

Financial Information System for California (FI\$Cal)

Notification of Intended Awardee

March 2, 2012

Executive Summary

CURRENT SYSTEM

The business case for the FI\$Cal project has been underscored over the last few years by the state's challenging financial situation. The state's financial management processes are highly manual, require redundant data entry, and are not standardized across state departments. These processes are supported by aging stand-alone legacy systems that are incapable of responding to the state's evolving financial management needs and are unable to communicate with each other. The state's financial management professionals are burdened by highly clerical processes which significantly minimize the time available for performing financial management analytics. Further, because of the antiquated systems the state uses, transparency for the public into the state's financial activities are extremely limited at a time when the public is demanding increased transparency into the financial activities of all levels of government. In order for California decision makers to more effectively navigate the financial challenges of the future and to be responsive to the needs of the people of California, the state must implement reengineered processes and an integrated statewide Enterprise Resource Planning (ERP) solution that provides a level of efficiency, granularity, transparency, and flexibility far beyond what is currently available.

SOLUTION

FI\$Cal will bring unprecedented functionality, automation, transparency, and flexibility to the State's decision makers enabling California to be more effective in delivering services to its constituents while simultaneously providing increased responsiveness to the needs of California businesses and local governments. The precision with which California leaders will be able to make Accounting, Budgeting, Cash Management, and Procurement decisions will be unparalleled.

This project will provide innumerable benefits, including:

- Establish a single source of financial information through the establishment of an integrated statewide financial management system.
- Provide more meaningful and current financial information and reports to decision makers, program managers, and stakeholders.
- Provide transparent financial information for better decision making and accountability.
- Make information more readily available to the public and the state's business partners.
- Track statewide purchase volumes by vendor and/or commodity type to identify areas where quantity discounts might save money.
- Facilitate workforce mobility and efficiency by establishing portable work skills.
- Automate manual processes.
- Minimize manual reconciliations among control agencies, state agencies, and other separately maintained systems and databases.

- Avoid significant costs of duplicate new financial management systems throughout state government.

THE PROPOSAL

After a two-stage procurement process, FI\$Cal has selected Accenture LLP (Accenture) as the System Integrator for FI\$Cal. Accenture received the highest score, based on the requirements set forth in the Request for Proposal (RFP). Upon contract signature, FI\$Cal will begin implementing the system in 5 waves, over 5 years.

As a result of the intense planning and research of the FI\$Cal team as well as the in depth interactions with the bidders and Enterprise Resource Planning (ERP) advisors, the project has revised several fundamental elements of the strategy detailed in SPR 2 thereby substantially reducing the implementation timeline and the cost estimates (from \$1.6 billion to \$617 million).

Award of the contract is predicated on legislative review.

WHAT HAS CHANGED

ERP software has evolved substantially over the last 5 years providing a level of flexibility that was not previously available thereby reducing the need for expensive customizations. Additionally, since SPR 2, System Integrators have gained significant experience in large scale public sector ERP implementations resulting in reduced implementation timelines and reduced state staffing needs. Consequently, the project was able to substantially reduce staffing and overhead costs by reducing the number of PYs needed to implement the FI\$Cal solution. (SPR 2 projected a peak staffing level of 499 positions. The new proposal expects a peak of 304 positions.)

PROCESS

Recognizing that the constraints of a traditional Public Contract Code §12100 procurement would require bidders to include substantial risk premiums in their proposals to account for the unknown, FI\$Cal leveraged an innovative two-stage Public Contract Code §6611 procurement process. This two-stage procurement allowed the state to provide bidders in depth knowledge of the State's processes, systems, and needs while simultaneously providing the state critical insight into the proposed ERP solution, implementation plan, and System Integrator proposed staff members thereby reducing the proposal costs associated with risk premiums.

In June 2010, FI\$Cal awarded Stage 1 contracts to systems integrators of COTS ERP products that met specified minimum qualifications. Three firms met the minimum qualifications.

During the Fit Gap analysis, the state worked with the three Stage 1 contractors to further detail the state's business needs and requirements and ensure alignment with the proposed product's ability to meet those needs. In June 2011, the contractors submitted final proposals for the development and implementation of the FI\$Cal system. The state then entered into negotiations with each contractor pursuant to Public Contract Code §6611 to ensure the final proposals provided the state with the best value for the FI\$Cal system. Award of the Stage 2 contract is anticipated in May 2012, 90 days after submission of this report to the Legislature. This will complete the two-stage procurement.

IMPLEMENTATION APPROACH

The implementation approach proposed by the selected system integrator is consistent with the "hybrid" strategy proposed in SPR 3. Only a subset of the full ERP functionality will be deployed in Wave 1 to a small set of departments, with the full functionality of the FI\$Cal solution deployed in later waves. Based on the system integrator proposal, the specific functionality and departments deployed in Waves 1 and 2 differ from SPR 3, but the overall implementation strategy is similar. This manner of implementation is based upon best practices, informed by the Fit Gap and negotiation processes, and is consistent with the implementation approaches taken by other ERP projects.

FUNDING

SPR 4 also includes an updated funding and financing plan which recommends a “Pay As You Go” funding approach that would require annual appropriations to cover the Design, Development, and Implementation of the FI\$Cal solution. This is the most cost effective solution as there is no interest expense and does not increase the state’s debt obligations.

Project stakeholders traditionally provide partial funding for statewide projects. Consistent with past practice, SPR 4 includes a cost allocation plan based largely on models already in existence in support of other statewide systems such as MyCalPAYS and CALSTARS. The cost allocation plan proposes a budget based interim cost allocation plan, as well as a future transactional based cost allocation plan which will be the basis of charges to departments. The transition from the interim cost allocation plan to the transaction based cost allocation plan will occur once statistically valid usage data becomes available for each deployment.

BENCHMARKING

The FI\$Cal team contracted with Solutions West (who subcontracted with benchmarking experts The Hackett Group (Hackett)) to perform a comprehensive benchmarking study to capture data against which post implementation measurements can be compared. Additionally, FI\$Cal asked Hackett to provide estimates of the expected benefits and cost savings resulting from the implementation of FI\$Cal.

Hackett’s model forecasts the ongoing benefits to be approximately \$415 million annually. The model organizes the benefits into three main areas; process cost savings, technology cost savings, and procurement effectiveness improvements. Hackett also identified non-quantifiable benefits such as risk reduction, and business performance improvement. The expected annual benefit of \$415 million coupled with the functionality, transparency, flexibility, and efficiencies, translates into a return on investment that is absolutely immutable.

NEXT STEPS

Pursuant to Government Code §15849.21, the Department of Finance has issued a report to the Legislature regarding the FI\$Cal procurement. The contract with the selected system integrator may not be executed until 90 days after that report was submitted.

After the 90 day review period, the contract may be signed, and the system integrator can begin working with the State to design, develop and implement the FI\$Cal system.

CONCLUSION

California departments have, as a chorus, communicated the challenges they face with their manual and outdated systems and processes. California, as a state including its constituents, is clearly disadvantaged by the lack of an integrated Statewide Financial Management system. In the midst of one of the most challenging financial situations in the history of the United States, the State of California must seize every opportunity to better manage its scarce resources. FI\$Cal will provide the state with desperately needed capabilities to make better informed and precise decisions ensuring that scarce resources are properly allocated to its most important constituents and initiatives. However, change takes time and the State of California should not delay investing in its financial management infrastructure today to achieve benefits that were desperately needed yesterday.