



Performance Audit of the Financial Management System

Joint Legislative Audit and Review Committee
May 22, 2013

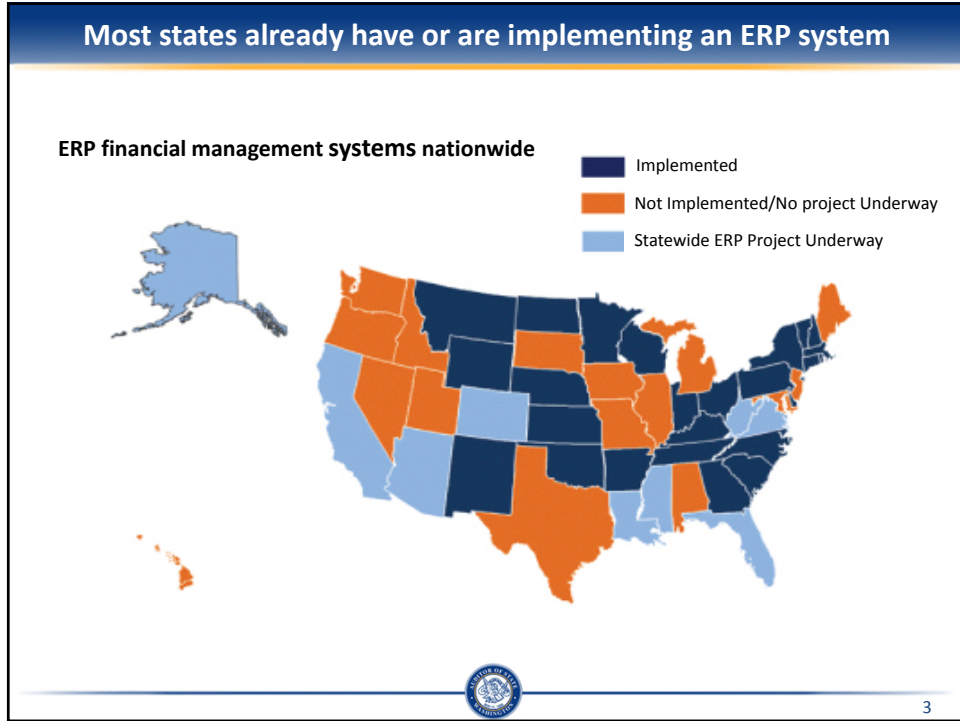
Larisa Benson, Director of Performance Audit
Don Krug, Audit Manager



Why did we do this audit?

- Independent analysis
- Expert review
- Reassurance
- Leading practices
- Most comprehensive benefit/cost analysis to date






Overview of the audit

We sought answers to the following questions:

1. What is the current condition of the system and how does it compare with the other states?
2. What are the risks?
3. What are the costs and benefits of migrating to a modern system?



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The current system does not meet state needs

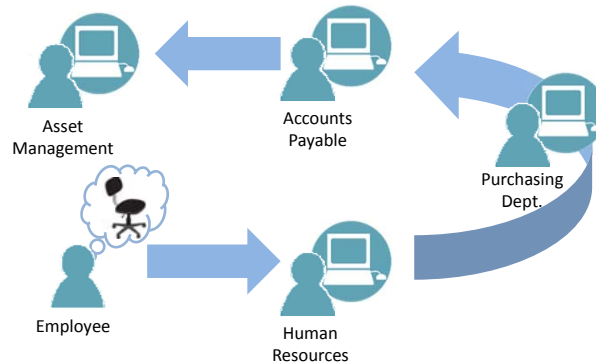
Characteristics of selected state core financial management systems

Core financial systems	Purpose of system	Installation date	Usage
AFRS	Comprehensive financial management	Early 1980s	All agencies
TRAINS	DOT's internal financial management	1991	DOT
Solomon IV	Accounts receivable	1997	8 agencies
CAMS	Managing capital assets	1983	78 agencies
CAS	Allocating costs	2003	2 agencies
WEBS	Vendor registration and bid notification	2004	All agencies
ECMS	Tracks and monitors agency contracts	2004	All agencies



The current system is inefficient

- A modern system could save one-quarter of the effort currently wasted on repetitive or unnecessary work.

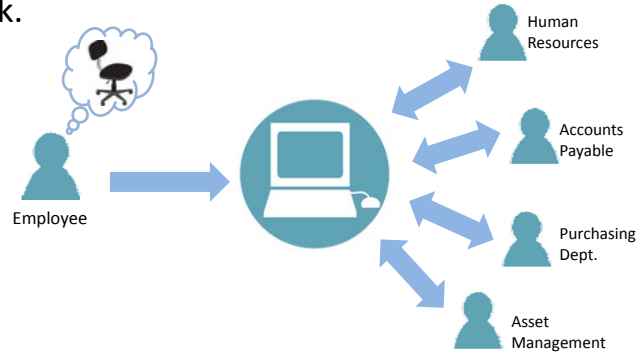


- Most of the core- and agency-managed systems can be replaced by an integrated system



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What are the risks?

The system is not in danger of collapse, but performance issues are increasing

- AFRS and other core systems are no longer supported by their developers, and the staff that know these systems are nearing retirement
- Increasing number of system change requests, from 283 in 2010 to 383 in 2011
- 85 episodes of off-hours processing problems



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Financial Analysis components

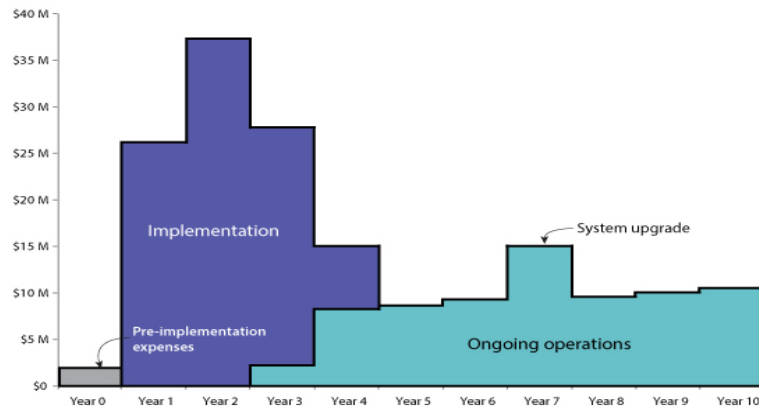
Costs	\$172 million
Pre-implementation	\$2 million
Implementation	\$78 million
Contingency	\$18 million
Ongoing maintenance & operations	\$74 million
Benefits	\$228 million
Ongoing system costs avoided	\$47 million
Future IT investments avoided	\$48 million
Effort-based savings	\$32 million
Process improvement benefits	\$101 million
Net Benefits	\$56 million



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Annual costs are higher during implementation

Distribution of proposed financial management system costs
In millions of dollars



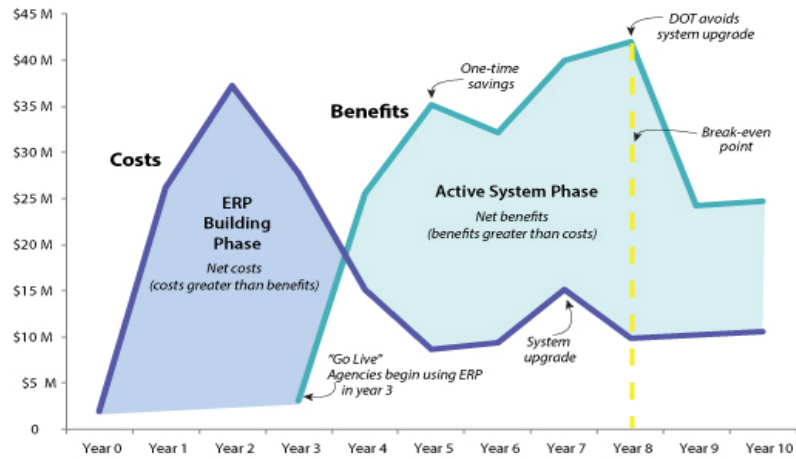
Note: Implementation costs include \$17.6 million for contingency.



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Benefits are greater than costs but are delayed

Proposed ERP benefits and costs



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Leading practices for implementing an ERP system

- Ensure the ERP system is perceived first as a business transformation project and then as an IT project
- Ensure executive support
- Limit modifications to the software
- Limit migration of old data



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Our Recommendations

To strengthen the state's financial management system, we recommend OFM, DES and the OCIO:

1. Proceed with their plan to modernize the state's financial management system
2. Create a governance 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.



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