
MEMORANDUM

TO: CATHERINE BENHAM, CHIEF FISCAL OFFICER, JOINT FISCAL OFFICE

FROM: LISA M GAUVIN, IT CONSULTANT FOR THE JOINT FISCAL OFFICE

SUBJECT: STATUS OF ERP PROJECT REVIEW AND PROJECT BACKGROUND

DATE: FEBRUARY 5, 2024

1. Executive Summary

- The Enterprise Resource Planning (ERP) Project seeks to replace the State's current human resource system, the budget system, and the financial system (VISION). The State plans to implement WorkDay ERP to replace these systems. This project will include additional IT and Business projects identified in Section 3 (Project Scope).
- Funds:
 - Currently, the total funds appropriated for this project are **\$24,600,000**. (See Section 4 of this document.) In addition, the Agency of Administration is seeking \$3 million in the FY24 BAA for staff augmentation and business process redesign.
 - JITOC approval is required to release \$11.8 million appropriated for the Financial Management Module of WorkDay. The JFO IT review will inform this decision.
- Costs:
 - The State signed a contract with WorkDay in May of 2022, totaling **\$28,875,000** over ten years. This contract was signed before the implementation vendor was selected.
 - The State has made the following payments to Workday:

<u>Invoiced</u>	<u>Payment</u>
Year 1 (June 2022)	\$ 700,000
Year 2 (June 2023)	\$1,650,000
Total Paid	\$2,350,000
 - Secretary Reilly-Hughes has negotiated a deferral of the Year 3 payment originally due in June 2024; details regarding this \$2,057,000 deferral will be shared once they are finalized.
 - The implementation of the WorkDay ERP has not started.
 - A record of other implementation and business costs related to this project will be available to the JFO after the CIO's independent review has been completed.
 - In testimony to Senate Appropriations on January 26, 2024, Sarah Clark indicated there would be additional business costs to support this project, but they were unknown at this time.
 - The full set of documents will not be available for review until the CIO's Independent Review is completed. A key consideration of the JFO review will be whether a gap analysis was completed and, if not, assessing the plan for identifying gaps and controlling project costs. A gap analysis refers to the difference between the capability of the WorkDay ERP and the functions performed by existing systems. Without understanding the gaps, it is unclear how the total cost of the project can be determined.
- The State of Rhode Island is implementing an ERP system using WorkDay, and Secretary Reilly-Hughes has been monitoring their work. The outcome of this Rhode Island project is critical because new functionality was added to the WorkDay product to meet Rhode Island's needs. If the new functionality is a success, it has the potential to reduce gaps in functionality required by Vermont.
- The CIO's Independent Review for the full ERP project is underway and is expected to be completed in March 2024. The information within the CIO's Independent Review is necessary to complete the JFO IT Review.

2. About this Document

This memo aims to provide a status update on the JFO IT Review of the State's Enterprise Resource Planning (ERP) project and provide available background information about this project.

Currently, this review is at the initial fact-finding stage. The formal JFO IT Review requires the CIO's Independent Review, which will be completed in March 2024. The JFO IT Review will follow the standard approach used for all projects and inevitably have special focus areas unique to this project.

3. Project Scope

To understand the total cost and impact of the project, JFO will look at both the business and information technology components. Based on the information currently available, the known scope of the ERP project also includes the following:

- Purchase of Initial WorkDay Subscription
- Ongoing WorkDay Subscription Costs
- Contracted Services for Implementation of WorkDay (HR, Budget and Financial Management)
- Hosting and Support of the System
- Cost of ADS Staff for this project
- Contract Work Required to Implement Systems for HR, Budget and Finance that can't be met by WorkDay. (Gap analysis will identify needs)
- Contract Work Required to Implement Required Components of Legacy Finance Systems in VDOL and VTRANS (these systems are known as FARS and STARS)
- Cost of Supporting Business Processes, including:
 - Business Process Redesign*
 - Additional business staff for Staff Augmentation
 - Other work, as needed to support the successful completion of the project.

*Business Process Redesign refers to the effort required to align the steps employees follow in their day-to-day work to take advantage of streamlined operations provided using the new system. This process mitigates the risk that employees unintentionally build inefficient processes required by the old system into the new system. These beneficial changes are not always obvious to new users, and the best way to streamline operations is to bring in experts skilled in this area.

4. Funds Appropriated

The total (known) funds appropriated for this project **total \$24,600,000**, including the following:

<u>YR</u>	<u>Source</u>	<u>Purpose</u>	<u>Amount</u>
FY2022	Big Bill	HR and Budget Replacement	\$12,800,000
FY2023	Act 185-BAA	Financial Management	\$11,800,000*

*Note: The \$11.8 million dollars are contingent upon JITOC approval pending JFO IT Review of the ERP project. The JFO project review will occur after the CIO's Independent Review is completed in March 2024.

The Agency of Administration is seeking \$3 million in the FY24BAA for limited service positions to provide staff augmentation (\$700,000) and business process redesign(\$2,300,000).¹

5. Total Project Cost

Currently, the ERP project is undergoing a CIO's Independent Review. Once completed, more cost information will be available. Other expenditures relating to the implementation services RFP and contract development have not been compiled by JFO. See section 6, "Additional Background Information". While the CIO's Independent Review will be helpful, it may not address all of the project costs; there are additional areas of work (e.g. a gap analysis, warehousing historical data, developing solutions for other software that currently interacts with current systems, etc.) which should be completed in order to have a better understanding of the total project costs (See Section 7).

6. Additional Background Information

- a. The State signed a contract² with WorkDay in June of 2022. This is a ten-year agreement totaling **\$28,875,000**.
- b. The State has made the following payments to Workday:

<u>Invoiced</u>	<u>Payment</u>
Year 1 (June 2022)	\$ 700,000
Year 2 (June 2023)	\$1,650,000
Total Paid	\$2,350,000
- c. The next invoice of \$2,075,000 (Year 3) is scheduled for June 2024. However, Secretary Reilly-Hughes has negotiated a deferral of the Year 3 payment; once the specific terms are finalized, they will be shared..
- d. The ERP implementation has not started.

¹ The source of this breakdown of the \$3 million and the total funds remaining of the FY22 appropriation is FY24BAA request is Sarah Clark's and Denise Reilly-Hughes' presentation materials to House Appropriations on Jan 12, 2024.

² The agreement signed is referred to as ITS75 Ordering Document and references cloud ordering document #Cloud22_16. This agreement is a contract between the State of Vermont and WorkDay. June 13, 2022 is the effective order date used for invoicing and payment is due 60 days after this date. This ordering document is an amendment, which replaces an earlier ordering document signed in May 2022. (The file name of this amendment is "eSigned WorkDay - ITS75 Ordering Document Amendment _1 - 06.06.22.pdf".) Related documents include 42891_Workday_Inc_EXECUTED.pdf which is Vermont's "PARTICIPATING ADDENDUM # 42891 FOR NASPO VALUEPOINT PURCHASING PROGRAM: CLOUD SOLUTIONS". This is the agreement between Vermont and NASPO that indicates Vermont's intent to purchase of NASPO master agreement Master Agreement # AR2507.

- e. The Implementation Vendor for the HR, the Budget, and the Financial Modules has been selected. The role of this vendor is to configure the WorkDay system based on Vermont specific requirements. This vendor will also advise Vermont on decisions surrounding the sequence of the implementation and best options for configuration based on Vermont requirements. This includes loading financial codes specific to Vermont and configuring business rules to ensure data quality. The name of this vendor will not be released until the contract is signed, which requires the completion of the CIO Independent Review, the JFO IT Review, and JITOC release of funds. There may be a need to hire other vendors if WorkDay cannot perform all required functions of the systems that are being replaced.
- f. The CIO's Independent Review for this project is underway.
- g. Deputy Secretary of the Agency Administration, Sarah Clark, and Agency of Digital Services Secretary Denise Reilly-Hughes are co-sponsors of the project.
- h. At the time of the FY2023 appropriation, WorkDay was live in 8 states. None of those states were using the enterprise Finance Management module. The Finance Management Module is in use at the Department of Transportation in Iowa. The State of Iowa canceled the project for a statewide implementation of this finance module and issued a press release stating, "After delaying the project last year for additional review, the Department of Management and Office of the Chief Information Officer (OCIO) has determined the platform will not meet some of the state's unique needs."³
- i. Since this, State of Rhode Island has also started implementing an ERP system using WorkDay, and Secretary Reilly-Hughes has been monitoring the project. The outcome of this Rhode Island project is critical because new functionality was added to the WorkDay product to meet Rhode Island's needs. If the new functionality is a success, it has the potential to reduce gaps in functionality required by Vermont.
- j. The State of Washington is also implementing WorkDay financials.
- k. The State of Rhode Island published a strategic plan for enterprise applications that outlines a roadmap to guide the State to the modernization of HR, Payroll, Finance, and Enterprise Support applications. This scope is similar to the Vermont project. This document illustrates a robust road map for a project at the stage where it is seeking funding.⁴ It is unclear if Vermont has a similar plan at this time.
- l. This project will include other associated costs that have not been identified. For example, associated costs will include updating systems that integrate with VISION to upload/automate payments (for example, state aid for education, DMV system, other???) and costs related to archiving and converting historical finance, HR, and budget data not loaded to the new system, etc.

³ Link to press release announcing cancellation of Iowa/Workday Finance Management implementation:
<https://governor.iowa.gov/press-release/2023-03-24/state-iowa-ends-agreement-workday-update-financial-management-system-will>

⁴ Link to Rhode Island Enterprise Application Strategic Plan
<https://doit.ri.gov/sites/g/files/xkgbur466/files/Documents/erp/ERP-Strategic-Plan---Details.pdf>

7. Other Areas to be Assessed During the JFO Project Review

This project will be assessed using the standard JFO IT Review Process as described in Appendix 1 of this document. As in all projects, unique characteristics often require additional analysis. For this project, the following areas will also be assessed:

1. Areas of planning that may need additional work
 - a. Identifying the extent of gap analysis that has been completed by the State.
Gap analysis refers to the difference between the capability to the WorkDay ERP and the functions performed by existing systems. Without understanding the gaps, the total cost of the project cannot be determined.
 - b. Identifying plans for historical data currently stored in existing systems.
Because new systems use new fields and new business rules, it is not unusual for older data to be archived in a data warehouse. The design and movement of the historical data is an unknown cost for this project that could be significant.
 - c. The costs to update systems that are currently integrated to VISION or transfer data to VISION for upload could result in unplanned costs. Any changes to these systems must be planned and funded. Understanding the plan to address stakeholders and allow time for parties to secure funding and make changes is critical. JFO will look at the State plans to address this important issue.
 - d. Identifying plan for ensuring the more frequent updates to ERP (which are a desired characteristic of cloud systems) do not adversely impact systems that are integrated to the ERP.
 - e. Other areas identified as more information becomes available to JFO.

Appendix 1

JFO Review Areas

This analysis will use the existing methodology for a JFO IT project review.

The project review focused on seven key subject areas:

1. Project Justification
 - Does the project need to be done?
2. Clarity of Purpose
 - Is there a clear definition of success so all participants know when the project is completed correctly?
3. Organizational Support
 - Is the affected organizational entity ("the business") fully supportive of the project, and is the business willing and able to adapt where required?
4. Project Leadership
 - Will there be strong and effective leadership to guide the project?
5. Project Management
 - Will there be qualified and effective project management to assist project leadership?
6. Financial Considerations
 - Are costs through the system lifecycle adequately estimated, and is there funding?
7. Technical Approach
 - Are the proposed technical solutions achievable, realistic, and appropriate for this project?