branch agencies for the following: (a) all financial services (including accounting and auditing of payroll); (b) procurement; (c) human resources; and (d) other administrative duties. The existing IBIS appropriation is a continuing appropriation funded by program revenue. The Department initially purchased hardware and software for the system under the state's master lease program, which permits the state to spread the cost of larger purchases over the course of several years. The project was put on hold in April, 2008. Lease payments were scheduled to be made on a semi-annual basis through 2012-13.

However, DOA suspended payments from the IBIS PR appropriation in 2010-11. In a letter to the Joint Committee on Finance in December, 2012, DOA indicated that it "suspended further maintenance payments in order to give the administration an opportunity to look at options of moving forward with an enterprise resource planning system. If the system is determined to be feasible, state agencies will be billed to recover the costs incurred in this appropriation when implementation occurs."

2. The IBIS PR appropriation has statutorily authorized forestalling authority, which allows DOA to spend in excess of the revenues received, to the extent that the non-depreciated assets under the appropriation offset the excess expenditures. As of the end of 2011-12, the appropriation overdraft of the account was \$14.2 million, of which \$6.1 million was supported by undepreciated assets. The unsupported overdraft balance of the account was \$8.1 million. However, DOA has not historically billed agencies for IT projects until a deliverable has been met. Further, in order to take advantage of federal resources in apportioning costs across all fund sources, agency assessments must be consistent with federal cost allocation principles. Federal regulations do not allow the state to allocate costs relating to obligations from over two years prior using federal funds. Therefore, DOA is unable to assess agencies for the past or future costs of operating an ERP system until services are delivered to the agencies. The administration indicates that the \$1.0 million GPR provided would be used to reduce the unsupported overdraft balance of the PR appropriation for previous expenses for IBIS.

3. The administration is implementing an ERP system and will issue a request for proposal for the system in May or June of 2013. The ERP system would be a continuation of the work that was done to establish IBIS. Regarding the renewal of the project, the administration argues that it is "still necessary to consolidate multiple outdated human resources, procurement and financial business systems into one efficient, transparent and modern enterprise-wide system to meet state government business needs. The state's current systems are fragmented, incompatible, inconsistent, and incomplete." Further, the administration believes that the system "will allow the State to better monitor and track spending, enhance human resource and procurement efforts, and allow agencies to better manage payroll and other administrative systems. Agencies will have real-time information to make better-informed business decisions, and will have the ability to produce data and information that can be shared with decision makers and the general public." Most of the software that would be used for the new system has already been purchased by DOA for IBIS. The administration estimates that the financial management functions of the system could be expected to be fully functional by July, 2015. Financial management functions include: (a) general ledger and budgetary control; (b) accounts payable and travel; (c) accounts receivable and billing; (d) grants management; (e) project management; (f) cost accounting and allocation; (g) asset management; (h) cash management; and (i) Federal Highway Administration federal Aid billing. In addition, a component of procurement functions would be implemented during this period. The human resource and payroll functions of the system could be expected to be functional in December, 2016. Once the ERP system becomes operational, DOA could begin to assess state agencies for services provided, to cover the appropriation deficit as well as ongoing operational costs for the system.

4. The administration indicates that implementation of the ERP system would make use of the state's master lease program. Maintenance on the software that was purchased was kept

current through May, 2011. The administration estimates that initial expenses to make up for suspended maintenance payments on the software the state owns would cost approximately \$3.5 million. Expenditures for the system over the next 10 years could total to approximately \$200 million. The administration anticipates using the master lease to finance: (a) renewal or repurchase costs for modules not available under the original software purchase; (b) the first year of maintenance on a new agreement; (c) installation, project and staff training; (d) implementation services; and (e) additional software deemed necessary during implementation. In addition, the administration has indicated that a number of additional positions may be needed for the launch and operation of the system. Once the agency determines how many positions would be needed and when they would be needed, DOA may request the positions under a 14-day passive review process.

5. The administration proposes the utilization of \$1.0 million GPR to reduce the overdraft balance of the IBIS PR appropriation, to offset initial investments associated with the state's integrated business information system that DOA is unable to recover from state agencies at this time. The administration indicates that the remaining costs of IBIS and the ERP system will be assessed to agencies when the ERP system is implemented and functioning. Therefore, in order to reduce the financial burden on agencies once the system is functional, the administration recommends paying down a portion of the IBIS overdraft. For this reason, the Committee could choose to approve the Governor's recommendation to provide \$1.0 million GPR in 2014-15 to reduce the overdraft of the state's IBIS PR appropriation and rename IBIS to the enterprise resource planning system. Funding would remain in the agency's base budget. [Alternative 1]

6. On the other hand, the \$1.0 million GPR does not appear to be tied to a specific funding need at this time. Rather, it is intended to reduce the burden on executive branch agencies, which will be assessed for the costs incurred by IBIS as well as the cost to operate the ERP system. If the Committee believes that some reduction of the IBIS overdraft would be beneficial, but that a lower amount of funding would be appropriate, the Committee could modify the proposal to reduce the IBIS appropriation overdraft by providing an amount less than \$1.0 million. Under this alternative, all appropriations and statutory references to IBIS would be renamed to the ERP system. [Alternative 2]

7. Alternatively, the Committee could choose to delete the ERP system GPR appropriation and funding, and rename the appropriations and statutory references to IBIS to the ERP system. [Alternative 3] Under this alternative, all of the prior IBIS costs would be recovered through assessments to agencies to the extent possible.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$1.0 million GPR in 2014-15 and create a GPR-funded annual ERP system appropriation. Specify that the funds be used to reduce the appropriation overdraft (negative cash balance) of the existing IBIS (ERP system) PR appropriation. Rename all IBIS appropriations to ERP system appropriations.

2. Modify the proposal to provide one of the following amounts:

a. \$750,000 GPR in 2014-15

| ALT 2a | Change to Bill Funding |
|---------------|-----------------------------------|
| GPR | - \$250,000 |

b. \$500,000 GPR in 2014-15

| ALT 2b | Change to Bill Funding |
|---------------|-----------------------------------|
| GPR | - \$500,000 |

c. \$250,000 GPR in 2014-15

| ALT 2c | Change to Bill Funding |
|---------------|-----------------------------------|
| GPR | - \$750,000 |

3. Delete the provision relating to creating a GPR-funded ERP system appropriation. Delete the related funding of \$1.0 million GPR. Rename all existing IBIS appropriations to ERP system appropriations.

| ALT 3 | Change to Bill Funding |
|--------------|-----------------------------------|
| GPR | - \$1,000,000 |

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