

State of California



In Partnership With:

**Department of Finance
State Controller's Office
State Treasurer's Office
Department of General Services**

**Financial Information System for California
Special Project Report (SPR)
Project # 8860-30**

(SPR 4 – 2012-03-01) – March 1, 2012

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Executive Summary

FI\$Cal Special Project Report (SPR) 4 is the culmination of input and dedication from many staff throughout state government and the legislature. It serves to update the information provided in prior SPRs regarding the FI\$Cal implementation costs, schedule, benefits, and cost savings, but more importantly it presents a project ready for implementation.

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.

The vision statement for the FI\$Cal Project, developed by the Partner Agencies, states:

"To serve the best interest of the state and its citizens and to optimize the business management of the state, we will collaboratively and successfully develop, implement, utilize, and maintain an integrated financial management system. This effort will ensure best business practices by embracing opportunities to reengineer the state's business processes and will encompass the management of resources and dollars in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting"

To achieve this vision, the state must first modify its processes to adopt best practices and leverage the inherent efficiencies embedded in ERP tools. The central systems must then be replaced, in partnership with departments, to develop end to end processes that will meet the needs of all departments, including the four Partner Agencies operating in a single statewide system. This project will provide innumerable benefits, including:

- Establish a single source of financial information through the establishment of a single 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.

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 decision makers will be able to make decisions in the areas of accounting, budgeting, cash management, and procurement will be unparalleled. Additionally, as a result of the automation, process standardization, transparency, and audit capabilities provided by the FI\$Cal solution, the State will implement safeguards and capabilities to reduce fraud, abuse, and misuse of public funds.

Without FI\$Cal, it will be nearly impossible to introduce valuable financial management strategies such as zero based budgeting and performance based budgeting. Many of the existing State systems do not have flexibility to respond to changes to current and future standards and policies regarding accounting, budgeting, cash management and procurement.

As discussed in SPR 3 and SPR 3.A, the FI\$Cal project has been diligent in seeking and implementing strategies to reduce risk and ensure project success and best value. The FI\$Cal project has leveraged the lessons learned from other ERP projects and has subsequently invested substantially in critical efforts to ensure project success. For example, 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. This procurement process facilitated unparalleled competition among the 3 bidders resulting in more competitive rates for hardware, software, and System Integrator services. 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 ERP advisors, the project has revised several fundamental elements of the strategy detailed in SPR 2. Due to the 2 years spent on the two-stage procurement, this implementation will begin two years later, in 2012-13, than anticipated in SPR 2. Therefore, while this implementation is only 5 years compared to the 7 years anticipated in SPR 2, the ending date remains the same. Total Project costs, including prior Planning and Procurement Phases through Implementation and the first year of Maintenance and Operations are estimated at \$616.8 million. This represents a reduction of approximately \$1 billion from the total costs identified in SPR 2.

For example, while the state had previously committed to minimize customizations to the ERP solution, ERP software has evolved substantially over the last 5 years providing a level of flexibility that was not previously available thereby further 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.

As a result of the two-stage procurement process described in Section 3.1, Accenture received the highest score and consequently the state is preparing to award them the System Integrator contract in May 2012. Accenture has proposed the Oracle's PeopleSoft ERP software and the implementation timeframe includes statewide functionality deployment over 5 waves spanning approximately 5 years. Award of the contract is predicated on legislative approval of a funding mechanism.

This SPR 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. The funding and financing plan in Appendix B includes a discussion of financing strategies that were considered.

Statewide projects are traditionally partially funded by the project stakeholders. Consistent with past practice, this SPR 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.

This SPR also updates previously provided information regarding potential benefits and cost savings. 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 estimated the expected cost savings of \$415 million¹ coupled with the functionality, transparency, flexibility, and efficiencies discussed above, translates into a return on investment that is absolutely immutable.

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.

¹ This amount does not include ongoing M&O costs of an estimated \$32 million annually

1.0 Project Approval Transmittal

The FI\$Cal Steering Committee Members by consensus decision approved this SPR on March 1, 2012



Todd Jerge
Chair
FI\$Cal Steering Committee

Carlos Ramos
Secretary
California Technology Agency



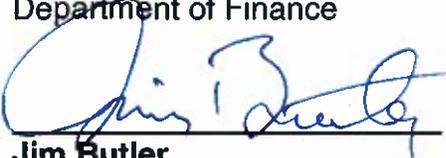
Veronica Chung-Ng
Program Budget Manager
Department of Finance



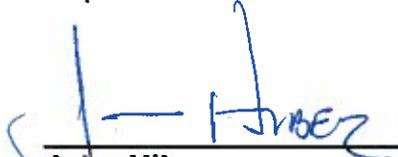
Karen Finn
Program Budget Manager
Department of Finance



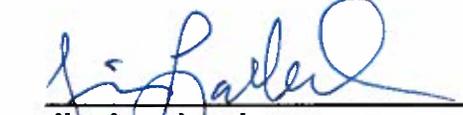
Esteban Almanza
Chief Deputy Director
Department of General Services



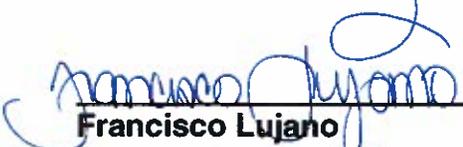
Jim Butler
Deputy Director
Procurement Division
Department of General Services



John Hiber
Chief Operating Officer
State Controller's Office



Jim Lombard
Chief Administrative Officer
State Controller's Office

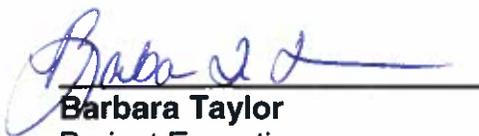


Francisco Lujano
Director, Securities Management
State Treasurer's Office



Jill O'Connell
Chair, Customer Impact Committee

Project leadership SPR approval/concurrence:



Barbara Taylor
Project Executive
FI\$Cal Project



Tamara Armstrong
Project Director
FI\$Cal Project

Information Technology Project Request



Special Project Report Executive Approval Transmittal

Department Name

Department of Finance: In partnership with the State Controller's Office, State Treasurer's Office and Department of General Services

Project Title (maximum of 75 characters)

Project Acronym

Financial Information System for California

FI\$Cal

FSR Project ID	FSR Approval Date	Department Priority	Agency Priority
8860-30	7/26/05	1	N/A

I am submitting the attached Special Project Report (SPR) in support of our request for the California Technology Agency's approval to continue development and/or implementation of this project.

I certify that the SPR was prepared in accordance with the State Administrative Manual Sections 4945-4945.2 and that the proposed project changes are consistent with our information management strategy as expressed in our current Agency Information Management Strategy (AIMS).

I have reviewed and agree with the information in the attached Special Project Report.

I also certify that the acquisition of the applicable information technology (IT) product(s) or service(s) required by my department that are subject to Government Code 11135 applying Section 508 of the Rehabilitation Act of 1973 as amended meets the requirements or qualifies for one or more exceptions (see following page).

APPROVAL SIGNATURES		
Chief Information Officer		Date Signed
		3/1/12
Printed name:	Barney Gomez	
Project -Director		Date Signed
		3-1-12
Printed name:	Tamara Armstrong	
Project Executive		Date Signed
		3-1-12
Printed name:	Barbara Taylor	
Agency Chief Information Officer		Date Signed
N/A		
Printed name:	N/A	
Agency Secretary		Date Signed
N/A		
Printed name:	N/A	

IT Accessibility Certification

Yes or No

YES	The Proposed Project Meets Government Code 11135 / Section 508 Requirements and no exceptions apply.
------------	---

Exceptions Not Requiring Alternative Means of Access

Yes or No	Accessibility Exception Justification
NO	The IT project meets the definition of a national security system.
YES	The IT project will be located in spaces frequented only by service personnel for maintenance, repair, or occasional monitoring of equipment (i.e., "Back Office Exception.")
YES	The IT acquisition is acquired by a contractor incidental to a contract.

Exceptions Requiring Alternative Means of Access for Persons with Disabilities

Yes or No	Accessibility Exception Justification
No	<p>Meeting the accessibility requirements would constitute an "undue burden" (i.e., a significant difficulty or expense considering all agency resources).</p> <p>Explain:</p> <p>Describe the alternative means of access that will be provided that will allow individuals with disabilities to obtain the information or access the technology.</p>
NO	<p>No commercial solution is available to meet the requirements for the IT project that provides for accessibility.</p> <p>Explain:</p> <p>Describe the alternative means of access that will be provided that will allow individuals with disabilities to obtain the information or access the technology.</p>

2.0 Information Technology: Project Summary Package

INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION A: EXECUTIVE SUMMARY

1.	Submittal Date	February 14, 2012	Section 2.0 Project Summary Package
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		FSR	SPR	PSP Only	Other:
2.	Type of Document		X		
	Project Number	8860-30			

		Estimated Project Dates	
3.	Project Title	Start	End
	Financial Information System for California	8/2005	TBD
	Project Acronym	FI\$Cal	

4.	Submitting Department	Department of Finance
5.	Reporting Agency	Department of Finance

6.	Project Objectives
	<p>See Section 3.1.1 for the complete list of Project Objectives</p> <p>(1) Replace the state's aging legacy financial management systems and eliminate fragmented and diverse reporting by implementing standardized financial management processes and systems across all departments and control agencies.</p> <p>(2) Improve fiscal controls and support better decision making by state managers and the Legislature by enhancing the quality, timeliness, consistency, and accessibility of financial management information through the use of powerful data access tools, standardized data, and financial management reports.</p> <p>(3) Improve access and transparency of California's financial management information allowing the implementation of increased auditing, compliance reporting, and fiscal accountability while sharing information between the public, the Legislature, external stakeholders, state, federal, and local agencies.</p>

8.	Major Milestones	Est Complete Date
	DD&I Start	May 2012
	Pre-Wave	April 2013
	Wave 1	July 2014
	Wave 2	July 2015
	Wave 3	January 2016
	Wave 4	July 2016
	PIER	July 2017
	Key Deliverables	
	Project Work Plan	FY 2012-13
	Training Deployment & Evaluation Plan	FY 2013-14
	Service Desk Plan	FY 2013-14
	Operational Readiness Test Complete (one per Wave)	FY 2014, 2015, 2016
	Production Environment Transition	FY 2016-17

INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION A: EXECUTIVE SUMMARY

7.	Proposed Solution
	<p>The proposed solution is to contract with a System Integrator (SI) to implement an enterprise resource planning (ERP) system to meet California's need for an integrated financial management system that includes statewide budgeting, accounting, cash management and procurement. This is the same solution that was proposed in SPR 3, although the specific SI contractor, the costs, and the details of implementation were not known at that time. This SPR provides those details, as anticipated in SPR 3.</p>

**INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION B: PROJECT CONTACTS**

Project #	8860-30
Doc. Type	SPR

Executive Contacts								
	First Name	Last Name	Area Code	Phone #	Ext.	Area Code	Fax #	E-mail
Agency Secretary	N/A							
Project Executive	Barbara	Taylor	916	576-4846		916	576-4832	Barbara.Taylor@fiscal.ca.gov
Project - Director	Tamara	Armstrong	916	576-5262		916	576-4832	Tamara.Armstrong@fiscal.ca.gov
CIO	Barney	Gomez	916	576-5083		916	576-4832	Barney.Gomez@fiscal.ca.gov
Proj. Sponsor	Todd	Jerue	916	445-4923				Todd.Jerue@dof.ca.gov

Direct Contacts								
	First Name	Last Name	Area Code	Phone #	Ext.	Area Code	Fax #	E-mail
Doc. prepared by	Amanda	Martin	916	576-4870		916	576-4832	Amanda.Martin@fiscal.ca.gov
Primary contact	Tamara	Armstrong	916	576-5262		916	576-4832	Tamara.Armstrong@fiscal.ca.gov
Project Manager	Tamara	Armstrong	916	576-5262		916	576-4832	Tamara.Armstrong@fiscal.ca.gov

INFORMATION TECHNOLOGY PROJECT SUMMARY
SECTION C: PROJECT RELEVANCE TO STATE AND/OR DEPARTMENTAL PLANS

1.	What is the date of your current Operational Recovery Plan (ORP)?	Date	4/2005
2.	What is the date of your current Agency Information Management Strategy (AIMS)?	Date	8/2005
3.	For the proposed project, provide the page reference in your current AIMS and/or strategic business plan.	Doc.	8/2005
		Page #	17,27

Project #	8860-30
Doc. Type	SPR

4.	Is the project reportable to control agencies?	Yes	No
		X	
	If YES, CHECK all that apply:		
	X	a) The project involves a budget action.	
	X	b) A new system development or acquisition that is specifically required by legislative mandate or is subject to special legislative review as specified in budget control language or other legislation.	
X	c) The estimated total development and acquisition cost exceeds the departmental cost threshold and the project does not meet the criteria of a desktop and mobile computing commodity expenditure (see SAM 4989 – 4989.3).		
	d) The project meets a condition previously imposed by the Technology Agency.		

**INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION D: BUDGET INFORMATION**

Project #	8860-30
Doc. Type	SPR

Budget Augmentation
Required?

No									
Yes	X	If YES, indicate fiscal year(s) and associated amount:							
FY	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	
	455.4	1,777.6	0.0	3,366.4	19,246.4	36,244.0	32,673.1	49,901.0	
FY	2013/14	2014/15	2015/16	2016/17	2017/18				
	0.0	17,312.4	28,105.6	0.0	0.0				

PROJECT COSTS (2005-06 THRU 2011-12) (\$ Thousands)

1. Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	SUBTOTAL
2. One-Time Cost	866.3	5,019.7	6,237.0	5,575.6	12,342.2	25,762.2	38,791.0	94,593.8
3. Continuing Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. TOTAL PROJECT COSTS	\$866.3	\$5,019.7	\$6,237.0	\$5,575.6	\$12,342.2	\$25,762.2	\$38,791.0	\$94,593.8

SOURCES OF FUNDING (\$ Thousands)

5 General Fund (001)	455.4	2,233.0	6,237.0	2,144.4	2,106.8	1,795.9	2,181.0	17,153.6
6 General Fund (011)	0.0	0.0	0.0	0.0	0.0	0.0	515.0	515.0
7 Redirection	410.9	2,786.7	0.0	0.0	0.0	0.0	0.0	3,197.5
8 OTHER FUNDS (FI\$Cal Int Serv Fund)	0.0	0.0	0.0	3,431.2	10,235.4	16,786.2	4,642.0	35,094.7
9 OTHER FUNDS (SWCAP)	0.0	0.0	0.0	0.0	0.0	0.0	6,275.0	6,275.0
10 Federal Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 Special Fund	0.0	0.0	0.0	0.0	0.0	7,180.0	25,178.0	32,358.0
12 Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Reimbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 TOTAL FUNDING	\$866.3	\$5,019.7	\$6,237.0	\$5,575.6	\$12,342.2	\$25,762.2	\$38,791.0	\$94,593.8

INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION D: BUDGET INFORMATION

Project #	8860-30
Doc. Type	SPR

PROJECT COSTS (2012-13 THRU 2017-18) (\$ Thousands)

1. Fiscal Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
2. One-Time Cost	69,544.7	57,654.4	61,408.2	90,530.2	50,337.9	605.3	424,674.6
3. Continuing Costs	19,433.3	26,942.2	40,500.8	39,484.4	33,856.4	31,914.0	192,131.1
4. TOTAL PROJECT COSTS	\$88,978.0	\$84,596.6	\$101,909.0	\$130,014.6	\$84,194.3	\$32,519.3	\$616,805.6

SOURCES OF FUNDING (\$ Thousands)

5 General Fund (001)	1,933.0	0.0	0.0	0.0	0.0	0.0	19,086.6
6 General Fund (011)	51,542.8	50,842.6	61,247.3	78,138.8	50,600.8	19,544.1	312,431.3
7 Redirection	0.0	0.0	0.0	0.0	0.0	0.0	3,197.5
8 OTHER FUNDS (FI\$Cal Int Serv Fund)	2,695.0	0.0	0.0	0.0	0.0	0.0	37,789.7
9 OTHER FUNDS (SWCAP)	0.0	0.0	0.0	0.0	0.0	0.0	6,275.0
10 Federal Fund *	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 Special Fund	32,807.2	33,754.1	40,661.7	51,875.8	33,593.5	12,975.2	238,025.5
12 Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Reimbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 TOTAL FUNDING	\$88,978.0	\$84,596.6	\$101,909.0	\$130,014.6	\$84,194.3	\$32,519.3	\$616,805.6

PROJECT FINANCIAL BENEFITS (\$ Thousands)**

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
15 Cost Savings / Avoidance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Revenue Increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fiscal Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
15 Cost Savings / Avoidance	0.0	0.0	8,300.0	62,400.0	180,300.0	305,000.0	556,000.0
16 Revenue Increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* FISCAL anticipates receiving Federal Reimbursement for approximately 10 percent of the development costs when the Project enters Operations and Maintenance Phase

** Benefits are consistent with the Hackett Report in Appendix F, though Appendix F includes Benefits through 2022

**INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION E: VENDOR PROJECT BUDGET**

Vendor Cost for SPR Development (if applicable)	N/A
Vendor Name	N/A

Project #	8860-30
Doc. Type	SPR

VENDOR PROJECT BUDGET (whole dollars)

1. Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	SUBTOTAL
2. Primary Vendor Budget	0	0	0	0	0	0	0	0
3. Project Management Budget	0	92,510	531,473	218,575	828,730	1,220,882	980,000	3,872,170
4. Independent Oversight Budget	0	97,700	44,761	4,018	265,200	340,000	347,400	1,099,079
5. IV&V Budget	0	97,700	472,668	0	290,686	566,896	962,760	2,390,710
6. Other Budget	0	2,590,073	290,548	1,167,718	1,438,528	6,808,434	6,868,359	19,163,660
7. TOTAL VENDOR COSTS	\$0	\$2,877,982	\$1,339,450	\$1,390,311	\$2,823,144	\$8,936,212	\$9,158,519	\$26,525,618

1. Fiscal Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
2. Primary Budget	43,624,768	26,593,890	41,192,968	66,190,481	35,510,403	0	213,112,510
3. Project Management Budget	934,858	940,000	500,000	500,000	500,000	0	7,247,028
4. Independent Oversight Budget	424,400	424,400	424,400	424,400	424,400	0	3,221,079
5. IV&V Budget	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0	7,390,710
6. Other Budget	3,527,836	6,921,659	9,342,693	12,851,682	708,602	0	52,516,132
7. TOTAL VENDOR COSTS	\$49,511,862	\$35,879,949	\$52,460,061	\$80,966,563	\$38,143,405	\$0	\$283,487,458

------(Applies to SPR only)-----

PRIMARY VENDOR HISTORY SPECIFIC TO THIS PROJECT

8. Primary Vendor	Accenture, LLP
9. Contract Start Date	May 2012 (Estimated)
10. Contract End Date (projected)	November 1, 2016
11. Amount	\$213,112,510

PRIMARY VENDOR HISTORY SPECIFIC TO THIS PROJECT

	Vendor	First Name	Last Name	Phone # (with area Code)	Extension	Fax # (with area Code)	E-mail
12.	N/A						
13.	N/A						
14.	N/A						

**INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE
SECTION F: RISK ASSESSMENT INFORMATION**

Project #	8860-30
Doc. Type	SPR

RISK ASSESSMENT

	Yes	No
Has a Risk Management Plan been developed for this project?	X	

General Comment(s)
<p>The Risk and Issue Management Plan, in conjunction with the Risk and Issue Desk Reference Manual, describes the process used by the FI\$Cal Project to manage and mitigate risks and issues. Risk and issue management includes identification, analysis and prioritization of risks and issues. The goal of risk and issue management is to minimize, monitor and control the probability and/or impact of adverse events or to maximize the realization of opportunities. A summary of the FI\$Cal Risk and Issue Management Plan is contained in Section 5.0 of this document.</p>

3.0 Proposed Project Change

3.1 *Project Background/Summary*

In 2005, the Department of Finance (DOF) developed a Feasibility Study Report (FSR) that proposed the implementation of a commercial-off-the-shelf (COTS) Budget Information System (BIS)² to meet statewide and departmental³ budget development and budget administration needs. The objective of the BIS Project was to develop a comprehensive statewide budget system to prepare, enact, and administer the state's annual financial plan (budget) and to provide critical information required to make budget decisions and manage state resources. The collaboration and discussions with the project stakeholders brought into sharp focus the need to consolidate and modernize the state's entire financial management process into a single financial management system. In addition, through these efforts, there was a clear conclusion that one of the intended objectives of the BIS Project, budget administration, could not be accomplished as envisioned within the existing project scope.

In December 2006, the DOF approved a Special Project Report (SPR)⁴ for the Financial Information System for California (FI\$Cal or the Project). FI\$Cal is a partnership between the agencies responsible for the state's financial management: DOF, the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS), collectively known as the "Partner Agencies".

A trailer bill to the Budget Act of 2007 required the Project to develop additional planning documents and submit them to the Legislature no later than April 1, 2008. In addition to evaluating four specific alternatives, the Project was required to include a plan of funding that evaluated alternative financing options including the use of special funds and federal funds, develop formal roles and responsibilities through the execution of a memorandum of understanding by the Partner Agencies, and develop a revised project management plan to address project leadership succession planning and vendor accountability. This resulted in SPR 2 which was approved by DOF in December 2007.

SPR 2 extended the schedule for the Project by two years for additional planning, legislative reporting activities, and additional activities in the Procurement and Design Phases. SPR 2 also increased the estimated project costs from \$1.3 billion to \$1.6 billion, detailed a Funding and Finance Plan, and provided cost estimates and analysis for five alternatives to FI\$Cal. In February 2008, the Legislative Analyst's Office (LAO) analysis of SPR 2 recommended proceeding with the project while incorporating alternatives which would reduce risk, provide for greater legislative oversight and review, lower initial costs, and rely less on borrowing. In April 2008, the Legislature approved the FI\$Cal Project.

In January 2009, in response to concerns expressed by the Legislature, the Office of the Chief Information Officer (OCIO, now the California Technology Agency or Technology

² The BIS FSR was approved July 26, 2005

³ For the purposes of this SPR, "department" represents any state entity whether in title they are an agency, authority, board, bureau, commission, department, etc.

⁴ Copies of all SPRs and SPR addendums are located at http://www.fiscal.ca.gov/archive/special_project_reports/

Agency), the LAO, and the Partner Agencies, the Project contracted with Enterprise Resource Planning (ERP) expert, Grant Thornton, LLP, to conduct a review in the context of best practices for planning and implementing a large ERP project. The Project Review included the following tasks: (1) review the proposed project objectives, (2) review the FI\$Cal business requirements, (3) review the project organization and governance structure, (4) review the project implementation approach, and (5) recommendation of the best sourcing strategy within the existing FI\$Cal procurement approach.

The Project Review did not change the overall project scope but recommended the proposed implementation strategy be revised to reduce the initial development costs and mitigate risks by reducing the functionality deployed in the first implementation. The Project Review also recommended the sourcing strategy be changed to a two-stage procurement approach, which the Project adopted. The revised project strategy, resulting from the Project Review and subsequent decisions of the Steering Committee resulted in the submittal of SPR 3 in November, 2009. SPR 3, as approved by the OCIO, described the project activities and costs through the Project's procurement phase and award of the System Integrator contract.

In Stage 1 of the procurement, the state awarded three (3) Firm-Fixed-Price (FFP) contracts to the highest scoring bidders based on the selection criteria defined in the Request for Proposal (RFP) FI\$Cal 8860-30. Each of the Stage 1 Contractors conducted a Fit Gap analysis to identify potential gaps between their proposed software and the state's business requirements. Further, each Stage 1 Contractor used this information to estimate the effort required to "fit" its solution to meet the needs of the state, while ensuring the state is able to use the best practices and efficient processes incorporated in the proposed solution. The Fit Gap analysis allowed the Stage 1 Contractors to gain a thorough understanding of the State's needs to propose a detailed and accurate Stage 2 proposal for the design, development and implementation of its solution. All three Stage 1 Contractors fulfilled the contract requirements, and subsequently participated in Stage 2 as bidders. After a series of proposal evaluations and bidder negotiations, the state then selected Accenture as the winner of the two-stage procurement. The state intends to award the Stage 2 contract (the System Integrator contract) to Accenture in May 2012.

SPR 3 noted that the project plan for development and implementation would be provided as part of a subsequent SPR after the procurement was completed. This document provides the subsequent detail envisioned in SPR 3, including the Project's activities and costs through development and implementation. For the Project's accomplishments since SPR 3, see Section 3.2 – Project Status.

3.1.1 Project Objectives

The overall objectives of the Project have not changed from SPR 3 and they have been codified in California Government Code Section 15849.22, along with the vision for the Project as follows:

15849.22 (a) (1) To serve the best interest of the state by optimizing the financial business management of the state, the Department of Finance, the Controller, the Treasurer, and the Department of General Services shall collaboratively develop, implement, utilize, and maintain the FI\$Cal system. This effort will ensure best business

practices by embracing opportunities to reengineer the state's business processes and will encompass the management of resources and funds in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting.

(2) (A) Except as specified in subparagraph (B), the FI\$Cal Project Office in the Department of Finance shall implement the requirements of paragraph (1).

(B) Upon the establishment of an Office of the Financial Information System for California, the Office of the Financial Information System for California shall implement the requirements of paragraph (1), and the FI\$Cal Project Office in the Department of Finance shall no longer implement those requirements.

(b) (1) All state departments and agencies shall use the FI\$Cal system, or, upon approval from the office, a department or agency shall be permitted to interface its system with the FI\$Cal system. The FI\$Cal system shall replace any existing central or departmental systems duplicative of the functionality of the FI\$Cal system.

(2) The FI\$Cal system shall first be developed and used in partnership with a select number of departments, including the officers and departments identified in subdivision (a). Once the FI\$Cal system has developed end-to-end processes that will meet the financial management needs of all state departments and agencies and have proven to be effective, operationally efficient, and secure, the FI\$Cal system shall be implemented, in phases, at all remaining state departments and agencies, or, upon approval of the office, a department or agency shall be permitted to interface its system with the FI\$Cal system.

(c) The Legislature intends that the FI\$Cal system meets the following objectives:

(1) Replace the state's aging legacy financial management systems and eliminate fragmented and diverse reporting by implementing standardized financial management processes and systems across all departments and control agencies. For purposes of this paragraph, "financial management" means accounting, budgeting, cash management, asset accounting, vendor management, and procurement.

(2) Increase competition by promoting business opportunities through the use of electronic bidding, online vendor interaction, and automated vendor functions.

(3) Maintain a central source for financial management data to reduce the time and expense of vendors, departments, and agencies collecting, maintaining, and reconciling redundant data.

(4) Increase investment returns through timely and accurate monitoring of cash balances, cash flow forecasting, and timing of receipts and disbursements.

(5) Improve fiscal controls and support better decision making by state managers and the Legislature by enhancing the quality, timeliness, consistency, and accessibility of financial management information through the use of powerful data access tools, standardized data, and financial management reports.

- (6) Improve access and transparency of California's financial management information allowing the implementation of increased auditing, compliance reporting, and fiscal accountability while sharing information between the public, the Legislature, external stakeholders, state, federal, and local agencies.
- (7) Automate manual processes by providing the ability to electronically receive and submit financial management documents and data between agencies, departments, banks, vendors, and other government entities.
- (8) Provide online access to financial management information resulting in a reduction of payment or approval inquiries, or both.
- (9) Improve the state's ability to preserve, access, and analyze historical financial management information to reduce the workload required to research and prepare this information.
- (10) Enable the state to more quickly implement, track, and report on changes to financial management processes and systems to accommodate new information such as statutory changes and performance information.
- (11) Reduce the time, workload, and costs associated with capturing and projecting revenues, expenditures, and program needs for multiple years and scenarios, and for tracking, reporting, and responding to legislative actions.
- (12) Track purchase volumes and costs by vendor and commodity code or service code to increase strategic sourcing opportunities, reduce purchase prices, and capture total state spending data.
- (13) Reduce procurement cycle time by automating purchasing authority limits and approval dependencies, and easing access to goods and services available from existing sources, including, but not limited to, using leveraged procurement agreements.
- (14) Streamline the accounts receivable collections process and allow for offset capability which will provide the ability for increased cash collection.
- (15) Streamline the payment process and allow for faster vendor payments that will reduce late payment penalty fees paid by the state.
- (16) Improve role-based security and workflow authorization by capturing near real-time data from the state's human resources system of record.
- (17) Implement a stable and secure information technology infrastructure.

The proposed information technology solution, coupled with associated business process reengineering, will address these high priority state policy objectives. The new system can be tailored to meet California's needs while remaining flexible enough to adapt to changes in policy and programs, subject to reconfiguration in extreme situations. Service delivery and business operations will be more efficient and effective as a result.

3.1.2 Bidder/Contractor Distinction

The terms “bidder” and “contractor” are referenced throughout this document. A “bidder” is a person or company that is participating in a procurement process with FI\$Cal. A “contractor” is a person or company that is providing goods and/or services under contractual agreement with FI\$Cal. Specifically, the Stage 1 Contractors became bidders for Stage 2 when they submitted their Final Proposal on June 17, 2012.

3.1.3 FI\$Cal’s Benefits

FI\$Cal’s benefits dovetail with the statutory objectives identified for the project. These benefits include:

- Establish a single source of financial information through the establishment of a single 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.

3.1.3.1 Benchmarking

In July 2011, the state contracted with Solutions West (who subcontracted with benchmarking experts The Hackett Group (Hackett)) to analyze the state’s accounting, budgeting, cash management, contracting and procurement functions to: 1) provide baseline data against which post-implementation measurements could be compared and, 2) conduct a benchmarking study to assess and compare California’s current performance to other similar organizations. Hackett also used the benchmarking analysis to identify and estimate the expected benefits from FI\$Cal.

Benchmarking studies are a well-established practice to measure the utilization of best practices and various specific capabilities (such as level of automation in a given process) and factors that directly impact performance (such as labor cost per full time equivalents (FTE)). These additional metrics provide insights into the main factors that explain performance deficiencies, allowing organizations to develop informed and realistic improvement plans. Benchmarking is widely acknowledged to be a useful basis for developing and quantifying business cases for technology implementations and transformation projects such as FI\$Cal. Hackett has benchmarked the activities of

thousands of public and private organizations worldwide. Its comprehensive and proprietary database of benchmarked data can be used to assess the performance of individual client organizations and measure their progress over time.

Methodology: For California's benchmarking study, two peer groups were developed from the Hackett database; one based on other state governments, the other based on world-class companies – companies that rank in the first quartile in terms of efficiency and effectiveness. Hackett gathered fiscal year 2010-11 information from the four Partner Agencies and 39 participating state departments. There were three key steps to the benchmark study:

- A quantitative baseline was established, based on a survey question set that was aligned to FI\$Cal statutory objectives and completed by subject matter experts (SMEs). There were 74 data collection groups across the 43 departments.
- Interviews with 7 senior executives yielded management's perspective on overall effectiveness and efficiency of the functions, and expected impact of FI\$Cal.
- Surveying 181 stakeholders from the participating departments to gain insight on specific areas of support and service delivery and to complement the quantitative baseline with 'customer feedback'.

By measuring such things as process costs, cycle times, resource effort, and technology utilization required for the accounting, budgeting, cash management, contracting and procurement functions, state performance baselines were established. Hackett completed the benchmarking study in October 2011. Hackett then used the benchmarking results to provide estimates of the tangible benefits that could be achieved based on their experience and knowledge of best business practices, and improvements gained by other organizations after implementing an ERP (See Section 3.1.3.3).

3.1.3.2 Key Benchmark Inputs and Findings

The benchmarking analysis provided in the next two sections uses and refers only to the data from the 43 participating departments.

Contracting and Procurement Activities: California's baseline cost for contracting and procurement (C&P) for the participating departments is \$108 million, which is made up of \$90 million of labor costs (salary, benefits, and overtime), \$8 million of technology costs and \$10 million of other costs (such as facilities, training and travel). The baseline staffing level is 1,095 full time equivalents (FTEs).

Compared to peer states, California's costs (including labor and technology) for procurement activities as a percent of expenditures (i.e., spend) is 1.98% which is more than double the peer group percentage. While staffing levels are higher than the peer group median, California had a lower allocation of labor supporting transaction processing and higher allocation for solicitation and contracting. A specific transaction metric, the number of purchase orders processed per employee, is less favorable with 1,279 in California versus 2,008 for the peer group or 36% lower than the peer group.

The technology costs to support the procurement and contracting function are much higher than the peer group (as a percentage of expenditures it is about double the state peer group median); however, the degree of functionality of the supporting systems is significantly lower than the peer group benchmark. In addition to duplicative master vendor and purchase order data entry and processing, there is a lack of analytical data and reporting tools needed to perform statewide expenditures (i.e., spend) analysis, and limited supplier performance reporting and score-carding capabilities.

At the process level, master data and compliance management staffing levels are significantly higher because of multiple data entry points, the lack of integrated systems and the inability to report transaction history. Requisition and purchase order processing and order follow up are highly manual and decentralized processes. In many instances, multiple data entries are required to support complete process execution. Receipt processing is typically performed using hard copies. Vendor bidding, solicitation, negotiation and contract creation are time-consuming processes that currently result in less expenditures being 'professionally managed'. There are few technology enabled process controls for compliance management. Another outcome of lower automation is 25% higher error rates and 250% longer procurement cycle times. (More detailed C&P findings are in Appendix G - Hackett's Report).

In summary, the overall cost and effectiveness performance for C&P is in the third quartile. Stakeholders view C&P as an administrative function and as having limited or no involvement in key contracting and process improvement activities that contribute to benefit creation and realization. While California's investment in technology is higher than its peers, its automation and functionality rates are significantly lower and play a key role in higher costs.

Accounting, Budgeting, and Cash Management Activities:

The State of California's baseline cost for accounting, budgeting and cash management for the participating departments and four Partner Agencies is \$262 million, which represents 4.8% of reported expenditures. Eighty percent of these costs (\$210 million) are labor costs (salary, benefits, and overtime) and baseline staffing levels are 2,702 FTEs. Compared to peer states, California's overall cost as a percentage of expenditures for finance activities is 15 percent higher than the peer median (4.81 percent versus 4.20 percent). Similarly, staffing levels are 19 percent higher (2,702 for California versus 2,268). There are also significant lags in the number of accounts payable processed per FTE (2,568 for California versus 5,283 for the peer group) and in the number of customer bills processed (6,676 for California compared to 25,531 for the peer group). The cost to process those bills is \$14.30 per transaction compared to \$2.25 for peers or more than 6 times as expensive. Overall, California's accounts payable costs per transaction is more than double that of peers, while the time to process invoices once they are in accounts payable is more than double that of peers (15 days compared to 6). And California requires corrections to 20 percent more payables than peers.

Benchmark findings at the process level show that accounts payable cost-per-invoice-processed and productivity (invoices processed per FTE) are negatively affected by incomplete automation, duplication of effort and long cycle times. There is a lack of integration between purchasing, accounts payable and the general ledger. The result is a highly paper-intensive process with a high percentage of transactions requiring correction (5.4%).

Similar challenges exist in other transactional process areas. Billing process automation is not available in most departments and billing cycle times are long relative to peer group metrics. A high number of billing transactions are incomplete and require re-work. In cash application, a low percentage of remittances are received electronically and the cycle time to apply cash is long. Collections and dispute management do not have invoice and collection detail information available online and a high percentage of accounts receivable is over 90 days past due. Accounting and external reporting subsystems are not integrated to the general ledger and a high volume of journal entries must be entered manually into current systems. (See Appendix G for Hackett's report).

In summary, accounting, budgeting and cash management costs as a percent of expenditures falls in the third quartile of the state government peer group. Accounts payable, billing and cash application productivity rates are below the peer group. Cycle times are longer in accounts payable, billing, cash application and audit processes. Automation levels are low, particularly in accounts payable and cash application processes. The integration of systems between functions and between control agencies and departments is limited. Most budgeting and reporting activity is completed with spreadsheets and standalone database applications, and the use of budgeting software and data warehouses for reporting is minimal.

Some of the peer group organizations have just implemented or are in the process of implementing an integrated technology solution similar to FI\$Cal. This factor may account for some of California's benchmark results being lower than those of the peer groups.

3.1.3.3 *Benchmarking - Expected Quantifiable Benefits*

Based upon the results of the benchmarking study as discussed above, Hackett created a model to quantify the anticipated statewide benefits from the implementation of FI\$Cal. Their model reflects California's ability to achieve higher efficiency levels than its peer group, yet not as high as the world-class group. This presumes that the state will realize economies of scale relative to the other states in the benchmark peer group and that through the implementation of FI\$Cal it is able to execute a comprehensive transformation program consisting of process redesign, technology enablement and data standardization.

As noted above, the benchmarking effort was completed with 43 state agencies. It is estimated that these agencies represent about 46% of the total scope of the FI\$Cal project. To calculate the value of the benefits stream for all state departments in scope of FI\$Cal, benefits at benchmarked agencies were multiplied by 2.2 (i.e., 1 divided by 0.46). These indexed numbers have been used in the estimates below.

The overall estimate of quantifiable benefits will provide a very high rate of return for the investment in FI\$Cal. Using conservative estimates, Hackett's model predicts that the Project's cumulative expenditures will be offset by the benefits during fiscal year 2017-18. Each fiscal year thereafter, benefits will exceed the annual ongoing maintenance costs for the system.

Hackett's model forecasts the ongoing benefits to be approximately \$415 million annually. The model organizes the benefits into three main areas, or "streams":

- **Process cost savings (\$173.2 million):** This refers to the direct cost savings resulting from efficiency and productivity improvements to processes within the scope of the FI\$Cal project. Estimated benefits are \$173.2 million annually. The process-cost savings opportunity will come primarily from a reduction in labor costs, which can be achieved through natural attrition over the next 8 years. The new FI\$Cal system along with streamlined processes will reduce the amount of effort required for transaction processing activities such as payables, billing, general accounting and purchase orders. Estimated annual savings will result in the following by key process: Finance Transactions (\$79M); Control and Audit Processes (\$8.1M); Planning and Budgeting (\$19.2M) and Procurement Process (\$66.9M).
- **Technology cost savings (\$28.0 million):** Although there will be a net *increase* in technology cost as a result of the investment in FI\$Cal, the new system will allow many state agencies to retire their legacy finance and procurement systems. This is estimated to save \$16 million in annual recurring operating costs. Additionally, FI\$Cal will yield \$12 million in "other" cost savings, driven largely by lower facilities' cost. The combined technology and other cost is a savings opportunity of \$28 million.
- **Procurement Effectiveness Improvement (\$213.4 million):** The previous two sections dealt with potential cost savings achievable through more efficient delivery of finance and procurement services (i.e., using fewer resources and at lower cost). However, additional – and potentially larger – benefits may be realized through more effective processes. These include better management of the statewide procurement and ability to increase strategic sourcing. The new FI\$Cal system will provide improved purchasing compliance functionality and access to statewide contracts and leveraged procurement agreements. FI\$Cal will also provide sophisticated analytical capability on such things as statewide expenditure and vendor performance that has never been available to California. The synergy between higher usage of statewide contracts and visibility into statewide spending will give the state the ability to negotiate more optimal supplier agreements, higher volume discounts and better quality. Based on their peer group data, Hackett estimated the annual cost savings from this increase in effectiveness to conservatively be over \$213.4 million through volume purchasing and leveraged procurements that result in a lower cost of goods and services.

3.1.3.4 Non-Quantifiable Benefits

In addition to the quantifiable improvements discussed above, Hackett also identified the following non-quantifiable benefits of FI\$Cal as described below:

Technology, Business and Compliance Risk Reduction - There is substantial risk involved in operating critical systems that are poorly documented (or not documented at all); using applications that are difficult to support or outdated; and running on technology platforms that are no longer supported. Many legacy systems, that have such risks will be replaced by FI\$Cal. This situation makes users dependent on IT support

staff members who are the only ones who understand these applications. In addition, many of these legacy systems are susceptible to "breakage" that, to avoid the risk of system failure, necessary functional upgrades are not carried out. Even if modifications can be developed and implemented, costs are high and delivery time is slow. These legacy systems also carry the risks related to business-process disruption. By migrating to a modern ERP system, the state gains access to a vast pool of resources with deep knowledge of this technology, which reduces the risks described above. The architecture of such systems also allows for far more flexibility and configurability, making it easier and less costly to support new business requirements as they arise.

Business Performance Improvement - Process redesign and technology enablement will drive broad-based business performance improvements. In the private sector, financial planning and budgeting is rapidly evolving away from a routine administrative process in which there is little concern about optimizing resource allocation. Instead, the substantial changes occurring in the business and economic environment have encouraged management to remake the process into one in which resources are deliberately allocated in a way that will help companies achieve their strategic and operational objectives. Although state agencies will always operate under a very different set of constraints than private sector enterprises, funding cutbacks make it necessary for state governments to embed far more business discipline than they ever have in decisions about resource allocation.

Therefore, an improved budgeting and planning process, supported by advanced analytics and techniques such as predictive modeling, will yield many benefits.

The following are just a few of the potential benefits:

- A more efficient process that consumes fewer resources (in dollars and FTEs) and can be accomplished faster. This in turn will lead to more-effective allocation of these resources, which in turn will help state agencies to deliver higher-value services to state residents.
- Advanced performance reporting and analytical capabilities will provide state agencies with the information needed to optimize service portfolios and resource allocations, based on a clear understanding of the effectiveness of services delivered to the consumers of these services.

(A complete discussion of these benefits appears in Appendix G within Hackett's report.)

3.2 Project Status

The Project has made consistent progress since the SPR 3 Addendum was approved.

The Project has selected a System Integrator, Accenture, and intends to award the contract 90 days after delivery of the Legislative Report and subsequently commence the Design, Development, and Implementation (DD&I) phase. Key milestones are shown below:

Milestones/Activities	Date(s)
SPR 3 Approved by Technology Agency (formerly OCIO)	11/19/2009
Request for Proposals (RFP) Released	4/21/2010
Stage 1 Contracts Awarded	6/30/10
SPR 3 Addendum Approved by Technology Agency	4/13/11
Fit Gap Completed	5/10/2011
Stage 2 Final Bids Received	6/17/11
Initial Evaluation of Project Bids Completed	8/11/2011
Negotiations and Revised Best and Final Offer Evaluations Completed	12/30/2011
Evaluation and Selection Report Completed	1/13/2011
SPR 4 Approved by Technology Agency	2/14/2012
Notice of Intent to Award Published	2/15/2012
Legislative Report Developed and Submitted	2/15/2012
Award Stage 2 Contract	5/16/2012

Below are FI\$Cal's project expenditures through December, 2011:

FISCAL YEAR	SPR 3 AMOUNTS*	BUDGET ACT APPROPRIATION AMOUNT	ACTUAL EXPENDITURES
2005-06	\$ 866,256	\$ 2,227,000	\$ 866,256
2006-07	5,019,665	5,200,000	5,019,665
2007-08	6,237,000	6,615,000	6,237,000
2008-09	5,783,441	37,650,000	5,575,560
2009-10	21,353,408	82,495,000	12,342,220
2010-11	38,425,013	42,637,000	25,762,163
2011-12	<u>33,764,124</u>	<u>38,468,000</u>	<u>9,149,606</u>
TOTALS	\$ 111,448,907	\$ 215,292,000	\$ 64,952,470

*These amounts are from the Project Funding Plan in SPR 3 and have not been updated to reflect actual expenditures for 2009-10 and 2010-11. Also, SPR 3 Amounts and Actual Expenditures are only through December, 2011.

Since the approval of SPR 3, the Project has completed several key project activities. These activities led to the success of the two-stage procurement, including the receipt of an executable SI proposal and contract, and to prepare the Project for the arrival of Accenture and the beginning of the DD&I phase. More importantly, these accomplishments set the foundation for FI\$Cal's ultimate success. Key accomplishments include:

1. Project Communication – In January 2010, the Project began to conduct quarterly FI\$Cal Forums to update state department stakeholders of project status and upcoming milestones. Also chartered during this time period was the FI\$Cal Customer Impact Committee (CIC). This committee is comprised of

- various state department representatives, and is intended to ensure departments have input (i.e., a voice) on issues of concern.
2. Request for Proposal (RFP) – In April 2010, the Project published a bundled (system integrator with software) RFP to solicit bids from vendors.
 3. Bidder Library – In April 2010, the Project created an electronic document repository (Bidder Library) to publish materials provided to the bidders throughout Stage 1. To date 2,803 documents and artifacts have been published for the bidders to reference.
 4. Stage 1 Contract Awards – In June 2010, all Stage 1 bids were evaluated and scored with contracts awarded to three bidders to perform a Fit Gap Analysis of their proposed software solutions to the state's requirements and expectations. Contracts were awarded to:
 - a. Accenture – proposed Oracle's PeopleSoft software
 - b. CGI – proposed AMS Advantage software
 - c. IBM – proposed SAP software
 5. Project Facility – In June 2010, the Project secured a facility in Sacramento to initially conduct Stage 1 of the procurement. A long-term lease has since been approved by DGS to utilize the facility as the permanent location for the Project.
 6. FI\$Cal's As-Is Business Processes and Legacy Systems (FABALS) – In August 2010, the Project completed the evaluation and documentation of a representative sampling of state department financial (accounting, budgeting, cash management, and procurement) business processes and legacy systems. This effort provided essential state business process and legacy systems information necessary for the Stage 1 Contractors to perform the Fit Gap Analysis, and consequently prepare more comprehensive Stage 2 proposals. This effort resulted in over 3,000 pages of documentation. The documentation was derived from the following evaluations:
 - a. Business Process Documentation was compiled from conducting 71 interview sessions with 350 subject matter experts in 34 departments
 - b. Legacy System Documentation was compiled from conducting 96 interview sessions in 29 departments for 147 legacy systems (excluding spreadsheets)
 7. Organizational Change Management – By September 2010, the Project conducted 78 face-to-face outreach sessions with administrative and IT leadership teams representing every department identified in SPR 2
 8. Fit Gap Presentations and Confidential Discussions – In November 2010, the Project concluded Fit Gap which included 78 presentations and 72 Confidential discussions with the Stage 1 Contractors, answering more than 2,000 questions. These sessions focused on providing information to the Contractors to:

- a. Understand Project assumptions
 - b. Accurately estimate the size and complexity of the FI\$Cal Project
 - c. Interact with the Project team to gain understanding of:
 - i. Project governance
 - ii. Responsibilities of constitutional/statutory roles
 - iii. Project scope
 - iv. System requirements
 - v. As-Is business processes
 - vi. Legacy systems
 - vii. Organizational Change Management
 - viii. Master building blocks [Chart of Accounts (COA), Vendor Management File (VMF), and state IT standards]
 - ix. Legal statutes affecting system requirements
 - x. Stage 2 Statement of Work
 - xi. Stage 2 Proposal Requirements
 - d. Understand the Stage 2 scope in order to prepare an accurate cost estimate for the Proposed Solution
9. Contract Terms & Conditions (T&C) – In December 2010, the Project completed preliminary negotiations of the Contract T&Cs with all three Stage 1 Contractors. Because of the nature of the two-stage procurement, Contract T&Cs negotiations were performed prior to the three Contractors submitting their Stage 2 Final Bids. Best and Final Offer (BAFO) negotiations were conducted during Stage 2.
10. Project Governance – In December 2010, per the recommendations by the Executive Team, Independent Verification and Validation (IV&V), and Independent Project Oversight (IPO), the Project Charter document was updated and approved to include a Steering Committee Executive Working Group comprised of Partner Agency Steering Committee Executives and the Technology Agency. This working group meets monthly, or more frequently as needed, to carefully review and consider major Project issues and make recommendations to the full Steering Committee. This new governance role has been effective in ensuring that Project decisions are being made at the lowest level, and are escalated if and when necessary.
11. Stage 1 Deliverables – By March 2011, the Project received, reviewed, and accepted deliverables from each of the three Stage 1 Contractors. These deliverables were:
- a. Deliverable 1 – Functional Architecture Document – Completed January 2011

- b. Deliverable 2 – Technology Architecture Document – Completed February 2011
 - c. Deliverable 3 – Implementation Approach Document – Completed February 2011
 - d. Deliverable 4 – Business Process Reengineering Document – Completed February 2011
 - e. Deliverable 5 – An interactive Pilot designed around validation of the software application against the state’s business processes – Completed March 2011
12. Benchmarking – In October, 2011, Solutions West, who subcontracted with Hackett, completed a benchmarking study to categorize financial business processes and transactions into measurable business functions that can be compared and contrasted to similar public sector organizations. For this benchmarking study, baseline disbursements and labor costs for the 2010-11 fiscal year were gathered from the four Partner Agencies and 39 participating departments. This data provides a basis for measuring performance after implementation of FI\$Cal. (See Section 3.1.3.1 above for additional benchmarking detail).
13. Stage 2 Procurement – In December, 2011, the Project completed the evaluation of the Revised BAFOs. The FI\$Cal Evaluation Team read, re-read, analyzed, and evaluated over 112,000 pages of information submitted by the bidders and the Negotiation Team spent over 6 months preparing for and conducting negotiations with the three bidders. By consensus, the Evaluation Team provided each bidder with a final score based on established and published criteria, and selected the winning bidder (Accenture). As a result of extensive efforts by hundreds of individuals, the Project has completed one of the most extensive and thorough procurement efforts ever undertaken by the state.
14. RFP Addendums – Since the release of the RFP in April 2011, the Project has released a total of fifteen (15) RFP Addendums. The final Addendum resulted in the bidders submitting a Final Revised BAFO in December 2011.
15. Chart of Accounts (COA) – A COA Workgroup was chartered to define a statewide COA structure that will support the state’s financial management processes. The COA Workgroup documented the existing Uniform Codes Manual (UCM) structure including current issues and problems. This workgroup also made a presentation to all three Stage 1 Contractors on the state’s vision of a general design of the coding structures and proposed recommendations of additional elements and structures to be considered for inclusion in defining a new COA during the implementation phase.
16. Vendor Management File (VMF) – A Vendor Management File Workgroup was chartered to identify critical data elements to support a central source of vendor information which will be used by all departments. This workgroup developed a vendor management and reporting data template to provide a description of and purpose for each data element/field, as required by control agencies and departments for proper vendor reporting. To design and develop a single enterprise-wide vendor management file, the VMF Workgroup presented this information to the Stage 1 Contractors using cross-cutting data flow charts of the

state's view of the current "As-Is" decentralized and redundant vendor processes. The VMF Workgroup also presented the state's vision of a "To-Be" process reflecting a self-service web portal to allow approved vendors to manage information online.

The following sub-projects are currently underway and, upon their completion, will better prepare the state for the DD&I phase.

1. Legacy Systems Inventory – This sub-project is scheduled to be completed in May 2012 to provide a system inventory of the existing financial and procurement legacy systems being used by each Partner Agency and department affected by FI\$Cal. This sub-project, in conjunction with the Legacy Systems & Data Analysis sub-project, will lay the ground work for the transition of legacy system data to the target ERP FI\$Cal environment.
2. Legacy Systems & Data Analysis – The Project is in the process of acquiring a contractor with large-scale systems analysis experience to assist the state in validating the Legacy Systems Inventory. The purpose of this effort is to analyze and determine which systems should be retired/replaced and require data cleansing and conversion; and which legacy systems will remain in use and require an interface to the new ERP system. The sub-project is expected to continue throughout the Pre-Wave to 1) provide state departments the tools, templates, and procedures to cleanse legacy data in preparation for data conversion; and 2) guide state departments to modify legacy systems and support new technical interfaces.
3. Enterprise Architecture (EA) Target Artifacts – This sub-project is scheduled to be completed in June 2012 and provide artifacts which detail the State's position on industry standard technologies including Service Oriented Architecture, and services, Enterprise Content Management, Business Process Management, Enterprise Application Integration; and provide the technical guiding principles and directions for the DD&I phase.
4. Business Process Expectations and Statute Review – This sub-project, scheduled to be completed in June 2012, is to analyze the mapping of statewide business processes, statutes, regulations, and policies to FI\$Cal functional requirements. This analysis will be used to further clarify state business constraints and validate business process reengineering opportunities in collaboration with Accenture during the DD&I phase.

3.3 Reason for Proposed Change

The proposed change is based on the go-forward strategy documented in SPR 3, specifically the selection of an SI through a two-stage procurement process.⁵ Now that the procurement is complete and Accenture has been selected, this SPR is intended to communicate items around the implementation approach, resource needs, schedule, and cost associated with the selection of Accenture as the SI.

As noted above, the Project submitted and had approved SPR 3 in November 2009. SPR 3 was used to propose a modified implementation approach from that in SPR 2 and

⁵ A copy of SPR 3 can be found at http://fiscal.ca.gov/archive/special_project_reports/

the use of a two-stage procurement process. SPR 3 only addressed the resources and schedule necessary to execute the procurement phase.

Since SPR 3 was limited in its scope, the reason for the proposed change in this SPR is to provide the detail of Accenture's proposal in comparison to SPR 2 since that was the last approved SPR that contained detailed implementation approach and schedule, resource, and cost estimates for the full lifecycle of FI\$Cal.

3.4 Proposed Project Change

The Project continues to propose implementation of the accounting, budgeting, cash management, and procurement functionality in a single implementation of an ERP system to meet the state's business objectives. As a result of the extensive procurement process described above, the Project now has a defined solution, a proposed Project Work Plan and an experienced SI to serve as our partner in the implementation of the FI\$Cal system. The Project has explored alternative approaches to implementing FI\$Cal through prior SPRs and the development and submission of the Legislative Report in February 2012 in compliance with Government Code §15849.21. The FI\$Cal Steering Committee adopted the following recommendations, which provides the implementation approach and cost details as intended in SPR 3.

Implementation Approach

In SPR 2, the recommended approach for wave 1 implemented the full functionality of the ERP solution to a limited number of departments. The purpose was to ensure that the system design took into account all business functions and requirements, and that all functions would integrate properly. In SPR 3, the project revised the implementation approach and instead recommended a "hybrid" strategy that limited wave 1 scope to a subset of the full FI\$Cal scope to avoid the risks and high complexity of installing the full functionality of the software. It was thought that limiting the initial functionality would lower the initial costs as well as mitigate the high risks of a large IT implementation. In SPR 3, the primary objective for wave 1 was to demonstrate the ability of the state to successfully implement statewide ERP software functionality across departmental business processes, while managing organizational change with final determinations to be determined during the Fit Gap analysis, based in part on vendor recommendations.

The implementation approach proposed in this SPR 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 SI 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. The Implementation Plan in Section 3.4.4 presents a more detailed overview of the proposed approach.

Schedule

Due to the 2 years spent on the two-stage procurement, this implementation will begin two years later, in 2012-13, than anticipated in SPR 2. Therefore, while this implementation is only 5 years compared to the 7 years anticipated in SPR 2, the ending date remains the same.

Changes in Proposed Staffing Levels

The Project reduced the number of positions needed to implement the FI\$Cal solution from a peak of 742 (included permanent Program staff positions for participating departments) in SPR 2 to 304 in SPR 4 in the following manner:

- **Project Staff:** SPR 2 assumed that the FI\$Cal Project Team would peak at 499 positions. In contrast, this SPR estimates that Project staffing will peak at 304 positions.
- **Program Staff:** In SPR 2, Program staff were defined as "on-site" departmental teams that would have been realigning the processes at each department to meet the new standards and assisting with each individual department's transition. SPR 2 assumed that 243 positions would be dedicated to the Project during implementation, and that the Project would reimburse the departments for the Program staff time. This SPR revises this assumption, and has eliminated any estimate of Program staff time and cost. Since SPR 2, the Project has revised the approach to engaging staff from departments during the implementation, and has transitioned to a 'subject matter expert' model whereby departmental staff will be engaged on a part-time basis as needed, rather than as full time staff dedicated to the project. This approach is both more realistic – given that the needed departmental staff would be difficult to assign full time to the project – and also more efficient in the use of state staff resources. Additionally, the Cost Allocation Plan that will be implemented by the Project would mean - if departments were reimbursed for Program staff time – that various departments would effectively be cross-subsidizing the staff of other departments during the implementation period. For these reasons the Project has eliminated the Program staff category from the Economic Analysis Worksheet (EAW).

Revised Funding/Costs

SPR 3 noted that total project costs and a long-term funding and financing plan would be further detailed in a subsequent SPR. Total project costs are detailed in Section 6.0 and the Funding Plan is attached in Appendix B.

In comparison in SPR 2, the estimated cost in many cost categories remains relatively unchanged. However, the following four categories of cost are significantly different and account for most of the cost difference between the SPRs:

- **Project staff:** As described above, the estimated positions for Project staff is significantly less in SPR 4 than in SPR 2. This is primarily due to the reduction by two years in the duration of the DD&I phase. These reductions equate to a decrease in cost of approximately \$78 million.
- **Program staff:** As described above, the Program staff category has been eliminated from the EAW. The estimated cost of Program staff participation in the project is significantly less than in SPR 2 (due to the change to a part-time SME model). The elimination of the Program staff category reduces the project cost estimate by approximately \$264 million. Also, the planned Cost Allocation Plan would make reimbursement both extremely difficult to quantify and extremely complex and burdensome to administer.

- **System Integrator Contract Services.** The estimated SI cost from SPR 2 has been replaced with the actual proposed cost of Accenture. SPR 2 took a conservative approach to estimating SI contract costs, including using other state's ERP implementations as the basis for estimates. Through the two-stage procurement process completed by the Project, bidders were able to gain a detailed understanding of the state's requirements and were able to better understand areas of complexity and risk. This enabled bidders to reduce the "risk premium" usually associated with large IT projects. Additionally, the active competition among the three bidders resulted in lower proposed costs. As a result of these factors, Accenture's cost is significantly less than estimated in SPR 2 and this reduced the estimated SI contract cost by approximate \$173 million.
- **Continuing Data Center services.** SPR 2 estimated a very large cost for ongoing data center services to support the operational FI\$Cal solution. Through continued dialogue with the California Technology Agency, along with detailed discussions with bidders to clarify actual data center support requirements, the project has been able to drastically reduce the estimated cost for data center support. This change has reduced the estimated project cost by approximately \$282 million.

3.4.1 Accessibility

A specific requirement was included in the RFP Addendum 12, Appendix D (T-56) that addresses accessibility. This requirement mandates the compliance of the proposed system with the Americans with Disabilities Act (ADA), as defined by Section 508 of the amended US Rehabilitation Act of 1973 (www.ada.gov), and the Standards for State Web Pages provided by the Secretary for the California Technology Agency (www.cio.ca.gov/accessibility.html). In addition, the FI\$Cal application architecture design is guided by State Administrative Manual (SAM) §4833 which refers to California Government Code §11135 which directs: "state government entities, in developing, procuring, maintaining, or using electronic or information technology, either indirectly or through the use of the state funds by other entities, shall comply with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended (29 U.S.C. Sec. 794d), and regulations implementing that act as set forth in Part 1194 of Title 36 of the Code of Federal Regulations."

As the Project enters the DD&I phase, Accenture will submit technical deliverables and provide the state with the ability to validate that the quality of the technical products and services delivered meet the requirements throughout the process. The deliverables include the Functional Requirements Traceability Document and Report that will map contractual requirements to solution components, Software Requirements Specification that will list the software capability of the system including the requirements decomposed by the various software capabilities, and the User Interface Standard that will describe the accessibility and adherence to accessibility standards including those required under the ADA the Standards for California State Web Portals.

3.4.2 Impact of the Proposed Change

3.4.2.1 Scope

There has been no change to the scope of the Project since SPR 3. Upon full implementation, multiple legacy systems in each of the 142 departments will be eliminated and the state's financial management activities will be integrated into one system. (See Section 4.5.1).

3.4.2.2 Schedule

Due to the 2 years spent on the two-stage procurement, this implementation will begin two years later, in 2012-13, than anticipated in SPR 2. Therefore, while this implementation is only 5 years compared to the 7 years anticipated in SPR 2, the ending date remains the same. (See Section 3.4.3).

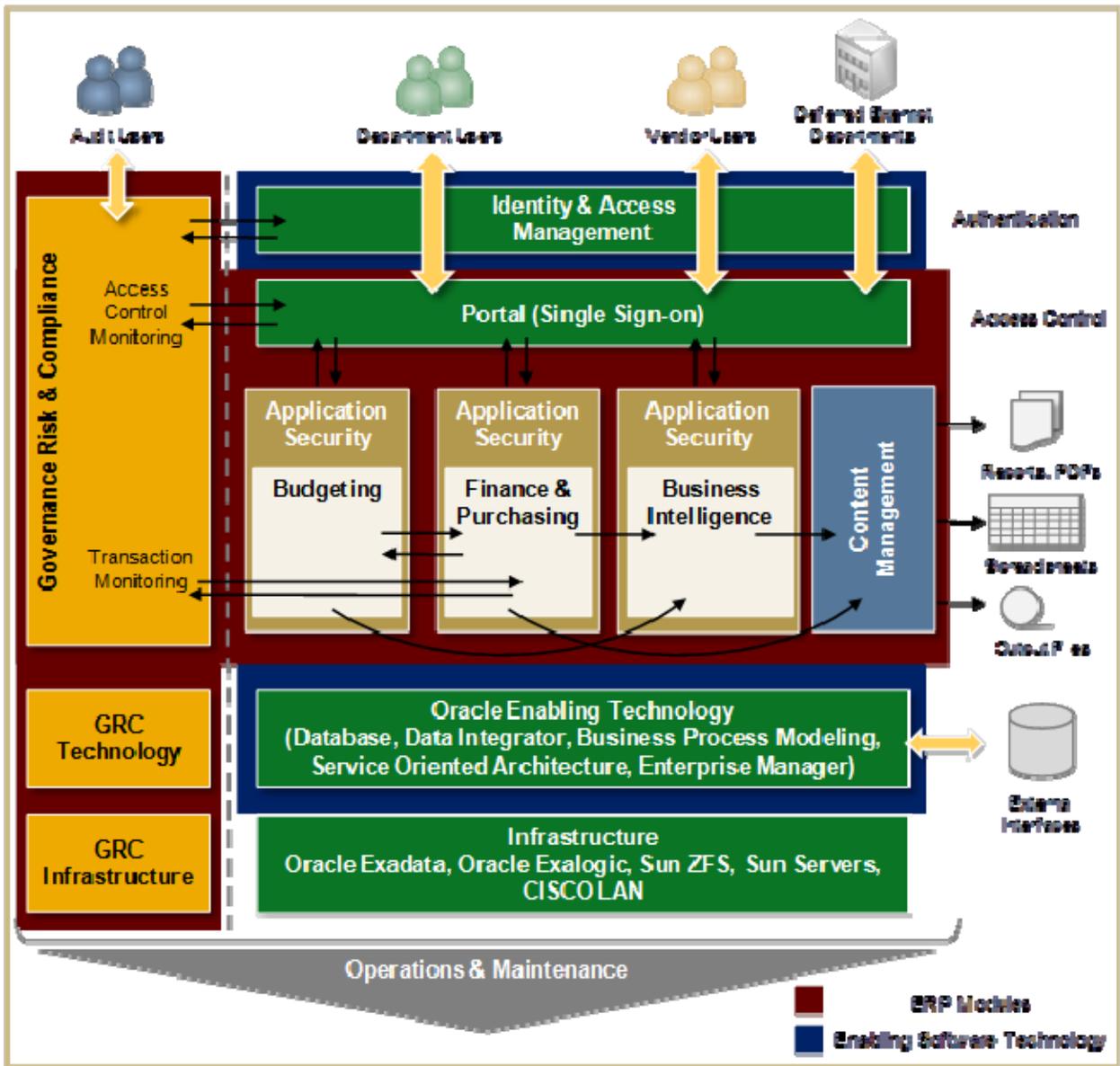
3.4.2.3 Costs

With the selection of Accenture the total Project costs, including prior Planning and Procurement Phases through Implementation and the first year of Maintenance and Operations are estimated at \$616.8 million. This represents a reduction of approximately \$1 billion from the total costs identified in SPR 2. (See Section 3.4 above and the Economic Analysis Worksheets (EAWs) in Section 6.0).

The assumptions and constraints associated with the changes to the implementation approach and the revised costs are outlined in Section 4.5.2.1 Project Assumptions, 4.5.2.2 Project Constraints, and 6.1 Cost Assumptions.

3.4.2.4 Proposed Solution

The diagram below provides a high-level graphic representation of the final business solution. The configurable components will be united on a common Oracle platform, and will provide a flexible, scalable solution to meet FI\$Cal's business requirements.



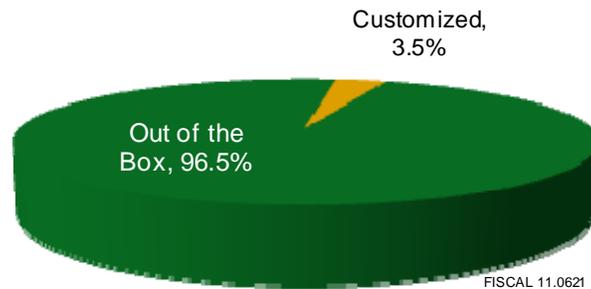
Accenture’s solution includes the following Oracle applications that address the core capabilities defined in the system requirements matrix:

- **Oracle PeopleSoft Financials and Supply Chain Management** cover a broad array of functionality currently in the accounting and procurement categories of the requirements matrix
- **Oracle’s Hyperion** software is proposed to meet planning and budgeting requirements
- **Oracle’s Business Intelligence** product for business intelligence and analytics requirements
- **Oracle Governance Risk and Compliance (GRC)** for access control and claims audit requirements

- **Other Oracle applications such as:**

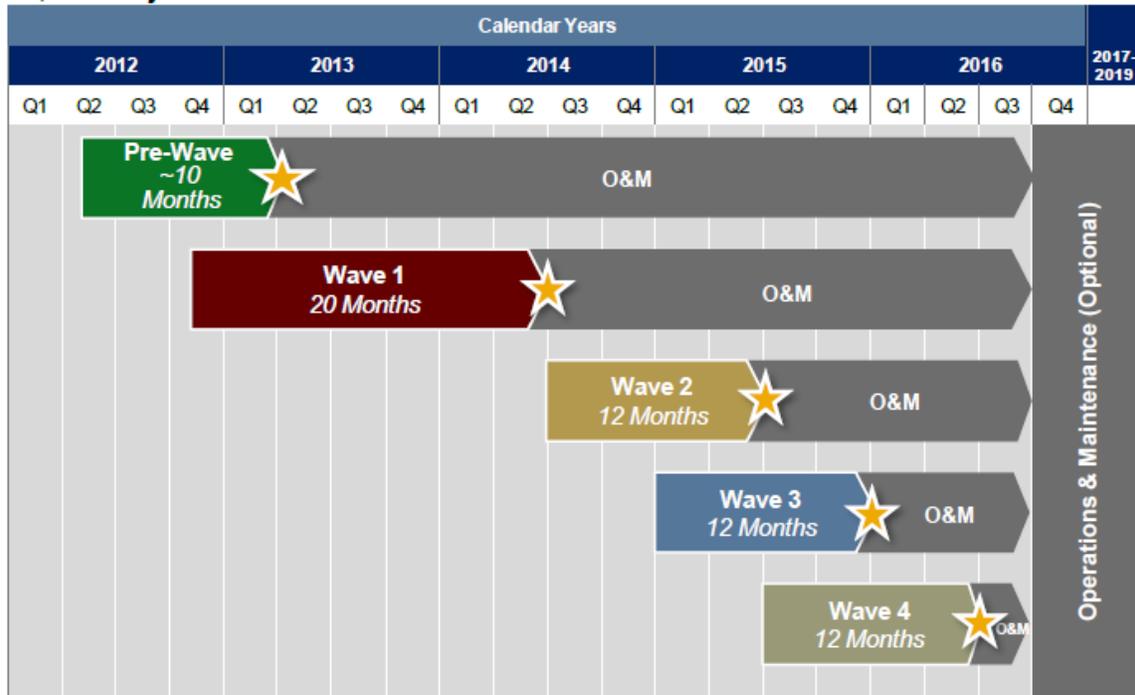
- **Oracle Crystal Ball** for cash forecasting requirements
- **Oracle Document Capture** for scanning and imaging of claims
- **Oracle Primavera** for enhanced project management and reporting requirements
- **Oracle User Productivity Kit** for training development

The State of California has some unique requirements, such as registered warrants, labor distribution and the handling of loans and bonds, which are not fully addressed by the Oracle COTS ERP. However, Accenture was able to identify a limited number of customizations to address those requirements while keeping modifications and risk to a minimum, as shown below. 96.5% of system requirements are met with out-of-the-box functionality.



3.4.3 Implementation Plan

The proposed implementation strategy utilizes a phased rollout of functionality and departments over a series of five go-lives in a period of 5 years. The graphic below represents the proposed implementation schedule.



Appendix F, Department List (Roll out) contains a listing of all the departments and client departments, arranged alphabetically and by wave. Additional detail regarding each wave is presented in Section 3.4.3.1 below.

3.4.3.1 Implementation Waves

The implementation plan includes a planning phase (the Pre-Wave), followed by four implementation waves, for a total of 5 waves. Each wave is described below and in the implementation table following the wave descriptions.

Pre-Wave

The Pre-Wave sets the framework for the DD&I phase by establishing foundational project documents, such as the integrated project schedule, communication management plans, change control plans, etc. Additional work efforts include the following:

- **Business Process Reengineering (BPR):** The Project will work closely with Accenture and selected departments to analyze the BPR opportunities identified by the SI and the Project. BPR opportunities will be validated with Partner Agencies and selected departments to adopt best practices inherent in the ERP solution.
- **Legacy Application Disposition:** FI\$Cal staff and Accenture will meet with legacy system owners to define the blueprint for interfaces and conversions. Additional detail including historical data and data mapping will also be assessed. A key benefit to the state, in addition to expedited requirement gathering, will be the ability for legacy system owners to be engaged early and gain an understanding of the data

requirements for FI\$Cal. This will enable the system owners to begin working with the Conversion Team on early data mapping and legacy data extraction tasks.

- **Chart of Accounts (COA):** Accenture will work closely with the FI\$Cal COA Workgroup and selected departments to build on the recommendations of the FI\$Cal COA workgroup and finalize the high-level statewide COA. The department level detailed COA will be developed for each department, if needed, in the future waves.
- **Master Vendor File:** Accenture will consolidate and convert existing vendor data from selected wave 1 departments into the FI\$Cal vendor file. Vendor information will be used for transactions and reporting in support of procurement and accounting.
- **Requisition to PO Functionality:** In preparation for wave 1, Accenture will evaluate the application(s) that wave 1 departments currently use to issue purchase orders, and in conjunction with the Project, determine which are the best candidates for inclusion in this portion of the Pre-Wave.
- **Transparency Portal:** Accenture will establish the Transparency Portal consisting of legacy data in its current format and values extracted from the applicable legacy systems. Accenture will also work with the Project to define the data privacy rules and data source(s).

Wave 1

This wave provides a broad set of departmental accounting, budgeting, cash management, and procurement functionality to a limited number of departments and the Partner Agencies. Control-related business processes of the Partner Agencies remain the same during wave 1. This means departmental users will be taking incremental steps towards the final end-state business processes, to be fully deployed in wave 2. This incremental approach to business process change will ease the transition for the departmental users from the current to the future state since the portion of their process that interact with Control Agencies will still be familiar. Wave 1 users will receive business process workshops and training to verify that they are ready to use the new end-to-end business process implemented in wave 2.

Wave 2

This wave continues the rollout of functionality by deploying statewide control functions to the Partner Agencies, including transition to FI\$Cal as the General Ledger Book of Record, Budget System of Record, Procurement System of Record and cash management control functions. This wave also delivers full FI\$Cal departmental functionality to a new group of departments, resulting in 40 percent of FI\$Cal users being live on the new system.

Wave 3

This wave delivers existing, proven FI\$Cal functionality to an additional 30 percent of departments on a mid-fiscal year implementation timeline.

Wave 4

This wave expands the proven functionality to all remaining in-scope departments.

Although not a distinct wave, Operations and Maintenance (O&M) services and service level agreements, associated with the base O&M contract term start once Wave 1 goes live and continues until 3 months after wave 4 at final system acceptance. After that time, the state may at its option start the O&M services. The following chart identifies the anticipated dates for each wave.

Implementation Table

Wave	Go-Live Date	Departments	Functionality and Outcomes Summary
Pre-Wave	Apr 1, 2013	<ul style="list-style-type: none"> • Department of Finance (DOF) • State Controller's Office (SCO) • Department of General Services (DGS) • Cross-section of State departments for BPR and COA • Selected Wave 1 departments for Purchase Orders 	<ul style="list-style-type: none"> • Establishes a statewide Chart of Accounts (COA) and budget structure • Defines to-be statewide business processes • Defines the disposition (retire, interface, or partially retire) of each departmental legacy financial system • Confirms the departments to implement for each wave • Implements Requisition-to-PO functionality for selected Wave 1 departments • Converts selected Wave 1 departments into Master Vendor File in FI\$Cal • Implements citizen-facing payment transparency site
Wave 1	Jul 1, 2014	<ul style="list-style-type: none"> • ~10% FI\$Cal users • 14 depts. and 14 client depts. 	<ul style="list-style-type: none"> • Establishes statewide configuration of common tables and department level configuration for Wave 1 departments • Wave 1 departments use FI\$Cal as their primary accounting system • Wave 1 departments use FI\$Cal to develop their departmental budget through the entire budget life cycle in new COA • Wave 1 departments use FI\$Cal for procurement, including requisitions, purchase orders, paying Office Revolving Fund (ORFs), and matching • DOF, SCO and State Treasurer's Office (STO) transition departmental accounting, budgeting and procurement functions to FI\$Cal • Limited DOF, DGS, SCO and STO staff perform control functions in FI\$Cal to support Wave 1 departments • Converts remaining Wave 1 departments into Master Vendor File in FI\$Cal
Wave 2	Jul 1, 2015	<ul style="list-style-type: none"> • ~30% new FI\$Cal users • 10 new depts. and 40 client depts. • Wave 1 depts. for new functions 	<ul style="list-style-type: none"> • FI\$Cal becomes the General Ledger Book of Record and processes statewide claims • FI\$Cal becomes the Budget System of Record with replacement of most DOF legacy systems • FI\$Cal becomes the Procurement System of Record • FI\$Cal implements statewide cash management control functions • Converts Wave 2 departments into Master Vendor File in FI\$Cal

Wave	Go-Live Date	Departments	Functionality and Outcomes Summary
Wave 3	Jan 1, 2016	<ul style="list-style-type: none"> • ~30% new FI\$Cal users • 13 depts. and 7 client depts. 	<ul style="list-style-type: none"> • Proven FI\$Cal functionality is deployed to a new set of departments mid-fiscal year • DOF's Governor's Budget Presentation System is replaced by FI\$Cal • Converts Wave 3 departments into Master Vendor File in FI\$Cal
Wave 4	Jul 1, 2016	<ul style="list-style-type: none"> • ~30% new FI\$Cal users • 45 depts. and 8 client depts. 	<ul style="list-style-type: none"> • Proven FI\$Cal functionality is deployed to remaining in-scope departments • Converts Wave 4 departments into Master Vendor File in FI\$Cal, Master Vendor File now complete

3.4.3.2 Advantages of Selected Implementation Approach

The Project's approach is consistent with best practices for large, complex ERP projects in the public sector for the following reasons:

- **Provides a Controlled Environment** - Allows the reengineered business processes to be implemented and proven in a more controlled environment prior to deploying on a larger scale
- **Validates Agency Readiness** - Allows the Change Management Team to validate the change management, department readiness and training approaches, and make any improvements to be incorporated for subsequent waves
- **Improves System Design** - Allows for any system design and configuration changes required to be identified and made prior to deploying to a broader audience
- **Improves Schedule Management** - Increases the likelihood of remaining on schedule by breaking up the work into smaller increments that can be more effectively managed
- **Includes Mid-year Implementation** - Proactively planning for a mid-year conversion capability to provide the flexibility to go live on any month of the year, if necessary.
- **Enables Phasing of Resources** - Allows the state to phase in Project resources over the waves in a reasonable manner
- **Enables Knowledge Transfer** - Allows the state to build skilled resources during early waves to apply to future waves, increasing client ownership and knowledge transfer
- **Enables Support Organization to Mature** - Allows the support organization (Service Center) to mature over time, supporting low volume initially and scaling to higher volume in subsequent waves
- **Builds Departmental Support and Confidence** - Increases the level of departmental support as the transition and benefits of system use are demonstrated
- **Variety of Departments in Wave 1** - The proposed departments provide a balanced variety to develop robust end to end processes for the state to be deployed in future waves. This variety includes:
 - **Types of Departments:** Board of Equalization is a major revenue department while Department of Alcoholic Beverage Control is an expenditure department
 - **Size:** Department of Justice (DOJ) is a large department while Agricultural Labor Relations Board has a small number of FI\$Cal users

- **Functions Performed:** DOJ is a General Fund department while Alcoholic Beverage Control is a non-General Fund department
- **Mix of Legacy Systems:** The list of Wave 1 departments includes seven CALSTARS departments and three non-CALSTARS departments
- **Better Support for the Wave 1 Departments** - As participating departmental users of FISCAL in Wave 1, the Partner Agencies will be better able to support the Wave 1 departmental users based on their first-hand understanding of the new system and processes
- **Early Retirement of Select Systems** - The early retirement of several legacy systems, including Springbrook (SCO), Accounting Information System (DOJ), NCR MP-RAS SVR4 and ACCPAC (BOE).

4.0 Updated Project Management Plan

4.1 *Project Director Qualifications*

The fundamental qualifications for management of the project have not changed since SPR 3. The Project is managed by a state Project Director, a senior level project manager with significant background and experience in operating large, complex projects with diverse stakeholder groups. In addition to the Project Director, the Project utilizes a Project Executive to provide vision and executive leadership to the Project. (See Project Executive and Project Director under Section 4.5.4 – Roles and Responsibilities).

4.2 *Project Management Methodology*

The Project uses a project management methodology based on project management requirements outlined in the Technology Agency California Project Management Methodology (CA-PMM), the SAM, the State Information Management Manual (SIMM), and the Project Management Institute's (PMI) Project Management Body of Knowledge (PMBOK). To integrate the various project management disciplines used on the Project, the Project Management Office (PMO) has developed a Master Project Management Plan (MPMP). The MPMP serves as the cornerstone document for the management of FI\$Cal. The MPMP discusses how the project management disciplines are conducted on the Project and identifies the other project management plans that further define specific project management disciplines. These other project management plans are viewed as subordinate plans of the MPMP. Collectively, the MPMP and these other project management plans expand upon the approach, responsibilities, and processes for the project management disciplines identified above.

The RFP required the selected SI to have a seasoned project management methodology using the PMI's PMBOK. The Project team will work with Accenture to confirm all aspects of the Project follow the MPMP and that their deliverable work is in alignment with the project management disciplines and methodologies contained therein. Accenture project management approach, methodology, and tools fully address the FI\$Cal requirements. In addition, each month meetings or conference calls are placed to state departments and agencies who have implemented ERP solutions. The successes and challenges are discussed and used in decision making for the project.

4.3 *Project Organization*

4.3.1 *Project Impact*

As a statewide project, FI\$Cal will not only impact the four Partner Agencies, but also all state departments, state agencies, and private entities that conduct business with the state. Government Code §15849.22 requires all state departments and agencies to either use the FI\$Cal system or interface with the system. As such, the information systems organizations of every state department and agency will be affected by the implementation of FI\$Cal. In addition, in order to maximize the functionalities contained in an ERP system and obtain the anticipated benefits of the project, the state will also implement a BPR effort to reflect best practices inherent in an ERP system.

4.3.2 Project Governance

As the state moves forward with the development of a statewide enterprise financial management system, the need for leadership and governance related to statewide (enterprise) level issues is reinforced. An important success factor throughout this project is the common understanding of who is on the Project and their roles and responsibilities. The Project's governance includes the management framework within which project decisions are made. The governance of the Project is structured to enable decisions to be made at the appropriate level of accountability and responsibility.

4.3.2.1 Project Directorate

The Project Directorate makes final decisions on critical policy issues that cannot or will not be resolved by the Steering Committee. The Project Directorate's representation includes the Director of the Department of Finance, the Director of the Department of General Services, the Controller or his/her Chief of Staff, and the Treasurer or his/her Chief Deputy Treasurer.

4.3.2.2 Project Sponsor

The Project Sponsor provides sponsorship and support for FI\$Cal and serves as the Chair of the Steering Committee. Currently, the Project Sponsor is the Chief Operating Officer of the Department of Finance.

4.3.2.3 Steering Committee

The main governing body is the Steering Committee comprised of the Project Sponsor, the four Partner Agencies, the Technology Agency, and the Chair of the CIC. Escalation, if needed, is to the Project Directorate. The Steering Committee establishes the Project goals and priorities and provides statewide leadership and issue resolution across stage agencies. The membership of the Project Steering Committee reflects the Project's primary financial management functions and includes representatives of the four Partner Agencies and departmental representation by the Chair of the CIC. In addition, voting members include, the Secretary of the Technology Agency, and the Project Sponsor that serves as the Chair of the Steering Committee. Each Partner Agency identifies its Steering Committee members. Selection of the Project Executive and Project Director are approved by the Steering Committee.

The Steering Committee governs the Project and meets quarterly, or otherwise as needed. Each Steering Committee member will designate an alternate in the event they are unable to attend. The Steering Committee members' names are referenced in Appendix A of the FI\$Cal Project Charter (See Appendix D).

Steering Committee Membership		
Business Title	Role	Executive Working Group Member
Chief Operating Officer Department of Finance	Project Sponsor - Chair	X
Secretary California Technology Agency	Technology Agency Committee Member	X
Program Budget Manager Department of Finance	DOF Committee Member	
Program Budget Manager Department of Finance	DOF Committee Member	
Chief Operating Officer State Controller's Office	SCO Committee Member	X
Chief Administrative Officer State Controller's Office	SCO Committee Member	
Deputy Director Procurement Division Department of General Services	DGS Committee Member	X
Chief Deputy Director Department of General Services	DGS Committee Member	
Director Securities Management Division State Treasurer's Office	STO Committee Member	X
Chair Customer Impact Committee	State Agency Representative	
FI\$Cal Project Executive	Project Executive	X
FI\$Cal Project Director	Project Director	X

4.3.2.4 Executive Working Group

Another important success factor is the role of the Executive Working Group. Their primary role is to be an action-oriented, decision-making group whose purpose is to keep controversial issues within the Project from materially impeding the Project's progress toward successful implementation. In order to ensure that decision-making involving critical issues does not materially impede the Project's progress toward successful implementation, it is the Steering Committee's intent that decisions be made at the lowest level possible.

1. The Executive Working Group serves as an avenue for informal escalation of issues stalled within the Project.

2. The Executive Working Group will not make decisions on issues put before it unless and until those issues have been fully vetted by Partner Business Executives (PBE) and Project leadership and an acceptable consensus among them cannot be achieved.

The Executive Working Group also provides a forum for informal discussion prior to formal action of issues that must be formally decided by the full Steering Committee. Issues affecting project scope, schedule, and/or cost come to the Executive Working Group regardless of whether there is a consensus within the Project on them or not. All Executive Working Group members have the ability to raise issues he or she believes need to be discussed by the group without any limitations. The Executive Working Group meets monthly, or as needed, to address issues that have been brought before them for discussion and recommendation to the Steering Committee.

4.3.2.5 Customer Impact Committee

The CIC serves in support of the Steering Committee. The CIC is a leadership group which provides a formal mechanism for departments and agencies to:

1. Express their views and receive information from the FI\$Cal team
2. Provide broad input and advice to the Steering Committee
3. Promote effective representation of department needs during appropriate phases, waves, and stages of the Project

The CIC elects a Chairperson that participates as a voting member of the Steering Committee representing the CIC. The CIC also selects a designee to participate on the Change Control Board (CCB).

4.3.2.6 ERP Advisory Committee (to be established during DD&I)

The ERP Advisory Committee will be comprised of ERP implementation experts from outside of the Project. Representation includes:

1. California departments that have implemented ERP projects
2. Other public sector organizations that have implemented ERP projects
3. Private sector organizations with attributes similar to California
4. ERP software and system integration providers/vendors⁶

This Committee's purpose is to provide periodic advice and counsel to the Steering Committee.

4.3.2.7 Change Control Board

The Change Control Board (CCB) serves as a decision-making forum for high-impact issues that need to be escalated for resolution during the course of the Project. The membership of the CCB consists of the Project Director, the PBEs, CIC Designee and such other positions as identified in the Change Control Plan. The group's function is to ensure that important issues are addressed in a timely manner so as not to impede the

⁶ Participation is coordinated and appropriate to California procurement policies, processes, and rules.

progress of the Project. CCB members have decision-making authority delegated by the organization they represent. The CCB members have the responsibility to inform their sponsoring organizations of the items that come to the group and the decisions made by the group.

4.3.2.8 State Leadership at the Executive Level

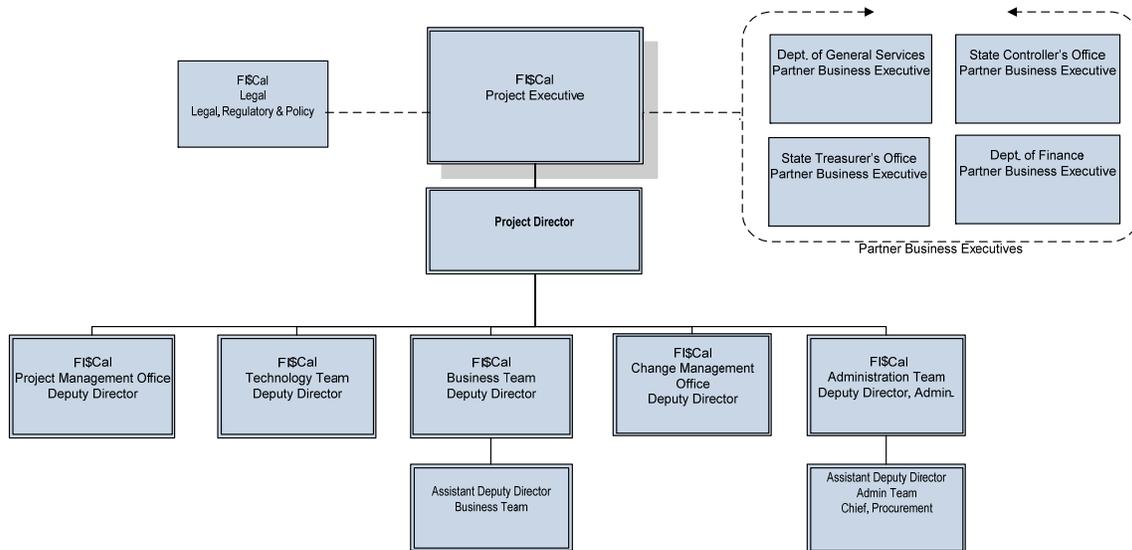
The commitment and involvement of the Partner Agencies at the highest level is key to leadership succession planning for the Project. To ensure organizational leadership and support that will bridge the inevitable changes in government leadership, the Project has:

- Developed a Memorandum of Understanding between Partner Agencies to memorialize the vision, the governance and the structure of the Project
- Established in statute the requirement for the Project partnership to develop and implement the system (Government Code §15849.20 et Seq.).

In addition, to the Partner Agencies, the Steering Committee selects a Project Executive, who serves as the liaison between the Governance entities (described above) and the Project Team (described below).

4.3.3 Project Organization

The Project is a matrix organization that includes representatives from state departments and agencies, and all four Partner Agency organizations.



4.3.3.1 Project Executive

The Project Executive is the liaison between the Project staff and its governing entities. The Project Executive provides oversight for the Project, the delivery of the solution, and serves as the Project’s primary representative before the Legislature, stakeholders, and

the public. The Project Executive along with the PBEs provide daily executive leadership to the Project.

4.3.3.2 Project Director

The Project Director coordinates and manages the Project, its staff resources, teams, activities, facilities, communication, and outreach. All Deputy Directors report to the Project Director.

4.3.3.3 Partner Business Executives (PBE)

The Project includes four PBEs to facilitate the necessary participation, rapid communication and coordination of business vision, goals, objectives, policies and processes between the Project and the Partner Agencies. PBEs serve as a Project spokesperson responsible for coordinating activities between the Project and their respective Partner Agency.

4.3.3.4 Project Deputy Directors

The Deputy Directors lead and/or manage one or more Project teams and report to the Project Director. They serve a critical role in problem solving, strategy, and decision making. Specific duties included in the MPMP are traced to management processes to add clarity to expected performance.

4.3.3.5 Roles and Responsibilities

The SI Roles and Responsibilities were detailed in the RFP, Exhibit 8 and are attached (See Appendix F). The state roles and responsibilities are identified in the table below.

Roles And Responsibilities	
Roles	Responsibilities
Project Directorate	<ol style="list-style-type: none"> 1. Resolve policy issues or other critical issues in the event that the Steering Committee has reached an impasse. 2. Make final decisions on outstanding item(s) that cannot or will not be resolved by the Steering Committee. 3. Composition of the Directorate is the four Partner Agencies (SCO, DGS, STO, and DOF); representation will be the Director of Finance, the Director of the Department of General Services, the Controller or his/her Chief of Staff, and the Treasurer or his/her Chief Deputy Treasurer. 4. Any member of the Project Directorate may call a special meeting to discuss and resolve project issues.
Project Sponsor	<ol style="list-style-type: none"> 1. Chair the Steering Committee. 2. Champion statewide support for the Project. 3. Provide sponsorship and support for the Project. 4. Ensure project funding and resources.
Steering Committee	<ol style="list-style-type: none"> 1. Establish project goals and priorities. 2. Serve as the primary champion responsible for communicating project strategy, benefits, and direction to their respective departments.

Roles And Responsibilities	
Roles	Responsibilities
	<ol style="list-style-type: none"> 3. Review and approve recommendations from the Change Control Board involving significant changes to project scope, budget, or schedule. 4. Appoint the Steering Committee Chair, who will also be the Project Sponsor. 5. Assign authority to the Project Executive. 6. Assist in the selection of the Project Executive. 7. Provide statewide leadership and support for the Project. 8. Participate in coordination and allocation of departmental and project resources. 9. Support the Project by communicating the vision and working to reduce barriers and mitigating risk. 10. Facilitate the interdepartmental collaboration of a statewide system. 11. Provide issue resolution across agencies. 12. Provide advice regarding consistency with statewide strategies, direction, and policies. 13. Participate in succession planning.
Executive Working Group	<ol style="list-style-type: none"> 1. Discuss and deliberate on major project issues and make recommendations to the full Steering Committee. 2. Membership is made up of Steering Committee executives and supported by the Project leadership. See Project Charter in Appendix C for specific members. 3. Legislative Analyst's Office (LAO) and Bureau of State Audits (BSA) to attend as observers. 4. One vote per partner, if necessary.
Customer Impact Committee	<ol style="list-style-type: none"> 1. Appointed by and report to their respective agency. 2. Elect a Chair as a voting member of the Steering Committee. 3. Coordinate communication activities between the Project and their respective agency. 4. Identify and communicate issues, risks, or obstacles affecting successful project implementation by impacted departments statewide. 5. Escalate project issues and concerns through the Customer Impact Committee Chair to the Steering Committee. 6. Advise the Steering Committee through the Customer Impact Committee Chair of impacts to stakeholders/departments of Project approach, schedule, plans, and activities.
ERP Advisory Committee	<ol style="list-style-type: none"> 1. Provide periodic advice and counsel to the Steering Committee. 2. Advise and report to the Steering Committee as requested.
Project Executive	<ol style="list-style-type: none"> 1. Promote the vision for the Project. 2. Provide leadership for the Project. 3. Ensure that the Project business vision, goals, objectives, and policies are identified and met. 4. Liaison to the Legislature, Technology Agency Secretary, Governor's Office, departments, and agencies. 5. Provide Executive oversight for the Project and the delivery of the solution. 6. Report project achievements and status to the Steering Committee.

Roles And Responsibilities	
Roles	Responsibilities
	<ol style="list-style-type: none"> 7. Elevate issues to the Steering Committee. 8. Serve as a project spokesperson responsible for communicating project strategy, benefits, direction, status, and recommendations to stakeholders, public, and the Legislature. 9. Approve final external project deliverables. 10. Participate in succession planning.
Project Director (State Project Manager)	<ol style="list-style-type: none"> 1. Provide a centralized structure to coordinate and manage the Project, its staff resources, teams, activities, facilities, communication, and outreach using structured project management methodologies. 2. Chair the Change Control Board. 3. Elevate requests or issues to the Change Control Board. 4. Report to the Project Executive. 5. Ensure overall Project process and deliverable quality – responsible for the delivery of the solution. 6. Ensure quality control and quality assurance are performed in accordance with the quality plan. 7. Ensure the solution implemented addresses the Project’s and associated program objectives. 8. Serve as the central point of coordination and internal communication for the Project. 9. Ensure alignment and cooperation between the Project Stakeholders by facilitating and supporting an environment of collaboration and communication. 10. Effectively engage the Project Executive and the PBEs in Project decision making to minimize negative impacts to state program operations while ensuring that project objectives are achieved. 11. Ensure timely communication with the Project Executive and PBEs through the established project management process (project management plans). 12. Direct the activities of state and vendor personnel assigned to the project. 13. Monitor the planning, execution, and control of all activities necessary to support the implementation of a statewide enterprise financial system. 14. Provide leadership to state staff assigned to manage the multidisciplinary project teams including business, change management, project management, technology, and vendor management teams. 15. Maintain and monitor the project plan and performance, including performance of contractors. 16. Coordinate with the Independent Verification and Validation and Independent Project Oversight consultant to address and incorporate findings and recommendations. 17. Participate in the identification, quantification, and mitigation of project risks. 18. Direct the development of project documentation required by control agencies. 19. Coordinate information and issues with the PBEs when the project management processes (project management plans) do not provide an

Roles And Responsibilities	
Roles	Responsibilities
	<p>approach or resolution.</p> <p>20. Make daily operations decisions.</p> <p>21. Participate in succession planning.</p>
<p>Partner Business Executives</p>	<ol style="list-style-type: none"> 1. Appointed by and report to their representative Partner Agencies. 2. Provide staff support function to their Steering Committee representative(s) and agencies. 3. Coordinate Partner Agency activities between the Project and their respective Partner Agencies. 4. Support the project business vision, goals, objectives, policies and procedures. 5. Assist with prioritizing and resolving business priorities related to the Project. 6. Serve as a Project champion and spokesperson responsible for communicating project strategy, benefits, direction, status, and recommendations to their respective Partner Agencies. 7. Provide input on key project deliverables and acceptance criteria. 8. On an as needed basis, coordinate significant project deliverable concerns with Project and representative Partner Agency management. 9. Ensure the coordination and integration of project activities and transition activities within their respective Partner Agency. 10. Identify project risks and issues and provide input and solutions into risk mitigation strategies consistent with the intent expressed within the Project Charter, Section 2.3, to work cooperatively and collaboratively for the common good. 11. Perform responsibilities within the project management and leadership structure and processes to participate in critical problem solving. 12. Participate as a member of the Change Control Board. 13. Receive delegated decision authority from their respective Steering Committee representative(s) provided delegation is limited to decisions that are consistent with the Scope Management and Change Control Plans. 14. Responsible for escalating issues within the established project management processes documented in the project management plans. 15. Elevate Project concerns with their representative management at the highest levels in the event a critical need is not being addressed in a timely manner. 16. Support and facilitate the hiring of Partner Agency staff with the right skills sets and vision to support the state’s transition to FI\$Cal. 17. Leading change management within their respective organizations.

4.3.3.6 Project Teams

The Project is organized into five functional teams:

- The duties of the Administration Team include:
 - Facilities management
 - Development and maintenance of the Project budget
 - Recruitment, hiring and personnel management of all Project staff
 - Procurement and acquisition of all goods and services for the Project
 - Management of all Project contracts for goods and services, including the SI contract and all supporting services contract (See Appendix C for vendor management details)
- The duties of the Business Team include:
 - Work with department Subject Matter Experts (SMEs) to finalize the statewide Chart of Accounts and Vendor Master File
 - Design, test, and implement updated business processes for accounting, budgeting, cash management and procurement
 - Review of SI deliverables
 - Work with departments to transition from legacy systems and processes to FI\$Cal
- The duties of the Change Management Office include:
 - Conduct external communications and outreach
 - Support Department organizational readiness
 - Facilitate and conduct internal and end-user training consistent with the methodology and materials provided by Accenture
 - Support business process reengineering
 - Support change management efforts consistent with the strategy provided by Accenture
 - Facilitate internal Project organizational readiness
- The duties of the Project Management Office include:
 - Develop governance, planning, scheduling, and quality assurance procedures
 - Develop and maintain project schedules and staff resource utilization
 - Identify, quantify, and mitigate project risks and issues
 - Monitor and control integrated (scope, time, cost, and quality) change control processes
- The duties of the Technology Team include:
 - Review and manage the technical deliverables

- Provide oversight and assurance that the ERP solution is in compliance with the technical and system standards and guidelines Plan, and execute the system migration plan for all affected legacy systems
- Provide technical guidance and expertise to assist the affected department on the system interfaces with the FI\$Cal ERP system
- Develop and implement technical interface standards for data exchange purpose
- Provide technical expertise in data management
- Implement the FI\$Cal Information Security program that is compliant with the security standards and policies of the State of California (See Appendix H for Security Details)

In addition to the state Project Teams, the Accenture Team is an integral part of the Project. The Accenture Team will be continually available to FI\$Cal, housed onsite with the Project staff. The Accenture Team will integrate with each of the FI\$Cal teams, excluding the Administration Team, to further learn and develop their understanding of the state’s requirements. Accenture will also provide extensive training to FI\$Cal staff on their proposed solution. The co-location of Accenture staff and Project staff will facilitate rapid learning, prompt resolution of issues, appropriate development of Project staff into “super users” and early knowledge transfer in preparation for O&M activities.

4.4 Project Priorities

The four variables that project managers can change on a project to maintain performance are; scope, schedule, resources, and quality. These four factors are interrelated – a change in one impacts the others. The chart below represents the Project’s prioritization of the quadruple constraint factors. The Project enhances the chances for success by determining a distinct priority of the components, and managing the Project to that prioritization.

1. Scope refers to the necessary work to be performed in order to produce the desired project results.
2. Schedule (Time) is defined as the duration of time it will take to complete the defined scope of the project.
3. Resources include the budget and effort expended on staff, services and products.
4. Quality can be defined as meeting the customer's expectations, achieved by way of deliverables and/or activities performed to produce those deliverables.

The following table uses a trade-off matrix to show the relative importance of each factor using priority of 1 (highest) to 4 (lowest) for each of these factors. The priorities reflect the view of the Project Management, which are subject to change as the Project proceeds. While the constraint of Quality has been added since SPR 3, the relative position of these priorities has not changed.

Schedule	Scope	Resources	Quality
3	2	4	1

4.5 **Project Plan**

4.5.1 **Project Scope**

There have been no substantive changes to the Project scope since SPR 3. The table below provides the scope of the Project as approved by the Steering Committee and included in the December 2010 Project Charter. However, all references to “waves” have been removed to align with Accenture’s implementation plan.

Major Function	Sub Function	Description
Accounting		<p>Accounting is the process of recording, summarizing, and reporting (including ad hoc) the state's financial transactions. The process must properly, accurately, and systematically account for all receipts, disbursements, resources, obligations, and property of the state and must allow for accurate and comparable records, reports, and statements of all financial affairs of the state in compliance with governing accounting and reporting statutes/standards.</p> <p>There must be a single book of record for all of the state’s financial transactions as defined in the Acronyms and Definition section of this SPR.</p>
	Payables	<p>The processes needed to authorize, record, and disburse payments from both a departmental and statewide perspective.</p> <p><u>General Payables</u></p> <p>Payables include:</p> <ul style="list-style-type: none"> ▪ Allowing a three-way matching of a procurement/legal document, invoice, and an acknowledgment of receipt of goods and services. ▪ Initiating, approving, and processing payment requests via workflow. ▪ Tracking payments by specific criteria such as vendor, commodity/service code, accounting classification and purchase document number. ▪ Making payments to vendors, absent a record in the master vendor file such as Medi-Cal, IHSS, and retirement payments that are generated in major external payment processing systems.

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> ▪ Aging analysis. ▪ Issuing 1099s. ▪ Maintaining payment history. <p><u>Agency Office Revolving Fund</u></p> <p>A payment mechanism for departments to issue checks from their revolving fund/agency checking account(s) for permissible uses when immediate payment is necessary. Example payments include salary advance, travel expense advance, and urgent vendor invoices (e.g., payment discount or to avoid Prompt Payment Act penalties).</p> <p><u>SCO Payments</u></p> <p>SCO payment processes involve receiving, auditing, and processing payment requests from departments, and producing warrants drawn on the State Treasury.</p> <p>SCO payment functions include:</p> <ul style="list-style-type: none"> ▪ Validation of the legality, propriety, and accuracy of each payment which includes verifying valid appropriation authority, verifying funds availability/sufficient cash, and performing pre- and post-payment audits. ▪ Creation of warrants/statements <u>or</u> print files utilized to print warrants (including registered warrants) and statements. ▪ Creation of NACHA format “bank” files utilized to make direct deposit (EFT) payments. ▪ Creation and maintenance of warrant/payment registers.
	Asset Accounting	<p>The process of accounting and tracking all transactions related to each asset while maintaining uniform accountability for departmental and state-level asset information for reporting.</p> <p>Asset Accounting includes:</p> <ul style="list-style-type: none"> ▪ Grouping and maintaining assets by major classes. ▪ Grouping separately capital assets related to governmental activities and those related to business-type activities, as required by governing accounting and reporting statutes/standards.

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> ▪ Recording acquisition date, ownership (i.e., department, fund), identification number, depreciation, amortization, and asset acquisition cost or fair value for donated assets. ▪ Recording additions and deletions during the period which demonstrates the change between the beginning and ending book values. ▪ Recording capital and operating leases.
	Bond Accounting	<p>The process of accounting, tracking, and reporting all transactions related to bonds and other debt financing.</p> <p>Bond Accounting includes the recording of:</p> <ul style="list-style-type: none"> ▪ Bond authority and allocation by project. ▪ Debt financing and bond proceeds. ▪ Expenditure by funding source. ▪ Debt service funding and payments, schedules of outstanding bond balances, and premium/discount amortization. ▪ Reissued and defeased bonds.
	Chart of Accounts	<p>A financial coding structure of all identified accounts used by departments and statewide functions to record financial transactions. The COA allows the state to generate accurate records, reports, and statements of various functions, transactions, and activities.</p> <p>Chart of Accounts:</p> <ul style="list-style-type: none"> ▪ Ensures consistent recording of transactions in a uniform manner and properly assign transactions to the appropriate accounts and reporting classifications. ▪ Provides a mechanism to ensure uniform processes in the areas of budgeting, accounting, tracking and reporting of state financial activities (such as receipts and disbursements). ▪ Allows access to standardized financial information allowing for reliable statewide comparisons across agencies and departments and the ability to perform detailed analysis on organizations within departments.

Major Function	Sub Function	Description
	Cost Allocation	<p>A process in which expenditures and encumbrances not initially charged to or directly associated with a program activity can be accumulated and then allocated to the program activities directly associated with those charges.</p> <p>Cost Allocation includes:</p> <ul style="list-style-type: none"> ▪ Calculating and applying overhead rates for indirect costs. ▪ Distributing costs by user defined formulas, including central services costs.
	Encumbrance	<p>The commitment of all or part of an appropriation for future expenditures. Encumbrances are typically posted from documents such as purchase estimates, purchase orders, and contracts.</p> <p>Encumbrance Accounting includes:</p> <ul style="list-style-type: none"> ▪ Reserving the amount from the appropriation, allotment and budget balances to reflect encumbrance activities. ▪ Reclassifying appropriate encumbrances at year-end.
	Financial Reporting	<p>Provides timely published information about the financial position, results of operations, and changes in financial position of the state and its legally separate entities. This information is available to a wide range of users in making economic decisions and complying with governing accounting and reporting statutes/standards.</p> <p>Statutory/GAAP Reports preparation includes:</p> <ul style="list-style-type: none"> ▪ Comprehensive Annual Financial Report . ▪ Budgetary/Legal Annual Report and Annual Supplements I and II. ▪ Cash reports (daily, weekly, monthly, annually, or other time period as specified.). ▪ Department financial statements (e.g., year end, budget to actual).
	General Ledger	<p>A central repository for all financial transactions and balances, individually or in summary, based on the Chart of Accounts structure. The general ledger is supported by one or more subsidiary ledgers that provide account details.</p> <p>General Ledger:</p> <ul style="list-style-type: none"> ▪ Includes postings of all financial transactions, accruals, and closing entries. ▪ Supports the state's fund accounting and financial statement preparation such as Balance

Major Function	Sub Function	Description
		<p>Sheet, Statement of Net Assets, Statement of Activities, and Statement of Operations.</p> <ul style="list-style-type: none"> ▪ Provides for multiple bases of accounting (e.g., GAAP, budgetary/legal, accrual, modified accrual, and cash) departmentally and statewide.
	Grant Accounting	<p>The process of capturing funding or other assets made available by a government or private organization to be used or expended for a specified purpose, activity or facility. The state may act as a grantor and/or a grantee.</p> <p>Grant Accounting includes:</p> <ul style="list-style-type: none"> ▪ Meeting federal reporting requirements of all cognizant federal agencies. ▪ Tracking federal reimbursement billings. ▪ Providing sub-grantee accounting for federal pass through or other grants made to cities or counties. ▪ Maintaining and reporting accounting data for a reporting period different from the state fiscal year.
	Labor Distribution	<p>The process of allocating personnel <u>costs</u> and <u>hours</u> to programs and organizations, projects, grants and other chart of account elements.</p> <p>Labor Distribution includes:</p> <ul style="list-style-type: none"> ▪ Recording personnel services costs based on payroll data from SCO.
	Loan Accounting	<p>The process of accounting, tracking, and reporting all transactions related to loans made from one fund/program/entity to another.</p> <p>Loan Accounting includes:</p> <ul style="list-style-type: none"> ▪ Recording inter-fund, intra-fund, program, temporary or long-term loans. ▪ Recording receipts and disbursements as required by governing accounting and reporting statutes/standards.
	Project Accounting	<p>Projects are defined as a temporary endeavor undertaken to create a unique product or service, such as a capital project to construct a new building. The Project Accounting process is used to track the accounting of projects by accumulating all accounting data in one place for those unique products or services.</p> <p>Project Accounting includes:</p>

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> ▪ Project Planning and Data Recording activities. ▪ Project Administration activities for tracking and modifying/amending costs, budgets, resources, funding and other data throughout the project life cycle. ▪ Project Closeout activities for the compiling and summing of project finances, payment of all outstanding invoices, reverting any unused funds and reallocation of any unused resources.
	Receivables/ Receipts	<p><u>Receivables</u> Amounts owed to the state by entities or individuals. Receivables include:</p> <ul style="list-style-type: none"> ▪ Billing of fees for services provided by an agency. ▪ Aging analysis. ▪ Payroll accounts receivables. ▪ Tracking collection activity for overdue receivables. ▪ Tracking and submitting receivables for offset including amounts owed from governmental and non-governmental entities. <p><u>Receipts</u> Currency, checks, warrants, and other negotiable instruments that are received for deposit. Receipts include:</p> <ul style="list-style-type: none"> ▪ Classifying and recording receipts by type and purpose. ▪ Recording miscellaneous receipts not tied to a billing.
Budgeting		<p>Budgeting is a multi-stage process that occurs throughout the fiscal year. The budget enacts both fiscal and operational policy for the state. The final budget, which is the state's plan of operations expressed in terms of financial or other resource requirements for a specific period of time (GC 13320, 13335; SAM 6120), is required to be enacted by July 1 of each year. The scope of the Budget process incorporates the planning, reporting (including ad hoc) and allocation of both financial and personnel resources, the receipt and disbursement of monetary resources according to the approved allocations, and the monitoring of resources to reconcile expenditures with</p>

Major Function	Sub Function	Description
		appropriations and to track performance and output. There must be a single system of record that provides an official source for all of the state's budget data.
	Budget Administration	The process of administering the annual Budget begins with an enacted budget and continues for multiple years, based on the authority provided. Budget Administration includes: <ul style="list-style-type: none"> ▪ Administering departmental spending authority, expenditures, and program activities throughout the authorized period. ▪ Maintaining, monitoring and reporting on budget activity throughout the authorized period. ▪ Monitoring revenues and fund conditions. ▪ Analysis and tracking of legislation, and various budget-related issues (issue memos, etc.). ▪ Distributing and tracking the status of Legislative reporting pursuant to Budget Act Section requirements.
	Budget (Appropriation Control)	The goal of Appropriation Control is to ensure that departments are operating within their approved/ authorized budget levels, and taking corrective action in case of unforeseen circumstances. Appropriation Control includes: <ul style="list-style-type: none"> ▪ The real-time monitoring and reporting on encumbrances, expenditures and program activities throughout the authorized (available and liquidation) period. ▪ Recording and tracking Executive Orders and Budget Revisions. ▪ Allotment accounting for departments. ▪ Accounting for appropriations by period of availability and period of liquidation. ▪ Identifying transactions that exceed appropriation control amounts. ▪ Identifying unencumbered and un-liquidated balances.
	Budget Development and Enactment	Budget development uses year-end statements of actual expenditures, and/or current year initial appropriations and projected expenditures as the basis for preparing the state's annual operating plan (budget).

Major Function	Sub Function	Description
		<p>The Budget Development and Enactment process includes estimating, tracking and reporting:</p> <ul style="list-style-type: none"> ▪ All budget submission and planning processes, including decision making support, baseline budget development, Budget Change Proposals and other policy adjustments. ▪ Other budget development processes, such as determining compliance with and tracking of the State Appropriations Limit, etc. ▪ Spring budget updates. ▪ Cost recoveries. ▪ Legislative actions. ▪ The Governor's veto process. <p>In order to develop proper resource allocations, budget development makes frequent use of revenue estimates for most non-major revenues (e.g., special funds), existing position control and salary administration data from the SCO to estimate available personnel resources, and at the very least summary data forecasts for the General Fund. This process results in:</p> <ul style="list-style-type: none"> ▪ Publication of the Governor's Budget, Governor's Budget Summary, Salary and Wages Supplement, May Revision Highlights, Budget Highlights, and other periodic and/or statutorily required budget related documents. ▪ Provision of access to budget publications via the eBudget website. ▪ Enactment of the state budget
Cash Management		Cash management is the process of ensuring sufficient cash availability and minimizing cash flow borrowing costs by controlling, tracking, analyzing and forecasting cash inflows and outflows.
	Cash Flow	<p>Monitoring of the state's cash inflows, outflows and available cash on a daily, monthly and yearly basis or other time period as specified.</p> <p>Cash Flow includes:</p> <ul style="list-style-type: none"> ▪ Recording accumulated deposits/withdrawals from each Demand Deposit Bank. ▪ Recording transactions for demand checks issued and drawn against any of the depository banks.

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> ▪ Recording all transfers within state and external entities. ▪ Tracking of General Fund cash flow borrowing and borrowable resources, by fund and daily balances. ▪ Tracking and recording of receipts and payment dates. ▪ Identifying funds that are deposited and withdrawn from state funded cash, PMIA and SMIF. ▪ Recording and tracking of the exchange of funds between the federal government and the state in accordance with the federal Cash Management Improvement Act.
	Cash Forecasting	<p>Estimating and forecasting cash balances timely to ensure cash availability, maximize investment opportunities, and minimize borrowing requirements.</p> <p>Cash Forecasting includes identifying:</p> <ul style="list-style-type: none"> ▪ Deposits, receipts, disbursements and balances. ▪ Disbursements for other special circumstances, such as those that could be paid with an IOU, and determining and tracking priority vs. non priority payments. ▪ Internal and external borrowing amounts and costs. ▪ Models based on confidential control agency decisions/deliberations.
	Bank Reconciliation	<p>The process of comparing and matching amounts from the state's accounting records against the amounts reflected in the banks' records.</p> <p>Bank Reconciliation includes:</p> <ul style="list-style-type: none"> ▪ Recording manual, electronic, Zero Balance Account (ZBA) deposits. ▪ Matching agency deposits and demand checks against third party financial institution records. ▪ Matching agency deposit records against records recorded by STO.
	Check Reconciliation	<p>The process of comparing and matching checks issued against STO paid items.</p> <p>Agency Check Reconciliation includes:</p> <ul style="list-style-type: none"> ▪ Matching issued check data against paid data.

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> ▪ Creating files of outstanding checks issued and stop payment items. ▪ Updating check data to paid status or other applicable status. ▪ Aging analysis.
	Warrant Reconciliation	<p>The process of comparing and matching warrants issued against STO paid items.</p> <p>SCO Warrant Reconciliation includes:</p> <ul style="list-style-type: none"> ▪ Matching issued warrant data against paid data. ▪ Creating validation files of outstanding warrants issued, and stop payment items. ▪ Updating warrant data to paid status or other applicable status, and creating accounting transactions based on warrant status updates. ▪ Providing the life cycle of all warrants issued. ▪ Recording the redemption date of registered warrants for calculating interest and generating journal entries. ▪ Aging analysis.
Procurement		<p>The procurement process consists of three stages: acquisition planning, the acquisition phase, and post award activities. Rules governing what transpires during each stage vary based on the classification of the transaction (e.g., goods, services, information technology goods/services, construction, architecture and engineering). An acquisition approach could be competitive, non-competitive, or an existing source might be used such as a state program or a leveraged procurement agreement. Most departments do not have inherent procurement authority for all classes of items.</p> <p>There must be a single system of record that provides an official source for all of the state's procurement data.</p>
	Agreements	<p>Special or collective-use agreements generally do not follow the typical requisition-solicitation-purchase document sequence.</p> <p>Agreements include:</p> <ul style="list-style-type: none"> ▪ Utilizing strategic sourcing for planning purposes.

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> ▪ Departmental contracts (e.g., Interagency Agreements, intra-agency master agreements, blanket purchase orders). ▪ The state’s leveraged procurement agreements as applicable for statewide and local government use. ▪ Processing emergency acquisitions.
	Acquisition Process	<p>The Acquisition Process includes functionality to:</p> <ul style="list-style-type: none"> ▪ Identify and administer purchasing authority and related fees. ▪ Execute planning activities (e.g., Request for Information). ▪ Identify projects and track associated acquisitions. ▪ Standardize use of commodity/service codes. ▪ Create and revise requisitions. ▪ Execute approvals and exception requests. ▪ Create and manage purchase documents, including financed transactions. ▪ Accommodate post award activity such as delivery, receipt, and various contract and project management activities including disputes, change, subcontractor activity management and acceptance of goods/services. ▪ Manage the state’s payment card activity. ▪ Automate reporting for various purposes such as mandated requirements, statewide purchase document usage, and associated activities. ▪ Procure for another or multiple departments. ▪ Allow restricted access for businesses.
	Solicitation and supplier comparison processes	<p>Covers the interactive process between offeree and offeror.</p> <p>Solicitation and supplier comparison processes include:</p> <ul style="list-style-type: none"> ▪ Utilizing best practices for electronic bids/offers for competitive, non-competitive, and existing source acquisitions such as:

Major Function	Sub Function	Description
		<ul style="list-style-type: none"> • Solicitation creation that includes various provisions such as participation programs. • Canvassing suppliers. • Sealed bid receipt. • Bid evaluation or supplier comparison and tabulation (e.g., preference and incentive calculation). • Eligibility validation. • Reverse auctions. ▪ Managing associated multi-step processes such as: <ul style="list-style-type: none"> • Bidder’s conference. • Questions/answers. • Multi-step proposal submission (e.g., draft, final). • Supplier selection approval process. ▪ Accommodating phone quote process.
	Notices of intent to award and contract award	Covers miscellaneous activities, including but not limited to: <ul style="list-style-type: none"> ▪ Protest processes. ▪ Purchase document registration. ▪ Record keeping.
	Announcements, solicitation advertisement, and supplier subscription service	Includes various activities that support the acquisition process such as: <ul style="list-style-type: none"> ▪ Establishing supplier profiles. ▪ Posting information such as solicitation advertisements, contractor advertisements, and special announcements. ▪ Notifying suppliers.

Major Function	Sub Function	Description
	Electronic catalogs and catalog ordering	<p>Covers processes for establishing and using catalogs. Includes catalogs for:</p> <ul style="list-style-type: none"> ▪ Leveraged procurement agreements. ▪ State contracts. ▪ Commercial electronic catalogs (excludes catalogs that require memberships).
Vendor Management		<p>Vendor Management includes functionality that supports various vendor processes and provides a statewide central source of vendor information (i.e., Master Vendor File) used by all departments for procurement, receiving, and payment functions. The process allows the state to administrate, maintain, track, and report on vendor activities. Examples include:</p> <ul style="list-style-type: none"> ▪ Registration. ▪ Certification (e.g., small business and DVBE online self-certification). ▪ Performance Rating. ▪ Validation (e.g., prenote, National Provider, and Taxpayer Identification Number). ▪ Eligibility status (e.g., active, dispute, inactive/purge). ▪ Affiliate identification (e.g. parent/child, related businesses). ▪ Payee data (e.g., banking information and pay to address).

4.5.1.1 *Out of Scope in Initial Effort*

The following functionalities are not in the scope 2 of the Project. These items have not changed since SPR 3

Major Function	Sub Functions	Comments
Asset Management	DGS/Department Functions	Functions where asset management functionality is desired beyond asset accounting as described in Section 4.5.1 Project Scope.
Procurement	Inventory Management	Functions that track the warehousing, utilization, and restocking of inventory.
Human Resources	Human Resources	All functions with the exceptions noted in the Initial Scope Efforts. The payroll system administered by SCO will be the source of data.
Revenue Forecasting	Revenue Forecasting	Forecasting requirements performed by Finance for major revenues using data which originates from departments (e.g., FTB, BOE).
Payables	Employee Expense Claims	SCO has CalATERS in place which all departments are mandated to use by July 1, 2009. When CalATERS must be upgraded, just like the other A/R systems, this software may be used for the future replacement or upgrade of these systems in separate but related projects. There may be departments exempt from CalATERS that may require this functionality sooner as a separate but related project.

Major Function	Sub Functions	Comments
Various	Specialized Business Functionality Department Systems	Specific functionality, such as major (very large and specialized) Cashiering/Cash Receipting/Accounts Receivable, is excluded. However, a key function is to record revenue and cash and reconcile to the cashiering subsidiary systems. Accounts Receivable must be part of this FI\$Cal system. It is a critical subsidiary to the General Ledger and a foundation of the ERP. Very large, specialty A/R systems such as Department of Public Health's Genetic Disease billing system or Franchise Tax Board's Accounts Receivable Collection System are not part of this project. Therefore, the software selected will stipulate that capabilities to support these types of functions will be available because the tool selected may be used for the future replacement or upgrade of these systems in separate but related projects.
Various	Specialized Business Functionality Department Systems (cont.)	There are also very specialized expenditure programs such as Medi-Cal, In-Home Supportive Services, and Child Support that have special custom programs to meet their mandates. Some specialized systems will reside outside of FI\$Cal (for example, to determine what amounts should be apportioned to local governments, what should be paid to IHSS providers). It is expected that only limited standard functions of these and other special expenditure programs will be part of the FI\$Cal system such as validation of cash and appropriation availability, warrant reconciliation, and payment history. Interfaces will be needed to send data from the SCO's various claims processing systems that produce payments for the specialized expenditure programs, to the FI\$Cal system.

The current scope of the Project does not include departments that have implemented or are in the process of implementing an ERP system. As these department's ERP systems require upgrades or the department desires expanded functionality, they will move to FI\$Cal, and as such are referred to as "deferred departments." An interface will be developed for these departments to exchange data or information.

4.5.2 Project Assumptions and Constraints

4.5.2.1 Assumptions

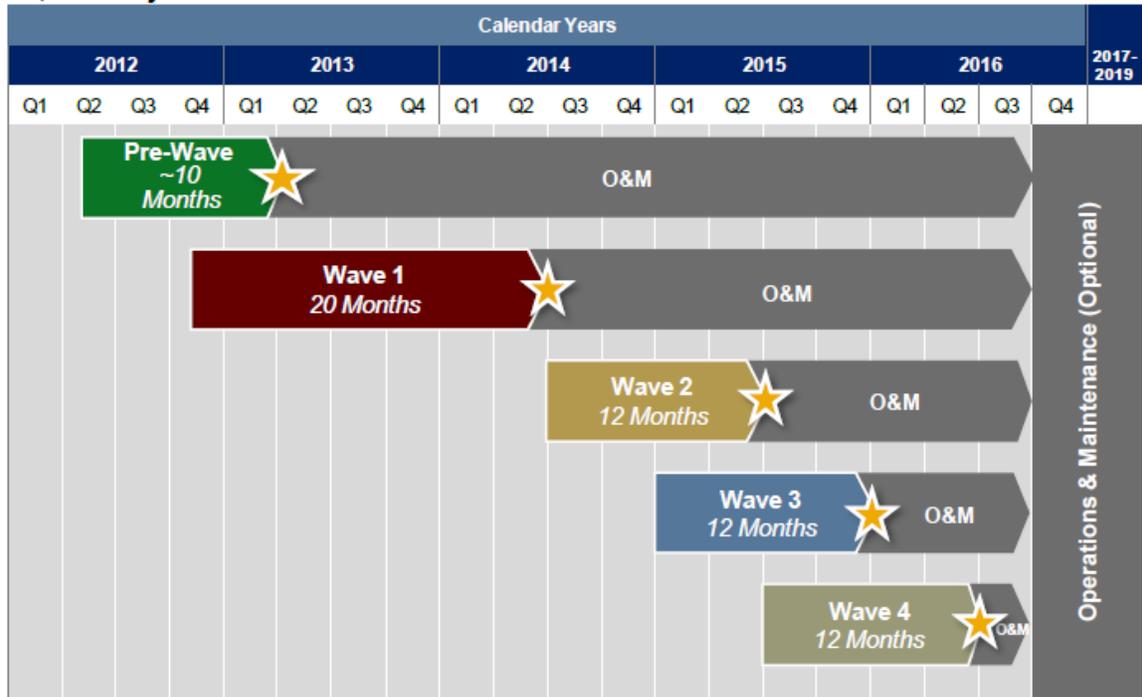
1	Adequate project funding is available throughout the project lifecycle.
2	Accenture will fulfill their contractual obligations.
3	Departments and Control Agencies will fully participate in the design, development and implementation of FI\$Cal including the following: <ul style="list-style-type: none"> • Will participate in Business Process Reengineering and adopt newly reengineered processes • Will make timely decisions and perform required activities within scheduled timelines • Will provide highly qualified, collaborative staff, who are empowered to make decisions and to perform project activities on behalf of their departments
4	For legacy systems that are to be retired, the state will support and operate in a dual environment with the ERP system when necessary. As legacy systems are phased out and the new ERP system is implemented, temporary interfaces with these systems will be required.
5	The IT infrastructure at state agencies (including network bandwidth, workstations or desktop platforms) is sufficient to support this solution. The scope of FI\$Cal does not include departmental infrastructure. However, FI\$Cal will provide technical specifications to all project participants so they can validate and remedy any deficiencies.
6	Currently, select position data is available from the SCO legacy systems. This information will continue to be made available to FI\$Cal from the SCO legacy systems and/or MyCalPAYS as applicable.
7	State agencies and departments, including deferred and exempt departments, will participate and provide information as required to successfully develop and implement system interfaces and data exchange processes.
8	FI\$Cal will be able to recruit and retain a workforce with the necessary skills, knowledge, and experience to implement, operate, and maintain the selected system consistent with the Project schedule and defined roles and responsibilities.
9	Accenture has provided a comprehensive firm, fixed price bid based on their in-depth understanding of the state’s needs and requirements gained through the Fit Gap and negotiation process.
10	The state will minimize system customizations to preserve the flexibility and ability to maintain and upgrade FI\$Cal.

4.5.2.2 Constraints

1	The Project is subject to annual budget appropriations for expenditures and staffing.
2	Existing laws may need to change to support business process reengineering. The Project is constrained by the Legislative processes and timelines.
3	The solution will be housed within a state data center.

4.5.3 Project Phasing

The content of each phase or wave is detailed in Section 3.4.4 above. The charts below provide the anticipated phases and the high level deliverables associated with each phase.



Project Phase	Types of Phase Deliverables
Pre-Wave	<ul style="list-style-type: none"> • Foundational Plans (Project Management Plan, Communications Management, Change Control, Governance, etc.) • ERP Training for FI\$Cal staff • Schedule Approval • Requirements Analysis • Statewide Chart of Accounts • State Vendor Management File (for Wave 1 Departments) • Legacy System Disposition Documentation • Transparency Portal
Wave 1 – Wave 4	<ul style="list-style-type: none"> • Statewide Chart of Accounts • State Vendor Management File

	<ul style="list-style-type: none"> • Design Specifications • Business Process Reengineering Documentation • Build & Unit Testing • Test Cases and User Acceptance Testing Scripts • Data Conversion
Maintenance & Operations	<ul style="list-style-type: none"> • Troubleshooting Scripts • Knowledge Transfer • State Acceptance of the System

Although FI\$Cal will be phased in by waves, some of these waves cannot be separated without losing a significant project benefit. For example, each wave, starting with the Pre-Wave adds new department vendor information to the Vender Management File. If all waves are not completed, the Vendor Management File will not have the content from all FI\$Cal departments, making it an incomplete file that cannot be used statewide as envisioned. The state would be left with duplicate vendor files and the related efficiencies anticipated with FI\$Cal would be diminished.

4.5.4 Project Schedule

As part of the project initiation tasks, Accenture will refine their detailed project schedule and associated deliverables in conjunction with the PMO. This detailed Project schedule will illustrate the work breakdown structure and will be used throughout the Project to monitor progress, schedule variances, completion status and focus efforts on the desired outcomes. As such, the dates specified below will be validated and finalized after contract award.

Project Period	Go-Live
DD&I Start	May 2012
Pre-Wave	April 2013
Wave 1	July 2014
Wave 2	July 2015
Wave 3	January 2016
Wave 4	July 2016

The table below represents the overall scheduling methodology proposed by Accenture.

California's Objectives	Attributes required to obtain exceptional value	Solution Features
<i>Proven Schedule development methods and techniques</i>	<ul style="list-style-type: none"> • Proven methodologies successfully followed on past ERP implementations • Previous project successes implementing on-time and on-budget • Vendor follows strict procedures in schedule development 	<ul style="list-style-type: none"> • Accenture Delivery Methods promote consistency and reduce risk by using demonstrated, standardized approaches and methods • Estimator using data from thousands of past and existing projects provides reliability and accuracy to the scheduling process • Reinforces quality and standardization following guidelines of PMBOK® and CA-PPM
<i>Effective Schedule Planning and Management</i>	<ul style="list-style-type: none"> • Usability by multiple levels of FI\$Cal stakeholders • Sufficient level of detail enabling precise management of FI\$Cal activities and resources • Vendor follows strict procedures in schedule management 	<ul style="list-style-type: none"> • Schedule structured by wave, work stream, and phase to allow better management among teams and waves • Deliverable-based schedule allows the FI\$Cal team to associate activities with production of specific work products, activity milestones and deliverable(s) • Scheduling and resource allocation developed in accordance with PMBOK® standards and unique California requirements
<i>Real-time Schedule Analysis</i>	<ul style="list-style-type: none"> • Ability to calculate impact of schedule and scope changes (e.g. previously exempt department becomes in-scope) 	<ul style="list-style-type: none"> • Accenture FI\$Cal toolset allows what-if analysis, contingency planning and updated estimate-to-complete (ETC) calculations • Completion of tasks, activities and deliverables will be recorded in a timely manner and status will be viewed via paperless real-time access
<i>Effective Cost and Value Analysis</i>	<ul style="list-style-type: none"> • Ability to calculate and demonstrate Earned Value (EV) • Ability to calculate Schedule Performance Index (SPI) and Cost Performance Index (CPI) 	<ul style="list-style-type: none"> • Earned Value (EV) is tied to Deliverables and Milestones providing the state with an analysis of the costs associated with producing associated work products • Accenture FI\$Cal toolset to evaluate Key Performance Indicators (KPI) to determine project schedule and budget variances

This methodology will be aligned with the FI\$Cal Project Management Methodology outlined in Section 4.2 above.

4.6 Project Monitoring and Oversight

The Project is monitored in accordance with state approved policies as documented in the SAM and CA-PMM. The Project employs practices embodied in the PMI's PMBOK and the Software Engineering Body of Knowledge.

The PMO, monitors the day-to-day activities of FI\$Cal and reports to the Project Director. The Project has also obtained the assistance of contracted project management staff that operates within the PMO. The PMO provides oversight focused on project management best practices and coordination of IT initiatives. The Project Executive Team and Steering Committee provides leadership and guidance with a state executive perspective, focused on quality, scope, schedule and resource management.

By statute, the Project is monitored by the BSA. Additional monitoring and oversight is provided by IV&V consultants, IPO via the Technology Agency, and DOF Information Technology and Consulting Unit. Also, the LAO regularly attends the Steering Committee and Working Group meetings.

4.7 Project Quality

FI\$Cal quality, as directed in our Quality Management Plan (QMP), is the responsibility of every member of the FI\$Cal Project Team. A set of standards has been established by FI\$Cal in the RFP. These standards are applied to all project work products which are based on industry best practices such as PMI's PMBOK, CA-PMM, as well as from the Institute of Electrical and Electronic Engineers (IEEE). Accenture will also specify many detailed technology standards incorporated within the delivered products. State standards are established by the SIMM and are available through the Technology Agency portal.

Project quality will be managed through detailed verification and validation activity for project processes (build quality in) and products (determine and qualify results). The QMP will be utilized throughout the DD&I phase and will be integrated with Accenture's Quality Plan to jointly execute the Quality Management Program. The QMP sets the stage for ensuring all deliverables and work products are produced through Quality Planning, Quality Assurance, Quality Control, and Process Improvement. QMP processes are designed to meet the following objectives:

- Ensure the Project artifacts and processes satisfy the need for which they were defined.
- Define the processes employed and metrics used to assess both the effectiveness of the Project in meeting goals and the Project's compliance with defined procedures.
- Define the process for identifying and conducting continuous process improvement activities.
- Define quality standards, practices, conventions and metrics which include:
 - Standards
 - Contract

- FI\$Cal Project Management Plans
- Deliverable Expectation Documents
- Activity Milestone Expectation Documents
- Applicable industry standards (e.g., IEEE standards, PMI's PMBOK)
- Applicable best practices
- Practices: where standards are not available or appropriate, project quality will be evaluated by comparing processes used with the various project plans and best practices.
- Conventions: when applicable standards and practices are not available, internal Project conventions will be used to promote consistency. These conventions will be used to evaluate the process or work product being reviewed or audited.
- Metrics
 - Project performance
 - Process compliance
 - Product quality
 - System performance
 - Contractor performance

4.8 Project Change Control

Project changes will be made in accordance with the approved Change Control Plan. Change control is an ongoing iterative process throughout the FI\$Cal project lifecycle and is a normal and expected part of the project development process. A formal, repeatable process has been designed to minimize the risk when introducing changes to the project, such as the result of necessary design modifications, legislative mandates, program changes, contractor-requested changes, or requirement refinements.

Changes are introduced as change requests and can apply to scope, cost, and schedule components, configuration items, and artifacts of the Project.

The change control process will be managed by the PMO. The PMO will follow a formal change control process to ensure the following steps are completed:

1. Changes are identified and analyzed to determine the impact of change to scope, cost, or schedule.
2. Changes are accurately reported.
3. Changes are approved or disapproved.
4. Changes are recorded.
5. Approved changes are coordinated with the appropriate project stakeholders.

Upon Fiscal's transition from the project implementation phase to O&M, change control will continue and follow the governance structure that will be defined for the FI\$Cal Service Center operations.

4.9 Change Management

4.9.1 Organizational Change Management

Projects that significantly change business processes require organizational change management. The business process changes that will occur as a result of FI\$Cal will be significant. Therefore, its impact on the state workforce cannot be underestimated. It is expected that 142 departments and client organizations will be impacted by FI\$Cal, and the level at which these entities are able and willing to transition to the new, integrated financial management system are dependent on established organizational change management strategies. Successful change management requires active and visible leadership, broad stakeholder engagement, allocating the right resources, and strategic messaging. In essence, it requires a network of committed participants who share a common vision, develop strategies to succeed, monitor their progress, and celebrate the successes. A partnership of this kind must be established early in the Project's lifecycle if goals and objectives are to be realized and departments are to successfully transition to FI\$Cal.

4.9.2 Change Management Approach

Change Management efforts of this magnitude require the services of FI\$Cal's Change Management Office (CMO), along with unyielding support from Project sponsors and stakeholders. Change management involves preparing the stakeholders for change, managing the transition, and ensuring that the changes are sustained after implementation. The CMO is the touch point between the Project and its stakeholders, and has actively engaged with agencies/departments to guide them in preparation for the DD&I phase. This initial engagement has built critical momentum for the Project. With a mix of readiness and on-going communication activities, the CMO will be a key part of the foundation for the Project's success.

FI\$Cal anticipates the arrival of Accenture in May 2012. As such, the CMO is preparing itself for a collaborative working relationship with Accenture. Over the life of the Project, Accenture, in collaboration with the state, is responsible for change management activities, such as readiness assessments, end-user training, and coordinating BPR efforts. The Project will utilize the change management strategy provided by Accenture , with the objective to maximize benefits and minimize risk. Due to the magnitude of change within the financial business processes, it is critical to provide clear communication to stakeholders to facilitate their understanding of and willingness to embrace the goals and objectives of the Project. Change management is also important to prepare the state for the next generation of employees as a significant number of experienced state employees retire.

4.9.3 The Major Change Management Activities

The following overview emphasizes where significant department engagement is necessary.

4.9.3.1 Change Management

The CMO, in concert with Accenture will provide departments with the tools necessary to effectively manage change within their departments. All of these activities require effective communication and coordination with the Department Liaison Network (DLN), that was established as the conduit to facilitate participation by each department. Major efforts in the area of communications include:

Readiness – It is critical to engage stakeholders during the change management process. Preparing departments to be ready for FI\$Cal will be the focus of readiness activities. Readiness surveys, developed in cooperation with the Business and Technology Teams and Project leadership, will help develop a clear and comprehensive understanding of department organizational issues and needs related to transition to FI\$Cal. The preparation of readiness surveys will be coordinated with the PMO to ensure adherence with the Project schedule. While readiness assessments will be a priority for the CMO early in the project lifecycle, it is expected that follow-up activities, such as ongoing change management instruction and support will also be necessary to assist departments throughout the implementation of FI\$Cal.

Monitoring Progress – Change management, while seemingly simple in concept, is complex to implement; particularly to 142 departments statewide. Providing instruction to department liaisons, who in turn share this information with their staff, requires effective communication and efficient coordination, as well as expertise in developing and delivering content. It further involves diligent monitoring of progress.

4.9.3.2 Training

Pursuant to the RFP, Accenture will provide training to Project staff and the various state department and agency SMEs (aka Super Users). This will help to ensure a smooth transition from the Project organization into the permanent FI\$Cal Service Center. In turn, Project staff and Super Users will train state department and agency staff in use of the ERP solution. This knowledge transfer and skill building approach will help to ensure that state department staff have the necessary technical and business knowledge, skills, and abilities to successfully use the ERP solution once it is implemented.

FI\$CAL will be embarking on one of most extensive training efforts the state has ever undertaken in order to accomplish a successful transition. A key component of managing organizational change comes through obtaining commitment to the change by all participants. This change commitment is solidified with training and knowledge transfer at all project phases. Effective training for specific groups must be designed and on-going efforts for effectiveness monitored and mitigated to ensure successful project outcomes (e.g., Train-the-Trainer, End-user training, Project Team training, Technical training, Transition and Knowledge Transfer from Accenture to the state).

FI\$Cal staff must work with diverse skill levels, and departmental operating and business cultures. A large end-user community, estimated to be 13,000 state employees, will require the Project to provide a multi-faceted training program. Also, as training activities decrease, service center support activities will increase. Staffing the service center requires SMEs with expert knowledge of the system and staff rotations within the Project may occur. This will require the CMO to coordinate training for service center

staff and ensure they have the necessary resources to successfully assist departments with the new financial management system and business processes.

CMO will need to communicate and coordinate training activities throughout the multiple wave implementations. Staffing for training activities will be significant throughout the Project's lifecycle due to the dynamics of a statewide workforce. As business experts roll on and off the Project, new experts must be identified, initiated into the Project, and trained. This will require training materials to be created, updated and presented on an ongoing basis. To facilitate the process, the Project will acquire a Learning Management System (LMS), which will be used for the administration, documentation, tracking and reporting of all training activities. BPR training efforts will begin once the design and development of the system is completed. The CMO, in collaboration with the Business and Technical Teams, will be required to coordinate training for approximately 13,000 end-users who will each need, at a minimum, seven days of training to learn how the new system will work, and to understand the new business processes. These training sessions will occur prior to the release of each wave, and require facilities with the capacity and equipment to train several departments at once. The CMO will leverage cost-effective methods to deliver this training, such as video-conferencing and web training, but most training is expected to take place in-person to ensure staff is secure in their knowledge and ability to utilize and manage the new system.

4.9.3.3 Business Process Reengineering Support

Pursuant to the roles and responsibilities articulated in the RFP, Accenture is responsible for providing the BPR approach, strategy and materials for the Project. The CMO will collaborate with Accenture and the Business Team to communicate and coordinate BPR efforts with departments. It is expected that most BPR activities will begin soon after Accenture comes onboard and BPR planning and deliverable review efforts are complete. This will require an intensive effort from the CMO, as well as departmental staff. Because system design will be determined during this phase, business process SMEs must be available to advise designers how mandatory requirements will fit into the new system. While Accenture can bring best practices to the project, SME participation is critical, particularly from staff with long-term institutional knowledge, if the state's business processes are to be thoroughly understood by Accenture.

Of note will be the need to maintain regular business operations with some of the same SMEs necessary for Project activities. This will require the effective management of resources, and full support for staff that may have conflicting priorities. Therefore, top-to-bottom prioritization and high-level recognition for participating staff will be essential to maintain stakeholder engagement and increase Project success. This type of leadership is one of the primary functions of the Department Liaison Network (DLN), which is a two-way communication infrastructure between the Project and departmental stakeholders. Department Liaisons serve as the conduit between the Project and the State's impacted stakeholders, and also serve as the face of the Project within their departments. Liaisons serve in two capacities: as their Department Change Agent and as the Readiness Coordinator for their respective departments. The CMO will coordinate change management activities with DLN throughout the life of the Project. This is why the CMO must ensure the DLN is fully supported throughout all change management activities.

Although some change management activities began at the Project's inception, such as developing requirements, documenting existing process and systems, and establishing communication channels, concerted change management efforts are now underway. The Project recognizes that the needs of each department are unique and may require change management and training activities specific to how they will implement the business processes and associated changes as an outcome of the readiness assessments to manage. The Project Team will build consensus early through broad departmental engagement in FI\$Cal. Although the change management activities are similar across each wave, the Project will take from the lessons learned in each wave to enhance/modify and put continuous process improvement ideas into practice.

4.9.4 Organizational Transformation

The organizational design sets a foundation for the continued success of the Project as it transforms into the FI\$Cal Service Center. The FI\$Cal Service Center will be established to ensure long-term success of the new financial management system by providing maintenance and support to departments as they move beyond the implementation phase into utilization of the ERP solution. The key to its success is proper point-in-time training for support staff and end users alike.

Training is a continuous organizational initiative internal to the Project. Accenture will provide extensive support training to the Project staff so that the Project staff are fully prepared to provide support to state departments and agencies via the FI\$Cal Service Center and manage the ERP Solution. In-house training is offered to staff including, but not limited to, project management and change management. Staff has access to a collection of self-paced professional development courses for Information Technology and business professionals. As staff is added to the project, bi-directional knowledge transfer occurs between peers through mentoring and informal team training sessions. Every attempt is being made to ensure that FI\$Cal staff are fully prepared to support the ERP Solution.

The Project has undertaken additional efforts to ensure the lasting success of the future FI\$Cal Service Center. Best Practices relating to ERP solutions within state departments⁷ have been acquired and documented for the Project. The Project has proactively created an efficient and effective Project organization, dedicated to a smooth ERP implementation in state departments and agencies, while at the same time, preparing for a transfer from the temporary Project organization into the permanent FI\$Cal Service Center.

4.10 Authorization Required

Approval of this SPR is required from the Steering Committee and the Technology Agency. Government Code §15849.21 requires the Department of Finance, 90 days prior to executing a contract for a prime vendor to implement the FI\$Cal system, to submit a report to the Legislature with specified information about the selected vendor

⁷ Financial Information System for California Special Project Report (SPR)
Project # 8860-30 October 30, 2006

and alternative implementation approaches for FI\$Cal. The required report has been prepared and will be submitted to the Legislature before or in concert with this SPR.

5.0 Risk and Issue Management Plan

The FI\$Cal Risk and Issue Management Plan describes the processes used by the Project to identify and manage risks and/or issues. This is an ongoing iterative process throughout the project lifecycle and is a normal and expected part of the DD&I phase of an ERP. Formal, repeatable processes are used to identify, analyze (qualitatively and quantitatively) and plan responses for risks and/or issues. These processes are used to minimize threats and maximize opportunities as they are identified and responded to by the Project. A Project risk is an uncertain event or condition that, if it occurs, has a positive or a negative effect on at least one project objective. An issue is an unforeseen event, which is impacting the project; it may be identified in the form of a risk in which the trigger event has occurred, or as a new issue which was not previously identified.

Risks and/or issues are inherent in any project and this process enables program areas to formulate strategies to avert potential disasters. When risks and issues arise, they need to be resolved in a consistent and disciplined manner in order to maintain the quality of Project deliverables, as well as to control schedule, cost, scope, and quality. The Risk and Issue Management Plan documents processes to ensure risks and issues are resolved quickly and efficiently and are escalated for management attention, when appropriate. This typically has the added benefit of strengthening the Project team's enthusiasm and commitment to success. Preparation for the unexpected eliminates the wasted time and resources often associated with emergency reaction to problems. The plan also defines roles and responsibilities for participants in the risk and issue processes, the risk and issue management activities that will be carried out and any tools and techniques that will be used.

The Project has adopted a Risk and Issue Management Plan. The PMO is responsible for managing risk and issues including leading the bi-weekly Risk and Issues Workgroup, reporting risks and issues weekly to the Project Leadership Team and monthly to the Steering Committee. The risk activities include:

1. Identification
2. Assessment
3. Analysis (Qualification and Quantification)
4. Prioritization
5. Response (Mitigation and Contingency)
6. Tracking and control
7. Monitoring

5.1 *Risk Assessment*

The Risk and Issue Management process identifies the potential sources of risk associated with this Project. The Project risks will be reevaluated on a monthly basis, or more if required, throughout the Project. In addition, the Project Managers, using the standard project management planning tools adopted by the project, will include required corrective actions associated with a risk in the detailed project plan. This plan

encompasses the entire structure of the Project and its deliverables and provides a comprehensive framework for assessing each aspect of the Project for potential risk.

5.1.1 Risk Identification

Pursuant to the Risk Management Plan, any team member can identify or present a risk, which is then evaluated, managed and maintained by the Risk and Issue Workgroup.

The following tools are used to aid in the identification of risks:

- Software Engineering Institute (SEI) Risk Identification Taxonomy – Based Questionnaire and Workshops conducted with all Project staff
- Voluntary Risk and Issue Reporting
- Risk and Issue Brainstorming/Identification Workshops
- Risk & Issue Workgroup bi-weekly meetings

The characteristics of each identified risk are captured on the Risk and Issue Management Worksheet.

5.2 Risk and Issue Management Worksheet

Several risks have been identified that may impact the Project throughout the DD&I phase. As the Project progresses, these and other risks are entered and maintained in a database for tracking, updating, reporting, and resolving. A number of risks are identified below and are currently being managed through risk response actions that are identified.

The table below describes these risks in the format prescribed by the CA-PMM guidelines. It includes the following columns:

- **Risk Category/Event:** Potential risks that may occur during a project to implement the proposed solution.
- **Risk Level:** Probability * Impact * Timeframe (< 10 = Low, 10 - 15 = Medium, 16 – 25 = High).
- **Risk Response:** Accept, Watch, Transfer, Avoid, and Mitigate.
- **Risk Mitigation Approach:** Actions that have been taken to minimize the probability of the risk occurring and to reduce the impact to the Project.
- **Risk Contingency Approach:** Action that may be taken if the risk does occur.

Risk Category/Event	Risk Level	Risk Response	Risk Mitigation and/or Contingency Approach
Management			
Stakeholder concerns regarding the long term funding needs of the Project may result in difficulty recruiting and retaining qualified state and contractor staff.	12	Accept	<ul style="list-style-type: none"> Financial funding strategy and plan submitted with the FI\$Cal Special Project Report to the Legislature. State staff will be cross-trained to reduce dependency on single resources. Provide a positive working environment that will attract the best and brightest. The Project has established the FI\$Cal Forum to educate stakeholders and attract qualified staff. Human Resource policies and procedures have been developed. Advertise all available positions on VPOS, FI\$Cal and Partner websites.
If the Project does not obtain necessary approvals and funding, it will be unable to proceed.	10	Accept	<ul style="list-style-type: none"> The Project has obtained strong sponsorship among for statutory/constitutional control agencies (i.e. DOF, SCO, STO, DGS, and Technology Agency). Appointed a Public Information Officer to facilitate communication with external stakeholders. Conduct quarterly Project status briefings with legislative staff. The Project has developed a strong business case supporting the need for FI\$Cal. The Project has submitted all the appropriate documentation and requests for approval.
Bidders may contest the "Notification of Intent to Award".	16	Watch	<ul style="list-style-type: none"> The Project leveraged PCC §6611 to clarify RFP requirements with each bidder. The Project leveraged assistance from DGS Procurement Division to maintain the integrity of the procurement.
Separation of powers among statutory and constitutional control agencies/departments may cause unique challenges.	12	Mitigate	<ul style="list-style-type: none"> Partner Agencies have staff embedded at all levels of the Project Team to minimize and resolve any challenges. The Project has implemented an Executive Working Group comprised of Steering Committee members from each Partner Agency to proactively resolve issues as they arise. The Governance structure provides the ability to escalate issues to the Directorate level.
Organizational			

Risk Category/Event	Risk Level	Risk Response	Risk Mitigation and/or Contingency Approach
State departments may be unable or unwilling to participate in designing the solution.	20	Mitigate	<ul style="list-style-type: none"> • The Project has established a Department Liaison Network, a Customer Impact Committee, and FI\$Cal Forums to provide proactive communication and coordination of state department activities. • Participation of state departments is statutorily required. • The Project provides senior executives in state departments' timely information regarding future resource needs and estimates.
State department end users may be resistant to adopt the system and new business processes.	20	Mitigate	<ul style="list-style-type: none"> • The Project has planned and will execute Change Management functions and activities to manage resistance from end-users and assist in the transition to the new system and business processes. • Maintain an adequate number of Change Management) resources to effectively execute change management functions and activities. • Conduct periodic readiness assessments for affected stakeholders at planned progress milestones.
Cost			
Changes to statutes and regulations that result in changes to business processes may result in change orders to requirements.	10	Watch	<ul style="list-style-type: none"> • The Project is maintaining a mapping of existing statutes and regulations to the requirements. • The Project is reviewing related statutes and regulations to determine potential impacts. • State staff will work with Accenture to promptly identify any required changes in order to provide sufficient time to navigate the Legislative process.
Functional and Technical			
Poor documentation of some state legacy systems may create unknown complexity with defining interfaces and converting data.	15	Mitigate	<ul style="list-style-type: none"> • The state and Accenture will partner to perform assessments of legacy systems and supporting documentation early in the project lifecycle. This will provide increased time to mitigate risks resulting from lack of documentation. • The Project will maintain the inventory of state legacy systems and technical documentation throughout the duration of the Project.
The quality of legacy data will cause difficulties in providing the SI with clean data and consistent meta data.	20	Mitigate	<ul style="list-style-type: none"> • The Project will contract with data quality and cleansing experts to assist the state in preparation for data conversion. • Accenture will assist the state to cleanse the data to reduce inconsistencies during conversion. • The state and Accenture will partner to perform assessments of legacy system data early in the project lifecycle. This will provide increased time to develop strategies to provide sufficiently cleansed data.

6.0 Updated Economic Analysis Worksheets (EAWS)

SPR 2 identified the cost of the Project at \$1.6 billion through Fiscal Year 2017-18. SPR 4 estimates the costs of the project at \$616.8 million for the years of 2005-06 to 2016-17 as follows:

1. Actual expenditures from fiscal year 2005-06 through fiscal year 2010-11 are \$55.8 million.
2. Available funding for fiscal year 2011-12 is \$38.5 million.
3. Total Project cost is now estimated at \$616.8 million, with the fiscal year 2012-13 cost of \$89.0 million. This represents an increase of \$49.9 million over the 2011-12 Budget Act and is the amount detailed in the Spring Finance Letter (SFL).

6.1 Cost Assumptions

The following assumptions were used to develop the EAWs for the FI\$Cal Project:

1. The Project impacts 142 departments and will be rolled out over 5 years in a series of 5 waves.
2. Total staffing requested for fiscal year 2012-13 is 247 positions. The staffing level peaks in fiscal year 2014-15 at 304 positions. Accenture’s costs include \$43.6 million for fiscal year 2012-13. Accenture’s total cost over the life of the Project is \$213.1 million.

The following Project Staffing assumptions were used to develop the EAWs for the Project:

Project Team	Function(s)	Number of Positions		
		2012-13	Peak	2017-18
Executive Team <ul style="list-style-type: none"> • Project Executive • Project Director • Partner Business Executives • Deputy Directors • Legal/Support Staff • Public Information Officer 	<ul style="list-style-type: none"> • Executive Leadership and Support • Coordinate and manage the Project, state staff resources • Direct and oversee Accenture’s project activities and contract • Ensure the achievement of Project goals and objectives • Communicate with internal and external stakeholders 	16	17	9
Administration <ul style="list-style-type: none"> • VMO • Fin Ops • HR • BSO 	<ul style="list-style-type: none"> • Procurement and Contract Management • Financial and Business Services • Recruitment & Retention • Deliverables Management • Facilities Management 	36	37	10
Change Management Office	<ul style="list-style-type: none"> • Change Management Support • Department Readiness • Communications and Outreach 	32	39	10

	<ul style="list-style-type: none"> • Training 			
Project Management Office	<ul style="list-style-type: none"> • Project Management • Schedule Management • Scope Management • Resource Management & Allocation • Risk and Issue Management • Document Control & Support Staff Activities • Quality Assurance • Requirements Management 	18	21	11
Technology Team <ul style="list-style-type: none"> • FI\$Cal • DOF • SCO • Technology Agency • STO • DGS 	<ul style="list-style-type: none"> • Enterprise Architecture • Information Security • Technology and Infrastructure Services • Desktop and Email Support • Customer Services Help Desk • Systems Quality Assurance • Systems Quality Control • IT Process Management • Telecom and Network Technology • Department Legacy Transition & Interfaces • Data Center Network & Operating Systems • Data Cleansing & Conversion • Testing Management 	65	85	44
Business Team <ul style="list-style-type: none"> • FI\$Cal • DOF • SCO • STO • DGS 	<ul style="list-style-type: none"> • Business Process Reengineering • Legal, Regulatory and Policy Analysis • Data Conversion & Interface Support • User Acceptance Testing • COA & VMF 	80	105	464
Total		247	304	130

6.2 Existing System/Baseline Cost Worksheet

There are no changes to the Existing System/Baseline Cost Worksheet that was included in SPR 2.

6.3 Proposed Alternative Worksheet

The EAW for the Proposed Alternative is provided in this section.

Existing System/Baseline Cost Worksheet

All costs are shown in whole (unrounded) dollars.

Department: Finance, General Services, State Controller's Office, State Treasurer's Office

Date Prepared: 10/16/2009

Project: FISCAL

	FY 2005/06		FY 2006/07		FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13		FY 2013/14		FY 2014/15		FY 2015/16		FY 2016/17		FY 2017/18		TOTAL					
	PYs	Amts																														
Continuing Information ^{/1, 3, 4}																																
Technology Costs																																
Staff (salaries & benefits)	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	131.1	12,514,060	1,704.3	162,682,778		
Hardware Lease/Maintenance		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		1,731,705		22,512,165
Software Maintenance/Licenses		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		2,805,802		36,475,426
Contract Services		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		2,746,090		35,699,170
Data Center Services		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		5,701,195		74,115,535
Agency Facilities		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		717,932		9,333,116
Other		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		974,168		12,664,184
Total IT Costs	131.1	27,190,952	1,704.3	353,482,374																												
Continuing Program Costs: ^{/2, 3, 4}																																
Staff	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	8,253.5	596,675,874	107,295.5	7,756,786,362
Other		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		97,085,485		1,262,111,305
Total Program Costs ^{/4}	8,253.5	693,761,359	107,295.5	9,018,897,667																												
TOTAL EXISTING SYSTEM COSTS ^{/4}	8,384.6	720,952,311	108,999.8	9,372,380,041																												

/1 IT costs are approximated from data provided by various departments and do not include non-CALSTARS departments that are part of the project, nor costs related to the support of the numerous accounting shadow systems that exist.

/2 Costs are estimated based on information provided by various departments and an extrapolation of budget costs and an estimated accounting and procurement staff cost for departments that are part of the project.

/3 Department costs will be measured/verified throughout the project lifecycle as outlined in SPR #8860-30, October 30, 2006, Appendix D.

/4 Costs are reported from SPR #8860-30 October 30, 2006 (does not include subsequent General Salary Increases).

Economic Analysis Summary

ECONOMIC ANALYSIS SUMMARY																												
Department: Finance, General Services, State Controller's Office, State Treasurer's Office																			Date Prepared:		3/1/2012							
Project: FISCAL																												
FY 2005/06		FY 2006/07		FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13		FY 2013/14		FY 2014/15		FY 2015/16		FY 2016/17		FY 2017/18		TOTAL		
PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	
EXISTING SYSTEM																												
Total IT Costs	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	131.1	27,190,952	1704.3	353,482,374
Total Program Costs	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	8253.5	693,761,359	107295.5	9,018,897,667
Total Existing System Costs	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	108999.8	9,372,380,041
PROPOSED ALTERNATIVE																												
Total Project Costs	5.0	866,256	16.8	5,019,665	27.4	6,237,000	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	209.8	88,978,046	276.6	84,596,627	282.2	101,908,979	278.4	130,014,605	264.1	84,194,295	123.5	32,519,267	1839.2	616,805,643
Total Cont. Exist. Costs	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	8384.6	720,952,311	108999.8	9,372,380,041
Total Alternative Costs	8389.6	721,818,567	8401.4	725,971,976	8412.0	727,189,311	8421.5	726,527,871	8450.5	733,294,531	8480.6	746,714,474	8541.4	759,743,271	8594.4	809,930,357	8661.2	805,548,937	8666.8	822,861,290	8663.0	850,966,916	8648.7	805,146,606	8508.1	753,471,578	110839.0	9,989,185,685
COST SAVINGS/AVOIDANCES	(5.0)	(866,256)	(16.8)	(5,019,665)	(27.4)	(6,237,000)	(36.9)	(5,575,560)	(65.9)	(12,342,220)	(96.0)	(25,762,163)	(156.8)	(38,790,960)	(209.8)	(88,978,046)	(276.6)	(84,596,627)	(282.2)	(101,908,979)	(278.4)	(130,014,605)	(264.1)	(84,194,295)	(123.5)	(32,519,267)	(1839.2)	(616,805,643)
Increased Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net (Cost) or Benefit	(5.0)	(866,256)	(16.8)	(5,019,665)	(27.4)	(6,237,000)	(36.9)	(5,575,560)	(65.9)	(12,342,220)	(96.0)	(25,762,163)	(156.8)	(38,790,960)	(209.8)	(88,978,046)	(276.6)	(84,596,627)	(282.2)	(101,908,979)	(278.4)	(130,014,605)	(264.1)	(84,194,295)	(123.5)	(32,519,267)	(1839.2)	(616,805,643)
Cum. Net (Cost) or Benefit	(5.0)	(866,256)	(21.8)	(5,885,921)	(49.2)	(12,122,921)	(86.1)	(17,698,481)	(152.0)	(30,040,701)	(247.9)	(55,802,864)	(404.7)	(94,593,824)	(614.5)	(183,571,870)	(891.1)	(268,168,497)	(1173.3)	(370,077,476)	(1451.6)	(500,092,081)	(1715.7)	(584,286,377)	(1839.2)	(616,805,643)		

Project Funding Plan

PROJECT FUNDING PLAN
All Costs to be in whole (unrounded) dollars

Department: Finance, General Services, State Controller's Office, State Treasurer's Office
Project: FISCal

Date Prepared: 3/1/2012

	FY 2005 / 06		FY 2006 / 07		FY 2007 / 08		FY 2008 / 09		FY 2009 / 10		FY 2010 / 11		FY 2011 / 12		FY 2012 / 13		FY 2013 / 14		FY 2014 / 15		FY 2015 / 16		FY 2016 / 17		FY 2017 / 18		TOTALS		
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	
TOTAL PROJECT COSTS	5.0	866,256	16.8	5,019,665	27.4	6,237,000	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	209.8	88,978,046	276.6	84,596,627	282.2	101,908,979	278.4	130,014,605	264.1	84,194,295	123.5	32,519,267	1839.2	616,805,643	
RESOURCES TO BE REDIRECTED																													
Staff	5.0	866,256	11.8	2,171,450	3.1	500,371	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	19.9	3,538,077	
Funds:																													
Existing System		0		0		0		0		0		0		0		0		0		0		0		0		0		0	0
Other Fund Sources		0		0		0		0		0		0		0		0		0		0		0		0		0		0	0
TOTAL REDIRECTED RESOURCES	5.0	866,256	11.8	2,171,450	3.1	500,371	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	19.9	3,538,077	
ADDITIONAL PROJECT FUNDING NEEDED																													
One-Time Project Costs	0.0	0	5.0	2,848,215	24.3	5,736,629	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	122.8	69,544,726	134.0	57,654,377	95.0	61,408,211	91.2	90,530,229	85.5	50,337,921	0.0	605,297	913.2	421,136,508	
Continuing Project Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	87.0	19,433,320	142.7	26,942,250	187.2	40,500,768	187.2	39,484,376	178.6	33,856,375	123.5	31,913,970	906.1	192,131,058	
TOTAL ADDITIONAL PROJECT FUNDS NEEDED BY FISCAL YEAR	0.0	0	5.0	2,848,215	24.3	5,736,629	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	209.8	88,978,046	276.6	84,596,627	282.2	101,908,979	278.4	130,014,605	264.1	84,194,295	123.5	32,519,267	1819.3	613,267,566	
TOTAL PROJECT FUNDING	5.0	866,256	16.8	5,019,665	27.4	6,237,000	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	209.8	88,978,046	276.6	84,596,627	282.2	101,908,979	278.4	130,014,605	264.1	84,194,295	123.5	32,519,267	1839.2	616,805,643	
Difference: Funding - Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Total Estimated Cost Savings	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0

FUNDING SOURCE																															
General Fund (001)	52.6%	455,400	44.5%	2,233,000	100.0%	6,237,000	38.5%	2,144,390	17.1%	2,106,848	7.0%	1,795,930	5.6%	2,181,000	2.2%	1,933,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	3%	19,086,568	
General Fund (011)		0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	1.3%	515,000	57.9%	51,542,806	60.1%	50,842,573	60.1%	61,247,296	60.1%	78,138,778	60.1%	50,600,772	60.1%	19,544,079	51%	312,431,303			
Redirection	47.4%	410,856	55.5%	2,786,665	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	1%	3,197,521			
OTHER FUNDS (FISCal Internal Services Fund)	0.0%	0	0.0%	0	0.0%	0	61.5%	3,431,170	82.9%	10,235,372	65.2%	16,786,233	12.0%	4,641,960	3.0%	2,695,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	6%	37,789,735			
OTHER FUNDS (SWCAP)	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	16.2%	6,275,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	1%	6,275,000			
Federal Fund	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0%	0			
Special Fund	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	27.9%	7,180,000	64.9%	25,178,000	36.9%	32,807,240	39.9%	33,754,054	39.9%	40,661,683	39.9%	51,875,827	39.9%	33,593,524	39.9%	12,975,187	39%	238,025,516			
Financing	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0%	0			
Reimbursement	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0%	0			
TOTAL FUNDING	100.0%	866,256	100.0%	5,019,665	100.0%	6,237,000	100.0%	5,575,560	100.0%	12,342,220	100.0%	25,762,163	100.0%	38,790,960	100.0%	88,978,046	100.0%	84,596,627	100.0%	101,908,979	100.0%	130,014,605	100.0%	84,194,295	100.0%	32,519,267	100%	616,805,643			

ADJUSTMENTS, SAVINGS AND REVENUES WORKSHEET

Department: Finance, General Services, State Controller's Office, State Treasurer's Office
Project: FISCal

Date Prepared: 3/1/2012

Annual Project Adjustments	FY 2005 / 06		FY 2006 / 07		FY 2007 / 08		FY 2008 / 09		FY 2009 / 10		FY 2010 / 11		FY 2011 / 12		FY 2012 / 13		FY 2013 / 14		FY 2014 / 15		FY 2015 / 16		FY 2016 / 17		FY 2017 / 18		Net Adjustments		
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	
One-time Costs																													
Previous Year's Baseline	0.0	0	0.0	0	5.0	2,848,215	24.3	5,736,629	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	122.8	69,544,726	134.0	57,654,377	95.0	61,408,211	91.2	90,530,229	85.5	50,337,921			
(A) Annual Augmentation / (Reduction)	0.0	0	5.0	2,848,215	19.3	2,888,414	12.6	(161,069)	29.0	6,766,660	30.1	13,419,943	60.8	13,028,797	(34.0)	30,753,766	11.2	(11,890,349)	(39.0)	3,753,834	(3.8)	29,122,018	(5.7)	(40,192,308)	(85.5)	(49,732,624)			
(B) Total One-Time Budget Actions	0.0	0	5.0	2,848,215	24.3	5,736,629	36.9	5,575,560	65.9	12,342,220	96.0	25,762,163	156.8	38,790,960	122.8	69,544,726	134.0	57,654,377	95.0	61,408,211	91.2	90,530,229	85.5	50,337,921	0.0	605,297	913.2	421,136,508	
Continuing Costs																													
Previous Year's Baseline	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	87.0	19,433,320	142.7	26,942,250	187.2	40,500,768	187.2	39,484,376	178.6	33,856,375					
(C) Annual Augmentation / (Reduction)	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	87.0	19,433,320	55.6	7,508,930	44.5	13,558,518	0.0	(1,016,392)	(8.6)	(5,628,001)	(55.1)	(1,942,405)			
(D) Total Continuing Budget Actions	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	87.0	19,433,320	142.7	26,942,250	187.2	40,500,768	187.2	39,484,376	178.6	33,856,375	123.5	31,913,970	906.1	192,131,058	
Total Annual Project Budget Augmentation / (Reduction) [A + C]	0.0	0	5.0	2,848,215	19.3	2,888,414	12.6	(161,069)	29.0	6,766,660	30.1	13,419,943	60.8	13,028,797	53.0	50,187,086	66.8	(4,381,419)	5.5	17,312,353	(3.8)	28,105,626	(14.3)	(45,820,310)	(140.6)	(51,675,029)			
[A, C] Excludes Redirected Resources																													
Annual Savings/Revenue Adjustments*																													
Cost Savings	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Increased Program Revenues	0.0	0																											

Appendix A: Acronyms and Definitions

Acronym / Term	Definition
ADA	Americans with Disabilities Act
A/R	Accounts Receivable
AIMS	Agency Information Management Strategy
BAFO	Best And Final Offer
BIS	Budget Information System
BOE	Board of Equalization
Book of Record	A single official General Ledger "Book of Record" in compliance with governing accounting and reporting statutes/standards. This single "Book of Record" may come from legacy systems, the new FI\$Cal system, an interim system, or a combination of these systems. This would be part of the proposed strategy and the overall approach. (The state recognizes that detail data will not be available for all accounting until such time as all departments transition to FI\$Cal, and deferred and exempt departments provide detailed financial information to FI\$Cal. Through the transition period, statewide summary level data will be available.
BPR	Business Process Reengineering
BSA	Bureau of State Audits
CalATERS	California Automated Travel Expense Reimbursement System
CA-PMM	California Project Management Methodology
CAPS	Corrective Action Plans
CCB	Change Control Board
CIC	Customer Impact Committee
CMO	Change Management Office
COA	Chart of Accounts
COTS	Commercial Off-The-Shelf
C&P	Contracts and Procurement
Technology Agency	California Technology Agency
DD&I	Design, Development, and Implementation
DGS	Department of General Services

Acronym / Term	Definition
DOF	Department of Finance
DOJ	Department of Justice
DLN	Department Liaison Network
DVBE	Disabled Veteran Business Enterprise
EA	Enterprise Architecture
EAW	Economic Analysis Worksheet
EFT	Electronic Funds Transfer
ERP	Enterprise Resource Planning
FABALS	FI\$Cal As-Is Business Processes and Legacy Systems
FI\$Cal	Financial Information System for California
FFP	Firm-Fixed-Price
FSR	Feasibility Study Report
FTB	Franchise Tax Board
FTE	Full Time Equivalent
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GC	Government Code
IHSS	In-Home Supportive Services
IEEE	Institute of Electrical and Electronic Engineers
IPO	Independent Project Oversight
IT	Information Technology
IV&V	Independent Verification and Validation
LAO	Legislative Analyst's Office
LMS	Learning Management System
MPMP	Master Project Management Plan
NACHA	National Automated Clearing House Association
OCIO	Office of the Chief Information Officer
O&M	Operations and Maintenance
PBE	Partner Business Executive
PIER	Post Implementation and Evaluation Report
PMBOK	Project Management Body of Knowledge

Acronym / Term	Definition
PMI	Project Management Institute
PMIA	Pooled Money Investment Account
PMO	Project Management Office
PSP	Project Summary Package
QMP	Quality Management Plan
RFP	Request For Proposal
SAM	State Administrative Manual
SCO	State Controller's Office
SEI	Software Engineering Institute
SFL	Spring Finance Letter
SI	System Integrator
SIMM	Statewide Information Management Manual
SME (SMEs)	Subject Matter Expert (Subject Mater Experts)
SMIF	Surplus Money Investment Fund
SPR	Special Project Report
STO	State Treasurer's Office
System of Record	A single official "System of Record" for budgeting and procurement data. This single "System of Record" may come from legacy systems, the new FI\$Cal system, an interim system, or a combination of these systems. This would be part of the proposed strategy and the overall approach. (The state recognizes that detail data will not be available for all budgeting and procurement until such time as all departments transition to FI\$Cal, and deferred and exempt departments provide detailed financial information to FI\$Cal. Through the transition period, statewide summary level data will be available.)
T&C	Terms and Conditions
VMF	Vendor Management File
VMO	Vendor Management Office
ZBA	Zero Balance Account

Appendix B: Funding Plan

Financing and Funding Strategy

The Financial Information System for California (FI\$Cal) is a business transformation project that will enable the state to integrate into a single system its accounting, budgeting, cash management, and procurement and contracting operations. It will enable the state to eliminate hundreds of independent legacy systems and department-specific applications that now support these internal business operations of the state. FI\$Cal will provide the state with a centralized, integrated system for fiscal information that employs standardized data definitions and modernized data management processes. FI\$Cal will use a commercial-off-the-shelf (COTS) enterprise resource planning (ERP) tool to achieve this integration of the state's financial management activities.

This report addresses the financing and funding needs of the FI\$Cal Project (Project), including cost recovery via cost allocation. For the purposes of this document:

“Financing” means the method of paying the one-time development costs of the Project, whether on a pay-as-you-go (cash) basis or through a financial structure that allows development costs to be spread out and paid over a period of time.

“Funding” refers to the annual costs of the Project, including development costs and yearly operations and maintenance (O&M) costs, whether through pay-as-you-go or annual debt service payments associated with spreading out the development costs over time.

Background

The Project completed Special Project Report (SPR) 2 in November 2007 and provided estimated project costs of approximately \$1.6 billion. Also included within SPR 2 was a proposed plan for financing the development costs and funding the ongoing project costs as follows:

- Project development costs would be financed by the sale of government securities. The financing plan consisted of two (2) parts – the short term financing needs would be met through the sale of bond anticipation notes (BANs) and long term financing needs would be met through the sale of Certificates of Participation (COPs).
- Ongoing Project costs would be recovered by charging those costs to state departments. The funding plan proposed an allocation of Project costs based on actual usage of the system determined by transactional data. This direct cost allocation methodology would be applied once the system was fully implemented and the data was available. As an interim cost allocation plan, Project costs would be indirectly allocated based on the percentage that each participating department's operating budget represents of the total state budget.

In November 2009, the Project approach was modified through SPR 3, allowing the Project to conduct a two-stage procurement. The new procurement strategy provided the time and ability for the bidders to have a dialogue with the state to gain a thorough understanding of the Project's business and technical requirements. This effort resulted in an increase in the accuracy of their proposals and a decrease in final contract costs. At the conclusion of the evaluation and selection process, total System Integrator (SI) contract costs were determined to be \$213.1 million, resulting in total Project costs of \$616.8 million, a reduction of roughly \$1.0 billion from the amount estimated in SPR 2.

Financing

The Project has, throughout its planning and procurement phases, made considerations as to whether development costs of FISCAL should be financed. As provided in SPR 2, the Project anticipated the sale of BANs and COPs to finance the estimated \$1.6 billion in total project costs. The large decrease in total project costs provides the opportunity to re-assess the financing alternatives available to the Project, what the fiscal impacts may be, and whether the use of a debt instrument is still an appropriate option for FISCAL.

Pay-As-You-Go

Funding the project with pay-as-you-go is the least expensive alternative, avoiding the interest and fees associated with financing. Pay-as-you-go represents the most straightforward approach for the state as it only requires annual appropriations and is not reliant on the estimating of interest costs to determine final Project costs. More importantly, pay-as-you-go does not add to the state's annual debt service costs and preserves the Legislature's authority to modify the Project's funding without damaging the state's credit rating and credibility, as it would with a financing approach. The pay-as-you-go approach is consistent with Government Code § 15849.26(d) which states the Legislature's intent for Project costs to be paid for by appropriations rather than by the issuance of bonds, notes or certificates.

Applying the pay-as-you-go methodology to Project implementation costs, including the first year of O&M, will produce the following fiscal year breakdown:

Year	Project Implementation Costs⁸/Appropriation
2012-13	\$88,978,046
2013-14	\$84,596,627
2014-15	\$101,908,979
2015-16	\$130,014,604
2016-17	\$84,194,295
2017-18	\$32,519,267
Total	\$522,211,818

Other Considerations

The Project has analyzed two (2) financing methodologies. One important note when considering financing is the potential that more than two-thirds (2/3) of the Project implementation costs may not be capitalized. The application of Governmental Accounting Standards Board (GASB) Statement 51 (Accounting and Financial Reporting for Intangible Assets) allows only those costs directly related to the application development to be capitalized and, hence, financed.

- Because of these restrictions, System Integrator contract costs associated with Business Process Reengineering, Training, Project Management, and O&M are not capitalized in the scenarios presented in this document.
- State staffing costs associated with the work efforts included in the bullet above also could not be financed. In addition, the Office of State Audits and Evaluations (OSAE) has recommended that the most accurate method of determining capitalizable state staff costs is through a time reporting method. The Project would need to develop a detailed time reporting methodology for capturing this information that could be utilized throughout the implementation. Accurate time reporting will be critical if state costs are to be capitalized and must be done in a manner that does not jeopardize federal reimbursements for the system.

Vendor Financing

Vendor financing was analyzed and considered to pay for Project implementation costs. However, less than one third (1/3) of Project implementation costs would be eligible for financing and would only include SI financeable costs since the vendor is unlikely to be willing to finance state staffing costs. Further, the associated interest and fees would

⁸ Total project costs for the purposes of this plan will differ from the total project cost provided in the Economic Analysis Worksheet (EAW) of SPR 4. The EAW covers prior year costs, from FY 2005-2006 through FY 2017-2018. This financing and funding strategy covers only system development costs and one (1) year of operations and maintenance, from FY 2012-2013 through 2017-2018.

not be eligible for federal reimbursement. The inability to finance a large portion of Project implementation costs and the increased costs associated with financing diminishes any value gained with vendor financing.

Utilization of the vendor financing alternative would require legislation to provide the statutory authority for the Project to finance the implementation costs. The terms of the financing would also require strong “subject to appropriation” language which may be perceived by the market to indicate that the state may not be fully financially committed to this effort. Depending on how the vendor financed the costs, should an appropriation not be made, and depending on the reason for non-appropriation, the state could be in a position that may compel it to continue paying the Project costs rather than default on the financial obligation, regardless of Project or performance issues. This would be most problematic if the vendor had entered into some form of its own public financing with the state’s contract as the collateral.

Bond Financing

The Project recognized the issuance of tax-exempt bonds as a possible way of financing development costs. Tax-exempt bonds could be issued to obtain funding from the private capital markets. However, only roughly one half (1/2) of Project implementation costs may be eligible for financing and the associated interest and fees would not be eligible for federal reimbursement. Obligations start as soon as bonds are sold, with interest accruing immediately. Bond financing requires time to process an offering and is likely not available for FY 2012-2013 as the project will need immediate cash availability to keep the schedule on track. The state would most likely have to use pay-as-you-go to fund the first year of implementation while a financing plan is completed.

The terms of bond financing would also require the same “subject to appropriation” language and carries the same risks as in vendor financing should the Legislature choose for any reason to not make an appropriation. If the state does not make its debt service payment, it would likely be seen as if the state defaulted on its financial obligation, thereby having a potential negative impact on the state’s credit rating. Again, in the event of non-performance or project issues, the state would be in the unfortunate situation of comparing the impact to its long-term credit rating against the short-term cost of continuing to pay for something that was not performing.

Comparison of the Financing Methods

A quantitative comparison of the financing methods is provided below. Considered in each scenario are:

- Costs are amortized over 15 years.
- Debt service payments are made annually.
- SI contract costs associated with Business Process Reengineering, Training, Project Management, and O&M are not eligible to be capitalized.

- For purposes of this comparison, it is estimated that approximately two thirds (2/3) of Project staff on the Business Team and the Technology Team will be involved in system development activities. These exclude costs for those activities that are not eligible to be capitalized (as identified above for the SI). If one of the financing alternatives is utilized, an accurate time reporting methodology would need to be implemented to ascertain the actual percentage of time attributable to development activities.

Interest rates are point in time estimates. Actual interest costs would be determined by the market at the time of financing. The chart below compares pay-as-you-go to vendor and bond financing and uses the following assumptions:

- The interest rate used in the vendor financing scenario is 5.00%. This is a conservative estimate based on available rates at the time of this document.
- As provided by the State Treasurer's Office, the going market rate for bond financing is approximately 3.75% to 4.25%. The Project is taking a conservative approach and is applying 4.25% to this scenario.

	Interest Rate	Costs Eligible for Financing	Interest	Project Implementation Cost
Pay-As-You-Go	0.0%	None	\$0	\$522,211,818
Vendor Financing	5.00%	SI Contract	\$73,185,992	\$595,397,810
Bond Financing	4.25%	SI Contract and state staff	\$68,904,998	\$591,116,816

Funding - Cost Allocation

The Project will incur annual costs related to system development and O&M, regardless of the financing method selected. All organizational entities within the Executive Branch will be required to use FI\$Cal. Existing law provides authority for the Project to allocate these costs to departments.

The most accurate and equitable way of allocating costs of an information technology (IT) system, such as FI\$Cal, is to charge each department for its fair share based on system usage. This would involve a direct cost allocation methodology based on the number of transactions performed by each department. Allocations based on statistically valid departmental transaction data would ensure that the methodology is equitable in its application. However, this information will not be available until the system has been fully implemented statewide. As such, this direct cost allocation methodology would only be applied to O&M costs after full implementation. All costs incurred during implementation will be allocated using an interim methodology.

Interim Cost Allocation Plan

Until such time that transactional data is available to apply a direct cost allocation methodology, Project implementation costs will be indirectly allocated to the funds that

support departments' state operations. This methodology assumes that the Project costs should be allocated to all state funds, excluding Exempt departments, since FISCAL will provide beneficial use to all state departments. The amount of the charge to each fund will be in proportion to the amount of appropriation from each fund as a percentage of total state operations appropriations for the fiscal year of the charge.

To illustrate the allocation of Project implementation costs, past year expenditures for fiscal years 2007-08 to 2010-11 and totals from the 2011-12 Budget Act are used as a basis of estimate to calculate the funding split for Project implementation costs.

Fund	2007-08	2008-09	2009-10	2010-11	2011-12	Total	Average	% of Total
General	18,338	18,933	17,088	19,852	20,499	94,710	18,942	47.11%
Special and Non-Governmental	16,505	15,280	14,622	15,698	18,101	80,206	16,041	39.90%
Federal	4,615	6,087	6,973	4,516	3,934	26,125	5,225	12.99%
Total	39,458	40,300	38,683	40,066	42,534	201,041	40,208	100.00%

(Note: Numbers are shown in millions)

The historical distribution of state operations costs to fund sources yields an approximate allocation of state budget costs of 47.11% General Fund, 39.90% special and non-governmental funds and 12.99% federal funds. However, this fund split cannot be applied to FISCAL costs at this time because, while federal programs benefit, they can only be charged for Project development costs once the software programs are implemented and in use by federally funded programs. This requires the state to carry the federal share of costs until system success can be demonstrated. It is possible that some general and administrative costs and overhead may be eligible for federal reimbursement. However, any approval of federal reimbursement is subject to negotiation with the federal Department of Health and Human Services (DHHS), which the Project will undertake. In the meantime, the Project proposes that the federal share be allocated to the General Fund total during the development stage of the Project, pending future federal reimbursement. The reallocation of federal costs yields a funding split of 60.10% General Fund and 39.90% special and non-governmental funds.

To further delineate the proposed funding split, each special and non-governmental fund will be indirectly charged its share of costs based on its percent to total for all special and non-governmental funds. For example, if Special Fund A has a budget of \$1 million and the total budget for all special and non-governmental funds is \$100 million, Special Fund A will be charged 1% of those project costs allocable to special and non-governmental funds (i.e., 39.90% of Project implementation costs). Special and non-governmental funds that cannot be charged its share of costs due to limitations of its governing statutory or constitutional authority will have its share of costs redistributed amongst all other eligible special and non-governmental funds.

This interim cost allocation methodology is consistent with that initially utilized by the State Controller's Office's 21st Century Project (MyCalPAYS), the state's other large ERP implementation project in the area of human resources.

As part of the annual budget process, this cost allocation methodology will be reviewed and updated as needed to ensure that the fair share of costs are equitably distributed.

Applying the Interim Cost Allocation Methodology

Applying the interim cost allocation methodology to the pay-as-you-go option produces a General Fund/special and non-governmental fund/federal fund split of Project implementation costs as follows:

Year	Appropriation	Fund Split (47.11/39.90/12.99)		
		General	Special and Non-Governmental	Federal
2012-2013	\$88,978,046	\$41,917,557	\$35,502,241	\$11,558,248
2013-2014	\$84,596,627	\$39,853,471	\$33,754,054	\$10,989,102
2014-2015	\$101,908,979	\$48,009,320	\$40,661,683	\$13,237,976
2015-2016	\$130,014,604	\$61,249,880	\$51,875,827	\$16,888,897
2016-2017	\$84,194,295	\$39,663,932	\$33,593,524	\$10,936,839
2017-2018	\$32,519,267	\$15,319,827	\$12,975,187	\$4,224,253
Totals	\$522,211,818	\$246,013,987	\$208,362,516	\$67,835,315

With the restrictions on federal reimbursement for development costs and other costs subject to DHHS approval, the federal share of costs will initially be covered by the General Fund and the costs are distributed as follows:

Year	Appropriation	Fund Split (47.11/39.90/12.99)		
		General	Special and Non-Governmental	Federal
2012-2013	\$88,978,046	\$53,475,805	\$35,502,241	\$0
2013-2014	\$84,596,627	\$50,842,573	\$33,754,054	\$0
2014-2015	\$101,908,979	\$61,247,296	\$40,661,683	\$0
2015-2016	\$130,014,604	\$78,138,777	\$51,875,827	\$0
2016-2017	\$84,194,295	\$50,600,771	\$33,593,524	\$0
2017-2018	\$32,519,267	\$19,544,080	\$12,975,187	\$0
Totals	\$522,211,818	\$313,849,302	\$208,362,516	\$0

Conclusion

FI\$Cal recommends the pay-as-you-go alternative.

Appendix C: Vendor Accountability

C.1. Introduction

Vendor management is a multi-faceted approach to ensure accountability in the purchase and management of goods and services, with emphasis placed on building strong relationships with supplying vendors; effective communications between all parties involved become integral in realizing goals. With successful implementation, vendor management results in a partnership where mutual success is the ultimate outcome. Industry best practices have consistently shown when a program which involves the management of vendors is implemented, costs are lowered, quality is enhanced and vendors and clients are more satisfied with the process.

As requested by the Legislature, FI\$Cal has implemented a vendor management program to ensure appropriate accountability and management of its vendors. Since the concept of “accountability” is considered from different perspectives as the Project progresses, there are different processes and procedures that are employed to ensure vendors are held accountable for their actions. A major component of accountability is the active participation of all levels of the Project. Leadership is critical in the successful management of a project with the complexity, scope, and size of FI\$Cal. To ensure a fully informed and engaged leadership, the Project will regularly, and in an appropriate level of detail, report to the Steering Committee. In addition, Project oversight is also provided by the California Technology Agency and the Bureau of State Audits.

The following sections discuss the FI\$Cal Vendor Management Program and how vendor accountability is handled on the Project and the processes used.

C.2. Vendor Management Program

The purpose of the Vendor Management Program is to address consistency in vendor relationships, leverage competition and ensure vendor performance and accountability based on the contracts with the state. The Vendor Management Program has eight defined stages as displayed in the diagram below. This process helps organize and standardize the various functions of the Vendor Management Program, while encouraging change and continuous improvement. The majority of vendor accountability is addressed in the “Compliance” stage, but each stage works together toward holding vendor’s accountable.



The following eight (8) steps make up the stages of the FI\$Cal Vendor Management Program:

- Explore – Investigate industry trends in technology, price and standards to understand reasonable expectations.
- Engage – Employ a standardized approach to engage vendors to ensure consistency, fairness and healthy competition. Share with vendors information about the State’s business processes to ensure a clear understanding of the State’s needs. Create procurement documentation such as writing a RFP or gathering a list of potential vendors for a particular service. Ensure staff with the appropriate subject matter expertise are involved to define clear objectives and goals.
- Evaluate – Conduct review and assessment of vendor proposals.
- Negotiate – Have an open dialog with the vendors to lower costs and improve the quality of deliverables. An understanding of the State’s and vendor’s goals and objectives assists with the negotiation process and forms the basis for the ongoing relationship with the vendor.
- Contract – Enter into a formal agreement with a selected vendor. As modified in the negotiation process, and included with the RFP, the terms and conditions of the contract are mutually agreed upon by both the State and vendor.
- Compliance – Ensures vendor performance monitoring and feedback through the application of predefined criteria.
- Assess – Assesses vendor performance, with the knowledge gained in the “compliance” stage.
- Correct – Continuous improvement occurs throughout the contract period through the use of lessons learned activities and notification to the vendor of their overall performance. Corrective Action Plans (CAPs) will be required of the

vendor to document issues and the steps to be taken to correct and/or prevent subsequent occurrences. This process allows the vendor to receive input from the State that can be used to improve their future performance.

C.3. Conclusion

Realizing the difficulties in large information technology projects, and taking into consideration the scope and complexity of the Project, vendor management is building the state/vendor relationship vital to contract management and holding the vendor accountable. The Project has taken the following steps to address the challenges and the Legislature's request: 1) created a unit within the Project dedicated to vendor management (the VMO); 2) developed a Vendor Management Program that is comprehensive, dynamic, and strives to ensure quality; 3) engaged the SI vendors in the two-stage procurement process to ensure that the state received a proposed solution that reflects more accurate cost, schedule, and scope estimates; and 4) developed a comprehensive Request For Offer procurement review process for supporting contracts.

Appendix D: Memorandum of Understanding/Project Charter

Partnership Agreement and Memorandum of Understanding Revised 10-18-07

The Department of Finance (DOF), the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS) enter into this agreement for the period July 1, 2007 through statewide deployment of the FI\$Cal Project.

The DOF, the SCO, the STO, and DGS will collaborate in a partnership to serve the best interest of the state and its citizens and to optimize the business management of the state, to successfully develop, implement, utilize, and maintain an integrated financial management system as approved in the FI\$Cal Special Project Reports.

To achieve the new project vision (an enterprise view), there is a critical need to provide statewide leadership and coordination. This begins with the partnership among the state's four control (lead) agencies. The partners have reached consensus on project scope and approach to achieve the vision as well as roles and responsibilities. Each recognizes the unique opportunity that an enterprise view offers the state and its citizens. Each entity has unique constitutional and/or statutory responsibilities relative to specified business processes that will be separately maintained throughout the partnership.

The partnership agrees to provide executive support for this effort to ensure re-engineering and adoption of best business practices that will best facilitate the implementation and long-term maintenance of the procured system. The FI\$Cal System will encompass the management of resources and dollars in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset management, project accounting, grant management and human resources management.

The Partners agree to consider the best interests of the State as an enterprise when considering opportunities for business process re-engineering. However, there is no intent, express or implied, to interfere with, or in any way contravene, the constitutional and/or current statutory responsibilities of the lead agencies nor to expand or diminish the statutory responsibilities through the legislative process relative to the proposed enterprise financial system, without the concurrence of the affected partner.

Each partner maintains "ownership" of their respective business areas in relationship to the system. Therefore, each partner will have the authority to ultimately determine how the system will be developed, configured, etc., in relation to their respective business roles and responsibilities.

To ensure adequate input to reflect the business needs of the State, each member of the partnership staff will function as integral members of the FI\$Cal Project, involved throughout all project phases.

The Project Partners agree that their roles and responsibilities are as outlined in the Project Charter and the Project Management Plans referenced below:

- FI\$Cal Schedule Management Plan
- FI\$Cal Cost Management Plan
- FI\$Cal Risk Management Plan]
- FI\$Cal Issue Management Plan
- FI\$Cal Change Management Plan
- FI\$Cal Contract Management Plan
- FI\$Cal Scope Management Plan
- FI\$Cal Human Resources Management Plan
- FI\$Cal Quality Management Plan
- FI\$Cal Communication Management Plan
- Change Control Plan
- Project Management Plan

The Project Charter and these plans will be reviewed and updated on a quarterly basis appropriate to the Project lifecycle. Project Management Plan changes will be submitted to the Steering Committee for approval.

Memorandum of Understanding approval/concurrence:

(See Page 3)

John Chiang, State Controller

(See Page 4)

Michael C. Genest, Director
Department of Finance

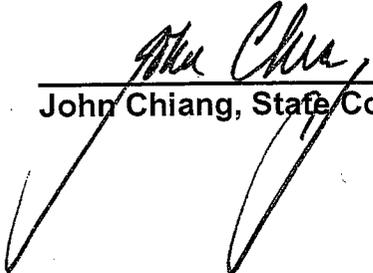
(See Page 5)

Bill Lockyer, State Treasurer

(See Page 6)

Will Bush, Director ,
Department of General Services

Memorandum of Understanding approval/concurrence:



John Chiang, State Controller

10/25/07
Date:



Memorandum of Understanding approval/concurrence:

Michael C. Genest, Director
Department of Finance

10/23/07
Date:



Memorandum of Understanding approval/concurrence:

Bill Lockyer

Bill Lockyer, State Treasurer

10-25-07

Date:



Memorandum of Understanding approval/concurrence:

A handwritten signature in black ink, appearing to read 'William C. Bush', written over a horizontal line.

Will Bush, Director
Department of General Services

10-25-07
Date:

State of California



FI\$Cal Project Charter Version 6.0

FINAL

December 2010

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FISCAL Project Approval of the Project Charter

Approved on behalf of the Steering Committee, by consensus decision, at the Steering Committee Meeting held on:

Meeting Date: 12/15/2010

Signature: 
Fred Klass, Chair
FISCAL Steering Committee

12/20/10
Date

Document Revision History

Date	Version	Last Updated By	Status/Comments	Approved By
3/24/06	0.1	Informatix	Initial Draft	FI\$Cal PMO
4/07/06	0.2	Informatix	Interim review changes	FI\$Cal PMO
4/25/06	0.3	Informatix	Incorporates review comments and change requests from DOF	FI\$Cal PMO
5/8/06	0.4	Informatix	Changed style formatting (serif fonts to Arial 11pt). Incorporated BSDU's review comments	FI\$Cal PMO
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1/22/07	2.0	Informatix	Incorporates project scope changes and updates Phase 3 and 4 work plans based on the approved Deliverable E.8 – Detailed Work Plan for Requirements Definition Sessions (Phases 3 & 4)	FI\$Cal PMO
2/15/2007	3.0	FI\$Cal Project Team	Update Project Charter	FI\$Cal PMO
4/15/2007	3.5	FI\$Cal Project Team	<ul style="list-style-type: none"> • Updated 2.5.2 Roles and Responsibilities • Updated Steering Committee Members 	FI\$Cal PMO
5/16/2007	3.5	FI\$Cal Project Team	Adopted by the FI\$Cal Steering Committee Note: SCO abstained	
09/24/2007	3.6	FI\$Cal PMO	Updated Governance, Roles and Responsibilities, inserted updated diagrams	FI\$Cal PMO
09/26/2007	3.7	FI\$Cal PMO	Minor updates	FI\$Cal PMO
09/27/2007	3.8	FI\$Cal PMO	Minor updates	FI\$Cal PMO
10/05/2007	3.9	FI\$Cal PMO	Incorporates various reviewer comments	FI\$Cal PMO
10/08/2007	3.10	FI\$Cal PMO	Incorporates various reviewer comments	FI\$Cal PMO
10/08/2007	3.11	FI\$Cal PMO	Incorporates various reviewer comments	FI\$Cal PMO
10/08/2007	3.11	FI\$Cal PMO	Charter approved and adopted by the Steering Committee	Steering Committee
10/26/2007	3.12	FI\$Cal PMO	Incorporates changes to format of scope from SPR2, as well as various suggested edits.	FI\$Cal PMO

Date	Version	Last Updated By	Status/Comments	Approved By
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02/08/2008	3.16	FI\$Cal PMO (MLM)	Updated FI\$Cal Governance Chart Overview, Appendix C	FI\$Cal PMO
03/20/2009	3.16	FI\$Cal PMO	<p>Incorporated changes as directed by the Steering Committee:</p> <ul style="list-style-type: none"> Update Steering Committee membership Establish Customer Impact Committee Establish ERP Advisory Committee Add and define Trifecta Update PBE responsibilities Add org chart "Recommended Governance Structure" 	FI\$Cal PMO
03/24/2009	3.16		Steering Committee adopted version 3.16	Steering Committee
03/27/2009	4.0	FI\$Cal PMO	Final Version with signature	Steering Committee
05/20/2009	4.01	FI\$Cal PMO	Update FI\$Cal Project Charter as directed by the Project Executive following discussion with the SCO PBE	FI\$Cal PMO
05/20/2009	4.02	FI\$Cal PMO	Identify Vicky Sady as the Project Director	FI\$Cal PMO
05/20/2009	5.0	FI\$Cal PMO	Final Version with signature	Steering Committee

Date	Version	Last Updated By	Status/Comments	Approved By
10/07/2009	5.05	FI\$Cal PMO	Update to match SPR 3: <ul style="list-style-type: none"> • 2.1 Project Background • 2.2 Vision • 2.5 Governance • 2.6 Roles & Responsibilities • 3.0 Project Objectives • 3.1 Scope • Delete First Stage Use of FI\$Cal • 3.6 Project Assumptions and Constraints • Update Appendices Charts 	Project Charter Walkthrough by Executive Team
12/03/09	5.06	FI\$Cal PMO	Additional updates to further conform to OCIO's CA-PMM: <ul style="list-style-type: none"> • Summary Milestones • Deadlines • Known Risks • Runaway Triggers • Shutdown Conditions 	PMO Deputy Director
12/14/09	5.07	FI\$Cal PMO	Move the Scope Details to the Appendices	PMO Deputy Director
01/30/10	5.1	FI\$Cal PMO	Include governance modifications, and reintroduced deputy director roles from August 2009 version.	FI\$Cal Project Director
11/19/10	5.2	FI\$Cal PMO	Additions made in version 5.06 have been moved to PMP. Detail roles consistent with the Project governance that was approved in the October 20, 2010 Steering Committee Meeting.	PMO Deputy Director
12/02/10	5.2	FI\$Cal PMO	Updated based on Executive Team, IV&V, IPO, and QA input.	Project Charter Walkthrough by Executive Team
12/07/10	5.2	FI\$Cal PMO	Document Review	Executive Team
12/10/10	5.2	FI\$Cal PMO	Document Review	Steering Committee Executive Working Group
12/15/10	5.2	FI\$Cal PMO	Charter approved and adopted by the Steering Committee	Steering Committee
12/20/10	6.0	FI\$Cal PMO	Approved and signed by Fred Klass, Chair FI\$Cal Steering Committee	Steering Committee

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¹ This update to the FI\$Cal Project Charter incorporates the project charter components listed in the CA-PMM to the extent possible. Additional charter components including Project Governance and related Roles and Responsibilities continue as components due to the necessity for additional depth and detail directly related to the size and complexity of the FI\$Cal Project.

1.0 Introduction

This Project Charter defines the scope, objectives and participants of the Financial Information System for California (FI\$Cal) Project. The Project Charter provides a delineation of roles and responsibilities, outlines the project objectives, and identifies the main stakeholders. The Project Charter establishes the project governance and the authority of the project management team. The establishment of the Project Charter is considered an industry best practice. This Project Charter will be revised as approved by the Project Steering Committee. The project management standard for the FI\$Cal Project Charter is based on the Project Management Body of Knowledge (PMBOK), from the Project Management Institute (PMI) and also on the California Office of the State Chief Information Officer (OCIO) California Project Management Methodology (CA-PMM).

2.0 Charter

2.1 Project Background

In 2005, the Department of Finance (DOF) developed a Feasibility Study Report (FSR) that proposed the implementation of a commercial-off-the-shelf (COTS) Budget Information System (BIS)² to meet statewide and departmental budget development and budget administration needs. The objective of the BIS Project was to develop a comprehensive statewide budget system to prepare, enact, and administer the state's annual financial plan (budget) and to provide critical information required to make budget decisions and manage state resources. The solution was also intended to address other critical information and budget deliberation needs of the Legislature and to take into account the intent to develop a future enterprise financial management system for other common statewide applications.

The collaboration and discussions with the project stakeholders, along with the information gathered and shared in researching efforts in other governments (state, local, and federal level) and private industry, brought into sharp focus the need to consolidate and modernize the state's entire financial management process into a single financial management system. In addition, through these efforts, there was a clear conclusion that one of the intended objectives of the BIS Project, budget administration, could not be accomplished as envisioned within the existing project scope.

In December 2006, the DOF approved an SPR for the Financial Information System for California (FI\$Cal). FI\$Cal is a partnership between the agencies responsible for the state's financial management: DOF, the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS), collectively known as the "Partner Agencies."

A trailer bill to the Budget Act of 2007 required the Project to develop additional planning documents and submit them to the Legislature no later than April 1, 2008. In addition to evaluating four specific alternatives, the Project was required to include a plan of funding that evaluated alternative financing options including the use of special funds and federal funds, develop formal roles and responsibilities through the execution of a memorandum of understanding by the Partner Agencies, and develop a revised project management plan to address project leadership succession planning and vendor accountability. This resulted in SPR 2³ which was approved by DOF in December 2007.

In February 2008, the Legislative Analyst's Office (LAO) analysis of SPR 2 recommended proceeding with the project while incorporating alternatives which would reduce risk, provide for greater legislative oversight and review, lower initial costs, and rely less on borrowing. In April 2008 the Legislature approved the FI\$Cal Project.

In January 2009, in response to concerns expressed by the Legislature, the Office of the Chief Information Officer (OCIO), the LAO, and the Partner Agencies, the Project contracted with Enterprise Resource Planning (ERP) experts, Grant Thornton, LLP, to conduct a review in the context of best practices for planning and implementing a large ERP project. The Project Review included the following tasks: (1) review the proposed project objectives, (2) review the FI\$Cal business requirements, (3) review the project organization and governance structure, (4)

² The BIS FSR was approved July 26, 2005

³ A copy of SPR 2 is located at http://www.fiscal.ca.gov/project_information/publications/

review the project implementation approach, and (5) recommendation of the best sourcing strategy within the existing FI\$Cal procurement approach.

The Project Review has not changed the overall project scope. The project goals, overall business requirements, and bundled procurement approach remain consistent with SPR 2. Rather, the review recommended the proposed implementation strategy and approach be revised to reduce the initial development costs and mitigate risks by reducing the functionality deployed in the first implementation (Wave 1)⁴. The proposed strategy aligns with best practices in large public sector ERP implementations, and provides for early success, development of the Project Team's skills, and reassurance of the stakeholder community. The revised project strategy described in this document is largely a result of the Project Review and subsequent decisions of the FI\$Cal Steering Committee.

2.2 Vision

To serve the best interest of the state and its citizens and to optimize the business management of the state, we will collaboratively and successfully develop, implement, utilize, and maintain an integrated financial management system. This effort will ensure best business practices by embracing opportunities to reengineer the state's business processes and will encompass the management of resources and dollars in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting.

2.3 Leadership and Partnership for Success

To achieve the new project vision (an enterprise view); there is a critical need to provide statewide leadership and coordination. This begins with a partnership among the state's four control agencies (Partner Agencies); Department of Finance (DOF), State Controller's Office (SCO), Department of General Services (DGS), and the State Treasurer's Office (STO). These agencies have reached consensus on scope and approach to achieve the vision as well as roles and responsibilities. Underlying this agreement and the roles and responsibilities set forth in this Charter, is the principle that FI\$Cal will work towards a vision that represents the common and best interest of the state. As such, the Partner Agencies are committed to work together collaboratively and cooperatively for the common good and benefit of the Partner Agencies, all other state departments, and the public. For an overview of Consensus Decision Model processes, see Appendix B. Each recognizes the unique opportunity that an enterprise view offers the state and its citizens. Each entity has unique constitutional and/or statutory responsibilities relative to specified business processes that will be separately maintained throughout the partnership. This will require members of the team to have dual reporting relationships both to the FI\$Cal Project and to their constituent department. These team members will have a key responsibility to report and raise issues to both the project management and their constituent department management.

⁴ See the FI\$Cal Special Project Report 3, Section 3.1.2 ERP Implementation Approach, for a definition of implementation Stages and Waves.

2.4 Constitutional or Statutory Responsibilities

The current core⁵ constitutional and/or statutory responsibilities of the Partner Agencies will not change as a result of implementation of the proposed enterprise financial system. In addition, the roles and responsibilities for system administration will be clearly delineated since the administrative functions in the centralized system will be owned by multiple Partner Agencies through the established partnership. However, implementation of the proposed enterprise financial system may require statutory (and/or regulatory) modernization.

A formal memorandum of understanding (MOU) between the Partner Agencies has been executed to provide the framework for this partnership. The MOU includes covenants guaranteeing the Partner Agencies' constitutional and/or statutory responsibilities will not change without the affected Partner Agency's concurrence; each Partner Agency has "ownership" of their respective business areas in relationship to the system. Therefore, each Partner Agency has the authority to ultimately determine how the system will be developed, configured, etc., in relation to their respective business roles and responsibilities. The MOU is defined by the steering committee and approved by the Partner Agencies.

The FI\$Cal Project will have a broad impact on departments and agencies throughout the state. Consequently, it is anticipated that the respective departmental representatives will participate in the FI\$Cal Project at varying levels to provide input into the strategy and requirements, as needed.

2.5 Governance

As the state moves forward with the development of a statewide enterprise financial management and information system, the need for leadership and governance related to statewide (enterprise) level issues is reinforced. An important success factor throughout this Project is the common understanding of who is on the Project and their roles and responsibilities.

The governance of this Project is by the Steering Committee comprised of the Project Sponsor, the four Partner Agencies, the State Chief Information Officer, and the Chair of the Customer Impact Committee. Escalation, if needed, is to the Project Directorate whose representation includes the Director of Finance, the Director of General Services, the Controller or his/her chief of staff, and the Treasurer or his/her Chief Deputy Treasurer. As the Project proceeds, it is anticipated that clarification and amendments to project team roles and responsibilities will periodically be required.

Another important success factor is the role of the Steering Committee Executive Working Group. Their primary role is to be an action-oriented, decision-making group whose purpose is to keep controversial issues within the Project from materially impeding the Project's progress toward successful implementation. In order to ensure that decision-making involving critical issues does not materially impeded the Project's progress toward successful implementation, it is the Steering Committee's intent that decisions be made at the lowest level possible.

1. The Steering Committee Executive Working Group serves as an avenue for informal escalation of issues stalled within the Project.

⁵ Core constitutional and/or statutory responsibilities refer to the current core mission, functions and responsibilities of the Partner Agency.

2. The Steering Committee Executive Working Group will not make decisions on issues put before it unless and until those issues have been fully vetted by PBEs and Project management and an acceptable consensus among them cannot be achieved.

The Steering Committee Executive Working Group will also provide a forum for informal discussion prior to formal action of issues that must be formally decided by the full Steering Committee per the Governance Charter and Change Control Plan. These issues will come to the Steering Committee Executive Working Group regardless of whether there is a consensus within the Project on them or not. All Steering Committee Executive Working Group members have the ability to raise issues that he or she believes need to be discussed by the group without any limitations.

The Change Control Board (CCB) serves as a decision-making forum for high-impact issues that need to be escalated for resolution during the course of the Project. The membership of the CCB consists of the FI\$Cal Project Director, the Partner Business Executives, and such other positions as identified in the Change Control Plan. The group's function is to ensure that important issues are addressed in a timely manner so as not to impede the progress of the FI\$Cal Project. CCB members will have decision-making authority delegated by the organization they represent as well as the responsibility to keep their sponsoring organizations and the rest of the project stakeholders informed as to the items that come to the group and the decisions that come out of the group.

2.5.1 Trifecta

Formal coordination through a charter has been established and adopted among the three administrative enterprise projects collectively known as the Trifecta, which includes the FI\$Cal Project, the Human Resources Modernization Project, and the 21st Century Project.

The three major projects are being undertaken by the state to modernize financial management and administrative systems and processes. The projects are significant undertakings that will impact most state employees. The projects, while at different stages of the project lifecycle, will face many similar issues and will provide opportunities for improved efficiency. The state recognizes there are several connections and dependencies among these projects. The Trifecta represents the state's initial efforts to develop a formal and disciplined mechanism for coordinating state financial and administrative management modernization projects.

The Office of the State Chief Information Officer (OCIO) is represented in the Trifecta meetings by virtue of its responsibility and authority to guide the application of information technology (IT) in California state government. This includes improving efficiencies in developing and implementing IT and establishing policies for strengthening project management.

2.5.2 Customer Impact Committee

The Customer Impact Committee (CIC) serves in support of the FI\$Cal Steering Committee and as a leadership group to provide a formal mechanism for departments and agencies to express their views and receive information from the FI\$Cal project team, provide broad input and advice to the Steering Committee, and promote effective representation of department needs during appropriate phases, waves, and stages of the FI\$Cal Project. The CIC will elect a Chairperson that will participate as a voting member of the FI\$Cal Steering Committee representing the CIC. For additional detail please reference the CIC Charter.

2.5.3 ERP Advisory Committee

The ERP Advisory Committee is comprised of Enterprise Resource Planning (ERP) implementation experts from outside of the Project. Representation should include:

1. California departments that have implemented ERP projects
2. Other public sector organizations that have implemented ERP projects
3. Private sector organizations with attributes similar to California
4. ERP software and system integration providers/vendors⁶

This Committee’s purpose is to provide periodic advice and council to the FI\$Cal Steering Committee.

2.6 Roles and Responsibilities

The roles and responsibilities table below identifies the parties responsible for various tasks and activities required for the procurement, development, implementation, and maintenance of the FI\$Cal Project. For all tasks and activities not covered in this table or defined in the Project Plans, the FI\$Cal Steering Committee agrees there will be further discussion and mutual agreement regarding the respective roles and responsibilities. The Charter will be updated as appropriate as those decisions are made.

The statewide project team is a matrix organization that includes representatives from state departments and agencies, and all four Partner Agency organizations (DGS, STO, SCO, and DOF).

Team members will work collaboratively to develop a statewide system. Decisions will be made by the project team following the vision, goals, objectives, and the requirements of the Project.

Table 1 – Roles And Responsibilities	
Roles	Responsibilities
Project Directorate	<ol style="list-style-type: none"> 1. Resolve policy issues or other critical issues in the event that the Steering Committee has reached an impasse. 2. Make final decisions on outstanding item(s) that cannot or will not be resolved by the Steering Committee. 3. Composition of the Directorate is the four Partner Agencies (SCO, DGS, STO, and DOF); representation will be the Director of Finance, the Director of General Service, the Controller or his/her chief of staff, and the Treasurer or his/her Chief Deputy Treasurer. 4. Any member of the Project Directorate may call a special meeting to discuss and resolve project issues.
Project Sponsor	<ol style="list-style-type: none"> 1. Chair the Steering Committee. 2. Champion statewide support for the Project. 3. Provide sponsorship and support for the Project. 4. Ensure project funding and resources.
Steering Committee	<ol style="list-style-type: none"> 1. Establish project goals and priorities. 2. Serve as the primary champion responsible for communicating project strategy, benefits, and direction to their respective departments. 3. Review and approve recommendations from the Change Control Board involving significant changes to project scope, budget, or schedule. 4. Appoint the Steering Committee Chair, who will also be the Project Sponsor.

⁶ Participation would be coordinated and appropriate to California procurement policies, processes, and rules.

Table 1 – Roles And Responsibilities

Roles	Responsibilities
	<ol style="list-style-type: none"> 5. Assign authority to the Project Executive. 6. Assist in the selection of the Project Executive. 7. Provide statewide leadership and support for the Project. 8. Participate in coordination and allocation of departmental and project resources. 9. Support the Project by communicating the vision and working to reduce barriers and mitigating risk. 10. Facilitate the interdepartmental collaboration of a statewide system. 11. Provide issue resolution across agencies. 12. Provide advice regarding consistency with statewide strategies, direction, and policies. 13. Participate in succession planning.
Steering Committee Executive Working Group	<ol style="list-style-type: none"> 1. Discuss and deliberate on major project issues and make recommendations to the full Steering Committee. 2. Membership is made up of Steering Committee executives and supported by FI\$Cal Project leadership. See Table 2 – Steering Committee Membership and Staff. 3. Legislative Analyst and Bureau of State Audits to attend as observers. 4. One vote per partner, if necessary.
Customer Impact Committee	<ol style="list-style-type: none"> 1. Appointed by and report to their respective agency. 2. Elect a Chair as a voting member of the Steering Committee. 3. Coordinate communication activities between the Project and their respective agency. 4. Identify and communicate issues, risks, or obstacles affecting successful project implementation by impacted departments statewide. 5. Escalate project issues and concerns through the Customer Impact Committee Chair to the Steering Committee. 6. Advise the Steering Committee through the Customer Impact Committee Chair of impacts to stakeholders/departments of project approach, schedule, plans, and activities.
ERP Advisory Committee	<ol style="list-style-type: none"> 1. Provide periodic advice and council to the Steering Committee. 2. Advise and report to the Steering Committee as requested.
Trifecta	<ol style="list-style-type: none"> 1. Support coordination between California’s three administrative enterprise projects which includes the FI\$Cal Project, the Human Resources Modernization (HR Mod) Project, and the 21st Century Project. 2. Coordinate the management, dependencies, and synergies of statewide projects.
Project Executive	<ol style="list-style-type: none"> 1. Promote the vision for the Project. 2. Provide leadership for the Project. 3. Ensure that the project business vision, goals, objectives, and policies are identified and met. 4. Liaison to the Legislature, State CIO, Governor’s Office, departments, and agencies. 5. Provide Executive oversight for the Project and the delivery of the solution. 6. Report project achievements and status to the Steering Committee. 7. Elevate issues to the Steering Committee.

Table 1 – Roles And Responsibilities

Roles	Responsibilities
	<ol style="list-style-type: none"> 8. Serve as a project spokesperson responsible for communicating project strategy, benefits, direction, status, and recommendations to stakeholders, public, and the Legislature. 9. Approve final external project deliverables. 10. Participate in succession planning.
Project Director (State Project Manager)	<ol style="list-style-type: none"> 1. Provide a centralized structure to coordinate and manage the Project, its staff resources, teams, activities, facilities, communication, and outreach using structured project management methodologies. 2. Chair the Change Control Board. 3. Elevate requests or issues to the Change Control Board. 4. Report to the Project Executive. 5. Ensure overall project process and deliverable quality – responsible for the delivery of the solution. 6. Ensure quality control and quality assurance are performed in accordance with the quality plan. 7. Ensure the solution implemented addresses the Project's and associated program objectives. 8. Serve as the central point of coordination and internal communication for the Project. 9. Ensure alignment and cooperation between the Project Stakeholders by facilitating and supporting an environment of collaboration and communication. 10. The Project Director shall effectively engage the Project Executive and the Partner Business Executives in Project decision making to minimize negative impacts to State Program operations while ensuring that project objectives are achieved. 11. Ensure timely communication with the Project Executive and Partner Business Executives through the established project management process (project management plans). 12. Direct the activities of state and vendor personnel assigned to the project. 13. Monitor the planning, execution, and control of all activities necessary to support the implementation of a statewide enterprise financial system. 14. Provide leadership to state staff assigned to manage the multidisciplinary project teams including business, change management, project management, technology, and vendor management teams. 15. Maintain and monitor the project plan and performance, including performance of contractors. 16. Coordinate with the independent verification and validation and independent project oversight consultant to address and incorporate findings and recommendations. 17. Participate in the identification, quantification, and mitigation of project risks. 18. Direct the development of project documentation required by control agencies. 19. Coordinate information and issues with the Partner Business Executives when the project management processes (project management plans) do not provide an approach or resolution. 20. Make daily operations decisions.

Table 1 – Roles And Responsibilities	
Roles	Responsibilities
	21. Participate in succession planning.
Administration Director	<ol style="list-style-type: none"> 1. Provide Human Resource, Budget, Accounting, and Business Services to the FI\$Cal Project. 2. Ensure that the administrative and reporting activities of the Project are met. 3. Responsible for coordination and management of project funding and resources. 4. Develop and maintain the Project and FI\$Cal Office Budget. 5. Coordinate with the Project Management Office (PMO) to ensure administrative functions are aligned with project management functions. 6. Assist in obtaining and managing resources assigned to the Project. 7. Ensure key project deliverables meet contract requirements.

Table 1 – Roles And Responsibilities

Roles	Responsibilities
Partner Business Executives	<ol style="list-style-type: none"> 1. Appointed by and report to their representative Partner Agencies. 2. Provide staff support function to their Steering Committee representative(s) and agencies. 3. Coordinate Partner Agency activities between the project and their respective partner agencies. 4. Support the project business vision, goals, objectives, policies and procedures. 5. Assist with prioritizing and resolving business priorities related to the Project. 6. Serve as a Project champion and spokesperson responsible for communicating project strategy, benefits, direction, status, and recommendations to their respective Partner Agencies. 7. Provide input on key project deliverables and acceptance criteria. 8. On an as needed basis, coordinate significant project deliverable concerns with Project and representative Partner Agency management. 9. Ensure the coordination and integration of project activities and transition activities within their respective Partner Agency. 10. Identify project risks and issues and provide input and solutions into risk mitigation strategies consistent with the intent expressed within this Charter Section 2.3 to work cooperatively and collaboratively for the common good. 11. Perform responsibilities within the project management and leadership structure and processes to participate in critical problem solving. 12. Participate as a member of the Change Control Board. 13. Receive delegated decision authority from their respective Steering Committee representative(s) provided delegation is limited to decisions that are consistent with the Scope Management and Change Control Plans. 14. Responsible for escalating issues within the established project management processes documented in the project management plans. 15. Elevate project concerns with their representative management at the highest levels in the event a critical need is not being addressed in a timely manner. 16. Support and facilitate the hiring of Partner Agency staff with the right skills sets and vision to support the state’s transition to FI\$Cal. 17. Leading change management within their respective organizations.

2.6.1 Other Key Members of the Project Management Team

As part of the Project’s organizational structure, the project management team includes key positions to support and lead the major efforts of the Project.

The Deputy Project Directors lead and/or manage one or more project teams and report to the Project Director. They serve a critical role in problem solving, strategy, and decision making. Specific duties will be included in the FI\$Cal Project Management Plan.

The Functional Authority (FA) serves as a subject matter expert in support of the Project. The FA will represent their functional knowledge area from the Partner Agencies. As employees of

the Partner Agencies, they will work collaboratively to find enterprise solutions and outcomes that are in the best interest of the state. The FAs will be full-time members of the Business Team who serve as leads over the business experts for the broad financial management functions of FI\$Cal. The FA duties will be described in the FI\$Cal Project Management Plan.

2.6.2 FI\$Cal Service Center Organization Overview

The future vision of the FI\$Cal Service Center governing board membership will include the SCO, DOF, STO, DGS, and CIC designees. Each Partner Agency project needs and policy issues will be vetted and presented to the governing board. It is envisioned that each Partner Agency will have staff consisting of a customer service unit and an administrative/budget unit that will facilitate departmental needs related to the FI\$Cal system. See Appendix D for the proposed FI\$Cal Service Center Governing Board.

Staff from the four Partner Agencies may be part of the FI\$Cal Service Center to ensure Partner Agency needs are met; this may be a continuation of the matrix organization approach where business needs are addressed but critical processes, such as configuration management, are centrally managed. A process must be put in place to accomplish the business owner's critical business priorities in a timely fashion. The board will set project priorities on an annual basis but with an understanding that the center will retain staff who will respond to critical ad-hoc needs.

2.6.3 Steering Committee Membership

The membership of the project Steering Committee reflects the Project's primary financial management functions. The partnership with the four Partner Agencies and departments are represented by the Chair of the CIC, the State Chief Information Officer, and the Project Sponsor that serves as the Chair of the Steering Committee. Each Partner Agency identifies its Steering Committee members. The Project Executive selection includes the participation of the Steering Committee. Selection of the Project Director is approved by the Steering Committee. See the Human Resource Management Plan for more information.

The Steering Committee governs the FI\$Cal Project and meets quarterly. Each Steering Committee member will designate an alternate in the event they are unable to attend. The Executive Working Group will meet monthly or as needed to address issues that have been brought before them for discussion and recommendation to the Steering Committee for their action.

The current lists of the Steering Committee members' names are referenced in Appendix A of this document.

Table 2 – Steering Committee Membership		
Business Title	Role	SC Executive Working Group Member
Chief Operating Officer Department of Finance	Project Sponsor - Chair	X
Chief Technology Officer, OCIO	OCIO Committee Member	X
Program Budget Manager Department of Finance	DOF Committee Member	
Program Budget Manager Department of Finance	DOF Committee Member	
Chief Operating Officer	SCO Committee Member	X
Chief Administrative Officer	SCO Committee Member	
Deputy Director Procurement Division	DGS Committee Member	X
Deputy Director Administrative Services Division	DGS Committee Member	
Director Cash Management Division	STO Committee Member	X
Chair, Customer Impact Committee	State Agency Representative	
Business Title	Role	SC Executive Working Group Member
FI\$Cal Project Executive	Project Executive	X
Interim FI\$Cal Project Director	Project Director	X

3.0 Project Objectives

To achieve the project vision of implementing a statewide ERP to be used by the four Partner Agencies and departments, the Project developed objectives that outline what benefits an ERP system can provide. The original objectives have been streamlined to better align with the goals. These are presented without any respect to urgency or priority. The following are the revised objectives of the Project:

1. Replace the state's aging legacy financial systems and eliminate fragmented and diverse reporting by implementing standardized financial management processes and systems across all departments and control agencies. Financial Management is defined as accounting, budgeting, cash management, asset accounting, vendor management and procurement.
2. Increase competition by promoting business opportunities through the use of electronic bidding, online vendor interaction, and automated vendor functions.
3. Maintain a central source for financial management data to reduce the time and expense of vendors, departments, and agencies collecting, maintaining, and reconciling redundant data.
4. Increase investment returns through timely and accurate monitoring of cash balances, cash flow forecasting, and timing of receipts and disbursements.
5. Improve fiscal controls and support better decision making by state managers and the Legislature by enhancing the quality, timeliness, consistency, and accessibility of financial management information through the use of powerful data access tools, standardized data, and financial management reports.
6. Improve access and transparency of California's financial management information allowing the implementation of increased auditing, compliance reporting, and fiscal accountability while sharing information between the public, the Legislature, external stakeholders, state, federal, and local agencies.
7. Automate manual processes by providing the ability to electronically receive and submit financial management documents and data between agencies, departments, banks, vendors, and other government entities.
8. Provide online access to financial management information resulting in a reduction of payment and/or approval inquiries.
9. Improve the state's ability to preserve, access, and analyze historical financial management information to reduce the workload required to research and prepare this information.
10. Enable the state to more quickly implement, track, and report on changes to financial management processes and systems to accommodate new information such as statutory changes and performance information.
11. Reduce the time, workload and costs associated with capturing and projecting revenues, expenditures, and program needs for multiple years and scenarios, and for tracking, reporting and responding to legislative actions.
12. Track purchase volumes and costs by vendor and commodity/service code to increase strategic sourcing opportunities, reduce purchase prices, and capture total state spending data.

13. Reduce procurement cycle time by automating purchasing authority limits and approval dependencies, and easing access to goods/services available from existing sources (e.g., leveraged procurement agreements).
14. Streamline the accounts receivable collections process and allow for offset capability which will provide the ability for increased cash collection.
15. Streamline the payment process and allow for faster vendor payments which will reduce late payment penalty fees paid by the state.
16. Improve role-based security and workflow authorization by capturing near real-time data from the state's human resources system of record.
17. Implement a stable and secure information technology (IT) infrastructure.

3.1 Principles

The FI\$Cal principles will drive the management and governance processes throughout the life of the FI\$Cal Project.

1. In recognition that FI\$Cal is the State of California's largest and most important Enterprise IT project today we must:
 - a. Not allow political considerations to interfere with Project decision making.
 - b. Promote FI\$Cal with our actions, behaviors, and conversations.
 - c. Provide the best and brightest resources.
2. The FI\$Cal Project Executive and Directors will make operational and administrative decisions.
3. We will reengineer the state's business processes that reflect the inherent best practices in an ERP solution, considering statutory constraints and policies.
4. Project decisions will drive towards outcomes that are in the best interest of the state. Decisions will be based on full consideration of statewide risk, cost, and benefits.
5. We will have a robust Change Management program that will allow employees to survive and thrive before, during, and after FI\$Cal implementation.
6. The Project will be fully transparent in measuring and reporting the costs and benefits of implementing and operating the FI\$Cal System.
7. The Project will facilitate an environment that fosters and encourages the attribute of quality in all project products and processes.

3.2 Scope

Essentially all state governmental entities will utilize this system within defined roles and responsibilities. Affected organizations will participate in project team and leadership roles to develop and transition over time to a standardized, integrated, automated system to support administrative functions. To ensure the full vision can be met by the initial procurement to select a core software tool and adopt it as a standard, the functionality workshops have not excluded any departments for the purpose of defining requirements. All departments reviewed the requirements and either agreed they met their business needs or provided additional requirements.

3.2.1 Initial Scope Efforts

The major functions in the initial scope efforts include the business functionality that will be represented by the initial product selection and has been defined by the Partner Agencies and

departments. The major functions are listed below. See the Appendix E for a complete table of the major and sub functions and descriptions of each.

1. Accounting
2. Budgeting
3. Cash Management
4. Procurement
5. Vendor Management
6. Asset Management (limited to Asset Accounting)

3.2.2 Out of Scope in Initial Effort

The functions that are not in the scope of the FI\$Cal Project have been defined by the Partner Agencies and departments. These include the larger functions of Asset Management beyond Asset Accounting, Inventory Management, Human Resources, Revenue Forecasting, Employee Expense Claims, and Specialized Business Functionality Department Systems. See the Appendix F for a complete table of the major and sub functions and examples of each.

The current scope of the Project does not include departments that have implemented or are in the process of implementing an ERP system. As these department's ERP systems require upgrades or the department desires expanded functionality, they will move to FI\$Cal, and as such are referred to as "deferred departments." A standard interface will be developed for these departments to either exchange data or information through the interface, or to enter state-level information into the statewide ERP system as needed by the Partner Agencies.

3.2.3 Summary Milestones and Deadlines

The Project has implemented an approved project schedule with summary milestones. The following chart displays the Project's high level milestones since project inception:

MILESTONE	STATUS
Initial Planning	Complete
Special Project Report 1	Complete
Memorandum of Understanding with Partner Agencies	Complete
Special Project Report 2	Complete
Project Review	Complete
Special Project Report 3	Complete
Pre-Fit-Gap Activities – Stage 1	Complete
Release Request for Proposal for Fit-Gap	Complete
Execute Fit-Gap	In process
Conduct Stage 2 Acquisition	
Award Stage 2 Contract for Software and System Integrator	

3.3 Project Assumptions and Constraints

The following sets forth the assumptions on which the Project is based and the constraints under which the Project is to be conducted.

3.3.1 Assumptions

1. Expenditure authority is provided through the annual budget process and adequate project funding is available throughout the project lifecycle.
2. Vendor/software selection schedule is not delayed significantly.
3. Higher priority projects do not impact the schedule or resource requirements.
4. Vendor resources (product and system integrator) and state staff are utilized during implementation and operations phases.
5. The Project adheres to a formal project management methodology and project schedule. Proactive risk, issue, and change management strategies are employed.
6. Project implementation and deployment activities do not negatively impact the timely development and presentation of the Governor's Budget, and May Revision, year-end financial statements, or other state business activity.
7. Business roles and responsibilities for each Partner Agency does not change or expand with an enterprise-wide system and roles and responsibilities for system administration are clearly delineated since administrative functions in the centralized system will be owned by multiple Partner Agencies.
8. The state will support and operate in a dual environment concurrently as legacy systems are phased out and the new system is implemented and phased in. Interfaces with the legacy systems and some departmental systems are required while phasing in the new system implementation. However, the proposed solution will ensure that the four Partner Agencies are able to perform their primary tasks in the developed solution. Note that in SPR2, the assumption is that there will not need to be an interface between CALSTARS and the new system. The CALSTARS interface will remain between CALSTARS and SCO.
9. Project governance must be active in promoting the opportunity for business process improvements in the state's financial management business architecture, and potential policy and statutory changes. Specifically, business processes are simplified and optimized wherever possible to meet the goals of the Project within specified timeframes.
10. The IT infrastructure at state agencies (including workstations or desktop platforms) is mature and sufficient to support this solution. To the extent this is not true, it is expected that departments will identify and seek the resources for remedy.
11. The SCO's 21st Century Project includes necessary position data and history as the state system of record to support the project. This is a function of project dependencies and schedule. Currently this information is part of the SCO legacy systems.
12. Stakeholders reach agreement on a statewide coding structure (chart of accounts).
13. A rigorous change management program is developed and in place to manage resistance to change and to assist state departments, agencies, and other stakeholders' transition to the new system and processes.
14. FISCAL's IT acquisition plan for supporting contracts and procurements subject to Executive Order contractual restrictions under multi-year IT systems can obtain an exemption from the OCIO and the Department of Finance.

3.3.2 Constraints

1. Solution operates in the context of the state's direction for an enterprise-wide solution.
2. The solution makes use of the state's computing resources, technical infrastructure, and data center where appropriate.
3. Some departments have program needs that cannot be met by an enterprise-wide administrative system. A process will be developed to identify and document unique business needs (i.e., program specific and not common to the statewide enterprise) that are beyond the enterprise system.

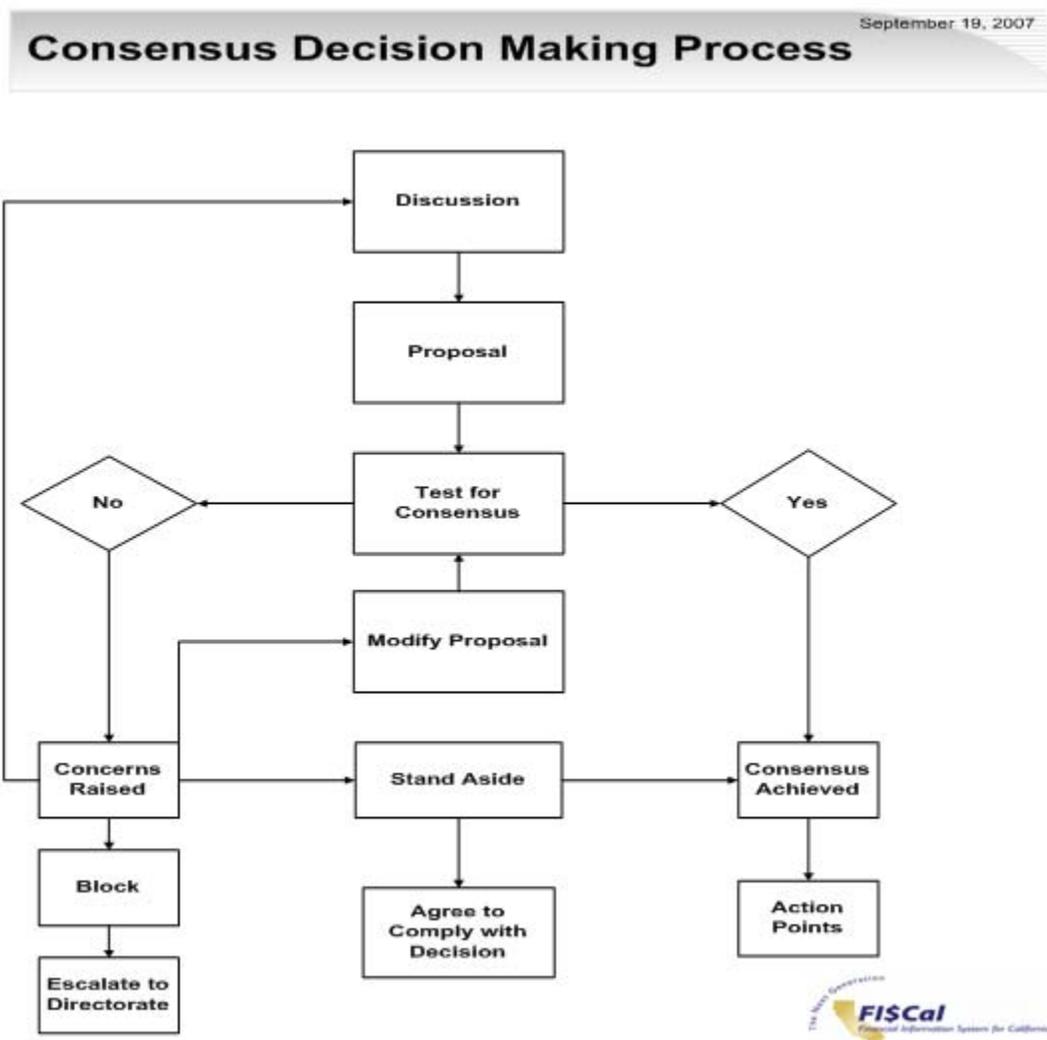
4. The Project is subject to annual budget appropriations and assumes that adequate funding will be provided through the annual budget process.
5. Appropriate state program and technical resources are not sufficiently allocated to the project office, and to any ancillary teams related to this effort.
6. Agencies and departments will need resources to participate and provide information as required to successfully develop and implement system interfaces and data exchange processes.
7. Existing laws restrict rather than support the system business processes reengineering.

Appendix A: Steering Committee Membership Names

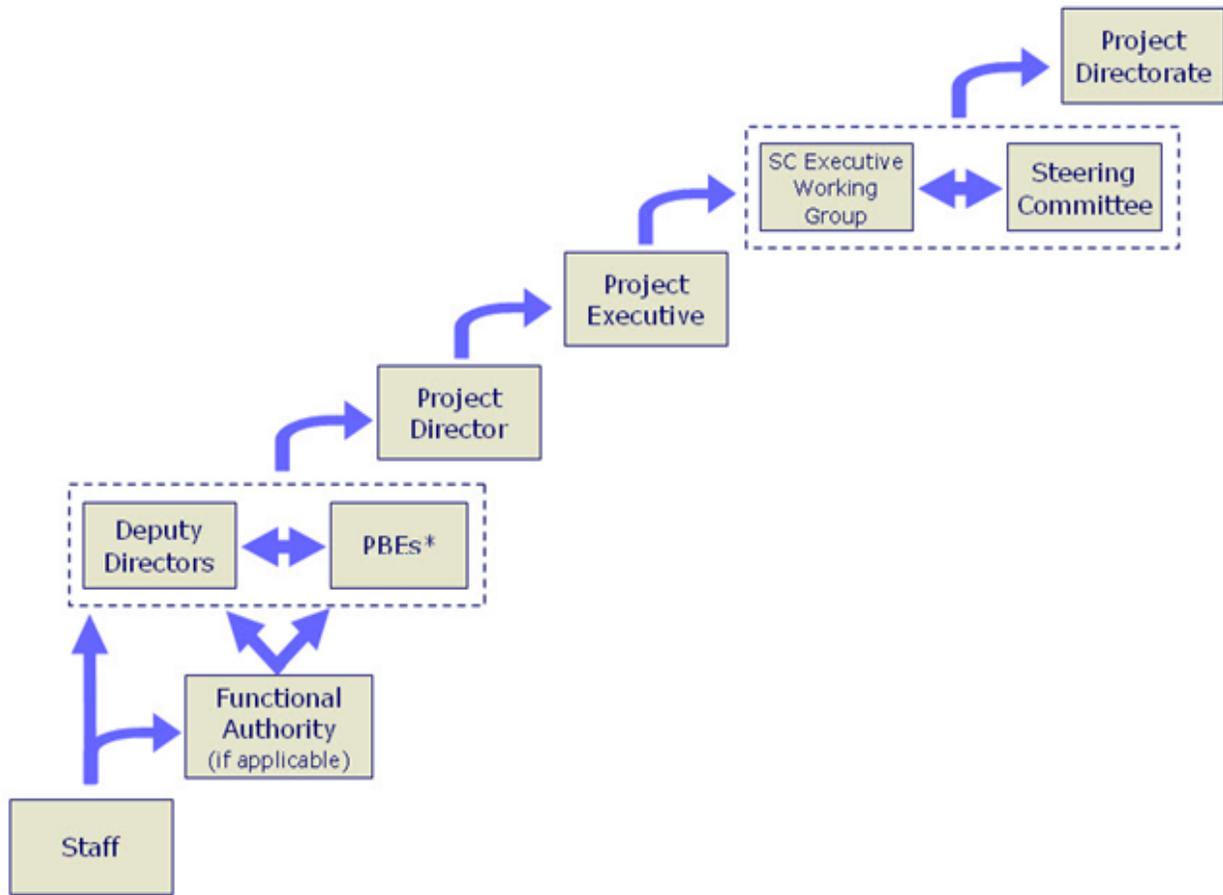
Table 3 – Steering Committee Membership Names			
Steering Committee Members			
Name	Business Title	Role	SC Executive Working Group Member
Fred Klass	Chief Operating Officer, DOF	Project Sponsor - Chair	X
Adrian Farley	Chief Technology Officer, OCIO	OCIO Committee Member	X
Veronica Chung-Ng	Program Budget Manager, DOF	DOF Committee Member	
Karen Finn	Program Budget Manager, DOF	DOF Committee Member	
John Hiber	Chief Operating Officer, SCO	SCO Committee Member	X
Jim Lombard	Chief Administrative Officer, SCO	SCO Committee Member	
Jim Butler	Deputy Director Procurement Division, DGS	DGS Committee Member	X
Teresa Bierer	Deputy Director Administrative Services Division, DGS	DGS Committee Member	
Mark Hariri	Director Cash Management Division, STO	STO Committee Member	X
Sue Johnsrud	Chair, Customer Impact Committee	State Agency Representative	
Staff to Steering Committee			
Name	Business Title	Role	SC Executive Working Group Member
Titus Toyama	FI\$Cal Project Executive	Project Executive	X
Michael Reyna	Interim FI\$Cal Project Director	Project Director	X

Appendix B: Consensus Decision Model and Decision Escalation

The FI\$Cal Project has adopted a Consensus Decision Model for decision making and issue resolution. As items or issues that require decision are brought forth, they will be discussed in order to allow participants and stakeholders to voice their thoughts, reactions, and ideas. A proposal will be put forward that incorporates the various viewpoints. Following the discussion and proposal, the issue will be tested for consensus across the group with a vote. This involves determining who agrees, and who does not, with the proposal, as well as what the major objection points are, and whether there are any blocks. If consensus is reached, the decision can be made. If consensus is not reached, objectors may choose to stand aside, in which case the decision can be made at that time (agree to disagree). If concerns or objections are significant and a stand aside is not an option, consensus cannot be reached and the issue may then be escalated to the Project Directorate.

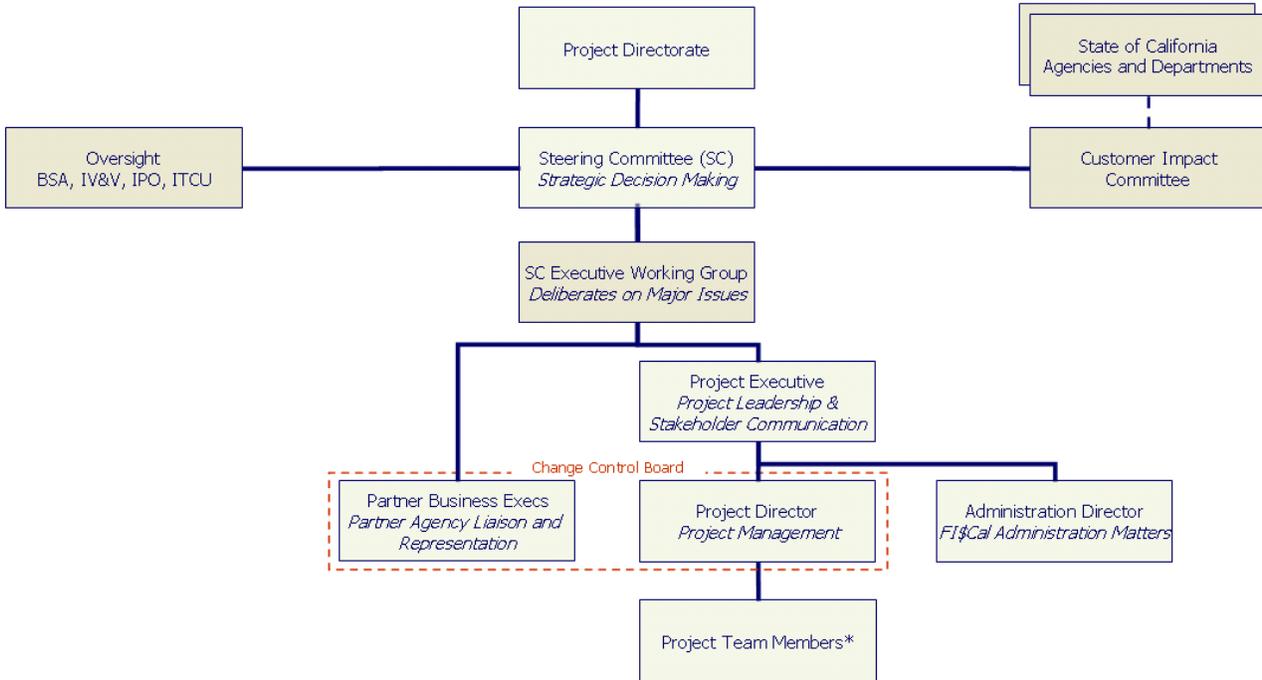


Project Escalation Process



* Note: PBEs may escalate concerns directly to their Steering Committee members after following the processes defined in the Project's governance and management documents.

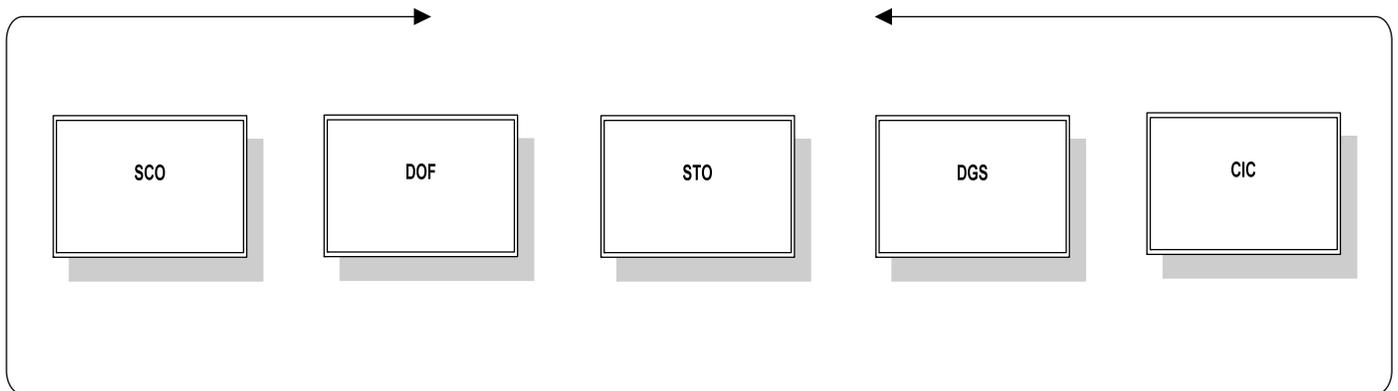
Appendix C: FI\$Cal Project Governance Structure



* Includes project and partner staff

Appendix D: Proposed FI\$Cal Service Center Governing Board

Proposed FI\$Cal Service Center Governing Board (After Stage 1 and Stage 2)



FI\$CAL Governing Board

The FI\$Cal Service Center governing board membership will include the SCO, DOF, STO, DGS, and CIC designees. Each Partner department project needs and policy issues will be vetted and presented to the governing board. It is envisioned that each Partner department will have a staff consisting of a customer services unit and an administrative/budget unit that will facilitate departmental needs as is related to the FI\$Cal System.

Staff from the four Partner agencies may be part of the FI\$Cal Services Center to ensure partner needs are met; this may be a continuation of the matrix organization approach where business needs are addressed but critical processes, such as configuration management, are centrally managed. A process must be put in place to accomplish the business owner's critical business priorities in a timely fashion. The board will set project priorities on an annual basis but with an understanding that the center will retain staff who will respond to critical ad-hoc needs.

Appendix E: Initial Scope Efforts

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
Accounting*		<p>Accounting is the process of recording, summarizing, and reporting (including ad hoc) the State's financial transactions. The process must properly, accurately, and systematically account for all receipts, disbursements, resources, obligations, and property of the state and must allow for accurate and comparable records, reports, and statements of all financial affairs of the state in compliance with governing accounting and reporting statutes/standards.</p> <p>Beginning with Wave 1 and for each fiscal year thereafter, there must be a single book of record for all of the state's financial transactions. As defined in the Acronyms and Definition section of this SPR.</p>
	Payables (Wave 1)	<p>The processes needed to authorize, record, and disburse payments from both a departmental and statewide perspective.</p> <p><u>General Payables</u></p> <p>Payables include:</p> <ul style="list-style-type: none"> • Allowing a three-way matching of a procurement/legal document, invoice, and an acknowledgment of receipt of goods and services. • Initiating, approving, and processing payment requests via workflow. • Tracking payments by specific criteria, such as vendor, commodity/service code, accounting classification and purchase document number. • Making payments to vendors, absent a record in the master vendor file, such as Medi-Cal, IHSS, and retirement payments that are generated in major external payment processing systems. • Aging analysis. • Issuing 1099's.

INITIAL SCOPE EFFORTS

Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> Maintaining payment history. <p><u>Agency Office Revolving Fund</u></p> <p>A payment mechanism for departments to issue checks from their revolving fund/agency checking account(s) for permissible uses when immediate payment is necessary. Example payments include salary advance, travel expense advance, and urgent vendor invoices (e.g., payment discount or to avoid Prompt Payment Act penalties).</p> <p><u>State Controller's Office (SCO) Payments</u></p> <p>SCO payment processes involve receiving, auditing, and processing payment requests from departments; and producing warrants drawn on the State Treasury.</p> <p>SCO payment functions include:</p> <ul style="list-style-type: none"> Validation of the legality, propriety, and accuracy of each payment which includes verifying valid appropriation authority, verifying funds availability/sufficient cash, and performing pre- and post-payment audits. Creation of warrants/statements <u>or</u> print files utilized to print warrants (including registered warrants) and statements. Creation of NACHA format "bank" files utilized to make direct deposit (EFT) payments. Creation and maintenance of warrant/payment registers.
	<p>Asset Accounting (Wave 1)</p>	<p>The process of accounting and tracking all transactions related to each asset while maintaining uniform accountability for departmental and state-level asset information for reporting.</p> <p>Asset Accounting includes:</p> <ul style="list-style-type: none"> Grouping and maintaining assets by major classes. Grouping separately capital assets related to governmental activities and those related to business-type activities, as required by governing accounting and reporting statutes/standards.

INITIAL SCOPE EFFORTS

Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> • Recording acquisition date, ownership (i.e., department, fund), identification number, depreciation, amortization, and asset acquisition cost or fair value for donated assets. • Recording additions and deletions during the period which demonstrates the change between the beginning and ending book values. • Recording capital and operating leases.
	Bond Accounting (Wave 1)	<p>The process of accounting, tracking, and reporting all transactions related to bonds and other debt financing.</p> <p>Bond Accounting includes the recording of:</p> <ul style="list-style-type: none"> • Bond authority and allocation by project. • Debt financing and bond proceeds. • Expenditure by funding source. • Debt service funding and payments, schedules of outstanding bond balances, and premium/discount amortization. • Reissued and defeased bonds.
	Chart of Accounts (Wave 1)	<p>A financial coding structure of all identified accounts used by departments and statewide functions to record financial transactions. The COA allows the state to generate accurate records, reports, and statements of various functions, transactions, and activities.</p> <p>Chart of Accounts:</p> <ul style="list-style-type: none"> • Ensures consistent recording of transactions in a uniform manner and properly assign transactions to the appropriate accounts and reporting classifications. • Provides a mechanism to ensure uniform processes in the areas of budgeting, accounting, tracking and reporting of state financial activities (such as receipts and disbursements).

INITIAL SCOPE EFFORTS

Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> • Allows access to standardized financial information allowing for reliable statewide comparisons across agencies and departments and the ability to perform detailed analysis on organizations within departments.
	Cost Allocation (Wave 1)	A process in which expenditures and encumbrances not initially charged to or directly associated with a program activity can be accumulated and then allocated to the program activities directly associated with those charges. Cost Allocation includes: <ul style="list-style-type: none"> • Calculating and applying overhead rates for indirect costs. • Distributing costs by user defined formulas, including central services costs.
	Encumbrance (Wave 1)	The commitment of all or part of an appropriation for future expenditures. Encumbrances are typically posted from documents, such as purchase estimates, purchase orders, and contracts. Encumbrance Accounting includes: <ul style="list-style-type: none"> • Reserving the amount from the appropriation, allotment and budget balances to reflect encumbrance activities. • Reclassifying appropriate encumbrances at year-end.
	Financial Reporting (Wave 1)	Provides timely published information about the financial position, results of operations, and changes in financial position of the state and its legally separate entities. This information is available to a wide range of users in making economic decisions and complying with governing accounting and reporting statutes/standards. Statutory/GAAP Reports preparation includes: <ul style="list-style-type: none"> • Comprehensive Annual Financial Report (CAFR). • Budgetary/Legal Annual Report and Annual Supplements I and II. • Cash reports (daily, weekly, monthly, annually, or other time period as specified.).

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> Department financial statements (e.g., year end, budget to actual).
	General Ledger (Wave 1)	<p>A central repository for all financial transactions and balances, individually or in summary, based on the Chart of Accounts structure. The general ledger is supported by one or more subsidiary ledgers that provide account details.</p> <p>General Ledger:</p> <ul style="list-style-type: none"> Includes postings of all financial transactions, accruals, and closing entries. Supports the state's fund accounting and financial statement preparation, such as Balance Sheet, Statement of Net Assets, Statement of Activities, and Statement of Operations. Provides for multiple bases of accounting (e.g., GAAP, budgetary/legal, accrual, modified accrual, and cash) departmentally and statewide.
	Grant Accounting (Wave 3)	<p>The process of capturing funding or other assets made available by a government or private organization to be used or expended for a specified purpose, activity or facility. The state may act as a grantor and/or a grantee.</p> <p>Grant Accounting includes:</p> <ul style="list-style-type: none"> Meeting federal reporting requirements of all cognizant federal agencies. Tracking federal reimbursement billings. Providing sub-grantee accounting for federal pass through or other grants made to cities or counties. Maintaining and reporting accounting data for a reporting period different from the state fiscal year.
	Labor Distribution (Wave 1)	<p>The process of allocating personnel <u>costs</u> and <u>hours</u> to programs and organizations, projects, grants and other chart of account elements.</p> <p>Labor Distribution includes:</p> <ul style="list-style-type: none"> Recording personnel services costs based on payroll data from the State Controller's Office

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		(SCO).
	Loan Accounting (Wave 3)	<p>The process of accounting, tracking, and reporting all transactions related to loans made from one fund/program/entity to another.</p> <p>Loan Accounting includes:</p> <ul style="list-style-type: none"> • Recording inter-fund, intra-fund, program, temporary, or long-term loans. • Recording receipts and disbursements as required by governing accounting and reporting statutes/standards.
	Project Accounting (Wave 3)	<p>Projects are defined as a temporary endeavor undertaken to create a unique product or service, such as a capital project to construct a new building. The Project Accounting process is used to track the accounting of projects by accumulating all accounting data in one place for those unique products or services.</p> <p>Project Accounting includes:</p> <ul style="list-style-type: none"> • Project Planning and Data Recording activities. • Project Administration activities for tracking and modifying/amending costs, budgets, resources, funding and other data throughout the project life cycle. • Project Closeout activities for the compiling and summing of project finances, payment of all outstanding invoices, reverting any unused funds and reallocation of any unused resources.
	Receivables/ Receipts (Wave 1)	<p><u>Receivables</u></p> <p>Amounts owed to the state by entities or individuals.</p> <p>Receivables include:</p> <ul style="list-style-type: none"> • Billing of fees for services provided by an agency. • Aging analysis. • Payroll accounts receivables. • Tracking collection activity for overdue

INITIAL SCOPE EFFORTS

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		<p>receivables.</p> <ul style="list-style-type: none"> Tracking and submitting receivables for offset including amounts owed from governmental and non-governmental entities. <p><u>Receipts</u></p> <p>Currency, checks, warrants, and other negotiable instruments that are received for deposit.</p> <p>Receipts include:</p> <ul style="list-style-type: none"> Classifying and recording receipts by type and purpose. Recording miscellaneous receipts not tied to a billing.
Budgeting*		<p>Budgeting is a multi-stage process that occurs throughout the fiscal year. The budget enacts both fiscal and operational policy for the state. The final budget, which is the state's plan of operations expressed in terms of financial or other resource requirements for a specific period of time (GC 13320, 13335; SAM 6120), is required to be enacted by July 1 of each year. The scope of the Budget process incorporates the planning, reporting (including ad hoc) and allocation of both financial and personnel resources, the receipt and disbursement of monetary resources according to the approved allocations, and the monitoring of resources to reconcile expenditures with appropriations and to track performance and output.</p> <p>There must be a single system of record that provides an official source for all of the state's budget data.</p>
	Budget Administration (Wave 2)	<p>The process of administering the annual Budget begins with an enacted budget and continues for multiple years, based on the authority provided.</p> <p>Budget Administration includes:</p> <ul style="list-style-type: none"> Administering departmental spending authority, expenditures, and program activities throughout the authorized period. Maintaining, monitoring and reporting on budget activity throughout the authorized

INITIAL SCOPE EFFORTS

Major Function	Sub Functions	Description
		<p>period.</p> <ul style="list-style-type: none"> • Monitoring revenues and fund conditions. • Analysis and tracking of legislation, and various budget-related issues (issue memos, etc.). • Distributing and tracking the status of Legislative reporting pursuant to Budget Act Section requirements.
	<p>Budget (Appropriation Control) (Wave 2)</p>	<p>The goal of Appropriation Control is to ensure that departments are operating within their approved /authorized budget levels, and taking corrective action in case of unforeseen circumstances.</p> <p>Appropriation Control includes:</p> <ul style="list-style-type: none"> • The real-time monitoring and reporting on encumbrances, expenditures and program activities throughout the authorized (available and liquidation) period. • Recording and tracking Executive Orders and Budget Revisions. • Allotment accounting for departments. • Accounting for appropriations by period of availability and period of liquidation. • Identifying transactions that exceed appropriation control amounts. • Identifying unencumbered and un-liquidated balances.
	<p>Budget Development and Enactment (Wave 2)</p>	<p>Budget development uses year-end statements of actual expenditures, and/or current year initial appropriations and projected expenditures as the basis for preparing the state's annual operating plan (budget).</p> <p>The Budget Development and Enactment process includes estimating, tracking, and reporting:</p> <ul style="list-style-type: none"> • All budget submission and planning processes, including decision making support, baseline budget development, Budget Change Proposals, and other policy adjustments.

INITIAL SCOPE EFFORTS

Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> • Other budget development processes, such as determining compliance with and tracking of the State Appropriations Limit, etc. • Spring budget updates. • Cost recoveries. • Legislative actions. • The Governor's veto process. <p>In order to develop proper resource allocations, budget development makes frequent use of revenue estimates for most non-major revenues (e.g., special funds), existing position control and salary administration data from the SCO to estimate available personnel resources, and at the very least summary data forecasts for the General Fund. This process results in:</p> <ul style="list-style-type: none"> • Publication of the Governor's Budget, Governor's Budget Summary, Salary and Wages Supplement, May Revision Highlights, Budget Highlights, and other periodic and/or statutorily required budget related documents. • Provision of access to budget publications via the eBudget website. • Enactment of the state budget.
Cash Management*		Cash management is the process of ensuring sufficient cash availability and minimizing cash flow borrowing costs by controlling, tracking, analyzing and forecasting cash inflows and outflows.
	Cash Flow (Wave 1)	<p>Monitoring of the state's cash inflows, outflows and available cash on a daily, monthly and yearly basis, or other time period as specified.</p> <p>Cash Flow includes:</p> <ul style="list-style-type: none"> • Recording accumulated deposits/withdrawals from each Demand Deposit Bank. • Recording transactions for demand checks issued and drawn against any of the depository banks.

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> Recording all transfers within state and external entities. Tracking of General Fund cash flow borrowing and borrowable resources, by fund and daily balances. Tracking and recording of receipts and payment dates. Identifying funds that are deposited and withdrawn from state funded cash, PMIA and SMIF. Recording and tracking of the exchange of funds between the federal government and the state in accordance with the federal Cash Management Improvement Act.
	Cash Forecasting (Wave 1)	<p>Estimating and forecasting cash balances timely to ensure cash availability, maximize investment opportunities, and minimize borrowing requirements.</p> <p>Cash Forecasting includes identifying:</p> <ul style="list-style-type: none"> Deposits, receipts, disbursements, and balances. Disbursements for other special circumstances, such as those that could be paid with an IOU, and determining and tracking priority vs. non priority payments. Internal and external borrowing amounts and costs. Models based on confidential control agency decisions/deliberations.
	Bank Reconciliation (Wave 1)	<p>The process of comparing and matching amounts from the state's accounting records against the amounts reflected in the banks' records.</p> <p>Bank Reconciliation includes:</p> <ul style="list-style-type: none"> Recording manual, electronic, Zero Balance Account (ZBA) deposits. Matching agency deposits and demand checks against third party financial institution records. Matching agency deposit records against records recorded by the State Treasurer's

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		Office (STO).
	Check Reconciliation (Wave 1)	<p>The process of comparing and matching checks issued against STO paid items.</p> <p>Agency Check Reconciliation includes:</p> <ul style="list-style-type: none"> • Matching issued check data against paid data. • Creating files of outstanding checks issued and stop payment items. • Updating check data to paid status or other applicable status. • Aging analysis.
	Warrant Reconciliation (Wave 1)	<p>The process of comparing and matching warrants issued against STO paid items.</p> <p>SCO Warrant Reconciliation includes:</p> <ul style="list-style-type: none"> • Matching issued warrant data against paid data. • Creating validation files of outstanding warrants issued, and stop payment items. • Updating warrant data to paid status or other applicable status; and creating accounting transactions based on warrant status updates. • Providing the life cycle of all warrants issued. • Recording the redemption date of registered warrants for calculating interest and generating journal entries. • Aging analysis.
Procurement*		The procurement process consists of three stages: acquisition planning, the acquisition phase, and post award activities. Rules governing what transpires during each stage vary based on the classification of the transaction (e.g., goods, services, information technology (IT) goods/services, construction, architecture and engineering). An acquisition

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		<p>approach could be competitive, non-competitive, or an existing source might be used, such as a state program or a leveraged procurement agreement. Most departments do not have inherent procurement authority for all classes of items.</p> <p>There must be a single system of record that provides an official source for all of the state's procurement data.</p>
	Agreements (Wave 3)	<p>Special or collective-use agreements generally do not follow the typical requisition-solicitation-purchase document sequence.</p> <p>Agreements include:</p> <ul style="list-style-type: none"> • Utilizing strategic sourcing for planning purposes. • Departmental contracts (e.g., Interagency Agreements, intra-agency master agreements, blanket purchase orders). • The state's leveraged procurement agreements as applicable for statewide and local government use. • Processing emergency acquisitions.
	Acquisition Process (Wave 2)	<p>The Acquisition Process includes functionality to:</p> <ul style="list-style-type: none"> • Identify and administer purchasing authority and related fees. • Execute planning activities (e.g., Request for Information). • Identify projects and track associated acquisitions. • Standardize use of commodity/service codes. • Create and revise requisitions. • Execute approvals and exception requests. • Create and manage purchase documents, including financed transactions. • Accommodate post award activity, such as delivery, receipt, and various contract and project management activities including disputes, change, subcontractor activity

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		<p>management and acceptance of goods/services.</p> <ul style="list-style-type: none"> • Manage the state's payment card activity. • Automate reporting for various purposes, such as mandated requirements, statewide purchase document usage, and associated activities. • Procure for another or multiple departments. • Allow restricted access for businesses.
	<p>Solicitation and supplier comparison processes (Wave 2)</p>	<p>Covers the interactive process between offeree and offeror.</p> <p>Solicitation and supplier comparison processes include:</p> <ul style="list-style-type: none"> • Utilizing best practices for electronic bids/offers for competitive, non-competitive, and existing source acquisitions, such as: <ul style="list-style-type: none"> ○ Solicitation creation that includes various provisions, such as participation programs. ○ Canvassing suppliers. ○ Sealed bid receipt. ○ Bid evaluation or supplier comparison and tabulation (e.g., preference and incentive calculation). ○ Eligibility validation. ○ Reverse auctions. • Managing associated multi-step processes, such as: <ul style="list-style-type: none"> ○ Bidder's conference. ○ Questions/answers. ○ Multi-step proposal submission (e.g., draft, final). ○ Supplier selection approval process. • Accommodating phone quote process.

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
	Notices of intent to award and contract award (Wave 2)	Covers miscellaneous activities, including but not limited to: <ul style="list-style-type: none"> • Protest processes. • Purchase document registration. • Record keeping.
	Announcements, solicitation advertisement, and supplier subscription service (Wave 2)	Includes various activities that support the acquisition process, such as: <ul style="list-style-type: none"> • Establishing supplier profiles. • Posting information, such as solicitation advertisements, contractor advertisements, and special announcements. • Notifying suppliers.
	Electronic catalogs and catalog ordering (Wave 3)	Covers processes for establishing and using catalogs. Includes catalogs for: <ul style="list-style-type: none"> • Leveraged procurement agreements. • State contracts. • Commercial electronic catalogs (excludes catalogs that require memberships).
Vendor Management⁷ (Wave 1)		Vendor Management includes functionality that supports various vendor processes and provides a statewide central source of vendor information (i.e., Master Vendor File) used by all departments for procurement, receiving, and payment functions. The process allows the state to administrate, maintain, track, and report on vendor activities. Examples include: <ul style="list-style-type: none"> • Registration. • Certification (e.g., small business and DVBE online self-certification). • Performance Rating.

⁷ The FISCal Project proposes this phasing concept for the implementation of the project scope with the understanding that the fit-gap process will provide a more accurate representation of the actual functionality to be implemented in each wave. Wave 1 will only include those functions required to implement core accounting. Functionality currently identified as being implemented in subsequent waves that is determined by the fit-gap process to be a necessary function of core accounting, will be included in Wave 1.

INITIAL SCOPE EFFORTS		
Major Function	Sub Functions	Description
		<ul style="list-style-type: none"> • Validation (e.g., prenote, National Provider, and Taxpayer Identification Number). • Eligibility status (e.g., active, dispute, inactive/purge). • Affiliate identification (e.g. parent/child, related businesses). • Payee data (e.g., banking information and pay to address).
	Asset Management**	
<p>* The FISCAL Project proposes this phasing concept for the implementation of the project scope with the understanding that the fit-gap process will provide a more accurate representation of the actual functionality to be implemented in each wave. Wave 1 will only include those functions required to implement core accounting. Functionality currently identified as being implemented in subsequent waves that is determined by the fit-gap process to be necessary function of core accounting, will be included in Wave 1.</p> <p>**Asset Management may be added after a Business Case Analysis has been completed by DGS.</p>		

Appendix F: Out of Scope in Initial Effort

OUT OF SCOPE IN INITIAL EFFORT		
Major Function	Sub Functions	Comments
Asset Management	DGS/Department Functions	Functions where asset management functionality is desired beyond asset accounting as described in Section 4.5.1 Project Scope.
Procurement	Inventory Management	Functions that track the warehousing, utilization, and restocking of inventory.
Human Resources	Human Resources	All functions with the exceptions noted in the Initial Scope Efforts. The payroll system administered by SCO will be the source of data.
Revenue Forecasting	Revenue Forecasting	Forecasting requirements performed by Finance for major revenues using data which originates from departments (e.g., FTB, BOE).
Payables	Employee Expense Claims	SCO has CalATERS in place which all departments are mandated to use by July 1, 2009. When CalATERS must be upgraded, just like the other A/R systems, this software may be used for the future replacement or upgrade of these systems in separate but related projects. There may be departments exempt from CalATERS that may require this functionality sooner as a separate but related project.
Various	Specialized Business Functionality Department Systems	Specific functionality, such as major (very large and specialized) Cashiering/Cash Receipting/Accounts Receivable, is excluded. However, a key function is to record revenue and cash and reconcile to the cashiering subsidiary systems. Accounts Receivable must be part of this FI\$Cal system. It is a critical subsidiary to the GL and a foundation of the ERP. Very large, specialty A/R systems such as Department of Public Health's Genetic Disease billing system or Franchise Tax Board's ARCS (Accounts Receivable Collection System) are not part of this project. Therefore, the software selected will stipulate that capabilities to support these types of functions will be available because the tool selected may be used for the future replacement or upgrade of these systems in separate but related projects.

OUT OF SCOPE IN INITIAL EFFORT		
Major Function	Sub Functions	Comments
Various	Specialized Business Functionality Department Systems (cont.)	There are also very specialized expenditure programs such as Medi-Cal, In-Home Supportive Services, and Child Support that have special custom programs to meet their mandates. Some specialized systems will reside outside of FI\$Cal (for example, to determine what amounts should be apportioned to local governments, what should be paid to IHSS providers). It is expected that only limited standard functions of these and other special expenditure programs will be part of the FI\$Cal system such as validation of cash and appropriation availability, warrant reconciliation, and payment history. Interfaces will be needed to send data from the SCO's various claims processing systems that produce payments for the specialized expenditure programs, to the FI\$Cal system.

Appendix E: Department List (Roll Out)

Departments – Alphabetically

Organization Code	Department
1105	African American Museum
7300	Agricultural Labor Relations Board
3900	Air Resources Board
2120	Alcoholic Beverage Control Appeals Board
1690	Alfred E. Alquist Seismic Safety Commission
4470	Atascadero State Hospital - (Department of Mental Health)
3835	Baldwin Hills Conservancy
8500	Board of Chiropractic Examiners
6870	Board of Governors of the California Community Colleges
2670	Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun
0971	California Alternative Energy & Advanced Transportation Financing Authority
8260	California Arts Council
6330	California Career Resource Network
8385	California Citizens Compensation Commission
3720	California Coastal Commission
3340	California Conservation Corps
0956	California Debt and Investment Advisory Commission
0959	California Debt Limit Allocation Committee
0989	California Educational Facilities Authority
0690	California Emergency Management Agency
0855	California Gambling Control Commission
0977	California Health Facilities Financing
2665	California High Speed Rail Authority
8550	California Horse Racing Board
2260	California Housing Finance Agency
0965	California Industrial Development Financing Advisory Commission
6445	California Institute for Regenerative Medicine
8830	California Law Revision Commission
0974	California Pollution Control Financing Authority
6420	California Postsecondary Education Commission
0985	California School Finance Authority
6200	California School for the Blind - (Department of Education)
6240	California School for the Deaf, Fremont - (Department of Education)
6250	California School for the Deaf, Riverside - (Department of Education)
1100	California Science Center
4185	California Senior Legislature
6120	California State Library
6255	California State Summer School for the Arts
7980	California Student Aid Commission
3125	California Tahoe Conservancy

Organization Code	Department
0968	California Tax Credit Allocation Committee
2600	California Transportation Commission
0983	California Urban Waterfront Area Restoration Financing Authority
1870	California Victim Compensation and Government Claims Board
7120	California Workforce Investment Board
4250	Children and Families Commission
3850	Coachella Valley Mountains Conservancy
4540	Coalinga State Hospital - (Department of Mental Health)
3460	Colorado River Board of California
4180	Commission on Aging
8120	Commission on Peace Officer Standards and Training
8885	Commission on State Mandates
6360	Commission on Teacher Credentialing
8820	Commission on the Status of Women
3840	Delta Protection Commission
3885	Delta Stewardship Council
3480	Department of Conservation
4170	Department of Aging
4200	Department of Alcohol and Drug Programs
2100	Department of Alcoholic Beverage Control
3680	Department of Boating and Waterways
5175	Department of Child Support Services
4700	Department of Community Services and Development
1110	Department of Consumer Affairs, Boards
1111	Department of Consumer Affairs, Bureaus, Programs and Divisions
2180	Department of Corporations
4300	Department of Developmental Services ⁹
6110	Department of Education ¹⁰
1700	Department of Fair Employment and Housing
8860	Department of Finance
2150	Department of Financial Institutions
3600	Department of Fish and Game
8570	Department of Food and Agriculture
3540	Department of Forestry and Fire Protection (CAL FIRE)
4260	Department of Health Care Services
2240	Department of Housing and Community Development
7350	Department of Industrial Relations
0845	Department of Insurance
0820	Department of Justice
2400	Department of Managed Health Care
4450	Department of Mental Health - Headquarters
4440	Department of Mental Health ¹¹

⁹ These Departments contain sub organizations. The sub organizations are part of the main department but are listed separately on this document. The main department is listed in parenthesis next to the sub organization.

¹⁰ See footnote above

Organization Code	Department
3790	Department of Parks and Recreation
8380	Department of Personnel Administration (Re-Org with SPB) Name change to Dept of Human Services (CalHR) in FY 11/12.
3930	Department of Pesticide Regulation
4265	Department of Public Health
2320	Department of Real Estate
5160	Department of Rehabilitation
3500	Department of Resources Recycling and Recovery (CalRecycle)
5180	Department of Social Services
2720	Department of the California Highway Patrol
3960	Department of Toxic Substances Control
8950	Department of Veterans Affairs ¹²
1760	DGS - Contracted Fiscal Services
6260	Diagnostic Centers - (Department of Education)
6125	Education Audit Appeals Panel
4120	Emergency Medical Services Authority
7100	Employment Development Department
3360	Energy Resources Conservation and Development Commission
1705	Fair Employment and Housing Commission
8620	Fair Political Practices Commission
4350	Fairview State Hospital - (Department of Developmental Services)
8880	Financial Information System of California
1730	Franchise Tax Board
0500	Governor's Office
4280	Managed Risk Medical Insurance Board
4490	Metropolitan State Hospital - (Department of Mental Health)
8940	Military Department
8780	Milton Marks "Little Hoover" Commission on CA State Government Organization and Economy
4500	Napa State Hospital - (Department of Mental Health)
3780	Native American Heritage Commission
8910	Office of Administrative Law
3980	Office of Environmental Health Hazard Assessment
0650	Office of Planning and Research
2310	Office of Real Estate Appraisers
4140	Office of Statewide Health Planning and Development
0531	Office of Systems Integration
1955	Office of Technology Services
0502	Office of the Chief Information Officer
0552	Office of the Inspector General
0750	Office of the Lieutenant Governor
0558	Office of the Secretary for Education
2700	Office of Traffic Safety
4510	Patton State Hospital - (Department of Mental Health)

¹¹ See footnote above

¹² See footnote above

Organization Code	Department
4390	Porterville State Hospital - (Department of Developmental Services)
1900	Public Employment Relations Board
8660	Public Utilities Commission
4550	Salinas Valley Psychiatric Program - (Department of Mental Health)
3845	San Diego River Conservancy
3820	San Francisco Bay Conservation and Development Commission
3825	San Gabriel and Lower Los Angeles Rivers & Mountains Conservancy
3830	San Joaquin River Conservancy
3810	Santa Monica Mountains Conservancy
0954	Scholarshare Investment Board
0520	Secretary for Business, Transportation and Housing
0530	Secretary for CA Health and Human Services
0555	Secretary for Environmental Protection
0540	Secretary for Resources
0559	Secretary Labor and Workforce Development
0890	Secretary of State
3855	Sierra Nevada Conservancy
4440	Sonoma State Hospital - (Department of Mental Health)
4430	Southern California Facility - Cathedral City - (Department of Mental Health)
0510	State and Consumer Services Agency
0860	State Board of Equalization
3760	State Coastal Conservancy
0840	State Controller's Office
4100	State Council on Developmental Disabilities
5170	State Independent Living Council
3560	State Lands Commission
1880	State Personnel Board (Re-Org with DPA) becomes 8390 in FY 11/12
8140	State Public Defender
8850	State Public Works Board
1920	State Teachers' Retirement System (Financial Support - Accounting, Budget, Procurement)
0950	State Treasurer's Office
3940	State Water Resources Control Board
4530	Vacaville Psychiatric Services - (Department of Mental Health)
8965	Veteran's Home of California - Barstow - (Department of Veteran's Affairs)
8966	Veteran's Home of California - Chula Vista - (Department of Veteran's Affairs)
8960	Veteran's Home of California - Yountville - (Department of Veteran's Affairs)
8967	Veteran's Home of California- Greater Los Angeles- Ventura County – (Department of Veteran's Affairs)
3640	Wildlife Conservation Board

Departments – By Wave

Descriptions of each wave are included in Section 3.4.3 above.

Wave	Department
1,2	Alcoholic Beverage Control Appeals Board
1,2	Agricultural Labor Relations Board
1,2	California Alternative Energy & Advanced Transportation Financing Authority
1,2	California Arts Council
1,2	California Citizens Compensation Commission
1,2	California Debt and Investment Advisory Commission
1,2	California Debt Limit Allocation Committee
1,2	California Educational Facilities Authority
1,2	California Health Facilities Financing
1,2	California Industrial Development Financing Advisory Commission
1,2	California Pollution Control Financing Authority
1,2	California Postsecondary Education Commission
1,2	California School Finance Authority
1,2	California State Summer School for the Arts
1,2	California Tax Credit Allocation Committee
1,2	California Urban Waterfront Area Restoration Financing Authority
1,2	Commission on Aging
1,2	Department of Aging
1,2	Department of Alcoholic Beverage Control
1,2	Department of Fair Employment and Housing
1,2	Department of Justice
1,2	DGS - Contracted Fiscal Services
1,2	Fair Employment and Housing Commission
1,2	Office of Environmental Health Hazard Assessment
1,2	San Francisco Bay Conservation and Development Commission
1,2	Scholarshare Investment Board
1,2	State Board of Equalization
1,2	State Controller's Office
1,2	State Treasurer's Office
1,2,4	Department of Finance
2	Alfred E. Alquist Seismic Safety Commission
2	Baldwin Hills Conservancy
2	Board of Chiropractic Examiners
2	Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun
2	California Career Resource Network
2	California Gambling Control Commission
2	California High Speed Rail Authority
2	California Institute for Regenerative Medicine
2	California Law Revision Commission
2	California Senior Legislature
2	California State Library

Wave	Department
2	California Tahoe Conservancy
2	California Transportation Commission
2	California Victim Compensation and Government Claims Board
2	Children and Families Commission
2	Coachella Valley Mountains Conservancy
2	Commission on State Mandates
2	Commission on Teacher Credentialing
2	Commission on the Status of Women
2	Department of Consumer Affairs, Boards
2	Department of Consumer Affairs, Bureaus, Programs and Divisions
2	Department of Fish and Game
2	Department of Health Care Services
2	Department of Parks and Recreation
2	Department of Personnel Administration -Name Change to Department of Human Services (CalHR)- Re org with SPB
2	Education Audit Appeals Panel
2	Emergency Medical Services Authority
2	Financial Information System of California
2	Franchise Tax Board
2	Managed Risk Medical Insurance Board
2	Milton Marks "Little Hoover" Commission on CA State Government Organization and Economy
2	Office of Administrative Law
2	Office of Systems Integration
2	Office of Technology Services
2	Office of the Inspector General
2	San Gabriel and Lower Los Angeles Rivers & Mountains Conservancy
2	San Joaquin River Conservancy
2	Santa Monica Mountains Conservancy
2	Sierra Nevada Conservancy
2	State and Consumer Services Agency
2	State Independent Living Council
2	State Personnel Board (Re-Org with DPA) in FY 11/12
2	State Public Defender
2	State Public Works Board
2	State Water Resources Control Board
2	Wildlife Conservation Board
2,4	Fair Political Practices Commission
3	Air Resources Board
3	California Conservation Corps
3	California Workforce Investment Board
3	Department of Food and Agriculture
3	Department of Forestry and Fire Protection (CAL FIRE)
3	Department of Housing and Community Development
3	Department of Insurance
3	Department of Pesticide Regulation
3	Department of Real Estate
3	Department of Rehabilitation

Wave	Department
3	Department of Resources Recycling and Recovery (CalRecycle)
3	Department of Toxic Substances Control
3	Employment Development Department
3	Energy Resources Conservation and Development Commission
3	Office of Real Estate Appraisers
3	Office of the Chief Information Officer
3	Secretary for Environmental Protection
3	Secretary for Resources
3	Secretary Labor and Workforce Development
4	Office of the Secretary for Education
4	African American Museum
4	Atascadero State Hospital - (Department of Mental Health)
4	Board of Governors of the California Community Colleges
4	California Coastal Commission
4	California Emergency Management Agency
4	California Horse Racing Board
4	California Housing Finance Agency
4	California School for the Blind - (Department of Education)
4	California School for the Deaf, Fremont - (Department of Education)
4	California School for the Deaf, Riverside - (Department of Education)
4	California Science Center
4	California Student Aid Commission
4	Coalinga State Hospital - (Department of Mental Health)
4	Colorado River Board of California
4	Commission on Peace Officer Standards and Training
4	Delta Protection Commission
4	Department of Conservation
4	Department of Alcohol and Drug Programs
4	Department of Boating and Waterways
4	Department of Child Support Services
4	Department of Community Services and Development
4	Department of Corporations
4	Department of Developmental Services ¹³
4	Department of Education ¹⁴
4	Department of Financial Institutions
4	Department of Industrial Relations
4	Department of Managed Health Care
4	Department of Mental Health - Headquarters
4	Department of Mental Health ¹⁵
4	Department of Public Health
4	Department of Social Services
4	Department of the California Highway Patrol

¹³ These Departments contain sub organizations. The sub organizations are part of the main department but are listed separately on this document. The main department is listed in parenthesis next to the sub organization.

¹⁴ See footnote above

¹⁵ See footnote above

Wave	Department
4	Department of Veterans Affairs ¹⁶
4	Diagnostic Centers – (Department of Education)
4	Fairview State Hospital - (Department of Developmental Services)
4	Governor's Office
4	Metropolitan State Hospital - (Department of Mental Health)
4	Military Department
4	Napa State Hospital - (Department of Mental Health)
4	Native American Heritage Commission
4	Office of Planning and Research
4	Office of Statewide Health Planning and Development
4	Office of the Lieutenant Governor
4	Office of Traffic Safety
4	Patton State Hospital - (Department of Mental Health)
4	Porterville State Hospital - (Department of Developmental Services)
4	Public Employment Relations Board
4	Public Utilities Commission
4	Salinas Valley Psychiatric Program – (Department of Mental Health)
4	San Diego River Conservancy
4	Secretary for Business, Transportation and Housing
4	Secretary for Ca Health and Human Services
4	Secretary of State
4	Sonoma State Hospital – (Department of Mental Health)
4	Southern California Facility - Cathedral City - (Department of Developmental Services)
4	State Coastal Conservancy
4	State Council on Developmental Disabilities
4	State Lands Commission
4	State Teachers' Retirement System (Financial Support - Accounting, Budget, Procurement)
4	Vacaville Psychiatric Services – (Department of Mental Health)
4	Veteran's Home of California – Barstow - (Department of Veteran's Affairs)
4	Veteran's Home of California - Chula Vista - (Department of Veteran's Affairs)
4	Veteran's Home of California – Yountville - (Department of Veteran's Affairs)
4	Veteran's Home of California- Greater Los Angeles- Ventura County – (Department of Veteran's Affairs)

The Departments listed below are considered “Deferred Departments.”

Deferred departments are those departments which have implemented or are in the process of implementing a financial management ERP system. The scope of FI\$Cal includes interfaces for deferred departments as well as all tasks necessary to implement the interfaces.

- California State Lottery Commission
- Department of Corrections and Rehabilitation
- Department of General Services
- Department of Motor Vehicles
- Department of Transportation
- Department of Water Resources

¹⁶ See footnote above

The Departments listed below are considered “Exempt Departments.”

There are certain departments within the State that have special statutory provisions that allow them to use systems other than FI\$Cal for their financial management. These departments include the:

- University of California
- Hastings College of Law

However, these departments must exchange information necessary for the State to perform processes relating to the independent audits of receipt or disbursement of funds, warrant issuance, budgeting, and financial reporting.

There are certain other departments with similar statutory or constitutional provisions as the departments noted above, such as:

- Bureau of State Audits
- California State University
- State Compensation Insurance Fund
- California Public Employees’ Retirement System
- California State Teachers’ Retirement System (Financial Retirement and Investment)
- Legislature
- Legislative Counsel Bureau/Legislative Data Center
- Judicial Branch

These departments will exchange information necessary for the State to perform processes relating to the independent audits of receipt or disbursement of funds, warrant issuance, budgeting, and financial reporting. These departments may implement FI\$Cal at a later time.

Both deferred and exempt departments will provide user authentication information for departmental users submitting, exchanging, or interfacing data to FI\$Cal.

Appendix F: Roles and Responsibilities (RFP Exhibit 8)

SOW Exhibit 8

Roles and Responsibilities

Roles and Responsibilities	
P-1	<p>Project Administration The State has a comprehensive Project Management Office (PMO), Technology Section, Vendor Management Office and Administrative Section to support the Project infrastructure, including:</p> <ul style="list-style-type: none"> Y Onboard of project (State and Contractor) staff Y Coordinate work space for project staff Y Facilities management Y Budget/fiscal controls Y Contract Management Y State reporting Y Recruiting <p>The State shall develop the initial standard project management plans.</p> <p>The Contractor shall maintain and update the plans with oversight and approval of the State.</p> <p>The State and the Contractor shall manage the Project Management activities as a single Project Management Office.</p> <p>The State and the Contractor shall adhere to project procedures contained in all project management plans.</p>
P-2	<p>Physical and Information Security Agreement The State shall inform the Contractor of the physical and information security standards followed by the FI\$Cal project and the System related to the confidentiality, integrity and availability of the State's information assets.</p> <p>The Contractor shall comply with the physical and information security standards provided by the State and followed by the FI\$Cal project related to confidentiality, integrity and availability of the State's information assets.</p>
P-3	<p>Governance The State currently has a governance structure that includes: steering committee and customer impact committee. The State shall provide overall management of these groups and serve as the primary contact for each.</p> <p>The Contractor shall provide project updates, overviews, status reports and present other information to these groups as needed.</p>
P-4	<p>Status Meetings & Reporting The State and the Contractor shall attend and participate in weekly project status meetings.</p> <p>The State shall review the Contractor's weekly project status reports, dashboards, overviews, and presentations for project leadership.</p> <p>The Contractor shall create weekly status reports, dashboards, overviews, and presentations for project leadership.</p>
P-5	<p>Project Staffing The State shall have a dedicated project team of experienced professionals to support the Project in the following areas:</p> <ul style="list-style-type: none"> Y Project Leadership Y Project Management Office Y Business Team Y Technology Team Y Change Management Office Y Vendor Management Office

Roles and Responsibilities	
	<p>γ Administrative</p> <p>The Contractor shall provide staff to perform required project roles, work activities, and management of their teams based on the defined scope of services, Activity Milestones and Deliverables approved in the Contract.</p>
P-6	<p><u>Project Library</u> The State shall administer and maintain the Project library for deposit of Deliverables, project documents, project archives, and other project artifacts. The Project library will be comprised of both hard and electronic copies. The library is administered by the State Project Librarian.</p> <p>The Contractor shall provide the most recently approved Deliverable(s), or product(s) as required by the Contract, for deposit into the Project library according to the Deliverable management process.</p>
P-7	<p><u>Deliverable Management</u> The State shall define and manage the Deliverables management process.</p> <p>The Contractor shall adhere to the Deliverable management process, e.g., submission procedures, packaging and delivery, timelines, etc.</p>
P-8	<p><u>Project Schedule</u> The Contractor shall develop the ERP Project Schedule according to the Project Workplan and Schedule Deliverable. The Contractor shall develop the schedule to support calculation of Schedule Performance Index (SPI) and the Cost Performance Index (CPI) for Earned Value Management (EVM).</p> <p>The State and the Contractor shall jointly maintain the single ERP Project Schedule according to mutually agreed upon roles and responsibilities.</p> <p>The Contractor shall supply Contractor schedule components to the State for incorporation into the Project Schedule, performing weekly progress updates according to the State schedule management processes and performing detailed analysis.</p> <p>The Contractor shall provide at least one staff member dedicated to supporting project scheduling activities. When needed, the Contractor shall supply additional project scheduling resources in sufficient number to support the Contractor's scheduling activities.</p>
P-9	<p><u>State Tools</u> The State shall provide issue, risk, change control, document, requirement management tools and scheduling tools, and any infrastructure and training required for such tools, for Project entries.</p> <p>The State and the Contractor shall each provide entries and updates to project issues, risks, change control items and requirements per State management plans using the mutually agreed upon tools. These will be the primary records for these entries and the State will configure each tool and maintain all records. If additional tools are proposed or changed, by either the State or the Contractor during the Project, the State and the Contractor shall agree upon the use of the tools and roles and responsibilities related to their purchase and use prior to their implementation.</p> <p>The Contractor shall develop materials, analysis papers, and mitigation strategies and otherwise actively manage to conclusion issues, risks and change control items that they are designated the owner of.</p>
P-10	<p><u>Requirements Management</u> The Contractor shall ensure and document requirements traceability for the Contract period. The Contractor shall document and provide traceability from requirements to all configurations, functional and technical specifications, code objects, test specifications and test results throughout the Contract period.</p> <p>The State and Contractor shall work collaboratively to develop and maintain the requirements traceability matrix throughout the Contract period.</p> <p>The Contractor shall reconcile any requirements data store internal to the System with the State Requirements</p>

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	<p>Management Tool.</p> <p>The party that initiates a requirements change, the State or Contractor, shall develop and provide justifications and other supporting materials in accordance with the change control process.</p> <p>The Contractor and State will work together to refine and specify discrete sections of standards referenced in the requirements to ensure appropriate Project compliance using the Change Control Process.</p>
P-11	<p><u>Quality Assurance Process</u> The State shall monitor, report on, and support improvements to project processes.</p> <p>The Contractor shall implement and monitor internal quality on processes for Activities and Deliverables.</p> <p>The State and Contractor shall jointly collaborate to strategize, plan, initiate and implement improvements to all project processes.</p>
P-12	<p><u>Working Relationships</u> The Contractor shall professionally and collaboratively work with State staff and any Contractor selected by the State who is performing a support role in the System implementation effort.</p>
P-13	<p><u>Configuration Management</u> The Contractor shall provide Configuration Management services in accordance with the approved Configuration Management Plan throughout the Contract period, including the planning, methodology, tools, techniques and procedures to accomplish Configuration Management. .</p>
P-14	<p><u>Risk and Issue Management</u> The State and the Contractor shall each provide detailed analysis for risk and issue impacts, risk mitigation planning and contingency planning for items that are within its roles and responsibilities defined within this Statement of Work.</p> <p>The State and Contractor shall manage and, if needed, escalate their assigned risks and issues.</p> <p>The State and Contractor shall develop and provide justifications and other supporting materials for changes it requests as a result of mitigating issues and risks in accordance with the change control process.</p>
A-1	<p><u>General State Responsibilities</u></p> <ul style="list-style-type: none"> ÿ The State shall provide the Contractor access to the work site during normal business hours, with a provision for increased access during critical project periods, as defined by the State. Normal business hours are Monday through Friday, between 8:00 a.m. and 5:00 p.m. Pacific Time, excluding State holidays. ÿ The State shall provide building access, which may include issuance of a building access keycard. ÿ The State shall provide access to OTech facilities in accordance with the OTech policies and access standards. ÿ Services provided by OTech shall be subject to OTech rates. ÿ The State shall provide office space for up to 70 Contractor Staff at a State facility including computers and phones (standard State configurations) for all staff. Increases to this number must be approved via the Change Control process during the course of the Stage 2 Contract. ÿ The State shall provide appropriate space to conduct meetings and sessions. ÿ The State shall provide access to business and technical documents, as deemed necessary by the State, for the Contractor to complete the Deliverables/tasks. ÿ The State shall make available subject matter experts knowledgeable in State processes and functions to the Contractor specified in the Work Plan and Staffing Plan. ÿ The Project Director, or his/her designee, will oversee and manage this Contract. S/he will work with the Contractor to facilitate successful completion of the Contractor’s obligations, will facilitate the Deliverable review and acceptance process, will review and approve invoices for payment in accordance with Contract terms, will approve staffing changes, and will resolve Contract issues in a timely manner. ÿ The State is not responsible for the Contractor’s losses on State property, or otherwise, caused by any reason. <p><u>General Contractor Responsibilities</u></p>

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	<ul style="list-style-type: none"> Y The Project Manager shall oversee the management and fulfillment of the requirements of the contract to assure the successful and timely completion of all the Contract tasks, Activity Milestones and Deliverables. The Project Manager will work directly with the Project Management Office and Vendor Accountability Section as appropriate. Y The Contractor shall coordinate with the State for the number and timing of Contractor staff required to be housed at the OTech data center and for the type of equipment that can be brought into the OTech data center. Y The Contractor shall adhere to the State policies, e.g., policy on identification badges/keycards and requirements for cardholders. Y The Contractor shall return all badges and keycards upon completion of the Contract. The Contractor will be responsible for all costs incurred to repair or replace badges/keycards. Y The Services (Activity Milestones and their subcomponent Activities) provided under this Contract shall be performed by the Contractor in a manner that minimizes disruption to the operational needs of the State. Y All buildings, appurtenances, and furnishings shall be protected by the Contractor from damage caused by work performed under this Contract. Such damages to the aforementioned, upon request by the State, shall be repaired and/or replaced at the Contractor's expense by State approved methods, so as to restore the damaged areas to their original condition. Y The Contractor (including its employees and/or subcontractors) will exercise all necessary caution to avoid any injury to persons or any damage to property. Y The Contractor shall be responsible for the health and safety protection of its employees in the performance of this Contract. Y The Contractor's employees (or subcontractors) shall participate in emergency disaster exercises. Y The Contractor's employees shall agree and adhere to the State information technology security policies, standards, and guidelines. Y The Contractor shall collaborate with the State to update the State's administrative manuals consistent with the State's needs and the best practices inherent in the ERP system.
F-1	<p><u>Configuration of ERP Software</u> The Contractor shall configure the System to meet the Project scope and requirements.</p> <p>The Contractor shall validate requirements with the State to ensure a common understanding of the requirements prior to system design and development.</p> <p>The State shall provide SMEs to participate with the Contractor in the specification, design, configuration and documentation of System configuration activities.</p>
F-2	<p><u>Form and Report Development</u> The State shall participate in requirements and design sessions, led by the Contractor, for development of forms/reports.</p> <p>To assist in this effort the State shall:</p> <ul style="list-style-type: none"> Y Provide relevant current forms/reports from legacy systems or other processes Y Confirm the business use and delivery method of each form/report Y Provide SMEs to participate in identification and design of forms/reports <p>All forms/reports and form/report delivery methods developed by the Contractor shall be subject to the State's review and acceptance.</p> <p>The Contractor shall develop and test forms/reports to meet the System requirements.</p> <p>The Contractor shall propose the development, business use and delivery method of the forms/reports.</p>
F-3	<p><u>Software Customization</u> The State and Contractor shall work collaboratively to plan and implement Business Process Reengineering where ever possible, and as defined in the applicable Deliverables, to leverage the best practices inherent in the chosen COTS ERP solution to meet the State's goal to: 1) minimize software customizations, 2) adopt industry best practices; 3) minimize downstream upgrade costs, and 4) entertain workable solutions that do not require customization of the software.</p>

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	<p>The Contractor shall identify and provide the rationale for any proposed software customization to the State, prior to the design and development of any such customization.</p> <p>The State shall approve or reject each proposed software customization.</p> <p>The Contractor shall develop, at no additional cost to the State, functionality that was designated in its Proposal as being met “Out of the Box” and that during design and development is found to require software customization or other method to implement the requirement(s).</p> <p>The Contractor shall endeavor to have all software customizations certified by the ERP software vendor.</p> <p>The Contractor shall endeavor to have all software customizations incorporated into the software baseline to be compatible with future system upgrades.</p> <p>The Contractor shall develop, test and implement approved customizations.</p> <p>The Contractor shall use versioning control for all software customizations.</p>
F-4	<p><u>Book of Record</u></p> <p>The Contractor shall design the System to include a single official General Ledger Book of Record for accounting data at all times during implementation. This Book of Record may come from legacy systems, the new System, an interim system, or a combination of these systems. (The State recognizes that not all accounting detail data will be available until such time as all departments transition to the System, and deferred and exempt departments provide detailed financial information to the System.)</p>
F-5	<p><u>System of Record</u></p> <p>The Contractor shall design the System to include a single official System of Record for budgeting and procurement data. This single "System of Record" may come from legacy systems, the new FI\$Cal System, an interim system, or a combination of these systems. This would be part of the proposed strategy and the overall approach. (The State recognizes that detail data will not be available for all budgeting and procurement until such time as all departments transition to FI\$Cal, and deferred and exempt departments provide detailed financial information to FI\$Cal. Through the transition period, statewide summary level data will be available.)</p>
F-6	<p><u>Chart of Accounts (COA)</u></p> <p>The State has undertaken an effort to update the COA and standardized data classification system to meet the needs of departments, business functions, governmental programs, and other financial metrics.</p> <p>The Contractor shall work with the State to finalize the COA based on its software solution and integrate the final COA into the overall implementation approach.</p> <p>The Contractor shall work with the State to define and optimize the COA and maximize System performance.</p> <p>The Contractor shall ensure the ability to convert to and from the current legacy COA throughout the Contract Period.</p> <p>The Contractor shall ensure that statewide summaries of budgetary and financial transactions data are facilitated from a single source and include exempt and Deferred Departments.</p> <p>The Contractor shall provide updates to the baseline COA.</p>
F-7	<p><u>Vendor Management File (VMF)</u></p> <p>The Contractor shall design, develop and implement a VMF based on the output of the State work group.</p>
F-8	<p><u>Integration with Existing Control Agency Systems During Phased Implementation</u></p> <p>The Contractor's Transition Plan shall address how it recommends transitioning the various statewide operations found in Control Agency legacy systems during a multi-wave approach. This shall be designed so that departments that have not transitioned to the System have minimal impact or change to their operations until they are scheduled to transition to the System. In addition for accounting, budget and procurement data, it must include</p>

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	how the Contractor will create uniformly compiled reporting across those departments transitioned to the System and those that have not.
F-9	<p><u>Human Resource Management System</u></p> <p>The HRMS (also known as the MyCalPAYS Project) will be the System of Record for human resource data for the State. The Contractor shall develop an interface between the System and MyCalPays.</p>
F-10	<p><u>California Automated Travel Expense Reimbursement System (CalATERS)</u></p> <p>The Contractor shall develop an interface between the System and CalATERS, the State’s travel expense system.</p>
F-11	<p><u>System Workflow</u></p> <p>The Contractor shall document, validate, configure, develop, test and implement workflows in the System. The Contractor shall provide a mechanism for workload balancing for workflow processes.</p> <p>The State shall verify workflow designs, provide workflow rules, routings and roles and provide final acceptance of workflow processing.</p>
T-1	<p><u>Business Intelligence/Data Warehouse</u></p> <p>The State shall participate in requirements and design sessions for development of a Business Intelligence Data Warehouse strategy and the implementation thereof.</p> <p>The State shall provide expertise on the current reporting tools, processes, and data that is needed by stakeholders.</p> <p>The State shall define data retention requirements.</p> <p>The Contractor shall provide and implement Business Intelligence and Data Warehouse functionalities, including tool(s), as part of the System.</p> <p>The Contractor shall develop a comprehensive data retention/archiving strategy for the System including timeline and frequency of archiving data.</p>
T-2	<p><u>Operational Recovery</u></p> <p>The State shall provide the Contractor existing Operational Recovery requirements, agreements, and processes for existing legacy systems within the scope of this Contract.</p> <p>The Contractor shall develop and test operational recovery processes prior to each Wave Production Stability Period.</p> <p>The Contractor shall design and develop the operational (business and technology) processes and procedures necessary to resume operations after an event that requires operational recovery (hardware failure, etc.)</p> <p>The State shall assist in the development of the Operational Recovery design, procedures and related testing.</p> <p>The Deliverables associated with Operational Recovery design, procedures and related testing shall be subject to the State’s acceptance.</p>
T-3	<p><u>Disaster Recovery</u></p> <p>The State shall participate in requirements and design sessions for development of the FI\$Cal Disaster Recovery Plan.</p> <p>The Contractor shall develop and deliver the FI\$Cal Disaster Recovery Plan in accordance with the State’s business needs.</p> <p>The State shall provide Acceptance of the FI\$Cal Disaster Recovery Plan.</p> <p>The Contractor shall be responsible for planning, development, testing, and implementation of the System disaster recovery, according to the Disaster Recovery Plan.</p>

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	<p>The State shall participate in the planning, development, testing, and implementation of the System disaster recovery.</p> <p>The Contractor shall provide for disaster recovery services including facilities, hardware, software, maintenance and support while the System resides in the OTech Transition Environment.</p> <p>OTech shall offer disaster recovery services in the Application Hosting Environment, subject to OTech’s rates and capacity.</p> <p>The Contractor shall complete a disaster recovery test prior to the Wave 1 Production Stability Period.</p> <p>The Contractor shall lead disaster recovery tests annually to demonstrate the viability of the Disaster Recovery Plan and successful restoration of the System until the State has assumed responsibility for the System.</p>
T-4	<p><u>Data Conversion Strategy & Cleansing</u></p> <p>The State shall make reasonable efforts to cleanse the impacted legacy system data in preparation for data conversion.</p> <p>The Contractor shall collaborate with the State to define a strategy for moving legacy data into the System that includes the ability to map legacy data elements to System data elements.</p> <p>The Contractor shall create a staging area for legacy system data that includes a tool to facilitate the translation of legacy data to the System.</p> <p>The State shall export legacy system data to a mutually agreed upon staging area provided by the Contractor.</p> <p>The Contractor shall extract from the staging area, transform, and load legacy data into the System.</p> <p>The State shall participate in data conversion activities led by the Contractor.</p> <p>The Contractor shall, with assistance from the State, validate legacy data that has been loaded into the System and Data Warehouse.</p> <p>The State and Contractor shall rectify any data which fails edit checks or will otherwise not load.</p> <p>The Contractor shall provide to the State the ability to audit conversion results at any level the State deems necessary.</p> <p>The Contractor shall provide and execute a data conversion strategy as part of planning and implementation that identifies required data that is not available in the legacy systems and activities necessary to acquire the additional data.</p> <p>The Contractor shall provide a full data conversion, monitoring, and tracking solution that provides:</p> <ul style="list-style-type: none"> ÿ The ability to audit the conversion process, at State and Contractor agreed to data granularity levels ÿ Reconciliation of converted data including the mechanism to identify, report, and correct conversion errors, differentiating between converted and new system data ÿ Central control for the conversion of groups of data based upon the Contractor-provided approaches and plans
T-5	<p><u>Hosting</u></p> <p>The State shall host the System, including all required environments, tools, and components at OTech.</p> <p>The Contractor shall receive approval from the FI\$Cal Project prior to requesting and using OTech consulting services.</p> <p>The State shall provide data center floor space, power, HVAC, and a foreign network connection to the State WAN for equipment in the Transition Environment.</p> <p>The State shall provide access to CGEN.</p>

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	<p>The Contractor shall propose, purchase, install, configure, test, implement, support and maintain hardware and software for the required environments within the Transition Environment.</p> <p>The State shall provide a list of supported hardware and software in OTech’s Application Hosting Environment.</p> <p>The Contractor shall logically and physically separate the production environment(s) from all other environments.</p> <p>The Contractor shall be responsible for understanding its specific roles and responsibilities (e.g., disaster recovery) for services performed when the System is hosted in the Transition Environment versus when hosted in the Application Hosting (formerly, Managed Services) Environment at OTech.</p> <p>The Contractor shall transition from the Transition Environment to the Application Hosting Environment and must meet all current security and Application Hosting Environment standards, policies, hardware and software at the time of transition.</p> <p>The State and Contractor, in collaboration with OTech, shall mutually agree upon the date that the System will transition from the Transition Environment to the Application Hosting Environment. After the State has accepted the System transition to the Application Hosting Environment, OTech shall be responsible for hosting services.</p> <p>The Contractor shall develop a Hosting Transition Plan that contains agreed upon roles and responsibilities for the Contractor, FI\$Cal staff and OTech.</p> <p>The Contractor shall be responsible for planning and transitioning the System from the Transition Environment to OTech’s Application Hosting Environment.</p> <p>The Contractor shall follow the OTech’s security standards, policies, guidelines, and processes and will be audited to ensure compliance.</p>
T-6	<p><u>Interfaces & Integration with External Systems</u> The State shall assist the Contractor in validating the interfaces that integrate external systems with the System. The State shall act as the primary liaison for communications with State departments that manage these systems.</p> <p>The Contractor shall develop, document and provide the interface strategy, architecture, middleware, data integrity validation, error handling processes, and detailed plans.</p> <p>The Contractor shall validate, develop and test all required interfaces from the System to legacy systems.</p> <p>The Contractor shall develop specifications for any interface into the System from legacy systems and provide a mechanism for testing these interfaces.</p> <p>The State shall facilitate the exchange of data from legacy systems to the System according to Contractor specifications and test these interfaces using the Contractor provided testing mechanisms.</p> <p>The Contractor shall develop and implement appropriate user authentication controls for those processes submitted through an interface by deferred and exempt departments that require them (e.g. claim requests).</p>
T-7	<p><u>Portal</u> The State shall participate in requirements and design sessions for the Portal solution.</p> <p>The Contractor shall build, test and tune the Portal solution to support the deployment of the System in accordance with State policies and standards.</p>
T-8	<p><u>Enterprise Security Management</u> The State shall provide guidelines and standards on enterprise security management to the Contractor.</p> <p>The State shall provide information on existing security infrastructure capabilities.</p> <p>The Contractor shall complete an enterprise security strategy, timeline, and plan including data security solutions in accordance State data security guidelines and standards.</p>

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	<p>The Contractor shall assess, identify, validate and remediate System security including hardware and software.</p> <p>The Contractor shall identify design standards, measures, and techniques that comply with the State’s data security protocols and specifications.</p> <p>The Contractor shall correct any Deficiencies found in the System as a result of audits performed to identify compliance with Federal Information Security Management Act (FISMA), the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-37, Guide for the Security Certification and Accreditation of Federal Information Systems, and other applicable federal government standards.</p> <p>The State shall assist the Contractor with developing all security profiles.</p> <p>The Contractor shall develop and maintain all security profiles.</p>
T-9	<p><u>Security</u></p> <p><u>Deleted, combined into T-8.</u></p> <p><u>(This item intentionally left blank.)</u></p>
T-10	<p><u>System Performance and Testing Tools</u></p> <p>The Contractor shall provide a System that performs in accordance with applicable performance standards.</p> <p>The Contractor shall identify in the design stage of the System potential areas that they believe they cannot control that could impact negatively on performance.</p> <p>The Contractor shall demonstrate prior to each Wave Production Stability Period that the System can handle the estimated maximum number (peak load) of transactions and meet the system performance acceptance criteria.</p> <p>The State shall define acceptance criteria for system performance, scalability and reliability.</p> <p>The Contractor shall configure performance testing tools.</p> <p>The Contractor will identify processes and tools necessary to perform system performance testing (stress, load, and throughput).</p> <p>The Contractor shall notify the State FI\$Cal Team and OTech at least three (3) weeks in advance of conducting Performance or Stress Testing.</p> <p>The Contractor shall provide relevant expertise for using the performance monitoring and testing tools identified and integrating these tools as needed with the System.</p> <p>The Contractor shall provide a System performance support solution.</p> <p>The Contractor shall propose the architecture and lead the development and integration of the performance support solution including planning End User access, required data, and supporting training materials or project documents.</p> <p>The Contractor shall develop strategies and procedures to document system resources (i.e., balanced, over used, etc.)</p> <p>The Contractor shall recommend and purchase/provide recommended tools to monitor and tune the System and technical components, manage desktop software or to manage other technical areas.</p>
T-11	<p><u>Operational Readiness</u></p> <p>The Contractor shall provide minimum requirements for technical readiness including documentation, hardware, software, and infrastructure.</p>

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	<p>The Contractor shall provide a schedule and strategy for monitoring and reporting technical readiness of agencies/departments for implementation.</p> <p>The Contractor shall determine and provide the minimum requirements needed for environment readiness and monitor all technical readiness activity progress. The Contractor shall perform load testing, performance monitoring and tuning to ensure compliance with applicable requirements.</p> <p>Prior to the State's acceptance for each Wave, the contractor shall perform a Functional Configuration Audit (FCA) to confirm that all functionality specified in the system requirements baseline has been implemented and tested successfully during User Acceptance Testing. Any discrepancies shall be documented and remediated by the Contractor unless the discrepancy falls within an area for which the State has responsibility.</p> <p>The State shall validate the results and scope of the FCA to confirm the audit's accuracy and completeness.</p> <p>Prior to the State's acceptance for each Wave, the contractor shall perform a Physical Configuration Audit (PCA) to confirm that all technical documentation that supports the design, development, implementation, test, and deployment of the system reflects the as-built configuration. Any discrepancies shall be documented and remediated by the Contractor unless the discrepancy falls within an area for which the State has responsibility.</p> <p>The PCA shall not be started unless the State's validation of the FCA has already been completed.</p> <p>The State shall validate the results and scope of the PCA to confirm the audit's accuracy and completeness.</p>
T-12	<p><u>Solution and Technical Landscape</u></p> <p><u>Deleted and combined with I-1.</u></p> <p><u>(This item intentionally left blank.)</u></p>
T-13	<p><u>Service Desk</u></p> <p>The Contractor shall provide all Service Desk activities, including equivalent resources, until Service Desk tiers 1 and 2 are transitioned to the State, including a three-tiered system: 1) first tier - Super Users in agencies/departments, 2) second tier - FI\$Cal Service Desk staff, and 3) third tier - Contractor Service Desk staff.</p> <p>The Contractor shall be responsible for the design, development, testing, implementation, and operation of all hardware, software, and environments to support Service Desk activities.</p> <p>The State and Contractor shall mutually agree upon the timeframe for transitioning the Service Desk tier 1 and 2 activities to the State during the Contract period.</p> <p>The Contractor shall provide Service Desk services in accordance with the Service Level Agreement.</p> <p>The Contractor shall perform Service Desk activities to log, record, track, and search Service Desk requests, related to or caused by the System, through initiation, response, escalation, resolution, and closure. The Contractor shall provide report on service request volumes, categories, metrics, and trends.</p> <p>The Contractor shall create, maintain, and provide comprehensive Service Desk procedures, quick guides and services including processes to publish, record, track and search Service Desk requests through initiation, response, escalation, resolution, and closure.</p> <p>The Contractor shall provide a toll-free telephone number for Service Desk services.</p> <p>The Contractor shall provide the ability to report and track incident and service requests via email and the web.</p> <p>The Contractor shall collaborate with the State to develop and implement the scope of activities for Service Desk services.</p>
T-14	<p><u>Data Collection Process and Tool(s)</u></p>

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	<p>The State shall collect and validate data using the mechanism defined and provided by the Contractor to identify data that is not available in legacy Systems.</p> <p>The Contractor shall identify data required to support the System. The Contractor shall develop and provide a procedure to gather data that is not available in the legacy systems.</p> <p>The Contractor and State shall work collaboratively to map data from legacy systems to the System.</p> <p>The Contractor shall create mapping tables.</p> <p>The State shall populate the mapping tables.</p> <p>The Contractor shall execute the ETL (extract, transform, load) tasks necessary to populate the System with the collected data as required to support development, testing, and implementation of the System.</p> <p>The State and Contractor shall ensure data security is maintained throughout the data collection process.</p>
T-15	<p><u>Performance Support and Monitoring</u></p> <p><u>Deleted, merged with T-10.</u></p> <p><u>(This item intentionally left blank.)</u></p>
T-16	<p><u>Purchase of Software and Hardware</u></p> <p>The Contractor shall obtain approval from the State prior to purchase of hardware and software.</p> <p>The Contractor shall purchase proposed software, hardware, and tools necessary to configure, implement, document, and operate the System.</p> <p>The Contractor shall perform a technology refresh (including the purchase, installation and implementation) of those hardware items as requested and approved by the State.</p> <p>The Contractor shall perform all Services necessary to configure and implement Upgrades of the COTS ERP Software and/or Third Party Software as requested and approved by the State.</p> <p>The Contractor shall transfer to the State licenses or title, as applicable, to Licensed Software, Contractor Technology, tools and Equipment unless otherwise agreed to by both the State and the Contractor.</p>
T-17	<p><u>Service Level Agreement (SLA)</u></p> <p>The State shall develop an SLA. The SLA shall define specific service level objectives (SLOs).</p> <p>The State and Contractor shall work collaboratively throughout the Contract to add, update, or delete SLOs.</p> <p>The Contractor shall monitor and report on all Service Level Objectives as defined in the SLA.</p> <p>The Contractor shall resolve deviations from agreed to SLOs as specified in the SLA.</p> <p>The State shall review Contractor SLO monitoring and compliance documentation.</p>
T-18	<p><u>Legacy System Administration</u></p> <p>The State shall inform the Contractor of changes to existing legacy systems that may require modifications in the System. During implementation, the State shall be responsible for changes to legacy systems to support new interfaces required by this project or changes required by law or regulation.</p> <p>The State and Contractor shall collaborate to determine changes that will be required to legacy systems to support the project.</p> <p>The Contractor shall leverage the existing interfaces to and from legacy systems in a manner that minimizes the impact on departments, unless otherwise approved by the State.</p>

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T-19	<p>SCO Claim Audit Tool The State (including SCO) shall validate that the design, development, and implementation of the Claim Audit Tool meets SCO’s constitutional and statutory responsibilities.</p> <p>The Contractor shall design, develop, and implement all necessary hardware and software relating to the Claim Audit Tool(s). The Contractor shall configure the Claim Audit Tool(s) to meet the Project scope and Claim Audit Tool(s) requirements. It will be the responsibility of the Contractor to provide knowledge transfer to State staff to ensure that the Claim Audit tool(s) is programmable and configurable by SCO staff. The knowledge transfer must occur in a manner that ensures State staff are fully able to perform configuration tasks when the system is turned over for State management. The Contractor shall ensure that the Claim Audit Tool(s) is continuously under the logical and administrative control of the SCO.</p>
I-1	<p><u>Implementation Strategy</u> The State shall identify and make available subject matter experts to assist the Contractor in the development of the implementation plans.</p> <p>The Contractor shall provide the State a plan for addressing at least five years of projected growth following Final System Acceptance.</p> <p>The Contractor shall provide a strategy for monitoring and reporting implementation readiness of agencies/departments.</p> <p>The Contractor shall plan, coordinate, and perform System implementation. Activities must include development of a detailed implementation strategy and timing of all conversion and cutover tasks required for the successful conversion of all implementation phases.</p> <p>The Contractor shall be responsible for the operations of the Contractor-provided hardware and software throughout the Contract period.</p> <p>The Contractor shall collaborate with the State to provide updates and coordinate activities of the implementation strategy.</p> <p>The Contractor shall propose recovery strategies and mechanisms that will minimize impacts to the System implementation when changes to the schedule or activities are required.</p> <p>The Contractor shall be responsible for implementation contingency procedures and processes to roll back the System to the last known operational state to resume business services.</p>
I-2	<p><u>Post Go-Live Production System and Operations Support</u></p> <p><u>Deleted. Contained in SOW and Knowledge Transfer sections</u></p> <p><u>(This item intentionally left blank.)</u></p>
I-3	<p><u>Knowledge Transfer</u></p> <p>The State and Contractor shall work collaboratively to identify knowledge areas, roles requiring knowledge transfer and dates for completion of individual types of knowledge transfer activities.</p> <p>The Contractor shall develop and deliver a Master Knowledge Transfer Plan and sub plans for all specific roles and knowledge areas identified.</p> <p>The Contractor shall provide the State with tools to perform knowledge transfer progress evaluations at intervals approved in the Knowledge Transfer Plans and methodologies to report the results. These tools shall assess the degree to which knowledge transfer has occurred in order to gauge the progress toward FI\$Cal’s self sufficiency as it relates to managing and maintaining the System.</p> <p>The State shall complete self-evaluations for competencies acquired and collaborate with the Contractor to adjust Knowledge Transfer Activities and Plans to ensure success.</p>

Roles and Responsibilities	
	<p>The Contractor shall make adjustments to the plans, as necessary, based on the results provided by the State.</p> <p>The Contractor shall develop and implement a knowledge transfer strategy that uses a side by side, shadowing learning methodology that begins informally at Contract award and formally after State acceptance of the Knowledge Transfer Plans.</p> <p>The Contractor shall integrate and embed State staff into all agreed upon processes and allow them to work along side Contractor staff upon Contract award to promote early knowledge transfer and development of State staff competency during System implementation.</p> <p>The Contractor shall work with the State to determine the timing of knowledge transfer.</p>
I-4	<p><u>Testing & Test Plans</u></p> <p><u>General Testing</u> The Contractor shall be responsible for testing. The Contractor shall develop and document the testing strategy, tools, processes, and detailed plans to test the System including all customizations, modifications, enhancements and configurations. The Contractor shall perform testing in accordance with approved test plans and strategies.</p> <p>At a minimum, Contractor testing shall include:</p> <ul style="list-style-type: none"> Y Unit Y System Y Integration (including integration with external agencies/departments and legacy systems) Y Functional Y Interface Y Stress/Load Y System Performance Y Regression Y Security Y Data Conversion <p>The State shall work collaboratively with the Contractor to complete testing related activities.</p> <p>The State shall coordinate State participants for applicable testing.</p> <p>The Contractor shall develop and provide test scripts, test scenarios, test variants, test cases, expected test results, and actual test results. Testing shall include reports, interfaces, enhancements, conversions, forms, workflows, and end-to-end business processes to validate System requirements and development objects.</p> <p>The State shall review and approve test results from all phases of Contractor testing, at the State's discretion.</p> <p>To the extent possible, the Contractor shall utilize automated testing.</p> <p>The Contractor shall identify data necessary to complete testing activities. The Contractor shall redact State-identified sensitive and confidential data.</p> <p>The State shall work with the Contractor to gather necessary test data.</p> <p>The Contractor shall perform ETL (extraction, transformation, load) activities and provide the tools necessary to support the loading of data to all testing environments including any subsequent refresh or reload of data.</p> <p>The Contractor shall work with the State to identify any data conversion necessary to support testing and shall be responsible for loading such data.</p> <p>The Contractor shall design, develop, implement, document, maintain, and provide all test environments.</p> <p>The Contractor shall provide and maintain tools necessary for testing activities. At a minimum, Contractor shall provide tools for application, regression and stress/load testing.</p>

Roles and Responsibilities	
	<p><u>User Acceptance Testing</u></p> <p>The Contractor shall develop and prepare User Acceptance Testing.</p> <p>The Contractor shall develop and provide User Acceptance testing materials and populate the System with data to simulate a live environment.</p> <p>The Contractor shall support the User Acceptance Testing process by providing environments, data, test scripts, test scenarios, and tools.</p> <p>The Contractor shall develop and provide all User Acceptance training materials.</p> <p>The Contractor shall train State staff to conduct User Acceptance testing activities.</p> <p>The State shall execute User Acceptance Testing with the assistance of the Contractor.</p>
I-5	<p><u>General Training Strategies</u></p> <p>The State and Contractor shall collaborate to develop training strategies, processes, and execution of training activities.</p> <p>The Contractor shall develop training plans.</p> <p>The State shall provide training rooms.</p> <p>The Contractor shall develop, maintain, reproduce, store, and provide training materials for all training categories, including online materials for web based training, training curricula, training presentations, and training aids.</p> <p>The Contractor shall design, develop, implement, document, maintain, and provide all training environments. The training environment shall be separate from the production environment.</p> <p>The Contractor shall develop and conduct training-for-trainers.</p> <p>The Contractor shall develop and conduct all Super User, FI\$Cal Team and Technical training.</p> <p>The Contractor will develop an End User training strategy. The strategy shall include transitioning End User training responsibilities to State staff.</p>
I-6	<p><u>Training Development Standards</u></p> <p>The State shall provide guidance in the development of training materials and shall participate in the development of training document standards, templates, publishing and administrative processes related to training materials development.</p> <p>The Contractor shall propose and implement training delivery methods and purchase, install and integrate any required software tools necessary to accomplish the training.</p> <p>The State shall implement and maintain, in collaboration with the Contractor, a learning management system (LMS) to support training logistics.</p>
I-7	<p><u>Super-User, FI\$Cal Project Team, and Technical Training</u></p> <p>The State shall assist the Contractor in identifying Super User, FI\$Cal Project Team and Technical roles required to support the System.</p> <p>The State shall assist the Contractor in identifying the training needs for each role.</p> <p>The Contractor shall ensure the content of the Super User, FI\$Cal Project Team and Technical training curricula encompasses the range of duties to be performed by these staff to support the System.</p>

Roles and Responsibilities	
	<p>The Contractor shall identify prerequisite skill sets for Super User, FISCAL Project Team and Technical staff.</p> <p>The State shall train State staff to meet the prerequisite skill sets.</p>
I-8	<p><u>End User Training</u> The State shall assist the Contractor in identifying training needs for End Users.</p> <p>The Contractor shall develop and conduct Wave 1 End User training.</p> <p>The Contractor shall conduct the mutually agreed upon number of End User training sessions for each subsequent wave.</p> <p>The State shall then conduct all remaining End User training sessions.</p> <p>The Contractor shall provide support to the State throughout all End User training activities.</p>
I-9	<p><u>Project Informational Web Site</u> The State shall manage and post to the Project informational web site (www.fiscal.ca.gov).</p> <p>The Contractor shall support and contribute to the design and development of materials to be hosted on the Project web site.</p> <p>The Contractor shall provide content on an ongoing basis to populate the Project web site.</p>
I-10	<p><u>Project Branding</u> The State shall develop and own Project branding. The FISCAL logo and branding will continue with the Project.</p> <p>The Contractor shall utilize approved Project templates for all project documents.</p>
I-11	<p><u>Organizational Change Management</u> The State shall coordinate collaboration with external State Agencies and departments. The State shall provide resources to represent the Project in externally-facing activities such as Stakeholder meetings, or when direct contact with Stakeholders is required.</p> <p>The State shall provide existing change management assessments to the Contractor.</p> <p>The Contractor shall plan, design and implement Organizational Change Management activities that are compatible with ongoing State change management efforts.</p> <p>The Contractor may implement and use its own tools for Organizational Change Management. These tools shall integrate with State processes either electronically or manually as approved by the State.</p>
I-12	<p><u>Business Process Reengineering (BPR)</u></p> <p>The State shall coordinate collaboration with external State Agencies and departments. The State shall, therefore, jointly execute BPR activities with the Contractor.</p> <p>The State and Contractor shall identify Key Performance Indicators (KPIs) that define a framework to measure the benefits of BPR efforts.</p> <p>The Contractor shall monitor and report on KPIs.</p> <p>The Contractor shall lead, manage, and successfully complete BPR efforts including:</p> <ul style="list-style-type: none"> § Provide detailed analyses on how the State can use the best practices inherent in the Contractor's solution § Identify what changes to State processes must be implemented in order to leverage these best practices (BPR) § Plan BPR activities agreed to by the State § Develop and document To-Be processes

Roles and Responsibilities	
	<p>§ Perform change management activities necessary to successfully complete BPR</p> <p>§ Facilitate BPR forums with affected stakeholders.</p> <p>The Contractor shall support the State, as a subject matter expert of the System, to obtain approval from government executives and officials to implement recommended changes to statutes or regulations to achieve best practices and/or the maximum benefits of BPR.</p> <p>BPR opportunities and strategies shall be subject to the State's review and approval.</p>

Appendix G: Hackett Report

FI\$CAL BUSINESS CASE

DEVELOPED FOR: STATE OF CALIFORNIA



DELIVERED BY:



January 24th, 2012

Confidential

EXECUTIVE SUMMARY

In 2011, The Hackett Group conducted a benchmark study of forty-three (43) state departments including four State of California control agencies (Department of General Services, Department of Finance, State Controller's Office, State Treasurer's Office). The study covered the following processes:

- Accounting
- Budgeting and cash management
- Contracting
- Procurement

By comparing the data resulting from the benchmark studies to our internal database¹⁷, we uncovered major inefficiencies and high process costs at all the departments and in all processes. Next, we quantified the opportunities for savings and efficiency increases resulting from the implementation of a statewide ERP system and the associated business process reengineering. We project that all improvements, if fully implemented, could yield annually recurring savings of \$415 million.

However, note that the last implementation phase of the project is scheduled for FY2016/2017, and some process improvements will take up to four years to achieve. As a result the total benefits realization of FI\$Cal will not be realized until FY 2019/2020. (A complete, year-by-year projection of financial benefits appears in Appendix A of this document.)

The benefits will come from three main areas, or "streams":

- **Direct process cost savings:** This refers to the direct cost savings resulting from efficiency and productivity improvements to processes within the scope of the FI\$Cal project. Estimated benefits are approximately \$173.2 million, or 42% of the total \$415 million improvement opportunity.
- **Technology and other cost savings:** Although FI\$Cal will result in a net *increase* in technology cost as a result of new investment, the project will allow the state agencies to retire legacy IT systems, resulting in an estimated \$16 million in annual recurring operating costs. Additionally, FI\$Cal will yield \$12 million in "other" cost savings, driven largely by lower facilities' cost. The combined technology and other cost savings opportunity of \$28 million represents close to 7% of the total opportunity of FI\$Cal.

¹⁷ Hackett has conducted 5,500 benchmarks with leading global companies and public sector organizations, tracking over 10,000 metrics that provide insight as to how companies are achieving World Class performance in a broad range of processes and sub processes. This database includes over 14 state government organizations within the United States and over 30 government agencies.

- **Procurement and Finance Effectiveness Improvement:** These benefits will result from better management of the procurement life cycle and reduction in rogue spending. Estimated results are annual recurring savings of just over \$213 million, or 51% of the total opportunity. While we anticipated that improved travel and expense reimbursement processes and invoicing, receivables management and collections will deliver additional savings through business cost avoidance, due to a lack of baseline performance data, we did not build these into our calculations.

In addition, there are two extremely important *non-financial* benefits that must be factored into the business case for the investment in FI\$Cal:

- **Reduced technology risks:** In theory, the value of reducing the risk of process disruptions due to a failure of legacy systems can be quantified in dollar terms. The reality, however, is that no empirical, comparable data exists for such a calculation. That being said, it is obvious that conducting business-critical processes on poorly documented, hard-to-maintain applications, which themselves are running on outdated technology that is no longer being supported, poses an unacceptable risk to the State of California.
- **Faster, cheaper and more effective financial planning, analysis and performance management:** The FI\$Cal project will allow the State agencies to vastly improve their ability to plan and budget, and as a result make better, faster and more confident decisions about resource allocation.

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BACKGROUND

Benchmark Objectives

In 2011, The Hackett Group performed benchmark studies of select State of California agencies, in support of the FI\$Cal program. The studies covered Accounting, Budgeting, Cash Management, Contracting and Procurement. There were three objectives to the project:

1. To prepare information to assist in developing SPR 4, including Benefits from investing in FI\$Cal and FI\$Cal Project Benefits Measurements.
2. To establish performance baselines for Accounting, Budgeting, Cash Management, Contracting and Procurement by measuring process costs, resource effort, technology utilization, productivity metrics and best-practice utilization.
3. To provide baseline cost and resource metrics for use in ongoing Statewide performance measurements and to support future-state FI\$Cal cost targets.

Selected key findings of this benchmark are presented in Chapter 2.

Business Case Development Objectives

Hackett was also asked to provide an analysis of:

- The performance gap between the State of California and a peer group composed of other States for benchmarks conducted in 2011 in the following two areas:
 - Accounting, Budgeting and Cash Management
 - Procurement and Contracting
- The risk and cost associated with *not* implementing FI\$Cal.
- The benefits streams associated with implementation of FI\$Cal, including both financial and non-financial benefits.

Benchmark Approach

A benchmark is a process that allows an organization to compare its business processes and performance to other comparable organizations. Usually the main objective of benchmarking is to measure baseline ("current state")

FI\$Cal Business Case

performance levels, and understand the performance-improvement opportunity for each process benchmarked, based on the gaps between baseline performance levels and those of other comparable organizations.

Normalized cost by business process is usually one of the most important metrics measured through benchmarking. Normalization is required in order to make apples-to-apples comparisons of cost, productivity and other metrics between organizations of different sizes.¹⁸ Other types of metrics, such as cycle times (e.g. "days to report") and error rates do not require normalization.

In addition, benchmarks measure the utilization of best practices and various specific capabilities (such as level of automation in a given process) and factors that directly impact performance, such as labor cost per FTE. These additional metrics provide insights into the main factors that explain performance deficiencies, allowing organizations to develop informed and realistic improvement plans.

Benchmarking is a well-established practice. It is widely acknowledged to be a useful basis for developing and quantifying business cases for technology implementations and transformation projects such as FI\$Cal.

Benchmark Scope

To enable apples-to-apples comparisons with other organizations in our database, the benchmark scope focused on State of California activities in a way that aligned them to processes as defined by The Hackett Group. Two peer groups were created for the purposes of benchmark comparisons:

- The median (50th percentile) of a State Government peer group (also referred to as the "peer group – Median").
- The median (50th percentile) of public and private-sector companies in the top quartile of both efficiency and effectiveness metrics, which Hackett terms 'world-class.'

Next, the peer group data was adjusted (normalized) to FI\$Cal's expenditures. These total \$5.45 billion for all benchmarked processes for the participating departments. "Expenditures" was defined as "All IT and non-IT departmental expenditures with the exception of central administrative services and interdepartmental allocations" (FY2010-2011 expenditures plus year end encumbrances).

The comparative benchmark information in this document comes from other Hackett benchmark participants. They captured the same data utilizing the same tools, processes and definitions. This is the only source of information available for comparison purposes, as information at this level of detail tends not to be publicly available. Thus, participants in the peer group range in size and scale compared to the State of California. Also, the

¹⁸ For example, comparison of absolute account payable process cost between two organizations is meaningless without an understanding of the difference in volume of work supported by each organization. In this example, absolute cost may be normalized by amount of spend. The metric "accounts payable process cost per \$US billion of spend" is a meaningful metric allowing comparison of performance levels between different organizations.

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peer group is composed of participants both with and without an integrated technology solution, so levels of process and technology maturity vary.

Data gathered reflects FY 2010-2011 actuals. Staffing levels and associated labor costs reflect the number of resources and associated fully loaded labor cost (i.e., salary + overtime + benefits) supporting the benchmarked activities as of the end of FY2010-2011. (This is called the "ongoing run rate."). Staffing levels are conveyed in terms of "FTEs" – full time equivalents. Partner agencies have made adjustments for work performed on behalf of departments that did not participate in the benchmark.

Business Case Development Approach

Calculations about financial benefits are based on an ROI model that identifies nine benefit streams, which are generated through business value drivers (BVDs) of the FI\$Cal project. This model captures the main projected financial benefits of the FI\$Cal project. This document is based on the financial benefits projections of this ROI model. Additionally, narratives are provided for the principal *non-financial* benefits associated with the project.

ROI Model Scope

The FI\$Cal team has stated that due to confidential protections necessary for the FI\$Cal procurement they are unable to provide Hackett with investment and operating cost information for the project. Because no cost and investment information is available, this document does not include a full ROI analysis and only covers the benefits streams associated with FI\$Cal.

Multiplier

As noted above, the benchmarking effort was completed with 43 state agencies. However, the benefits to be included in this business case cover all Accounting, Budgeting, Cash Management, Contracting and Procurement processes for all departments that are in the scope of FI\$Cal.

To arrive at this number, we first calculated financial benefits for those departments and Partner agencies in the benchmark scope. It is estimated that these agencies represent about 46% of the total scope of the FI\$Cal project.¹⁹ To calculate the value of the benefits stream for all state departments in scope of FI\$Cal, benefits at benchmarked agencies were multiplied by 2.2 (i.e., 1 divided by 0.46).

¹⁹ Calculated by dividing the total appropriations minus reimbursements for departments/agencies in scope of the Hackett benchmark by the appropriations minus reimbursements of agencies in scope of the FI\$Cal project.

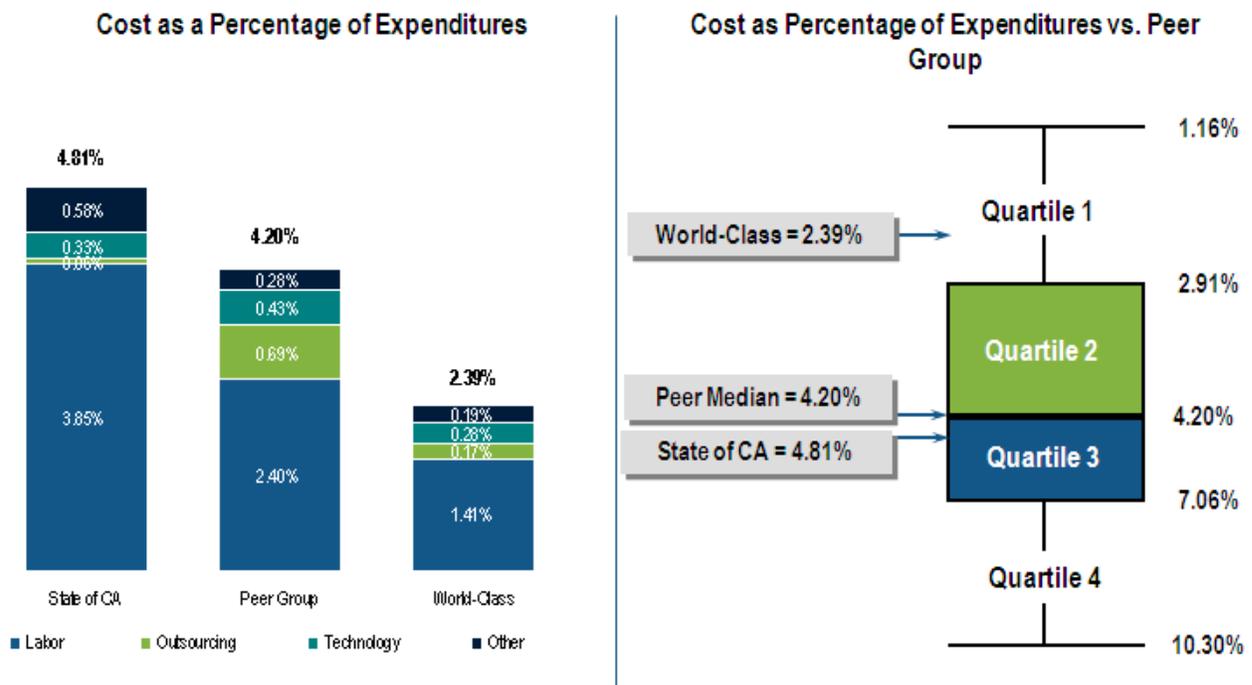
CURRENT STATE : KEY BENCHMARK FINDINGS

Accounting, Budgeting and Cash Management

The State of California’s baseline cost for Accounting, Budgeting and Cash Management for the participating departments and four Partner agencies is \$262 million, or 4.8% of reported expenditures. Of this amount, \$210 million (80%) is made up of labor costs (salary + benefits + overtime). Baseline staffing levels are 2,702 full-time equivalents (FTEs).

Accounting, Budgeting and Cash Management cost as a percent of total expenditures falls in the third quartile of the State Government peer group. The State of California’s labor costs are higher than those of the peer group, but its technology costs are lower. This indicates a high level of manual processes (**Figure 1**).

Figure 1 – Accounting, Budgeting and Cash Management Cost as a Percentage of Expenditures



Benchmark findings include:

- In Accounts payable, the cost per invoice processed and the number of invoices processed per FTE (an indicator of productivity) suffer due to incomplete automation and long cycle times.
- There is a lack of integration between Purchasing, Accounts Payable and General Ledger. The result is a highly manual, paper-intensive process, which drives a high error rate: 5.4% of transactions require some type of correction.

FI\$Cal Business Case

- Accounting and External Reporting subsystems are not integrated to the General Ledger. As a result, a high volume of journal entries must be entered into the current system manually.
- Billing process automation is not available in most departments, which lengthens billing cycle times. Moreover, a high number of these transactions are incomplete and require rework.
- In Cash Application, few remittances are received electronically. The cycle time to apply cash is long.
- Collections and Dispute Management staff cannot access invoice information and collection details online.
- A high percentage of Accounts Receivable is over 90 days past due.
- Most budgeting and reporting activity is completed using standalone spreadsheets; the use of budgeting software and data warehouses for reporting is limited.

To supplement the *quantitative* benchmark data supplied by the benchmark, more *qualitative* "customer" feedback was obtained via a Stakeholder Survey. This survey explored the control agencies and departmental role in Finance and Procurement processes, plus what services and support were desired (comparing perceived importance with actual effectiveness in these areas). Findings include the following:

- The majority of Accounting, Budgeting and Cash Management stakeholders (81%) believe that significant improvements are needed.
- Accounting and External Reporting received the best ratings from stakeholders, while Business Performance Management received the poorest.
- Stakeholders indicated that the most proactive support comes from Planning and Budgeting, while support for business process improvement is limited.
- Communication and analytical/problem solving are considered the most important required skills in Accounting, Budgeting and Cash Management staff
- The effectiveness of cross-functional teaming between stakeholders and Accounting, Budgeting and Cash Management staff is considered below average.

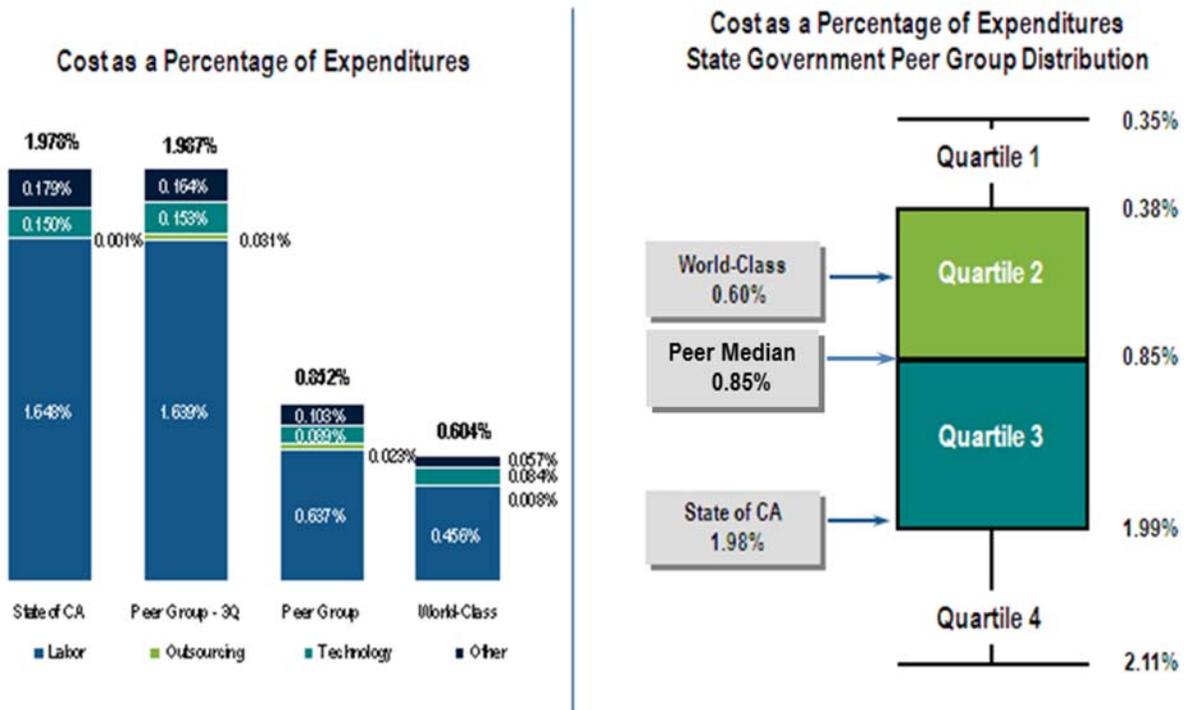
Contracting and Procurement

The State of California's baseline cost for Contracting and Procurement for the participating departments and four Partner agencies is \$108 million, or 1.98% of reported expenditures. Of this amount, \$90 million (83%) are labor costs (salary + benefits + overtime). Baseline staffing levels are 1,095 full time equivalents (FTEs).

FI\$Cal Business Case

As benchmarked, the cost and effectiveness of Contracting and Procurement falls in the third quartile, and is approaching the lowest quartile of the state government peer group (**Figure 2**). Indeed, the State of California's technology spend is close to the same level as the peer group and higher than world-class, yet automation and functionality are significantly lower compared to either.

Figure 2 – Contracting and Procurement Cost as a Percentage of Expenditures



Other benchmark findings include:

- Staffing levels at State of California agencies that were benchmarked are 81% higher than the peer group.
- Time allocation by process within Contracting and Procurement is similar to the peer group.
- In terms of staff mix, more professionals handle routine transaction processing activities than in the peer group. (Under the FI\$Cal approach, these highly trained, higher-paid professionals would have more time to spend on analysis and other high-value work.)
- Contracting and Procurement is highly distributed; the majority of activities take place at the departmental level, which represents 81% of staffing and 77% of labor costs.
- Technology cost as a percentage of expenditures is twice as high as the peer-group median. However, the use of technology to automate transaction processing and facilitate sourcing is lower than world-class and the peer group. Technology enablement is either limited or completely absent in a number of key areas. This limits or prevents the use of proven best practices, such as a State-wide vendor master file, a State-

FI\$Cal Business Case

wide item (materials) master file, and electronic catalog system for purchasing. The results of the State of California's low level of automation are error rates that are *25% higher* and processing and cycle times that are *250% longer* than those of the peer group.

The State of California also lacks reporting tools that would allow better, faster analysis of expenditures. It also lacks basic supplier performance reporting and score-carding capabilities, the ability to compare and analyze the performance and terms of contracts, and spend visibility at a Division, department and State level.

Below is a selection of additional, process-level findings:

- Master Data and Compliance Management staffing levels are significantly higher due to a fragmented technology footprint, multiple data-entry points, and no ability to report transaction history.
- Requisition and Purchase-Order Processing, along with order follow-up, are highly manual and non-centralized. This means that data must be entered multiple times in order to support process execution, increasing cost, cycle time, and error rates.
- Receipts Processing is based on use of paper. Receipts processing include the entering / keying in of the physical receipts that accompany the shipment to a receiving location.
- There are no standards in place for evaluating suppliers and capturing supplier-performance data. Further, the lack of best-practice use in vendor bidding, solicitation, negotiation and contract creation not only makes these processes unnecessarily time-consuming, but prevents expenditures in these areas from being proactively managed and systematically overseen by the State's procurement staff.
- The important task of Compliance Management is severely hampered by a lack of technology-enabled process controls.

As with Accounting, Budgeting and Cash Management, a Stakeholder Survey was performed to complement the quantitative data with more-qualitative feedback from users of Contracting and Procurement services . This survey explored the control agencies and departmental role in Finance and Procurement processes, plus what services and support were desired by users (comparing perceived importance with actual effectiveness in these areas).

Findings include the following:

- Stakeholders view Contracting & Procurement processes as "administrative," i.e., with little or no involvement in contracting and process-improvement activities.
- Only 18% of respondents rate Contracting and Procurement as "business partners" and expenditure management experts. Only 22% characterize the function as proactive.
- Thirty-nine percent indicate that significant improvement is needed across the board in Contracting and Procurement, with order processing, responsiveness, communication, and partnering ranking as the areas of greatest importance to them.

NON -FINANCIAL BUSINESS VALUE DRIVERS

Introduction

Before discussing quantifiable financial business value drivers, we first analyze two important non-financial business value drivers of FI\$Cal. FI\$Cal is expected to yield substantial benefits that cannot be expressed readily in financial terms. In-depth, process-level analysis would be required to identify and place a value on these benefits, a task that is outside of the scope of The Hackett Group's involvement in the development of the FI\$Cal business case. However, based on our limited observations at the state agencies and additional information provided by the FI\$Cal project team, we believe strongly that there are two business value drivers that can be realized through the FI\$Cal project. These are described below.

Technology, Business and Compliance Risk Reduction

There is substantial risk involved in operating critical information systems that are poorly documented (or not documented at all); using applications that are difficult to support or outdated; and running on technology platforms that are no longer supported. This is what is occurring to a significant degree at the agencies in scope.

First, this situation makes the agencies dependent on support FTEs who are the only ones who understand the business applications. This, in itself, is unacceptable. However, in addition, these legacy systems are so susceptible to "breakage" that, to avoid the risk of system failure, necessary functional upgrades are not carried out. Even if modifications can be developed and implemented, costs are high and delivery time is unacceptably slow.

In addition to exposure to risk, the agencies' dependency on antiquated systems limits their ability to automate, improve and integrate processes. Still worse, it may constrain them in their ability to implement legislative mandates and regulations in a timely and correct manner. Other serious risks include:

- Inability to adequately support new requirements.
- Shortages of staff with the IT skills needed to work with legacy technology.
- Escalation of maintenance and support costs.
- Inability to support modern technologies such as workflow and graphical user interfaces.
- Inability to perform real-time data analysis and provide adequate decision-support services.
- Inability to leverage new technology developments.
- Information security risk.
- Recovery risk.
- Vendor viability/stability risk.

The risks above translate into risk of business-process disruption. If large or severe enough, this may prove catastrophic. To quantify the business value of eliminating these and other risks would require an understanding of the actual probability of systems failure, and the costs associated with such failure. However, there is currently insufficient comparative data on which to base a calculation.

By migrating to a modern ERP system, the state gains access to a vast pool of resources with deep knowledge of this technology, which reduces the risks described above. The architecture of such systems also allows for far more flexibility and configurability, making it easier and less risky to support new business requirements as they arise.

Business Performance Improvement

Process redesign and technology enablement will drive broad-based business performance improvements. While these are beyond the scope of this business case, there is one area that we can discuss that is central to the FI\$Cal business case: the allocation of financial planning and budgeting resources.

In the private sector, financial planning and budgeting is rapidly evolving away from a routine administrative process in which there is little concern about optimizing resource allocation. Instead, the enormous changes occurring in the business and economic environment have encouraged management to remake the process into one in which resources are deliberately allocated in a way that will help companies achieve their strategic and operational objectives. Although state agencies will always operate under a very different set of constraints than private sector enterprises, funding cutbacks make it necessary for state governments to embed far more business discipline than they ever have in decisions about resource allocation.

Therefore, a more-sophisticated budgeting and planning process, supported by advanced analytics and techniques such as predictive modeling, will pay high dividends. The following are just a few of the potential benefits:

- It will result in a more efficient process that consumes fewer resources (in dollars and FTEs) and can be accomplished faster. This in turn will lead to more-effective allocation of these resources, which in turn will help state agencies to deliver higher-value services to state residents.

At the same time, advanced performance reporting and analytical capabilities will provide state agencies with the information they need to optimize their service portfolios and resource allocations, based on a clear understanding of the effectiveness of services delivered to the consumers of these services.

DIRECT PROCESS COST SAVINGS

It is anticipated that FI\$Cal will yield significant savings in direct process costs. These are defined by The Hackett Group as costs that are directly related to the execution of those processes within the scope of the benchmark study. In the case of the California state departments, direct process costs are comprised almost entirely of labor. As a result of low levels of automation, lack of standardized data, weak process design, or failure to achieve economies of scale through consolidation of duplicate activities, the State of California operates at a low level of efficiency in most process areas. The highest levels of inefficiency (and thus, opportunity for improvement) are found in transactional activities within Finance and Procurement. These include cash disbursements, billing, general accounting and purchase-order processing. However, knowledge-centric processes – such as planning and performance management in Finance and master data management in Procurement – offer substantial efficiency improvement opportunities as well.

For a complete overview of assumptions underlying the direct process cost savings benefits stream, please see Appendix B.

Based on the assumptions outlined in Appendix B, we estimate that the annual recurring savings associated with process-cost reductions will be \$173.2 million per year. This is equivalent to 27% of the total baseline cost of \$650.8 million per year, for the agencies within scope of the FI\$Cal project.

Assuming a discount rate of 10%, and the timing of the project phases and benefits streams as described in the "Key Assumptions" section above, total financial benefits are calculated at a 10-year net present value of \$455.4 million, over the period of 2012-22.

For a complete overview of the nominal and discounted benefits stream associated with all Business Value Drivers, please see Appendix A.

TECHNOLOGY AND OTHER COST SAVINGS

In addition to direct process costs, state agencies incur other costs to support the finance and procurement processes in scope of FI\$Cal. By far, the two largest of these non-process costs are for technology and "other" costs, which consist mostly of facilities costs.

- **Technology costs:** Retirement of legacy technology is at the core of the FI\$Cal project, and any cost savings associated with such retirements have been modelled as a business value driver of the project. Of course, eliminating the costs of outdated technology requires investments in new technology to take its place. For this reason, FI\$Cal will not result in a net reduction of technology cost. However, the model used to calculate ROI incorporates legacy retirement benefits as a standalone benefit stream, and new technology costs as a separate negative cash flow. Both of these are factored into our ROI calculations independently.
- **"Other" costs:** Since the project will result in a reduction of FTEs who support the processes in scope today, less office space will be needed, resulting in lower facilities cost. In addition, as the redundant FTEs are redeployed elsewhere (i.e., into other roles and processes), facilities cost would be reduced even further, since the office-space cost associated with the roles that have been eliminated would no longer be allocated to those processes.

For a complete overview of assumptions underlying the direct process cost savings benefits stream, please see Appendix B.

Based on the assumptions outlined in Appendix B, we estimate that the annual recurring savings associated with process-cost reductions will be approximately \$28 million. This is equivalent to 19% of the total baseline cost of \$146.9 million.

Assuming a discount rate of 10%, and the timing of the project phases and benefits streams as described in the "Key Assumptions" section above, total financial benefits are calculated at a 10-year net present value of \$73.6 million, over the period of 2012-22.

For a complete overview of the nominal and discounted benefits stream associated with all Business Value Drivers, please see Appendix A.

PROCUREMENT AND FINANCE EFFECTIVENESS IMPROVEMENT

The previous two sections dealt with potential cost savings achievable through more *efficient* delivery of finance and procurement services (i.e., using fewer resources and at lower cost). However, additional – and potentially larger – benefits can be realized by making these processes more *effective*. The effectiveness performance improvements analyzed in the section are all instances of business cost avoidance.

For example, in procurement, "effectiveness" benefits result from being able to reduce the cost of purchased goods and services. This can be accomplished by aggregating demand from multiple agencies to drive larger orders (and thus, better pricing and terms); better information (which can then be used to strengthen the state's negotiating position); optimize order quantities (to reduce waste), etc. Additionally, the ability to conduct high-quality analysis of spend and vendors is essential for a successful vendor reduction program. Such programs aim to rationalize the supplier base, allowing selection of the best performing suppliers, and higher purchase volume per supplier on better terms.

For the State of California, more effective finance performance will manifest itself mostly through avoidance of unnecessary costs, such as under-billing for goods and services, and write-offs of uncollectable receivables. Additional cost can be avoided by eliminating overpayments of travel and expense (T&E) costs, which can easily occur when T&E reimbursement activities are highly manual and lack strong auditing and compliance-management processes.

For a complete overview of assumptions underlying the direct process cost savings benefits stream, please see Appendix B.

Based on the assumptions outlined in Appendix B, we estimate that the annual recurring savings associated with cost avoidance will be \$213.4 million per year. This is equivalent to 1.8% of the total baseline cost (i.e. expenditure) of \$11.8 billion.

Assuming a discount rate of 10%, and the timing of the project phases and benefits streams as described in the "Key Assumptions" section above, total financial benefits are calculated at a 10-year net present value of \$530.4 million, over the period of 2012-22.

For a complete overview of the nominal and discounted benefits stream associated with all Business Value Drivers, please see Appendix A.

**Appendix A: FI\$Cal Financial Benefit Streams
(All numbers are \$US Millions)**

BENEFITS STREAMS BY BUSINESS VALUE DRIVER	Type	Base line	Savings Potential	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10
				/	/	/	/	/	/	/	/	/	Year	
				2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Cumm.
BVD 1: Finance Transactional Process Cost	BER	283.3	79.0	-	-	2.1	15.5	44.0	69.4	78.3	79.0	79.0	79.0	446.5
BVD 2: Finance Control & Risk Management Process Cost	BER	48.6	8.1	-	-	0.2	1.6	4.5	7.1	8.0	8.1	8.1	8.1	45.8
BVD 3: Finance Planning and Performance Management Process Cost	BER	123.3	19.2	-	-	(0.1)	2.3	9.4	16.3	18.9	19.2	19.2	19.2	104.4
BVD 6: Procurement Process Cost	BER	195.6	66.9	-	-	1.2	8.6	24.7	43.9	59.3	66.3	66.9	66.9	337.7
SUB TOTAL - Direct Process Cost Savings		650.8	173.2	-	-	3.5	28.0	82.7	136.8	164.6	172.6	173.2	173.2	934.3
BVD 4: Other Finance and Procurement Cost	BER	90.0	12.1	-	-	0.2	2.0	5.8	9.5	11.5	12.0	12.1	12.1	65.1
BVD 5: Technology Cost	IT	56.9	15.9	-	-	0.3	2.6	7.6	12.6	15.1	15.9	15.9	15.9	86.0
SUB TOTAL - Technology and Other Cost Savings		146.9	28.0	-	-	0.6	4.5	13.4	22.1	26.6	27.9	28.0	28.0	151.1
BVD 7: Finance Effectiveness	BCA	-	-	-	-	-	-	-	-	-	-	-	-	-
BVD 8: Procurement Effectiveness	BCA	11,854.1	213.4	-	-	4.3	29.9	84.3	146.2	194.2	213.4	213.4	213.4	1,098.9
SUB TOTAL - Procurement and Finance Effectiveness Improvement		11,854.1	213.4	-	-	4.3	29.9	84.3	146.2	194.2	213.4	213.4	213.4	1,098.9
Business Expense Reduction	BER	740.8	185.2	-	-	3.7	29.9	88.4	146.3	176.1	184.6	185.2	185.2	999.5
IT Operation Cost Elimination	IT	56.9	15.9	-	-	0.3	2.6	7.6	12.6	15.1	15.9	15.9	15.9	86.0
Business Cost Avoidance	BCA	11,854.1	213.4	-	-	4.3	29.9	84.3	146.2	194.2	213.4	213.4	213.4	1,098.9
GRAND TOTAL		12,651.7	414.5	-	-	8.3	62.4	180.3	305.0	385.4	413.8	414.5	414.5	2,184.3

FI\$Cal Business Case



DISCOUNT RATE:

10%

DISCOUNTED BENEFITS STREAMS BY BUSINESS VALUE DRIVER

Type	Base line	Savings Potential	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012	
			/	/	/	/	/	/	/	/	/	/	/	2022
BVD 1: Finance Transactional Process Cost	BER	283.3	79.0	-	-	1.6	10.6	27.3	39.2	40.2	36.9	33.5	30.5	219.7
BVD 2: Finance Control & Risk Management Process Cost	BER	48.6	8.1	-	-	0.2	1.1	2.8	4.0	4.1	3.8	3.4	3.1	22.5
BVD 3: Finance Planning and Performance Management Process Cost	BER	123.3	19.2	-	-	(0.1)	1.6	5.8	9.2	9.7	8.9	8.1	7.4	50.7
BVD 6: Procurement Process Cost	BER	195.6	66.9	-	-	0.9	5.8	15.3	24.8	30.5	30.9	28.4	25.8	162.4
SUB TOTAL- Direct Process Cost Savings		650.8	173.2	-	-	2.6	19.1	51.3	77.2	84.5	80.5	73.4	66.8	455.4
BVD 4: Other Finance and Procurement Cost	BER	90.0	12.1	-	-	0.2	1.3	3.6	5.4	5.9	5.6	5.1	4.7	31.7
BVD 5: Technology Cost	IT	56.9	15.9	-	-	0.2	1.8	4.7	7.1	7.8	7.4	6.8	6.1	41.9
SUB TOTAL- Technology and Other Cost Savings		146.9	28.0	-	-	0.4	3.1	8.3	12.5	13.7	13.0	11.9	10.8	73.6
BVD 7: Finance Effectiveness	BCA	-	-	-	-	-	-	-	-	-	-	-	-	-
BVD 8: Procurement Effectiveness	BCA	11,854.1	213.4	-	-	3.2	20.4	52.3	82.5	99.6	99.5	90.5	82.3	530.4
SUB TOTAL- Procurement and Finance Effectiveness Improvement		11,854.1	213.4	-	-	3.2	20.4	52.3	82.5	99.6	99.5	90.5	82.3	530.4
Business Expense Reduction	BER	740.8	185.2	-	-	2.8	20.5	54.9	82.6	90.4	86.1	78.6	71.4	487.1
IT Operation Cost Elimination	IT	56.9	15.9	-	-	0.2	1.8	4.7	7.1	7.8	7.4	6.8	6.1	41.9
Business Cost Avoidance	BCA	11,854.1	213.4	-	-	3.2	20.4	52.3	82.5	99.6	99.5	90.5	82.3	530.4
GRAND TOTAL		12,651.7	414.5	-	-	6.2	42.6	112.0	172.2	197.8	193.1	175.8	159.8	1,059.4

APPENDIX B - KEY FINANCIAL BENEFITS MODELING ASSUMPTIONS**Direct Process Cost Saving**

We modelled our cost projections based on an expectation that the California state departments will be able to achieve higher efficiency levels than the peer group, yet not as high as the world-class group. This presumes that the state is able to realize economies of scale relative to the other states in the benchmark peer group, and that it executes a holistic transformation program consisting of process redesign, technology enablement and data standardization.

The process-cost savings opportunity will come mostly from labor (FTE) reductions. Our model assumes that the savings would be proportional to FTE reductions. For example, a 60% reduction in process cost can be achieved via a 60% reduction in FTEs. The model also assumes that a large proportion (60%) of FTE reductions can be achieved through natural attrition, and that many of the other redundant FTEs can be redeployed in other process areas within the state agencies or can be used for other value-added activities such as analysis.

As for the remaining redundant FTEs, the model assumes a one-time severance cost equal to 25% of the annual reduction in process cost. Not included in the model are any implications for pension liabilities as a result of the FTE reductions discussed above. Both severance cost and pension impact assumptions may be amended by the State of California based on better information based on actual experience.

We recognize that the decision to make large-scale FTE reductions is a politically charged issue, and one that is very difficult in practice. Therefore, we built into our model an assumption that only 60% of the total efficiency improvements possible will actually be realized following the transformation.

Based on our past experience with similar technology implementations and finance process transformations, the model assumes 30% of total savings from the transformation will accrue in Year One, another 50% in Year Two, and the remaining 20% by the end of Year Three following the last "go-live" for implementation.

The Fi\$Cal team has stated that due to confidential protections necessary for the Fi\$Cal procurement they are unable to provide Hackett with exact implementation roll out information for the project, therefore we built our model around the following implementation schedule:

Wave 1 - July 2014: All accounting and all procurement functionality rolls out for 10% of departments.

Wave 2 - July 2015: All accounting and all procurement functionality rolls out for 30% of departments.

Wave 3 - January 2016: All budgeting functional rolls out for 100% of departments.

Wave 4 - January 2016: All accounting and all procurement functionality rolls out for 30% of departments.

Wave 5 - July 2016: All accounting and all procurement functionality rolls out for 30% of departments.

Technology and Other Cost Savings

Technology costs

Based on available data about comparable organizations and our own technology benchmark data, we have allocated the total technology cost for processes in scope of FI\$Cal as follows:

- Internal labor: 40%
- Outsourcing: 10%
- Technology (e.g., licensing depreciation, maintenance fees): 50%

Our projections for future-state technology cost performance is based on these assumptions:

- The agencies in scope of FI\$Cal reduce their legacy technology costs by 50%.
- All internal labor will be redeployed toward supporting the new ERP environment.

Any new IT cost incurred to support the new ERP environment are not factored into this business value driver, but modelled separately on the cost side of the ROI equation.

"Other" costs:

Future-state cost performance is based on these assumptions founded on our professional experience:

- The agencies in scope of FI\$Cal can reduce their "other" costs in proportion to the reduction of finance and procurement process cost, but at 5% lower rate. For example, if finance process cost can be reduced by 25%, "other" finance costs can be reduced by 20%.
- Not all the costs reductions targeted in the "other" category will be achieved, and some residual inefficiency will remain. The model assumes that only 60% of potential cost reductions in the "other" category will be fully realized. Organizations seldom realize the same percentage of facilities' cost reductions as FTEs reductions, because large-scale FTE reductions usually result in lower utilization of facilities due to long-term commitments (e.g., leases).

- Benefits will accrue in proportion to actual process-cost (i.e., FTE) reductions realized. For example, if 30% of "technology" and "other" cost reductions are modelled to be realized in Year 5, 30% of process-cost reductions will be realized in the same year.

Procurement and Finance Effectiveness Improvement***Procurement Effectiveness***

No baseline performance information is available to model effectiveness improvements of Procurement effectiveness at the agencies in scope of FI\$Cal. For Procurement processes, we modeled three benefit streams using assumptions based on observations at other organizations with comparable processes:

Spend savings through improved procurement life cycle management: Quantifies all procurement spend opportunity associated with improvement of all phases of the process life cycle, including demand aggregation, analytics and contract negotiations. Assuming that 80% of all spend that is not currently managed by Procurement can be successfully brought under the umbrella of an improved procurement process, we estimate a 2% cost-reduction opportunity (a percentage based on Hackett's benchmark data) applied to 80% of total spend.

Spend savings through improved compliance: Quantifies the procurement spend-reduction opportunity associated with improving compliance with negotiated contractual terms and conditions, and validation of procured goods and services delivered against billings. We assume that 80% of all currently unmanaged spend will be subject to compliance process improvement, yielding a cost-reduction opportunity of 80% of spend.

Reduction in cost of rogue spending: Models the opportunity associated with reducing this type of spending (also known as "maverick" spending) through tighter, better-controlled, technology-enabled purchasing processes. We assume current maverick spend levels of 20% can be reduced to 10%. Based on Hackett benchmark data, we estimate that for this reduced 10% of maverick spend, cost can be reduced by 2%.

Finance Effectiveness

Although we believe there is ample opportunity for effectiveness improvements in Finance, we do not have any baseline information from the state agencies, that can be used as the basis for modeling of such effectiveness benefits. In the absence of any reliable baseline performance data, we have refrained from making assumptions about the magnitude of these benefits. The Hackett ROI does have the capability to model the following three benefits streams:

Reduction in T&E overpayments: Based on the assumption that the state currently reimburses some ineligible T&E expenses due to deficient audit and approval processes. Improving

processes, data and systems will eliminate some of these overpayment costs. To quantify these costs, an audit of current T&E expenditures is necessary.

Reduction in under-billing: Based on the assumption that the state currently under-bills or does not bill at all for some billable services provided due to deficient processes and systems integration. Improving processes, data and systems will eliminate some of these under-billing costs. To quantify these costs, an audit of current billing practices is necessary.

Reduction in "bad debt write-offs": Based on the assumption that the state currently must write off some unrecoverable receivables balances due to deficient process and systems. Improving processes, data and systems will eliminate some of these write-offs. To quantify these costs, an audit of current billing practices is necessary. The Hackett Group has sufficient benchmark data to model this improvement opportunity, should the state be able to produce a baseline performance level (i.e., actual write-offs).

More opportunities exist in the area of receivables and DSO improvement, but these have not been modeled due to the lack of baseline data.

Appendix H: Security Architecture

Security

Security is at the core of the proposed FI\$Cal technical architecture and permeates all tiers of the system: infrastructure, application and database. The data within FI\$Cal is highly sensitive for not just compliance with regulation such as the Sarbanes-Oxley Act (SOX), but also to the financial health of the State of California. As the eighth largest economy of the world, access to California's financial information must be well controlled.

There are many benefits to centralization and operating in a shared environment. However, a balance of centralized and delegated security controls must be put in place to facilitate the constitutional authority of agencies and departments utilizing FI\$Cal. The FI\$Cal Security Architecture will facilitate your ability to implement a standard set of controls across the system while offering appropriate controls to the departments via Delegated Administration capabilities. This balanced approach to central and distributed controls facilitates consistent implementation of state level policies while giving departments the flexibility to work efficiently.

An organization's ERP is a core component of numerous business processes and central point of data interfaces. The FI\$Cal Security and Service Oriented Architecture (SOA) provides a loosely coupled approach to integration with external systems which in addition to providing highly secure interchanges, also facilitates modernization of interfacing systems in the future. Given the number of integration partners, the FI\$Cal project provides the State with a vehicle to propel strategic initiatives forward such as the State Identity and Credential Access Management (SICAM) guidelines.

To achieve these objectives and goals, the FI\$Cal security architecture provides a full complement of Identity and Access Management capabilities including:

- Identity Management
- Governance Risk and Compliance
- Access Controls
- Strong Authentication/Risk Based Authorization
- Audit
- Identity Federation

a. Identity Access Management and Federation Suite and State Identity and Credential Access Management

- 9. The overall set of security functions and controls that permeate the entire environment running trusted transactions, including controls for both internal and external threats. The solution must also include:
 - a. A description of how the proposed solution will support the Identity Access Management and Federated suite standard to be used for all exchange of authentication and authorization information as described in the State Identity Credential and Access Management Roadmap and Implementation Guidelines.

The proposed FI\$Cal Security Architecture is based on Oracle's industry leading Identity Management, Database Security and Governance Risk and Compliance capabilities. For example, Oracle was ranked in the "Leaders" category in the Forrester Wave, Identity and Access Management Q4 2009 report, as illustrated in Figure 5 - 99.

In addition to accolades by industry analysts, Oracle's identity management products are in use at many entities within the State of California such as the following:

- Employment Development Department
- California Department of Corrections and Rehabilitation
- California Prison Healthcare Services

In this section, we define the components and capabilities of the proposed Security Architecture for alignment with SICAM through a state-of-the-art Identity and Access Management system.

The complete suite of integrated security tools from Oracle provides a comprehensive security solution for FI\$Cal, with the added potential to extend the capability to other applications within the State. Configurable security measures provide the ability for added security where needed without impeding usability, as well as automation of user provisioning and enforcement of security policies. While the final configuration of the solution will be determined based on user requirements, the foundation of Oracle Identity and Access Manager, with all of its attendant tools, provides the configurable platform necessary to facilitate security compliance.

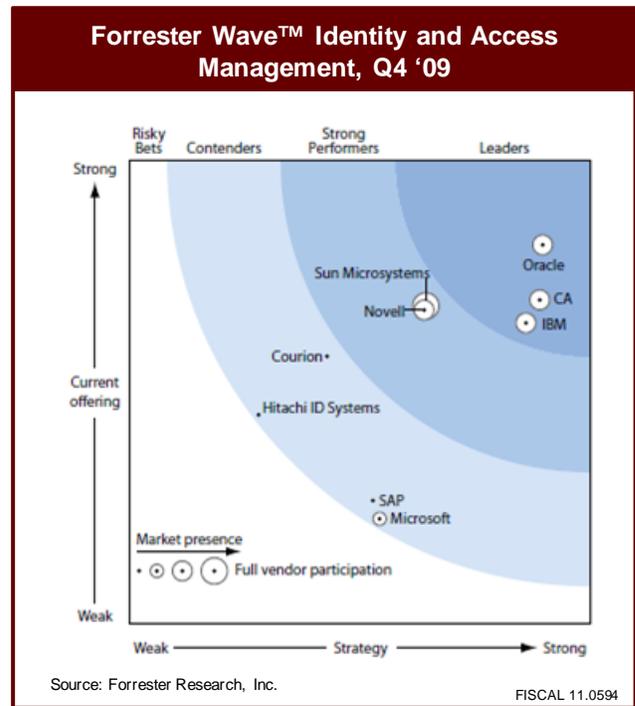


Figure 5 - 99. Oracle is recognized as a leader in Identity and Access Management by industry analysts

The FI\$Cal Identity Access Management and Federation Suite are composed of the following capability areas:

- **Identity Manager:** Oracle Identity Management (OIM) typically answers the question "Who has access to What, When, How, and Why?" OIM is designed to administer both intranet and extranet user access privileges across a company's resources throughout the entire identity management life cycle, from initial on boarding to final de-provisioning of an identity.
- **Access Management:** Oracle Access Manager (OAM) provides centralized, policy driven services for web applications authentication, web single sign-on (SSO), and identity assertion. All ERP components of our FI\$Cal solution will use OAM for user authentication.
- **Identity Federation:** Oracle Identity Federation (OIF) is a self-contained solution enabling browser-based, cross-domain single sign-on using industry standards: Security Assertion Markup Language (SAML), Liberty ID-FF, WS-Federation and Microsoft Windows CardSpace. This component will allow you to use our security solution as a base for broader single sign-on and security integration between state systems.
- **Strong Authentication and Risk Based Authorization:** Oracle Adaptive Access Manager (OAAM) provides resource protection through real-time fraud prevention, software-based multifactor authentication, and unique authentication strengthening.
- **LDAP Directory:** Oracle Internet Directory (OID) provides a highly scalable LDAP directory integrated with Oracle Fusion Middleware and Oracle Fusion Applications. Our FI\$Cal solution uses this directory as our credential store.
- **Virtual Directory:** Oracle Virtual Directory (OVD) provides a single standard interface to access identity data no matter where it resides while hiding the complexity of the underlying data infrastructure. This capability is not necessary for the deployment of FI\$Cal, but will help you begin to expand your federated security initiative.

Figure 5 - 100 illustrates how these components combine to provide a comprehensive security architecture for FI\$Cal.

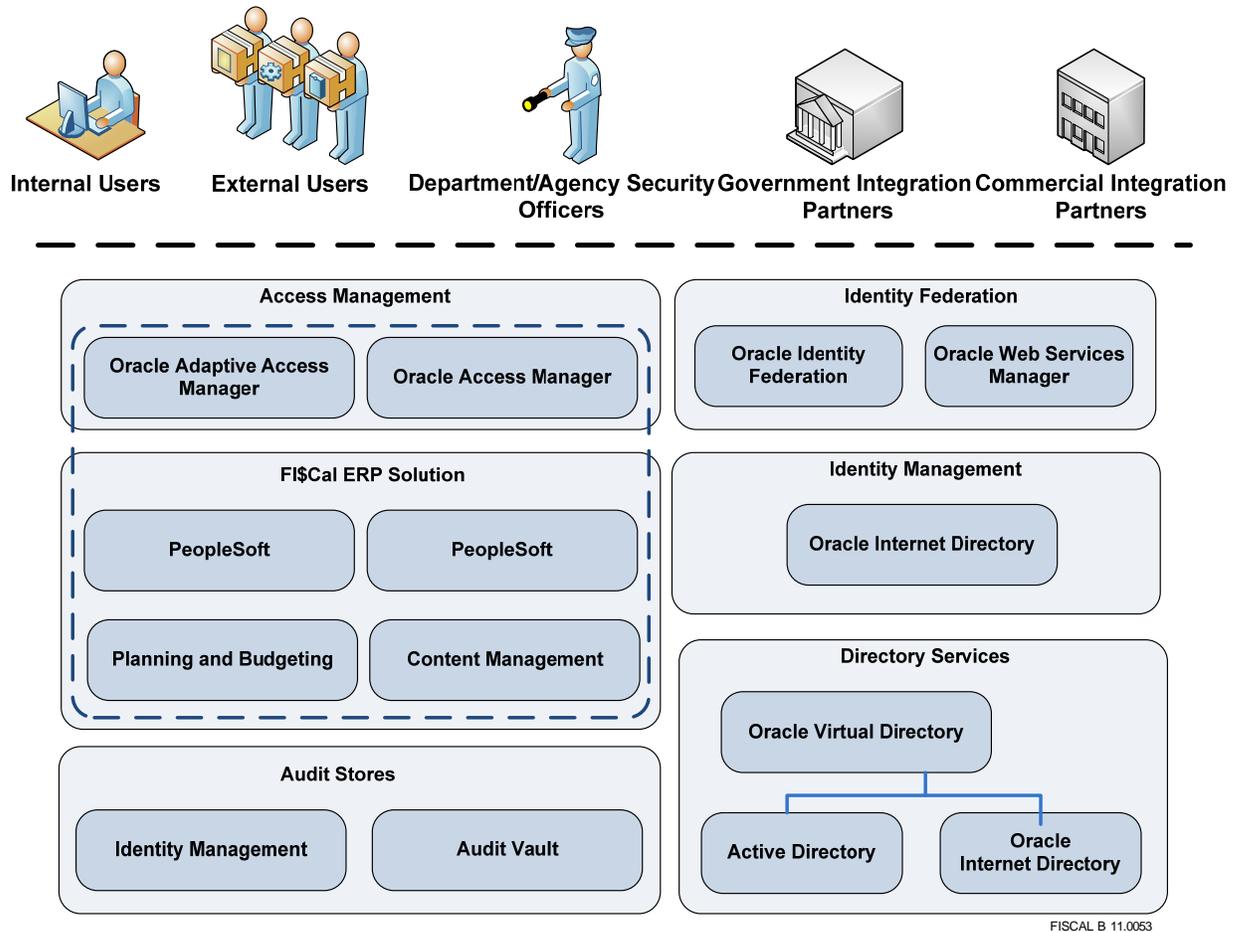


Figure 5 - 100. FI\$Cal includes a state-of-the-art Identity and Access Management system for both internal and external users along with integration partners

The following sections further define these capabilities and their use within the FI\$Cal security architecture.

Alignment with State Identity and Credential Access Management Guidelines

The proposed FI\$Cal solution provides a highly flexible security framework that conforms to state policy on Identity Management, also known as State Identity Credential and Access Management (SICAM), provides role-based and/or attribute-based access management, and can validate user credentials and access privileges of any direct and indirect interface access attempts. The solution enables secure web services communication between FI\$Cal and other agencies adhering to the WS-I Basic Security Profile specification, and encrypts all confidential, sensitive, or personal data transmitted using web services. Figure 5 - 101 illustrates how our solution's capabilities align with the SICAM guidelines. Since Oracle was one of the entities involved in helping you develop your identity federation guidelines, our solution maps directly to your requirements.

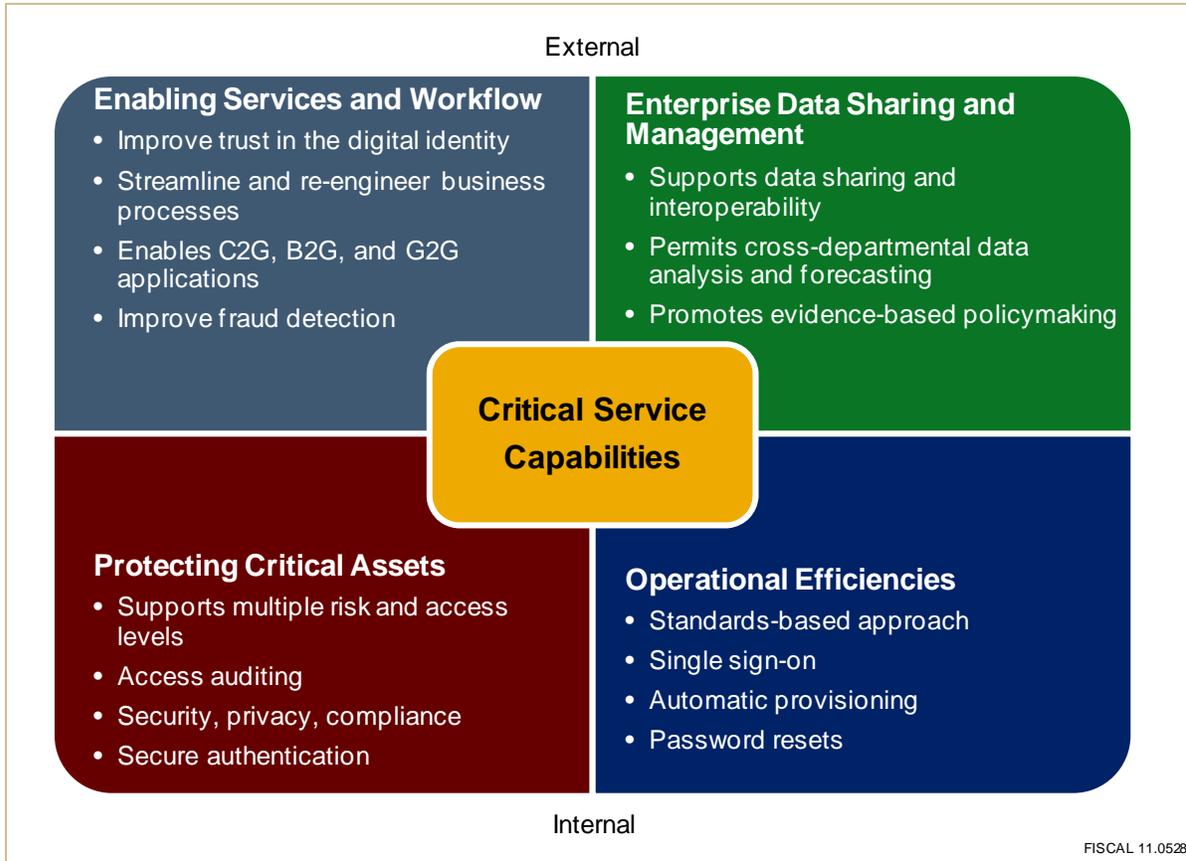


Figure 5 - 101. FISCAL aligns with SICAM guidelines by incorporating a modern set of identity and access management tools, along with identity federation capabilities based on open standards

As one of the State’s most critical and central systems, FISCAL will play a critical role in achieving strategic objectives around identity federation. One of the key strategic goals of FISCAL and the Office of the Chief Information Officer (OCIO) is the accessibility of data and functionality at an enterprise level across the state. However, before such exchanges can be implemented, proper security must be in place. Identity Federation technology provides an open standards-based approach for the propagation, mapping, and synchronization of credentials across domains.

A component of Oracle Identity Management, Oracle Identity Federation (OIF) enables a cost-effective and secure solution to share identities across disparate organization units, integration partners, vendors and customers using standards-based technologies. OIF, highlighted in Figure 5 - 102, supports a variety of federation implementations including, trust, federation, attribute mapping and role mapping.

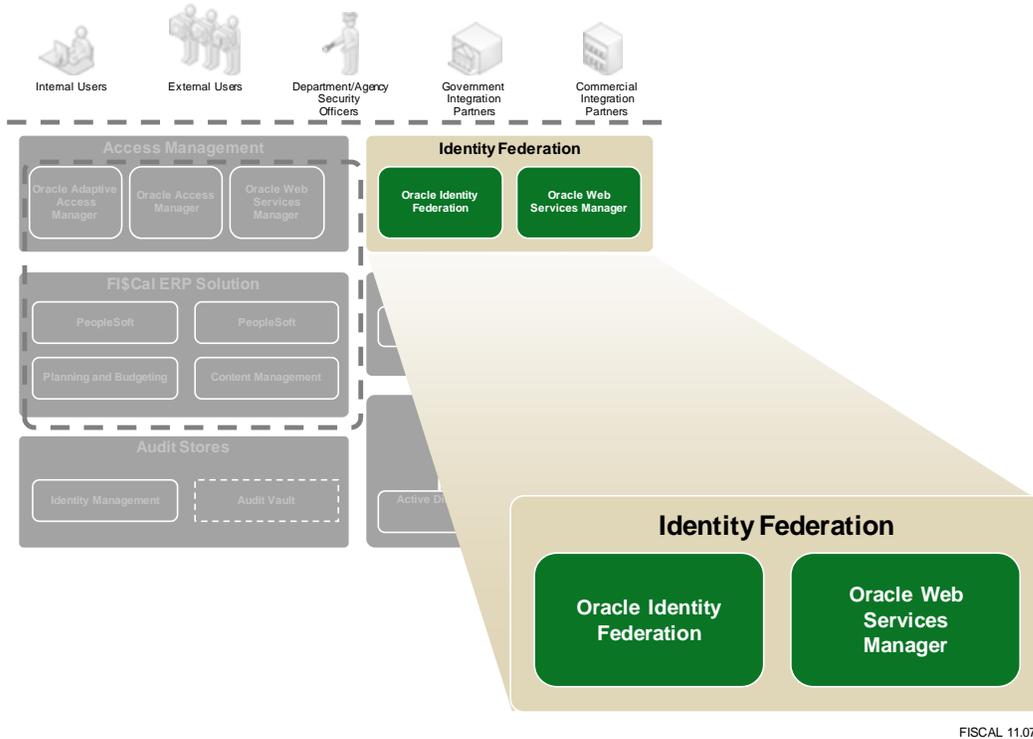


Figure 5 - 102. Oracle Identity Federation provides for a high level of flexibility through a proven, open standards-based platform for Identity Federation

Oracle Identity Federation enables organizations to securely link accounts and identities across security boundaries without a central user repository or endless synchronizations of data stores. With implementations of standards-based protocols, Oracle Identity Federation provides an interoperable way to provide cross domain single sign-on for vendors, customers and business partners. Figure 5 - 103 shows how Oracle Identity Federation can act as a model for the State of California's Federated Security initiative.

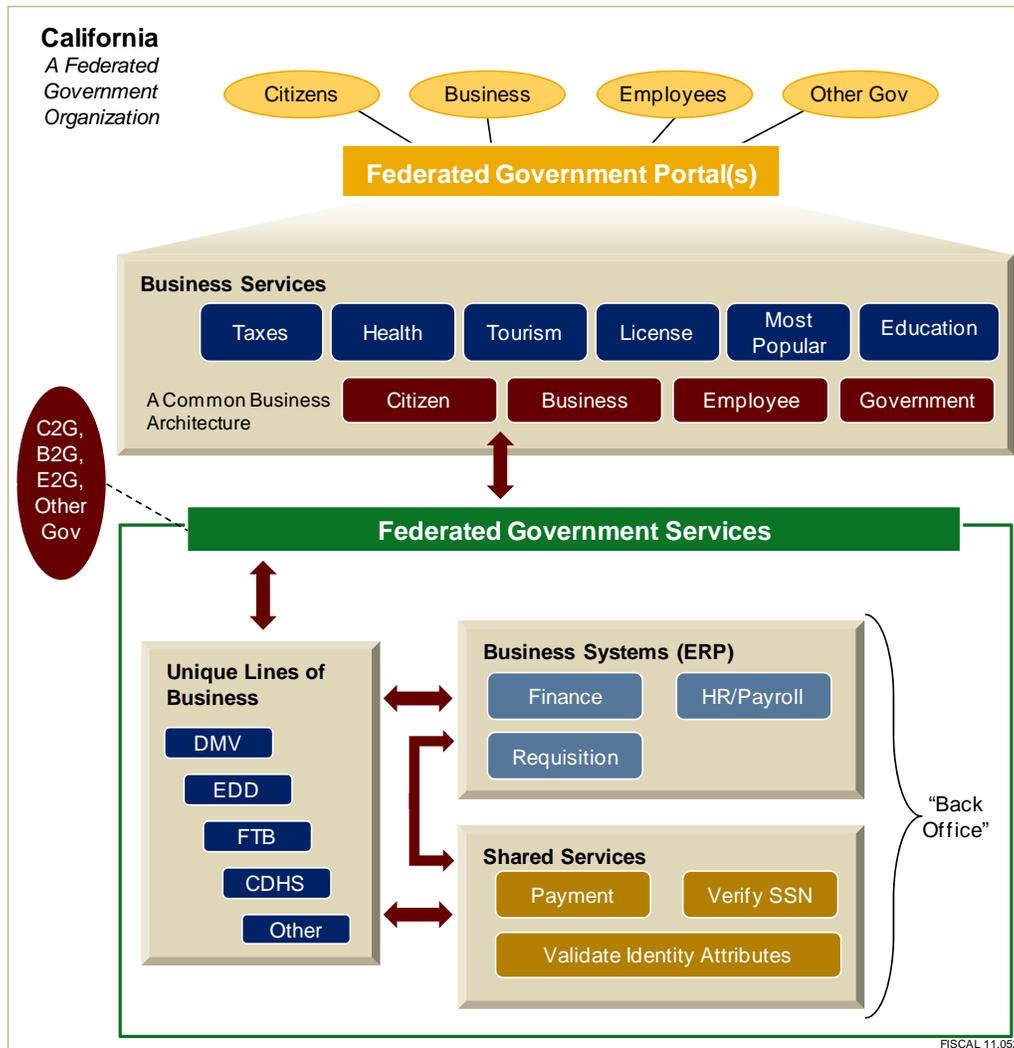


Figure 5 - 103. The FISCAL security architecture supports SICAM and aims to connect services within government organizations and to the Citizens of California

Heterogeneous Architecture

Oracle Identity Federation integrates with third party identity and access management solutions so you do not need to replace existing infrastructures. Acting as an Identity Provider (IdP), Oracle Identity Federation will authenticate users to an LDAP-compliant directory server or to a database. Oracle Identity Federation also makes direct calls to these user repositories for user attributes for higher performance. If a supported authentication or authorization system is already deployed, Oracle Identity Federation will leverage it to authenticate users and create authentication assertions to be passed on to partner applications. Acting as a Service Provider (SP), Oracle Identity Federation will communicate with a supported authentication or authorization system to determine the access privileges of authenticated users, locating the attributes of the user from the data repository. While our solution includes the Oracle Internet Directory, the Identity

Federation capabilities allow you to loosely integrate with other non-Oracle LDAPs in existence at the state for enterprise-wide identity federation.

Multi-protocol Support

Unlike other security products, Oracle Identity Federation implements the major federation protocols and has participated in several interoperability and conformance events. Oracle Identity Federation is Liberty Alliance certified for Liberty ID-FF and SAML 2.0.

To ensure standards-based interoperability, Oracle Identity Federation supports several profiles defined by open standards groups to ensure that message exchanges with other vendor implementations are successful out-of-the-box.

Oracle Identity Federation supports the following profiles:

- SAML 2.0: Browser Artifact, Browser POST, Single Logout, NameIdentifier, X.509 Authentication-Based Attribute Sharing
- Liberty ID-FF 1.x: Browser Artifact, Browser POST, Single Logout, NameIdentifier, Federation Termination
- SAML 1.x: Browser Artifact, Browser POST
- WS-Federation: Passive Requester

Oracle Identity Federation can also be deployed in the following roles:

- Identity Provider: provider of identities to integration partners
- Service Provider: provider of business services accessed outside of the domain
- Attribute Requestor: requestor of identity attributes from an identity provider
- Attribute Responder: provider of identity attributes to attribute requestor

Oracle Identity Federation supports the following federation use cases:

- **Transient Federation:** The key in transient federation is trust. Only the user session is transferred from one domain to the other. No additional identity data is sent from one domain to another. When there is no additional user information available, the actual authentication and authorization happens in the sending domain, the receiving domain just blindly trusts the information sent by the initiating domain.
- **Account Mapping:** As transient federation sets certain restrictions on trust relationships and information confidentiality, more secure methods are often required if domains participating in a federation do not completely trust each other, or there are some constraints on the information that federated users can access. The first step to reduce risk of unauthorized access is to create a link between two accounts between the two domains. This requires that a user who tries to federate from one domain to another to have an identity in both domains. This method of federation is known as account mapping.
- **Account Linking:** Account Mapping may limit the usability of the federation solution and create extra administration tasks in the two organizations that are using federation. Account linking is an extension to the account mapping process. In fact, it can be viewed as a special case of account mapping. The idea of account linking is updating the existing user account in the receiving domain with the identity information from the sending domain upon first federation.
- **Attribute Federation:** In attribute federation, partners can exchange specific user attributes, for example, groups, roles, or specific entitlements. The

receiving domain can use this information for controlling privileges of federated users.

Figure 5 - 104 illustrates two federation patterns that will be possible with our solution. The first utilizes Account Linking with the Employment Development Department to provide a higher level of security than Transient Federation (Trust). In this example, authorization is granular and based on the individual user. This type of federation is appropriate when sensitive data or system functionality is offered to integration partners. In the second example, identity federation is accomplished through account mapping whereby privileges are granted by role rather than individual user. Oracle Identity Federation comprehensive functionality supports a wide variety of identity federation use cases. The use case to be implemented for FISCAL will be determined during the implementation phase of the project, based on business requirements.

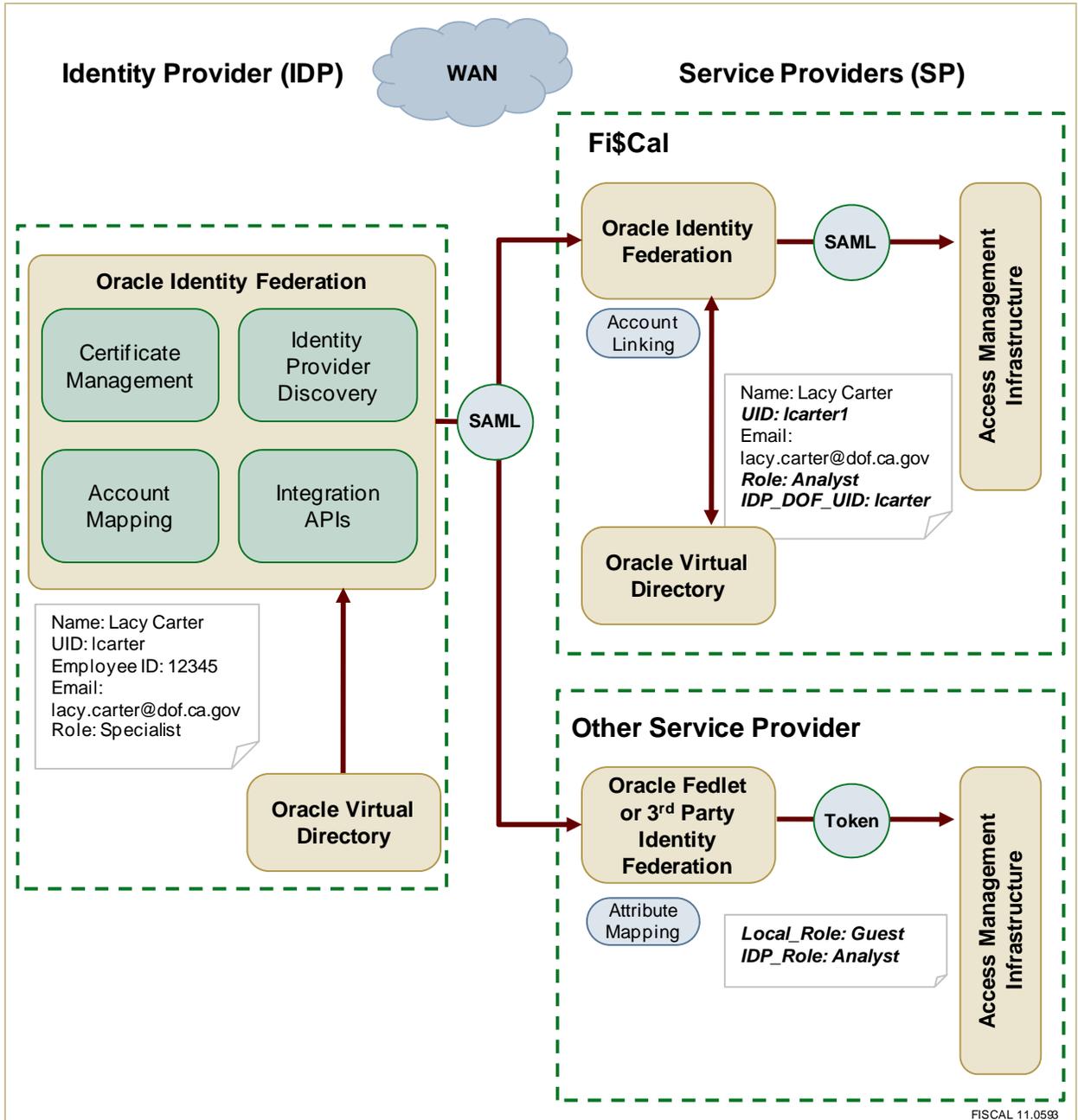


Figure 5 - 104. Oracle identity federation supports multiple identity management use cases

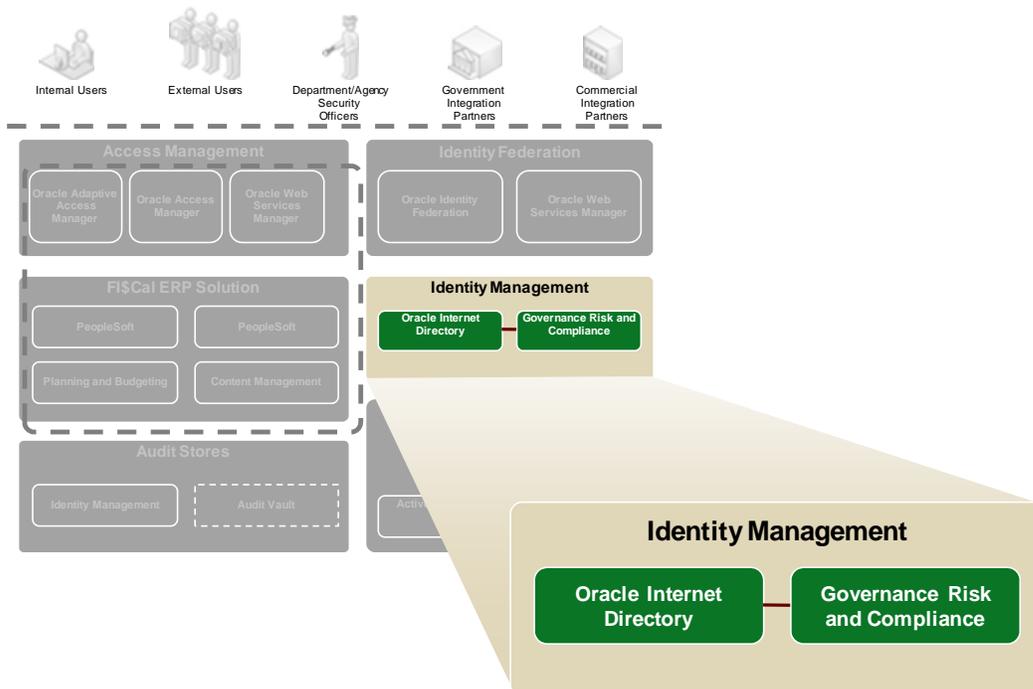
b. State-of-the-Art Identity and Access Management Services for Internal and External Users

b. The ability to implement state-of-the-art Identity and Access Management (IAM) for Fi\$Cal by providing Security and Identity Management and Security Services to the internal and external customers without the loss of privacy

The FI\$Cal security architecture implements a state-of-the-art Identity and Access Management capabilities to facilitate the confidentiality, integrity and accessibility of the system data. The system implements a centralized approach to provide consistent and comprehensive security for both internal and external users across FI\$Cal. Capabilities include robust Identity Management and Governance Risk and Compliance for managing users that provides for separation of duties and a 360 degree view of a user's entitlements. The FI\$Cal Access Management component boosts end user productivity through single-sign on across the system, a centralized audit store of end user activity along with robust two factor authentication and risk based authorization. Compliance efforts are simplified through a centralized audit store for the Identity Management system that is augmented by Database level audit. The sections below define FI\$Cal's provisioning, separation of duties detection, access management and audit.

Identity Management

The proposed FI\$Cal solution uses a centralized Identity Management system to facilitate consistent security throughout the system. Oracle Identity Manager (OIM), highlighted in Figure 5 - 105, provides automated capabilities to manage user identities, credentials and privileges. As the single point of control, OIM reports on both the history and the current state of the provisioning environment. The system captures all necessary data to answer the question “Who has access to What, When, How, and Why?”



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Figure 5 - 105. FI\$Cal centralized user provisioning and management for increased security, end user efficiency and to facilitate compliance

Oracle Identity Management (OIM) provides security administrators an instant view of any user's account access. It also gives any requesting application up-to-date end-user information collected from various connected sources without the application itself having to collect it, analyze it and verify it. When a user is no longer part of the FI\$Cal environment, OIM provides instant account revocation to all systems the user accesses. This feature closes rogue accounts one of the most frequently exploited vulnerability points in information technology systems.

OIM provides FI\$Cal with the following key benefits:

- Increased security - enforce internal security policies and eliminate potential security threats from rogue, expired and unauthorized accounts and privileges
- Enhanced regulatory compliance - cost-effectively enforce and attest to identifying who has access privileges to sensitive data as required by regulations such as 21 Code of Federal Regulations Part 11, Gramm-Leach-Bliley, Health Insurance Portability and Accountability Act (HIIPAA)
- Streamlined operations - reduce inefficiency and improve service levels by automating repeatable user administration tasks
- Improved business responsiveness - get users productive faster through immediate access to key applications and systems
- Reduced IT costs - through efficient staff usage and utilization of a common security infrastructure

Oracle works with standards bodies such as the Liberty Alliance and OASIS, and supports, SAML, Security Provisioning Markup Language (SPML), WS-*, Kerberos, and many more. The proposed FI\$Cal system fully supports the following standards:

- National Institute of Standards (NIST) Standards
- NIST 800-63 Electronic Authentication Guideline
- NIST 800-95 Guide to Secure Web Services
- NIST 800-103 An Ontology of Identity Credentials
- OASIS Standards
- SAML – Security Access Markup Language
- Liberty Alliance Identity Federation Framework (ID-FF)
- WS-Security
- WS-Security Policy
- WS-Federation
- WS-Trust
- WS-Secure Conversation
- WS-BPEL – Business Process Execution Language
- XACML – Extensible Access Control Markup Language
- UDDI – Universal Description, Discovery, and Integration
- W3C Standards
- WS-Policy
- XML Encryption
- XML Signature

Identity Provisioning

The proposed FI\$Cal solution provides a highly flexible security framework that allows authorized users to manage access accounts, including establishing, activating, modifying, reviewing, disabling and removing accounts.

This capability is enabled using Oracle Identity Manager (OIM) and the OIM Connector for PeopleSoft User Management. Oracle Identity Manager (OIM) addresses the diverse needs of FI\$Cal and provides a common platform for managing both internal and external user populations across multiple systems. It provides the functionality for identity and role administration, approval and request management, policy-based entitlement management, technology integration and audit and compliance automation. OIM enables identity administration and provisioning that automates the process of adding, updating, and deleting user accounts from applications and directories; it improves regulatory compliance by providing granular reports that attest to who has access to what.

Oracle Identity Manager enables policy-based automated provisioning of resources with fine-grained entitlements. For any set of users, administrators will specify access levels for each resource to be provisioned, granting each user only the exact level of access required to complete the job. The access assigned may be an individual, group or System level account type. These policy conditions will be driven by user roles or attributes, enabling implementation of role-based access control as well as attribute-based access control. Effective blending of role-based and attribute-based policies is critical to a scalable and manageable organization provisioning solution.

A request may go through multiple approvals before it is executed. When the request is submitted, it may acquire approvals at different levels. An approval in the system is represented as an approval policy. An approval policy defines the approval process to be invoked and the approval rules associated with the policy. These approval rules help the request engine to select the approval process. Business analysts will define approval policies and approval rules based on business needs. Oracle Identity Manager utilizes the same Business Process Execution Language (BPEL) based workflow tool as the FI\$Cal BPM component, Oracle Unified Business Process Management Suite.

Our solution provides a highly flexible security framework that allows authorized users to create new roles, associate users with any number of roles, specify the privileges a role has for each system process and process step, system screen, data field and selectable function and for each data entity and data attribute.

Oracle Identity Manager automates access rights management, security, and provisioning of resources to various target systems. Connectors are used to integrate Oracle Identity Manager with target applications.

OIM addresses your diverse security needs and provides a common platform for managing both internal and external user populations across multiple systems. It provides the functionality for identity and role administration, approval and

request management, policy-based entitlement management, technology integration, and audit and compliance automation based on the architecture in Figure 5 - 106. Connectors are available to integrate with platforms such as SAP (for MyCalPAYS) and Oracle eBusiness Suite (for DGS' ABMS system).

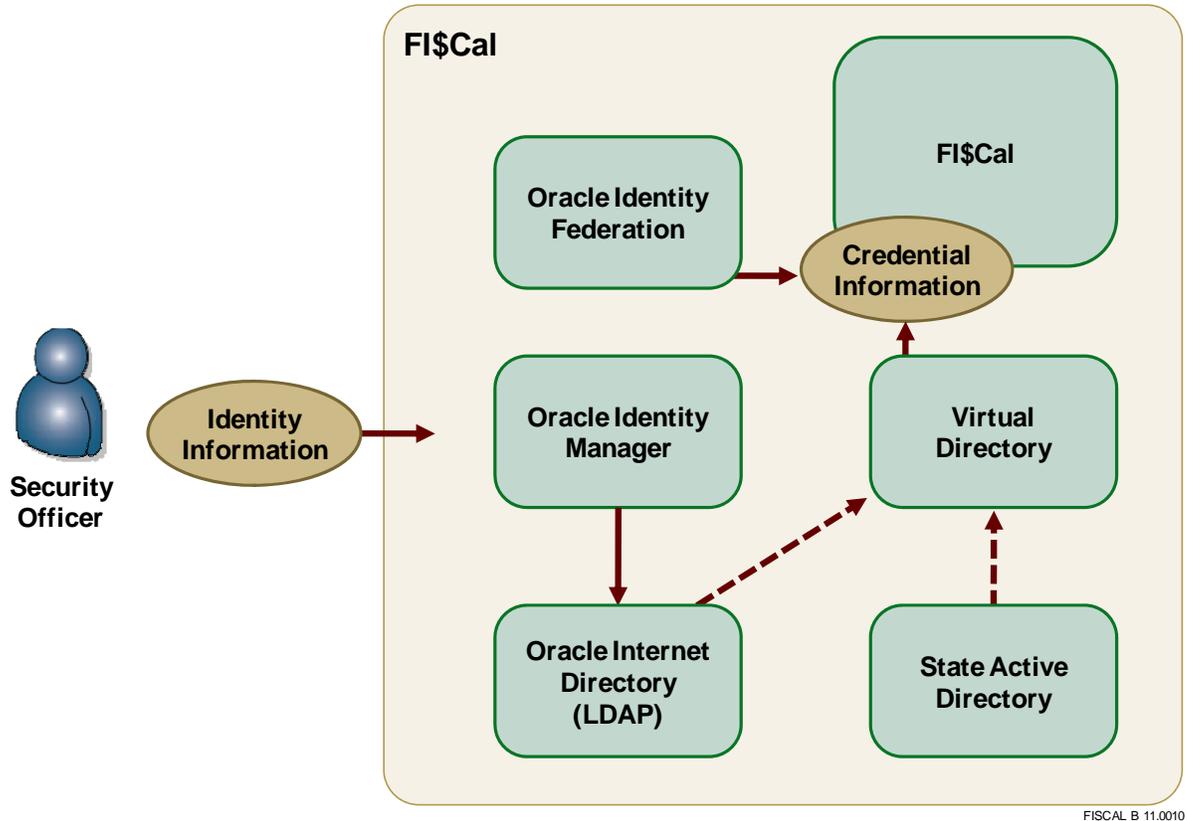


Figure 5 - 106. OIM is the central point of control for FI\$Cal user provisioning and could be easily expanded to provision users for other state systems

The FI\$Cal solution will include OIM's Connector for PeopleSoft. The PeopleSoft User Management connector enables FI\$Cal to manage PeopleTools-based user profile records in PeopleSoft applications, including Role and Permission List assignments to these records if desired. This is done through target resource reconciliation and provisioning.

As illustrated in Figure 5 – 106, Oracle Identity Manager will be the entry point for identity information into the FI\$Cal solution. Oracle Identity Manager provides a multi-tab, desktop-like, dynamic Web 2.0 user interface. This user interface is also configurable, allowing administrators to tailor the user experience for different groups; for example, administrators may want a task-oriented user interface model, while business end users require a guided wizard. FI\$Cal security administrators will use these tools delivered as part of the Identity Manager suite to configure identity information for all FI\$Cal users.

Separation of Duty Enforcement

An attempt to enforce good compliance practices is through the definition of Separation of Duties (SoD) policies. SoD is broadly defined as a way of preventing a user from acquiring a conflicting set of entitlements. This conflicting set is also referred to as a “toxic” combination. The classic example of a “toxic” combination is a person who should not have the ability to create and approve the same purchase order. Figure 5-107 illustrates how Identity Management and GRC work together.

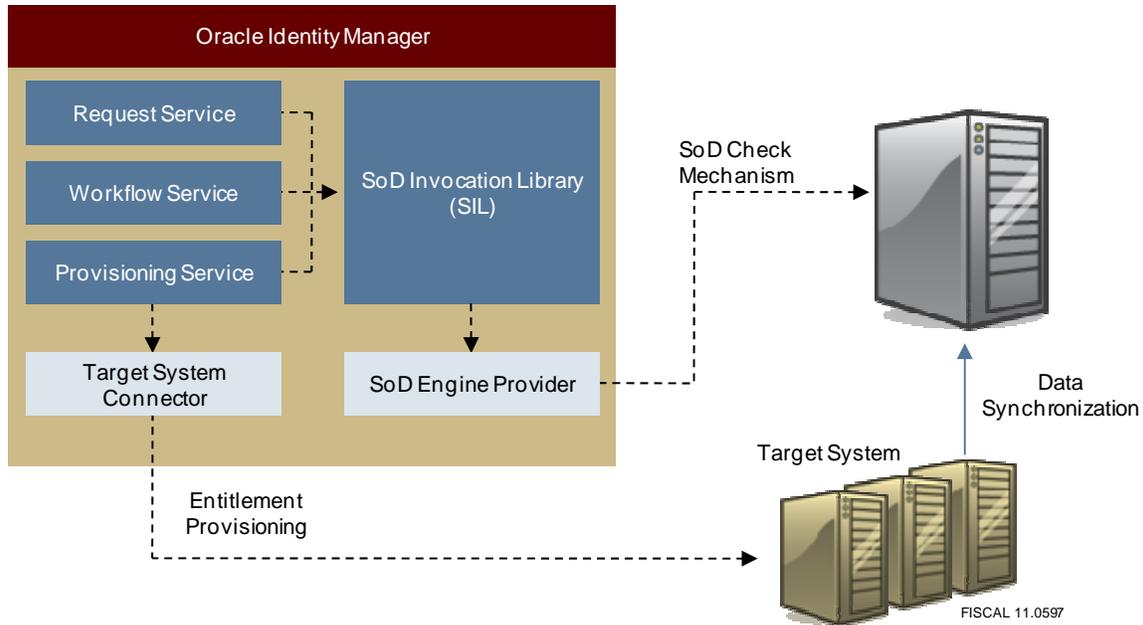


Figure 5 - 107. The FI\$Cal Identity Management and Governance Risk and Compliance components are integrated to detect separation of duties violations before entitlements are issued

Oracle Identity Manager's Separation of Duty (SoD) Engine Framework allows the State the ability to integrate their choice of SoD Engine to enable SoD checks at appropriate points in the request and provisioning process. Our solution contains the SoD Invocation Library (SIL) which is bundled with Oracle Identity Manager. We will work with the FI\$Cal partner agencies during the analyze phase to see if another SIL will be more appropriate for FI\$Cal.

The SIL acts as a pluggable and integrates with the Governance Risk and Compliance portion of the Security Architecture. The SoD engine processes role entitlement requests that are sent through the connector. Potential conflicts in role assignments will be automatically detected. With SoD enabled, an entitlement is provisioned only after the SoD validation clears the request for the entitlement.



The pre-integration between OIM and GRC helps facilitate a level of control for FI\$Cal at both the system's infrastructure and application tiers.

Oracle Governance Risk and Compliance Suite of utilities allow for the control of application access, confirming that roles are designed in accordance with State policies while enforcing fine grained control over toxic combinations of user access (segregation of duties) as well as enforcing proper provisioning of Super User, System and User Administrators. Oracle's GRC Suite doesn't stop after access has been appropriately provisioned. Transaction controls permeate the system to ensure that what users do with that access is appropriate. Detecting erroneous or nefarious activity (whether perpetrated via an application user or database utility) and immediately notifying the policy owner (in this case the FI\$Cal partner agencies) will be paramount FI\$Cal.

Delegated Administration

Oracle Identity Manager features a highly flexible security framework that supports delegation of most administrative functions to any group and/or user. By moving administration points as close to the FI\$Cal user as possible, the State will achieve tighter control and better security while increasing productivity. Delegated administration plays an increasingly important role as the already extended enterprise becomes more virtual and the service provider delivery model becomes more prevalent.

Figure 5 - 108 represents an implementation of Delegated Administration that allows implementation of security controls by agency and department level security officers:

Figure 5 - 108. Oracle Identity Management provides for delegated administration for a balance between state level control and policy implementation within departments and agencies

Access Management

Access management centers on two primary activities: authentication and authorization. Authentication is the process of verifying the validity of identity accessing the system. Commonly this is via a username and password combination; however, additional forms of authentication such as tokens can be used for further level of assurance. Authorization is the process of controlling access to protected resources based on the credentials granted to the entity accessing the system and policies established for the requested resource. Our solution utilizes a combination of Oracle Access Management (OAM) which provides authentication and Oracle Adaptive Access Manager (OAAM) for risk-based access control and multi-factor authentication. These components of our solution are highlighted in Figure 5 - 109.

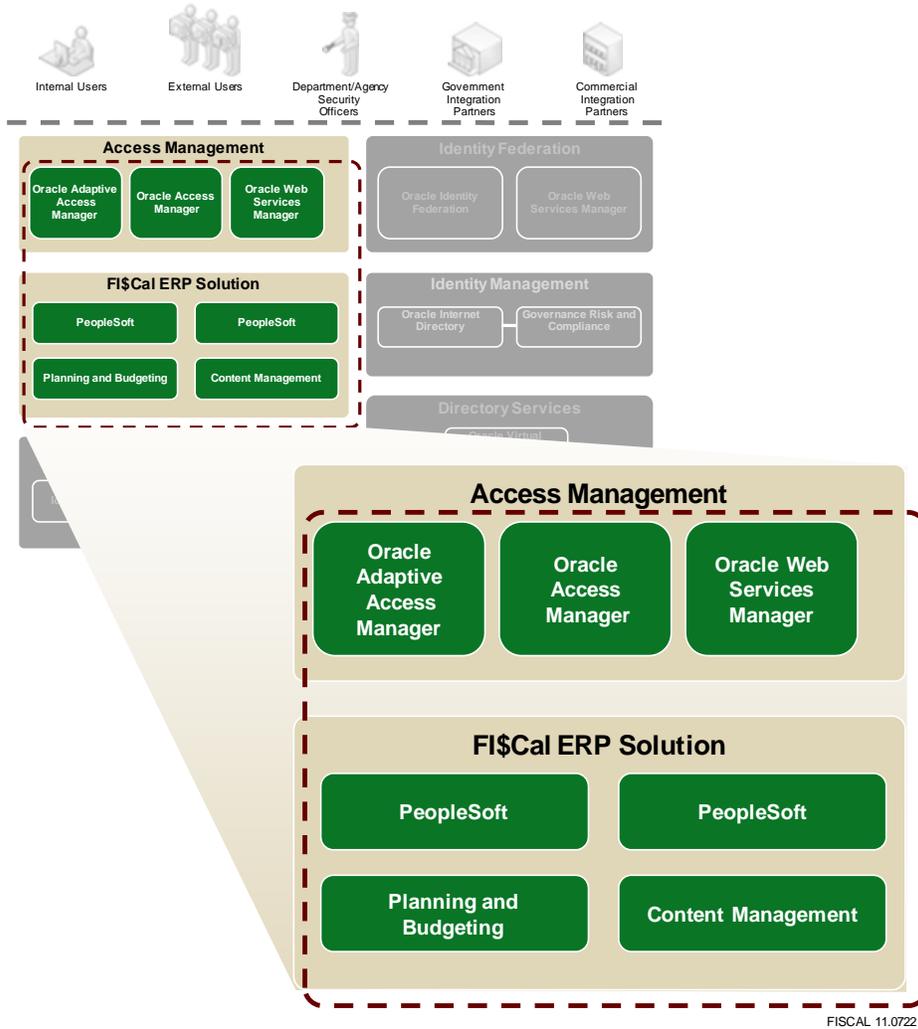


Figure 5 - 109. FI\$Cal Access Management provides for single sign-on to the system's applications combined with strong authentication and risk based authorization for increased security

Authentication

Access management for both internal and external end users is provided by Oracle Access Management (OAM) Suite Plus. OAM Suite Plus provides for a wide variety of access control mechanisms including role-based access controls (RBAC), fine grained authorization through entitlements, multi-factor authentication and risk-based activity profiling. In addition, OAM will provide single sign-on (SSO) capability to our solution.

OAM is the industry's most comprehensive identity and access management solution, with integrated identity administration, single sign-on, centralized policy management and a compliance-reporting framework. The access system provides a centralized means to authenticate users and systems attempting to access resources protected by OAM. OAM supports the following authentication methods which align with FI\$Cal requirements:

- Basic username/password

- X.509 Certificates
- Smart Cards
- Two factor tokens
- Form-based
- Custom authentications via Authentication Application Programming Interfaces (API)

As illustrated in Figure 5 - 110, Oracle Access Manager will match the security level of a protected resource, ensuring that stronger types of authentication or more strict authorization policies are applied to more sensitive applications and services.

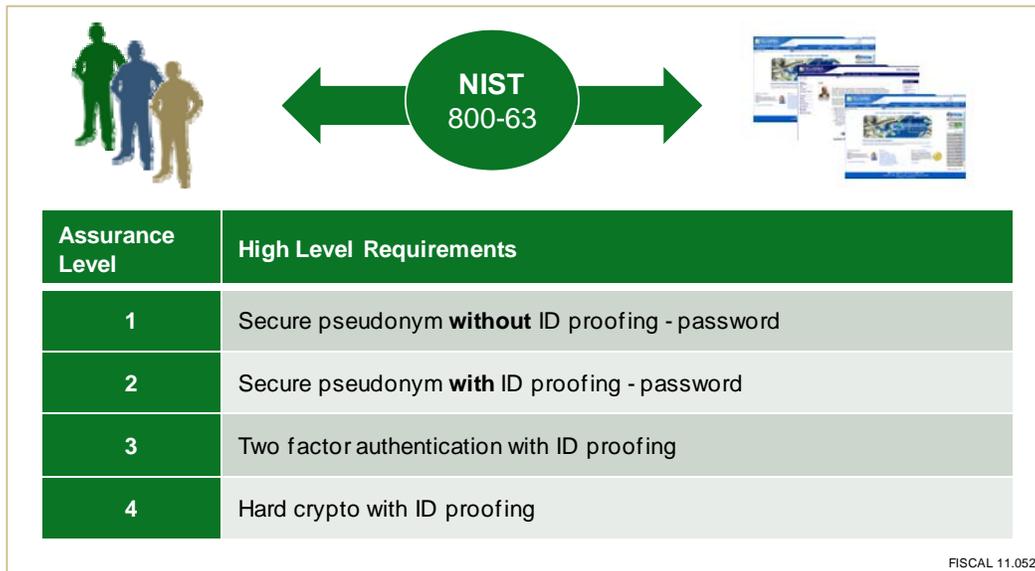
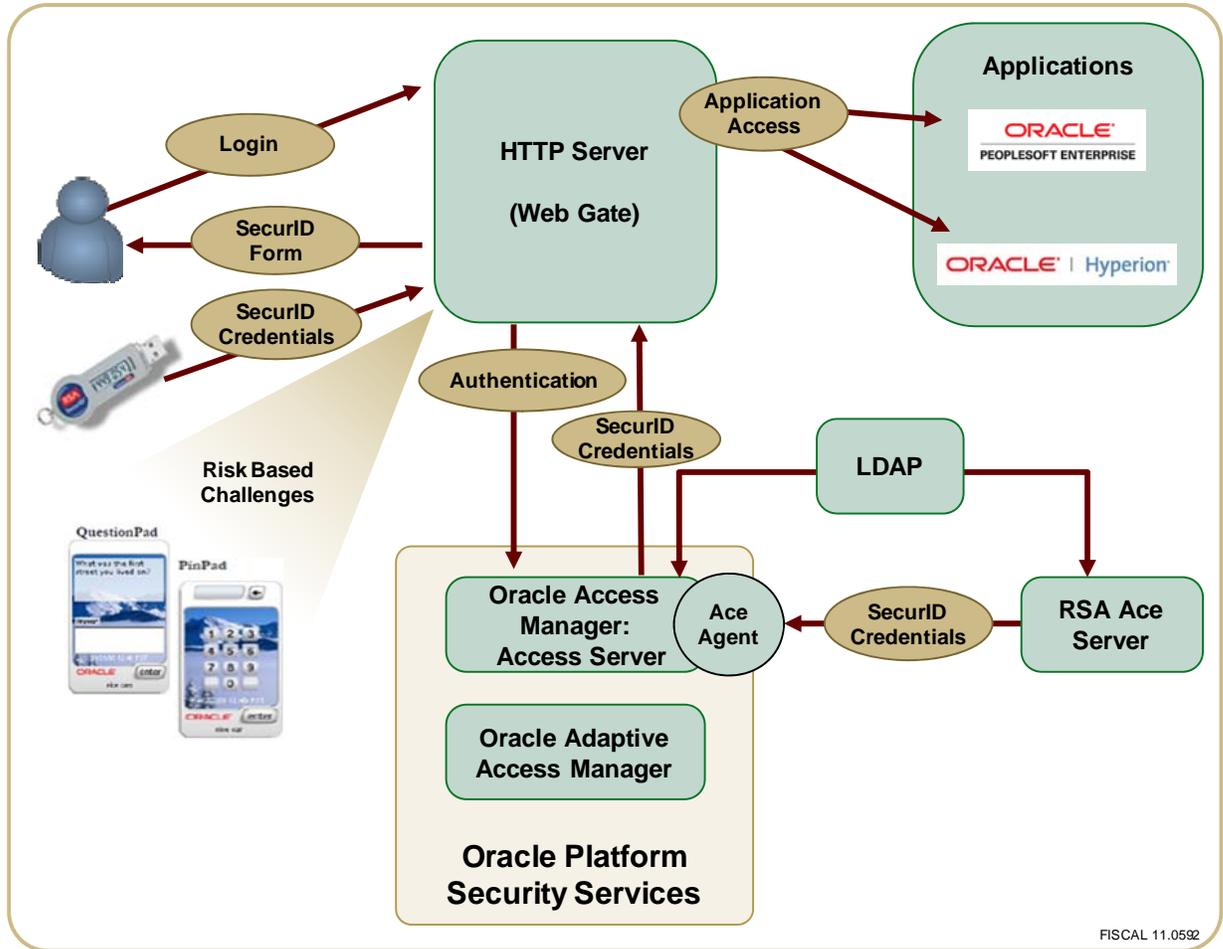


Figure 5 - 110. The FISCAL Oracle-based access management provides for a variety of authentication to increase the level of assurance of an end user's identity

Oracle provides a highly flexible security framework that provides role-based and/or attribute-based access management, and will validate user credentials and access privileges of any direct and indirect interface access attempts. Figure 5 - 111 shows the architecture of Oracle's Access Management suite for providing varying levels of authentication security.



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Figure 5 - 111. FI\$Cal provides for a variety of authentication mechanisms including knowledge based authentication and hard tokens

Our solution provides the ability to enforce a configurable limit of consecutive invalid access attempts by a user. When this feature is enabled, the server locks out a user after a number of consecutive invalid login attempts. This may be set globally or on a realm-specific basis. There are a number of options which provide complete flexibility in variations.

Our solution provides various methods to obscure feedback of authentication information during the authentication process. Oracle Adaptive Access Manager (OAAM) works in conjunction with Oracle Access Manager to provide a variety of means to protect against identity fraud, such as the use of challenge questions, device fingerprinting and virtual keypad. This technique can be used in replacement or supplement to hard token-based authentication. OAAM also provides for real-time risk assessment based on application access patterns (e.g., is a FI\$Cal user trying sign-on remotely during off-hours). As a result, the solution increases authentication security in real time for high-risk situations.



Together OAAM’s capabilities for strong authentication and real-time access controls provide further anti-identity theft and fraud protection. Oracle Adaptive Access Manager relies on standards-based technologies that include supporting components certified by the U.S. Department of Defense. Our solution includes Adaptive Access Manager to provide authentication escalation for sensitive workflow approvals, as we demonstrated in the Pilot for secondary authentication.

Oracle Adaptive Access Manager (OAAM) extends OAM with additional authentication capabilities along with risk-based access controls. OAAM includes a powerful identity management-focused rules engine along with advanced information collection capabilities to initiate policies based on access patterns or heightened level of risk. As illustrated in Figure 5 - 112, OAAM can be configured to detect anomalies and require a secondary authentication when they are detected. OAAM helps safeguard FI\$Cal's critical data and provides additional security controls for both the system’s internal and external user populations.

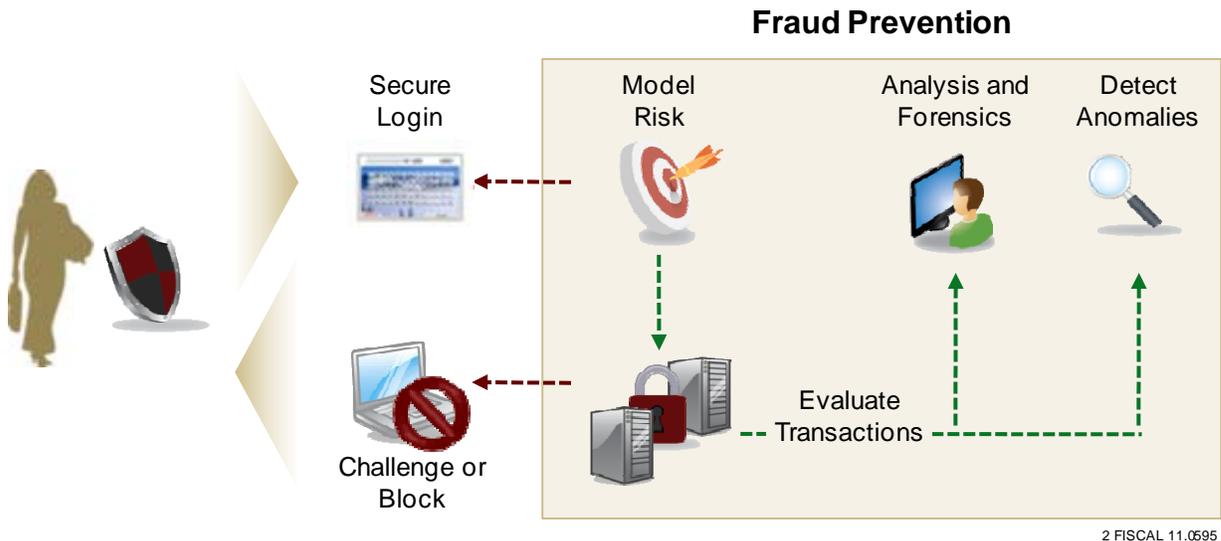


Figure 5 - 112. The FI\$Cal authorization layer facilitates increased security by evaluating access requests to determine anomalous end user behavior Leveraging a soft, two-factor authentication solution, adaptive strong authenticator provides fraud protection against online identity theft. It does so by encrypting credential data inputs at the point of entry. This ensures maximum user protection because information never resides on a user’s computer or anywhere on the internet where it can be vulnerable to theft.

Risk-Based Authorization

The system provides centralized policy-based authorization services to secure access to web and application resources. Authorization is governed by a policy domain that includes



an authorization expression among a set of default rules that specify how resources for this domain are protected. Administrators work with the Policy Manager console, a browser-based administrative system, to define policies that restrict access to specific resources by user, role, group membership (static, nested or dynamic), and time of the day, day of the week and IP address.

Adaptive Risk Manager, a core component of Oracle Adaptive Access Manager and included in our solution, enables the FI\$Cal security office to evaluate and score risk.

You can do so for each online login and transaction. As a result, the solution increases authentication security in real time for high-risk situations. Adaptive risk manager provides a strong second and third factor of security for the State. As compared to our competitors, used in conjunction with adaptive strong authenticator, it provides further anti-identity theft and fraud protection for the State.

In the event a session crosses a certain risk threshold, OAAM will be configured to take automated remediation steps based on requirements. For example, if required, alerts will be triggered to FI\$Cal security officers for further investigation. Additionally, counter-measures including knowledge based authentication (KBA), out of band authentication such as email or short message service (SMS) verification or other challenges will be presented for additional authorization. If so desired, OAAM can be triggered to terminate sessions posing the highest risk.

Session Management

Our solution provides session management capabilities. These include the ability to terminate sessions once the inactivity timeout value has expired. FI\$Cal user session lifecycle settings will be defined using the Oracle Access Manager Administration Console.

A session expires when it exceeds the defined session lifetime period. The Session Management Engine maintains a list of inactive sessions. When an active session becomes inactive, or expires, the user must re-authenticate.

The lifecycle of a user session refers to the period of user activity from the start of a user session to the end. Session lifecycle states include:

- **Active:** A session starts when the FI\$Cal user is authenticated by Oracle Access Manager. The session remains active as long as the FI\$Cal user makes requests for FI\$Cal-protected content, and provided that the session has not expired.
- **Inactive:** A session becomes inactive when the FI\$Cal user does not access FI\$Cal-protected content for the period defined by the Idle Timeout attribute in the session lifecycle configuration.
- **Expired:** The duration of the session has exceeded the period defined by the Session Lifetime attribute.

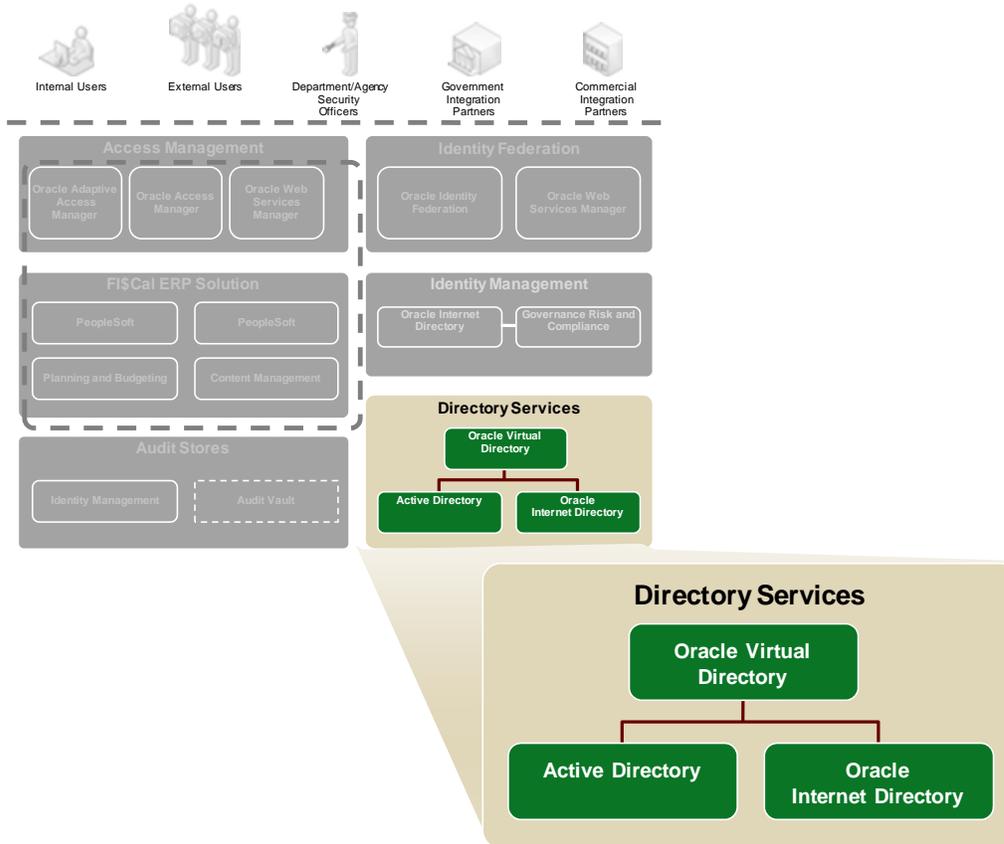
An active session becomes inactive when the FI\$Cal user is inactive for the defined Idle Timeout period. A session expires when it exceeds the defined Session Lifetime period. The Session Management Engine maintains a list of

inactive sessions. When an active session becomes inactive, or expires, the user must re-authenticate.

The proposed FI\$Cal solution provides the ability to uniquely identify and authenticate users in a variety of ways. Whether using Oracle Access Manager to protect web-based resources or using Oracle Web Services Manager (OWSM) to protect web services and the service bus interfaces, all users (or processes acting on behalf of users) will be uniquely identified and authenticated.

Directory Services

Directory services, highlighted in Figure 5 - 113, provide the store for the identities, roles and credentials of the system's users. A common challenge to identity management installations is the need to merge the attributes that compose this information from multiple sources. FI\$Cal is no exception to this rule, with role information housed in multiple HR systems and identities located in the recently created statewide Active Directory deployment. Oracle Directory Services provides capabilities to merge attributes from multiple sources in a highly scalable identity store. For comparison purposes, the California Employment Development Department has over 1.5 million active users and millions of inactive users stored within its Oracle Internet Directory based identity store, so you can be assured that OID has the capacity to grow to support the FI\$Cal system into future.



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Figure 5 - 113. FISCAL Directory Services provides a highly scalable and secure platform to support both internal and external users

Oracle Virtual Directory (OVD), a component of the Identity and Access Management Suite Plus, allows FISCAL to rapidly deploy secure directory-enabled applications by providing a real-time, virtual view of identity data from any data store--including directories, databases and Web Services--without synchronization. OVD provides a configuration-based mechanism to integrate seamlessly with existing organization data repositories such as Microsoft Active Directory. In most medium-to-large organizations, identity information is found in multiple directories. However, most applications can only communicate with a single LDAP instance. OVD allows you to provide a virtual single point of contact for your directory-enabled applications in a simple, secure fashion. Because OVD uses direct data access to query the State's directory data in real-time, there is no need for additional synchronization processes. Our solution provides this functionality as a way to leverage our FISCAL solution for the State's broader security needs.

Oracle Internet Directory (OID) provides a highly scalable and cost-effective physical directory service for large-scale external populations. OID is built on the Lightweight Directory Access Protocol (LDAP), an Internet standard designed to organize directory information and to allow communication of client applications with directories for look-up, search, and retrieval operations. OID is implemented on top of Oracle Database technology, thus providing LDAP directory services

with an unsurpassed level of scalability, high-availability, and information security to the State.

OID offers FI\$Cal the following benefits:

- Proven scalability and high performance on less hardware, demonstrated by Oracle's published Two-Billion-Entry Benchmark. This reduces the footprint required to deploy enterprise directory services in the data center, resulting in cost savings and a greener enterprise.
- The most secure directory service, providing security at every level, from data in transit to storage and backups. In addition to LDAP security, it leverages Oracle database security features like Database Vault and Transparent Data Encryption to further secure the identity store.
- Facilitates maximum availability with several layers of high availability (HA). In addition to multi-master LDAP replication, OID also supports Oracle database Real Application Cluster (RAC) and OID Clusters.

Web Services Security

Web Services Security is a critical component of the Service Oriented Architecture (SOA) that creates our integrated FI\$Cal solution and provides extensible interfaces with departments and partners. Because of its nature (loosely coupled connections) and its use of open access (mainly HTTP); SOA implemented by Web services adds a new set of requirements to the security landscape. Web services security, provided in our solution by Oracle Web Services Manager highlighted in Figure 5 - 114, includes several aspects:

- Authentication - verifying that the FI\$Cal user is who he or she claims to be. A user's identity is verified based on the credentials presented by that user, such as: user name password, tokens and certificates.
- Authorization (or Access Control) - granting access to specific resources based on an authenticated FI\$Cal user's entitlements. Entitlements are defined by one or several attributes. An attribute is a property or characteristic of a user; for example, if "Jerry Brown" is the user, "Governor" is an attribute.
- Confidentiality, privacy - keeping information secret. Web services security must provide access to a message in a confidential manner, as well as maintain the privacy of the sending and receiving parties. Confidentiality and privacy can be achieved by encrypting the content of a message and obfuscating the sending and receiving parties' identities.
- Integrity and non-repudiation - making sure that a message remains unaltered during transit by having the sender digitally sign the message. A digital signature is used to validate the message and provides non-repudiation. The timestamp in the signature prevents anyone from replaying this message after expiration.



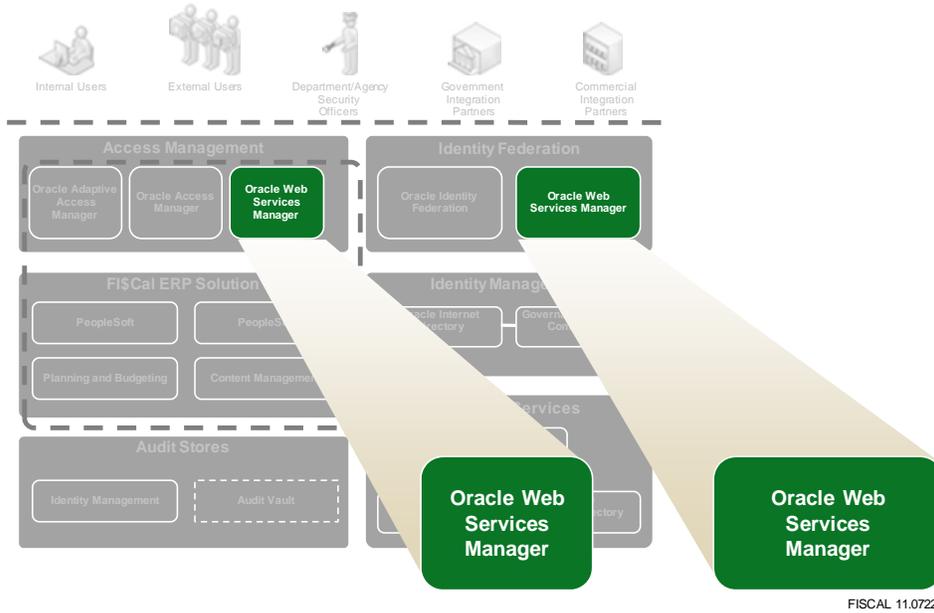


Figure 5 - 114. Oracle Web Services Manager provides access management and identity federation for the FI\$Cal web services

Web services security requirements also involve credential mediation (exchanging security tokens in a trusted environment) as shown in Figure 5 - 115, and service capabilities and constraints (defining what a web service can do, and under what circumstances).

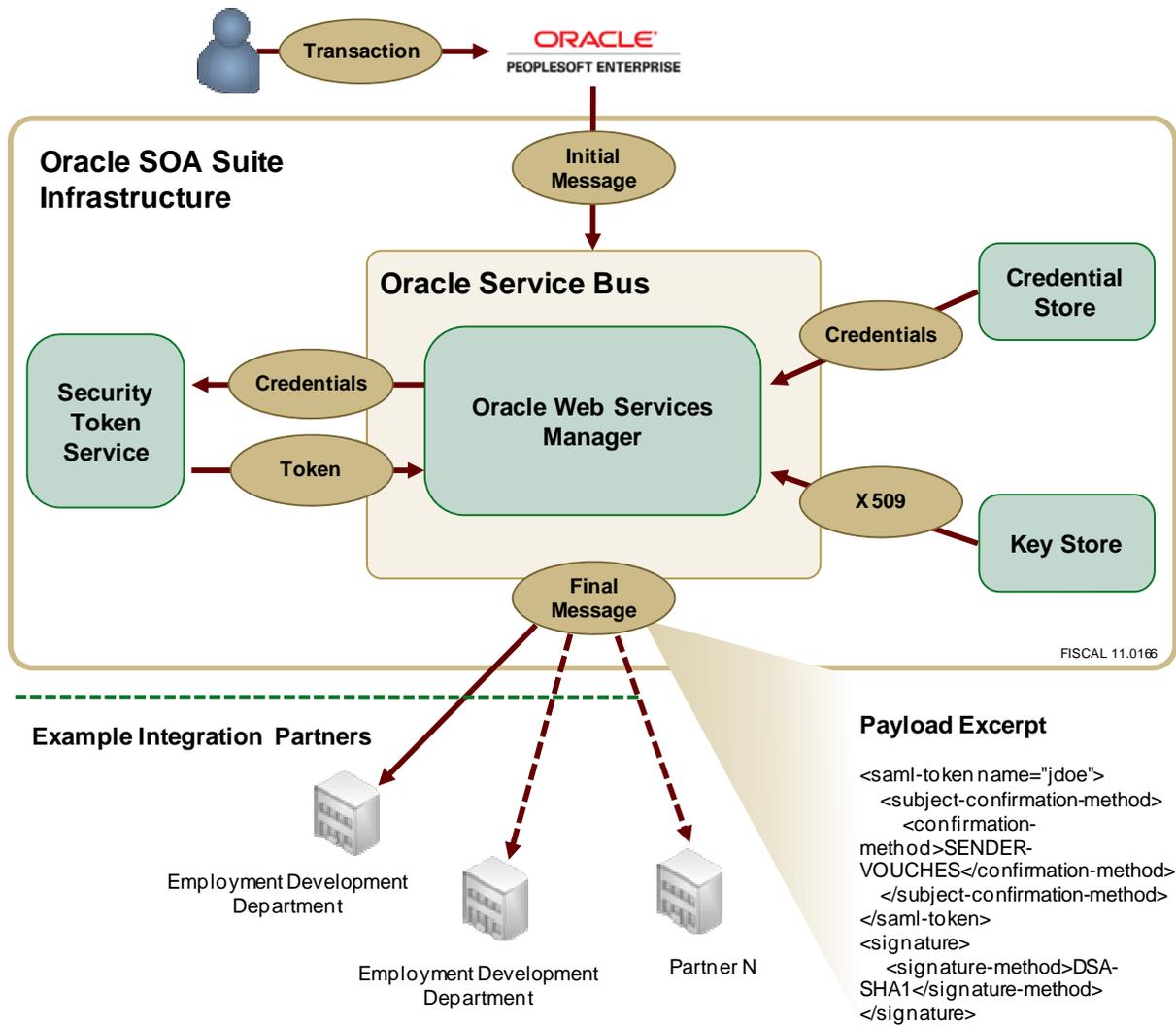


Figure 5 - 115. FISCAL web services security provides a variety of capabilities to facilitate data interchange security

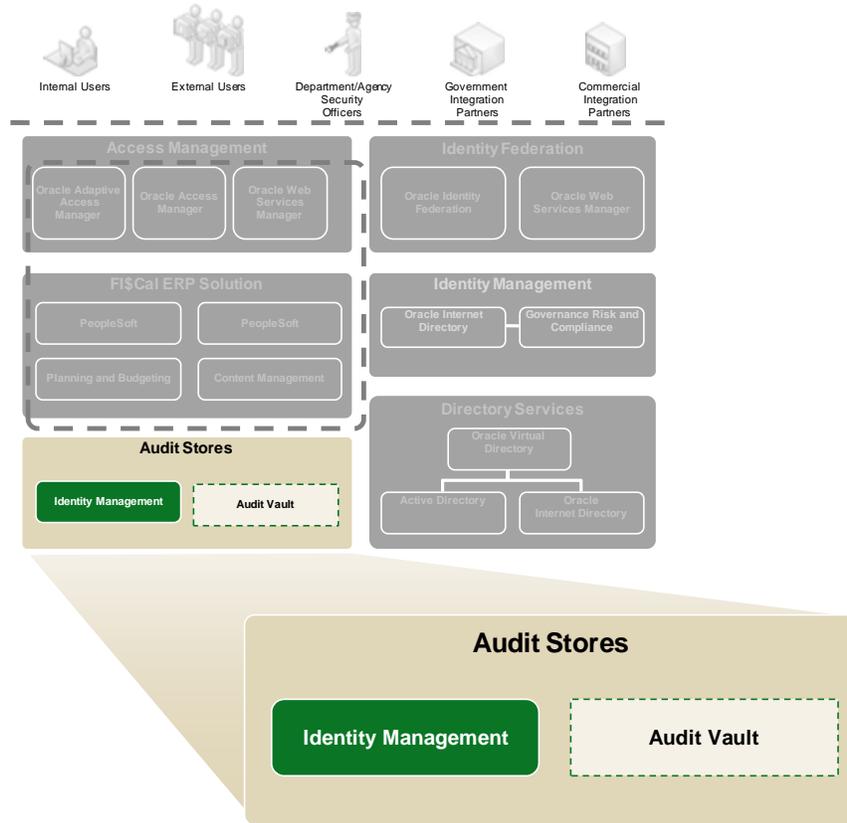
The first step of the process is initiated by the FI\$Cal end user or batch processing, which triggers a PeopleSoft Integration Broker call to the Oracle SOA Suite for mediation and security. Message “routes” are configured within Oracle Service Bus (OSB), defining the steps required before transmission and which partner(s) receive the message. In this example, we will focus on security-related aspects of the route.

The Oracle Web Services Manager (OWSM) retrieves the appropriate credentials to authenticate with the receiver from the Credential Store. Next, the Security Token Service is utilized to formulate the required token for the transmission before transfer. Finally, the appropriate x.509 certificate is retrieved from the key store to encrypt the message payload; this is a critical step for digital signatures. The message is now ready for transmission to one or more parties. In the event the integration partners require different authentication and encryption mechanisms, the Oracle Service Bus (OSB) route will dynamically look up credentials and keys based on its destination or other policies.

A more detailed overview of Web Services security and its integration with the FI\$Cal SOA layer is provided in *Section 5.3.13 Service Oriented Architecture (SOA)*.

System Auditing

Given the sensitivity of your data, robust auditing and analytics is an essential component of our FI\$Cal solution. Satisfying compliance regulations and reducing the risk of security breaches are among the top security challenges businesses face today. Examination of numerous security incidents has shown that timely examination of audit data could have helped detect unauthorized activity early and reduced the resulting financial impact. Various studies and surveys conducted by government and academic institutions have concluded that a sizeable percentage of data breaches have been perpetrated by insiders, those authorized for at least some level of access to the system and its data. As a result, governments worldwide have enacted a wide range of regulations relating to financial controls and privacy. Our solution provides for auditing at the application, security and database tiers of the system via the auditing services highlighted in Figure 5 - 116.



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Figure 5 - 116. FI\$Cal provides a comprehensive audit store at both the application and database tiers of the system

Our proposed FI\$Cal solution provides the ability to set audit storage locations, with allocation of sufficient storage and policies to assist administrators to manage the storage requirements. Oracle provides a Common Audit Framework: events are audited using the underlying Oracle Fusion Middleware Common Audit Framework. This framework uses a database audit store to provide scalability and high availability for the audit framework. Oracle Fusion Middleware Audit Framework is designed to provide a centralized audit framework for the middleware family of products. The framework provides audit service for the following:

- **Middleware Platform** - This includes the underlying Identity Management security platform and Oracle Web Services. These are components that are leveraged by applications deployed in the middleware. Indirectly, all the deployed applications leveraging these Java components will benefit from the audit framework auditing events that are happening at the platform level.
- **JavaEE applications** - The objective is to provide a framework for JavaEE applications, starting with Oracle's own components. JavaEE applications will be able to create application-specific audit events.
- **System Components** - For system components in the middleware that are managed by Oracle Process Manager and Notification Server, the audit framework also provides an end-to-end structure similar to that for Java components.

Oracle Identity Management includes unified and centralized audit reporting for access management and identity provisioning. Oracle Access Manager provides reporting capabilities for operations stored and correlated in a secure database for analysis. OAM comes with pre-built reports and the ability to create custom reports through Oracle Business Intelligence Publisher in order to provide greater visibility and reporting on common events such as user access attempts, successful or failed authentications, and single sign-on events. These features improve the State's ability to meet common governmental, OCIO and industry regulations.

Oracle Identity Manager reports on both the history and the current state of the provisioning environment. The system captures all necessary data to answer the question "Who has access to What, When, How, and Why?" Some of the identity data captured includes user identity profile history, user group membership history, user resource access and fine-grained entitlement history. When combined with the transaction data generated and captured by Oracle Identity Manager's workflow, policy, and reconciliation engines, an enterprise has all the required data to address any identity and access related audit inquiry.

Oracle Identity Manager's reporting and auditing capabilities enable the State to cost effectively cope with ever increasingly stringent regulatory requirements, such as Sarbanes-Oxley, Basel II or other type of regulations.

Our solution includes an Audit Repository which contains a pre-defined Oracle Fusion Middleware Audit Framework schema. Once configured, all the audit loaders are aware of the repository and upload data to it continuously. Oracle Audit Vault automates the consolidation of audit data into a secure repository, enabling efficient monitoring and reporting for FI\$Cal audit personnel. Oracle Audit Vault provides a secure repository, built-in reporting, event alerting, and separation of duties for the State.

Built on Oracle's industry leading technology, Oracle Audit Vault uses Oracle data security to protect audit data end-to-end. Figure 5 - 117 represents the use of Audit Vault to consolidate audit information from the FI\$Cal databases into single highly secure repository.

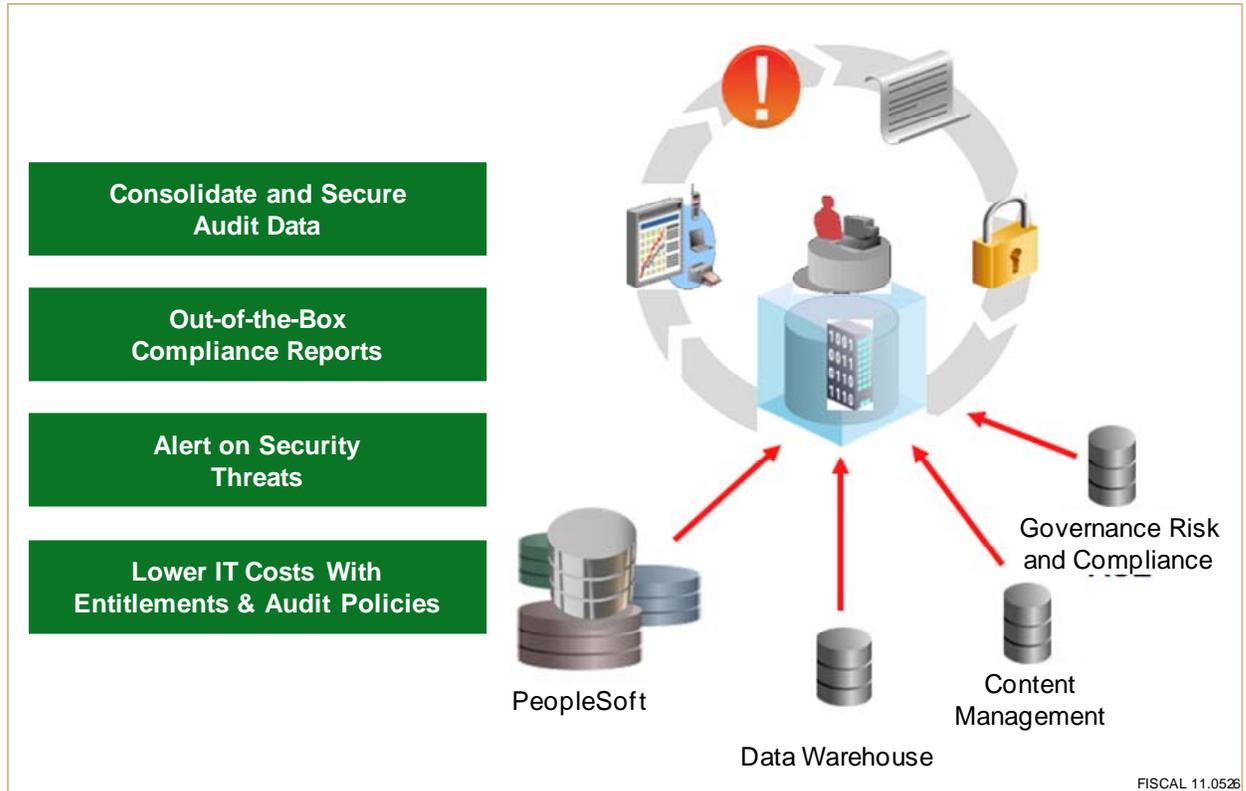


Figure 5 - 117. Oracle Audit Vault improves FI\$Cal security and lowers the cost of compliance by consolidating audit data across the solution for FI\$Cal audit personnel

Oracle Audit Vault provides the FI\$Cal team with the tools to develop practices to facilitate compliance with standards relevant to:

- SOX
- HIPAA
- Payment Card Industry Data Security Standard (PCI-DSS)

Oracle Audit Vault provides security personnel with the ability to detect and alert on activities that may indicate attempts to gain unauthorized access and/or abuse system privileges. Oracle Audit Vault will generate alerts for system-defined and user-defined audit events. Oracle Audit Vault continuously monitors the audit data collected, evaluating the activities against defined alert conditions. Alerts will be associated with any auditable database event including system events such as changes to application tables and creating privileged users.

For instance, an alert could be generated when someone attempts to access sensitive business information. The Oracle Audit Vault interface provides graphical summaries of activities causing alerts. These include a summary of alert activity and top sources by number of alerts. Oracle Audit Vault users can click on the summary graphs and drill down to a more detailed report. Alerts for the purpose of reporting are grouped by the sources with which they are associated. Alerts can also be grouped by the event category to which the event belongs, and by the severity level of the alert (warning or critical).

Database Security

In addition to strong network and application-level defenses, database-level security is an essential component of comprehensive security controls. As reported by the Verizon Business "2010 Data Breaches" report, data breaches represent 25% of incidents, resulting in 92% of records lost. In addition, 48% of database breaches were conducted through misuse of privileged credentials. For these reasons, and the criticality of the FI\$Cal project, a "defense in depth" strategy is implemented at all tiers of the system's architecture. At the database level, security controls are in place to address the following:

- Encryption for data at rest and in flight
- Encryption for backups and exports
- Strong authentication for privileged accounts
- Separation of duties for privileged accounts
- Consolidated system-wide audit data repository
- Automated configuration management

Strong access controls inside the database at the data layer enable organizations to raise the bar on the security of existing applications as well as better secure data consolidated from multiple repositories. Limiting ad-hoc access to application data, even by those maintaining the database, not only helps address privacy and regulatory concerns, but can also block attacks on privileged user accounts. Our solution will use the Oracle databases to store archive data and documents and as such, these forms of data also benefit from the same level of security as the application data sources. The Oracle database security layers are illustrated in Figure 5 - 118.

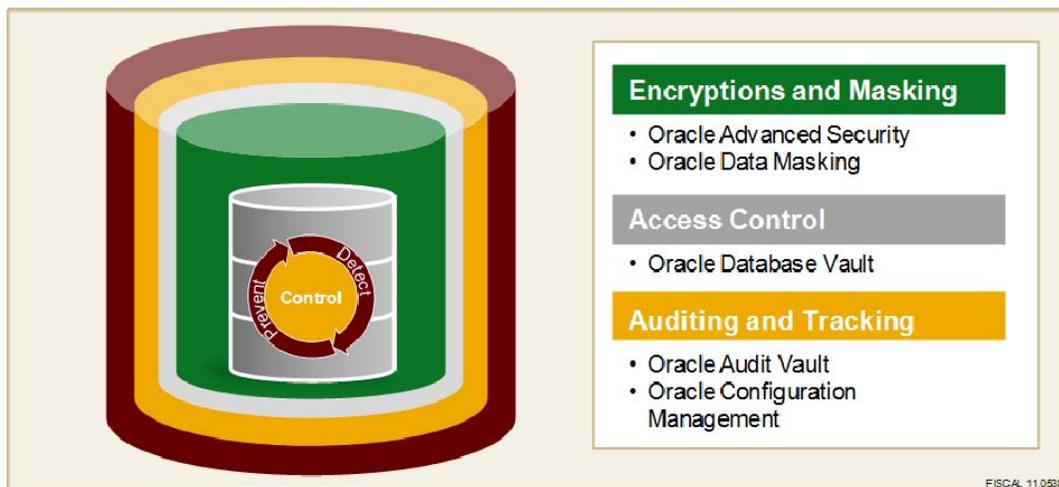


Figure 5 - 118. Oracle Database Security provides defense in depth, extending security controls for encryption, separation of duties and auditing directly to the systems databases

Additional information on the FI\$Cal database security capabilities are included in *Section 5.3.5 Database Management System and Technology Platform*.

Digital Signatures

Digital signatures provide a mechanism to securely transition manual authorizations to efficient online processes. Digital signatures provide capabilities to assure a signer's identity and controls for non-repudiation of the signed document. Digital signatures offer a stronger level of integrity over electronic signatures through cryptography provided by a Public Key Infrastructure (PKI). According to California Government Code section 16.5, a digital signature has the same force and effect as a manual signature under the following conditions:

- It is unique to the person using it.
- It is capable of verification.
- It is under the sole control of the person using it.
- It is linked to data in such a manner that if the data are changed, the digital signature is invalidated.

The proposed FI\$Cal solution provides digital signature capability for end user signed documents via PeopleSoft and system signed documents through Oracle Web Services Manager. At a high level, two main components are required to generate digital signatures. A Public Key Infrastructure (PKI) involves the use of two cryptographic keys, one private and one public. Information encrypted with one key in the pair can only be decrypted with the other key. PKI provides vehicle for non-repudiation of data or assurance of the integrity of the data within the signed document.

Our solution includes 5000 digital certificates for distribution to the selected users who will digitally sign documents within FI\$Cal.

The second component of a digital signature solution is an application that is capable of embedding control data such as hash values and public key information to "sign" a document. The application must also be able to integrate with the PKI to verify the authenticity of documents by validating it against the embedded control data. Capability to digital sign messages transmitted from the FI\$Cal Enterprise Service Bus, was described earlier in the "Web Services Security" portion of section 5.3.9 Security.

PeopleSoft Supplier Contract Management leverages Adobe Acrobat 9 Professional and Lifecycle™ Reader Extensions for Specialists to render PDF server side and to Prepare and Enable PDF for signing. All other internal and external users sign the PDF using the readily available Acrobat Reader (Version 6 or above). Each user uses their own Digital Certificate for signing the documents (see the Adobe site for digital signature partners). The needed signature fields stored in the clause library are automatically included in the Microsoft® Word document when created and rendered within the PDF for end user signing. Internal and external signatures will then be captured and tracked depending on your collaboration and approval requirements.

As an alternative to Adobe Acrobat 9, PeopleSoft Supplier Contract Management also supports the rendering of a separate Microsoft Word 2007 .docx file for signature purposes only in addition to the .xml file used for the editable Microsoft

Word contract. Using a .docx format requires that all internal and external signers use Microsoft Word 2007 for signing.

Enabling Digital Signature capability within Release 9.1 enables you to lock down the Microsoft® Word document and prepare a digitally signable document that uses encryption techniques that ensure the document was not tampered with, enables non-repudiation for those signing the document, and enable you to check the validity of the signatures as they happen using built-in Adobe® capabilities.