



Department of Management and Budget

Shared Business Systems Cost Management

October 2018

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

October 10, 2018

Senator Mary Kiffmeyer, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Myron Frans, Commissioner
Department of Management and Budget

This report presents the results of our internal controls and compliance audit of shared business systems fiscal oversight controls. The scope of the audit went from July 2015 through February 2018. The audit objectives were to determine if the Department of Management and Budget appropriately managed the costs of shared systems and developed plans to pay for those costs.

This audit was conducted by Tracy Gebhard, CPA (Audit Director); Tyler Billig, CPA (Auditor-in-Charge); April Lee (Senior Auditor); Ali Shire, CPA (Senior Auditor); and Tavis Leighton (Staff Auditor).

We received the full cooperation of the department's staff while performing this audit.

Sincerely,

James R. Nobles
Legislative Auditor

Christopher P. Buse
Deputy Legislative Auditor



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Report Summary

The Department of Management and Budget (MMB) is responsible for several business systems that all state agencies use to manage day-to-day activities, such as accounting, budgeting, procurement, and human resources.

The Office of the Legislative Auditor (OLA) conducted this audit in response to questions about fiscal oversight of the state's shared business systems. Shared business systems are extremely expensive, with long-term costs that often exceed the cost of government buildings.

OLA conducted this selected scope audit to determine whether MMB had adequate fiscal oversight controls over shared business systems. This audit also assessed compliance with significant finance-related legal requirements. OLA examined business system cost data going back to 1996. OLA also examined the funding model for shared business systems and tested expenditures incurred between July 2015 and February 2018.

Conclusion

MMB's fiscal oversight controls over shared business systems were **generally not adequate**.



For the period included in our audit scope, MMB **complied** with all significant legal requirements, including Minnesota statutes.



Audit Finding

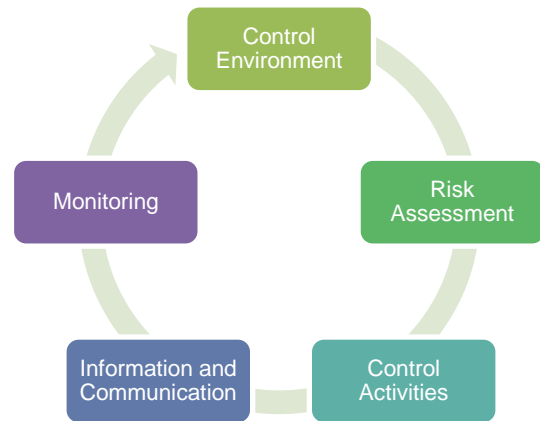
Finding 1. The Department of Management and Budget does not have a comprehensive funding plan for its shared business systems.



Audit Overview

This report presents the results of an internal controls and compliance audit of shared business systems fiscal oversight controls. The Department of Management and Budget (MMB) is responsible for establishing internal controls to safeguard assets and ensure compliance with applicable laws, regulations, and state policies.

A strong system of internal controls begins with management's philosophy, operating style, and commitment to ethical values. It also includes processes to continuously assess risks and implement control activities to mitigate risks. A successful internal controls system includes iterative processes to monitor and communicate the effectiveness of control activities.



Shared Business Systems

MMB operates several business systems that help all state agencies manage day-to-day activities, such as accounting, budgeting, procurement, and human resources. Operating these shared business systems helps the state take advantage of its economy of scale to keep administrative costs low. Operating shared systems also promotes consistent and cost-effective business practices.

Exhibit 1 provides an overview of the shared business systems that MMB operates. Included for each system is its commonly used name, the initial implementation date, and primary business functions.

Exhibit 1: Shared Business Systems

Human Resources^a	<ul style="list-style-type: none"> • State Employee Management Application (SEMA4) • July 1995 • Payroll and personnel management
Training	<ul style="list-style-type: none"> • Enterprise Learning Management (ELM) • January 2011 • Employee skill development
Accounting	<ul style="list-style-type: none"> • Statewide Integrated Financial Tools (SWIFT) • July 2011 • Accounting and procurement
Reporting	<ul style="list-style-type: none"> • Enterprise Performance Management (EPM) • July 2011 • Data warehouse and ad-hoc reporting
Budget	<ul style="list-style-type: none"> • Budget Planning and Analysis (BPAS) • August 2012 • Current, historical, and future budget management
Fiscal Note	<ul style="list-style-type: none"> • Fiscal Note Tracking System (FNTS) • January 2015 • Legislative request cost accounting
Capital Budget	<ul style="list-style-type: none"> • Capital Budget System (CBS) • May 2015 • Capital budget request management

^a Human Resources also includes software that was added later to help agencies recruit employees.

SOURCE: Auditor prepared from Department of Management and Budget documentation.

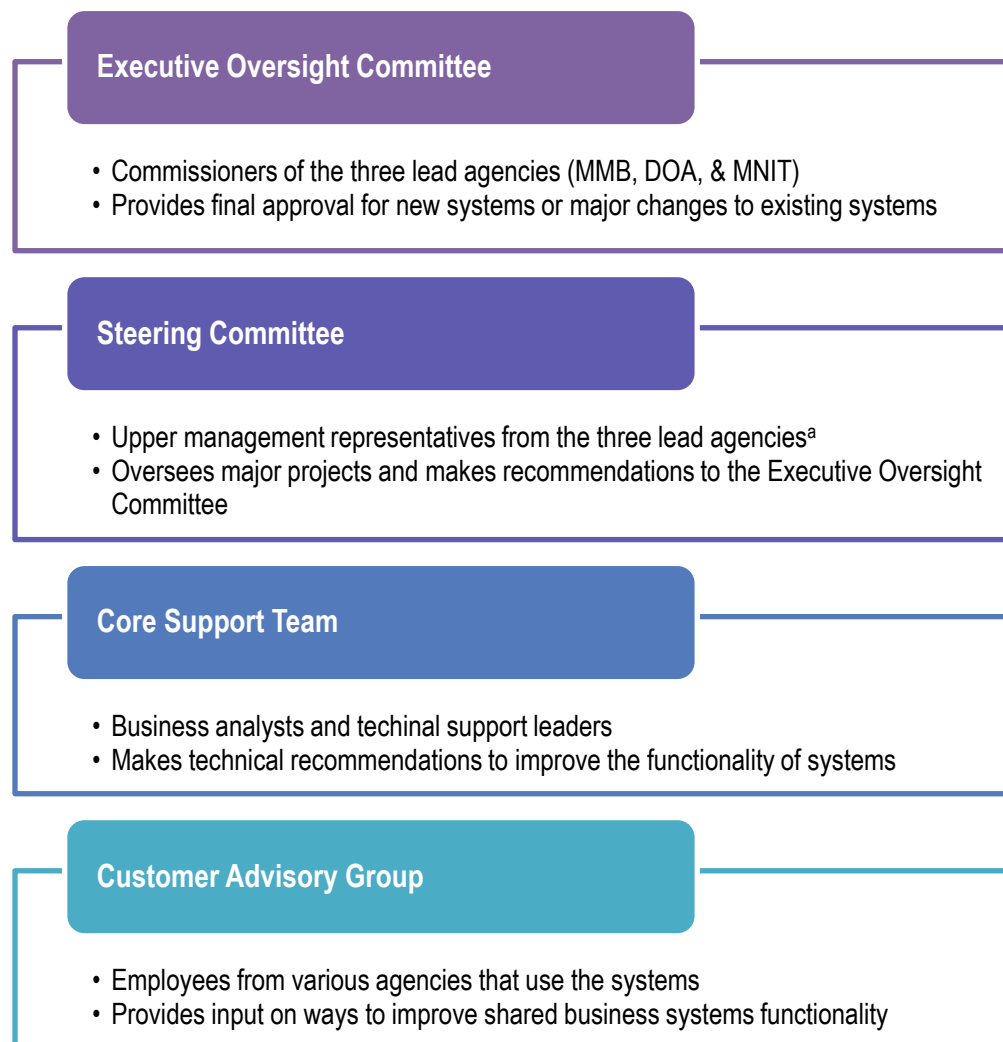
Oversight and Governance

MMB is the owner of the shared systems that agencies use to manage common business functions. MMB also serves as the lead agency for accounting, human resources, and financial reporting. To administer shared systems, MMB also works closely with the Department of Administration (DOA), which serves as the lead

agency for procurement. Finally, a dedicated team from Minnesota IT Services (MNIT) provides technical support for the underpinning computer hardware and software.

MMB has participatory governance teams for shared business systems. These teams foster collaborative decisions to implement, retire, or upgrade shared systems. Exhibit 2 describes the shared business systems governance structure.

Exhibit 2: Shared Business Systems Governance



^a The voting members consist of selected MMB assistant and deputy commissioners; MMB's chief financial officer; DOA's chief procurement officer; and MNIT's chief business technology officer for MMB. MMB's enterprise resource planning director and MNIT's IT director also sit on the committee, but do not have voting privileges.

Cost of Shared Business Systems

One goal of this audit was to help legislators understand the total one-time and operational costs of shared business systems. MMB estimated that the total cost of shared business systems since Fiscal Year 1996 is approximately \$397 million.¹ Exhibit 3 shows the total cost by shared system.

Exhibit 3: Shared Business Systems Cost, Budget Fiscal Years 1996 through 2018

Shared Business System Name	Total Cost
Statewide Integrated Financial Tools	\$100,125,000
Statewide Employee Management System	98,507,000
Minnesota Accounting and Procurement System	63,331,000
Enterprise Performance Management	32,618,000
Budget Information System	7,078,000
Budget Planning and Analysis	4,304,000
Enterprise Learning Management	2,060,000
Fiscal Note Tracking System	788,000
Capital Budget System	593,000
Unassignable Shared Business System Costs	<u>88,033,000</u>
Total	<u>\$397,437,000</u>

NOTES: The total costs shown above are as of April 2018 and are not adjusted for inflation. Enterprise Performance Management costs also include costs for the previous data warehouse. Unassignable Shared Business System Costs are either costs that could not be attributed to one system or costs that benefit all systems.

SOURCE: Department of Management and Budget.

The cost of shared business systems includes both one-time and operating costs. One-time costs are generally associated with the initial development of a system or installation of major upgrades. One-time costs fluctuate significantly from year to year. Operating costs remain relatively consistent from year to year and include ongoing expenditures for support staff and hardware and software maintenance. Though we hoped to segregate one-time and operational costs, MMB did not have records to break down the costs with that level of granularity for all systems.

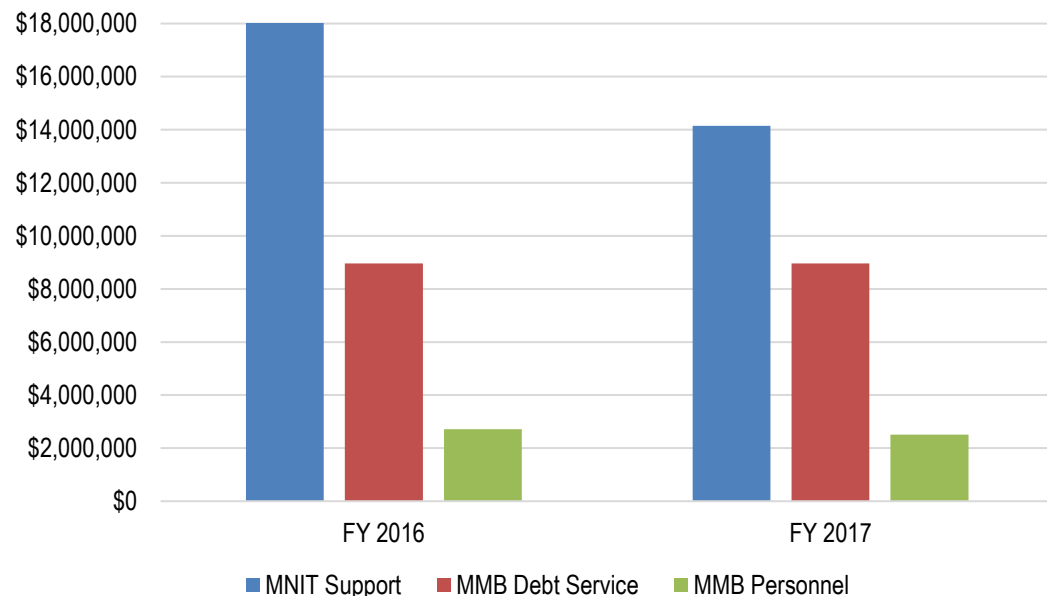
As the lead technology agency, MNIT is responsible for paying hardware and software vendors. MNIT also hires and manages most staff that provide technical support for the shared business systems. MMB incurs a small portion of the system

¹ According to the Department of Management and Budget, records prior to Fiscal Year 1996 were either incomplete or did not exist.

costs for staff that assist end users. MMB also is responsible for making system-related debt service payments.

In fiscal years 2016 and 2017, total costs for shared business systems were approximately \$30 million and \$26 million, respectively. Exhibit 4 shows the respective portion of the system costs paid by MNIT and MMB.

Exhibit 4: Shared Business Systems Cost, Budget Fiscal Years 2016 and 2017



NOTES: Each month, the Department of Management and Budget pays MNIT for the cost of supporting shared business systems. The MMB Debt Service category includes principal and interest payments on debt that the department issued in 2009. Debt service payments will continue through 2019. The MMB Personnel category also includes miscellaneous expenditures totaling \$116,149.

SOURCE: State of Minnesota's accounting system.

Funding for Statewide Systems

MMB uses various funding sources to pay for shared business systems.

- Legislative Appropriations.** Each biennium, the Legislature appropriates money to MMB for general operating expenditures. The Legislature also provided MMB with some specific appropriations for shared business systems.

- **Statewide Systems Account.** State law gives MMB the authority to bill state agencies and retain up to \$10 million each year to help support shared business systems.²
- **Information and Telecommunications Account.** At the end of each biennium, state agencies may transfer remaining appropriations, which would otherwise expire, to an account for technology projects that benefit the state.³ In 2013, 2015, and 2017, ten state agencies transferred approximately \$10.6 million into the account to help support shared business systems.⁴
- **State Employee Group Insurance Program.** The program historically funded about 33 percent of the State Employee Management Application costs, 17 percent of the Enterprise Performance Management system costs, and 5 percent of the general shared business systems costs.
- **Debt.** In August 2009, the state issued certificates of participation and used \$64.98 million in proceeds for the Statewide Integrated Financial Tools (SWIFT) system.⁵

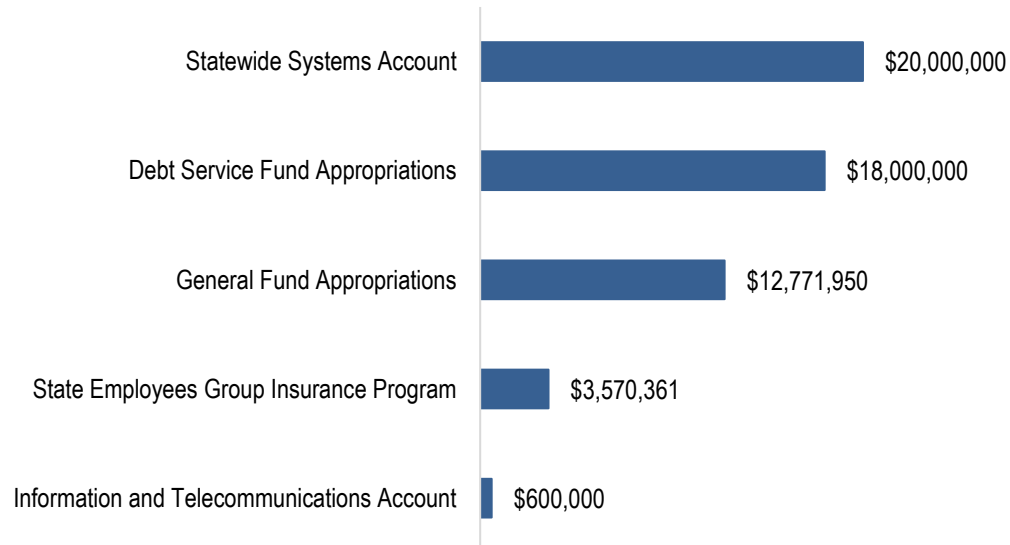
The amount that each funding source contributes can vary significantly from year to year, particularly during periods when major development efforts are underway. To fund development efforts, the Legislature directed MMB to rely on special legislative appropriations and borrowing money from investors. Exhibit 5 shows total funding for shared business systems for fiscal years 2016 and 2017, broken down by the source of funds.

² *Minnesota Statutes* 2017, 16A.1286, subd. 2.

³ Office of the Legislative Auditor, Financial Audit Division, *Minnesota Information Technology Services - Information and Telecommunications Account* (St. Paul, 2018).

⁴ The ten agencies are the departments of Administration, Commerce, Higher Education, Human Rights, Labor and Industry, Management and Budget, Public Safety, Revenue, and Veterans Affairs, and Minnesota IT Services.

⁵ The Department of Revenue used \$10 million in proceeds to fund its new tax system, GenTax.

Exhibit 5: Shared Business Systems Funding, Budget Fiscal Years 2016 and 2017

SOURCE: State of Minnesota's accounting system.

Audit Scope and Objectives

OLA conducted this audit to provide stakeholders with an overview of shared business systems fiscal oversight controls. OLA asked MMB to quantify the costs of shared business systems, going back to the time when the state began using commercial off-the-shelf software. OLA also performed a detailed analysis of costs and financing sources for the period from July 1, 2015, through February 28, 2018. We designed our work to answer the following questions:

- Did MMB develop processes to calculate and accurately track the cost of each shared business system?
- Did MMB develop a comprehensive funding model that supports current and future costs for its shared business systems?
- Did MMB develop internal controls to manage shared business systems costs in accordance with applicable legal requirements?

Audit Methodology and Criteria

To answer the objective questions, OLA interviewed MMB and MNIT staff to gain an understanding of financial policies and procedures. We also worked with MMB to assess for reasonableness the total cost of shared business systems, going back to Fiscal Year 1996. Finally, we examined financial transactions that occurred in Fiscal Year 2016 through February 28, 2018. For those transactions, OLA reviewed supporting documentation to test the effectiveness of internal controls and determine if those transactions complied with finance-related legal provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards.⁶ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.⁷ To identify legal compliance criteria for the activity we reviewed, we examined state laws and policies established by MMB.⁸

Conclusion

The Department of Management and Budget's internal controls over shared business systems were generally not adequate. For the expenditures tested, the Department of Management and Budget complied with significant legal requirements, including Minnesota statutes and its own policies and procedures.

The following *Finding and Recommendations* section provides further explanation about the inadequate internal controls.

⁶ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

⁷ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the state of Minnesota adopted these standards as its internal control framework for the executive branch.

⁸ *Minnesota Statutes* 2017, 16A.82, and 16A.1286; *Laws of Minnesota* 2009, chapter 101, art. 2, sec. 104, subd. 2; *Laws of Minnesota* 2011, First Special Session, chapter 10, art. 1, sec. 13; *Laws of Minnesota* 2013, chapter 142, art. 1, sec. 13; *Laws of Minnesota* 2015, chapter 77, art. 1, sec. 13; *Laws of Minnesota* 2016, chapter 189, art. 13, sec. 3; *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 1, sec. 13, subds. 9 and 9b; and Department of Management and Budget Policy 0106-01, Capital Asset Reporting.

Finding and Recommendations

Finding 1

The Department of Management and Budget (MMB) does not have a comprehensive funding plan for its shared business systems.

Shared business systems put long-term fiscal demands on state agencies and the Legislature. However, MMB does not have a comprehensive funding plan for these systems, detailing current and future funding needs. MMB also did not compile long-term cost data for each system, a necessary component to develop a comprehensive funding plan. MMB compiled historical cost data in response to an OLA request. This process required estimations because MMB did not track costs by system prior to Fiscal Year 2015. In recent years, MMB has made significant improvements in tracking costs by system.

Absent a funding plan and cost data, MMB cannot answer foundational fiscal oversight questions, such as:

- What are the ongoing operational costs of each shared business system?
- What are the projected fiscal implications of future system upgrades, and when will they occur?
- What is the expected life of each system and when will major investments be necessary for wholesale system replacements?

A comprehensive funding plan for shared systems may help foster more strategic conversations between MMB and policymakers. It also will provide MMB with data to address funding source and reserve shortcomings that OLA identified during this audit.

MMB relies extensively on unpredictable, one-time funding sources. In fiscal years 2013, 2015, and 2017, MMB relied on agency contributions into the Information and Telecommunications Account, totaling over \$10.6 million. To complete important security-related upgrades and implement appropriate disaster recovery protections, MMB also sought a one-time \$10 million legislative appropriation. The Legislature only funded \$2 million of that request.

MMB lacks the necessary reserves to pay for periodic system upgrades. State law gives MMB the authority to bill state agencies and retain up to \$10 million annually in a Statewide Systems Account. However, when combined with the other resources, MMB still lacks sufficient funding to pay both its ongoing operational and periodic one-time costs.

Remedying the current fiscal oversight issues must start with better long-term cost planning. For each system, MMB should work with MNIT to project the ongoing operational costs for hardware, software, staff, and consulting services. MMB also should work with MNIT to estimate the timing and cost of periodic system upgrades and other one-time costs.



After compiling cost data, MMB should work with its legislative committees to develop a more reliable and predictable funding model for the state's shared business systems. One option may be to remove the \$10 million annual limit on the Statewide Systems Account. This approach would let MMB bill and retain reserves from the agencies that use the systems, without ongoing legislative interaction as funding needs change. An alternate and more transparent strategy may be to have the Legislature directly appropriate all funds for shared business systems. A key advantage of a direct appropriation strategy would be improved legislative understanding and oversight of system funding needs. The direct appropriation strategy would also eliminate the need for a Statewide Systems Account.

The results of this audit lead OLA to conclude that the Legislature needs to focus more attention on computer systems funding. Before appropriating money for new systems, policymakers should understand the funding plan for ongoing operational and future one-time costs, which often exceed the initial purchase price. Establishing more extensive and participatory up-front processes could help minimize situations where policymakers feel surprised by agency computer systems funding requests.

RECOMMENDATIONS

MMB should work with MNIT to develop long-term cost data for each shared business system.

MMB should work with its legislative committees to develop a reliable funding model for its shared business systems.

Before appropriating money for new business systems, Legislative committees should gain an understanding of the long-term funding model.



October 8, 2018

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to discuss the findings in the audit of statewide systems costs. We place a high priority on maintaining our statewide systems which are critical to support the business operations of the state.

The conclusion of the report states that Minnesota Management and Budget (MMB) complied with all significant legal requirements, including Minnesota statutes. The report also found MMB does not have a comprehensive funding plan for its shared business systems.

We agree that the amounts appropriated for our statewide systems is inadequate to meet current needs and expectations for the delivery of mandated public services. MMB has submitted multiple requests to the legislature for additional funding over the past several years. However, very little has actually been appropriated.

For example, in 2017, MMB proposed and presented to the legislature a request for \$13.9 million for FY 2018 and \$4.3 million for FY 2019 and ongoing that would not only address immediate system needs related to security and disaster recovery, but was also designed to ensure optimal ongoing operation and long-term maintenance of the statewide information technology systems. The full appropriation, if passed, would have allowed for necessary upgrades and improvements and supported disaster prevention, planning, and response activities for critical systems used by almost all state agencies. Unfortunately, only a fraction of this request was appropriated by the legislature.

The report recommends MMB work with Minnesota Information Technology Services (MN.IT) to develop long-term cost data for each shared business system. We believe the best strategy for maintaining our existing systems is to make consistent, ongoing investments in software updates and patches. Keeping our systems up-to-date will avoid excessive project costs associated with major system upgrades in the future. The 2017 request presented to the legislature was an initial attempt at securing funding under this strategy. MMB and MN.IT have endeavored to improve our ability to detail the long-term funding needs for statewide systems and we remain committed to working with the legislature to ensure that those needs are fully understood and addressed.

October 8, 2018

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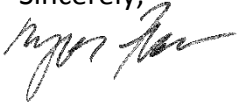
Further recommendations suggest MMB work with legislative committees to develop a reliable funding model for its shared business systems and before appropriating money for new business systems, legislative committees should gain an understanding of the long-term funding model. We support these recommendations and will assist the legislative committees as they consider long-term solutions.

The employee responsible for coordinating this work will be Laurie Hansen, Enterprise Resource Planning Director. The target implementation date is May 31, 2019.

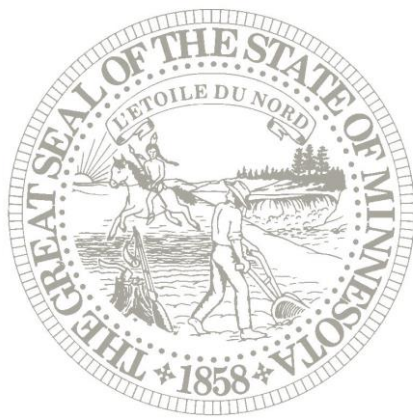
We would encourage future administrations to follow the Office of Legislative Auditor's report and recommendations and address the long-term technology funding issues the state is facing.

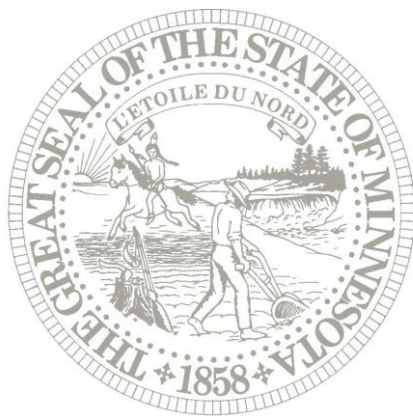
Again, thank you for the opportunity to discuss and respond to the audit finding of the department. We value your work to improve the stability of our statewide systems.

Sincerely,

A handwritten signature in black ink, appearing to read "Myron Frans", written in a cursive style.

Myron Frans
Commissioner





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