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1. EXECUTIVE SUMMARY

As part of the Statewide Administrative Systems Replacement Project, the State of Alaska requested that MAXIMUS update the 2003 Business Case for replacing the state's administrative systems. This update examines and reassesses three key areas:

- State's current administrative environment and systems;
- Agency surveys, which were used to collect standard information about the state's administrative systems concerning development, implementation, operations, strengths, and weaknesses; and
- Assumptions and conclusions of the cost model.

In the updated business case, the focus is on the current administrative system requirements, the state's business needs as well as the status of "shadow systems" and "workarounds" that need to be considered in order for the state to move forward.

1.1 STATEMENT OF THE PROBLEM

The Office of the Governor and the Departments of Administration and Revenue undertook to evaluate Alaska's statewide administrative systems and identify alternatives for replacement and, where appropriate expansion of these systems to facilitate the initiatives of Alaska's leadership. MAXIMUS was engaged to assist these agencies in determining the scope of their review, to provide the broadest view of current practices, and to identify alternatives. MAXIMUS was also engaged to develop a decision document, an updated business case, which presents an assessment of existing systems, including an analysis of strategies, risks, and costs for various alternatives.

MAXIMUS studied the state's existing administrative systems and the state of technologies supporting statewide administrative business processes. Three major findings stand out, supporting the recommendation to move forward, including:

- **Aging Technologies** – Two primary systems, payroll and accounting, have been in service nearly 17 and 22 years, respectively. The payroll system has been significantly customized to meet Alaska's business needs. The accounting system was custom developed. The supporting architecture of both systems is built with tools, technologies, and a coding style that does not support reasonable methods for making modifications to respond quickly to changing business needs, sharing data between multiple systems, or migration to newer technologies.

Mission critical administrative systems for accounting and payroll currently run on the state's mainframe computer. Although mainframe usage at the state has been growing, it is unclear whether this trend will continue and long-term support for this platform is uncertain. Decreasing availability of application programmers with the skills to maintain legacy system programs and decreasing availability of systems professionals available with the skills to maintain complex mainframe environments are concerns.

- **Expense of System Modifications** – State administrative systems (specifically the accounting and payroll systems) are maintained and modified by in-house programmers whose skills are hard-sought. Little or no vendor support for these systems is available. Major changes in system structure or function caused, for example, by changes in state and federal mandates, or by collective bargaining agreements, are costly and slow to occur. Also, efficiencies in business

processes cannot be realized. The payroll system currently has a lengthy backlog of requests for modifications and enhancements, most of which will never be addressed, requiring incorporation of manual processes to supplement data collection, calculations, and additional data validation steps.

- **Lack of System Integration** - A lack of integration exists between the administrative systems (e.g., payroll, financial, budget, purchasing, etc.). Without integration, duplicate efforts to capture and maintain data in multiple systems requires additional staff and financial resources. There is also increased possibility for data discrepancy.

1.2 SOLUTION GOALS

The goals created by the Project Steering Committee in 2003 remain the same. They are:

- **Business process efficiency and effectiveness** emphasized by capturing transactions in real-time and the elimination of duplicate entry.
- **An environment for state employee self-service** that expands workers' ability to interact and process work through an integrated service organization. Employees are trained to solve problems and equipped with the necessary tools for their jobs.
- **Quality, consistency, and accessibility** of information available to state managers that supports better decision making through real-time distribution of information and consistent application of state accounting code structures.
- **Eliminate redundant data and systems** by implementing integrated system solutions that reduce reliance on batch synchronization and manual reconciliation processes.
- **Automation for areas where there is currently little automation**, including employee self-service features, online procurement activities, time and attendance, and vendor registration.
- **Modern technologies that can migrate to the technologies of tomorrow**, characterized by open standards-based technical platforms, relational database systems, standard reporting capability, tight security and authentication technology, and integration of business processes.
- **Smooth transition to new administrative solutions through effective change management practices**, merging best practices, contractual and statutory requirements, and capabilities and approaches built into proven implementation strategies, supported by sustained project team commitment.

Since the 2003 Business Case, it has become increasingly evident that the state is at risk for system failure. Neither AKSAS nor AKPAY have viable disaster recovery plans should a natural disaster occur. Should a legacy system failure occur, it is likely to result in additional costs to the state in the form of fines, penalty pay, or emergency contracted resources in order to meet mandated changes in a timely basis. Hence, an additional goal for replacing the state's administrative systems is to ensure:

- **Implementation should occur before system failure**, in a climate of relative calm. A solution implemented prior to legacy administrative system failure provides the state with the necessary time to plan for a long-term solution that will meet the state's needs.

1.3 REPLACEMENT ALTERNATIVES DESCRIPTIONS

MAXIMUS believes the alternatives that follow are the most practical and realistic options available to the state for its Statewide Administrative Systems Replacement Project. In addition, our research of similar statewide public sector projects supports our recommendation to switch from in-house development of business software and purchase a commercial off-the-shelf (COTS) solution that meets Alaska's business needs.

System Alternatives

- **Scenario 1 – ERP Implementation.** Acquire and implement a single, integrated statewide administrative system solution using a commercially available ERP package in a manner that addresses the common general ledger accounting, budgetary compliance, grant/project accounting, human resource, payroll, and procurement processes for centrally administered systems.
- **Scenario 2 – Best Fit Implementation.** Acquire and implement a statewide administrative system solution that integrates functional segments, or business functional components using different commercially available software that best meets the needs of the business function. In this case, the state is looking to issue two separate requests for proposals (RFPs): first, a financial, budget, and procurement solution and secondly, a human resource and payroll solution.

1.4 SUPPORTING STRATEGIES

In 2003, MAXIMUS recommended that the state move forward with the definition, design, and construction of a data warehouse for administrative data, beginning with financial and payroll data. This initiative is the first step in support of a new administrative systems solution architecture.

There were three major goals that were identified for initiating a data warehouse project:

- Establishing a base definition of data in the form of a meta data dictionary so a common understanding of data is available;
- Providing a technology infrastructure to perform data migration between legacy and future systems; and
- Creating a historic data repository, freeing resources from the demands of supporting operational systems.

In July 2006, the state procured implementation services to construct a data warehouse with a business intelligence interface to replace the current financial reporting system, Generalized Events-Based Architecture View Builder Transaction Processor (GENEVA), and to provide increased reporting capabilities. The state specifically procured the services, software, and

hardware to develop a data warehouse with the final objective of owning its data warehouse and maintaining the data warehouse and reporting capability with state staff.

In addition to replacing GENEVA, the data warehouse will also handle historical and future reporting currently performed by the Alaska Statewide Payroll System (AKPAY), online viewing of archived payroll warrants (CHEQ), WorkPAD, and WorkPlace Alaska systems. Finally, it is the state's goal to have a scalable and flexible data warehouse maintained and expanded by state employees.

Using an incremental approach, the goal is to complete the ALaska Data Warehouse Enterprise Reporting (ALDER) Project by August 30, 2007.

While the state did not award the HR-Payroll contract in 2006 due to insufficient funds, many of the state's needs remain relevant. With the help of MAXIMUS, the state reevaluated their key priorities. At the time the HR-Payroll Replacement Solution RFP was issued, maintenance support for the proprietary software underlying AKPAY (Alaska Payroll) system was questionable. At present, continuation of Empagio support for AKPAY seems more likely, but the uncertainty remains.

A key business need that still remains to be filled is a statewide Time and Attendance (T&A) solution. Originally, T&A functionality was to be addressed in the 2006-0200-5914 HR-Payroll Systems Replacement RFP. The following business problems led the state to re-focus and decide on procuring and implementing a statewide T&A solution:

- Departments have been creating their own T&A systems resulting in much duplication of effort among and across the various departments involved.
- Functional business rules change frequently and require costly and time consuming maintenance of numerous systems.
- Variations among departmental T&A needs will need to be incorporated if a central HR-Payroll solution is pursued.

The funding from the cancelled HR-Payroll RFP is being used for the development of the T&A RFP. It has been decided by the state that the implementation costs for a T&A project shall be driven by the procurement. Those estimated costs have been included in the *2007 Business Case Cost Model*.

1.5 MOVING FORWARD

Three strategic categories and their corresponding actions must be considered before selecting an ERP solution or a Best Fit Solution. The categories include:

- Critical Success Factors;
- Immediate Executive Actions; and
- Project Manager and Team Tasks.

Critical Success Factors

Understanding the critical success factors of an initiative allows for planning and preparation. The following identifies critical success factors most prevalent in successful projects and should be used to guide continued decisions, organization, and project development.

- Develop strong and consistent executive support.
- Phase in functions and agencies to the new administrative systems to help manage organization change.
- Commit the appropriate level of resources to match the scope and schedule of the project.
- Maintain strong project management.
- Include broad agency involvement in the configuration, testing, and training of the new systems.
- Invest in proven COTS software that has a high probability of long-term viability. Avoid modifications to allow for application of vendor enhancements and a manageable upgrade path.
- Fully examine the current business processes as they relate to the new systems and redesign or modify them to take advantage of best practices and system efficiencies.
- Make timely decisions and stick to them.
- Make training a high priority. Cut scope before cutting training and cultural change activities.
- Control project scope creep. Establish project scope and do not vary from the set boundary during the first implementation rollout phase.

Immediate Executive Actions

These are the immediate next steps for executive decision makers to support the project:

- Decide on a whether to move forward with ERP solution or a Best Fit solution.
- Announce an executive sponsor to champion the selected solution.
- Establish executive leadership with participation from the Office of Management and Budget and the Departments of Administration and Revenue.
- Develop a project steering committee and project team to lead the state through the next year's project initiation and procurement processes.
- Take steps to acquire sufficient funding for Scenario 1 – ERP solution or Scenario 2 – Best Fit solution.

Project Manager and Team Tasks

These are the immediate next steps for the project manager and team to support the project:

- Begin the RFP process to acquire support for RFP development and evaluation assistance of either Scenario 1 – ERP solution or Scenario 2 – Best Fit solution.
- Conduct an organization assessment of key subject matter experts for administrative services in areas such as finance, payroll, human resources, purchasing, and budget to determine who can support the project, and who can maintain legacy services during the project before the implementation of the new solution.
- Determine the organization, staffing, facilities, and equipment considerations for the project.
- Validate the readiness of the technical organization and architecture to support the new administrative systems.