Fiscal Year 2013-14 Capital Construction Request

Office of Information Technology

Colorado Financial Reporting System (COFRS) Modernization

PROGRAM PLAN STATUS

2013-004

Approved Program Plan? N/A **Date Approved:**

PRIORITY NUMBERS

Prioritized By	Priority
DeptInst	1 of 2
OSPB	NP of 29

PRIOR APPROPRIATION AND REQUEST INFORMATION

Fund Source	Prior Approp.	FY 2013-14	FY 2014-15	Future Requests	Total Cost
RF	$8,626,790	$6,696,241	$8,394,208	$25,242,017	$48,959,256
Total	$8,626,790	**$6,696,241**	$8,394,208	$25,242,017	$48,959,256

ITEMIZED COST INFORMATION

Cost Item	Prior Approp.	FY 2013-14	FY 2014-15	Future Requests	Total Cost
Land Acquisition	$0	$0	$0	$0	$0
Professional Services	$8,626,790	$1,011,671	$594,649	$1,585,902	$11,819,012
Construction	$0	$5,684,570	$7,799,559	$23,656,115	$37,140,244
Equipment	$0	$0	$0	$0	$0
Miscellaneous	$0	$0	$0	$0	$0
Contingency	$0	$0	$0	$0	$0
Total	$8,626,790	**$6,696,241**	$8,394,208	$25,242,017	$48,959,256

PROJECT DESCRIPTION / SCOPE OF WORK

Staff note. The Governor's Office of Information Technology (OIT) originally anticipated that a private vendor would pay the up-front costs of designing and implementing a new statewide accounting system. The total cost of the new system would then be repaid over a ten-year period by state agencies through a new common figure-setting policy. However, OIT has since approached the Joint Budget Committee (JBC) with a request that the project be financed through certificates of participation (COPs), to be repaid over nine years from the shared costs of a common figure-setting policy implemented in FY 2012-13. This approach will allow the state to pay the vendor for the system design and implementation from the proceeds of the sale of the COPs. A draft JBC bill authorizes COPs for the project in the amount of $33 million. Staff anticipates that the Capital Development Committee will have the opportunity to review this bill in the coming weeks under House Rule 50 and Senate Rule 42a.

Project description. OIT is requesting state funds to replace the statewide accounting system used by the Office of the State Controller to record all state revenues and expenditures. According to OIT, a new system is needed to meet the state's fiduciary responsibilities, mitigate the risk of system failure, and upgrade functionality. The existing system, the Colorado Financial Reporting System (COFRS), is at the end of its useful life. OIT explains the new system will be built in the cloud environment by a private vendor in collaboration with state personnel. Cloud computing is a technology that allows consumers and businesses to maintain shared resources, software, and information on the Internet or a closed network. This request funds all the components necessary to replace COFRS, including design and development, software, maintenance, training, testing, and post-implementation support. These services will be provided virtually.

The new financial management system will track and provide:

- a chart of accounts;
- a general ledger;
- budget controls and funds management;
- accounts payable;
- accounts receivable;
- procurement;
- projects and grants accounting;
- cost allocation;
- treasury accounting;
- inventory management;
- asset management;
- reporting tools; and
- data warehousing.

System implementation and funding. OIT anticipates a new accounting system will be planned, designed, and tested during FY 2012-13. The system will then be implemented statewide in FY 2013-14. Proceeds from the sale of COPs will pay the remaining costs associated with the design and implementation of the system. Other costs associated with vendor management and maintenance of the system will be paid through regular Long Bill appropriations. According to OIT, the amount each department is paying under the common policy is based on a proportional split of funding sources for each department. The total project cost over a ten-year period, including management and maintenance fees, is projected to be about $92 million. After adjusting for amounts already appropriated to support the existing accounting system (about $1.8 million), OIT projects a total increase of annual appropriation amounts for the project to be between $8.4 and $8.7 million, of which about $3.0 million is expected to come from the General Fund.

Audit findings. In July 2011, the Office of the State Auditor presented the results of an audit it conducted in order to determine the sustainability of COFRS. The audit concluded that ". . . COFRS does not support the state's 21st century business needs, is increasingly becoming more expensive and difficult to sustain, and that the modernization of the state's financial management system should be a strategic priority for state government."

PROJECT JUSTIFICATION

According to OIT, operating a statewide accounting system is a core function of state government, and Colorado needs a supportable, stable, and secure system. OIT says that Colorado is one of the last states in the nation to upgrade its primary financial management system. OIT cites the following concerning with the existing system:

An imminent risk of failure. According to both OIT and the July 2011 audit, the likelihood of partial or complete failure of COFRS is increasing. The existing system is 20 years old and is at the end of its useful, practical life cycle. Additionally, the system is highly customized, and very few personnel are trained in maintaining, repairing, and updating the system. Those personnel with the expertise to adequately maintain the system are nearing retirement age, and there is a risk that the software will be unsupported in the near future. Because the system is so highly specialized, a vendor is not able to provide system updates and maintenance. OIT explains that it has been 13 years since the state was last able to enter into a maintenance contract for the system. The potential financial impact of a one-day outage of COFRS was identified in the July 2011 audit as follows: The state would be unable to process $173 million in payments or draw down $34 million in federal reimbursements.

An outdated and inefficient system. The audit reports that the system software is written in outdated code language that is typically not taught to new information technology professionals. Furthermore, the code only allows sequential access to records and has strict limitations to record lengths. The system is therefore not adaptable to changing user needs and requires numerous "work arounds" and repeated data entry, which leads to inefficiencies. OIT says the existing system has run out of files to hold codes due to the sequential file layout. Also, the data field limitations make it difficult to meet public transparency requirements. Finally, OIT explains COFRS limits the ability of the state to integrate certain critical administrative functions such as procurement, budgeting, human resources, and

payroll into an overall financial management system. More than 60 independent systems support the financial management process at various state agencies, which leads to fragmented and duplicative reporting, says OIT.

An inability to meet statutory and regulatory requirements. OIT cites four examples of statutory or federal regulatory requirements that cannot be met using the existing system:
(1) Colorado Taxpayer Transparency Act. The Colorado Taxpayer Transparency Act requires the state to provide access to governmental expenditure data to the general public. OIT explains that detailed transaction data cannot be made available because of limitations in COFRS.
(2) State Measurements for Accountable Responsible & Transparent (SMART) Government Act. The SMART Government Act required OIT to perform a feasibility study on the implementation of e-budgeting. A consultant hired by OIT determined that COFRS, in its current form, could not meet the requirements of the SMART Government Act.
(3) American Recovery and Reinvestment Act (ARRA) of 2009. OIT explains that the state was unable to use COFRS to meet the ARRA tracking and reporting requirements, so alternate reporting mechanisms were employed.
(4) Federal 3 percent withholding requirement. As of January 1, 2013, the state will be required to determine the applicability of a new, federal 3 percent withholding requirement for individual payments to each of its vendors. According to OIT, it may take months to make this single change to COFRS due to the system's complexity and outdated design.

According to OIT, the selection of a private vendor to build and maintain a new accounting system will reduce infrastructure, staff, and support costs. It is also expected to reduce the amount of time it will take to implement the new system. Furthermore, once the new system is implemented, cloud computing should make it easier to increase capacity or add capabilities to recording and reporting.

PROGRAM INFORMATION

The existing statewide accounting system has been in operation for 20 years and is owned by the Office of the State Controller within the Department of Personnel and Administration. The Controller's office is responsible for ensuring that the system complies with state and federal requirements, and Generally Accepted Accounting Principles. The system is used to prepare the state's comprehensive annual financial report, track and record state assets, and implement the annual budget. OIT maintains and supports the system, including the support of on line financial reporting tools such as the Financial Data Warehouse and the Transparency Online Project. COFRS was designed in the late 1980s and completed in 1992. The first items were recorded in the system in FY 1992-93. According to OIT, the cost to design, implement, and maintain the system from FY 1987-88 through FY 1995-96 was about $25.8 million.

LEED CERTIFICATION INFORMATION

The project is not required to comply with the provisions of Senate Bill 07-051 regarding the High Performance Certification Program because it is an information technology project and does not involve the renovation, design, or construction of a physical facility.

PROJECT STATUS

This is a new request.

Funding history. For FY 2012-13, $8.6 million was reappropriated from various lines in the operating budget to pay the initial costs associated with designing and implementing the new system. OIT has since reported that certain costs originally budgeted from federal funds were not collected due to federal regulations prohibiting the collection of federal revenues for capital expenditures. These restrictions will not apply to future operating expenditures associated with maintenance of the system. JBC staff is working with OIT to determine whether an adjustment is needed to the FY 2012-13 appropriation or FY 2013-14 request amount.

SOURCE OF CASH FUNDS

See Project Description / Scope of Work for more information about project funding.

STAFF QUESTIONS AND ISSUES

All responses to staff questions have been incorporated into the project write up.

OPERATING BUDGET

Project costs are reappropriated from the operating budget.

PROJECT SCHEDULE

	Completion	Phase Description
Phase I	March 2013	Discovery, architecture, and planning.
Phase II	May 2014	Design, configuration, integration, creation, and testing.
Phase III	June 2014	Implementation.
Phase IV	June 2022	Post-implementation.
Phase V	TBD	Extension, retirement, or replacement.