

FY 2015-16 Supplemental IT Capital Construction Request

Personnel and Administration Collections System Replacement

Motion:

Approve the change in scope and reduction in cash fund spending authority for the Department of Personnel and Administration's Collections System Replacement project.

GENERAL INFORMATION

2016-038

1. Which supplemental criterion does the request meet?

New Data

The Department of Personnel and Administration (DPA) is requesting a reduction in cash fund spending authority along with an adjustment in scope for the Collections System Replacement project. The department has identified a more cost-effective solution for the project.

2. Which projects will be restricted to fund the supplemental request?

No restriction is necessary because this is not an emergency supplemental request.

3. Has the request been approved by OSPB?

Yes

PRIOR APPROPRIATION AND SUPPLEMENTAL REQUEST INFORMATION

The appropriation to be amended was authorized in the following bill: SB 15-234

<u>Fund Source</u>	<u>Prior Appropriations</u>	<u>Supplemental Request</u>	<u>Future Requests</u>	<u>Total Cost</u>
CF	\$13,911,135	(\$11,811,135)	\$0	\$2,100,000
	\$13,911,135	(\$11,811,135)	\$0	\$2,100,000

REASON FOR SUPPLEMENTAL REQUEST

DPA is requesting an adjustment in scope for its Collections System Replacement project. In FY 2015-16, the committee approved \$13.9 million in cash fund spending authority for the project. The department now plans to implement a more cost-effective, pre-built solution for its collections IT system. By changing the scope of the project, the department says it will avoid additional costs associated with the initial system that relied on an unstable revenue source. The department plans to have the new system implemented by December 31, 2018.

In addition, the department states that the original \$13.9 million appropriation can be reduced to \$2.1 million cash fund spending authority. This includes \$1.5 million already paid to the previous vendor, CGI, along with \$400,000 needed to implement the new solution.

Ongoing operating and maintenance costs are projected to be between \$60,000 and \$120,000 per year. The department says these costs will be paid through existing operating budget appropriations, as they are equivalent to the existing annual costs for the system being replaced.

FY 2015-16 Supplemental IT Capital Construction Request

Personnel and Administration Collections System Replacement

Motion: Approve the change in scope and reduction in cash fund spending authority for the Department of Personnel and Administration's Collections System Replacement project.

SUMMARY OF PROJECT

The new pre-built system will automate the accounting entries and actions that are necessary to successfully manage the large volume of collections-related processing completed by the Central Collections Program. The department says the new system will reduce the need for manual intervention in the overall collections process and create system efficiencies. The project, originally scheduled to be completed in March 2017, is expected to be completed by December 31, 2018.

In FY 2015-16, the department initially requested to replace the existing Columbia Ultimate Business Solutions (CUBS) system used by the department's Central Collections Program with a vendor-hosted system. In the initial request, the department noted that the existing CUBS system is more than 25 years old, is based on outdated and unsustainable hardware, and does not interface well with the state's CORE financial system. During initial work on the project, the department learned that the revenue generated by the vendor-hosted solution was inadequate to support the project. Therefore, the department notified CGI that it would no longer proceed with the project as planned. Based on new market research, the department is confident that a new, less costly, pre-built option will suit the needs of the project.

QUESTIONS / OUTSTANDING ISSUES

1. The project was originally appropriated funds in FY 2015-16. At the time the budget request was approved by the JTC, the project was estimated to be completed by March 2017. Has work been completed to date on the project? If not, why not? If so, please explain in detail and include the amount already expended or encumbered on the project.

The original project was halted in phase 1, and was not completed. The original contract was based on a self-funding model in which the vendor would be paid from collections of incremental revenue. The project was divided into two phases. Phase 1 was to implement capabilities to accelerate the generation of revenue early in the project allowing the State to begin collecting additional fees with which to pay for the project. Phase 2 was to be the full implementation of Advantage Collections.

On February 3, 2017, the State Controller notified the vendor, CGI, that the State of Colorado would not proceed with Phase 2 of the project. On December 31, 2015, when the contract was executed between the State of Colorado and CGI, both parties believed revenue from Central Collections Services (CCS) was stable and would serve as a base to grow revenue with the initiatives set forth in Phase 1. As revenue was recorded early in 2016, it was apparent that revenue was not stable, and in fact, was shrinking. With CGI's assistance, the State implemented various actions to turn the situation around, and the revenue did increase in subsequent months, but in the Fall 2016, it became clear that CCS would be unable to meet the revenue requirements included in the contract. The self-funding model would not work for CCS.

The State has paid CGI a total of \$1,541,806 for Phase 1 of the project. Since the contract was performance based there are no funds encumbered on the project.

2. The letter dated August 7, 2017, indicates that market research was conducted in Spring 2017. Please provide any relevant information related to such market research. Was market research previously conducted on the project? If so, did the previous market research identify any pre-built options? If not, why not?

The CCS conducted a Request for Information (RFI) on March 28, 2017. The RFI was seeking information regarding third party, in-house or government collections systems. The RFI provided a detailed background of payment posting, reconciliation, financial reporting and other various functionalities CCS was interested in a new system to provide. The RFI provided a list of business and technical requirements.

FY 2015-16 Supplemental IT Capital Construction Request

Personnel and Administration Collections System Replacement

Motion: Approve the change in scope and reduction in cash fund spending authority for the Department of Personnel and Administration's Collections System Replacement project.

CCS received a response from eight vendors. In addition to the response, the vendors also provided a brief demonstration of their system to a few CCS collections and accounting staff to ensure the systems would meet the business and technical needs required by CCS.

In regards to market research previously conducted, no formal market research, such as an RFI, was previously conducted prior to posting the Request for Proposal. Market research at a much higher level was completed before requesting funding for the original option. However, the level of detail, such as including technical specifications, was not done before the RFP was released.

3. In the original request, the department stated that a commercial-off-the-shelf (COTS) system was inefficient to meet the department's needs. Why does the department believe a pre-built option now suits its needs?

The Department believes that the proper market research was not conducted prior to the original request. The Department has hired a new Director of Collections, who has extensive knowledge in collections, has a variety of experience with numerous collections systems and was part of the group in CCS who reviewed the demonstrations of the vendors who responded to the RFI. Utilizing the RFI process, and through the responses received, the department is confident there are pre-built options that suits the needs of CCS.

After reviewing responses to the RFI, the State learned that there essentially two types of third party commercial collection systems. One is for large scale collections used by states that collect debts for all state agencies and handle high volume, complex collections. The State of Kentucky is an example of this model. The second is for collection situations with lower volume and less complexity. The pricing for the first type of collection system is substantially higher than the pricing for the second type of collection system. CCS's needs can be met with the second type of collection system.

4. Please explain how the original \$13.9 million cost was estimated. Does DPA believe the original \$13.9 million appropriation can be reduced to reflect the new cost? If so, by what amount could the original \$13.9 million be reduced? What is the source of funds to be used to pay for the new \$400,000 solution?

The original \$13.9 million included capital costs of \$7.2 million plus \$6.7 million of operating costs for 4 years (about \$1.67 million per year). At the time of the contract, it was estimated that incremental revenues would be sufficient to pay for the capital costs and operating costs after four years.

The original \$13.9 million appropriation can be reduced by \$11,800,000. Total amount in the appropriation should be \$2,100,000, the amount already paid to CGI, \$1.5 million and the \$400,000 in capital would be needed for the new solution, plus contingency and OIT project management costs. Ongoing costs are projected between \$60,000 and \$120,000 per year, and will be included in CCS operating expense appropriation.

The funding source to pay for the new solution would remain the same, the excess cash fund revenue received in CCS.

5. What is the new estimated completion date for the project? Spending authority for the project currently ceases on June 30, 2018. How much additional time is needed for the extension (one year, two years, or three years)? Please justify.

If the request for the scope change is approved by the Committee, the Department anticipates having a new solution implemented by December 31, 2018. The project will be fully encumbered by June 30, 2018, and therefore the extension of the timeline will be for six months, as currently allowed under fiscal procedures.



COLORADO
Executive Director's Office
Department of Personnel
& Administration

August 7, 2017

Senator Beth Martinez Humenik, Chair
Joint Technology Committee
200 East Colfax
Denver, CO 80203

Dear Senator Martinez Humenik,

Following an assessment of collection system functionality and costs, the Department of Personnel & Administration has determined that an adjustment in the type of system implemented is needed to support the Central Collections Services program and minimize costs to the State. Pursuant to SB 17-0239, the Department is seeking approval from the Joint Technology Committee for this adjustment in scope and extension of the project timeline that will allow for the implementation of a substantially more cost effective, yet more capable, collections system for the Department's Central Collection Services.

Market research completed in the Spring of 2017 indicated that several pre-built options that would suit the needs of the Department's Central Collections Services exist. The Department anticipates that the best solution will range from \$350,000 to \$400,000 with between \$60,000 and \$120,000 in ongoing maintenance annually based on responses to an RFI. The Department's original appropriation to implement a collections system was for \$13,911,135 in cash funds spending authority, and was structured as a performance contract where all costs for purchase, implementation, maintenance and ongoing upgrades were to be paid out of additional revenue generated by the new system. The adjustment to the project will have no impact to the Department's operating budget, as ongoing maintenance cost for the proposed solution are equivalent to the annual costs that support the outdated system the Department is seeking to replace.

The Department believes that approving this scope change will avoid the additional costs associated with a system that was not best suited to the business model of Central Collections Services while still providing the program with the critical functionality needed.

Sincerely,

A handwritten signature in blue ink that reads "June Taylor".

June Taylor
Executive Director
Department of Personnel & Administration

Cc:

Representative Jonathan Singer, Joint Technology Committee, Vice Chair
Representative Dan Pabon, Joint Technology Committee



Representative Dan Thurlow, Joint Technology Committee
Senator Angela Williams, Joint Technology Committee
Senator Jack Tate, Joint Technology Committee
Matthew Becker, Joint Technology Committee, Staff
Alfredo Kemm, Joint Budget Committee, Staff
Henry Sobanet, Office of State Planning and Budgeting, Director
Jason Schrock, Office of State Planning and Budgeting, Deputy Director
Cassie Rutter, Office of State Planning and Budgeting, Staff

