Office of the State Auditor's Review
of the Department of Finance and Management's
Implementation of Project VISION

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I. SUMMARY

Vermont, over the past five years, has spent nearly $125 million for various hardware and software packages to deliver services more efficiently around the State. The latest undertaking, Project VISION, when fully implemented will provide the State with a comprehensive, integrated financial management system replacing a system that has been in operation for over 20 years. Project VISION is scheduled to go live on July 2, 2001. Given the state-wide impact of this project and the amount of state funds being spent, the State Auditor initiated a high level review of the project to assess the status of the implementation and make recommendations to improve its implementation and operation before the system goes live.

A summary of the findings and recommendations resulting from the review follows.

The Big Picture

While a review of Vermont's overall policies on information and technology was beyond the scope of this review, the environment in which Project VISION is being developed is an indicator of a state-wide issue affecting all information technology projects around the State.

Technology around the State has historically been delegated to individual agencies and departments. The same is true for the Project VISION. The Department of Finance and Management has been responsible for the project with very little involvement from the State's Chief Information Officer (CIO). While this review of Project VISION indicates that it has, for the most part, been successful within the current framework, other technology projects have not been as successful resulting in systems that, upon activation, have not worked properly and budgets that have been significantly exceeded.

Additionally, because of scant resources, the CIO has been unable to approach information and technology as an enterprise-wide issue, and is therefore unable to assure compatibility and integration for hardware and software on a statewide basis. Thus it is left to individual agencies and departments to address compatibility and integration issues when implementing new technology.

The State could improve accountability and responsiveness in this area by following the lead of other states and private businesses. Vermont may wish to:

- Develop a Strategic Information Management Plan to coordinate information technology development throughout the State that promotes citizen access, information sharing, and improved government performance. Although the CIO prepares a five-year information technology plan currently, the plan focuses almost exclusively on simply cataloguing each department's capital plans and budgets.

- Provide additional resources for the office of information technology to enable it to act as the overall enterprise architect for carrying out the Plan. The office should have the authority, within the framework of the Plan, to identify statewide priorities, cut across departments to implement them, and evaluate results with performance measurements. The office should be properly staffed with qualified technical personnel retained with competitive compensation.

- Utilize the considerable leadership and expertise of Vermont's business leaders in the fields of information and technology. The State has a number of established and emerging companies whose experts have demonstrated vision and best practices in the IT field. Using the Governor's Council of Economic Advisors as a model, Vermont should tap this wealth of expertise to assist in developing and implementing the Plan, and to assure that Vermont develops infrastructure and policies that nurture IT- related economic development opportunities.

- Increase legislative capability for independent analysis and evaluation of the Plan, budget, and performance measures for IT systems.

Implementing such steps will help improve the information technology landscape around the State and help keep technology projects on time and on budget. Additionally the Legislature and the Administration may wish to study and strengthen the CIO's involvement in future statewide informational technology projects.

Project VISION

Vermont's General Assembly has long sought to move Vermont to a full encumbrance financial management system to properly account for and track the business of State Government. The benefits are many. A new system will improve historical record keeping and provide a solid base for forecasting and budgeting at a time when the State must respond to changes in a dynamic fiscal environment. A new financial system will provide reporting and accounting functions that meet Generally Accepted Accounting Principles (GAAP). It will provide on-line budget development and better access to data and information. A new system will improve strategic planning and performance-based decision-making. The old system brought on in 1979, is outdated, fragmented, and difficult to use.

The project, named the Vermont Integrated Solution for Information and Organizational Needs (VISION), will replace the State's existing financial information system called FMIS. The Department of Finance and Management (Department), after conducting a research and 'request for proposal' phase[1] selected Arthur Andersen to implement a PeopleSoft based application at a total cost to the State of Vermont of approximately $20 million.[2] The new financial information system is scheduled to go on line, without a parallel or backup system, on July 2, 2001. In addition to PeopleSoft, the State is implementing Legacy Solutions' Budget Preparation module to address budgeting needs.

[1] See Appendix A – A Brief History of Project VISION.
[2] See Appendix B – Project VISION Budget provided by the Department of Finance and Management.

It will import actual financial data from VISION and personnel information from the HRMS system. This budget module will be implemented for the development of the FY 2003 budget.

The major findings noted as a result of the review are as follows:

Strengths: A 'Vanilla Design'; A Dedicated Staff

The review revealed several positive findings and a few weaknesses associated with the implementation of the system. The strengths include:

- The Department has established a strong foundation for success by building a diverse team from across State Government that is well versed in the needed functions of their home agencies and the limitations of the existing FMIS system.[3]

- The Department has chosen a 'vanilla design' that minimizes data conversion and system customization and therefore, potential problems.[4]

- The Department has implemented a website and a comprehensive schedule of classes to inform and train users.

- The Department appears to have implemented the project to date within its budget.

Pre-activation and Post-activation Risks:

Despite its strengths, the Project VISION implementation carries with it many risks. The risks identified are as follows:

- The 'go live date' for the system is July 2nd. No provision has been made for the operation of a backup or a parallel system after that date. Accordingly, it is imperative that the system be properly tested and ready for operation before that date.

  While testing is going on currently, the July 2nd schedule does not allow any room for error in the vitally important areas of system testing and integration testing. The lack of such testing means the project date approaches without adequate assurances in place that the system will function properly on the start date. Furthermore, interface testing will not be completed until sometime during June. Interface testing is used to ensure that other existing State systems are appropriately processing data to and from VISION. The significant remaining

[3] See Appendix C – VISION Team and Steering Committee Members, May 2001.
[4] See Appendix D – A description of the functions or modules contained in PeopleSoft's software suite for Education and Government (E&G) version 7.5.

interface testing to be completed includes certain interfaces at the Department of Personnel and the Agencies of Human Services and Transportation.

- While the Department has set up a comprehensive schedule of training, our review indicated that user roles and assignments are not clear, and key employees do not understand security protocols. In addition, key staff members must return to their respective agencies to perform the annual closeout, and contractor technical support ends in August 2001.

- The Department must continue to work with the Agencies to help them identify how their current business practices and workflows will map to the VISION system. These practices and workflows are critical to the Agencies' processing of financial transactions. Since the analysis by Agencies has not begun, users are not confident that they will be able to adopt business processes to VISION and, because of this, it is unclear whether Agencies will be able to take full advantage of VISION's capabilities.

A small window of opportunity remains to fully train key employees and to correct issues that may arise from unit, system or interface testing. Should either human or technical errors persist at the time of start up, they could cause serious problems in reporting and processing. These problems could include difficulty in processing grant reimbursements, recording accounts receivable, and generating vendor payments.

On-Going Challenges: Maintaining the Effort; Adopting Best Practices

In addition to the risks cited above, the State, even after the July 2nd 'go-live date', must continue to work on improving this and future systems. Items to note include the following.

- Additional components, such as disaster recovery, backup plans, asset inventory procedures, new operating procedures and a VISION user manual have not been finalized and must be developed on a timely basis.

- The implementation team should continue to work on a plan for meeting the standard reporting requirements and the specialized reporting needs of individual agencies.

- Vermont's organizational structure for the management of future information technology systems should be reconsidered in light of the lack of involvement by the CIO in this project. The role of steering committees in future projects should also be assessed.

- The Administration and the Department have not addressed the problems associated with the transition to an encumbrance-based accounting system. As reported in our recent audit of state's FY 2000 financial statements, $70 million of bills for goods and services received during FY 2000 were paid for from FY 2001 appropriations. Under the new system, when departments move FY 2001 bills forward to FY 2002 for payment, funds will be deducted from FY 2002 spending authority. And each FY 2002 invoice will be deducted at the time the funds are encumbered, creating a shortfall within affected departments at the end of the year.

II. STATEMENT OF WORK AND LIMITATIONS

The Office of the State Auditor contracted with KPMG to assist the Office in conducting a high level assessment of the Department of Finance and Management's implementation of its new financial management information system. This assessment was conducted to identify strengths, risks, and to offer recommendations to improve the project with the goal of assisting the successful implementation of VISION.

This report is based solely upon representations of, and information provided by, the Department of Finance and Management, its staff and additional VISION users from other State agencies. We reviewed project documentation provided by the Department, including executed contracts and amendments, subcontracts, Department organizational charts, Project organizational charts, projected budget and expenditures, and VISION's training course catalog. The team also attended a training session and interviewed individuals from the Department, the Project and other State agencies. Our observations rely on the information provided and are dependent on the quality of this information. No further validation was made available to us.

The State has contracted with Arthur Andersen for VISION's implementation. Due to Arthur Andersen's role as the primary contractor on this project our Office wanted to meet with them to discuss their opinions of the project status. It is important to note, however, the contractor was not willing to participate in this review process.

III. OBSERVATIONS

Strengths of Project VISION

The Project VISION team has made several appropriate key decisions early on in its planning process to implement the new PeopleSoft application. We have outlined certain of these key decisions below:

- The Project team structure follows a classic project management design. The Department has selected team members from a cross-section of many State agencies and each functional area has been assigned both an Andersen and State lead. State staff members chosen to be part of the Project appear well versed in their responsibilities at their home agencies and are familiar with the State's current FMIS system that VISION will replace.

- The Department's decision to convert the minimum amount of data necessary should be commended. Many system implementations become unmanageable due to extensive data conversion. The Department was determined to keep data conversion at a minimum, and has undertaken efforts to cleanse the data being converted to ensure accuracy.

- PeopleSoft is a proven application and in and of itself should perform well. In general, modifications to a system such as PeopleSoft by a customer increase the potential for problems during implementation. As they did with data conversion, the State appropriately chose to keep enhancements to the application to a minimum. It is commendable that a project of this scale would have few proposed modifications.

- The Project has created a Project VISION homepage to communicate Project information. This home page is a great avenue for delivering Project information. However, most of the information provided on this page is of a scheduling nature. The Project and agencies could further benefit from this resource if it was used as a way to disseminate critical information (i.e. bulletins, policies, and new procedures) that agencies should be made aware of. Furthermore, at the time we reviewed the page it had not been updated in six weeks.

- To date, the Department indicated that is has kept the project within $10,000 of its projected budget of $19.3 million.

IV. DETAILED FINDINGS AND RECOMMENDATIONS

Our review has identified several issues that may pose a threat to the successful implementation of VISION. These are grouped into three categories: A) "Risks to Going Live," which pertain to the system's readiness for going live on July 2, 2001; B) "Risks to Early Operation," which will affect successful operation of the new system in its initial months; and C) "Ongoing Challenges," which will influence the systems ability to evolve to meet future needs.

IV. A. Risks to Going Live

These findings point to areas that have the potential to keep the system from functioning on the start-up date. They thus deserve high priority.

Finding 1: The Department still has critical testing to complete prior to implementation on July 2nd.

The Department has completed unit testing in most functions of VISION except for grants. VISION functions allow users to perform specific activities such as processing accounts payable, recording accounts receivable and managing fixed assets. Unit testing helps ensure that functions perform their intended activity.

However, at the time our review was conducted (three months prior to the July 2 implementation date) the Department had not completed full system testing to ensure that all functions have been integrated properly. Furthermore, according to the VISION schedule, interface testing will not be completed until sometime in June. Interface testing is used to ensure that other State information systems are appropriately processing data to and from VISION. The significant interface testing that remains to be completed includes: the State's payroll system housed within the Department of Personnel, and mainframe systems operating within the following departments; the Departments of Employment and Training, Social and Rehabilitation Services and Prevention, Assistance, Transition and Health Access benefit programs; and the Agency of Transportation.

This leaves very little time to correct issues that may arise out of the remaining unit, system or interface testing. Problems may occur in processing and reporting activities including processing grant reimbursements, recording accounts receivable, and generating vendor payments if the system is not correctly integrated.

> **Recommendation 1:** **The Department should speed up its testing processes and assure that adequate resources are dedicated to testing and necessary software and configuration changes before July 2, 2001.**

Department of Finance and Management's Response:

Project VISION has created a comprehensive testing plan that incorporates all aspect of the application both technically and functionally. The execution of the testing strategy begins early on during the project, and each testing phase builds upon the previous activities, which creates a more thorough testing for each phase.

Project VISION testing began during the early phase of Prototyping (July 2000). During this part of the project, the team tested the defined requirements and processes (from the SRR) and the developed "To-Be processes. The information was incorporated into PeopleSoft and scenarios where executed to test the conceptual design. Once the conceptual design was confirmed and validated, the project team began to define the values based upon the conceptual design and the prototype testing. A number of Business Units (State Departments and Agencies) were created based upon the design and a number of scripts were developed and tested to ensure that the defined business design was functional (October 2000). During these activities, the technical team began to test connectivity as well as monitoring the performance of the application. Once the Business Process simulation was tested and confirmed the team created the configuration of the system. This included the entire configuration settings and options that needed to be created in PeopleSoft. Once the system had been created the team developed test scripts to test the individual modules, this is known as Unit *testing (March 2001). Scripts where created to test the functionality of the software, which where based upon the configuration options, and defined elements created in the system. The team created different business scenarios that are prevalent throughout the State (departments, agencies, business functions, etc.). Although full system testing (Integration testing) has not yet been conducted, due to the nature of the software and the tight integration of each module, this testing does ensure that options and elements have been configured properly, e.g. Budget Checking. Budget (Appropriations) are created in the General Ledger, but they are tested throughout the applications POs can to be created unless budget dollars exist. Purchasing and Accounts Payable; POs are created in Purchasing but require information that has been established and created in Accounts Payable (vendors) and General Ledger (Appropriations). Furthermore, project VISION unit testing approach is dependent upon functions created from other modules. For example, a PO that is created in Purchasing is then matched in Accounts Payable with a Voucher. The technical team at this juncture has developed and begun testing of conversion, interface and modifications programs. These programs are tested within their own environments and will be integrated once tested and approved. Once the unit testing has been confirmed and the initial testing of conversions, modifications and interfaces have been conducted, the team moves into what is know as the Transition Phase (April 2001).*

The Transition Phase is when all aspects of the application are configured to meet the entire State's business and functional requirements, inclusive of converted data, interface feeds, modifications and security. Security testing is conducted at the early stage of transition to ensure all elements of the application are incorporated in the software and to ensure that security operates properly (May 2001). Although System Testing (Integration Testing) is conducted for only a month (June 2001), as stated above the inclusive and compounded testing which is conducted throughout the project ensure that the system is functioning properly. This testing is more of a validation where the project team tests actual State transactions, (PO's Vouchers, Transfers, etc.). Project VISION will also be conducting User Acceptance testing, by bringing in user from departments and agencies to test actual business scripts. The team will also be conducting integration testing with the project team by utilizing actual transaction from the State. Transactions are validated with the information that has been loaded into the application, through conversion and interfaces. Users of the system are also utilizing their own security ID's to ensure that access and the information accessible is associated with the security rights.

<u>Finding 2:</u> Mapping of account codes from FMIS and Agency financial systems to VISIONS codes has not been completed and disseminated.

The Department, in conjunction with State agencies, has created a new chart of accounts to be used in VISION. However, a cross-walk from FMIS account codes to VISION account codes has not been widely distributed and Agencies have not prepared crosswalks of their own account codes to the new VISION account codes. Cross-walks promote the consistent treatment for all transactions and will help to ensure the accuracy and consistency of financial reporting.

> **Recommendation 2: The Department and all State Agencies should complete a cross-walk that maps Department/Agency FMIS account codes to the new VISION account codes by early June 2001.**

Department of Finance and Management's Response:

We agree completely that the cross-walk between the old chart of accounts is a very important tool to assure consistent use of the new chart of accounts. The project team recognized this need months ago and therefore established early June of 2001 as a target date for distribution to State agencies. Early June was chosen because the COA would not be finalized until then. Departments and Agencies over the past few weeks have had the need to make minor changes to their original submissions.

In addition to a cross-walk for the COA, we will be providing, at a later date a cross-walk for Vendors, Contracts, Commodities and BGS Customers. We have not been able to finalize these additional crosswalks because new members will only be assigned at the time of final conversion. Final conversion is scheduled for the week of June 18th.

Finding 3: The application of standardized user roles among Agency staff has not been consistent and is a prerequisite for system security and integrity.

Security for VISION has not been standardized and as a result may have gaps. The first step in establishing security in this application is to define standardized roles that allow users access to specified panels. The Project team is responsible for setting up standardized user roles, however, it was determined that in some instances Project staff did not apply these roles consistently throughout the functional areas. Agency business managers are assigning staff members to standardized roles. Inconsistent roles, and staff not familiar with system security could be in a position to breach the security of the system.

The Department should re-assess how each Project team defined the standardized roles as outlined in their security documents. This will help ensure that standardized roles allow for a requisite level of security. Furthermore, a central authority will need to review system wide security to ensure that agency business managers have identified role assignments that are compatible with users' functional responsibility at the agency.

In addition, Agencies are required to set operator preferences after standardized roles have been set. Preferences allow users to perform certain actions (e.g., create a voucher, approve a voucher, modify a voucher, delete a voucher) on each panel that they have access to based on their standardized role. Many agency staff that are expected to assign these operator preferences may not have the in-depth understanding of system security and segregation of duties required to determine these preferences. This lack of understanding among individuals assigning preferences may compromise system security.

> **Recommendation 3: Responsibility for security decisions needs to be clarified, and consistent application of security practices needs detailed review before July 2, 2001.**

Department of Finance and Management's Response:

A consistent methodology was employed to establish standardized security roles by application module. All user roles were unit tested and team signoff was obtained. During detailed planning meetings, cross-module access requirements were carefully considered and additional cross-module classes were established. These are to be layered into user profiles at the appropriate time. These additional security classes primarily affect the FINOPS users.

Security documentation and a security roles overview was presented to Business Managers at a mandatory meeting held on April 24, 2001. An introduction to the topics of operator preferences and workflow was also given

A security access request form has been prepared on behalf of each VISION user by their respective Business Manager. Currently, appropriate security settings (including operator preferences) for these users are being entered into the system by the Project VISION team. Key individuals called Preference Administrators have been identified within each Agency/Department. These individuals will maintain operator preferences for their Agency/Department's users on a go forward basis. Comprehensive Operator Preference documentation is scheduled to be circulated on June 1, 2001.

Finding 4: Back up and recovery planning is incomplete.

The Department has recently begun its back-up and recovery planning. However, we are concerned that a fully functional and tested back-up and recovery system will not be in place by the projected July 2, 2001 go-live date. In the event that VISION is compromised as the result of a disaster, the State may have difficulty processing financial transactions including vendor payments and accounts receivable.

> **Recommendation 4: The Department must ensure that back-up and recovery plan testing is completed as soon as possible. Additionally,**

the Department should provide for an independent assessment of all disaster recovery and backup plans.

Department of Finance and Management's Response:

Project VISION does agree with this finding. The development effort has produced a standard procedure that has been used to backup all of the servers for the project. This procedure is being monitored for time and fine tuned to ensure best practices are followed for back up and recovery. In addition, the department has included an independent assessment of back up and recovery through the Technology Risk Consulting (TRC) practice within Arthur Andersen (AA). They are completing a review that includes an audit controls (business process) review, Disaster Recovery Plan (DRP) and security review to be sure that the system modifications, change process, controls and processes meet generally accepted auditing standards. This independent review includes review of the backup and recovery procedures.

The VISION infrastructure is located at a state data center operated by the Communication and Information Technology (CIT) division of the Department of General Services. CIT has just completed and assessment of its facilities as part of a disaster recovery planning effort for departments conducted by LBL. Because their schedule would not provide for a plan before July 1, the Department of Finance and Management included a Disaster Recovery Plan as a deliverable from AA. As part of developing this plan TRC reviewed the risk assessment conducted by LBL and reaffirmed the findings. The Disaster Recovery Plan is scheduled for completion by mid-June, 2001; prior to 'go-live'.

The State also enlisted the services of Hewlett-Packard (HP) representatives to review the production environment and level of service maintenance appropriate for this environment. They completed an "HP Operations Checkup, Critical Support System Review" that matches state availability needs to current operations and support requirements.

IV. B. Risks to Early Operation

These findings relate to issues that may affect smooth functioning in the early months of operation. We suggest that responsibilities in these areas be assigned to one or more managers who are not involved in those key milestones required for the system to go live.

Finding 5: Training is not yet adequate.

The Department has dedicated significant resources to training both end-users and agency trainers. However, some of these users and agency trainers do not feel confident in their ability to operate the system effective July 2, 2001. The "train the trainer" Program selects agency users, trains them in different functional areas of the application and expects them to assist agency users experiencing trouble. During interviews, some of the VISION participants indicated they were not comfortable with the system themselves and felt they would not be able to train or assist others. Although the Department provided initial training to users, at the time of our review, the Department did not have a defined schedule for training users who missed their originally scheduled training courses, on-going training of new employees, supplemental training, and refresher courses.

As a result of a lack of training, users may have difficulty processing transactions including vendor payments, grant reimbursements, and accounts receivable. This will also have a direct impact upon the timeliness and accuracy of financial reporting.

> **Recommendation 5:** **Gaps in training should be filled so that users are as comfortable as possible with the system upon implementation. There should also be concrete plans for ongoing training after July 2nd.**

Department of Finance and Management's Response:

Project VISIONS feels strongly that training has been more then adequate to assure the accurate and timely processing of transactions once we go live. We have taken a very aggressive approach to training all end users and we have provided a training ground called "Sandbox" with tailored security that reflects what each end user will be doing at go-live. A significant number of our "train the trainers" have become very proficient with VISION and are currently being utilized as trainers in the class room. These "train the trainers" along with other VISION team members, Arthur Andersen Staff and a four person help desk will be available to assist end users at go live.

For post go live training, we have identified the trainers and we have identified that these classes will begin in mid to late August. We have the training materials designed and we have the class rooms available. We have not identified which classes will be offered first. This decision will be made after go live base on help desk calls and other feedback from end users. We want to make sure we are responsive to those areas of the system that require additional training first.

Finding 6: **Adequate technical user support is not yet in place.**

Technical support of the system by the Department's contractor will end in August 2001. While a contract option exists to extend this support, the Department expects that it will be able to support the system on its own. To make this possible, additional resources need to be identified, including a sufficiently trained help desk staff. The Department has begun to recruit help desk and other system support staff, but has not completed its search. Hiring this staff as soon as possible is critical to ensure the transfer of system knowledge between the Department's contractor and newly hired Department IT staff. This is particularly important if new staff have little or no familiarity with the VISION system. Additionally, hiring staff with appropriate skills may take significant time due to the current job market.

> <u>Recommendation 6:</u> **Hiring and training of ongoing technical and end user support staff needs to be given high priority.**

Department of Finance and Management's Response:

The State agrees with this finding and has taken the following steps. The department of Finance and Administration did not have a separate Information Technology unit. Arthur Andersen reviewed the technology needs to support People Soft and made recommendations for a structure that would serve the organization. The job descriptions were written and submitted to the department of Personnel for review following State procedure. All parties understood the importance of these positions and the review and so the classification process was prioritized by Personnel. In addition, the department was allowed to recruit for these positions while they were being reviewed. It is important to note that the State has a generic series of IT positions under continuous recruitment and the department was using these titles within the new organization.

Because of the priority given to the technical and HELP desk personnel we have one staff member hired who will begin working June 4th and are prepared to offer another candidate a position after references are checked in the next day or so. Recruitment for the HELP desk positions ends May 25th. Some team members have expressed an interest in these positions and, if selected, will come to these positions already trained in the PeopleSoft software.

One current staff member of Financial Operations will assume one Help Desk Analyst position and she has completed training and will be working with the team part time starting next week.

Knowledge transfer plans are being developed with staff and tasks identified to be sure the State is prepared to support these systems. Technical staff from Arthur Anderson are not scheduled to leave at 'go-live'; i.e. on or around July 3rd. In fact, cutover plans and post-implementation staffing plans are being developed to insure an orderly and gradual decrease of Arthur Anderson activity over the course of the first three months.

<u>**Finding 7:**</u> **Transition planning for project team members is needed.**

Many Project staff are fiscal managers at various agencies and must return to their departments in early July to ensure the timely and accurate year-end close of the fiscal year. We are concerned that staff will not be able to easily leave the Project at that juncture. No matter how smooth the transition from FMIS to VISION, its successful implementation will require more than a skeleton crew at the Project VISION office for a period of time after the system goes live. Implementations of this magnitude frequently require additional resources immediately after going live.

> **<u>Recommendation 7:</u> The Department should create a transition plan identifying when agencies expect staff on loan to the VISION Project staff to return to their home departments. This plan should determine whether sufficient people remain available to the Project, or whether additional staff must be added.**

Department of Finance and Management's Response:

This point will be addressed in 3 components, based on the explanation of audit finding #7:

July Timeframe –

A key project requirement is that the consultant (Andersen) support the production system for a period of two months.

In addition, Andersen submitted a draft Resource Transition Plan to the State's Management Team during the week of May 7th. The Transition Plan outlines Andersen team members' pre and post-July time frame. The Plan accounts for normal 'go live' support and includes, but is not limited to: finalizing any remaining functional, technical and change enablement knowledge transfer items and providing expertise to Help Desk questions that cannot be answered by Help Desk staff.

During the week of May 14th, Andersen facilitated a 'go live' and ' project close' brainstorming session with the State's Management Team and the Commissioner of Finance and Management. Effective State and Financial Operations' transition planning and related activities were priorities 5 and 4 respectively, out of a total of 10 'go live' action plan items. In regard to the July timeframe point, the State's Transition Plan activities include: syncing up the Andersen and State Transition Plan, mitigating support resource risks and having proactive discussions with team members' Supervisors regarding department 're-entry' and any time needed for VISION support.

Post 'go live' Support
Separate from Help Desk support, VISION will promote and ask the users to refer to the following for effective system support: VISION's on-line library, customized VISION procedure manuals, local Trainers and Technical Liaisons and VISION's web site for frequently asked questions.

In addition, the State is working through how other groups can be organized to informally provide post 'go live' support. These groups include but are not limited to VISION Functional Liaisons, Business Managers, Advisory Groups and User Groups.

Personnel Transitions

As part of VISION's Transition Plan, activities such as project debriefs and celebrations will help support team members' individual transitions. Going from a full-time VISION role to a department-specific role calls for marking the end of the old role and beginning of the new one.

Finding 8: Agencies have not identified how their current business practices will be mapped to the new VISION practices.

The Department has analyzed its Financial Operations division's business processes and "…has revamped its organizational structure to ensure an optimal use of internal resources of the new system." In its VISION Preparation Guide the Department has instructed State agencies to do the same only after they have become "…accustomed to the new system and to the way of doing various finance related tasks…". These work flows are critical to the agencies' processing of financial transactions. Since this analysis has not begun, users are not confident that they will be able to adopt business processes to VISION and we are not confident that they will take full advantage of VISION's capabilities. Assisting Agencies in making use of available information such as flow charts of the VISION business processes may alleviate some anxieties in the Agencies, and help ensure that they are taking full advantage of the system.

> **Recommendation 8: The Department should proactively work with the Agencies to help them identify how their current business practices will map to the VISION system.**

Department of Finance and Management's Response:

The project contract included defining a new organization structure, including translating new business processes into operating procedures, determining new role and responsibility implications and other key related activities. Andersen worked with the State in October of 2000 to define the scope of this work. The joint team Project Management Office, along with the Change Management and Training Team determined that a full analysis of the current and future Financial Operations organization would be completed. For the remaining agencies/departments, a higher level review of the key process impacts would be communicated in the form of numerous meetings and training courses, communications (including process map reviews) and the Preparation Guide, as referenced in the Audit Report.

Since February of 2000, Andersen has supported the State's position to provide all of the information, tools and process change information to the agencies in order for them to be aware of, own and take the necessary steps to effectively work with the new system and Financial Operations.

Some departments have conveyed that the steps noted above have enabled them to reorganize their respective financial organizations. Other departments are going to *work the new processes, understand how this will impact their areas and then effectively reorganize. It typically takes anywhere from 6-8 months to fully realize the benefits of a new system and related processes.*

The VISION Team is in the process of delivering extensive end-user training in the form of customized "courses". These courses were designed around the new business processes that will evolve as a result of the implementation. The course materials were customized to reflect how "real world" transactions will be processed using the new system. Further, all of the instructors have a working knowledge of how the new practices relate to the existing ones, and take the time in class to point out the significant differences. Department specific questions are welcome and often addresses immediately.

Finding 9: **The Department has not fully specified and communicated many of the changes to documentation procedures that come with VISION**.

The Department is establishing a new policy that its Finance Operations' unit will no longer require agency submission of backup documentation for transactions, but will sample audit records to ensure compliance with this directive. Without standards that outline the documentation that must be kept on file at their offices, agencies are concerned that if audited they will be found non-compliant. Furthermore, the Department should evaluate what other changes to operating procedures need to be standardized across the State and then issue documentation supporting these changes. In those cases where it has been determined that it is the Agency's responsibility to develop the operating procedures, the Department should issue guidance on "best practices".

> **Recommendation 9:** **The Department needs to establish clear backup documentation requirements that agencies are expected to follow.**

Department of Finance and Management's Response:

We are in full agreement where there is a change in policy such as the retention of records, very clear expectations need to be documented and distributed to agencies. Project VISION has been identifying these areas since the beginning of the project and has been formulating policies and procedures for each. A target date of early June 2002 for distribution was identified early on in the project. These policies have just passed their final stage of review and have been forwarded to the Agency Secretary for final approval.

<u>Finding 10:</u> Asset management and inventory procedures are not yet clear and complete.

The State's new asset management policy as detailed in the Agency of Administration's Bulletin No. 1 of April 1, 2001, defines classifications of capital assets, infrastructure assets, non-depreciated assets, and other general guidelines. The Department has not

provided agencies with detailed physical inventory procedures. As a result, the State cannot ensure that all agencies have conducted a satisfactory physical inventory.

> **<u>Recommendation 10:</u> The Department should create detailed asset management procedures to be adhered to by all State agencies reporting in VISION. Additional details such as the date the annual inventory must be completed by and repercussions for not completing the inventory should be strongly communicated.**

Department of Finance and Management's Response:

The purpose of the Asset Management Policy is to establish the general guidelines for Agencies and Departments to use for management of their assets. Project VISION purposefully left the details out of the policy because they will be included in the yearly close-out instructions that are produced by Financial Operations and distributed to all Agencies and Departments.

<u>Finding 11:</u> VISION user documentation is incomplete.

The Department has not prepared a comprehensive VISION user procedural manual for agencies' use. The only VISION user documentation currently available are procedural guides and the on-line help. This is insufficient since user roles may change and no single repository of procedures will be available for their use when changing roles. Additional materials such as FAQ sheets, quick reference cards, and troubleshooting guides should supplement an operations manual.

> **<u>Recommendation 11:</u> The Department should make available comprehensive documentation of all functional areas of the VISION system.**

Department of Finance and Management's Response:

The VISION project has prepared comprehensive user procedure documentation. End User Guides have been developed for every functional area of the VISION system as well as for all functional maintenance processes (e.g. Chart of Accounts updates, *Vendor Maintenance, etc). These materials are distributed in each of the training courses thereby creating a customized manual for each user. The guides serve dual roles of training guides and end user procedures. By utilizing the procedures documents in training, end users are better prepared to use them once the system is live because they are familiar with their format and content. The entire collection of User Guides is maintained on the VISION server and can be made available to departments upon request.*

In addition to the End User Guides, the VISION team has customized a detailed Online Library (OLL) of all the system processes and procedures including detailed field level descriptions on each of the screens in the system. The OLL also contains troubleshooting tips. The OLL is accessible directly from the VISION application and provides context sensitive user help. The end user training also includes content on accessing the OLL. While the primary access to the OLL is specific to the system screen the user is working on, it contains comprehensive system-wide procedures that all users may access at any time.

In addition to the comprehensive materials above, binders containing mouse pads with shortcuts and a laminated quick reference card were distributed to all system users attending training. The project has also distributed a VISION preparation guide statewide. This guide included VISION basics, impact overviews and responses to frequently asked questions.

Prior to July 1, the project will be distributing a documentation checklist to every department that outlines all available documentation, how it is used, and how it can be accessed. We will then work with the departments to ensure that they have a copy of or access to the necessary materials when VISION goes live. All user materials will be maintained in a central repository after go live.

Finding 12: Reporting requirements are not yet met.

Report production requirements have been categorized by priority. Priority one reports are expected to be functional by July 2, 2001, priority two reports are expected by the end of July, priority three reports are expected by the end of the first quarter and priority four reports are expected by the end of calendar year 2001. In total, the Department plans on designing approximately 52 standard reports. As of this review, the Department had drafted only priority one reports. Several users have expressed concern that they will not be able to get the reports they need at the agency level.

> **Recommendation 12: The Department should create a plan and schedule for meeting both standard reporting requirements and the specialized reporting needs of individual agencies.**

Department of Finance and Management's Response:

A detailed report development approach and plan currently exists to manage the design and development of all reports that fall within the scope of the VISION project as *outlined in Exhibit 3 – Task Descriptions Section 10 on page 48 of the contract. This includes the 52 prioritized SRR standard defined reports, and FOCUS reports from the various state departments. The reporting approach is provided in document "RPSVT1AL0002 (Reporting Approach).doc"; and a reporting inventory plan summary is outlined in document "RPSVT1ALT002 (Report Inventory Plan).doc" These documents provide a clear outline of the reporting plan for the completion of the VISION defined required reports.*

IV. C. Ongoing Challenges

Once VISION is in place and stable more general issues of ongoing oversight will need attention.

Finding 13: The role and authority of the VISION Steering Committee needs to be clarified.

The Project VISION Steering Committee, established in 1995, has served primarily as an advisory body on system development, and has no decision-making authority. Having decision-making power vested in this body would likely enhance the ongoing evolution of VISION to meet existing and emerging needs.

> **Recommendation 13: The Department should empower the Steering Committee to have a more active role in decision making in the continuing development of VISION.**

Department of Finance and Management's Response:

Project VISION has made the decision that the current Steering Committee will dissolve soon after go live. Project VISION has also made the decision to establish Advisory Groups that will consist of members of the current project team and members of the current Steering Committee. In addition Project VISION will be establishing and supporting User Groups. User Groups will be made up primarily of end users. These two groups will work with the Department of Finance and Management in making decision around VISION.

Finding 14: The role of Vermont's CIO needs to be clarified and strengthened.

The State's Chief Information Officer (CIO) has not been actively involved in monitoring Project VISION. The CIO's office consists of two employees, and as a result of limited staffing and authority has played a very small role in VISION's implementation. Many states have CIO offices that are responsible for actively participating and providing oversight on technology projects of this scope and significance. These oversight agencies' exposure to various technology projects allows them to assist in the prevention of both short and long-term problems.

> **Recommendation 14: The State should provide the CIO with the authority and necessary resources to allow the office to take a more active role in the ongoing development of the VISION system.**

Department of Finance and Management's Response:

Not applicable to Project VISION.

Finding 15: The Administration and the Department have not addressed the spending authority problems created by moving to an encumbrance based accounting system.

The Administration and the Department have not addressed the problems associated with the transition to an encumbrance based accounting system. As reported in our recent audit of the State's FY 2000 financial statements, $70 million of bills for goods and services received during FY 2000 were paid for from FY 2001 appropriations. Under the new system, when departments move FY 2001 bills forward to FY 2002 for payment, funds will be deducted from FY 2002 spending authority. And each FY 2002 invoice will be deducted at the time the funds are encumbered, creating a shortfall within affected departments at the end of the year.

> **Recommendation 15: The Administration and the Department should plan and prepare for the spending authority problems created by transitioning to an encumbrance based accounting system.**

Department of Finance and Management's Response:

See attached memo to Appropriation Chairs Bartlett and Westman.

Please see Appendix E for May 1, 2001 letter from Elizabeth Ready, State Auditor, to Appropriation Chairs Bartlett and Westman. This letter is referred to in Kathleen C. Hoyt's, Secretary of Administration, May 11, 2001 letter (also included in Appendix E) to the Appropriation Chairs referenced in the Department's response.

V. AREAS FOR FURTHER CONSIDERATION

During our review of Project VISION we found certain areas that should be addressed to further assist the Department in a successful implementation of VISION. We will *consider these areas of concern as our Office develops its work plans for the coming fiscal year and work with the Department of Finance and Management to help the state realize VISION's full potential.*

- The Department, in conjunction with State agencies, has created a new chart of accounts to be used in VISION and HRMS. Our Office will closely review a cross-walk of these accounts to FMIS accounts to ensure that financial reporting will be adequate and consistent.

- In order to comply with GASB #34, the State is implementing procedures to record and track fixed assets greater than $5,000. Our Office will conduct an audit of fixed assets reported to ensure that information reported adheres to GASB #34.

- The Department has populated several areas of VISION with converted data from other systems including FMIS. Our Office will validate the data brought into the new system to ensure data integrity.

- There is no centralized security protocol and controls such as segregation of duties have not been emphasized. Our Office will further review end-user security of standardized roles, assignments and preferences of VISION to ensure that system security has not been compromised.

- The VISION project does not have a fixed budget due to the establishment of a bill-back provision. The full details of the appropriations, contracts and payments, and staff time and effort, etc., will be reviewed so that the total cost of the Project may be verified.

- As a part of the implementation of VISION the State is converting from a cash to an accrual basis of accounting. This conversion may impact financial reporting, budgeting, and processing which has not been fully analyzed. Our Office will work with the Department in the future to fully analyze and understand these implications so that financial reporting, budgeting, and processing is recorded appropriately and in accordance with generally accepted accounting principles.

Appendix A

A Brief History of Project VISION	
August 1995	Steering Committee formed to oversee the design and implementation of a new statewide financial management system. (See list below)
August 1996	RFP issued for a project director to oversee all phases of planning, requirements definition and system selection for a new financial management system.
January 1997	RFP issued for a needs assessment for new finance system.
June 1997	Contract signed with Deloitte & Touche to conduct needs assessment.
Summer 1997	Representatives from all branches and levels of state government participated in workshops to define requirements and needs of new finance system.
January 1998	System Requirements Report published.
March 1998	RFP issued for software and implementation services.
August 1998	RFP reissued for software and implementation services.
April 1999	RFQ issued for independent review (as required by IRMAC policy) of Arthur Andersen's proposal to implement new finance system.
May 1999	Contract signed with Berry, Dunn, McNeil & Parker for an independent review of Arthur Andersen's proposal to implement new finance system.
July 1999	Independent review of Arthur Andersen's proposal to implement new finance system completed.
January 2000	Contract signed with Arthur Andersen to assist the state in the design and implementation of new Statewide Financial Management Information System using PeopleSoft Software for Education and Government version 7.5.
July 2001	Planned "go-live" date for new system.

Appendix B

Project VISION Budget provided by the Department of Finance and Management

Appendix C

Project VISION Team Members May 2001		
Name	**Title**	**Department**
Nancy Clermont	Project VISION Sponsor	Finance and Management
Brad Ferland	Director, Project VISION	Buildings & General Services
Larry Masterson	Functional Team Manager	Finance and Management
Dave Lawlor	Financials, Procurement, Budgeting	Finance and Management
Marlene McIntyre	Financials, Interfaces	Finance and Management
Nancy Collins	Financials, Procurement, Budgeting	Finance and Management
Peter Ryan	Financials, Grants, Budgeting	Education
Peter Noyes	Procurement Team Leader	Buildings & General Services
Joan Stewart	Financials, Purchasing	Corrections
Patricia Russell	Purchasing	Purchasing
Amy Choquette	Purchasing	Agency of Transportation
Norm Desrochers	Purchasing	Agency of Transportation
Michelle Domingue	Financials, Projects, Budgeting	Agency of Transportation
Beth Wimble	Financials, Procurement, Budgeting	Buildings & General Services
Kathy Fisher	Financials, Grants, Budgeting	Commerce & Community Development
Karen Jaquish	Financials, Grants, Budgeting	Agency of Human Services
Skip Perkins	Financials, Treasury, Budgeting	Treasurer's Office
Helen Weed	Accounts Payable, Grants	Agency of Natural Resources
Gary Leach	Financials Grants	Health
Margaret Ciechanowicz	Technical Team Manger Secretary	Prevention, Assistance, Transition & Health Access
John Morris	Application Support Analyst	Finance and Management
Rachel Stanger	Application Support Analyst	Finance and Management
Jeana Malachowski	Database Administrator	Finance and Management
Laura Morse	Network & Unix Systems Administrator	Finance and Management
Otto Trautz	Budget Team Leader	Finance and Management

Project VISION
Steering Committee Members
May 2001

Name	Title	Department
Brad Ferland	Director	Buildings and General Services
Nancy Clermont	Co-Chair, Deputy Commissioner	Finance and Management
Larry Masterson	Co-Chair, Director of Financial Operations	Finance and Management
Otto Trautz	Director of Budget and Management	Finance and Management
Eric Nadler	Director of GAAP Management	Finance and Management
Pat Urban	Chief Information Officer	Agency of Administration
Bob West	Assistant CIO	Agency of Administration
Hale Ritchie	Acting Director of Administration	Agency of Natural Resources
Charlene Allard	Business Administrator	Employment and Training
Ellen Hemond	Financial Administrator	Agency of Transportation
Lynda Bullard	IT Director	Tax
Sandy Barton	Business Manager	BISHCA
Bob Greemore	Director Administrative Services	Judiciary
John Carpenter	IT Director	Personnel
David Beatty	Accounting and Audit Specialist	Office of the State Auditor
Margaret Ciechanowicz	IT Manager	Prevention, Assistance, Transition and Health Access
Ted Nelson	Business Manager	Public Safety
Lucy Macaskill	Grants Management Specialist	Housing and Community Affairs
Kathy Flanagan	Accountant	Education
Tom Sandretto	Deputy Commissioner	Buildings and General Services
Glenn Gershaneck	Deputy Secretary	Agency of Administration
Andrew Pallito		
Jim Giffin	Business Manager	Aging and Disabilities
Alternates		
Mark Davis	Business Manager	Mental Health & Retardation
Glenn Austin	Auditor B	Office of the State Auditor
Carol Harrison	Business Manager	Court Administrator’s Office
Dan Fine	Systems Developer	Office of the State Treasurer
Leo Clark	Business Manager	Tax
Carma Choiniere	Chief of Operations	Agency of Transportation

Appendix D

VISION's accounting and budgeting system will replace FMIS and Project VISION plans to implement the Financial and Distribution modules contained within PeopleSoft's software suite for Education and Government (E&G) version 7.5 in July 2001. The individual functions or modules contained in the software suite include:	
General Ledger (GL)	**A set of books that stores posted, summarized financial activity.**
Payables (AP)	**Will replace current TIPGAP system and check writing process.**
Purchasing (PO)	**Will be used for acquisition of all goods and services through Buildings and General Service's central warehouse, the state's central purchasing division and the local purchases managed by agencies/departments and replaces the current VARS system.**
Receivables (AR)/Billing (BI)	**Separate but related modules. Bill information is entered and invoices are generated in the Billing module. Revenue transactions and cash applications against open items are accounted for in the Receivables module.**
Grants	**Will utilize PeopleSoft's functionality including receiving grant awards from non-state sources to make grant awards to state and non-state organizations, to track expenditures of grant funds, to perform cost allocations and apply indirect rates, to perform draw downs and to prepare reports.**
Inventory (IN)	**Manages items that are purchased, stocked, issued for resale or internal use and replenished based upon set criteria such as reorder points.**
Asset Management (AM)	**Used to account for, track and report on capital assets.**

Appendix E

May 1, 2001 letter from Elizabeth Ready, State Auditor, to Appropriation Chairs Bartlett and Westman. This letter is referred to in Kathleen C. Hoyt's, Secretary of Administration, May 11, 2001 letter (also included in Appendix E) to the Appropriation Chairs referenced in the Department's response.

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

May 1, 2001

Senator Susan Bartlett, Chair
Senate Committee on Appropriations
State of Vermont
Vermont Senate
115 State Street
Montpelier, VT 05633-5301

Representative Richard Westman, Chair
House Committee on Appropriations
State of Vermont
House of Representatives
115 State Street
Montpelier, VT 05633-5301

Dear Susan and Richard,

I am writing to let you know about a reportable condition in Vermont's General Purpose Financial Statement Audit for fiscal year ending June 30, 2000 that will affect the FY 2002 budget. This condition will have an impact upon the way departments manage their cash flow in FY 2002. You may wish to consider this condition, along with storm clouds already gathering on the fiscal horizon, as you make final decisions in the appropriations process.

The Reportable Condition

As outlined in my Office's ***Report on Compliance and Internal Control Over Financial Reporting*** included in Vermont's ***Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2000***, the reportable condition reads as follows:

> *The State's ability to pay for goods or services received during one fiscal year with funds budgeted for the subsequent fiscal year does not allow proper*

matching of budgets and spending against those budgets. In addition, management of budgets could be adversely affected in the year full encumbrance accounting is adopted. For fiscal year 2000, $70 million of bills for goods and services received during fiscal year 2000 were paid for from the fiscal year 2001 budget.

As you are aware, the Legislature authorizes annual spending for each department in the Appropriations Act. In some cases actual liabilities exceed funds appropriated for that year. Department managers may then hold bills over, and pay them in the next fiscal year. While this practice is not new, it does amount to a lot of money. Our audit shows that $70 million in goods or services were received in fiscal 2000, but paid for with federal, general or transportation funds in fiscal 2001. A portion of the $70 million may well be related to the normal processing of invoices received after June 30, like electric bills. But the figures show a continuing trend of paying current year invoices with the next year's spending authority. This practice takes on a greater significance for FY 2002 as Vermont moves to full implementation of its new financial accounting system (VISION) that employs full encumbrance accounting. Under the new system, when departments move FY 2001 bills forward to 2002 for payment, funds will be deducted from FY 2002 spending authority. And each fiscal 2002 invoice will be deducted at the time the funds are encumbered, creating a shortfall within affected departments at the end of the year.

The Big Picture

Our analysis reveals that of the $70 million encumbered in 2000 and paid in 2001, nearly $30 million is in general fund expenditures, $19 million is in transportation fund expenditures, and $10 million is in education fund expenditures. Department shortfalls compared to spending authority come as clouds in an already darkening economic sky. Consider these trends.

Currently, revenues are not meeting targets:

- As of April 1, estimates of corporate and income tax returns have fallen behind projections.
- Consumption taxes have fallen behind expectations during the same period, with the meals and rooms and sales and use taxes lagging by $8.9 million and $3.1 million respectively.
- Because Vermont's income tax rate is coupled to the federal rate, the current federal tax cut proposal will mean an estimated $10 million loss to Vermont's general fund revenues in FY 2002. Without legislative action, the loss will grow annually, reaching an estimated $62 million in 2006, according to the Vermont Tax Department.

And spending is on the rise:

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- Vermont is poised, for the first time in nearly a decade, to spend at a level that exceeds the rate of economic growth.
- Recent surpluses have whetted appetites for ongoing, onetime, and capital spending that, if unchecked, will soon outpace revenues under current trends.
- Vermont's health care plan is headed for a $75 million shortfall in a six-year period, according to projections recently released by the Joint Fiscal Office.
- Slower economy growth could mean increased human service caseloads and related spending within the next fiscal year.

The issue of accounts payable exceeding spending authority is a problem of accounting and accountability. But it could take on an added significance should revenues soften to the point that spending outstrips income. Given current fiscal trends and Vermont's move to an encumbrance based accounting system, FY 2002 could have the makings of a perfect storm.

We have only to remember the deficit days of the late eighties to recall just how devastating such storms can be. The bond rating plummeted. The Legislature was forced to raise taxes, cut spending, and increase the State's debt. It took years for Vermont to travel the long and painful journey to financial recovery. It is true that the State now has rainy day funds on hand to deal with emergencies. But how long will they last? I will never forget the impact of hard times on Vermont's most vulnerable citizens: on children, on the elderly and disabled, and on those who lost their jobs in the economic downturn. I am writing now with the hope that this information will be helpful to you as you complete the appropriations bill for FY 2002.

I would like the opportunity to discuss this issue with your Committees. Shawn Warren, the partner at KPMG who is assisting my Office with this analysis, will be available on Thursday, May 3, 2001 to testify with me. He can also be available at other times that would be convenient for you.

Sincerely,

Elizabeth M. Ready
State Auditor

cc: Kathleen C. Hoyt, Secretary, Agency of Administration
Members of the House and Senate Appropriations Committees

STATE OF VERMONT
AGENCY OF ADMINISTRATION

May 11, 2001

Senator Susan Bartlett, Chair
Senate Appropriations Committee
Vermont Senate
State House
Montpelier, VT 05633-5301

Representative Richard Westman, Chair
House Appropriations Committee
Vermont House of Representatives
State House
Montpelier, VT 05633-5301

Dear Senator Bartlett and Representative Westman:

You recently received correspondence from the Auditor of Accounts, Elizabeth Ready, concerning a reportable condition finding that was included in Vermont's June 30, 2000 Comprehensive Annual Financial Report. This finding reported a situation in which liabilities incurred in one fiscal year were being paid from the following fiscal year's appropriation. Auditor Ready's concern centered around approximately $71 million of liabilities incurred at the end of fiscal year 2000 which were not encumbered in fiscal year 2000, and which were paid from fiscal year 2001 appropriations. She is concerned that similar liabilities will occur in FY2002 as well.

Each month there are liabilities incurred that are paid in a subsequent period. An operation as big as state government is dynamic. Even when departments have the best intentions, they will not be able to complete all transactions initiated in the current year by the end of the same fiscal year for many reasons. Several examples of reasons for these delays might be late billings by vendors, reimbursement policies of federal programs, and transaction processing delays.

The "encumbering" of an appropriation is intended to reserve a portion of the current period appropriation (i.e. spending authority) for use whenever the actual bill is reconciled so that potential liabilities will be known and managed.

The new Vision system will require more "encumbering" than the old FMIS and will be in use for the first time during and especially at the end of fiscal year 2002. This will result in a portion of fiscal year 2001's liabilities as well as most of fiscal year 2002's liabilities being applied against fiscal year 2002's spending authority. In effect, the Auditor's office is suggesting that there may be departments that will run out of spending authority prior to the end of fiscal year 2002 as they try to utilize a 12 month budget to accommodate up to 14 months of operations.

PLEASE NOTE THAT THIS SITUATION WILL OCCUR ONLY IN THE YEAR VERMONT CONVERTS TO ITS NEW VISION SYSTEM.

While technically the Auditor is correct, we feel the financial exposure resulting from recognizing these additional liabilities via this additional encumbering may be overstated. The $71 million addressed by the Auditor represents liabilities of 12 different funds. It is on average a third of a month's activity for the State of Vermont and represents only 2.6% of all state appropriations. Encumbered liabilities and their associated spending authority are carried forward and paid by agencies and departments in the following year. Spending authority for federal funds and special funds does not carry forward unless the respective liabilities have been encumbered. The state uses excess receipts authority when those funds have to recognize and pay for the current year's expenditures in the next fiscal year.

The Auditor's accounting lists approximately $29.7 million of General Fund liabilities as of June 30, 2000 that were actually paid in FY2001. However, it would be incorrect to assume that the payment of these expenditures was actually made utilizing FY2001 spending authority. In fact, $65,000,000 of general fund spending authority from previous years was carried forward into fiscal year 2001. While there were undoubtedly some departmental fiscal year 2000 liabilities carried over to and paid with fiscal year 2001 appropriations, most would have been paid for utilizing fiscal year 2000 spending authority that followed them into fiscal year 2001. This also is a common occurrence in the transportation fund. Because of the seasonal nature of Agency of Transportation's construction work and the fact that the fiscal year ends at the very height of their construction season, there are always projects and expenses incurred in one fiscal year that do not get paid until the next fiscal year. Again, a very significant portion of the current year's spending authority is carried over to the following fiscal year and so does not affect the following year's appropriation. In the education fund, where the Auditor lists $9.9 million of fiscal year 2000 liabilities, there was a fiscal year 2000 carry forward of spending authority of $7.9 million into fiscal year 2001.

Nonetheless, it is prudent to be aware and concerned about the ramifications of the changes VISION will bring. To that end we have developed several action steps we believe will help mitigate the impacts, if there are to be any at the end of Fiscal Years 2001 and 2002.

1. We will be reviewing department's 2001 and 2002 budgets and evaluating where possible problems may arise. This will entail making judgements as to whether departments are recognizing liabilities and their associated claims on spending authority in the appropriate fiscal year.

2. We will be advising departments of the issues, the mechanics, and the risks they may face at the end of fiscal year 2002. This will require that they use care in managing their 2002 budgets.

3. We will be encouraging departments to minimize any carry forward of either expenditures or expenses at the end of fiscal year 2001. Clearing the decks

more than usual will not only help in our conversion as we turn on VISION, but will help reduce the unencumbered liability carryover and associated claim on fiscal year 2002 spending authority departments will have.

4. Finally, as soon as a budget is approved by the legislature tbe departments can encumber against that budget. So, as we approach the end of FY2002 and departments are encumbering for liabilities that will legitimately be FY2003 expenses, we will encumber those expenditures against their FY2003 budgets. This will help to relieve the pressure the Auditor expects would be placed against a department's FY2002 budget. As an example, if the Department of Public Safety Orders State Police cruisers in May to assure delivery the following August, that purchase order would be encumbered in May against their FY2003 budget and associated spending authority.

Eleven years of Governor Dean's Administration has been based on responsible fiscal management of the state's resources. We are concerned about aspects of our revenue stream and we certainly think Vermont is facing different revenue circumstances than we have enjoyed for the past several years. Still, it is important that we approach things in a careful and considered manner. As you know both the Administration's economist and your own, Tom Kavet, are watching things carefully. Using economic models that take actual data into account and analysis are important. We have been on revenue watch since the last Emergency Board meeting in January. However, I believe it is premature to announce a revenue warning at this time.

I hope the above helps to allay any fears you may have. If you have any questions, please feel free to contact me at any time.

Sincerely,

Kathleen C. Hoyt
Secretary of Administration

Cc: Auditor of Accounts