



## Legislative Fiscal Bureau

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May 30, 2007

Joint Committee on Finance

Paper #116

### **Integrated Business Information System (DOA -- Information Technology)**

#### *Base Section*

[LFB 2007-09 Budget Summary: Page 32, #1]

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#### **CURRENT LAW**

Base funding under the Department of Administration's Division of Enterprise Technology (DET) appropriation for printing, mail processing, communications and information technology for state agencies is \$104,9614,900 PR and 224.05 PR positions annually. Base funding under DET's communications and information technology for non-state agencies appropriation is \$16,008,700 PR annually and base funding for the procurement services appropriation is \$4,307,400 PR annually.

The Department of Administration (DOA) is authorized to implement a state government-wide reporting, data warehousing and data analysis system applicable to all executive branch agencies, except certain authorities.

#### **GOVERNOR**

Require DOA to implement, operate, maintain, and upgrade an integrated business information system (IBIS) capable of providing information technology services to all agencies, including the Legislature and the Courts, for the following: (a) all financial services (includes accounting, auditing, and payroll); (b) procurement; (c) human resources; and (d) other administrative duties. Allow DOA to provide these services to any agency, authority, or local unit of government as long as the service can be provided efficiently and economically, as determined by the Department. Specify that DOA may charge an agency, authority, or local unit of government for these services in accordance with the methodology determined by the Department.

Provide \$9,062,900 PR in 2007-08 and \$10,594,500 PR in 2008-09 under a newly-created PR-continuing appropriation for the receipt of charges to agencies for IBIS services, for the following: (a) \$647,900 PR in 2007-08 and \$660,100 PR in 2008-09 for salaries and fringe benefits; (b) \$493,300 PR annually for limited-term employees; and (c) \$7,921,700 PR in 2007-08 and \$9,441,100 PR in 2008-09 for supplies and services. The program revenue would be provided from charges to agencies. No positions would be created in the bill. Specify that the current printing, mail, communications, and information technology appropriation could not be used for IBIS service assessments. Allow the Department to expend monies in excess of the amounts appropriated under the new appropriation where the depreciated value of equipment purchased is at least equal to the excess expenditures.

Create a PR-continuing appropriation for payments from authorities and local units of government for IBIS system operations. No funding is provided under this appropriation. However, the Department could expend all moneys received. Modify the current program revenue-supported information technology and communications services; nonstate agencies appropriation to specify that IBIS system charges could not be expended under this appropriation.

Create two sum sufficient appropriations (one for segregated appropriations and one for program revenue appropriations) that would allow DOA to provide sum-sufficient supplements to state agency appropriations that support IBIS system assessments.

## **DISCUSSION POINTS**

1. Under the bill, the Governor would provide \$9,062,900 PR in 2007-08 and \$10,594,500 PR in 2008-09 under a newly-created PR-continuing appropriation for the receipt of charges to agencies for IBIS services.

2. In April, 2007, the Legislative Audit Bureau (LAB) completed an audit of the *Information Technology Projects* [Report 07-5], which included recommendations on IT projects in general and on the IBIS project specifically. The audit states that DOA's oversight of IT projects has not been adequate. The Audit Bureau made recommendations on ways to improve DOA's collaboration with other agencies in identifying high-risk projects and establishing planning standards, including quantifiable performance measures, as well as ways to improve legislative oversight. (These issues are addressed in a separate budget paper.) In addition, LAB conducted reviews of seven high-risk projects, including IBIS.

3. The IBIS project is intended to replace approximately 100 existing administrative software programs used by executive branch agencies for accounting, budgeting, human resources, payroll, and procurement functions.

4. While agency use of IBIS would vary based on agency need, DOA estimates that savings would occur through the reduction of administrative software packages to be maintained and the reduced need to develop software related to all of these separate systems. According to the

LAB audit, DOA also estimates savings due to decreased staffing and supply costs through increased efficiency and reducing duplicate data entries and the use of paper forms.

5. In October, 2004, DOA hired Salvaggio, Teal & Associates to analyze the IBIS software and to facilitate meetings with DOA and other agency staff with expertise in administrative areas such as accounting and human resources. In March, 2005, Salvaggio, Teal & Associates recommended that DOA proceed with implementing IBIS at an estimated cost of \$135.3 million.

6. In June, 2005, DOA initiated a process to select a new enterprise planning system as part of the IBIS project. The Department appointed a review committee that included "subject matter experts" from functional areas of agencies, including budget, financial systems, procurement, payroll, and human resources. The committee consisted of one private sector member, five members from DOA, and one from the Department of Transportation.

7. The following table shows the 2007-09 IBIS costs according to the Department. The amounts shown in the table for permanent salaries and total fringe benefits \$339,300 PR in 2007-08 and \$345,300 PR in 2008-09 are less than the amounts recommended in SB 40 (\$647,900 PR in 2007-08 and \$660,100 PR in 2008-09). The Department is anticipating using several employees from other agency IT functions, which would essentially be on loan for the IBIS construction. The Department states that it is now anticipating that there would be less use of internal staff and increased use of contracted staff and is requesting authority for additional supplies and services funding and less salaries and fringe benefits.

**Estimated IBIS Costs  
(2007-09)**

<u>Project Elements</u>	<u>FY 2008</u>	<u>FY 2009</u>
Salaries and Fringe Benefits		
Permanent Salaries	\$218,200	\$222,600
Limited-Term Employee Salary	493,300	493,300
Fringe Benefits	<u>121,100</u>	<u>122,700</u>
Subtotal	\$832,600	\$838,600
Supplies and Services		
Master Lease Payments	\$1,606,900	\$3,128,400
Travel and Training	350,000	350,000
Rent	135,500	139,600
Technical Writer	96,000	96,000
Other Supplies	1,892,700	1,892,700
Master Lease Costs for 26 Contract Staff*	2,357,500	2,357,500
Business Analyst Staff*	<u>1,791,700</u>	<u>1,791,700</u>
Subtotal	\$8,230,300	\$9,755,900
Total	\$9,062,900	\$10,594,500

\*The Department indicates that the contractor is Salvaggio Teal.

8. The enterprise resource planning system evaluation committee received three proposals and scored each to determine whether the vendors met the minimum technical requirements (which each of the three vendors did). The vendors were then given an opportunity to demonstrate their software based on the stated needs of IBIS. Ultimately, the Department chose Oracle USA, Inc. at a cost of \$9.2 million over five years. The Department currently estimates that IBIS would be operational in 2012.

9. In addition to funding provided in SB 40, three appropriations would be created for providing additional revenues for IBIS operation costs, including: (a) an all moneys received appropriation for payments from authorities and local units of government for IBIS system operation; (b) an appropriation that would allow DOA to provide sum-sufficient supplements from segregated accounts to state agency appropriations that support IBIS system assessments; and (c) an appropriation that would allow DOA to provide sum-sufficient supplements from program revenue accounts to state agency appropriations that support IBIS system assessments.

10. While the LAB notes that the early planning efforts for IBIS have been effective, it also indicates that continued monitoring is important. In reviewing IBIS, the Committee may wish to consider: (a) the appropriateness of approving increased funding for the project; (b) if funding is approved, possible modifications to SB 40; (c) whether the appropriations provided under the bill should be modified to provide more legislative oversight on current and future IBIS expenditures; and (d) whether the Legislature and the Courts should be included in the IBIS system, as specified under the bill.

### **Approval of the Project**

11. The LAB IT audit details the difficulty agencies have in determining whether to approve IT projects, given the often overstated savings included in early analysis of proposed projects. In the case of the IBIS system, there have already been three reestimates that had the following savings estimates: (a) in March, 2005, Salvaggio, Teal & Associates estimated that the state could realize savings of \$513.8 million over 10 years; (b) in March, 2006, DOA estimated that the state could realize savings of \$300.1 million over 10 years; and (c) in December, 2006, DOA estimated savings ranging from \$35.4 million to \$90.9 million, depending on the extent of its use of consultants for IBIS implementation and the number of staff reductions that would occur if implemented.

12. The Audit Bureau states that DOA will face significant obstacles in implementing IBIS and achieving these savings, including: (a) agencies will want IBIS software to be customized to meet agency specific needs; (b) problems with existing agency software could increase if modifications and maintenance is delayed in anticipation of IBIS implementation; and (c) there will be a need for significant coordination if multiple vendors are needed to assist with the implementation and for monitoring by staff with the required technical expertise.

13. The Audit Bureau notes that DOA has taken several positive steps in the early stages of the project to plan effectively and control costs, including: (a) implementing a process to limit the

amount of customization of the Oracle software by developing standardized practices that all agencies would have to follow; (b) implementing a formal process that must be followed if an agency insists on a specific software function that would require customization; (c) requiring vendors to deliver software demonstrations to state staff with expertise in accounting, budgeting, human resources, payroll, and procurement; and (d) identifying specific indicators the Department intends to use to monitor the progress of the IBIS project and more accurately calculate project costs.

14. The audit recommends that DOA report to the Joint Legislative Audit Committee by October 1, 2007, on the status of IBIS implementation, including costs to date, the project's estimated completion date, and the status of the effort to limit agency customization of the software.

15. Given these considerations, it could be argued that funding for the project should not be approved until other oversight recommendations are adopted. The Committee could consider delaying the approval of additional IBIS funding until all of the reports recommended in the IT audit have been submitted to the Joint Legislative Audit Committee and the Department has established written policies and administrative rules related to IT oversight.

16. The Committee could modify the bill by specifying that in addition to making the appropriation an annual, sum certain appropriation (see the following section), that funding could be deleted. Once, the Department has established the rules and policies required under the bill for IT projects, DOA could request supplemental funding authority for continuing IBIS.

17. Alternatively, the Audit Bureau's initial review of IBIS was mostly positive and it could be argued that waiting until DOA submits information that is recommended under the audit would delay the IBIS project and delay the potential cost savings related to replacing approximately 100 current administrative IT functions.

**Funding Modifications**

18. If the Committee approves IBIS funding, it may wish to consider the salaries and fringe benefit funding that is provided under the newly created IBIS appropriation, without any position authority. Under the bill, \$647,900 PR in 2007-08 and \$660,100 PR in 2008-09 would be provided under salaries and fringe benefits. The Department indicates that 4.5 FTE authorized under other appropriations support the creation of IBIS, as shown in the following table.

**Current IBIS Support Staff**

<u>Appropriation</u>	<u>Annual Salary and Fringe Benefits</u>	<u>Positions</u>
Printing, Mail, Communications and IT Services	\$315,100	2.5
Justice Information Systems	107,000	1.0
Materials and Services to State Agencies	<u>70,600</u>	<u>1.0</u>
Total	\$492,700	4.5

19. The Governor's recommendation would provide PR funding to support agency salary and fringe benefit costs for positions currently funded under other appropriations. It could be argued that providing expenditure authority under the IBIS appropriation and the current appropriations used to support these positions would be duplicative. As a result, positions could be deleted under the current appropriations and funding in excess of the \$492,700 annually needed to support salary and fringe benefits deleted. This would result in -\$492,700 PR and -4.5 positions annually from the appropriations shown in the table above, and an additional -\$155,200 PR in 2007-08 and -\$167,400 and 4.5 positions in the IBIS appropriation.

20. Alternatively, DOA states that it should have flexibility in using staffing from other areas of DOA to complete the IBIS project and that the salary and fringe benefits would be used to cover these costs throughout DOA that would be used to aid IBIS development.

21. Base funding for the procurement services appropriation is \$4,307,400 PR annually. Under the bill, this funding would increase to \$4,929,500 due to position realignments and standard budget adjustments.

22. The Department indicates that \$1,284,100 PR annually of appropriation authority was used from this PR-continuing procurement services appropriation to support IBIS start up costs in 2006-07. Since these costs would no longer be supported from this appropriation, the estimated expenditures could be reduced under that appropriation by \$1,284,100 PR, which would reduce the amount of funding estimated to be needed under the bill from \$4,929,500 PR to \$3,625,400 PR annually.

### **IBIS Appropriation Structure**

23. Under the bill, expenditures for IBIS would be made from a newly-created PR-continuing appropriation for the receipt of charges to agencies for IBIS services. The Department would be allowed to expend monies in excess of the amounts of funds received in payments from agencies under the new appropriation where the depreciated value of equipment purchased is at least equal to the excess expenditures.

24. The bill would also authorize DOA to charge agencies for IBIS services based on a method developed by the Department. Total expenditure authority for the new appropriation is \$9.1 million in 2007-08 and \$10.6 million in 2008-09.

25. In addition to the IBIS appropriation, the bill also creates a PR-continuing appropriation for payments from authorities and local units of government for IBIS system operations, and two sum sufficient appropriations (one for segregated appropriations and one for program revenue appropriations) that would allow DOA to provide sum sufficient supplements to state agency appropriations that support IBIS system assessments.

26. Continuing appropriations are appropriations that are expendable until fully depleted or repealed by subsequent action of the Legislature. The amounts available for expenditure under a PR-continuing appropriation consist of the balance in the appropriation account at the end of the

previous fiscal year, if any, together with any revenues received during the fiscal year that are directed by law to be credited to the appropriation account. The dollar amounts shown in the appropriation schedule represent the most reliable estimates of the amounts that will be expended during any fiscal year. However, expenditures made from a continuing program revenue appropriation are generally limited only by the availability of the revenues supporting the appropriation.

27. Under ss. 20.903 and 16.513 of the statutes, agencies are currently prohibited from creating a liability to the state unless they have appropriation authority and anticipated revenue to pay the liability. In the case of PR appropriations, an agency may expend the amounts in the appropriation schedule, even if there are not currently sufficient revenues coming into the particular fund. The Department of Administration must report to the Joint Committee on Finance any projected insufficiency of program revenues which occur at the end of a fiscal year. The agency that has an appropriation that is in deficit, is required to develop a plan to assure that there are sufficient revenues and assets to meet the obligations. The Department must then forward this plan to the Committee under a 14-day passive review process.

28. Certain appropriations may bypass this reporting requirement (referred to as "forestalling appropriations"). For these appropriations, expenditures may exceed revenues to the extent that expenditures are offset by the value of assets. This type of authority is utilized for certain appropriations where significant capital products are purchased. Under DOA, there are currently four forestalling appropriations: (a) capital planning and building construction services; (b) transportation and documents services; (c) materials and services provided to state agencies; and (d) materials and services to non-state government agencies. All of these appropriations are PR-annual appropriations.

29. Under a continuing appropriation, legislative oversight of expenditures is decreased because the dollar amounts in the appropriations schedule are merely estimates of the amount of funds that the agency expects to spend for the purposes of the appropriation. Agencies may expend as much from a continuing appropriation as revenues credited to that appropriation will allow.

30. Further, depending on the purpose of the appropriation, an agency may collect the full cost of its operation through chargebacks to users of its services at whatever level of expenditure is actually made. Consequently, under a continuing appropriation, the funding level that the Legislature includes in the appropriations schedule does not serve as any limit on the amount that an agency can actually expend for the purposes of the appropriation.

31. Under a PR-continuing appropriation that is also a forestalling appropriation, an agency could count the undepreciated assets as revenue, which would provide expenditure authority above anticipated revenue. An agency's expenditure authority under such an appropriation, would include the amounts that could be charged to agencies for services plus the undepreciated assets of all the equipment purchased.

32. By contrast, annual appropriations are expendable only up to the amount shown in

the appropriation schedule and only for the fiscal year for which the appropriation is made. At the end of the fiscal year, the unencumbered balances in a PR appropriation typically remain in the appropriation account. Annual appropriations allow the Legislature to approve specific funding amounts and limit an agency's expenditures. Any supplemental funding or position authority for these appropriations must be legislatively approved.

33. It could be argued that approving the Governor's recommendation would allow DOA to begin work on the IBIS system and ensure that adequate funding is available for anticipated and unanticipated costs related to this project. The Department states that the IBIS appropriation should be created as a continuing appropriation because the actual costs for business systems can vary depending on future decisions for project management and the market for development expertise.

34. In contrast, it could be argued that providing the IBIS system under a PR-continuing appropriation that can access supplemental appropriations without legislative approval, would significantly limit the Legislature's oversight in regards to the amounts expended for the development and operation of IBIS. Such a situation may be contrary to the LAB recommendations for improved oversight.

35. In regards to the need for forestalling authority, the Department states that it is needed because the federal government will not allow federal funds to be used to pay for system development costs (start-up costs). Federal requirements provide that a fully operational system be in place with a plan to recover the investment cost over the life of the system. At the end of 2007-08, DOA anticipates there will be a cash deficit, which will be recouped over a multiyear period. As a result, DOA believes that a forestalling appropriation is appropriate.

36. To address IT project oversight concerns, the Committee may wish to create an annual, rather than continuing, appropriation for IBIS. Given concerns regarding federal funding requirements, the annual IBIS appropriation could be created as a forestalling appropriation, as are other DOA PR appropriations with this authority. An annual appropriation for IBIS, would base funding requests on anticipated costs, and the Governor and Legislature would have an opportunity to review the appropriateness of ongoing costs. Such review may be especially critical in light of recent cost overruns in IT identified by the LAB. Further, under an annual appropriation, any necessary supplemental funding or increased position authority for the new appropriation could be addressed by the Committee under the ss. 16.505/515 14-day passive review process.

37. Master leases are generally used to purchase products or services that cannot be afforded during one biennium, allowing agencies to pay for products and services over the expected lifetime of the product. For example, a computer that is expected to last for five years could be part of a five-year master lease. In most cases, the master lease cannot be longer than the expected useful life of the service or product.

38. The Committee could delete the forestalling provision and the Department could pay for most long-term costs through master leases. In fact, the Department reported to LAB that it



intended to finance the full costs of IBIS using the state's master lease program, and then recover the costs from participating agencies through assessments.

39. The use of the forestalling authority would allow DOA to borrow from the general fund to pay for costs that have long-term value. Funds charged to agencies would be used to pay all ongoing costs as well as, at minimum, the incremental depreciation of the equipment purchased. However, regardless of the use of master leases or forestalling authority, amounts paid by the federal revenues would be used at the same point once the product was providing a service. In essence, either means of payment would require state funding to make the prepayments and obtain reimbursements from the federal government once the program operates.

40. In addition to creation of the IBIS appropriation, the Governor also recommends the creation of two sum sufficient IBIS supplemental appropriations: one SEG-supported and the other PR-supported. Sum sufficient appropriations "are appropriations which are expendable from the indicated source in the amounts necessary to accomplish the purpose specified." These supplemental appropriations would allow agencies to exceed the amounts appropriated in order to pay fees assessed by DOA for IBIS costs. Agencies would be allowed to access any program revenue or segregated account to fund these additional costs.

41. The Department states that the supplemental appropriations may be needed because agencies were not provided any additional appropriation authority to support the implementation of the project. "The supplemental appropriations provide a suitable mechanism to allow agencies to use existing revenue sources when available and allowable in a streamlined fashion."

42. The Committee should note that, as proposed under SB 40, DOA would have a continuing, forestalling PR appropriation for IBIS development and operation, and be authorized to assess fees based on its developed methodology. Sum sufficient PR and SEG supplemental appropriations would allow DOA to increase agency expenditures beyond that authorized by the Legislature for costs associated with IBIS development. As a result of creating sum sufficient supplemental appropriations and a continuing appropriation for IBIS, the oversight of IT projects and expenditures is significantly reduced.

43. If the Committee decides that it is appropriate to create a separate appropriation for IBIS, PR and SEG supplemental appropriations are not necessarily needed. If DOA assesses an agency for IBIS costs, an agency will need to fund such costs from its existing appropriations. If expenditures exceed available expenditure authority, agencies either must reduce other expenditures or, if the supplemental appropriations are not created, seek increased expenditure authority under s. 13.10 or s. 16.515, whereas creation of sum sufficient, supplemental appropriations would eliminate the need to receive legislative approval to support increased costs.

### **Inclusion of the Courts and the Legislature**

44. Currently, the Department has broad authority related to IT in executive branch agencies. DOA must ensure that an adequate level of information technology services are made

available to all agencies by providing systems analysis and application programming services to augment agency resources, as requested. The Department must also ensure that executive branch agencies, other than the Board of Regents of the UW System, make effective and efficient use of the information technology resources of the state.

45. Under the bill, DOA must implement, operate, maintain, and upgrade an IBIS project capable of providing information technology services to all agencies, including the Legislature and the Courts, for the following: (a) all financial services (includes accounting, auditing, and payroll); (b) procurement; (c) human resources; and (d) other administrative duties. Under the bill, DOA could provide these services to any agency, authority, or local unit of government as long as the service can be provided efficiently and economically, as determined by DOA. The Department could also charge an agency, authority, or local unit of government for these services in accordance with the methodology determined by the Department.

46. Traditionally, the Legislature and the Courts have been allowed to participate in procurement and information technology services provided by DOA, but have not been required to participate. It could be argued that such a requirement could be an infringement on the separation of powers, since DOA would be allowed to specify the inclusion of the Legislature and the Courts and determine the amounts paid by these groups as part of the state's total operation of the program.

47. Therefore, SB 40 could be modified to allow the Legislature and the Courts to participate, instead of requiring their participation. If the Legislature or the Courts wish to participate then they could make arrangements with the Department for such participation.

## **ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to do the following: (a) provide \$9,062,900 PR in 2007-08 and \$10,594,500 PR in 2008-09 under a newly-created PR-continuing appropriation; (b) require DOA to implement, operate, maintain, and upgrade an integrated business information system capable of providing information technology services to all agencies; (c) create a PR-continuing appropriation for payments from authorities and local units of government for integrated business information system operations; (d) allow DOA to provide these services to any agency, authority, or local unit of government as long as the service can be provided efficiently and economically; (e) specify, that DOA may charge an agency, authority, or local unit of government for these services in accordance with the methodology determined by the Department; (f) modify the current program revenue-supported information technology and communications services; nonstate agencies appropriation to specify that IBIS system charges could not be expended under this appropriation; and (g) create two sum sufficient appropriations (one for segregated appropriations and one for program revenue appropriations) that would allow DOA to provide sum-sufficient supplements to state agency appropriations that support integrated business information system assessments.

<b>ALT 1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	\$0	\$19,657,400

2. In addition to Alternative 1, delete \$647,900 PR in 2007-08 and \$660,100 PR in 2008-09 and transfer 4.5 PR positions annually within the Department as follows: (a) -\$315,100 PR and -2.5 PR positions annually from the printing, mail, communication, and information technology services appropriation; (b) -\$107,000 PR and -1.0 PR positions annually from the justice information system appropriation; (c) -\$70,600 PR and -1.0 PR positions annually from the materials and services to state agencies appropriation; and (d) -\$155,200 PR in 2007-08 and -\$167,400 PR in 2008-09 and 4.5 PR positions annually under the integrated business information system appropriation.

<b>ALT 2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	-\$1,308,000	\$0

3. In addition to Alternative 1, reestimate the procurement services appropriation by -\$1,284,100 PR annually for integrated business information system costs no longer supported from this appropriation.

<b>ALT 3</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	-\$2,568,200	-\$2,568,200

4. In addition to Alternative 1, modify the PR-continuing appropriation for the receipt of charges to agencies for integrated business information system services to make it an annual appropriation. Delete the program revenue and the segregated integrated business information system supplemental appropriations.

5. Modify the Governor's recommendation by deleting the requirement that the Legislature and the Courts participate in the integrated business information system.

6. Maintain current law, but specify that the Department may request funding for an integrated business information system once the Department has done the following: (a) created agency information technology policies; (b) promulgated administrative rules for the identification of high-risk information technology projects; and (c) provides all information required under those policies and rules related to the integrated business information system.

<b>ALT 6</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	- \$19,657,400	\$0

7. Maintain current law.

<b>ALT 7</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	- \$19,657,400	\$0

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