



# Statewide Financial Management System Needs Assessment Study Update

December 15, 2006



**Salvaggio, Teal & Associates**

INFORMATION SYSTEMS CONSULTING FOR THE PUBLIC SECTOR  
WWW.STACONSULTING.NET

**PMB 179**

**4815 W. Braker Lane, Suite 502  
Austin, Texas 78759**

# SALVAGGIO, TEAL & ASSOCIATES

INFORMATION SYSTEMS CONSULTING FOR THE PUBLIC SECTOR



December 15, 2006

Duncan Friend  
Director, Enterprise Technology Initiatives  
Kansas Department of Administration - DISC  
900 SW Jackson RM-751S  
Landon State Office Building  
Topeka, Kansas 66612

Dear Mr. Friend:

Salvaggio, Teal & Associates is pleased to submit our final report documenting the results of the Updated Needs Assessment Study for a new Financial Management System. We are providing our report in hard-copy and in electronic format.

We enjoyed working with you and the State's management and subject matter experts who contributed to the Study, and we are grateful for all the hard work you and the others put into this effort.

We greatly appreciate having had the opportunity to assist the State with this important study and look forward to being of further assistance to the State in the future. Should you have any questions or comments regarding our report, please do not hesitate to contact me at 512-797-7338 or by e-mail at [mitt.salvaggio@staconsulting.net](mailto:mitt.salvaggio@staconsulting.net).

Sincerely,

Mitt A. Salvaggio  
President



---

## Table of Contents

Executive Summary .....	1-1
Introduction .....	2-1
Business Case Analysis.....	3-1
System Requirements Validation .....	4-1
Implementation Best Practices .....	5-1
Organizational Best Practices .....	6-1
Budget Development Integration with FMS.....	7-1
Human Resources and Payroll Integration with FMS.....	8-1
Reporting Approach .....	9-1
Alternative Solutions Analysis .....	10-1
Appendix A: Business Case Analysis – Cost to Implement and Maintain a Statewide FMS.....	A-1
Appendix B: Business Case Analysis – Summary of <i>Value Pockets</i> ® Results.....	B-1
Appendix C: Functional Requirements.....	C-1
Appendix D: Technical and General Requirements.....	D-1
Appendix E: Interfacing Systems Documentation.....	E-1
Appendix F: Data Conversion Documentation.....	F-1
Appendix G: Listing of Focus Group Participants.....	G-1
Appendix H: Listing of All Study Participants by Agency .....	H-1
Appendix I: Chart of Accounts Recommendations .....	I-1
Appendix J: FMS Team Member Roles and Responsibilities .....	J-1



---

## Section 1 Executive Summary

### Project Background

This report documents the results of a Needs Assessment Study completed as a follow-up to update a prior study conducted by the State of Kansas (the State) in 2001.

#### 2001 Needs Assessment Study

The State conducted a needs assessment of its Statewide Financial Management System (FMS) in July 2001. The assessment included a cost-benefit study of various alternatives associated with meeting the State's administrative business needs, including the possibility of acquiring and implementing a new statewide FMS.

The final report included a recommendation that the State proceed with replacing the Statewide Accounting and Reporting System (STARS) with a FMS that would focus on providing improved management information, in addition to processing financial transactions, and that would include, at a minimum, the following functional modules:

- ◆ Accounts Payable,
- ◆ General Ledger,
- ◆ Purchasing,
- ◆ Asset Management, and
- ◆ Inventory Management.

The Project Steering Committee approved this recommendation on scope, along with the use of a pilot approach for rolling out the new system to the user agencies. In addition, the Steering Committee approved an approach that allowed major State agencies with significantly different requirements to operate their own instances of the software. The study also determined that interfaces would be required between a new FMS system and the Regents Institutions, as well as the newly implemented Budget Management System (BMS) and Statewide Human Resource and Payroll System (SHARP). The Study estimated the cost for the proposed FMS to be between \$25 million and \$36 million, spanning a 2.5 to 3.5 year implementation timeframe.

The recommendations from the assessment were not implemented due to a brief downturn in the Kansas economy, resulting in a lack of funding to proceed with the FMS initiative.

#### 2006 Needs Assessment Study Update

In June of 2006, the Department of Administration sponsored a Request for Proposal (RFP), soliciting assistance in updating the original 2001 Needs Assessment. The State decided to take this step for the following reasons:

- ◆ *Changes in philosophy and approach to execution of State administrative functions.* When the administration of Governor Kathleen Sebelius took office in



January 2003, the State began to pursue a more decentralized approach to the governance of administrative functions, delegating authority to State agencies while fostering collaborative decision-making to achieve the best benefit for the state as a whole. This approach placed an increased focus on analyzing data about the state's operations and pursuing efficiencies on an enterprise basis. As a byproduct of these efforts over the last few years (organized as the Governor's Budget Efficiency and Savings Teams, or BEST), managers have become acutely aware of deficiencies in the state's financial and procurement systems that make it difficult to obtain the information needed to adequately assess the efficiency of many aspects of operations.

- ◆ *Changes associated with agency internal business processes.* Since 2001, when the decision was made not to pursue the replacement of the existing statewide financial system, some agencies have begun to develop small and large scale custom applications to automate their processes. In addition, an evolving statutory and regulatory environment means that agencies are likely to have developed new and different processes in some areas since the previous study examined them, and programs supported by these processes may have changed significantly. Thus, the State felt it was necessary to reexamine agency requirements to bring them up-to-date with any changes in state operations since 2001.
- ◆ *Advances in technology and changes in the marketplace since 2001.* There have been considerable advances in technology (e.g., Web-enablement and service-oriented architecture) and in functionality for the public sector (e.g., new eProcurement functionality and vendor/employee self-service) in recent years. Additionally, there has been considerable product consolidation in the Tier 1 software marketplace as both PeopleSoft and JD Edwards software solutions are now owned by Oracle Corporation. Tier 1 software vendors are considered the most viable companies for meeting the needs of the largest and most sophisticated governmental organizations.

The RFP led to the State engaging the consulting firm of Salvaggio, Teal and Associates (STA), headquartered in Austin, Texas, to assist in updating the 2001 Needs Assessment.

The primary objectives of the Needs Assessment Update project were to:

- ◆ Review the existing financial management systems and processes throughout State government;
- ◆ Update statewide and agency-specific administrative system requirements, and
- ◆ Update the business case analysis associated with the implementation of a new FMS and determine whether or not there is a compelling business case for procuring and implementing an integrated statewide FMS.

The results of the Update project are contained in this report.



---

## Scope of the Needs Assessment Update

Project scope is defined from a current systems, functional, and organizational perspective as follows:

### **Current Systems Scope**

The following components of the State's current statewide systems environment were included in the Update project:

- ◆ STARS (accounting),
- ◆ SOKI3+ (interfunds, journal vouchers, receipts),
- ◆ Budget Management System,
- ◆ Procurement Manager Plus,
- ◆ Kansas Debt Recovery System (Central Set-off System), and
- ◆ STARS Ad Hoc Reporting System.

### **Functional Scope**

The functional scope of the Update project included the functionality provided by the current statewide systems listed above, as well as certain system functionality beyond what is currently provided by the existing statewide systems, including:

- ◆ General Ledger (including Budgetary Control, Project/Grant Accounting, Cash Management, and Cost Allocation);
- ◆ Accounts Payable;
- ◆ Procurement;
- ◆ Asset Management;
- ◆ Budget Development;
- ◆ Data Warehousing (for reporting);
- ◆ Fleet Management;
- ◆ Inventory Management; and
- ◆ Accounts Receivable / Billing.

As described later in this report, the functional scope was reduced for the purposes of developing the business case for a new FMS. This reduction in functional scope is described in greater detail in *Section 2: Introduction*.

### **Organizational Scope**

The FMS will be utilized by all state agencies. However, the study assumed that Regents Institutions would be excluded from the organizational scope of analysis for the Needs Assessment Update project. Regents Institutions have made significant



investments in “stand-alone” financial management systems that support their current business processes, systems that are frequently integrated with other university specific systems such as student administration. However, they will be required to maintain interfaces to the FMS as they do today with STARS and high-level information about these interfaces has been cataloged as part of this report. We also recommend that the Regents Institutions be encouraged to utilize the FMS Procurement functionality and strategic sourcing to allow the State to further leverage the combined spend as a means of obtaining better pricing from the vendor community.

## Project Deliverables

The Needs Assessment Update project produced the following deliverables:

- ◆ **Business Case Analysis** – Developed to determine whether there is a compelling business case for undertaking a project to acquire and implement a new statewide FMS.
- ◆ **System Requirements Validation (functional and technical)** – Developed to validate and document the functional and technical requirements for a FMS as well as document data conversion and interfacing system requirements, which will be included in a RFP(s) for acquiring FMS software and implementation services.
- ◆ **Implementation Best Practices** – Developed to provide the State an understanding of viable deployment strategies, including pros and cons of each strategy, major decision drivers associated with deploying a new FMS, and our recommended approach and timeline for the deployment.
- ◆ **Organizational Best Practices** – Developed to provide recommendations regarding the composition and structure of the project organization and to provide best practices for recruiting, staffing, and retaining State staff for the project.
- ◆ **Budget Development Integration Analysis** – Developed to provide background information on the State’s budget development process, document how the BMS currently interfaces with other statewide administrative systems, document any problems and functional deficiencies with the current BMS as noted during our visits with Stakeholder Agencies, provide an overview of the budget development software marketplace, document how budget development functionality will be addressed in the new Financial Management System (FMS), and make any recommendations that impact the integration between budget development and the proposed FMS.
- ◆ **Human Resources / Payroll Integration Analysis** – Developed to document how the current SHARP system should interface with the new FMS, document any problems identified as part of this study that impact HR/Payroll functionality, identify any advantages to be obtained by continuing the State’s investment in



the PeopleSoft software family, and make any recommendations that impact the integration between SHARP and the proposed FMS.

- ◆ **Reporting Approach** – Developed to document our findings regarding the reporting deficiencies associated with statewide administrative systems and provide a recommended solution for addressing those deficiencies.
- ◆ **Analysis of Alternative Solutions** – Developed to provide alternative solutions for the State to consider if the State elects not to move forward with implementing a new FMS.

All of the project deliverables outlined above are contained in this report.

## Approach

In performing this project, we utilized our proven methodology for planning for and acquiring enterprise-wide FMS software and associated implementation services that we have used successfully for numerous projects of this type for state and local governments. The primary components of our methodology used for the FMS Project are Business Case Analysis and System Requirements Validation, which we tailored to this particular project. Refer to *Section 3: Business Case Analysis* and *Section 4: System Requirements Validation* of this report for detailed information regarding the approach we applied in developing those sections.

Our approach to performing projects, in general, is highly collaborative as we understand that in order for us to bring real value to our clients, we must not only have a clear understanding of the business drivers for the projects we undertake, but also our clients' business issues, cultural environment, operating philosophy, and overall business strategy. In keeping with our methodology and our overall approach to performing projects, among the activities we performed are the following:

- ◆ Worked closely with the State's project leadership to gain an understanding of business drivers for the FMS initiative, formulate assumptions regarding the implementation and operation of FMS, obtain information on existing statewide systems and future plans for statewide systems (assuming a statewide FMS is not implemented) and identify potential process-improvement opportunities;
- ◆ Conducted numerous interviews with management and other appropriate personnel from a number of the agencies (referred to as "Stakeholder Agencies") with larger budgets, complex business process and reporting needs, and/or significant internal systems outside the State's current administrative systems to gain their insights and perspectives on various aspects of the project, in general, and to obtain specific information necessary for us to successfully complete our work;
- ◆ Conducted surveys to obtain information necessary to quantify system savings (i.e., system costs that would be avoided if FMS were implemented), as well as quantify process-improvement benefits/savings for the Business Case Analysis; and



- ◆ Facilitated work sessions and conducted interviews to (1) validate system requirements from the previous Needs Assessment study conducted by Accenture in 2001, (2) document the FMS system requirements at a level of detail sufficient to differentiate FMS software offerings, and (3) obtain information required for developing the other deliverables for this project.

## State Participation

As stated above, our approach to performing enterprise projects of this size and complexity is highly collaborative. As such, the Study included considerable participation from across State government as follows:

- ◆ Leadership from three (3) agency sponsors;
- ◆ Input and guidance from a Steering Committee representing thirteen (13) State organizations; and
- ◆ Participation of 225 state employees from 47 separate agencies in Requirements Focus Group work sessions and in interviews/meetings with Stakeholder as well as other agencies. The purpose of the Requirements Focus Groups is provided in *Section 4: System Requirements Validation*.

## Key Points and Recommendations

We made numerous recommendations as a result of the work we performed in conducting this study which are included in various sections of this report. The principal study points and recommendations are summarized as follows:

### Recommended Functional Scope

The following functionality will be implemented:

- ◆ General Ledger (including Budgetary Control, Cost Allocation, Grant/Project Accounting, and Cash Management)
- ◆ Accounts Payable
- ◆ Asset Management
- ◆ Procurement
- ◆ Budget Development Integration (based on the use of one of three options discussed in *Section 7: Budget Development Integration with FMS*)
- ◆ Data Warehousing (for reporting)

### Recommended Deployment Approach

“Big Bang” deployment in which the State simultaneously “rolls out” all functionality that is within scope to all agencies. Details of the analysis supporting this recommendation can be found in *Section 5: Implementation Best Practices*.



**Recommended Project Organization**

The Project Management Office should be established independent of the Department of Administration. The State should position the FMS initiative as an enterprise-wide business transformation effort and not a technology project owned by the Department of Administration.

The FMS Project Team will be composed of a combination of:

- ◆ State personnel from the Department of Administration;
- ◆ State personnel from the other “user” State agencies;
- ◆ Implementation contractors; and
- ◆ Independent project oversight contractors.

During the implementation period, the Project Team will be made up of, on average, approximately 1.5 State personnel for each (1.0) contractor. It is anticipated that the Project Team at peak staffing will include approximately 50 State employees and 33 contractors.

**Estimated Project Cost**

We estimate that the total cost to implement FMS will be approximately \$40.7 million as summarized in the table below.

<b>Cost Category</b>	<b>Cost Amount</b>
Consulting Fees	\$ 27,371,600
Compensation for State Employees*	\$ 5,265,246
Software License Fee	\$ 4,000,000
Software Maintenance Fees (1 <sup>st</sup> year)	\$ 800,000
Facilities and Other	\$ 1,250,000
Data Center Costs (during implementation effort)	\$ 2,040,000
<b>Total Cost of Implementation</b>	<b>\$ 40,726,846</b>

\* “Compensation for State Employees” represents compensation for “backfill” resources which are those that replace State project team members in performing the jobs they leave to join the project team. For additional information regarding “backfill”, refer to (1) assumptions regarding “State Employee Implementation Cost (Backfilling Cost)” in *Section 3: Business Case Analysis* and (2) “Strategy for Backfilling” in *Section 6: Organizational Best Practices*.

**Estimated Payback Period**

Taking into account the estimated cost to implement and operate a new FMS, as well as the savings/benefits that could be realized from the implementation, the financial breakeven/payback is estimated to occur in Year 12 (in the 13th year of the initiative taking into account Year 0) of the planning timeframe (as referenced in the schedule that follows).



**Schedule of Estimated Net Costs and Benefits/Savings from Implementing FMS**  
(in thousands of dollars)

Cost and Benefits/Savings Categories	Acquire		Implement		Support								Total	
	Yr 0 FYE 2007	Yr 1 FYE 2008	Yr 2 FYE 2009	Yr 3 FYE 2010	Yr 4 FYE 2011	Yr 5 FYE 2012	Yr 6 FYE 2013	Yr 7 FYE 2014	Yr 8 FYE 2015	Yr 9 FYE 2016	Yr 10 FYE 2017	Yr 11 FYE 2018		Yr 12 FYE 2019
<b>FMS Costs</b> (implementation & operation)	(317)	(633)	(15,426)	(19,804)	(8,391)	(3,869)	(3,894)	(8,974)	(3,947)	(3,975)	(4,004)	(9,085)	(4,060)	<b>(86,379)</b>
<b>Avoided System Costs</b>														
Retirement of existing systems					1,278	2,559	2,654	2,614	2,624	2,670	2,670	2,670	2,670	<b>22,409</b>
Avoidance of new systems and enhancements to existing systems	525	5,360	1,465	185	428	428	428	428	428	428	428	428	428	<b>11,387</b>
<b>Process-Improvement Benefits</b> (Value Pockets)														
FTE reduction/redirection					1,735	3,469	3,469	3,469	3,469	3,469	3,469	3,469	3,469	<b>29,488</b>
Procurement -- reduction in the cost of goods/services					1,500	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	<b>25,500</b>
Other process-improvement savings/benefits					35	71	71	71	71	71	71	71	71	<b>599</b>
<b>Net</b>	<b>208</b>	<b>4,727</b>	<b>(13,961)</b>	<b>(19,619)</b>	<b>(3,415)</b>	<b>5,658</b>	<b>5,727</b>	<b>608</b>	<b>5,645</b>	<b>5,663</b>	<b>5,634</b>	<b>553</b>	<b>5,578</b>	<b>3,005</b>
<b>Cumulative Net</b>	<b>208</b>	<b>4,935</b>	<b>(9,026)</b>	<b>(28,645)</b>	<b>(32,060)</b>	<b>(26,402)</b>	<b>(20,675)</b>	<b>(20,067)</b>	<b>(14,422)</b>	<b>(8,760)</b>	<b>(3,126)</b>	<b>(2,573)</b>	<b>3,005</b>	

Please note that the totals in the schedule above may reflect variances due to rounding.

Note that we estimate the State will begin to realize savings/benefits of approximately \$5.7 million per year from the FMS implementation for each year in which an upgrade is not performed starting in Year 5 (see above). The schedule above includes estimates for FMS upgrades in Years 7 and 11.

**Conservative Approach Used for Estimating**

Based on our experience with similar projects in other states, we believe that the estimates presented for “Avoided System Costs” savings and “Process-Improvement Benefits” in the schedule above are significantly understated, and that the payback is likely to occur in Year 10, or earlier. However, the limited timeframe in which the study was conducted precluded our performing analyses to delve further into this matter. Refer to *Section 3: Business Case Analysis* of this report for more information on our observations and analysis regarding each of these two (2) components of the Business Case Analysis.

Also, note that we assumed that the benefits/savings in the categories of “Retirement of Existing Systems” and “Process-Improvement Benefits” would not begin to be realized until after the new FMS is put into production at the beginning of the State’s 2011 fiscal year and that only 50% of the estimated annual benefits/savings would be realized during the first fiscal year the FMS is in production.

**Project Duration**

The anticipated project timeline is as follows:



Project Phases	Target Months from Inception
Pre-Implementation Services Phase	0—18
Implementation Phase	19—39
Post-Implementation Support Phase	40—48

The current plan is for the FMS to “go live” at the beginning of the State’s 2011 fiscal year in July 2010.

### Alternatives

The following alternatives to a FMS implementation for the State, have been considered by our public sector clients as well as other state and local governments; however, most organizations have chosen the FMS path where there was a viable business case to support it:

1. Status Quo (Do Nothing)
2. Custom Development
3. Implement a “Best-of-Breed” Solution to Address Immediate Needs
4. Enhance Existing Systems and Processes
5. Outsourced Hosting
6. Outsourced Business Processes

We consider only *Outsourced Hosting* and *Outsourced Business Processes* as viable options for the State to consider in lieu of implementing an FMS through traditional means; however, additional analysis should be performed before undertaking one of these options as they can be expensive, have shown mixed results in providing the actual cost savings, improvement in service delivery, and other benefits as anticipated, and it is difficult to reinstate in-house functions without impacting services when such need arises.

### Pre-Implementation Tasks

Though the implementation of a new FMS may be a few years away, there are a series of critical pre-implementation tasks essential for project success that have been identified and must be completed prior to initiating the Implementation Phase of the FMS Project (refer to the *Section 5: Implementation Best Practices* of a detailed discussion of specific tasks).

### Compilation of Recommendations

Following is an inventory of all recommendations made as a result of completing this study:

1. We agree with the recommendation made in the 2001 Needs Assessment report that the State should move forward with implementing a statewide FMS as:



- ◆ The State could potentially realize a significant financial return on its investment in a new FMS. Refer to the Business Case Analysis section of this report for an analysis of the estimated costs that would be incurred to implement and operate a new FMS, as well as the estimated benefits that could be realized from the implementation.
- ◆ The FMS would provide a number of significant intangible benefits to the State that are not addressed by the financial calculations performed in this Study, such as:
  - Improved level of service provided to many of the State's internal customers and external customers (i.e., citizens and stakeholders) through Web-based functionality of the FMS, which would make certain information readily available to the customers via the Inter/Intranet and would reduce process cycle times—reducing the amount of time customers would have to wait to receive products/services, as well as potentially expanding the hours during which such services would be made available;
  - Improved information (i.e., information that would be more accurate, timely, and useful/meaningful) for management decision-making that will aid system users in maximizing the return on citizens' investments. This improvement in information would result from the availability of reporting tools that would be available in the FMS;
  - Reduced staff effort and process cycle times due to more efficient processing and control of documents through enterprise-wide use of automated workflow technology, which would provide for electronic document routing, review and approval, online inquiry into document status, and more efficient document filing and retrieval;
  - STARS operates on a cash basis of accounting and has very limited capabilities to maintain multiple bases of accounting (cash, accrual, modified accrual), while GAAP and GASB Statement No. 34 now require the use of accrual and modified accrual bases of accounting, functions that are readily accommodated in modern FMS software products; and
  - Realized benefits from moving to more modern technology. The technology of the State's administrative systems is dated. Many of the systems are twenty (20) to thirty (30) years old, and as a result:
    - The State is unable to "plug-and-play" with new (and even not so new) technologies (e.g., Internet-based technologies, bar coding);
    - It is often difficult to modify the systems as the changes require "hard-coding" (i.e., changes must be made to the actual computer code instead of simply changing data table entries to make the changes as is the case in more modern systems);
    - The State is exposed to significant risk (e.g., some technologies are becoming obsolete and will eventually become difficult to replace, and it



- 
- will become increasingly difficult to find technical staff to maintain these systems);
- The staff with skills required to maintain these systems are rapidly approaching, or have reached, retirement age; and
  - The systems are difficult to use as they lack the modern, Windows-based, common user interfaces that system users are accustomed to using (e.g., e-mail, office applications, Internet browsing). This technology also negatively impacts the ability to gain efficiencies in related business processes.
- ◆ Agencies continue to spend, and have plans to spend, significant amounts on enhancing their existing agency-specific legacy systems or purchase their own agency-specific integrated systems – this funding could be applied toward the implementation of a single, statewide FMS. As part of this project, agencies reported 243 agency-specific systems (including automated tracking tools such as PC-based spreadsheets and databases) that are currently in place, or are planned, to address their business needs in the functional areas included within the scope of this project.
2. The functional scope of the FMS should include the following functional areas (refer to *Section 5: Implementation Best Practices* of this report):
    - ◆ General Ledger (including Budgetary Control, Cost Allocation, Grant/Project Accounting, and Cash Management)
    - ◆ Accounts Payable
    - ◆ Asset Management
    - ◆ Procurement
    - ◆ Budget Development
    - ◆ Data Warehousing (for reporting)
  3. As noted above, the functional scope of the FMS implementation should include a data warehouse (or a reporting database that is separate from the production system) for reporting on financial and operational data. The data warehouse will allow properly-trained end users to develop ad hoc reports and queries through the use of a report development toolset without impacting performance of the production FMS.
  4. While a “Big Bang” deployment (i.e., simultaneously deploying all functionality that is within scope at all agencies) and a “Phased” deployment each have associated positive attributes and negative attributes, we recommend that the State employ a “Big Bang” deployment approach over a 21-month period.

The specifics associated with this recommendation are documented in *Section 5: Implementation Best Practices* of this report.



5. As part of the initial deployment, FMS should be interfaced with the SOKI3+ system and the Central Set-Off System. Consideration should be given to replacing the Set-Off System and SOKI3+ with FMS functionality in a future phase.
6. Consideration should be given to implementing the PeopleSoft Time and Labor module or an alternative, industry-standard, third party Time and Effort Reporting solution to address time and effort reporting deficiencies critical to user agency grant and other financial reporting requirements that cannot be addressed within the FMS effort.
7. The RFP(s) for FMS software and associated implementation services should include Budget Development in the functional scope. After completing a comprehensive evaluation process, the RFP response evaluation committee can make a decision on which of the following three (3) options to pursue:
  - 1) *Option 1: Discontinue the Use of BMS and Replace with FMS Budget Development Module.* This option should be selected if it is determined that all statewide and user agency functional requirements can be met through the new FMS.
  - 2) *Option 2: Utilize the FMS Budget Development Module to Build Initial Agency Budget Requests and Interface to BMS.* This option should be selected if Option 1 is not viable and if it is determined that user agency functional requirements associated with building agency budget requests can be met by the FMS and the proper interfacing with the BMS if feasible.
  - 3) *Option 3: Continue Use of the BMS and Interface to FMS General Ledger.* This option is recommended only if Options 1 and 2 are not viable. This is the "status quo" option as automated interfaces would be built between the BMS and the new FMS General Ledger module to load prior-year actual (expenditures and revenues) data, and between the BMS and SHARP to load personnel data. Agencies would develop their operating budgets locally using their existing processes/systems and interface/manually enter the data into the BMS at the appropriation level and to the General Ledger module of the FMS at the operating budget level once the budget has been finalized. Agencies would use a standard interface to upload the "approved" operating budget to the FMS.

The specifics associated with this recommendation are documented in *Section 7: Budget Development Integration with FMS* of this report.

8. While we recognize that the State has made significant progress in its effort to analyze and manage its statewide "spend", we believe such efforts have been hindered by a clear window into the details of current statewide spending due to deficiencies in the tracking and reporting available on statewide expenditures in STARS and Procurement Manager Plus. As a result, we recommend that the State leverage the new capabilities provided by implementation of a FMS to aggressively expand and restructure its strategic sourcing efforts to achieve the significant reduction in the cost of goods and services procured that are estimated in this study. As part of this ongoing effort, the State should dedicate staff to performing spend



- analyses that focus on identifying and analyzing spending trends, including top suppliers, locations, spend categories, and items.
9. As part of this study, we have made the assumption that Regents Institutions will maintain their stand-alone administrative systems, and interface to a future statewide FMS to make use of the features of the state General Ledger and Accounts Payable functions. However, we recommend that the Regents Institutions also be strongly encouraged to participate in the Procurement and strategic sourcing functionality of the system. This will allow the State as a whole to further leverage the combined spend as a means of obtaining better pricing from the vendor community.
10. The State should provide dedicated resources for the ongoing catalog/contract eProcurement effort. Activities to be performed by these resources include:
- ◆ Maintaining catalog/contract data from vendors to get new contracts loaded into eProcurement catalogs and auditing the data in catalogs to ensure compliance with vendor agreements that are in place.
  - ◆ Developing general, as well as vendor-specific, processes and procedures relating to vendor enablement, such as the following:
    - How and when vendors will update their information in catalogs maintained at the State's site in accordance with contractual agreements. This would also include processes and procedures pertaining to the State's, as well as vendors', auditing activities.
    - How performing "roundtrip" transactions will be set up and conducted. "Roundtrips" involve State personnel "punching out" to shop from catalogs maintained by vendors at vendors' sites while ordering goods/services via the catalog/contract eProcurement functionality of FMS.
  - ◆ Performing vendor outreach activities, such as identifying specific vendors and vendor groups to recruit, and then performing vendor conferences, one-on-one meetings, Webcasts, etc. to explain the State's eProcurement value proposition for vendors. Some of the primary benefits that form the value proposition for vendors include the following:
    - Quicker order receipt through electronic, e-mail, or fax submission;
    - Faster processing of orders and payments due to reduced cycle time from order through payment;
    - Reduced supplier printing and mailing costs;
    - Reduced errors through increased automation; and
    - Lower administrative processing costs.
11. We recommend that an appropriate governance structure be put in place for the FMS Project. Establishing an appropriate governance structure will be essential for obtaining the initial buy-in and long-term support of agency and enterprise stakeholders, especially given the size and complexity of a project of this nature.



The governance structure should be comprised of the following three (3) groups:

- 1) *Executive Sponsor(s)*. The project should have at least one part-time Executive Sponsor that can act as either a representative of the Governor's Office or as a representative of a small, key group of sponsors charged by Governor's Office with responsibility for the successful delivery of the project.
- 2) *Steering Committee*. The State should establish a Steering Committee to provide leadership and guidance for all future FMS activities.
- 3) *Project Management Office (PMO)*. We recommend that a FMS PMO be established independent of the Department of Administration. The State should position the FMS initiative as an enterprise-wide business transformation effort and not a technology project owned by the Department of Administration.

Refer to *Section 6: Organizational Best Practices* of this report for additional information on our recommendations regarding the governance structure for the FMS Project.

12. The State should review the entire Chart of Accounts structure with the goal of preparing for conversion, and improving the classification of data prior to initiating the FMS Project. This review should address:
  - ◆ Financial accounting coding structure;
  - ◆ Budgetary coding structure; and
  - ◆ Procurement commodity code structure.
13. We would not recommend the state to seek to replace its state-of-the-art ERP-based Human Resource/Payroll system, SHARP. Consequently, a decision needs to be made as to whether or not it is in the State's best interests to continue its relationship with Oracle - PeopleSoft as a provider of the FMS software in lieu of conducting a competitive procurement process for the software due to the benefits associated with "integration" vs. "interfacing". The State will only achieve "true" integration of its human resources, payroll, financial management, procurement, budget development, and other administrative business processes by continuing its relationship with Oracle - PeopleSoft.

If a decision is made to pursue negotiations with Oracle only to obtain the PeopleSoft modules needed for the FMS, a competitive bid process would be utilized to procure the required implementation services. Utilizing this approach would provide the State with significant leverage to:

- ◆ Obtain a considerable discount for FMS software licenses below list price;
- ◆ Obtain a considerable reduction/capping of annual maintenance for both SHARP and the FMS; and
- ◆ Allow the State to negotiate terms, conditions, and other items / issues associated with the SHARP system to the satisfaction of the State.



A “sole source” agreement with Oracle - PeopleSoft would require provisions that protect the State against having to perform a “re-implementation” of SHARP and the FMS to the future generation PeopleSoft/JD Edwards/Oracle collaborative product code named “Fusion” that is currently under development. Quoting a Gartner Research Bulletin dated March 27, 2006, “The transition costs, particularly for JD Edwards and PeopleSoft customers, will be close to the cost of a reimplementation.”

The State would pursue a competitive bid process for the FMS software and associated implementation services if an acceptable agreement with Oracle cannot be reached.

If a decision is made to procure the FMS software through a competitive process, the State needs to consider the benefits of integration vs. interfacing when developing the evaluation criteria for selection of the new FMS.

14. As part of the study, we have examined the recommendations of the 2001 Needs Assessment Study for the operational model to be used at the State. This evaluation included a discussion and evaluation of all three operational models as they relate to the current State business environment and processes, and the risks and costs associated with each approach. While there are several advantages and disadvantages of each model, we consider only *Option 3: Central System with Each Agency Using Central Database* to be a valid option for the State to pursue at this time. The recommended deployment strategy provided later in this report assumes this operational model is used. In our prior experiences and those of other statewide FMS projects, the exception to such model is typically made only for the state transportation departments when their needs cannot be met by the Central System. In such cases, the transportation departments have typically interfaced their existing systems with the new FMS in lieu of implementing their own copy of the FMS software. We would consider the feasibility of the Kansas Department of Transportation utilizing their own copy of the FMS software only if the agency’s needs could not be met through use of the statewide FMS (Central System).
15. We recommend that the State pursue a fiscal year-end conversion if the actual project timeline supports such cut-over without leaving significant “downtime” between the completion of Pre-Implementation Activities (see *Pre-Implementation Activities: The Need for Project Readiness* section later in this report) and the initiation of the FMS implementation project. The actual project timeline can best be determined after funding has been obtained for completion of the pre-implementation activities and the FMS project has been formally recognized for proceeding.