

Arizona Department of Administration - Automation Projects Fund

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
INDIVIDUAL PROJECTS			
Department of Administration			
<i>Full Time Equivalent Positions</i>	0.0	20.0	75.0
AFIS Replacement	8,474,100	28,638,000	26,533,000 ^{1/}
ASET Initiatives			
State Data Center	3,219,400	2,675,000	2,900,000
Security, Privacy, and Risk	407,200	3,075,000	3,125,000
Enterprise Architecture	320,300	1,000,000	500,000
Project Management	0	2,450,000	2,151,700
E-Government	940,600	325,000	325,000
Web Portal Transition Costs	0	1,975,000	0
ASET Initiatives Subtotal	4,887,500	11,500,000	9,001,700
Department of Administration Subtotal	13,361,600	40,138,000	35,534,700
AHCCCS			
Data Security	775,600	0	0
Department of Corrections			
AIMS Replacement	0	8,000,000	8,000,000 ^{2/}
Department of Environmental Quality			
E-Licensing	0	5,000,000	6,800,000 ^{3/}
Department of Education			
Education Learning and Accountability System	0	7,000,000	12,000,000 ^{4/5/6/}
Department of Child Safety			
CHILDS Replacement	0	0	5,000,000 ^{7/}
Department of Revenue			
DOR Automation Projects	2,837,500	6,600,000	0
Tax Analysis Improvements	0	0	1,700,000
Tobacco Tax System	0	0	1,000,000 ^{8/}
Department of Revenue Subtotal	2,837,500	6,600,000	2,700,000
TOTAL - ALL PROJECTS ^{9/10/11/}	16,974,700	66,738,000	70,034,700

FUND SOURCES

General Fund	16,800,000	18,400,000 ^{12/}	35,500,000 ^{13/}
Other Appropriated Funds			
Automation Operations Fund	4,200,000	0	0
State Web Portal Fund	5,600,000	0	0
Information Technology Fund	1,500,000	0	0
Automation Projects Fund	0	66,738,000	70,034,700 ^{14/}
SUBTOTAL - Other Appropriated Funds	11,300,000	66,738,000	70,034,700
SUBTOTAL - Appropriated Funds	28,100,000	85,138,000	105,534,700
Other Non-Appropriated Funds	16,974,700	0	0
TOTAL - ALL SOURCES ^{9/}	45,074,700	85,138,000	105,534,700

AGENCY DESCRIPTION — Laws 2012, Chapter 298 established the Automation Projects Fund (APF), administered by the Arizona Department of Administration (ADOA). Monies in this appropriated fund are designated to implement, upgrade, or maintain automation and information technology projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to JLBC for review.

Background

The FY 2013 Government Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 298) established the APF, administered by ADOA and consisting of monies appropriated by the Legislature. The FY 2014 Budget

Procedures BRB (Laws 2013, 1st Special Session, Chapter 6) subjected the APF to legislative appropriation, retroactive to June 30, 2013. The fund is exempt from lapsing. Monies in the fund are to be used to implement, upgrade or maintain automation and information technology projects for any state agency.

- 1/ Includes \$26,533,000 appropriated by Laws 2013, 1st Special Session, Chapter 1, Section 115 for the replacement of the state's financial and accounting system.
- 2/ The funding for the State Department of Corrections automation project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the State Department of Corrections shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$8,000,000 FY 2015 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2015 expenditures, the State Department of Corrections shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 3/ The funding for the Department of Environmental Quality automation project is contingent on the use of a contracted third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the Department of Environmental Quality shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$6,800,000 FY 2015 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2015 expenditures, the Department of Environmental Quality shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ In addition to the \$12,000,000, any remaining balances as of June 30, 2014 from fees collected from universities and community college districts in the Education Learning and Accountability Fund established by A.R.S. § 15-249.02, are appropriated for implementing, upgrading and maintaining the Student Longitudinal Data System and the Education Learning and Accountability System established pursuant A.R.S. § 15-249. (General Appropriation Act footnote)
- 5/ It is the intent of the Legislature that the appropriations made by this subsection be used to complete a significant portion of the replacement of the Student Accountability Information System established by A.R.S. § 15-1041, provide a majority of school districts and charter schools with dashboards and other technology tools to measure student achievement and continue to stabilize and align the Department of Education's internal technology systems with the Education Learning and Accountability System established pursuant to A.R.S. § 15-249. The Department of Education shall provide quantifiable deliverables of the Legislature's intended progress to the Information Technology Authorization Committee established by A.R.S. § 41-3521, and to the Joint Legislative Budget Committee before seeking review of the \$12,000,000 FY 2015 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. (General Appropriation Act footnote)
- 6/ The funding for the Department of Education's automation project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the Department of Education shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$12,000,000 FY 2015 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2015 expenditures, the Department of Education shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ The funding for the Department of Economic Security's automation project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the Department of Economic Security shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$5,000,000 FY 2015 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. The Department of Administration and the Department of Economic Security shall provide a list of specific performance measures to be tracked by the new automation system when seeking review of the \$5,000,000 FY 2015 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2015 expenditures, the Department of Economic Security shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote) The DES reporting requirement is presumed to become the responsibility of the Department of Child Safety (DCS) with the creation of this new department, as enacted during the 51st Legislature, 2nd Special Session.
- 8/ This amount is financed from a transfer from the Traditional Medicaid Services line item in AHCCCS to the Automation Projects Fund in FY 2015.
- 9/ Starting in FY 2014, the Automation Projects Fund is appropriated. The General Fund dollar amount is appropriated for AFIS replacement and deposited into the Automation Projects Fund, and then further appropriated from the APF. As a result of this "double" appropriation, the "Total - All Projects" does not equal the "Total - All Sources."
- 10/ In addition to the initial review of expenditures from the Automation Projects Fund by the Joint Legislative Budget Committee, pursuant to A.R.S. § 41-714, monies appropriated for projects at each state agency from the Automation Projects Fund established by A.R.S. § 41-714, may not be used for projects at any other state agency without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 11/ The Department of Administration shall submit to the Joint Legislative Budget Committee, within 30 days of the last day of each calendar quarter, a quarterly report on the implementation of projects described in this section, including the projects' expenditures to date, deliverables, timeline for completion and current status. (General Appropriation Act footnote)
- 12/ In addition to the \$18,400,000 direct General Fund appropriation for AFIS replacement, the FY 2014 budget transferred \$7,100,000 from the General Fund into the Automation Projects Fund to pay for the cost of projects at ADE and DOR.
- 13/ Of this amount, \$18,400,000 was appropriated by Laws 2012, Chapter 294, Section 124, as amended by Laws 2013, 1st Special Session, Chapter 1, Section 1. The additional \$17,100,000 is appropriated from the General Fund in FY 2015 into the Automation Projects Fund to pay for the cost of projects at ADE, DES, and DOR.
- 14/ Any remaining balances on June 30, 2014 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2014 are appropriated to the Department of Administration in FY 2015 for the same purposes specified in FY 2014. The Department of Administration shall report any FY 2015 expenditure of remaining balances from FY 2014 in the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the JLBC for review.

A General Appropriation Act footnote requires ADOA to submit quarterly reports, within 30 days of the end of the calendar quarter, to the JLBC on the progress of all automation projects funded through the APF, including the projects' expenditures to date, deliverables, timeline for completion, and current status. A separate General Appropriation Act footnote specifies that funds for agency projects financed through the APF may not be used for any other agency without prior review by the JLBC.

Department of Administration

AFIS Replacement

The budget includes \$26,533,000 and 60 FTE Positions from the APF in FY 2015 for the third year of a 4-year project to replace the state's financial and accounting system, the Arizona Financial Information System (AFIS). The project name is Business Re-Engineering Arizona (BREAZ). These amounts fund the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(2,105,000) and an increase of 40 FTE Positions from the APF in FY 2015 to align expenditures with the third year of a 4-year project to replace AFIS, the state's financial and accounting system. Of the 60 FTE Positions allocated to this project, 20 have been shifted from ADOA's operating budget to the APF in FY 2014 and FY 2015 for FTE Positions who were already employed at ADOA. The budget includes 40 additional FTE Positions for the replacement of AFIS in FY 2015 and FY 2016. Funding for these positions has already been approved. *(Please see the Arizona Department of Administration page for more details.)*

The FY 2015 \$26,533,000 appropriation will be financed from a transfer from the following 3 sources to the APF:

- \$18,400,000 previously appropriated from the General Fund for AFIS replacement.
- \$8,075,700 previously transferred from individual agency Automation Charge Transfers from Laws 2013, 1st Special Session, Chapter 1, Section 127 for AFIS replacement (*see below*).
- \$57,300 transferred from the Automation Operations Fund.

AFIS was last upgraded in 1992 and is increasingly problematic due to its incompatibility with newer systems and capacity limitations. Laws 2012, Chapter 294 appropriated a total of \$79,800,000 from the General Fund over 4 years for deposit into the APF, primarily for the replacement of AFIS.

In the 2013 Legislative Session, the Legislature enacted a plan to allocate a portion of AFIS replacement costs to non-General Fund sources. As a result, the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1) reduced the Chapter 294 General Fund appropriation by \$16,998,000 over 4 years and replaced it with a one-time transfer totaling \$17,013,600 charged to other appropriated and non-appropriated funds for the replacement of AFIS. This charge represents a proportional contribution from the General Fund and all other funds, at an estimated 0.72% of FY 2014 expenditures.

Table 1 delineates the change in the Chapter 294 General Fund appropriation.

Change in 4-year Chapter 294 General Fund Appropriation			
(\$ in thousands)			
	Chapter 294	Chapter 1	Difference
FY 2013	16,800	16,800	0
FY 2014	20,000	18,400	(1,600)
FY 2015	20,000	18,400	(1,600)
FY 2016	<u>23,000</u>	<u>9,202</u>	<u>(13,798)</u>
Total	79,800	62,802	(16,998)

Laws 2013, 1st Special Session, Chapter 1 appropriated \$18,400,000 and \$9,202,000 from the General Fund to the APF in FY 2015 and FY 2016, respectively. In addition, Chapter 1 additionally appropriated \$26,533,000 and \$9,202,000 from the APF to ADOA for AFIS replacement in FY 2015 and FY 2016, respectively. As a result, these monies will not appear in the FY 2015 or FY 2016 General Appropriation Acts.

Laws 2013, 1st Special Session, Chapter 1, Section 127 transfers a total of \$17,013,600 to the APF. This amount was charged to other appropriated and non-appropriated funds as a one-time charge in FY 2014; however, the funds will be spent over 2 years of the 4-year project, as follows:

- \$8,937,900 in FY 2014.
- \$8,075,700 in FY 2015.

The 4-year project is estimated to cost \$73,000,000. The main project components are:

Vendor Contract	\$47,700,000
ADOA and Other Staffing	16,000,000
Third Party Oversight	5,200,000
Contingency Costs	<u>4,100,000</u>
Total	\$73,000,000

ADOA has awarded a \$47,700,000 contract to Consulting for Government and Industry (CGI) to construct the new AFIS system over 4 years. This amount includes

\$32,700,000 for the vendor, \$12,600,000 for software licensing and maintenance, \$1,300,000 for hardware, and \$1,100,000 for other costs, including disaster recovery hosting. The vendor is devoting as many as 81 FTE Positions to this project, with some located on-site.

Project costs for the state are estimated to total \$16,000,000 through FY 2016. The most significant portion of state staffing costs will be \$11,700,000 allocated to hiring 40-43 FTE Positions during the design, build, and test phases of the project. Included in this total will be FTE Positions devoted to developing financial reports for the various AFIS functions and business modules, in addition to technical developers and analysts who will focus on programming and data security.

Given the complexity of large-scale IT projects, ADOA has contracted with a third-party consultant, STA, to assist in the oversight of the replacement of AFIS, including providing estimates for remaining expenditures, and guidance on the scope of the new system. Initially \$3,000,000 was allocated to the consultant for the planning stages of the project. An additional \$2,200,000 was allocated to fund the consultant through FY 2016, for a total cost of \$5,200,000 for project oversight.

Due to possible unforeseen costs, the expenditure plan sets aside \$4,100,000 for contingency purposes. This amount was included in the Chapter 1 \$28,638,000 appropriation from the APF in FY 2014. ADOA now reports that this amount is unlikely to be needed in FY 2014. As a result, the FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14), as session law, makes \$4,100,000 of the \$28,638,000 FY 2014 appropriation available for use by ADOA through FY 2016, to account for any unforeseen costs throughout the remainder of the project. *(Please see Other Issues for more information.)*

The new AFIS system is scheduled to go live on July 1, 2015, based on the following timeline:

- April 2013 - August 2013: Business Process Reengineering (BPR).
- September 2013 - June 2015: Plan, design, build, test, train and implement.
- July 1, 2015: Deploy the system to all state agencies.
- July 2015 - September 2016: The vendor provides post-implementation support through the first fiscal year-end process.

ASET Initiatives

The budget includes \$9,001,700 and 15 FTE Positions from the APF in FY 2015 for ongoing IT projects by the Arizona Strategic Enterprise Technology (ASET) Office in ADOA, as well as FTE Positions who assist in managing all projects funded from the APF. These amounts fund the following adjustments:

ASET Initiatives

The budget includes a decrease of \$(2,500,000) and an increase of 15 FTE Positions from the APF in FY 2015 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

Statewide Adjustments

The budget includes an increase of \$1,700 from the APF in FY 2015 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

The FY 2015 \$9,000,000 appropriation will be financed by a transfer from the Automation Operations Fund to the APF. The \$1,700 for statewide adjustments will be financed from prior year projects that did not spend their total appropriation.

The \$9,001,700 APF appropriation will fund projects continuing from FY 2014, pay for Personal Services and Employee Related Expenditures to manage and oversee IT projects statewide, as well as fund new projects for FY 2015. This \$9,001,700 consists of the following:

- \$2,900,000 to improve the state Data Center, including upgrading aging infrastructure, and implementing back-up power supply systems and disaster recovery solutions. This amount would fund the following 2 projects:
 - State Data Center Facilities Enhancement, \$400,000
 - Critical Infrastructure and Service Migration, \$2,500,000
- \$3,125,000 to improve the security, privacy and risk of the state's IT systems, including implementing firewalls and encrypting private and sensitive information. This amount would fund the following 8 projects:
 - Secure Data Center Facility, \$520,000
 - Secure Data Protections Pilots, \$300,000
 - Data Center Network Managing/Monitoring, \$300,000
 - Security Assessment, \$450,000
 - Central Security Management, \$600,000
 - Incident Response, \$180,000
 - Security Awareness, \$250,000
 - Data Center Security Management, \$525,000
- \$500,000 to improve enterprise architecture, including implementing tools to facilitate IT planning and data collection across all state agencies, as well as implement financial reporting dashboards for IT projects at numerous state agencies. This amount would fund the following 2 projects:
 - Strategic Technology Assessment, \$400,000
 - Business and Technical Enterprise Architecture Training, \$100,000
- \$2,151,700 for project management in the ASET office in ADOA. This includes Personal Services and Employee Related Expenditures to manage all projects funded through the APF, and to provide assistance to

other state agencies for their IT projects. This amount would fund the following 2 projects:

- ASET Initiative Project Managers, \$450,300
- APF Strategic Execution Team, \$1,701,400
- \$325,000 to enhance E-government, by training state agencies to utilize the new state web portal, which was developed in FY 2014. This amount would fund the following project:
 - Agency Website Transformation & Content Management Solution Implementation, \$325,000

Department of Corrections

AIMS Replacement

The budget includes \$8,000,000 from the APF in FY 2015 for the second year of a 3-year project to replace the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC). This amount is unchanged from FY 2014.

The FY 2015 \$8,000,000 appropriation will be financed by a transfer from the following ADC funds to APF:

- \$5,500,000 from the Prison Construction and Operations Fund
- \$2,500,000 from the Corrections Fund

The FY 2015 fund sources have been revised from the FY 2014 sources based on estimates of available fund balances.

FY 2015 is the second year of a 3-year \$24,000,000 project to replace this IT system, which assists in tracking identification, population management, sentencing calculations, and the appeals and grievance processes for inmates in the correctional system.

ADC is estimated to spend \$8,000,000 annually; however, when the contract is awarded, expenditure estimates may be refined. These amounts would primarily be used for Professional and Outside Services to purchase the modified Commercial Off The Shelf (COTS) system. As of May 2014, following a 6-month process evaluating bids, a contract has yet to be awarded. Given the complexity of large-scale IT projects, ADC has, however, contracted with a third-party vendor to assist in developing the request for proposals (RFP).

Consistent with ADC's approach, a General Appropriation Act footnote specifies that FY 2015 funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and ADC shall provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of FY 2015

funding, as required by A.R.S. § 41-714. ADC is required to provide further ongoing reports to JLBC, at a time frame determined by the JLBC.

Department of Environmental Quality

E-Licensing

The budget includes \$6,800,000 from the APF in FY 2015 to continue to develop an e-licensing web portal at the Department of Environmental Quality (DEQ). This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$1,800,000 from the APF in FY 2015 to align expenditures with the second year of a project to provide e-licensing functionality on DEQ's web portal.

The FY 2015 \$6,800,000 appropriation will be financed by a transfer from the Vehicle Emissions Inspection Fund to the APF.

The e-licensing system will allow customers to conduct permitting, billing, payment, and review data submissions online for many of the permitting and compliances processes.

In FY 2014, \$5,000,000 was appropriated for this project to automate business processes within DEQ. As of May 2014, the project had expended \$3,493,922.

At its October 2013 meeting, the JLBC favorably reviewed the initial \$5,000,000 FY 2014 expenditure plan, with provisions that FY 2015 funding was contingent upon contracting with an independent third party to provide oversight of the project. DEQ has contracted with a third-party vendor. In the initial report, the vendor concurred with DEQ's approach and "can certainly see a credible path to success." The vendor provided recommendations for process improvements and suggestions for increasing user engagement with the new software. The vendor has been retained for continued oversight. At the same time as the third-party review, DEQ adjusted the scope of the project to address external feedback for more functionality. Instead of developing fillable forms for 80 business processes, the portal will provide deeper functionality and assistance to users for 22 business processes in Phase 2.

Consistent with DEQ's approach, a General Appropriation Act footnote specifies that FY 2015 funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DEQ shall provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of FY 2015

funding, as required by A.R.S. § 41-714. DEQ is required to provide further ongoing reports to JLBC, at a time frame determined by the JLBC.

Department of Education

Education Learning and Accountability System

The budget includes \$12,000,000 from the APF in FY 2015 for further revisions to the Education Learning and Accountability System (ELAS) at the Department of Education (ADE). This amount funds the following adjustments:

Increased Funding

The budget includes an increase of \$5,000,000 from the General Fund for FY 2015 to replace a majority of the Student Accountability Information System (SAIS) and roll out data dashboards to additional public schools.

The FY 2015 \$12,000,000 appropriation will be financed from the following fund sources:

- \$10,400,000 appropriation from the General Fund.
- \$1,600,000 transfer from the ELAS Fund.
- In addition, the budget (Laws 2014, Chapter 18, Section 138) continues to appropriate any remaining FY 2014 ELAS Fund balances for use in FY 2015.

ELAS will allow ADE to collect, compile, maintain and report student level data for students enrolled in public schools. *(Please see the Department of Education, Education Learning and Accountability System section for more information.)*

Prior to FY 2014, ADE used its own funds to administer the project, which included a combination of state General Fund monies (\$5 million per year in FY 2012 and FY 2013), mandatory fees of \$6 per Full-Time Student Equivalent (FTSE) from Arizona universities and community colleges (approximately \$1.5 million per year in FY 2012 and FY 2013), and federal monies (approximately \$10 million in FY 2012 and FY 2013 combined).

In FY 2014, \$7,000,000 was appropriated to implement a portion of the total project. This amount funded development and expansion of a longitudinal data system, implementation of data visualization dashboards that display student achievement data, reduced redundancies for districts' reporting requirements, and implemented various security and technical measures.

In FY 2015, ADE plans to use the \$12,000,000 ELAS appropriation primarily to replace a majority of the Student Accountability Information System (SAIS), further develop more streamlined data reporting, storage, and

transfer systems, and roll out data dashboards to additional public schools.

A General Appropriation Act footnote specifies that it is the Legislature's intent that FY 2015 funding be used to complete a significant portion of SAIS replacement, provide a majority of public schools with dashboards and other technology tools to measure student achievement, and to stabilize ADE's internal technology systems. The footnote further requires ADE to provide quantifiable deliverables of the Legislature's intent to ITAC and the JLBC when seeking review of their FY 2015 expenditures, as required by A.R.S. § 41-714.

A separate General Appropriation Act Footnote requires ADE to report ELAS progress on a quarterly basis, in consultation with ADOA. *(Please see the Department of Education footnotes section for more information.)*

In FY 2014, ADE contracted with a third-party vendor to provide additional oversight for the project, in accordance with a General Appropriation Act footnote in effect for FY 2014. The vendor concluded that the current scope and approach of the project represents best practices, but that additional efforts should be made to include a larger and more diverse set of education stakeholders to encourage participation once the project is complete. The vendor has not been retained.

A General Appropriation Act footnote specifies that FY 2015 funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and ADE are to provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of FY 2015 funding, as required by A.R.S. § 41-714. ADE is required to provide further ongoing reports to JLBC, at a time frame determined by the JLBC.

Department of Child Safety

CHILDS Replacement

The budget includes \$5,000,000 from the APF in FY 2015 to replace the Children's Information Library and Data Source (CHILDS) operated by the Department of Child Safety (DCS). This amount funds the following adjustments:

CHILDS Replacement

The budget includes an increase of \$5,000,000 from the General Fund in FY 2015 to replace the CHILDS system at DCS.

The FY 2015 \$5,000,000 APF appropriation will be financed with an appropriation from the General Fund.

CHILDS is the management information system used to document the status, demographics, location and outcomes for every child in the care of DCS. The system assists with various business processes including hotline intake, initial assessments and investigations, case management, adoptions, eligibility determinations, staff management, provider management and payment processing.

The total cost for the project is estimated to be between \$40 and \$80 million, depending on the technology approach used during replacement. Based on feedback from independent IT consultants and comparisons with other states, the replacement of CHILDS could be done using a variety of methods. DCS could use an incremental approach, with a multitude of vendors working on different aspects of the system while being coordinated by a single vendor acting as the system integrator. Alternatively, DCS could purchase a COTS solution. The former approach may be less expensive initially, but may require higher maintenance costs due to the overall complexity of the completed system. The latter may be more expensive initially, but would likely be less expensive in subsequent years due to reduced maintenance costs. DCS has reported that they will consider both approaches as they develop the Request for Proposal (RFP) and continue the planning phases of the project.

As the project moves forward, other areas of concern include the utilization of a cloud-based approach, the level of Federal Financial Participation (FFP) through matching funds, and the amount of investment required in subsequent years. Although \$5,000,000 has been appropriated in FY 2015, the level of additional investment is currently unknown, until a specific approach has been chosen and a vendor has been selected.

A General Appropriation Act footnote specifies that FY 2015 funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DCS shall provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of FY 2015 funding, as required by A.R.S. § 41-714. ADE is required to provide further ongoing reports to JLBC, at a time frame determined by the JLBC.

Department of Revenue

DOR Automation Projects

The budget includes \$2,700,000 from the APF in FY 2015 for tax analysis IT projects at the Department of Revenue. This amount funds the following adjustments:

Eliminate One-Time Funding

The budget includes a decrease of \$(6,600,000) from the APF in FY 2015 to eliminate one-time funding. In FY 2014, DOR encrypted personally identifiable information, in addition to completing the second year of the 2-year Business Reengineering and Integrated Tax System (BRITS) project.

Tax Analysis Improvements

The budget includes an increase of \$1,700,000 from the APF in FY 2015 for 2 separate projects to provide programming support, software, and imaging services that would allow DOR to record information from portions of electronic tax returns that are not currently captured, and from tax returns that are not filed electronically.

The FY 2015 \$1,700,000 appropriation will be financed with an appropriation from the General Fund to the APF.

The first project is estimated to cost \$641,000 and will allow for the tracking and storage of data from the second page of the individual income tax return form, in part to determine the impact of the recent reduction of long-term capital gains subject to individual income tax, which was enacted by Laws 2012, Chapter 343.

The second project is estimated to cost \$1,059,000, and will provide ongoing support to DOR to increase the accuracy and timeliness of reporting income tax credits, such as those for private School Tuition Organizations (STOs) as well as public school extracurricular activity. Currently, there is a significant delay in reporting tax credit information due to a lack of programming to readily extract this information from the Taxpayer Accounting System.

Tobacco Tax Processing

The budget includes an increase of \$1,000,000 from the APF in FY 2015 for the development of a luxury tax processing and revenue accounting system within DOR.

The FY 2015 \$1,000,000 appropriation will be financed from a transfer from the Traditional Medicaid Services SLI in AHCCCS to the APF.

The automated Tobacco Tax System will enhance enforcement by automating the current manual data entry process, allowing delinquent returns and account information to be tracked, and logging data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data. The system is being built to reach compliance with the terms of the Master Settlement Agreement. *(Please see the Tobacco Tax/Master Settlement Agreement in DOR for more information.)*

Other Issues

Automation Project Oversight

In addition to JLBC review of APF expenditures, all IT projects over \$25,000 are additionally reviewed by ASET through the PIJ process. If an IT project exceeds \$1,000,000, statute requires additional approval by ITAC. ITAC consists of members from both the public and private sectors and is staffed by ADOA.

Due to the complexity of IT projects, the Legislature has occasionally required many large-scale IT projects to procure an independent third-party vendor to provide relevant analysis and ensure adequate oversight before and during implementation. Examples include ADOA contracting with STA to oversee AFIS Replacement, ADE contracting with WestEd to provide analysis of AELAS, and ADC contracting with PCG to evaluate AIMS replacement.

The FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14, Section 2) modifies permanent law to require large-scale IT projects with a total cost greater than \$5 million to receive relevant third-party analysis from an independent contracted vendor before receiving approval from ITAC. The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project.

AFIS Contingency Costs

The AFIS replacement project is estimated to cost a total of \$73 million. Of this amount, \$4,100,000 was allocated specifically for contingency purposes in the event of unforeseen costs over the project's 4-year timeframe. In FY 2014, the Legislature appropriated \$28,638,000 to ADOA for AFIS replacement, which included the \$4,100,000 for contingency purposes.

ADOA has reported that the \$4,100,000 contingency amount is unlikely to be needed during FY 2014. The FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14, Section 9), as session law, makes \$4,100,000 of the \$28,638,000 FY 2014 appropriation available for use by ADOA through FY 2016 to account for any unforeseen costs throughout the 4-year timeframe of the project. (Please see the AFIS Replacement section above for more information.)

Remaining Balances

Some agencies did not expend the full FY 2013 appropriation within that fiscal year. As a result, FY 2013 remaining balances in the APF were \$11.1 million. Of this amount, \$5.2 million financed 2 FY 2014 projects, as follows:

ADOA - ASET Initiatives	\$325,100
DOR - Encryption	<u>4,900,000</u>
Total	\$5,225,100

The FY 2014 Budget Procedures BRB (Laws 2013, 1st Special Session, Chapter 6) subjected the APF to legislative appropriation, retroactive to June 30, 2013. As a result, the FY 2014 Budget Procedures BRB additionally gave ADOA the FY 2014 appropriation authority to spend remaining balances above \$5.3 million to complete unfinished FY 2013 projects in FY 2014. Of the \$11.1 million remaining FY 2013 balances, \$5.9 million is expected to be spent in FY 2014 to complete unfinished FY 2013 projects.

A new General Appropriation Act footnote in FY 2015 continues this practice by providing 2-year appropriation authority for all FY 2015 IT projects financed through the APF.

APF Revenues

The FY 2013 General Appropriation Act (Laws 2012, Chapter 294, Section 124) appropriated a total of \$91.1 million over 4 years for deposit into the APF.

The FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1) reduced the Chapter 294 General Fund appropriation by \$(17.0) million over 4 years and replaced it with a one-time transfer totaling \$17.0 million charged to other appropriated and non-appropriated funds primarily for the replacement of AFIS. (Please see the AFIS Replacement section for more information.)

Chapter 1 made additional transfers into the APF in FY 2014 for various IT projects in ADOA, ADC, DEQ, ADE, and DOR. These transfers totaled \$34,175,000, which included a \$7,100,000 transfer from the General Fund.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) transferred a total of \$26,457,300 into the APF in FY 2015 for various projects in ADOA, ADC, DEQ, and DOR, as delineated in *Table 2*. This amount does not include a \$17,100,000 appropriation from the General Fund into APF for projects at ADE, DOR, and DCS.

Table 2				
Automation Projects Fund				
(\$ in thousands)				
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u> ^{1/}
Beginning Balance		11,125.3	8,075.7	(1.7)
Revenues				
General Fund – ADOA	16,800.0	18,400.0	18,400.0	9,202.0
General Fund – ADE		5,400.0	10,400.0	
General Fund – DOR		1,700.0	1,700.0	
General Fund – DCS			5,000.0	
Automation Charges		17,013.6		
ADOA Automation Operations Fund	4,200.0	8,130.0	9,057.3	
ADOA State Web Portal Fund	5,600.0	4,000.0		
ADOA Information Technology Fund	1,500.0	345.0		
ADC Inmate Store Proceeds Fund		5,500.0		
ADC State DOC Revolving Fund		2,500.0		
ADC Prison Construction and Operation Fund			5,500.0	
ADC Corrections Fund			2,500.0	
AHCCCS Traditional Medicaid Services			1,000.0	
DEQ Emissions Inspection Fund		5,000.0	5,000.0	
ADE Education Learning and Accountability Fund		1,600.0	1,600.0	
Total Funds Available	28,100.0	80,713.9	70,033.0	9,200.3
Total Expenditures (Current FY Appropriation)	16,974.7	66,738.0 ^{2/}	70,034.7	9,202.0
Total Expenditures (Previous FY Appropriation) ^{3/}		5,900.2		
Total Expenditures	16,974.7	72,638.2	70,034.7	9,202.0
Ending Balance	11,125.3	8,075.7	(1.7)	(1.7)
^{1/} FY 2016 only displays funding which has already been authorized by the Legislature.				
^{2/} Of this amount, \$5,225,100 was funded from the beginning balance.				
^{3/} Being used to complete FY 2013 projects.				