



Implementing a modern financial management system in Washington

A performance audit report from the State Auditor's Office

A new financial management system could improve efficiency and information

In a time of continuing budget challenges, Washington manages its state finances using inefficient, out-of-date technology that cannot provide timely information to inform decisions.

We conducted a performance audit to determine how much a new financial management system would cost, what benefits it would provide, and identify leading practices in replacing the old system. To assist in our investigation, we engaged Information Services Group, which has assisted 10 other states in evaluating their financial management systems.

The current system is not meeting state needs

Washington's financial management system does not efficiently meet agency or state needs because of fragmented, outmoded technology:

- As a result, state agencies have implemented numerous stand-alone components, which are redundant.
- Financial managers, agencies, and legislative staff do not have access to the real-time financial information they need to make informed decisions.
- Most of the core and agency-managed systems can be replaced by a single ERP system.

Challenges to sustaining the current system

The current system is not in danger of collapsing, but maintaining it will grow more problematic over time. The system is experiencing more overnight problems than in the past and it is becoming more difficult to retain and recruit staff with the skills to operate an outdated system.

Planning is under way for a new system

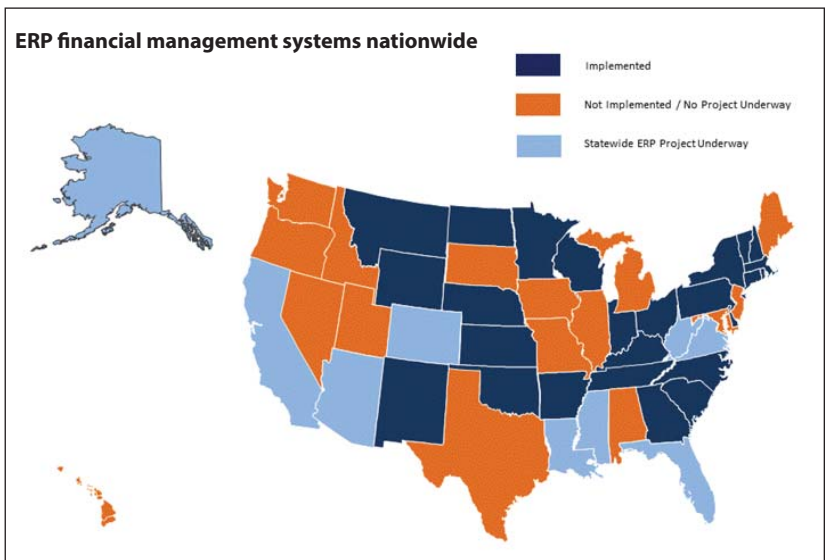
State government financial leaders have begun planning for the development of an ERP, and identified potential benefits.

- The Roadmap project, begun in 2004, prepared the way forward for modernizing the system
- Legislative budget proposals include \$2.4 million to begin implementation planning and preparation activities.

Legislation passed in 2011 that reorganized and streamlined central service functions provides a framework for overseeing this process.

State finances run on 80s technology

The state's primary accounting system of record, the Agency Financial Reporting System, was installed in the early 1980s. It is functional but outmoded. Because this and other core financial systems are significantly limited in their capabilities, most state agencies have built their own supplemental accounting systems. More than 100 of these redundant components, from single spreadsheets to stand-alone systems, are used across state government. Maintaining them requires time-consuming manual input and duplicative processing.



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.

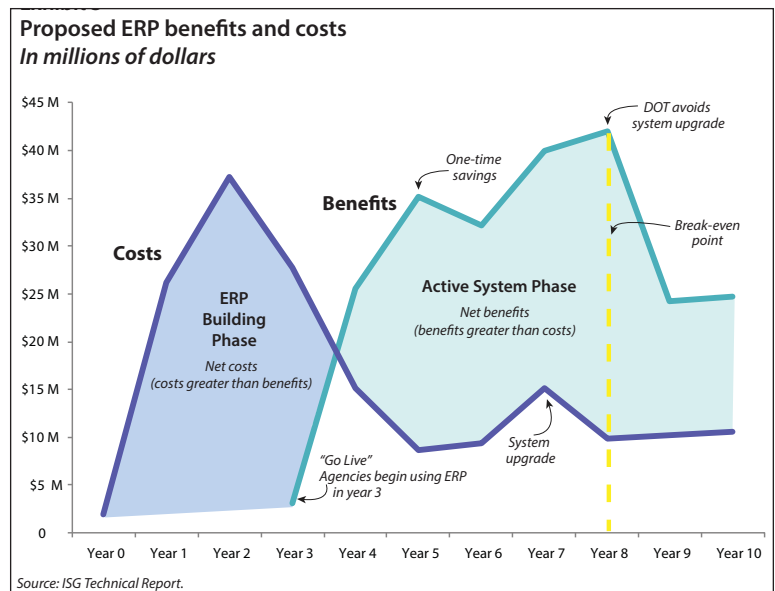
- Implementing new systems is more challenging in Washington decentralized government culture.

The costs and benefits of a new system

Developing an integrated financial management system will pay for itself in time, but upfront costs are high

- Estimated costs: \$172 million
- Estimated benefits: \$228 million
- Break-even point in year 8
- Most of the costs occur earlier in the project, while the benefits are fully realized later, as shown in the chart
- State agency staff said that costs may be even higher than this estimate due to the large number of systems and decentralized agency culture in Washington.

More than a quarter of the time state agency staff spent on financial management tasks evaluated in this audit resulted from inefficiencies in the current system.



Recommendations

To strengthen the state's financial management system, we recommend the Office of Financial Management, Department of Enterprise Services, and the Office of the Chief Information Officer:

1. Proceed with their plan to modernize the state's 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 regulations by December 2013, and annually thereafter until the project is complete.