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May 31, 2017 | Joint Committee on Finance | Paper #116

# Enterprise Resource Planning System, IT Contractors, and State Controller's Office Positions and Funding (Administration -- Information Technology)

[LFB 2017-19 Budget Summary: Page 42, #9 and Page 45, #3 and #4]

## CURRENT LAW

The Department of Administration (DOA) operates the state's enterprise resource planning system, offers various information technology (IT) services to state agencies, and performs certain financial management functions for all state agencies. Since 2015-16, the enterprise resource planning system, commonly known as STAR (State Transforming Agency Resources), has functioned as the state's system for managing human resources, payroll, finance, budgeting, and procurement. Development of the system began in 2012-13 and was completed in three stages, referred to as Release 1 (finance and procurement), Release 2 (human resources), and Release 3 (implementation for the Department of Transportation). In 2016-17, expenditure and position authority for each of DOA's appropriations established for the purposes above are as follows: (a) enterprise resource planning system, a continuing appropriation estimated at $9,321,100 PR with 0.0 PR positions; (b) printing, mail, communication, and IT services to state agencies, $99,904,900 PR and 214.04 PR positions; and (c) financial services, $8,869,700 PR and 42.8 PR positions.

## GOVERNOR

*Information Technology Contractors.* Provide adjustments of -$463,100 PR and 37.0 PR positions in 2017-18 and -$3,712,100 PR and 54.0 PR positions in 2018-19 to convert existing IT contractor staff to permanent state positions. Expenditure authority modifications and position authority would be provided to the following DOA appropriations: (a) the enterprise resource planning system (-$216,400 PR and 15.0 PR positions in 2017-18 and -$2,830,600 PR and 15.0

PR positions in 2018-19); and (b) printing, mail, communication, and IT services to state agencies (-$246,700 PR and 22.0 PR positions in 2017-18 and -$881,500 PR and 39.0 PR positions in 2018-19).

Expenditure authority modifications by type of expense, as modified by a technical correction between allocations (reduced salaries and fringe benefits and increased supplies and services and one-time expenses that net to $0) based on information from the Division of Enterprise Technology, would be provided as shown in Table 1 below.

**TABLE 1**

**Information Technology Contractor Conversions**
**Funding and Position Adjustments**

| | 2017-18 | FTE | 2018-19 | FTE |
|---|---|---|---|---|
| **ERP System** | | | | |
| Salaries | $564,000 | 15.00 | $1,183,500 | 15.00 |
| Fringe Benefits | 223,100 | | 468,200 | |
| Supplies and Services | -1,003,500 | | -4,482,300 | |
| Total | -$216,400 | | -$2,830,600 | |
| **IT Services to State Agencies*** | | | | |
| Salaries | $820,500 | 22.00 | $2,167,000 | 39.00 |
| Fringe Benefits | 324,600 | | 857,300 | |
| Supplies and Services | -1,391,800 | | -5,233,900 | |
| One-Time Financing | 0 | | 1,328,100 | |
| Total | -$246,700 | | -$881,500 | |

*Funding for IT services to state agencies includes a correction to the initial allocations by salaries, fringe benefits, supplies and services, and one-time financing, based on information provided by DOA's Division of Enterprise Technology. Net funding shown in the table is the same as under the bill, -$246,700 in 2017-18 and -$881,500 in 2018-19.

*State Controller's Office Positions*. Delete $94,900 PR annually from DOA's appropriation for the federal resource acquisition program and transfer 2.0 vacant PR positions from the appropriation to the agency's financial services appropriation. Provide 4.0 PR positions annually to DOA's financial services appropriation associated with the deletion (or transfer to DOA) of 1.0 position each from the following agencies and annually delete salaries and fringe benefits funding associated with the positions: (a) Natural Resources (DNR, $46,300); (b) Safety and Professional Services (DSPS, $47,800); (c) Transportation (DOT, $79,300); and (d) Workforce Development (DWD, $78,300). Reallocate $450,000 PR annually in DOA's financial services appropriation from supplies and services to salaries and fringe benefits. Modifications that would be made to funding and position authority by agency are shown in Table 2.

## TABLE 2

### State Controller's Office Positions and Funding

| Agency | Annual Funding | FTE |
|---|---|---|
| **Natural Resources** | | |
| Salary | -$32,100 | |
| Fringe Benefits | -14,200 | |
| Total DNR (PR) | -$46,300 | -1.00 |
| | | |
| **Safety and Professional Services** | | |
| Salary | -$32,100 | |
| Fringe Benefits | -15,700 | |
| Total DSPS (PR) | -$47,800 | -1.00 |
| | | |
| **Transportation** | | |
| Salary | -$54,700 | |
| Fringe Benefits | -24,600 | |
| Total DOT (SEG) | -$79,300 | -1.00 |
| | | |
| **Workforce Development** | | |
| Salary | -$54,700 | |
| Fringe Benefits | -23,600 | |
| Total DWD (PR) | -$78,300 | -1.00 |

| Agency | Annual Funding | FTE |
|---|---|---|
| **Administration** | | |
| *Financial Services* | | |
| Salaries | $322,400 | |
| Fringe Benefits | 127,600 | |
| Supplies and Services | -450,000 | |
| Subtotal Financial Services | $0 | 6.00 |
| | | |
| *Federal Resource Acquisition Program* | | |
| Salaries | -$68,000 | |
| Fringe Benefits | -26,900 | |
| Subtotal Federal Resource Acquisition Program | -$94,900 | -2.00 |
| | | |
| Total DOA (PR) | -$94,900 | 4.00 |
| | | |
| **All Agencies** | | |
| PR | -$267,300 | 1.00 |
| SEG | -79,300 | -1.00 |
| Total All Agencies | -$346,600 | 0.00 |

*Reallocate Enterprise Resource Planning System Positions*. Provide the following adjustments to DOA appropriations to reflect work that is done by DOA employees to support the operation of the enterprise resource planning system: (a) materials and services to state agencies and certain districts, -$907,000 PR and -7.4 PR positions annually; (b) capital planning and building construction services, -$149,000 PR and -1.0 PR position annually; (c) printing, mail, communication, and information technology services to state agencies, -$3,438,500 PR and -29.1 PR positions annually; and (d) enterprise resource planning system, $2,951,800 PR and 37.5 PR positions annually. Modifications that would be made to funding and position authority by appropriation are shown in Table 3.

## TABLE 3

### Enterprise Resource Planning (ERP) System Position Reallocation

| Department of Administration Appropriation | Annual Funding | FTE |
|---|---|---|
| **ERP System** | | |
| Salaries | $2,951,800 | |
| Fringe Benefits | 1,167,700 | |
| Supplies and Services | 375,000 | |
| Total ERP System | $4,494,500 | 37.50 |
| **IT Services to State Agencies** | | |
| Salaries | -$2,255,300 | |
| Fringe Benefits | -892,200 | |
| Supplies and Services | -291,000 | |
| Total IT Services to State Agencies | -$3,438,500 | -29.10 |
| **Materials and Services to State Agencies** | | |
| Salaries | -$596,900 | |
| Fringe Benefits | -236,100 | |
| Supplies and Services | -74,000 | |
| Total Materials and Services to State Agencies | -$907,000 | -7.40 |
| **Capital Planning and Building Construction Services** | | |
| Salaries | -$99,600 | |
| Fringe Benefits | -39,400 | |
| Supplies and Services | -10,000 | |
| Total Capital Planning and Building Construction Services | -$149,000 | -1.00 |
| Total All Appropriations | $0 | 0.00 |

## DISCUSSION POINTS

1. This paper addresses the three budget provisions described above that each have an element relating to the enterprise resource planning system: (a) information technology permanent positions converted from contractor staff [LFB Summary Page 45, #3]; (b) vacant positions for the State Controller's Office [Page 42, #9; Page 323, #8; Page 394, #5; Page 456, #7; Page 490, #5]; and (c) reallocating position and expenditure authority for the enterprise resource planning (ERP) system [Page 45, #4].

### Background -- ERP System

2. As noted above, since 2015-16, the ERP system has functioned as the state's system for managing human resources, payroll, finance, budgeting, and procurement. The system is intended to replace various applications and systems used by state agencies for the purpose of creating a more efficient, integrated approach to managing state resources. The functions of the system currently in use are mostly limited to financial, procurement, and certain human resources functions such as payroll and benefits enrollment. However, the administration is in the process of identifying opportunities for process improvements, elimination of unnecessary systems, realization of

procurement savings through strategic sourcing functions in the system, and other means by which services can be made more efficient or effective.

3. Revenue to the appropriation for the ERP system is currently not sufficient to support expenditures that are made from the appropriation. While the appropriation is currently in deficit and DOA has begun assessing state agencies to recover costs, expenditures from the appropriation are greater than anticipated revenue. In part, this is because assessments charged to state agencies currently only recover ongoing operations and maintenance expenditures, while expenditures from the appropriation also include costs associated with project development, such as payments for master lease principal and interest. Therefore, the appropriation deficit is expected to continue growing. Table 4 below shows: the total appropriation overdraft from 2010-11 to 2015-16; the value of assets used to support the deficit; and the net overdraft that is not supported by the value of assets.

**TABLE 4**

**Enterprise Resource Planning System Appropriation**
**Overdrafts and Supporting Assets, 2010-11 to 2015-16**

| Fiscal Year | Total Overdraft | Supporting Assets | Unsupported Overdraft |
|---|---|---|---|
| 2010-11 | -$13,102,500 | $4,903,400 | -$8,199,100 |
| 2011-12 | -14,155,500 | 6,056,600 | -8,098,900 |
| 2012-13 | -15,323,700 | 6,880,000 | -8,443,700 |
| 2013-14 | -20,629,800 | 4,125,100 | -16,504,700 |
| 2014-15 | -34,268,900 | 8,760,300 | -25,508,600 |
| 2015-16 | -55,911,700 | 25,469,600 | -30,442,100 |

4. In general, the three budget provisions discussed in this paper are intended to: (a) reduce expenditures for IT contractual services, including services for the ERP system, through the creation of less expensive permanent state staff; (b) provide support for financial services to state agencies associated with the new ERP system; and (c) realign position authority and associated funding within DOA to reflect current staffing practices for the ERP system.

5. The Committee could choose to approve all three provisions as recommended by the Governor (including technical corrections to funding for contractor conversions that net to $0) [Alternative A1], or approve specific provisions individually to: (a) convert contractors for IT services to state agencies and the ERP system to permanent PR positions in DOA and provide technical funding corrections that net to $0 [Alternative A2]; (b) delete 4.0 positions annually and associated funding from DNR, DSPS, DOT, and DWD and reallocate 2.0 PR positions and funding within DOA to staff the State Controller's Office to address workload increases associated with the ERP system [Alternative A3]; and (c) reallocate position authority and funding between appropriations under DOA for the ERP system [Alternative A4].

6. Additional information relating to each provision and alternatives for the Committee's consideration are provided in the following sections. Included as attachments to this paper are: (a) historical background relating to the ERP system appropriation, including a prior attempt to develop

an integrated business information system (known as IBIS) [Attachment 1]; (b) ERP system expenditures, master lease originations, adjustments, and repayment from 2012-13 to 2016-17 (through December 31, 2016) [Attachment 2]; (c) assessments to state agencies for ERP system costs in 2015-16 [Attachment 3]; and (d) operating budgets that estimate expenditures for development, operation, and maintenance of the ERP system in 2016-17, 2017-18, and 2018-19 [Attachment 4].

**Information Technology Contractors**

7. Currently, the Department utilizes contractual services for many IT services, including certain services performed for the ERP system, in cases where services or projects require skills or knowledge that are not readily available among existing staff. For example, demand exists among agencies for services to support newer technology, for which DOA has not yet developed staff with specific expertise. Expenditures for IT contractors from DOA's appropriation for IT services have increased in recent years, totaling $7.2 million PR in 2013-14; $10.3 million PR in 2014-15; and $11.5 million PR in 2015-16. The budget proposal would convert 54.0 contractor staff to permanent state positions over the biennium to reduce the cost of services provided to agencies. Of the total, 15.0 would be provided to support the ERP system and 39.0 would provide IT services to state agencies more generally. If the proposal were not approved, DOA would continue to use contractual services to meet the state's IT needs.

8. Positions for the ERP system would perform duties specific to the system such as: evaluating state agency needs consistent with system functionality, state, and federal requirements; collaborating with financial services staff to develop effective solutions; troubleshooting system issues; conducting data analysis; writing functional and technical designs; designing system and configuration changes; creating training programs including learning assessments and course evaluations; developing and documenting security requirements for users; identifying opportunities to streamline business processes (particularly for procurement); performing system and unit testing and data validation; complex problem solving and technical support; and implementing solutions to various state business needs.

9. Positions that would provide IT services perform duties such as: project management; network services; application development; customer relationship management-based project development (systems used to organize, automate, and analyze interactions with individuals and organizations); SharePoint application support (document management and storage applications); wireless network support; unified communications (transitioning from analog to digital, for example, and providing IT support for digital telecommunications); and security tools implementation.

10. Funding reductions shown in Table 1 above represent the net estimated savings associated with reduced supplies and services expenditures for contractual services and increased expenses for permanent position salaries and fringe benefits (as well as other material expenses associated with creating permanent staff). Table 5 below provides the following information relating to supplies and services funding reductions under the provision: (a) the cost to pay for contractors for a full year without converting any to permanent state positions; (b) the cost to continue paying for contractors under the proposal (until individuals complete advancement through the hiring

process); and (c) supplies and services that would be budgeted for the new permanent positions. The Department anticipates that contractors for the ERP system would be fully converted to 15.0 permanent staff in 2018-19. In the case of positions that would be provided to DOA's appropriation for IT services to state agencies, $1,328,100 PR would be budgeted as one-time financing associated with the remaining cost of contractors in 2018-19, which would not be included in the agency's base for the 2019-21 biennium.

**TABLE 5**

**Supplies and Services Funding Under Contractor Conversion Proposal**

| Enterprise Resource Planning System | 2017-18 | 2018-19 |
|---|---|---|
| Full Cost for Contractors (One Year) | $4,621,100 | $4,621,100 |
| Cost for Contractors Under Conversion | -3,522,700 | 0 |
| Difference in Contractor Cost | $1,098,400 | $4,621,100 |
| Contractor Cost Reduction (Proposed) | -$1,098,400 | -$4,621,100 |
| Permanent Position Supplies and Services | 94,900 | 138,800 |
| Net Reduction to Supplies and Services | -$1,003,500 | -$4,482,300 |
| State Positions (FTE) | 15.00 | 15.00 |
| IT Services to State Agencies | | |
| Full Cost for Contractors (One Year) | $5,560,900 | $5,560,900 |
| Cost for Contractors Under Conversion | -4,015,400 | -1,328,100 |
| Difference in Contractor Cost | $1,545,500 | $4,232,800 |
| Contractor Cost Reduction (Proposed) | -$1,545,500 | -$4,232,800 |
| Permanent Position Supplies and Services | 153,600 | 327,000 |
| Net Reduction | -$1,391,900 | -$3,905,800 |
| Transfer Partial Funding for Contractors from Supplies and Services to One-Time Financing Allotment | $0 | -$1,328,100 |
| Reduction to Supplies and Services | -$1,391,900 | -$5,233,900 |
| State Positions (FTE) | 22.00 | 39.00 |

11. According to DOA, the reason for not converting all contractors to permanent positions in 2017-18 is primarily due to resource constraints within both the Division of Personnel Management, which would assist with recruitment, and the Division of Enterprise Technology, which would integrate and train the newly hired employees. Table 6 shows the approximate dates and number of positions that would be hired under the proposal.

**TABLE 6**

**Hiring Schedule for Contractor Conversions**

| IT Services to State Agencies | | ERP System | |
|---|---|---|---|
| Start Date (Estimated) | FTE | Start Date (Estimated) | FTE |
| 2017 | | 2017 | |
| October | 10.00 | October | 6.00 |
| December | 1.00 | | |
| 2018 | | 2018 | |
| January | 6.00 | January | 3.00 |
| March | 2.00 | April | 3.00 |
| May | 3.00 | June | 3.00 |
| Total Starting 2017-18 | 22.00 | Total (Annual) | 15.00 |
| 2018 | | | |
| October | 8.00 | | |
| 2019 | | | |
| January | 6.00 | | |
| March | 3.00 | | |
| Total Starting 2018-19 | 17.00 | | |
| Total 2018-19 | 39.00 | | |

12. If the Committee wishes to provide position authority for the purpose of reducing expenditures, while also limiting the number of permanent state positions that would be created, it could provide some number of positions as project positions. Under this alternative, the Committee could modify the proposal to provide: (a) 22.0 permanent positions annually and 17.0 four-year project positions in 2018-19 for IT services to state agencies; and 8.0 permanent and 7.0 four-year project positions annually for the ERP system [Alternative B1]; or (b) 22.0 permanent positions annually and 17.0 two-year project positions in 2018-19 for IT services to state agencies; and 8.0 permanent and 7.0 two-year project positions annually for the ERP system [Alternative B2]. Recommended position authority would be provided in full and estimated savings would be maintained. Of the total, 17.0 positions would expire on June 30, 2022 or 2020; and 7.0 would expire on June 30, 2021 or 2019.

13. While the proposal is estimated to generate substantial savings, the number of positions that would be created and the cost to support the positions would also be significant. Therefore, the Committee may wish to be provided additional information regarding the achievements of the proposal at a later date. If the Committee either approves or modifies the Governor's recommendation for contractor conversions, it could also specify that DOA provide a report relating to the work performed by the positions. Under this alternative, the Committee could specify that DOA submit a report by August 31, 2018, regarding the activities of the permanent (and project, if applicable) positions converted from contractor staff performed in the 2017-18 fiscal

year, including: (a) accomplishments such as system or process improvements, progress or completion of projects, or finished work products; (b) any additional savings or efficiencies that DOA can estimate resulted from the work of the positions; and (c) plans or additional improvements, projects, or work products for the 2018-19 fiscal year. [Alternative B3]

14. Finally, if the Committee does not select an alternative that would do so, it could separately specify that technical corrections be made to the allocation of funding under the proposal based on updated information from DOA's Division of Enterprise Technology. The modifications reallocate funding between salaries, fringe benefits, and supplies and services and would have no net effect on funding provided in the bill. [Alternative B4]

**State Controller's Office Positions**

15. The Executive Budget Book indicates that changes to funding and position authority to DOA, DNR, DSPS, DOT, and DWD for the purpose of providing 6.0 additional positions to the State Controller's Office (SCO) are recommended "to better align staffing with workload changes resulting from the implementation of the enterprise resource planning system." A description of the workload changes for the SCO follows, based on information provided by DOA.

16. Through the ERP system, state payments to a supplier are aggregated across agencies to produce fewer payment transactions, a practice which has created central customer service work for the SCO in responding to questions from the state's suppliers. The State Controller's Office is now responsible for the maintenance of all supplier and customer information for state agencies, which entails making necessary modifications to central files for suppliers and customers that total to over 100,000 entities.

17. The Department indicates that the state has also consolidated all agency federal tax reporting under a single employer identification number, which has transferred related work from agencies to the SCO and created a need for reconciliations and maintenance processes. The State Controller's Office has additionally been made the central point of contract for any question a state payee has about a 1099 tax form. The SCO has also assumed responsibility for preparing the Statement of Expenditures of Federal Awards report that was previously prepared by the Legislative Audit Bureau but which was transitioned to the SCO in 2015-16 to achieve further separation of auditor and auditee functions.

18. A number of daily and bi-weekly tasks associated with increased operational responsibility for the central accounting system have been assigned to the SCO, such as: running daily pay cycles; running bi-weekly payroll journals through a budget checking process and working with agency and STAR staff to correct accounting issues that arise; loading bi-weekly payroll vouchers; ensuring critical benefit payments are made in a timely manner; and closing and reopening accounting periods.

19. The structure of the ERP system is such that several subsystems exist which must be integrated and carefully maintained. Interactions between subsystems must be properly configured and reconciled to ensure that budgetary and general ledgers record information accurately. Related work performed by the SCO includes reconciling: the commitment control ledger with the general

ledger; accounts receivable and accounts payable control accounts with open items; and the state's primary bank account with the records of the ERP system. The State Controller's Office reconciles approximately 10,000 deposits per month totaling several billion dollars.

20. Finally, the State Controller's Office has been assigned increased responsibilities relating to state employee benefits and payroll, including: ensuring that the human resources module correctly calculates and disburses benefit payments to the Department of Employee Trust Funds and third-party benefit companies; reporting information relating to federal Affordable Care Act requirements; and managing open enrollment for benefits through the ERP system. The Department notes that there are certain bi-weekly operational tasks and period reporting tasks such as unemployment insurance wage reporting that would be better performed through central payroll, but that this is not yet possible due to the level of staffing.

21. Currently the SCO is, in part, using limited-term employees and overtime to perform the increased workload described above. Funding for the positions under the bill would be provided from the annual financial services assessment that is charged to all state agencies. Financial services assessments to state agencies totaled $8.4 million in 2015-16. The Department indicates that the reallocation of supplies and services will offset salaries and fringe benefits for the positions and that providing the positions would not result in an increased financial services assessment.

22. Under the provision, positions would occupy the following roles in the SCO: (a) 2.0 financial specialist -- journey positions would work in the Business Partner Services section, and would perform maintenance of supplier and customer data in the system, which was previously conducted by state agencies in WiSMART; (b) 2.0 accountant -- journey positions would work in the Treasury and Cash Management section and would support 1099 tax reporting under the state's consolidated employer identification number, standardize the agency accounts receivable applications to utilize more compatible data formats to increase competition for future banking procurements, and assist with the bank reconciliation processes that have been developed for the system; (c) 1.0 accountant -- senior position would work in the Financial Reporting section to support new and increased financial reporting functionality, including new statewide queries and reports in addition to assisting with the state's annual fiscal report and comprehensive annual financial report; and (d) 1.0 accountant -- journey position would work in the Accounting Operations section to initiate processes such as pay cycles and manage tasks relating to consolidation of functions such as reconciling agency tax withholdings into a single statewide payment to the U.S. Internal Revenue Service.

23. Each of the positions identified for deletion or transfer was initially determined to be vacant and the affected agencies did not raise concerns relating to the budget proposal. While the DOT and DWD positions were filled for a brief period of time between development and introduction of the budget bill, the positions are vacant as of May, 2017. [The incumbents appear to no longer be employed with the state.] The administration believes the appropriations from which positions would be deleted would continue to have sufficient position authority if the proposal is approved. However, the position vacancy of longest duration in DOT's appropriation is eight months, and in DWD's appropriation is six months. It could be argued that that these vacancies are short-term vacancies that do not represent under-utilized resources, but rather are a regular and

temporary occurrence, which are generally filled by agencies as they are able. Therefore, the Committee could consider modifying the provision to maintain current position authority and funding under DOT and DWD. To offset the number of positions provided, the Committee could instead delete 2.0 long-term vacancies of 12 months or more and associated funding from the following appropriations in DOA: (a) capital planning and building construction services ($84,300 PR and 1.0 PR position annually); and (b) facility operations and maintenance ($94,800 PR and 1.0 PR position annually). This alternative would reduce bill funding by $21,500 annually. [Alternative C1]

24. The Department indicates that if the proposal to provide position authority to the SCO is not approved, service levels will be more difficult to maintain, the reliance on overtime and limited term employees would continue to increase, and staff turnover could result. The Department is concerned that if knowledge of the system, processes, and requirements is lost, staff turnover could possibly lead to service outages as fewer remaining staff would need to spend time training newer staff. Additionally, if limited-term employees continue to be utilized rather than permanent staff, there would be fewer opportunities to develop expertise and improve services.

**Accounting and IT Challenges**

25. Several points should be noted regarding the recent state of the system's functioning and the importance of service improvement and development of expertise. Based on the observations and documentation of auditors, financial staff, program staff, and others: (a) a number of major transactional or process errors in system functioning, mostly due to human error, have occurred (which were discovered and corrected) that in the future could be prevented or more quickly identified through increased support for and development of services; (b) security issues have been raised relating to the system that should be addressed; (c) concerns exist that certain state operations and reporting requirements are not being fulfilled in a satisfactory or efficient manner; and (d) significant delays in financial reporting have been experienced.

26. In its State of Wisconsin Fiscal Year 2015-16 Single Audit (Report 17-5) issued in March, 2017, the Legislative Audit Bureau (LAB) noted the following: (a) relating to ERP system security, weaknesses were identified in policies, standards, and procedures that were communicated to the DOA STAR Program Office; and (b) relating to IT practices of the Division of Enterprise Technology, which performs certain functions relating to the maintenance and infrastructure of the ERP system, weaknesses were identified in DET's current IT practices and settings that were communicated to DET. The report noted that DOA agreed with its findings and has been working to resolve the issues.

27. Additionally, the audit report noted that six DOT construction payments totaling $17.9 million were erroneously recorded in 2015-16 associated with goods or services received in 2016-17 which appeared to have been caused by human error due to the limited number of DOT staff involved in the payment and review process and a large volume of transactions coinciding with DOT's implementation of the ERP system. While the DOT errors identified by the LAB were not strictly a result of errors in the state's accounting system, progress could be made and solutions possibly developed to prevent such errors from being made. However, such improvements could require the time and focus of staff that are capable of designing strategic solutions.

28. Separately, in its State of Wisconsin Fiscal Year 2015-16 Financial Statements (Report 17-4), the LAB found that the Department of Health Services exceeded available GPR expenditure authority in 2015-16 within eight appropriations totaling $6.8 million GPR. The report indicates that "At the time SCO closed STAR for FY 2015-16, DHS had not yet completed its reconciliation for these appropriations. To address this matter, DHS plans to lapse $6.8 million in FY 2016-17 GPR spending authority."

29. Finally, the state's comprehensive annual financial report for 2015-16, the first state fiscal year of operation for the new system, was issued on March 30, 2017. This was the first year for a comprehensive annual financial report to be submitted later than the December following the end of the fiscal year (June 30). Similarly, the state's annual fiscal report was finalized in November, 2016, one month later than usual.

30. The administration believes that increased support for staffing the State Controller's Office and the further development of ERP system expertise through the conversion of contractors to state positions could reduce expenditures while improving financial and IT service quality, effectiveness, and efficiency.

**Reallocating Positions for ERP System**

31. Currently, the ERP system appropriation has no position authority. Position authority and funding that would be reallocated from three DOA appropriations under the budget provision reflect recent levels of staff resources being used to operate the system, shown in Table 3. Staff expenses that are associated with the operation of the system, which are initially expended in each of the DOA appropriations identified, are then charged to and paid from the ERP system appropriation through transfers of expenditures. Therefore, the costs of the system are not paid from the respective fund sources of each DOA appropriation from which position authority would be reallocated. Rather, the costs for the system, which are charged to the ERP system appropriation, are recovered from annual assessments to every state agency based on an allocation of costs according to each agency's percentage share of the following measures relative to totals for all agencies: number of authorized full-time equivalent positions, procurement spending, and adjusted state operations expenditures.

32. The following table shows the number of state staff (not including DOA staff) from 2013-14 to 2016-17 that served as subject matter experts to support the development and implementation of the ERP system, the operation of which began in 2015-16.

## TABLE 7

### Other Agency Staff Supporting the ERP System, 2013-14 to 2016-17*

| Agency | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|
| Agriculture, Trade and Consumer Protection | 1.00 | 1.00 | 1.00 | 1.00 |
| Children and Families | 0.00 | 0.00 | 1.00 | 0.00 |
| Corrections | 3.00 | 5.00 | 2.50 | 0.00 |
| Health Services | 3.00 | 3.00 | 0.50 | 1.00 |
| Natural Resources | 1.00 | 2.00 | 0.50 | 1.00 |
| Revenue | 1.00 | 1.00 | 0.25 | 0.00 |
| Transportation | 2.00 | 2.00 | 1.25 | 0.00 |
| Safety and Professional Services | 1.00 | 1.00 | 1.00 | 0.00 |
| Workforce Development | 2.00 | 2.00 | 1.25 | 0.00 |
| Total | 14.00 | 17.00 | 9.25 | 3.00 |

*Department of Administration staff assigned to support the ERP system are not listed.

33. Agencies other than DOA with positions that were assigned to the STAR project entered into temporary interchange agreements with DOA to specify the terms of the work, including the purpose, statutory authority (s. 230.047 of the statutes), assignment, supervisor, employee status, worksite (in this case, the Administration building in Madison), headquarters (the sending agency), expenses, reimbursements, and duration. The Department of Administration reimbursed sending agencies for salary and fringe benefit expenditures. The following table shows expenditures made from the ERP appropriation to other agencies for expenses including but not limited to salaries and fringe benefits.

**TABLE 8**

**Reimbursements to State Agencies from ERP System Appropriation, 2013-14 to 2016-17**

| Agency | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|
| Administration* | $58,500 | $965,400 | $2,592,300 | $3,763,900 |
| Agriculture, Trade and Consumer Protection | 0 | 16,900 | 100,200 | 38,400 |
| Children and Families | 0 | 0 | 0 | 38,700 |
| Corrections | 0 | 9,800 | 99,800 | 122,200 |
| Employee Trust Funds | 0 | 38,100 | 261,600 | 112,100 |
| Health Services | 0 | 60,000 | 152,900 | 101,500 |
| Natural Resources | 0 | 337,800 | 528,300 | 644,700 |
| Revenue | 0 | 12,500 | 51,100 | 45,300 |
| Transportation | 0 | 0 | 94,200 | 81,100 |
| Safety and Professional Services | 0 | 23,200 | 142,500 | 141,500 |
| Workforce Development | 0 | 16,500 | 176,200 | 77,400 |
| Total | $58,500 | $1,480,200 | $4,199,100 | $5,166,800 |

*Reimbursement to DOA refers to payments made from the ERP system appropriation to other DOA appropriations.

34. With regard to the positions that would be reallocated under the provision, DOA initially assigned a number of staff to work on the STAR project late in 2012-13. The number of DOA positions assigned to the project increased in 2015-16 to coincide with implementation. The additional positions were primarily DET staff who had previously supported WiSMART and other applications that were planned for replacement by the new system.

35. If the provision to reallocate position authority were not approved, DOA would continue to operate the system using existing position authority through other appropriations as it does currently. It could be argued, therefore, that budgeted position authority by appropriation would not best reflect the number of positions doing work for each respective purpose and that the budget recommendation would be a clearer and more transparent way of budgeting.

36. With regard to the availability of historical financial information (for 2014-15 and prior years), the administration indicates that the software application for the legacy system (WiSMART) will be available through June 30, 2019. During this time, users will be permitted inquiry access to historical information. After this date, the SCO will review the activity and usage of the legacy system and make a determination regarding the maintenance of online access or potential shut-down of the online application. The state will adhere to a seven-year records disposal authorization period for financial data (through the Control D application), after which the SCO will review and determine the final disposition of the data. At this time, DOA does not plan to dispose of the raw data files for the legacy system. To the extent that the files are maintained, ledger detail and table information from as early as 1993 could still be accessed, if necessary.

**ERP Expenditures and Assessments**

37. The first year in which agencies were assessed for costs associated with the system was 2015-16. Assessments were determined based on the cost to operate the system's finance and procurement module for nine months and to operate the human resources module for six months. The Department of Transportation transitioned its finances to the system in July, 2017, nine months later than other state agencies. The total invoiced for the year was $9,064,900.

38. On March 8, 2017, the STAR team reported to the Joint Committee on Information Policy and Technology regarding: (a) the budgets for the development and operation of the system; (b) updates relating to Releases 1, 2, and 3 (finance and procurement, human resources, and DOT); (c) challenges experienced in implementation, including the delay in issuance of the state comprehensive annual financial report; (d) ongoing support for the system; (e) state agency assessments; and (f) benefits realization. In testimony provided to the Committee, DOA indicated that actual expenditures for operations and maintenance for the system in 2015-16 exceeded what had been assessed for the year, which would need to be recovered in 2016-17 (the current fiscal year). Additionally, the Department estimated that operations and maintenance assessments for 2016-17 expenditures would total approximately $14 million. Table 9 below summarizes operations and maintenance assessments charged in 2015-16 and 2016-17. In summary, assessments invoiced in 2016-17 total approximately $6.9 million more than the prior fiscal year. Attachment 3 provides assessments for each state agency charged in 2015-16.

**TABLE 9**

**Enterprise Resource Planning System Operations and Maintenance**

| Assessments Charged in 2015-16 | Assessments Charged in 2016-17 | | |
|---|---|---|---|
| Initial Assessment | FY 16 True-up Assessment | FY17 Ops. and Maintenance | Total |
| $9,064,900 | $1,913,600 | $14,018,700 | $15,932,300 |

39. The Department's operating budget for the ERP system for 2017-18 and 2018-19 assumes reductions in expenditures for operations and maintenance associated with the budget proposal to convert contractors to permanent staff. As a result, operations and maintenance assessments could be reduced if the proposal is approved. However, total assessments for the system will increase in future years due to the introduction of a second type of assessment to recover project development costs incurred to purchase hardware and software for the system, develop system settings specific to state operations, and prepare state employees for implementation. It is unknown at this time when project recovery assessments will begin and how much will be assessed. However, project recovery assessments could begin as soon as 2017-18. When project recovery assessments were last estimated in February, 2016, they were expected to recover total development costs over 20 years, which would be phased in over three years: (a) $4.1 million in the first year; (b) $5.5 million in the second year; and (c) $7.1 million in the third year and

in the following 17 years. In summary, assessments to state agencies for the cost of the system are likely to increase over the next several years. No agency was provided additional resources to pay for ERP system assessments in the 2017-19 budget recommendations.

40. Table 10 shows the operating budget estimated by DOA staff for 2016-17, 2017-18, and 2018-19. The budgeted amounts include both: system development costs such as master lease payments; and operations and maintenance costs for the ongoing management of the system. Separate operating budget amounts for development and operations and maintenance are shown in Attachment 4. As a point of reference, the amounts estimated for the continuing appropriation in the Chapter 20 schedule of appropriations under current law (2016-17) and under the bill are also provided.

**TABLE 10**

**ERP System Operating Budget for Development, Operations and Maintenance, 2016-17 to 2018-19**

| Expenditure Type | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|
| Permanent and Project Position Salaries | $3,087,000 | $3,651,000 | $4,270,500 |
| Other Salaries | 301,500 | 301,500 | 301,500 |
| Fringe Benefits | 1,203,500 | 1,426,600 | 1,671,800 |
| Supplies and Services | 21,983,200 | 21,382,900 | 18,649,400 |
| Total | $26,575,200 | $26,762,000 | $24,893,200 |
| Chapter 20 Schedule Estimate | $9,321,100 | $13,608,900 | $11,013,700 |

41. Based on information provided by state agencies and information in the accounting system, Table 11 shows the amounts paid by state agencies by fund source for assessments that were invoiced in 2015-16.

**TABLE 11**

**Agency Payments by Fund Source for ERP System Assessments Invoiced in 2015-16**

| Fund | Payment | Percentage |
|---|---|---|
| GPR | $3,340,900 | 36.9% |
| FED | 514,500 | 5.7 |
| PR | 2,753,200 | 30.4 |
| SEG | 2,456,300 | 27.1 |
| | $9,064,900 | 100.0% |

42. The distribution of agency payments by fund source could differ in 2016-17. However, if agency assessments totaling $15,932,300 are paid in the same proportions by fund source as

shown in the table above, agency payments would total approximately $5.9 million GPR, $904,300 FED, $4.8 million PR, and $4.3 million SEG (increases from the prior year of $2.5 million GPR, $389,800 FED, $2.1 million PR, and $1.9 million SEG).

43. The enterprise resource planning system appropriation is a continuing appropriation (other than sum certain) and is also an appropriation with forestalling authority. Expenditures from a continuing appropriation are not limited to the amounts in the Chapter 20 schedule of appropriations. Rather, the amounts in the schedule of appropriations reflect an estimate of expenditures. In addition, under s. 20.903(2) of the statutes relating to forestalling authority, it is specified that for this appropriation, liabilities may be created and moneys expended in an amount not exceeding: (a) the total of unexpended moneys in the appropriation account; (b) the value of accrued accounts receivable outstanding, inventories, work in process, estimated fee revenues (for the current fiscal year); and (c) the depreciated value of equipment for operations financed under the appropriation. Table 12 shows actual expenditures from the appropriation since 2013-14.

**TABLE 12**

**ERP System Appropriation Expenditures**

| Fiscal Year | Master Lease Principal | Master Lease Interest | Other Project Development | Maintenance and Operations | Total |
|---|---|---|---|---|---|
| 2013-14 | $914,500 | $994,900 | $3,396,700 | $0 | $5,306,100 |
| 2014-15 | 2,286,800 | 1,556,000 | 9,796,300 | 0 | 13,639,100 |
| 2015-16 | 4,589,000 | 2,750,000 | 4,645,700 | 10,978,400 | 22,963,100 |

44. There are changes to statutory authority for the ERP system appropriation that the Committee could consider to further increase transparency and establish more legislative oversight relating to the significant ongoing expenditures for the system that are assessed to each state agency, which will continue increasing in future years. The Committee could specify that the ERP system appropriation be repealed and recreated as an annual PR appropriation with forestalling authority effective July 1, 2018, and provide authority of: (a) $25 million PR and 52.5 PR positions in 2018-19 (an increase to bill funding of $13,986,300 PR) [Alternative D1]; or (b) $24.9 million PR and 52.5 PR positions in 2018-19 (an increase to bill funding of $13,886,300 PR) [Alternative D2]. Under this alternative, DOA would be provided full funding for its operating budget, which at this time is estimated to be a sufficient base budget for future years. If the Department needed additional expenditure or position authority, it could submit a request to the Committee under s. 16.505/515 of the statutes.

45. Finally, if the Committee wishes to delete any of the budget recommendations described in this paper, it could do so in whole [Alternative E1] or in part [Alternatives E2, E3, and E4].

## ALTERNATIVES

### A. Governor's Recommendations

1. Approve the Governor's recommendations to: (a) convert contractors for IT services to state agencies and the ERP system to permanent PR positions in DOA and make technical corrections between funding allocations; (b) delete 4.0 positions annually (1.0 from each agency) and associated funding from DNR, DSPS, DOT, and DWD and reallocate 2.0 PR positions and adjust funding within DOA to staff the State Controller's Office to address workload increases associated with the ERP system; and (c) reallocate position authority and funding between appropriations under DOA for the ERP system.

| **ALT A1** | **Change to Base** | | **Change to Bill** | |
|---|---|---|---|---|
| | **Funding** | **Positions** | **Funding** | **Positions** |
| DOA | | | | |
| PR | - $4,365,000 | 58.00 | $0 | 0.00 |
| | | | | |
| Other Agencies | | | | |
| PR | - $344,800 | -3.00 | $0 | 0.00 |
| SEG | - 158,600 | - 1.00 | 0 | 0.00 |
| | | | | |
| Total | - $4,868,400 | 54.00 | $0 | 0.00 |

2. Approve only the Governor's recommendation to convert IT contractor staff to permanent state positions and provide adjustments to DOA as specified totaling -$463,100 PR and 37.0 PR positions in 2017-18 and -$3,712,100 PR and 54.0 PR positions in 2018-19. In addition, specify that corrections be made between funding allocations that net to $0.

| **ALT A2** | **Change to Base** | | **Change to Bill** | |
|---|---|---|---|---|
| | **Funding** | **Positions** | **Funding** | **Positions** |
| PR | - $4,175,200 | 54.00 | $0 | 0.00 |

3. Approve only the Governor's recommendation to: (a) delete $94,900 annually from DOA's PR appropriation for the federal resource acquisition program and transfer 2.0 vacant PR positions from the appropriation to the agency's financial services appropriation; (b) provide 4.0 PR positions annually to DOA's financial services appropriation; (c) delete 1.0 position annually and salaries and fringe benefits funding associated with the position from each of four agencies as identified (DNR, DSPS, DOT, and DWD); and (d) reallocate $450,000 PR annually in DOA's financial services appropriation from supplies and services to salaries ($322,400) and fringe benefits ($127,600).

| ALT A3 | Change to Base | | Change to Bill | |
|---|---|---|---|---|
| | **Funding** | **Positions** | **Funding** | **Positions** |
| DOA | | | | |
| PR | - $189,800 | 4.00 | $0 | 0.00 |
| | | | | |
| Other Agencies | | | | |
| PR | - $344,800 | - 3.00 | $0 | 0.00 |
| SEG | - 158,600 | - 1.00 | 0 | 0.00 |
| | | | | |
| Total | - $693,200 | 0.00 | $0 | 0.00 |

4. Approve only the Governor's recommendation to reallocate position authority and funding under DOA to reflect staffing for the ERP system.

**B. Information Technology Contractors**

1. Modify the provision to: provide 22.0 permanent positions annually and 17.0 four-year project positions in 2018-19 for IT services to state agencies; and provide 8.0 permanent and 7.0 four-year project positions annually for the ERP system. [Recommended position authority would be provided in full; 24.0 of 54.0 positions would be specified as four-year project positions rather than permanent positions. Of the total, 17.0 would expire on June 30, 2022, and 7.0 would expire on June 30, 2021.] In addition, specify that corrections be made between funding allocations that net to $0.

2. Modify the provision to: provide 22.0 permanent positions annually and 17.0 two-year project positions in 2018-19 for IT services to state agencies; and provide 8.0 permanent and 7.0 two-year project positions annually for the ERP system. [Recommended position authority would be provided in full; 24.0 of 54.0 positions would be specified as four-year project positions rather than permanent positions. Of the total, 17.0 would expire on June 30, 2020, and 7.0 would expire on June 30, 2019.] In addition, specify that corrections be made between funding allocations that net to $0.

3. Specify that DOA report to the Committee by August 31, 2018, regarding the activities of the permanent (and project, if applicable) positions converted from contractor staff performed in the 2017-18 fiscal year, including: (a) accomplishments such as system or process improvements, progress or completion of projects, or finished work products; (b) any additional savings or efficiencies that DOA can estimate resulted from the work of the positions; and (c) plans for additional improvements, projects, or work products for the 2018-19 fiscal year.

4. Specify that corrections be made between funding allocations that net to $0 based on information provided by the Division of Enterprise Technology. [This alternative may be selected as a technical modification if not otherwise chosen under Alternatives A1, A2, B1, or B2.]

**C. State Controller's Office Positions**

1. Modify the provision to only delete position authority and associated funding from DNR and DSPS. Rather than deleting positions in DOT or DWD, delete $84,300 PR and 1.0 PR

position annually from DOA's appropriation for capital planning and building construction (vacant since April, 2016) and $94,800 PR and 1.0 PR position annually from DOA's appropriation for facility operations and maintenance, police and protection (vacant since February, 2016).

| **ALT C1** | **Change to Base** | | **Change to Bill** | |
|---|---|---|---|---|
| | **Funding** | **Positions** | **Funding** | **Positions** |
| DOA | | | | |
| PR | - $548,000 | 2.00 | - $358,200 | - 2.00 |
| DNR/DSPS | | | | |
| PR | - $188,200 | - 2.00 | $0 | 0.00 |
| DOT/DWD | | | | |
| PR | $0 | 0.00 | $156,600 | 1.00 |
| SEG | 0 | 0.00 | 158,600 | 1.00 |
| Total | - $736,200 | 0.00 | - $43,000 | 0.00 |

## D. ERP System Appropriation

Modify provisions relating to ERP system position authority and funding to repeal and recreate the ERP system appropriation as an annual PR appropriation with forestalling authority (outlined in current law under s. 20.903 of the statutes) effective July 1, 2018. Approve recommendations to: reallocate position authority within DOA to the ERP system appropriation; and convert contractors to 15.0 PR positions annually. [Under this alternative, expenditure authority would be limited to the amounts in the schedule. Expenditure authority would exceed the amounts DOA has indicated as its operating budget for the ERP system.]

Provide to the appropriation total authority of:

1. $25.0 million PR and 52.5 PR positions in 2018-19 (37.5 FTE reallocated from other DOA appropriations, and 15.0 FTE converted from contractors). Provide funding as follows: (a) permanent and project position salaries, $4,270,500; (b) LTE and miscellaneous salaries, $301,500; (c) fringe benefits, $1,671,800; and (d) supplies and services, $18,756,200. [Exceeds DOA's operating budget by $106,800 in 2018-19.]

| **ALT D1** | **Change to Base** | | **Change to Bill** | |
|---|---|---|---|---|
| | **Funding** | **Positions** | **Funding** | **Positions** |
| PR | $15,650,200 | 52.50 | $13,986,300 | 0.00 |

2. $24,900,000 PR and 52.5 PR positions in 2018-19 (37.5 FTE reallocated from other DOA appropriations, and 15.0 FTE converted from contractors). Provide funding as follows: (a) permanent and project position salaries, $4,270,500; (b) LTE and miscellaneous salaries, $301,500; (c) fringe benefits, $1,671,800; and (d) supplies and services, $18,656,200. [Exceeds DOA's operating budget by $6,800 in 2018-19.]

| ALT D2 | Change to Base Funding | Change to Base Positions | Change to Bill Funding | Change to Bill Positions |
|---|---|---|---|---|
| PR | $15,550,200 | 52.50 | $13,886,300 | 0.00 |

## E. Delete Provision

1. Delete only provisions that would convert IT contractor staff to permanent positions.

| ALT E1 | Change to Base Funding | Change to Base Positions | Change to Bill Funding | Change to Bill Positions |
|---|---|---|---|---|
| PR | $0 | 0.00 | $4,175,200 | - 54.00 |

2. Delete only provisions that: would reallocate and provide position authority to the State Controller's Office and would reduce position authority and funding to other state agencies. [Under this alternative, deleted positions and funding in other agencies would be restored.]

| ALT E2 | Change to Base Funding | Change to Base Positions | Change to Bill Funding | Change to Bill Positions |
|---|---|---|---|---|
| DOA | | | | |
| PR | $0 | 0.00 | $189,800 | - 4.00 |
| Other Agencies | | | | |
| PR | $0 | 0.00 | $344,800 | 3.00 |
| SEG | 0 | 0.00 | 158,600 | 1.00 |
| Total | $0 | 0.00 | $693,200 | 0.00 |

3. Delete only provisions reallocating position authority for the ERP system.

4. Delete all provisions: (a) converting IT contractor staff to permanent positions; (b) reallocating and providing position authority for the State Controller's Office and deleting positions and funding in other agencies; and (c) reallocating position authority for the ERP system.

| ALT E4 | Change to Base Funding | Change to Base Positions | Change to Bill Funding | Change to Bill Positions |
|---|---|---|---|---|
| DOA | | | | |
| PR | $0 | 0.00 | $4,365,000 | - 58.00 |
| Other Agencies | | | | |
| PR | $0 | 0.00 | $344,800 | 3.00 |
| SEG | 0 | 0.00 | 158,600 | 1.00 |
| Total | $0 | 0.00 | $4,868,400 | - 54.00 |

Prepared by: Rachel Janke
Attachment

## ATTACHMENT 1

### Enterprise Resource Planning System Background

*Appropriation and Authority Created*. Under 2007 Wisconsin Act 20, DOA was required to implement, operate, maintain, and upgrade an integrated business information system for all executive branch agencies for the following: (a) all financial services (including accounting and auditing of payroll); (b) procurement; (c) human resources; and (d) other administrative duties. The Department was authorized to provide these services to any executive branch agency as long as those services could be provided efficiently and economically. Legislative and judicial branch agencies were allowed to participate at their discretion. The appropriation created to fund the system is a PR-continuing appropriation with forestalling authority, which allows an agency to spend in excess of the revenues received to the extent that the non-depreciated assets under the appropriation offset the excess expenditures.

Major project expenses such as software and hardware for system development were purchased through the state's master lease program. The master lease program implements a two-phased financing structure: (a) the financing of all leased items initially financed with proceeds from a revolving line of credit for which the state pays interest based on a variable taxable interest rate; and (b) the issuance of certificates of participation to refinance the revolving credit with a fixed rate and most often tax exempt financing. The state's obligation to make lease payments is not a general obligation debt of the state. Rather, the payments are subject to the annual appropriation of funds sufficient to cover the costs of the annual lease payments.

*Project Suspended.* While DOA initially purchased hardware and software under the state's master lease program for the integrated business information system, the project was put on hold in April, 2008. Maintenance payments for the purchased software continued to be made from the appropriation through 2010-11, at which time payments were suspended to consider options for continuing work to produce a system for managing the administrative functions specified above. Expenditures for the integrated business information system, which did not result in system implementation, were completed in February, 2013, and totaled $15,007,000. At this time, DOA has not recovered costs from this period. In part, this is due to rules that disallow the use of federal funds for expenses that were incurred more than several years prior to the date of payment. It should be noted that the $15 million associated with the integrated business information system is not included in the $108.3 million in expenses to develop the enterprise resource planning (ERP) system shown in Attachment 2.

*Consultant Analysis of Costs*. In February, 2013, Information Services Group (ISG) presented a report to DOA regarding its efforts to estimate the cost for the state to implement an enterprise resource planning system, based on the original feasibility study presented by Salvaggio, Teal and Associates in March, 2005 (the latter consulting group was acquired by ISG in February, 2011). The 2013 report estimated the cost of developing the system at $118.8 million and recommended that a project budget include a $19.9 million contingency reserve, for a total project budget of $138.7 million. The consultant advised that, "By budgeting for a reserve for contingencies, management can establish appropriate expectations that may avoid second-guessing of the project when unexpected events do occur. Furthermore, having available contingency funding will allow the project to react to such events in a timely manner without losing undue time (and possibly incurring even greater cost) to secure the necessary funds to proceed."

The report also included estimates for six years of ongoing post-implementation costs associated with operation and maintenance of the system ranging from $14.3 million to $15.6 million annually, as well as a one-time expense three years from completion for "consultant support for upgrade" estimated at $9.4 million. Ongoing costs were anticipated to include systems integrator services, state employee salaries and fringe benefits, software maintenance, production and development environment, and ERP project facilities and equipment.

*Resuming Project Development*. Under 2013 Act 20, the integrated business information system appropriation was renamed the ERP system. In June, 2013, following the revised cost estimate and development of plans for implementation, the administration began incurring additional expenses for software license, hardware, and support purchases for the project, financed through the state's master lease program. In 2013-14, DOA purchased new software for the project after determining that upgrades to the existing software would incur a greater expense, and additionally incurred personnel and professional services costs and made other license, hardware, and support purchases to plan and design the ERP system. In 2014-15, expenses continued to be incurred to develop the system and prepare for implementation. System development and implementation activities were commonly known as the STAR Project (State Transforming Agency Resources).

*System Delivery*. Implementation of the system began in 2015-16. In October, 2015, the financial and procurement applications of the system were deployed, and in December, 2015, the human resources and payroll application was deployed. The third and final phase of the project, system implementation for the Department of Transportation, was deployed in July, 2016. The first state comprehensive annual financial report summarizing financial activity using the new system was issued March 31, 2017, for the state fiscal year ending June 30, 2016.

*State Agency Assessments*. The Department of Administration developed two assessments that will be charged to state agencies for: (a) ongoing costs to maintain and operate the system; and (b) costs already incurred by the project to develop the system and prepare for implementation (such as hardware, software, contractual services, salaries, and fringe benefit expenses). Assessment amounts are based on an allocation of costs according to each agency's percentage share of the following measures relative to totals for all state agencies: number of authorized full-time equivalent positions, procurement spending, and adjusted state operations expenditures.

The Department began assessing agencies for ongoing costs to maintain and operate the system in 2015-16, totaling $9,064,900 for ongoing expenses estimated for the period of time each application was in operation (nine months for finance and procurement and six months for human resources and payroll). Actual expenditures for operations and maintenance in 2015-16 exceeded the amounts assessed. Operations and maintenance assessments in 2016-17 will include a charge for prior year costs not recovered in the initial assessment.

## ATTACHMENT 2

### Enterprise Resource Planning System Appropriation Expenditures
### February, 2013, to December, 2016

| Fiscal Year | Master Lease Principal | Master Lease Interest | Other Project Development* | Maintenance and Operations* | Total |
|---|---|---|---|---|---|
| 2012-13 | $0 | $0 | $316,715 | $0 | $316,715 |
| 2013-14 | 914,492 | 994,904 | 3,396,676 | 0 | 5,306,073 |
| 2014-15 | 2,286,836 | 1,555,958 | 9,796,274 | 0 | 13,639,068 |
| 2015-16 | 4,588,958 | 2,749,995 | 4,645,680 | 10,978,437 | 22,963,069 |
| 2016-17 (12/2016) | 2,874,529 | 1,517,433 | 1,562,476 | 5,814,529 | 11,768,968 |
| Total | $10,664,815 | $6,818,291 | $19,717,822 | $16,792,966 | $53,993,894 |

| | |
|---|---|
| Total Project Expenditures (Not Including Maintenance or Operations) | $37,200,928 |
| Total Outstanding Master Lease Principal | $71,141,260 |
| Total Project Development Cost | $108,342,188 |
| Total Project Budget (February, 2013, ISG Report) | $138,671,461 |

### Enterprise Resource Planning System
### Master Lease Originations, Adjustments, and Repayment
### February, 2013, to December, 2016

| Fiscal Year | Master Lease Originations** | Master Lease Repayments | Master Lease Adjustments*** |
|---|---|---|---|
| 2012-13 | $17,069,720 | $0 | $0 |
| 2013-14 | 19,523,510 | 914,492 | 0 |
| 2014-15 | 37,712,118 | 2,286,836 | 0 |
| 2015-16 | 14,577,530 | 4,588,958 | 0 |
| 2016-17 (12/2016) | 2,738,066 | 2,874,529 | 0 |
| Unassigned | 0 | 0 | -9,814,869 |
| Total | $91,620,944 | $10,664,815 | -$9,814,869 |
| Total Outstanding Master Lease Principal | | | $71,141,260 |

*Amounts attributed by the Department of Administration to ERP system development and ERP system operations and maintenance as recorded in the general ledger and as adjusted based on expenditure data by account code and accounting period.
**Amounts initially disbursed by master lease program based upon approved invoices.
***Principal balance adjustments on outstanding master lease schedules associated with: differences between variable interest rates paid and fixed interest rates used for budgeting; and net proceeds from investor payments to the state to purchase certificates of participation.

# ATTACHMENT 3

## Enterprise Resource Planning System Operations and Maintenance Assessments Charged in 2015-16 (Not Including True-up)

| Agency | Assessment | Agency | Assessment |
|---|---|---|---|
| Administration | $481,217 | Labor and Industry Review Commission | $5,108 |
| Agriculture, Trade and Consumer Protection | 123,425 | Legislature | 126,508 |
| Board for People with Developmental Disabilities | 1,583 | Lieutenant Governor | 639 |
| Board of Commissioners of Public Lands | 2,194 | Lower-WI State Riverway Board | 361 |
| Board on Aging and Long-Term Care | 5,880 | Military Affairs | 101,760 |
| | | | |
| Building Commission | 2,556 | Natural Resources | 600,311 |
| Child Abuse and Neglect Prevention Board | 960 | Public Defender | 122,766 |
| Children and Families | 254,392 | Public Instruction | 190,894 |
| Corrections | 1,976,188 | Public Service Commission | 28,165 |
| District Attorneys | 77,581 | Revenue | 302,099 |
| | | | |
| Educational Communications Board | 19,610 | Safety and Professional Services | 50,655 |
| Employee Trust Funds | 71,859 | Secretary of State | 577 |
| Employment Relations Commission | 2,190 | State Fair Park Board | 31,986 |
| Financial Institutions | 29,792 | State Treasurer | 470 |
| Government Accountability Board | 10,189 | Supreme Court | 7,105 |
| | | | |
| Governor | 6,614 | Tourism | 30,658 |
| Health Services | 1,593,611 | Transportation | 1,734,009 |
| Higher Educational Aids Board | 1,798 | University of Wisconsin System | 103,794 |
| Historical Society | 33,087 | Veterans Affairs | 241,845 |
| Insurance | 42,053 | Wisconsin Technical College System | 13,395 |
| | | | |
| Investment Board | 47,948 | Workforce Development | 417,208 |
| Judicial Commission | 395 | | |
| Judicial Council | 190 | Total | $9,064,869 |
| Justice | 168,212 | | |
| Kickapoo Reserve Management Board | 1,034 | | |

## ATTACHMENT 4

## Enterprise Resource Planning System Operating Budgets, 2016-17 to 2018-19*

| | 2016-17 | | | 2017-18 | | | 2018-19 | | |
|---|---|---|---|---|---|---|---|---|---|
| Expenditure Type | Project Development | Operations and Maintenance | Total | Project Development | Operations and Maintenance | Total | Project Development | Operations and Maintenance | Total |
| Permanent and Project Position Salaries | $564,300 | $2,522,700 | $3,087,000 | $705,300 | $2,945,700 | $3,651,000 | $860,200 | $3,410,300 | $4,270,500 |
| Other Salaries | 24,100 | 277,400 | 301,500 | 0 | 301,500 | 301,500 | 0 | 301,500 | 301,500 |
| Fringe Benefits | 217,600 | 985,900 | 1,203,500 | 273,400 | 1,153,200 | 1,426,600 | 334,700 | 1,337,100 | 1,671,800 |
| Supplies and Services | 11,750,500 | 10,232,700 | 21,983,200 | 13,156,900 | 8,226,000 | 21,382,900 | 11,162,800 | 7,486,600 | 18,649,400 |
| | $12,556,500 | $14,018,700 | $26,575,200 | $14,135,600 | $12,626,400 | $26,762,000 | $12,357,700 | $12,535,500 | $24,893,200 |

*Operating budgets assume approval of the proposal to convert IT contractors to permanent positions.