



Legislative Fiscal Bureau

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June 5, 2007

Joint Committee on Finance

Paper #280

Reengineering Information Technology Systems (ETF)

Bill Item

[LFB 2007-09 Budget Summary: Page 129, #2]

CURRENT LAW

The Department of Employee Trust Funds (ETF) administers the Wisconsin Retirement System (WRS) under the supervision of a 13-member Employee Trust Funds Board. The WRS covers nearly all public employees in the state except employees of the City of Milwaukee and Milwaukee County, which maintain separate retirement systems. In addition, the Department administers a number of employee benefit programs, including health insurance plans available to all state employees and to some local governmental employees under the Wisconsin Public Employers' group health insurance program.

The Department's funding for state operations relating to the WRS and employee benefit programs is provided from the Public Employee Trust Fund. Base funding totals \$21,513,600 SEG, with 193.1 SEG positions.

GOVERNOR

Provide \$4,936,800 SEG in 2007-08 and \$760,700 SEG in 2008-09 and 6.0 SEG two-year project positions and 3.0 SEG permanent positions annually for reengineering certain information technology (IT) systems. Under the bill, the funding is placed in unallotted reserve. The Executive Budget Book indicates that the Department of Administration (DOA) would release the funding and related position authority upon approval of a plan submitted by ETF that specifies the goals and services to be delivered through the reengineering project.

DISCUSSION POINTS

1. The total funding and positions provided in the bill conform to the agency's budget request for the reengineering project. Under the request, funding and positions would be utilized as follows:

a. \$3,162,700 SEG in 2007-08 and \$375,600 SEG in 2008-09 and 2.0 SEG two-year project positions annually for the evaluation and implementation of an integrated lump-sum payment system;

b. \$1,595,800 SEG in 2007-08 and \$195,300 SEG in 2008-09 and 4.0 SEG two-year project positions annually for the evaluation and planning of an integrated health insurance enrollment, eligibility, and processing system; and

c. \$178,300 SEG in 2007-08 and \$189,800 SEG in 2008-09 and 3.0 SEG positions annually for ongoing support for the integrated health insurance enrollment, eligibility, and processing system.

2. The positions include 4.0 SEG two-year project trust funds personnel positions, 2.0 SEG two-year project accountant positions, and 3.0 SEG permanent information systems development positions. The 6.0 project positions are intended to assist with day-to-day operations so that more experienced ETF personnel can participate in the systems evaluation and planning work being proposed.

Legislative Audit Bureau Review of Information Technology Projects

3. In April, 2007, the Legislative Audit Bureau (LAB) completed a review of IT projects [Report 07-5], which reviewed several state IT projects and made recommendations for state agencies that undertake IT projects as well as groups that oversee the programs. The LAB IT review is briefly discussed here, not to imply that the ETF projects discussed in this paper are inadequately planned or are likely to experience the difficulties certain other state agency IT projects have experienced. Rather, the LAB review is meant to provide a context for certain observations made below and a basis for elements in some of the alternatives presented in this paper.

The LAB notes that state agencies have experienced a wide variety of difficulties in completing complex and costly IT projects within budget and as scheduled. These difficulties include: (a) inadequate planning, including underestimating a project's complexity and failing to adequately define the final desired functions of the program; (b) unanticipated costs; and (c) delays in implementation. Based on the LAB audit it appears that a prominent feature in most of the cost over-runs and failed projects is an overestimation of savings related to new technology and an underestimate of staff resources necessary to implement the new program.

As a result of these findings, the LAB review recommends 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. In addition, the Audit Bureau has recommended that DOA report to the Joint Legislative Audit Committee by October 1, 2007, on its progress in developing a plan that would include the following: (a) establishing standardized, quantifiable project performance measures for large, high-risk projects; (b) implementing policies and procedures for routine monitoring of these projects; (c) developing a formal process for modifying project specifications when doing so is necessary because of changes in program requirements; and (d) developing methods for failing IT projects that would allow an agency to either discontinue the project or make the necessary corrections in the performance of the project.

ETF Lump-Sum Payment System

4. The first ETF project concerns the development of a comprehensive and integrated IT system for making lump-sum payments. Lump-sum payments are one-time payments that are made to certain WRS participants whose accounts are being closed for one of several reasons: (a) to pay a separation benefit when a participant leaves WRS service prior to being eligible for a retirement annuity and chooses to withdraw his or her employee contributions and investment earnings; (b) to pay a retirement benefit to a participant whose benefit is below the statutory threshold for a monthly annuity; or (c) to pay a death benefit when an active, inactive, or annuitant participant dies. Such payments require timely processing.

5. The Department currently processes 12,000 to 15,000 lump-sum payments annually and in 10 years expects to process approximately 30,000 payments annually. ETF indicates that the majority of this work currently involves a number of stand-alone information systems, paper-based manual calculations, duplicate data entry, and extensive verification and reconciliation processes. Because the timeliness of lump-sum payments is often critical, such manual processes can hinder the efficient and accurate processing of these requests.

6. ETF has been planning the system change for lump-sum payments since 2005-06, based on the Department's experience with another large IT development project relating to a new benefit payment system (BPS) for WRS retirees. The redesign of the lump-sum payment system is expected to utilize some of the IT components already developed for the BPS. This overlap reflects the strategy of developing systems for varying functions within the Department that are integrated and based on a single technical platform. ETF believes a single platform would streamline data-entry and processing for all departmental functions, reduce maintenance costs, allow staff to be more effective, and require less training.

7. The funding and position authority provided under the bill (\$3,162,700 SEG in 2007-08 and \$375,600 SEG in 2008-09 and 2.0 SEG two-year project positions annually) would allow the Department to complete its evaluation and planning work and to actually implement the newly designed system by the end of the 2007-09 biennium. The 2.0 two-year project positions are trust funds assistant positions that would be utilized to free up the time of experienced staff who are familiar with ETF business functions to work with departmental IT staff and outside consultants to complete work on the conversion.

8. The first-year funding under the bill includes \$2,747,200 SEG in one-time consulting fees for the project. ETF officials indicate that these payments are for outside consulting staff with expertise in business process improvements and information technology solutions. Funding for the IT projects under the bill are placed in unallotted reserve. DOA would release the funding and related position authority upon approval of a plan submitted by ETF that specifies the goals and services to be delivered through the reengineering project. This would allow some oversight for these types of costs prior to any funds being expended. This approach appears to be reasonable; however, the Committee may also want to require that the plan specifying the goals and services to be delivered also be provided, for informational purposes, to the Committee as well.

9. Alternatively, in light of the LAB IT review discussed above, the Committee may want to have stronger involvement in the implementation of the project to ensure that the intent underlying the LAB recommendations are reflected in the planning and development of the lump-sum payment system.

10. ETF officials indicate that of the \$3,162,700 SEG budgeted for the project in 2007-08, approximately \$580,000 would be required to complete the planning phase. In addition, \$94,900 SEG would be required to support the 2.0 SEG project positions authorized under the bill. This leaves \$2,487,900 SEG that is needed for the implementation of project, primarily consultant fees and DOA Division of Enterprise Technology development costs. The Committee could require greater oversight of the implementation of the lump-sum payment system before this implementation funding is made available.

11. This could be done by placing \$2,487,900 SEG in 2007-08 relating to the implementation of the lump-sum payment system in the Committee's appropriation for segregated funds general program supplementation. ETF could be required to submit a final report to the Committee on its plan for implementing the redesigned lump-sum payment system and to specify how the implementation plan for the system would conform to the DOA planning and monitoring standards to be submitted to the Joint Legislative Audit Committee by October 1, 2007, in response to the LAB IT review. The release of funding for the implementation of the project could be approved under a 14-day passive process. Under this alternative, \$674,800 SEG in 2007-08 would remain in ETF's unallotted reserve, for release by DOA, for planning purposes and project position costs.

ETF Integrated Health Insurance Enrollment, Eligibility, and Processing System

12. The second component of the bill's provision is to fund an evaluation of, and to plan for, an integrated health insurance enrollment, eligibility, and processing system. Currently, ETF administers health care plans for state employees and for the employees of over 300 local governmental employers that participate in the Wisconsin Public Employers' (WPE) group health insurance program. The health care plans are currently provided to over 80,000 active state and local employees and 24,000 retirees.

13. The Department's administration of health care benefits relies on two IT systems that

are not integrated and that utilize paper-based reports and require manual data-entry, verification, and reconciliation processes. The first of these is the health insurance and complaint system (HICS), that tracks all information relating to the health care plan participants. The second system, the premium payments system (PPS) tracks the premium payments made by state and local governmental employers. The key issue for the Department is that these two systems operate independently and must be reconciled manually. Currently, officials indicate that this is difficult to do in a timely fashion.

14. In its IT review, LAB noted that "...state IT projects must incorporate the ability to respond quickly and efficiently to changes in both law and policies..." (page 18). According to ETF, both of its health IT systems are based on older technology and cannot be efficiently updated to address the changing environment of providing health care to public employees. For example, in recent years changes have been required to address federal implementation of the Health Insurance Portability and Accountability Act (HIPAA), the state's transition to a three-tier ranking of health coverage plans, the development of a pharmacy benefits manager (PBM) for state employees, and the implementation of Medicare Part D drug coverage. ETF officials indicate that these changes are administratively complex to implement, and are made more difficult given the limited capacities of the current systems.

15. As with the lump-sum payment system discussed above, the Department's goal in transitioning HICS and PPS to a new system would be to integrate these functions based on a single technical platform that would streamline data-entry and processing, and reduce maintenance and training costs. In addition, the new system is expected to allow employers to both enter data on-line, directly into the system, and to retrieve vital information from the system through on-line inquiries. ETF also believes the redesigned system would streamline communication with health insurance carriers.

16. Funding and positions, under the bill, for the evaluation and planning of an integrated health insurance enrollment, eligibility, and processing system totals \$1,595,800 SEG in 2007-08 and \$195,300 SEG in 2008-09 and 4.0 SEG two-year project positions annually. Again, the two-year project positions are intended to free up the time of experienced staff who are familiar with ETF business functions to work with departmental IT staff and outside consultants to complete the evaluation and planning process. The project positions include 2.0 SEG trust fund specialist positions and 2.0 SEG accountant positions.

17. It is important to note that the funding provision under the bill is for evaluation and planning purposes only, not for the actual implementation of a new system. The Department expects the evaluation and planning phase to be completed at some point in the 2007-09 biennium. According to the ETF budget request, the Department would then provide a final report on the evaluation and plan to the Committee for approval, along with a request, under s. 13.10, for funding to implement the plan.

18. In its budget request for this item, the Department also suggests that the Committee could place implementation funding in the Committee's appropriation for segregated funds general

program supplementation. Under this approach, ETF officials recommend reserving \$4.8 million, which they indicate is the approximate annual median amount expended by peer public retirement systems for major IT projects. However, this amount appears to be speculative and may not approximate the actual costs for the Department's health insurance IT system.

19. There does not appear to be any clear advantage to placing implementation funding in the Committee's appropriation. The expenditure authority needed to implement the project will require either approval by the Committee under s. 13.10 of the statutes, or approval by the Legislature through separate legislation, possibly in the 2009-11 budget process.

20. The Committee should be aware that approving the funding under the bill for the evaluation and planning process for an integrated health insurance enrollment, eligibility, and processing system will establish an intent to fund the implementation of the project. Given the difficulties large and complex IT projects by state agencies have had in recent years, as discussed in the LAB IT review, the Committee may wish to consider its oversight options relating to the ETF project.

21. First, as was the case with the lump-sum project described above, the funding for the health insurance project is placed in unallotted reserve under the bill. DOA would release the funding and related position authority upon approval of a plan submitted by ETF that specifies the goals and services to be delivered. Again, the Committee may want to require that the plan specifying the goals and services to be delivered also be provided, for informational purposes, to the Committee as well.

22. Second, while the Department indicated in its 2007-09 budget request that it would provide a final report on the evaluation and plan for the health insurance system improvements to the Committee along with a s. 13.10 request for implementation funding, this report is not required under the bill. Further, no specifications have been provided on what the report should contain. The Committee may want to formally require the report and to specify that it contain certain elements.

23. Third, it is possible that the time periods in which the implementation of the health insurance IT system and the lump-sum payment system takes place may overlap. The Committee may want reassurance that the Department can handle two major IT projects at the same time. The Committee could require the Department to assess this situation and to make a determination of the capacity of its internal IT staff to handle the demands of two major IT reengineering projects in the 2007-09 biennium.

24. ETF could be required to submit a final report to the Committee on its plan for implementing an integrated health insurance enrollment, eligibility, and processing system. The report could be required to specify: (a) the cost projections for each fiscal year in which implementation work is to be performed, including potential 2009-11 costs; (b) how the implementation plan for the system would conform to the DOA planning and monitoring standards to be submitted to the Joint Legislative Audit Committee by October 1, 2007, in response to the

LAB IT review; and (c) how the Department's internal resources will be utilized in the implementation work relating to the integrated health insurance enrollment, eligibility, and processing system and the implementation work associated with the of the lump-sum payment system to assure the timely and successful completion of both projects. Based on this report, implementation funding in 2007-08 and/or 2008-09 for the health insurance enrollment, eligibility, and processing system could be requested under s. 13.10 of the statutes.

ETF Health Insurance IT Systems Staffing

25. The third component of the funding provided under the bill (\$178,300 SEG in 2007-08 and \$189,800 SEG in 2008-09 and 3.0 SEG positions annually) would be for ongoing support for the integrated health insurance enrollment, eligibility, and processing system. ETF indicates that it currently contracts for 1.0 FTE position to maintain the HICS application, at an annual cost of \$176,800, paid from the appropriation for health insurance data collection and analysis contracts. In addition, for the last three years, the Department has internally reallocated 2.0 FTE positions to assist the contract worker with the HICS maintenance. The budget provision would provide 3.0 SEG positions to replace these current resources.

26. Under this provision, the Department could eventually terminate the contract and retain the \$176,800 in contract costs for other uses. However, ETF officials indicate that the contract position would need to be retained for HICS maintenance until the new health insurance IT system is fully implemented. It appears that the contract would be retained at least through the 2007-09 biennium and, more likely, until sometime in the 2009-11 biennium. In addition, under the bill's provisions, ETF would be able to reallocate 2.0 FTE positions to other IT assignments in the Department. According to the Department, the 3.0 FTE positions provided under the bill would establish permanent staff for the new system, that would provide maintenance, technical administration, production support, and the potential development of additional health applications.

27. Given that the contract position must be maintained through the 2007-09 biennium, it could be argued that only 2.0 FTE positions should be provided at this time. It could be also argued that the new health insurance IT system may require less staff support than is currently the case with the HICS application. Because the planning for this system has not yet occurred and the implementation of the new system is not likely to be completed in the 2007-09 biennium, the Department could assess the need for a third position following the implementation of the new system.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$4,936,800 SEG in 2007-08 and \$760,700 SEG in 2008-09 and 6.0 SEG two-year project positions and 3.0 SEG permanent positions annually for reengineering certain information technology systems. Place the funding in unallotted reserve for release upon DOA approval of a plan submitted by ETF that specifies the goals and services to be delivered through the reengineering project.

ALT 1	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
SEG	\$0	0.00	\$5,697,500	9.00

2. Adopt one or more of the following modifications to the Governor's provisions:

a. Direct ETF to provide to the Joint Committee on Finance, for informational purposes only, copies of any material submitted to DOA relating to a request to release funding from unallotted reserve for reengineering agency information technology systems.

b. Place \$2,487,900 SEG in 2007-08 relating to the implementation of a redesigned lump-sum payment system in the Committee's appropriation for segregated funds general program supplementation. Require ETF to submit a final report to the Committee on its plan for implementing the redesigned lump-sum payment system. Require that the report specify how the implementation plan for the system would conform to the DOA planning and monitoring standards to be submitted to the Joint Legislative Audit Committee by October 1, 2007, in response to the LAB IT review. The release of funding for the implementation of the project would be approved under a 14-day passive process. Under this alternative, \$674,800 SEG in 2007-08 would remain in ETF's unallotted reserve, for release by DOA, for planning purposes and project position costs.

c. Require ETF to submit a final report to the Committee on its plan for implementing an integrated health insurance enrollment, eligibility, and processing system. Require that the report specify: (a) the cost projections for each fiscal year in which implementation work is to be performed, including potential 2009-11 costs; (b) how the implementation plan for the system would conform to the DOA planning and monitoring standards to be submitted to the Joint Legislative Audit Committee by October 1, 2007, in response to the LAB IT review; and (c) how the Department's internal resources will be utilized in the implementation work of the integrated health insurance enrollment, eligibility, and processing system and the implementation work associated with the of the lump-sum payment system to assure the timely and successful completion of both projects. [Based on this report, implementation funding in 2007-08 and/or 2008-09 for the health insurance enrollment, eligibility, and processing system may be requested under s. 13.10 of the statutes.]

d. Delete \$59,400 SEG in 2007-08 and \$63,300 SEG in 2008-09 and 1.0 SEG position for ongoing support of the Department's health insurance information technology systems. Under this alternative, 2.0 SEG permanent positions would be provided for this purpose.

ALT 2d	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
SEG	-\$122,700	- 1.00	\$245,400	2.00

3. Delete provision.

ALT 3	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
SEG	-\$5,697,500	- 9.00	\$0	0.00

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