



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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May 7, 2013

The Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

Thank you for the opportunity to respond to the State Auditor's Office (SAO) performance audit report, "Creating a 21st-century Financial Management System in Washington." To provide this consolidated response, the Office of Financial Management worked with the Office of the Chief Information Officer, Department of Enterprise Services, and participating executive Cabinet agencies including the departments of Corrections, Ecology, Employment Security, Fish and Wildlife, Health, Labor and Industries, Revenue, Social and Health Services, Transportation, and the Health Care Authority.

The audit report highlights the fact that modernized financial management systems offer tremendous opportunities for more efficient and effective management of state resources. Modern systems can enable new capabilities, including automated workflow, less system duplication, and more timely information for decision making. To take full advantage of a project to modernize the state's financial systems, we are focusing first on business transformation efficiencies through process improvement efforts such as Lean practices.

Modernizing the state's financial management systems is a significant undertaking. It is an expensive, multi-year, enterprise-wide project. Thoughtful and thorough planning will be crucial to its success. Steps already taken and in progress provide a starting point for moving forward. Funding has been requested to advance our planning and readiness efforts in the next biennium, which will include establishing a governance framework, conducting a readiness assessment, and developing an implementation strategy and action plan.

We appreciate the information provided in the SAO's report. While it was based on business and technology assumptions that may change as we implement the action plans outlined in our response, it will be useful in our planning process.

The SAO and its contractor, Information Services Group, worked collaboratively with the state agencies involved in this audit, and we thank the audit team for its work.

Sincerely,

David Schumacher
Director



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Enclosure

cc: Mary Alice Heuschel, Chief of Staff, Office of the Governor
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OFFICIAL STATE CABINET AGENCY RESPONSE TO PERFORMANCE AUDIT ON CREATING A 21ST-CENTURY FINANCIAL MANAGEMENT SYSTEM IN WASHINGTON

MAY 6, 2013

This coordinated management response to the audit report received on April 22, 2013, is provided by the Office of Financial Management on behalf of the Office of the Chief Information Officer, the Department of Enterprise Services, and participating executive Cabinet agencies including the departments of Corrections, Ecology, Employment Security, Fish and Wildlife, Health, Labor and Industries, Revenue, Social and Health Services, Transportation, and the Health Care Authority.

RECOMMENDATION 1: To strengthen the state's financial management system, we recommend the Office of Financial Management, Department of Enterprise Services and the Office of the Chief Information Officer take the following actions.

- Proceed with their plan to modernize the state's financial management system.

RESPONSE

We concur with the State Auditor's Office (SAO) recommendation to proceed with planning to modernize the state's financial management system. We appreciate that the SAO's performance audit report supported the need to modernize the state's financial management systems and acknowledged the many benefits. Modernizing the state's financial management system is a business transformation effort that will include reviewing current business practices and ultimately implementing an information technology system that meets the needs of the state.

Assuming the Legislature provides funding for this initiative in the 2013-15 budget, the first step would be to contract with a third-party consultant to provide technical and project management expertise for the planning effort. We assume this resource would be in place by the first quarter of the new biennium.

Action Steps and Time Frame

Though we will rely on the consultant's expertise in shaping our work plan, we expect the first phase of implementation planning activities to include at least the following:

- **Establish a governance framework** — Identify and establish the groups of state leaders and experts with advisory and decision-making responsibilities.
- **Conduct a readiness assessment** — Bring in independent, experienced consulting expertise to evaluate the level of preparedness of each agency, and state government as a whole, to carry out a system replacement project of this scale. The readiness assessment would address:
 - technical readiness
 - functional readiness
 - project readiness
 - cultural readiness
 - resource capacity, and
 - communication efforts.

Our readiness assessment will be guided in part by the information provided in this audit report and lessons learned from our large project implementations and those of other governments.

- **Developing an implementation strategy and action plan** — The readiness assessment would be followed by the development of an implementation strategy which would take into account priority business needs, readiness gaps and implementation challenges. The assessment would provide analysis and recommendations on:
 - Project scope
 - Expected outcome and measures of success
 - Product strategy
 - Project staffing and organization
 - Critical issues
 - Project budget, phasing strategy and timeline
 - Training and communication plans
 - Readiness gaps and closure strategy
 - Financing strategy options
 - Risk mitigation plan

- **Refining the business case** — The assessment and implementation strategy efforts will allow us to refine the business case presented in this report. The refinements will be informed by the selected scope, phasing, timeline and other key implementation choices.

Assuming the funding is provided, our intent is to complete these planning and project preparation efforts by the end of the 2013-15 biennium, or sooner if possible.

RECOMMENDATION 2: State financial leaders recognize the need to modernize the state's financial management system. They have begun preparations for an ERP system that can address current and future statewide and user-agency administrative business needs. Modernizing the system using an integrated approach will reduce the level of technical risk and improve financial management efficiency by streamlining processes and eliminating redundancy. It will also provide more accurate and timely information to decision makers and help them in their efforts to implement process improvements.

- Create a management structure that promotes strong financial management leadership.

RESPONSE

We concur that establishing the appropriate governance structure for this project is one of the key next steps.

Because this project will touch most areas of state government, strong and consistent leadership, effective governance and stakeholder engagement will be critical to success. The state will need to clarify which groups will have decision rights and which will have advisory rights. We need a process that ensures solid decisions and resolves issues clearly and quickly.

The action plan will also identify requirements for project staffing and management as well as establish an organizational structure for the project team.

Action Steps and Time Frame

Establish a governance structure. Assuming the funding is provided, our intent is to complete these planning and project preparation efforts by the end of the 2013-15 biennium, or sooner if possible.

RECOMMENDATION 3: The core agencies recognize the importance of effective management to a project of this magnitude, including the establishment of roles and responsibilities, clear lines of communication, and stakeholder involvement. Reorganization of central service functions pursuant to legislation in 2011 began a process that must be on-going. Executive leadership and advocacy by the governor's office, agency heads and state-wide elected officials will be needed to establish a structure that provides both strong executive leadership and a venue for stakeholder involvement. Financial management policies and procedures that clarify roles and responsibilities of the Office of Financial Management, Chief Information Officer, Department of Enterprise Services, and state agencies are needed to ensure the success of the project and ongoing operation of the system.

- Report to the Legislature on the status of their progress in implementing these recommendations by December 2013, and annually thereafter until the project is complete.

RESPONSE

We agree that, if funded, all interested stakeholders, including the Legislature, should be kept informed about planning progress and project implementation.

Action Steps and Time Frame

The planning effort will include the development of communication plans and project governance and participation structures. Assuming the funding is provided, our intent is to complete these planning and project preparation efforts by the end of the 2013-15 biennium, or sooner if possible.
