

STATE OF NORTH CAROLINA
OFFICE OF THE STATE CONTROLLER

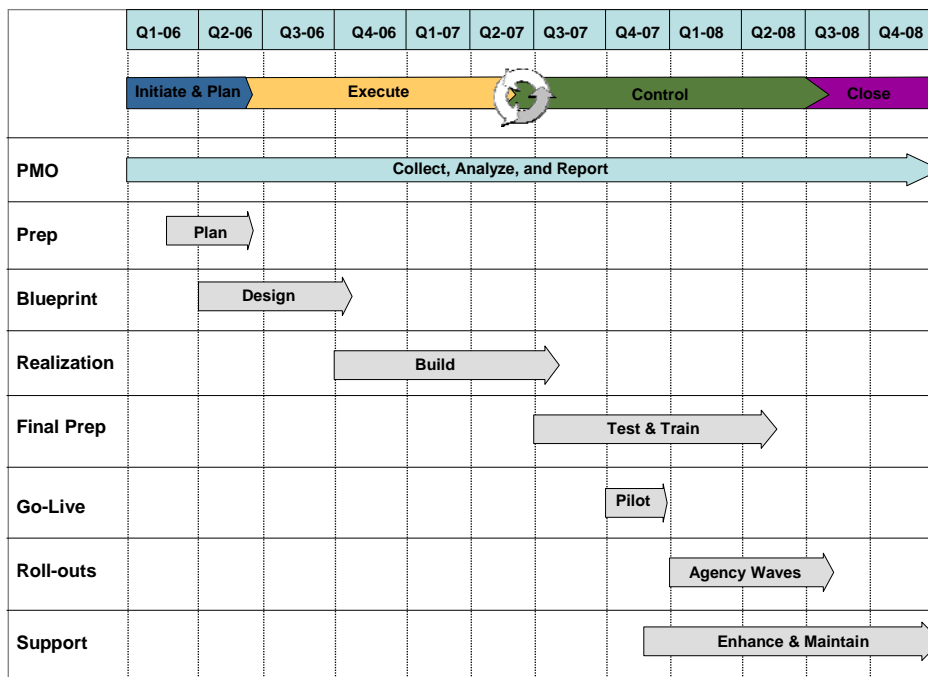
STATEWIDE BUSINESS INFRASTRUCTURE PROGRAM

PROGRAM UPDATE

April 2006 Presentation

BACKGROUND – STATEWIDE BUSINESS INFRASTRUCTURE STUDY																	
<p>Session Law 2001-491 directed the Office of the State Controller (OSC) to determine the feasibility of developing and implementing a new business infrastructure for the State.</p> <ul style="list-style-type: none"> ❖ Phase I of the study developed a high-level inventory and assessment of the business systems, subsystems and integration/ interface components that provide financial, human resource, and payroll information and support to programs in state government. Phase II of the study developed a blueprint for selecting improvement approach. ❖ The State decided upon a replacement strategy that carefully weighs the risks of potential system failures with the current state budget condition and funding priorities. The strategy involves an extended implementation approach with the first focus on replacing the Human Resources and Payroll Systems. ❖ The University System and the Community College System were exempt from the legislation. 	<p><i>Total expenditures for Phase 1 and Phase 2 of the Study were \$699,118 to conduct the study.</i></p>																
WHAT ARE THE CURRENT RISKS? WHY SHOULD WE INVEST NOW AND CONTINUE THE PROJECT?																	
<ul style="list-style-type: none"> ❖ <i>Retiring HR/Payroll system support staff.</i> <ul style="list-style-type: none"> ○ Inability to maintain current systems due to retirement of system support staff. ○ Limited resources with the knowledge required to maintain existing technology. ❖ <i>Future labor market competition and an aging state workforce.</i> <ul style="list-style-type: none"> ○ Current recruitment and retention capabilities need to be improved to address forecasted labor and skills shortages associated with retiring baby-boomers. ○ Next generation of employees will demand online visibility to HR and payroll details. <p style="text-align: center;">State of North Carolina Employee Age Statistics</p> <table border="1"> <caption>State of North Carolina Employee Age Statistics</caption> <thead> <tr> <th>Age Group</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Age 0-9</td> <td>0.2%</td> </tr> <tr> <td>Age 10-19</td> <td>0.1%</td> </tr> <tr> <td>Age 20-29</td> <td>11.5%</td> </tr> <tr> <td>Age 30-39</td> <td>24.4%</td> </tr> <tr> <td>Age 40-49</td> <td>31.9%</td> </tr> <tr> <td>Age 50-59</td> <td>26.9%</td> </tr> <tr> <td>Age 60-69</td> <td>5.1%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> ❖ <i>Implementation of a new system will be a multi-year effort.</i> <ul style="list-style-type: none"> ○ Outdated business practices need to be re-engineered and streamlined to realize efficiencies. ❖ <i>North Carolina is lagging behind state and private sector systems and process trends.</i> <ul style="list-style-type: none"> ○ Employee, employer and customer self-service capabilities do not exist. Inability of individuals and managers to access information and make decisions when it is convenient for them (via the Internet). ○ Inability to process out-of-state payroll taxes. 	Age Group	Percentage	Age 0-9	0.2%	Age 10-19	0.1%	Age 20-29	11.5%	Age 30-39	24.4%	Age 40-49	31.9%	Age 50-59	26.9%	Age 60-69	5.1%	<p><i>Risk of payroll system failure resulting in delayed payments to over 80,000 state employees.</i></p> <p><i>The new HR/Payroll solution will replace the PMIS, Central Payroll, and DOT Payroll systems which currently provide payroll for 80,000 state employees.</i></p> <p><i>The risks associated with the current systems will increase each year until the outdated systems are replaced.</i></p>
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SBIP – HR/PAYROLL PROJECT – ACCOMPLISHMENTS TO DATE (PHASES 1 & 2)	
<p>Session Law 2004-129 appropriated \$2.7 million dollars from the IT Fund to OSC to begin implementing the recommendations in the Statewide Business Infrastructure Study. The Program Steering Committee (PSC) allocated the monies from Session Law 2004-129 as follows: HR/Payroll Planning Project - \$1.8 million, Data Warehousing Planning Project - \$900,000.</p> <p>Since November 2004, the HR/Payroll Planning project has gathered HR and Payroll requirements for a system replacement and initiated a business process re-engineering approach across state agencies. Phase 1 activities included:</p> <ul style="list-style-type: none"> ❖ Documented new system requirements/specifications including process, function, data, security, and other technical requirements ❖ Identified and reviewed current business processes to recommend new re-engineered business processes to better prepare for implementation ❖ Identified as-is HR/payroll interfaces and performed high level to-be interface design ❖ Identified requirements for application security, controls, minimum desktop and application bandwidth ❖ Documented a high level interface design depicting the relationship between an HR/Payroll ERP solution and external/internal interfaces ❖ Confirmed the approach for the HR/Payroll replacement strategy (all functionality by agency). <p>Following the successful completion of Phase 1 planning activities, the project moved into Phase 2 procurement activities. The requirements gathered from Phase 1 were subsequently used as input to a formal bidding process for a systems integrator. Since fall of 2005, the following activities have been accomplished:</p> <ul style="list-style-type: none"> ❖ Confirmed the software solution approach to leverage existing state licenses with SAP. Negotiations for software were completed in late September 2005. ❖ Completed the procurement process and contract negotiations for selecting a systems integrator, BearingPoint, in March 2006. ❖ Developed a College Internship Program involving three area universities: NCCU, NCSU, and UNC ❖ Began development of SBIP HR/Payroll Program Office <ul style="list-style-type: none"> ○ Establish project positions and transition current staff into new project roles ○ Hire remaining project roles ❖ Plan for project team space requirements <ul style="list-style-type: none"> ○ Leased building space to support a multi-year project site ○ Training facilities/Shared services center ❖ Began implementation planning 	<p><i>Total expenditures for Phase 1 of the HR/Payroll Project were \$1,323,892 (Session Law 2004-129)</i></p> <p><i>Total expenditures for Phase 2 (through December 2005) of the HR/Payroll Project are \$13,229,433 (Session Law 2004-129)</i></p>
SBIP – HR/PAYROLL PROJECT – OBJECTIVES AND TIMELINE (PHASE 3)	
<p>Implementation objectives include:</p> <ul style="list-style-type: none"> ❖ Install the HR and Payroll SAP software and develop associated business processes and reports ❖ Provide a secure and reliable system that meets current and future user needs ❖ Implement the system with minimal disruption to ongoing business operations ❖ Ensure focus on organizational change management (readiness, work transformation, and system/process acceptance) including the transformation of the current DOT Payroll, Central Payroll and PMIS organizations ❖ Develop the business processes around the system's strengths, rather than the system around current business processes ❖ Provide training for the project team, technical users and end-users ❖ Enable state staff members to support and maintain the system on an ongoing basis ❖ Provide strong technical infrastructure for future innovations and scalability ❖ Provide regular communication to all stakeholders ❖ Establish statewide standard processes that are based on recognized best business practices 	



SBIP – HR/PAYROLL PROJECT LOGISTICS

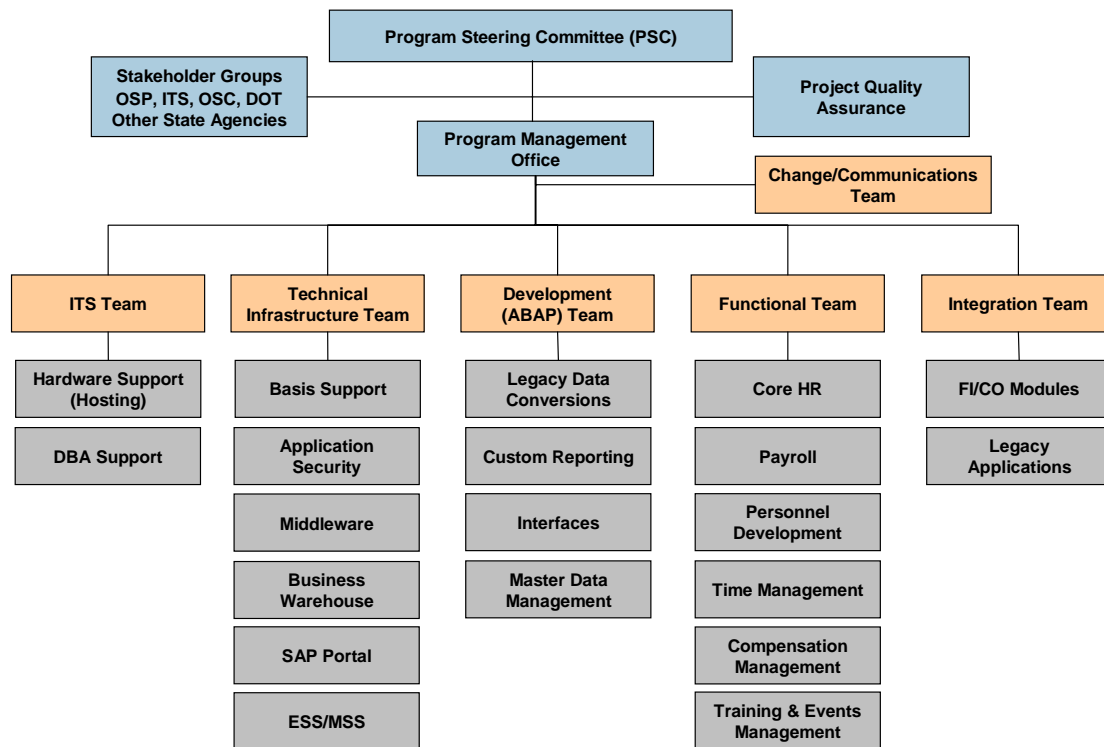
SBIP is currently being housed in the Office of the State Controller (OSC). By April, OSC space will no longer be sufficient. Approval was granted by the Council of State in early February to move forward in leasing additional space adjacent to the current OSC facility. There are four planned phases to fully utilize all existing and new space:

- ❖ Phase I – Interim plan for utilization of OSC building to ramp up SBIP HR/Payroll Team (current).
- ❖ Phase II – Occupy space in adjacent building for SBIP HR/Payroll Team.
- ❖ Phase III – Refit OSC building to support training and conference needs for SBIP and OSC.
- ❖ Phase IV – Future plan for HR/Payroll Shared Service Center and finance implementation.

SBIP – HR/PAYROLL PROJECT CONTRACTS

A number of contracts have been created to move forward with the project in the areas of software, training, and staffing:

- ❖ SAP Software Contract – The SAP Software contract was completed in late September 2005. This contract creates the foundation for implementing the HR/Payroll replacement systems as well as statewide financials.
- ❖ Training Contract (SAP Pcard) – The SAP Pcard contract was completed in December 2005. This contract provides an overall bank of hours for SAP training for state core project team members who will be implementing the system. The first session of project team training was held in late January 2006.
- ❖ State Staffing Contracts – In order to minimize risk, three new team members have been hired under contracts as active team members. These three team members combined bring thirty-one years of SAP implementation experience. Moving forward, there will be a minimal number of additional staffing contracts. The three contracted staff positions are: Program Director, Deputy Program Director, and Technical Infrastructure Lead.
- ❖ Systems Integrator Contract – BearingPoint was selected to work with the state implementation team to install, configure, test, roll-out, and provide knowledge transfer on the new application.

SBIP – HR/PAYROLL PROJECT STAFFING

Throughout the length of the project, there will be approximately 110 project team members comprised of both vendor and state employees. Nearly half of the project team members will be state employees. These team members will be working in a number of project teams within the implementation organization (pictured above). SBIP is committed to building the project team from existing state staff. Some duplication of resources will be needed over the course of the project to ensure minimal disruption to on-going operations while building the new infrastructure. The following two staffing tracks are planned for implementation activities:

1. Current Support Staff: Central Payroll, DOT Payroll, and PMIS Staff will continue working with legacy applications until the new HR/Payroll modules on SAP are rolled out.
2. Implementation Team: The Implementation Team will be comprised of both state and vendor staff. This team will work closely with subject matter experts throughout state agencies as well as the current support staff team members. As the implementation comes to a close, state employees that are a part of the Implementation Team will eventually move forward into roles supporting the new system or preparing for the next planned project implementation for financials.

A key component of the Implementation Team is knowledge transfer from the selected vendor to state staff. SBIP intends to closely match the staffing between the integrator and the state team as early as possible to ensure a high level of knowledge transfer throughout the length of the project. This plan minimizes risks and provides adequate time for the State to prepare to run the new infrastructure independently.

SBIP – HR/PAYROLL CHANGE ACTIVITIES

In order to support a new environment for the state infrastructure, a number of change activities will take place during implementation to ensure adoption success including:

- ❖ Job Impact Analysis: The job impact analysis will identify the jobs impacted by the project, the types of changes the job roles will experience, and the degree of impact these changes will cause. Corresponding job roles and responsibilities will be developed to support the new infrastructure. This assessment will be carried out based on the results of the process redesign workshops during Business Blueprint sessions.
- ❖ Workforce Transition Plan: The workforce transition plan will be produced as a result of examining how the various job classifications will be impacted by the implementation of the SBIP HR/Payroll System and associated improved business processes. The plan will address the nature and timing of transition activities, such as targeted training and management preparation sessions in order to transition state personnel from current to future state.

As part of the implementation activities, a Shared Services Center will be created to support the infrastructure moving forward. This center will be comprised of state staff currently working with the legacy systems as well as positions from the Implementation Team that will not move forward into the financials implementation.

As the project moves forward, the State will be in a better position to identify and realize efficiencies resulting from the HR/Payroll project. We know there will be organizational change. We believe that the attrition and retirement rates combined with the organizational alignment will mitigate the impact of the new infrastructure. It will be the combined effort of state agencies that ultimately contributes to the success of the project.

SBIP – HR/PAYROLL PROJECT BUDGET

- ❖ HR/Payroll 2005-2006 appropriation: \$20,875,000
- ❖ Estimated HR/Payroll expenses through June 30, 2006: \$20,373,784
- ❖ Estimated HR/Payroll 2006-2007 appropriation request: \$41,788,403
- ❖ Full estimated cost for HR/Payroll: \$132,210,932
- ❖ The HR/Payroll Project Budget can be found in the appendix.

Program information can be accessed on the SBIP website: http://www.ncosc.net/SBIP/SBIP_Index.html.

Operating Cost Approximations for HR-Payroll Implementation For Planning Purposes								
Categories	Year 1 FY05-06	Year 2 FY06-07	Year 3 FY07-08	Year 4 FY08-09	Year 5 FY09-10	Year 6 FY10-11	Year 7 FY11-12	Total
1 Application Software	10,925,193	250,000	-	-	-	-	-	11,175,193
2 Application Hardware	560,000	1,000,000	-	-	-	-	-	1,560,000
3 Integration, Training, Data Services	2,348,292	26,727,960	15,315,210	-	-	-	-	44,391,462
4 State Implementation Staffing	1,207,685	4,355,736	4,355,736	-	-	-	-	9,919,157
5 Other Contracted Services	1,845,796	5,215,000	2,811,000	-	-	-	-	9,871,796
6 Project Team Operations	234,852	67,400	67,400	-	-	-	-	369,652
7 Service Center Development	652,000	1,330,000	415,000	-	-	-	-	2,397,000
	17,773,818	38,946,096	22,964,346	-	-	-	-	79,684,260
8 Application Software Maintenance	1,874,807	1,874,807	1,924,807	1,937,287	1,937,287	1,937,287	1,937,287	13,423,569
9 State Support Staffing	-	-	-	4,355,736	4,355,736	4,355,736	4,355,736	17,422,944
10 Ongoing Operating Expenses	168,375	542,500	542,500	542,500	542,500	542,500	542,500	3,423,375
11 ITS Data Center Charges	1,058,000	2,950,000	2,950,000	2,950,000	2,950,000	2,950,000	2,950,000	18,758,000
	3,101,182	5,367,307	5,417,307	9,785,523	9,785,523	9,785,523	9,785,523	53,027,888
TOTALS	\$ 20,875,000	\$ 44,313,403	\$ 28,381,653	\$ 9,785,523	\$ 9,785,523	\$ 9,785,523	\$ 9,785,523	132,712,148
Original Estimate (March 2005)	\$ 20,875,000	\$ 51,405,000	\$ 26,470,000	\$ 8,930,000	\$ 7,610,000	\$ 7,610,000	\$ 7,610,000	\$ 130,510,000
Difference	\$ -	\$ (7,091,597)	\$ 1,911,653	\$ 855,523	\$ 2,175,523	\$ 2,175,523	\$ 2,175,523	\$ 2,202,148
Funding Recurring		\$ 2,525,000	\$ 2,525,000	\$ 2,525,000	\$ 2,525,000	\$ 2,525,000	\$ 2,525,000	
Remaining Expansion Requests		\$ 41,788,403	\$ 25,856,653	\$ 7,260,523	\$ 7,260,523	\$ 7,260,523	\$ 7,260,523	\$ 96,687,148