



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT
Employment First State for Individuals with Disabilities

ROY COOPER
GOVERNOR

CHARLES PERUSSE
STATE BUDGET DIRECTOR

August 10, 2020

MEMORANDUM

TO: Senator Phil Berger, President Pro-Tempore of the Senate
Representative Tim Moore, Speaker of the House of Representatives

FROM: Charles Perusse, State Budget Director *Charles Perusse*

SUBJECT: Department of Administration Deviation Reporting/ Consultation

The Office of State Budget and Management (OSBM), as required by G.S. 143C-6-4(b)(3)(b1), must consult with the Joint Legislative Commission on Governmental Operations when a department's certified budget is expected to be exceeded by more than three percent (3%).

Please see the attached report regarding the Department of Administration's Special Fund deviation for FY 2020 due to the eProcurement upgrade.

If you have questions, please contact me by email to charles.perusse@osbm.nc.gov.

Attachment

REQUEST TO DEVIATE UNDER G.S. 143C-6-4(b)(3)(b1):

(b1) Prior consultation with Governmental Operations is required when the over expenditure would cause a department's total requirements for a fund to exceed the department's certified budget for a fiscal year for that fund by more than three percent (3%) prior to authorizing the overexpenditures.

DEPARTMENT: Administration
FISCAL YEAR: 2019-20
Date: 30-Jun-20
Budget Revision #: 12-107

Date Reported: 8/10/20

GASB 1200 - Special Budget Code	Certified Requirements	3% Deviation Threshold	Amount of the Overexpenditure Request	Amount the Request Exceeds the Deviation Threshold
24100	\$ 29,439,278	\$ 883,178	\$ 2,221,499	\$ 1,338,321
24102	\$ 575,688	\$ 17,271	\$ -	\$ (17,271)
24105	\$ 4,357,068	\$ 130,712	\$ -	\$ (130,712)
54100	\$ -	\$ -	\$ -	\$ -
64100	\$ 10,681	\$ 320	\$ -	\$ (320)
64115	\$ -	\$ -	\$ -	\$ -
74103	\$ 2,071,602	\$ 62,148	\$ -	\$ (62,148)
	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -
Fund Type Total	\$ 36,454,317	\$ 1,093,630	\$ 2,221,499.00	\$ 1,127,869

JUSTIFICATION FOR REQUEST:

G.S.143C-6-4.(b1) requires reporting an overexpenditure that would cause a department's total requirements for a Fund to exceed the department's certified budget by 3% for a fiscal year.

OSBM was initially notified of the overexpenditure by the Department after the expenditure had already occurred. OSBM approved the attached budget revision to budget funds on July 21, 2020 for the reasons listed in the OSBM remarks section.

We are working with DOA to properly budget these funds and appreciate FRD's partnership and role in making sure the General Assembly does its part to appropriate the funds.

Independent of this situation, and as an FYI, we are making adjustments to our process to ensure better, more accurate budgeting of all special funds statewide for the next base budget (FY 2021-23).

Instructions: REQUEST TO DEVIATE UNDER G.S. 143C-6-4

1. Department

Enter the department/agency name.

2. Fiscal Year

Enter the current fiscal year.

3. Date

Enter the current date.

4. Budget Revision #

Enter the budget revision number for the over expenditure request from the IBIS system.

5. Budget Code

Enter all of the agency budget codes for the requested fund type only (general fund, special fund, etc.)

6. Certified Requirements

Enter the current certified requirements for the budget code as reflected on the BD 701 report.

7. 3% Deviation Threshold

This is calculated as 3% of the Certified Requirements. These figures will be calculated automatically for each budget code.

8. Amount of the Overexpenditure Request

Enter the amount of the overexpenditure request. This figure should represent the amount requested on the budget revision.

9. Amount Over Deviation Threshold

This is the total amount of the current request over the 3% Threshold. This figure will be calculated automatically. If the figure is not greater than zero, no consultation is required.

10. Submit the completed form to your Budget Analyst in the Office of State Budget and Management for consultation with the Joint Legislative Commission on Governmental Operations.

OPERATING BUDGET REVISION - 2514 REALIGN FOR JUNE 2020 USING FUND BALANCE

Status: Approved

Fiscal Year: 2019-2020
Status: Approved
Department/Agency: Department of Administration
BRU: Department of Administration
Budget Code: 24100 - Administration - Special Fund
Title: 2514 Realign for June 2020 using Fund Balance
Journal Entry Number: N/A

Reference Number: 12-0107
Revision Type: 12
Effective Date: 06/29/2020
Approval Date: 06/29/2020
Recurrence: Non-recurring
Included in Base Budget: No
Ibis ID: WPEK

Statutory: No
Special Provision: No
Lapsed Salary: No
One-time Salary Change: No
Carry Forward: No

New Grant: No
Change to Existing Grant: No
Over-realized Departmental Receipts: No
Realignment: Yes
Program Restructure: No
Other: No

Justification: Purchase and Contract is requesting to use fund balance to cover the 2 negatives that are showing for June 2020 close out. This fund is for the E-Procurement project upgrade as the funds were not appropriated and we are using the fund balance to cover the difference needed. Historically, we have been able to use cash balance for projects that are in the special revenue fund classification. Recent legislation has mandated that we get this appropriated but DOA was already involved in the project, so no appropriation has taken place. This fund is an on-going project for the E-Procurement upgrade. This has also been an ongoing discussion with OSBM leadership with the recent development of the new definition of appropriation.

OSBM Remarks: DOA started the discussion of undergoing procurement transformation in 2011. In 2013 the Department of Administration was tasked with completing a study of upgrading the system and presented to the General Assembly: [North Carolina e-Procurement Fee and Vendor Contract Report](#). This report led to legislation and funding authorization to proceed with the system upgrade paid by an electronic fee on purchases authorized under G.S. 66-58.12(b).

The old system was costly to maintain (annual fee to Accenture was in the millions); it was out of date (not going to be supported by the vendor); and didn't provide the functionality needed for procurement transformation as envisioned in the 2013 report.

Last year, DOA reported to the General Assembly that they were going to go ahead with the purchase of the new system. The General Assembly supported the effort by appropriating funds requested by the Department during the 2019 Session of the General Assembly, as shown in the Joint Committee Report accompanying Ratified House Bill 966, which did not become law. On March 6, 2020 the Joint Oversight Committee on General Government heard about the urgent need for funding related to this project and members were very supportive of the project. The impression from that meeting was that the General Assembly would address the funding of this project during their 2020 short session. However, the General Assembly failed to take action on this item during both their COVID-19 session and during their more traditional short session.

Due to the urgency of the project and the state's need for a functional procurement system, funds were budgeted under the authority in G.S. 143C-6-4 in order to provide the state with a functioning procurement system. It was an unforeseen circumstance that the General Assembly would fail to take action before the end of the fiscal year after they had signaled their intent to do so.

Requirements

Fund Code	Cost Center	Account Number	Account Description	Amount (2019-20)	Amount (2020-21)	Annualized Amount	Authorized Budget (2019-20)	Authorized Budget (2020-21)
2514		532140	OTH INFORMATION TECH SVCS	\$1,564,097.00	\$0.00	\$0.00	\$8,809,730.00	\$9,017,424.00
2514		532148	APPLICATION DEVELOPMENT	\$657,402.00	\$0.00	\$0.00	\$8,907,925.00	\$0.00

Summary

	Amount (2019-20)	Amount (2020-21)	Annualized Amount
Total Requirements	\$2,221,499.00	\$0.00	\$0.00
Total Receipts	\$0.00	\$0.00	\$0.00
Change in Fund Balance	(\$2,221,499.00)	\$0.00	\$0.00

Budget Overview

Requirements						
Fund Code	Account Number	Account Description	Amount (2019-20)	Amount (2020-21)	Authorized Budget (2019-20)	Authorized Budget (2020-21)
2514	532140	OTH INFORMATION TECH SVCS	\$1,564,097.00	\$0.00	\$8,809,730.00	\$9,017,424.00
2514	532148	APPLICATION DEVELOPMENT	\$657,402.00	\$0.00	\$8,907,925.00	\$0.00
Fund(2514)Totals			\$2,221,499.00	\$0.00	\$17,717,655.00	\$9,017,424.00

Attachments

Name	Type	Size	Date	Uploaded By
\\12-0107.docx	application/vnd.openxmlformats-officedocument.wordprocessingml.document	575954 Bytes	7/6/20	Joy Hultgren

AUDIT INFORMATION

Created by Joy Hultgren on 07/06/2020 09:02 AM
Submitted by Prentice Hunt on 07/07/2020 16:15 PM
Revised by Mercidee Benton on 07/21/2020 09:44 AM
Validated by Mercidee Benton on 07/21/2020 10:02 AM
Approved by Mercidee Benton on 07/21/2020 10:02 AM

Contextual Explanation of eProcurement Upgrade Budget Overruns

Submitted by:

Odessa McGlown, SPO

August 5, 2020

The eProcurement account (2514) has planned expenditures exceeding \$30,000,000 over three fiscal years (SFY 2019-2021) to support normal operations and delivery of a very complex technological upgrade. The planned upgrade moves the entire suite of SAP products and all ancillary services from an on-premise platform to cloud infrastructure. With a technology project of this magnitude and complexity, one would expect to have unanticipated costs – some necessary to meet the project's scope, while others to maintain operational functionality for various user groups.

The purpose of this document is to provide a contextual explanation of the account's charges that caused the account to exceed its annual budget of \$17,016,310 by \$2,221,487 (13% over budget).

1. Invoices were not paid in the year incurred:

Vendor	Amount	Invoice Date	Date Paid	Comments
EOS CCA	1886.11	6/16/2019	7/08/2019	Invoices mailed to DOA Fiscal, then forwarded to P&C. Delayed approval and processing by P&C.
EOS CCA	1860.49	5/31/2019	7/08/2019	
PRESIDIO NETWORKED SOLUTIONS	2,070.90	6/21/2019	7/17/2019	
SAP PUBLIC SERVICES	664,587.90	5/28/2019	7/2/2019	Invoice mailed to the Controller's Office, then re-routed to DOA Fiscal. Delayed approval and processing by P&C.
SAP PUBLIC SERVICES	34,444.80	6/11/2019	7/8/2018	
ARIBA INCORPORATED	292,400.00	6/26/2019	7/8/2019	Received two workdays before the end of the fiscal year.
Total	\$997, 250.20			

This chart shows provides evidence that the budget was at least \$997,000 short before any charges for the 2020 fiscal year were received. The actual figure, according to Joy is \$998, 004.

2. COVID-19 delay:

There was feedback from the State's user base that May 26th created a problem because of significant pressures resulting from the response to the COVID-19 virus and the resulting remote working situation. The planned go live date scheduled for May 26, 2020 would result in additional hardship for agency and community college staff already struggling with these pressures. The SPO made the decision on April 6, 2020 that in order to address entity concerns, the go-live date would be moved from May 26, 2020 to July 1, 2020. This change request therefore extended the upgrade timeline to a new go-live date of July 1, 2020, which allowed the State to focus on the COVID-19 response now and have resources sufficiently engaged to support a later successful system implementation.

Impact to the budget from COVID-19 delays were \$250,000 (Accenture) + \$292,000 (SAP Professional Services) = **\$542,000**

3. Unanticipated Project Costs:

This project does not represent a typical upgrade. A typical upgrade scenario would not include updating the base system, adding supporting applications, updating ancillary systems, moving all operational services to the cloud, changing the commodity codes, integrating with 100+ ERPs, and integrating and reinterpreting over 700 customized functions, while maintaining current operations in the old system.

With so many moving parts, it is impossible to anticipate and plan every modification. Each unanticipated modification presented an unexpected budget increase. The upgrade team assessed each opportunity and provided relevant information for the SPO to make an informed business decision. Considering time, costs, consultant resources, and budget constraints, the SPO's decisions were based on sound business need for P&C and all State eProcurement users. For example:

- Commodity codes: The State uses NIGP codes. UNSPSC codes are germane to the SAP Ariba application. If the state chose to continue with NIGP codes, there would be an additional annual fee for use of the NIGP codes and an operational fee for maintaining the codes, the crosswalk table, and the interface with multiple ERP systems. The SPO decided to transition the UNSPSC codes to reduce the future cost burden and to provide a more detailed code set to better inform reporting and planning. Costs incurred included the purchase of UNSPSC codes (\$1,200), NIGP codes (\$18,083) and a crosswalk table (\$4,250). All updates to UNSPSC codes are included in the SAP/Ariba subscription. Total: **\$23,533**
- Customizations: The on-premise instance of Ariba buyer was highly customized to meet the needs of various entity business requirements. On-premise customizations were completed and maintained by the Operations Provider. Customizations in the cloud version are performed by SAP. Customization packets are purchased in sets of five for \$13,500 each. The initial rollout of Buyer removed functionality that Community

Colleges needed to reconcile payments within their numerous ERPs. To mitigate their issue and provide the needed functionality, additional customization packets had to be purchased. Total: **\$27,000**

- Sourcing Licenses: Sourcing and Contracts, along with Buyer, provides visibility into the entire procurement process. The suite increases user accountability during the sourcing phase and meets contract management expectations. The eProcurement System follows a self-funding business model; therefore, the system pays access fees for all users. No charge backs to agencies are ever contemplated in the current model. To avail the Sourcing application to all users before configuration, testing, and training, additional licenses were purchased. Total: **\$552,000**
- eBusiness Capability: The Ariba suite provides “work anywhere” capability that is partially enabled by electronic signatures. DocuSign licenses were purchased to accommodate this capability. Total: **\$5,000**

Overruns resulting from invoices not paid in the fiscal year incurred, COVID-19 delays, and unanticipated project costs total \$2,146,783. As mentioned earlier, the budget also supported normal operations. During normal operations the fund pays for data center space and equipment maintenance, lock boxes for payments, miscellaneous DIT charges, hardware, software subscriptions for billing, etc. to support eProcurement business needs. Many of these items were pushed to the current fiscal year to avoid greater overruns, undoubtedly creating the opportunity for overruns in the current fiscal year.

The project will be completed and returned to normal operations by November 2020. However, from today until November 2020, the State will operate two systems – one on-premise and one in the cloud.

Since recurring on-premise charges will not be eliminated or reduced until March-June 2021, overruns are contemplated. Additionally, expected project charges that may cause overruns include:

- DIT’s move of backup services to the Amazon cloud
- GDAC implementation and maintenance
- Additional users in Sourcing and/or Contracts
- Changes to IPS
- Additional modifications to eVP

A temporary increase in the budget for SFY 2021 to allow for planned and unanticipated project costs is requested.