

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Creating a 21st-Century Financial Management System in Washington (May 8, 2013)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on May 22, 2013

The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit & Review Committee. Staff to the Joint Legislative Audit & Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.

Title: Creating a 21st-Century Financial Management System in Washington

Audit Scope and Objectives:

SAO reports that the overarching purpose of the analysis was to compare the state's current financial management systems with the potential costs and benefits of a modern, full-featured Enterprise Resource Planning (ERP) system. In particular, SAO says is sought answers to the following four questions:

1. What is the current condition of the state's financial management system, and how does it compare with the leading practices found in a modern ERP system and in other states?
2. What are the technical problems or risks associated with the current financial management system?
3. What governance and oversight model is applied to Washington's financial management? Are there gaps or overlaps in that authority?
4. What are the financial and other impacts of sustaining the current system compared to migrating to a modern ERP system?

In conducting this performance audit, SAO indicates that it engaged Information Services Group to perform an analysis of Washington's current financial management systems. SAO also reports that managers and staff at three core agencies (the Office of Financial Management, the Department of Enterprise Services, and the Office of the Chief Information Officer), as well as 12 large agencies selected to participate in the audit, provided information on their existing and planned financial management systems operations and costs, as well as identifying the systems that are candidates for replacement by an ERP system.

SAO notes that the data used to estimate current system operations and maintenance costs, and future systems investments was reported by state agencies and that methodologies used when collecting these costs may have differed between agencies.

SAO Findings:

- Washington’s financial management system does not efficiently meet agency or state needs because of fragmented, out-of-date technology.
- Washington’s financial management system is not in danger of collapsing, but maintaining the current system will grow more problematic over time.
- State government financial leaders have been planning for the development of an ERP system, and identified potential benefits.
- The state has new, but untested ability to support the kind of centralized management structure important to the successful development and implementation of an ERP system.
- Developing an integrated financial management system will pay for itself in time, but upfront costs are high.

SAO Recommendations:

SAO recommends the Office of Financial Management, Department of Enterprise Services and the Office of the Chief Information Officer take the following actions:

1. Proceed with their plan to modernize the state financial management system.
2. Create a management structure that promotes strong financial management leadership.
3. Report to the Legislature on the status of their progress in implementing these recommendations by December 2013, and annually thereafter until the project is complete.

Agency Responses in Audit Report?	Yes, beginning on page 17
Legislative Action Requested?	No

Agencies Testifying:

The Office of Financial Management (Tracey Guerin, Deputy Director)

The Department of Enterprise Services (Lynn McGuire, Deputy Director)

The Office of the Chief Information Officer (Jill Satran, Director of External Relations & Policy)

The Department of Natural Resources (Lenny Young, Supervisor, and Ben Hainline, Auditor)

Summary of Testimony from Audited Agencies:

A lot of collaboration went into this audit among SAO, the three core agencies, and the 12 participating agencies. This is first and foremost a business transformation process and project; it is not just about bringing in a new IT system. We want to make our business processes more efficient and make our services better for the citizens of the state. In order to do that, we need a modern financial system.

The report looks at certain ways to implement a modern financial system. Those may or may not be how we need to do it in our state. We need to take the time to plan for that and look at it while we are making our business transformation. While SAO did make some estimates, those may not be accurate if we choose to implement the system differently. This also assumes we will have funding in the budget to move forward.

Having just gone through a merger of five agencies, DES can attest that the merger would have been easier if the agencies had all been using the same financial and administrative systems. Agencies also report a potential training cost savings if they could all be skilled on the same tools instead of on different systems. With the current mainframe system, much of the heavy number-crunching happens at night. If a mistake has been made, it is usually not discovered until the nighttime work, when everything comes to a halt until an employee comes to fix the problem. In a modern system, if a user makes a mistake keying something in or there is some other error, the user gets immediate feedback and can make a correction right then.

The Chief Information Officer has been integrally involved in this process and will continue to be. This effort is well-supported among the three core agencies.

DNR concurs with the SAO recommendations but does have two concerns. First, we feel that the report's characterization of DNR's NaturE system as an accounts-receivable system is misleading. NaturE is a multi-functional system designed to meet DNR's business needs, replacing three major legacy systems. It should not be viewed as a candidate for replacement by an ERP. Second, DNR questions the audit conclusion that replacement with an ERP will pay for itself over time. When DNR replaced its three legacy systems with NaturE, it did realize significant improvements, but the agency did not obtain effort-related savings. Our concern is that, in a difficult budget environment, the report's estimates of cost savings could be translated to reductions in agency operating budgets in anticipation of efficiency savings, before those savings are actually proven out.

Other Parties Testifying:

(No other parties signed in to testify)

Summary of Testimony from Other Parties:

(No other parties signed in to testify)