

Arizona Department of Administration - Automation Projects Fund

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
GENERAL FUND TRANSFERS ^{1/}			
AFIS Replacement	18,400,000	2,383,000	0
e-Procurement System Replacement	0	0	3,000,000
General Fund Transfer (ADE)	10,400,000	5,400,000	7,300,000
General Fund Transfer (DOR)	1,700,000	0	0
General Fund Transfer (DCS)	5,000,000	0	4,581,600
TOTAL - ALL PROJECTS	35,500,000	7,783,000	14,881,600
FUND SOURCES			
General Fund	35,500,000	7,783,000	14,881,600
SUBTOTAL - Appropriated Funds	35,500,000	7,783,000	14,881,600
TOTAL - ALL SOURCES	35,500,000	7,783,000	14,881,600
INDIVIDUAL PROJECTS - Automation Projects Fund ^{2/}			
Department of Administration			
<i>Full Time Equivalent Positions</i>	75.0	75.0	15.0
AFIS Replacement	16,783,600	2,383,000	0 ^{3/}
e-Procurement System Replacement	0	0	12,000,000
ASET Initiatives			
SDC/ Network and Security Infrastructure	3,108,600	2,625,000	5,700,000
Security, Privacy, and Risk	2,849,000	3,125,000	3,248,400
Enterprise Architecture	230,000	500,000	1,050,000
Project Management	1,570,900	2,150,000	1,500,000
E-Government	325,000	1,075,000	1,300,000
Web-Portal Transition Costs	171,300	0	0
IT Consolidation Assessment	0	0	800,000 ^{4/}
ASET Initiatives Subtotal	8,254,800	9,475,000	13,598,400
Department of Administration Subtotal	25,038,400	11,858,000	25,598,400
Department of Corrections			
AIMS Replacement	8,000,000	0	8,000,000 ^{5/6/}
Department of Economic Security			
Information Technology Security	0	936,400	1,294,700
Department of Environmental Quality			
E-Licensing	5,446,600	5,000,000	0 ^{7/}
Department of Education			
Education Learning and Accountability System	11,661,900	7,000,000	7,300,000 ^{9/10/11}
Department of Child Safety			
CHILDS Replacement	0	0	4,581,600 ^{8/}
Department of Revenue			
Enterprise Tax System Assessment	0	0	1,000,000
Data Security and Encryption	5,024,300	0	0
Tax Analysis Improvements	566,700	0	0
Tobacco Tax System	1,000,000	0	0
Department of Revenue Subtotal	6,591,000	0	1,000,000
TOTAL - ALL PROJECTS ^{12/13/}	56,737,900	24,794,400	47,774,700^{14/}

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	56,737,900	24,794,400	47,774,700
SUBTOTAL - Other Appropriated Funds	56,737,900	24,794,400	47,774,700
SUBTOTAL - Appropriated Funds	56,737,900	24,794,400	47,774,700
TOTAL - ALL SOURCES	56,737,900	24,794,400	47,774,700

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.

- 1/ General Fund monies are transferred into the Automation Projects Fund (APF) to finance certain projects. See *Table 2* for Non-General Fund transfers into the APF. These individual transfers are discussed in the narrative as part of the individual projects listed in the APF section.
- 2/ Represents expenditures from the APF. The FY 2015 Actual column includes expenditures from FY 2014 appropriations in FY 2015.
- 3/ For the funding for the replacement of the Arizona Financial Information System, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 for the Arizona Financial Information System replacement project at the Department of Administration are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ On completion of the assessment, the Department of Administration shall submit to the President of the Senate, the Speaker of the House of Representatives and the Joint Legislative Budget Committee a report that summarizes the assessment. Any new information technology project with an estimated total cost of greater than \$15,000,000 may not begin until the completion of the assessment. (General Appropriation Act footnote)
- 5/ For the funding for the State Department of Corrections' replacement of the Adult Inmate Management System project, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 for the replacement of the Adult Inmate Management System at the State Department of Corrections are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 6/ The funding for the State Department of Corrections' replacement of the Adult Inmate Management System 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 2017 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2017 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)
- 7/ For the funding for the Department of Environmental Quality's e-licensing projects, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 for the e-licensing projects at the Department of Environmental Quality are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint legislative Budget Committee. (General Appropriation Act footnote)
- 8/ For the funding for the Department of Child Safety's replacement of the Children's Information Library and Data Source System project, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 for the replacement of the Children's Information Library and Data Source System at the Department of Child Safety are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint legislative Budget Committee. (General Appropriation Act footnote)
- 9/ In addition to the \$7,300,000 appropriated to the Department of Administration, any remaining balances as of June 30, 2016 in the university and community college fee subaccount 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 to A.R.S. § 15-249. (General Appropriation Act footnote)
- 10/ It is the intent of the Legislature that the appropriation made by subsection E of this section be used first and foremost to complete a significant portion of the replacement of the Student Accountability Information System established by A.R.S. § 15-1041. 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 \$7,300,000 FY 2017 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. (General Appropriation Act footnote)

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. 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.

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

A FY 2017 General Appropriation Act (Laws 2016, Chapter 117) 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.

Pursuant to A.R.S. § 41-3504, any large-scale information technology (IT) projects in the APF with a total cost greater than \$5,000,000 must receive relevant third-party analysis from an independent contracted vendor before receiving approval from the Information Technology Authorization Committee (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.

Department of Administration

AFIS Replacement

The budget includes no funding from the APF in FY 2017 for the replacement of the state's financial and accounting system, the Arizona Financial Information System (AFIS). FY 2016 was the final year of the 4-year project named the Business Re-Engineering Arizona (BREAZ). This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(2,383,000) and (60) FTE Positions in the General Fund and a corresponding decrease of \$(2,383,000) from the APF in FY 2017 to align expenditures with the completion of the project to replace AFIS. The new AFIS system went "live" on July 1, 2015.

The 4-year project was estimated to cost \$73,000,000. (Please see the FY 2015 Appropriations Report for history of BREAZ funding.) 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 awarded a \$47,700,000 contract to Consulting for Government and Industry (CGI) to construct the new AFIS system over 4 years. This amount included \$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 devoted as many as 81 FTE Positions to this project, with some located on-site.

- 11/ 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 \$7,300,000 FY 2017 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2017 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)
- 12/ 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)
- 13/ The Department of Administration shall submit to the Joint Legislative Budget Committee, within 30 days after 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)
- 14/ Any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2016 are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2016. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2016 in the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

ADOA staff costs for the project were estimated to total \$16,000,000 through FY 2016. The most significant portion of state staffing costs was \$11,700,000 allocated to hiring 40-43 FTE Positions during the design, build, and test phases of the project. FTE Positions include staff 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. Of the state's project costs, \$6,002,000 of the budget was shifted to the ADOA's AFIS line item for annual operating costs. This total includes 28 FTE Positions for ongoing technical support and development. *(Please see the Arizona Financial Information System discussion in the Other Issues section of the regular ADOA budget for more information.)*

Given the complexity of large-scale IT projects, ADOA contracted with a third-party consultant 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. The FY 2017 budget requires ADOA to use \$3,103,000 of the contingency to replace the state's e-procurement system. The remaining funds are for third-party oversight and rent for the project staff. *(Please see the discussion of the e-Procurement System Replacement project below for more information.)*

e-Procurement System Replacement

The budget includes \$12,000,000 from the APF in FY 2017 for the replacement of the state's e-Procurement system. This amount funds the following adjustments:

e-Procurement Project

The budget includes an increase of \$12,000,000 from the APF in FY 2017 for the replacement of the state's e-procurement system. This appropriation will be financed by transfers from:

	<u>FY 2017</u>
General Fund	\$3,000,000
Other Funds	9,000,000

The \$9,000,000 Other Funds amount consists of one-time charges to other appropriated and non-appropriated funds for transfer to APF.

In addition, the budget requires ADOA to use \$3,103,000 from the unused AFIS contingency to replace the e-procurement system. The total cost of the project is expected to be approximately \$15,000,000.

The state's e-procurement system, ProcureAZ, was implemented in 2010. The system serves as an online, publicly available, official procurement record and allows state agencies to manage solicitations, requisitions, and purchase orders, and notify registered vendors of available solicitations.

ADOA reports that the current system lacks the ability to integrate with AFIS to record purchase order and invoice transactions. In addition, the current system lacks advance data analytic capabilities to track spend data such as contract utilization of cross-agency contracts.

ASET Initiatives

The budget includes \$13,598,400 and 15 FTE Positions from the APF in FY 2017 for ongoing IT projects by the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The 15 FTE Positions will assist in managing all projects funded from the APF. This amount funds the following adjustments:

ASET Alignment

The budget includes an increase of \$4,123,400 from the APF in FY 2017 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

The FY 2017 \$13,598,400 appropriation will be financed by a transfer of \$7,420,600 from the ADOA Automation Operations Fund, \$5,650,000 from the State Web Portal Fund, and \$527,800 from the Information Technology Fund to the APF.

The FY 2017 appropriation will fund projects continuing from FY 2016, pay for Personal Services and Employee Related Expenditures to manage and oversee It projects statewide, as well as fund new projects for FY 2017. This \$13,598,400 consists of the following:

- \$5,700,000 to implement network infrastructure and security core at a third-party off-site data center to provide connectivity for agencies to move their data centers to a privately-operated location.
- \$3,248,400 to improve the security, privacy, and risk of the state's IT systems, including implementing firewalls and encrypting private and sensitive information.
- \$1,050,000 to improve enterprise architecture, including developing a statewide IT governance model, data governance and collaboration, and statewide IT professional development.

- \$1,500,000 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.
- \$1,300,000 to enhance E-government, by improving the state's Enterprise Platform, assisting agencies with cloud migration, and expanding agency website capabilities.
- \$800,000 for a third-party IT consolidation assessment that assesses the implementation, transfer, coordination, and modernization of state agencies' IT systems. A budget footnote requires ADOA to submit a report on the summarizing completed assessment to the JLBC and prohibits any new IT project with a budget greater than \$15,000,000 from starting until the assessment is complete.

Department of Corrections

AIMS Replacement

The budget includes \$8,000,000 from the APF in FY 2017 for the third year of a \$24,000,000 project to replace the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC). This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$8,000,000 from the APF in FY 2017 for the third year of a \$24,000,000 project to replace AIMS. The FY 2017 appropriation would be funded from the following ADC funds:

- \$1,000,000 from the Penitentiary Land Fund.
- \$1,000,000 from the State Charitable, Penal and Reformatory Institutions Land Fund.
- \$1,000,000 from the Inmate Store Proceeds Fund.
- \$4,000,000 from the Special Services Fund.
- \$1,000,000 from the ARCOR Enterprise Revolving Fund.

The AIMS system will assist in the tracking, identification, population management, sentencing calculations, and the appeals and grievances processes for inmates in the correctional system. A total of \$16,000,000 (\$8,000,000 in FY 2014 and \$8,000,000 in FY 2015) has already been appropriated for replacement of the AIMS system. As of June 30, 2015, the department has expended \$8,000,000 of the FY 2014 appropriation. As of March 2016, the department has expended \$2,402,300 of the FY 2015 appropriation. Their plans propose spending \$8,000,000 in FY 2017. These monies would come from an

appropriation in FY 2017 and the remainder of the already appropriated funds.

A contract has been awarded to a vendor to oversee the modification of a commercial "off the shelf" system to fit the needs of ADC. Of the total project cost of \$24,000,000, \$16,349,800 is allotted to pay the vendor. The remainder of the project costs include:

- \$3,200,000 for training costs (overtime that will be needed) as staff learn how to use the program and for dedicated staff for the implementation phase.
- \$2,802,300 for cost contingencies.
- \$700,000 for equipment.
- \$450,000 for the costs associated with the system interfacing with other state agencies, law enforcement entities, and the courts.
- \$497,900 for the cost of third-party consultant review for the AIMS project.

The department estimates an ongoing maintenance cost of \$1,600,000 annually. With the projected schedule, the department anticipates the transition stage of setting up the new system occurring in March 2017.

The FY 2017 General Appropriation Act continues to appropriate any remaining FY 2015 AIMS project balances for use in FY 2017. ADOA shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the JLBC.

A FY 2017 General Appropriation Act footnote stipulates that AIMS 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 AIMS funding, as required by A.R.S. § 41-3504. ADC retains an outside consultant to provide ongoing analysis of the project; current reports by ADOA indicate the project is on schedule.

Department of Economic Security

Information Technology Security

The budget includes \$1,294,700 from the APF in FY 2017 for IT Security at the Department of Economic Security (DES). This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$358,300 from the APF in FY 2017 for IT security projects at DES. The \$1,294,700 FY 2017 APF appropriation is financed by a transfer from the DES Special Administration Fund. In FY 2016, \$936,400 was appropriated for this project to bring DES into compliance with state and federal security information technology standards. The \$936,400 APF appropriation was also financed by a transfer from the DES Special Administration Fund.

In April 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$609,700 for IT security enhancements projects. Of that total \$487,800 is from the APF and \$121,900 is from Federal Funds. DES will utilize the funds to install Network Access Control (NAC) software to prevent unauthorized computers and wireless access points from accessing DES' network. This project will bring the DES IT system into compliance with National Institute of Standards and Technology (NIST) security control standards. The department expects to complete the project by June 30, 2016.

The department has not yet requested JLBC review for the remaining \$448,600 appropriated from the APF in FY 2016.

The FY 2017 APF funds will be used for the following security components:

- Network segmentation and isolation to allow for the separation of data for each division within DES so the entire network will not be compromised by a single security breach.
- Cisco's Application Centric Infrastructure (ACI) to allow DES to manage the flow of sensitive data by application.
- Application multi-tenancy to enhance security and functionality of the newly-segmented network.
- A single updated file transfer solution to reduce risks of transmissions of internal and external data and to ensure that DES is in compliance with federal regulations.

Department of Environmental Quality

E-Licensing

The budget includes no funding from the APF in FY 2017 for E-Licensing. This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(5,000,000) from the APF in FY 2017 for the Department of Environmental Quality (DEQ) E-Licensing project. In FY 2016, \$5,000,000 was appropriated for this project to automate business processes within DEQ. This appropriation was financed by a transfer from the Vehicle Emissions Inspection (VEI) Fund to the APF.

Between FY 2014 and FY 2016, a total of \$16,800,000 has been appropriated to automate 50 business processes (12 processes in FY 2014, 22 processes in FY 2015, and 16 processes in FY 2016) within DEQ. The 50 automated processes will allow customers to conduct permitting, billing, payment, and data submissions online.

In addition, the budget continues to appropriate any remaining FY 2016 and FY 2015 DEQ project balances for use in FY 2017 (*see the FY 2016 Appropriations Report for history of this funding*).

A FY 2016 General Appropriation Act footnote stipulates that DEQ 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 are required to provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of DEQ funding, as required by A.R.S. § 41-714.

DEQ contracted with a third-party vendor. ADOA and DEQ provided ITAC and JLBC with a recent report from this contracted third-party when it sought review of its FY 2015 funding, as required by A.R.S. § 41-714.

In the initial report, the vendor concurred with DEQ's approach and "can certainly see a credible path to success." 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, the portal is providing deeper functionality and assistance to users for fewer business processes.

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.

In the April 2015 report, the vendor reiterated its prior positive evaluation of DEQ's approach and software development methodology. The vendor noted that Phase 1 and Phase 2 deliverables were behind schedule due to unforeseen circumstances and changes to the scope of the project.

In the November 2015 report, the vendor provided a quarterly update. The report stated that “the view of the credible path to [project] success is much clearer.” The vendor gave an overall favorable evaluation of DEQ’s progress in incorporating recommendations from the previous third-party report.

In the March 2016 report, the vendor gave an overall favorable evaluation of DEQ’s progress in incorporating recommendations from the previous third-party report. The report stated that DEQ’s increased need for an enterprise data management strategy and framework is surfacing as a real risk and challenge but these challenges will be addressed by the recent identification of an Enterprise Data Architect.

In April 2016, DEQ received favorable JLBC review of its FY 2016 expenditure plan for Phase 3 of the project to automate 6 business processes.

Department of Education

Education Learning and Accountability System

The budget includes \$7,300,000 from the APF in FY 2017 for further development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE). ELAS will allow ADE to collect, compile, maintain, and report student level data for students enrolled in public schools. *(See the Department of Education - Education Learning and Accountability System section for more information.)*

This amount funds the following adjustments:

ELAS Development

The budget includes an increase of \$300,000 from the APF in FY 2017 for continued development of the ELAS project.

The FY 2016 budget included a total of \$7,000,000 in ELAS funding, including \$5,400,000 deposited into the APF from the General Fund and \$1,600,000 generated by mandatory fees of \$6 per Full-Time Student Equivalent (FTSE) from Arizona universities and community colleges. The FY 2017 budget eliminates the mandatory fees but offsets the \$(1,600,000) loss associated with the elimination of this funding component with a General Fund increase of \$1,900,000, for a total increase in project funding of \$300,000 in FY 2017.

As specified in the Legislature’s 3-year spending plan, the total of \$7,300,000 in funding in FY 2017 is a one-time appropriation.

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 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, \$12,000,000 was appropriated to primarily replace most of SAIS, further develop more streamlined data reporting, storage, and transfer systems, and roll out data dashboards to additional public schools.

In FY 2016, ADE intended to utilize the \$7,000,000 ELAS appropriation to continue work on SAIS replacement, add more schools to the state’s student information system (SIS) to leverage bulk purchasing power, and fund other project management functions.

Delays in vendor certification and development led the Department of Education to pursue a “dual system” in FY 2016, in which the new school payment system has run parallel to the existing SAIS platform, which has continued to make school payments in FY 2016.

The FY 2016 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15) required that districts calculate their per pupil funding allocation based upon current year Average Daily Membership (ADM) counts beginning in FY 2017, rather than prior year counts. As a result, the Department of Education has been required to divert FY 2016 ELAS development resources to reconfigure the school payment system to accommodate current year funding.

Section 129 of the FY 2017 General Appropriation Act specifies that it is the Legislature’s intent that FY 2017 funding be used first and foremost to complete a significant portion of the SAIS replacement. The section further required ADE to provide quantifiable deliverables of the Legislature’s intent to ITAC and the JLBC when seeking review of their FY 2017 expenditures, as required by A.R.S. § 41-714, which occurred in May and June 2016.

Section 129 also makes FY 2017 funding 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 2017 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.

Since FY 2014, ADE has contracted with a third-party vendor to provide additional oversight for the project, in accordance with an ongoing General Appropriation Act footnote.

The October 2015 ELAS third-party quarterly performance review noted that “ADE has made significant progress on the dual option approach despite resource constraints” and “appears to be close to proving the viability of the AzEDS data collection approach.” The report states that “the work so far has laid an excellent foundation upon which to construct additional functions and services.”

The April 2016 review notes that ADE recently completed its review of the business rules in ELAS and confirmed that they correctly reflect statute. The review attributes the remaining differences in ADM counts between SAIS and ELAS to more accurate treatment of data under ELAS (e.g. tracking student absences in minutes, rather than simply as “part” or “full day”).

The April 2016 review also states that efforts to switch to current year funding are “on schedule” and that “there is little concern for the AELAS technical components” in this regard.

This review also noted that as of March 2016, the department had transitioned 400 of the more than 700 school districts and charter schools to AzEDS (accounting for approximately 50% of students), with 65-75 more migrating to the system each week.

As of May 2016, ADE has reported that more than 80% of districts and charter schools have transitioned to AzEDS, that all vendors have completed certification, and that remaining districts and schools will be required to complete the transition to AzEDS by September 1, 2016. ADE reports that SAIS will be decommissioned and no longer receiving new student data beginning FY 2017.

The department has indicated that its FY 2017 funding will support the ongoing development and operations of the ELAS system, the completion of the transition to the current year funding, the design of new school payment reports, and the continued implementation of tools for the Opt-in SSIS program. ADE reports that development

of the new school payment reports will be initialized but not completed in FY 2017.

Department of Child Safety

CHILDS Replacement

The budget includes \$4,581,600 from APF in FY 2017 to replace the Children’s Information Library and Data Source (CHILDS) system operated by the Department of Child Safety (DCS), also known as a statewide automated child welfare information system (SACWIS). The name of the new replacement system is Guardian. This amount funds the following adjustments:

Phase 2 Funding

The budget includes an increase of \$4,581,600 from APF in FY 2017 to fund Phase 2 of the CHILDS system replacement project.

The budget also appropriates any remaining FY 2015 DCS project balances for use in FY 2017. In addition to the \$4,581,600 of FY 2017 funding, DCS also has \$4,687,000 remaining from FY 2015 for total General Fund Phase 2 resources of \$9,268,600.

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 was originally estimated to be between \$40,000,000 and \$80,000,000, depending on the technology approach used during replacement. DCS now believes the cost to replace the system will be \$56,500,000, which includes the cost of state staff. DCS believes that the project will qualify for a 50% federal match rate. Currently, DCS spends \$16 million annually to service the existing CHILDS system. This annual maintenance cost will likely be the same for the new system.

DCS plans to implement the project in 2 Phases. In March 2015, DCS received ASET approval and a favorable JLBC review of its plan to spend \$313,000 of the \$5,000,000 appropriation for the Phase 1 Planning Project. The \$313,000 will draw down an equal amount of Federal Funds.

During the Phase 1 Planning Project, DCS contracted with Public Consultant Group (PCG) to prepare the project’s Request For Proposal (RFP). The consulting firm produced (1) a definition of user requirements (functional and non-functional) to a level of detail sufficient to complete all competitive bidding for Phase 2 of the project; (2) an alternative analysis, cost benefit analysis, feasibility study, and a final report; and (3) an implementation budget and cost allocation formula.

As part of its feasibility study, PCG analyzed 4 CHILDS replacement solutions:

1. CHILDS Modernization - Dismissed out of hand.
2. Framework based - Procure a child welfare case management product supported on an open architecture framework that can be configured to meet DCS business needs.
3. Integrated best-of breed - Best commercial off the shelf (COTS) products integrated together.
4. State system transfer - Copy another state’s system.

Table 1 outlines the costs and benefits of each replacement solution, according to the PCG report.

PCG Recommendation

PCG recommends that DCS procure a child welfare case management product supported on an open architecture framework that could be configured using modular products or components as necessary. This approach combines the benefits of options 2, 3, and 4. As a result, CHILDS would be built in segments (e.g., the ability to access system remotely, safety and risk assessment tool, hosting environment, case management, financial management, data warehouse, and data environment) rather than being replaced by a whole new system. A "system integrator" would be responsible for bringing together segment subsystems and ensuring that those subsystems function together.

Under PCG’s synthesized recommendation, DCS could use a case management product from a contracted vendor. If a customized case management system were selected, there would be an unknown cost to integrate that system with the other modules, as well as an unknown cost related to ongoing subscriptions and licenses.

PCG recommends some incremental work in the near term. Listed below are 5 of PCG’s 13 incremental work recommendations:

- Develop or procure Safety and Risk Assessment tools or other assessments that can initially work with CHILDS and later be used in the design of the new systems.

- Initiate the review and redesign of most or all of the existing CHILDS reports to the Tableau Reporting tool and reporting database. This will facilitate transition from CHILDS to the new system by having one consolidated source of data for reporting.
- Plan for advanced data analysis.
- Implement a standalone mobile solution.
- Implement caseload management reports.

Table 1			
CHILDS Replacement Alternatives			
	Option 2	Option 3	Option 4
Name	Framework-Based	Integrated Best-of Breed	State System Transfer
Definition	Procure a child welfare case management product supported on an open architecture framework that can be configured to meet DCS business needs	Procure functional and non-functional modular products or components and integrate them to meet DCS business needs	Procure system integration services to transfer a SACWIS compliant system from another state with similar business processes
Primary Benefit	Contains core DCS functions out of the box	Allows for continuous modernization (i.e., future proof)	Proven, simple to implement
Primary Limitation	No vendor has implemented this solution for child welfare in the last 7 years	Difficult to find a system integrator with the level of skill necessary to build the solution	Significant concerns about the ongoing maintainability and sustainability; custom solution, so competitive procurement and maintenance would be difficult
Incremental Benefits	Yes	Yes	No
One-Time Cost	\$57,000,000	\$75,000,000	Not provided
Annual Reoccurring Costs	\$15,000,000	\$17,000,000	Not provided
Implementation Time	3.5 years	4.5 years	Not provided

During Phase 2, DCS will begin to publish RFPs for the different modules of the new CHILDS system. DCS will also select a vendor to integrate the modules of the new system. It is anticipated that after the RFP is awarded, Phase 2 of the project will last through FY 2020.

A FY 2015 General Appropriation Act footnote stipulates that CHILDS replacement funding is contingent upon DCS

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. As a condition of receiving funding for technology infrastructure in June 2016, the third-party consultant is to submit a report to JLBC by the last day February, May, August, and November of each year.

Department of Revenue

Enterprise Tax System Replacement Assessment

The budget includes \$1,000,000 from the APF in FY 2017 to assess the replacement of the enterprise tax system at the Department of Revenue (DOR). This amount funds the following adjustments:

Enterprise Tax System Replacement Assessment

The budget includes an increase of \$1,000,000 from the APF in FY 2017 for vendor services to assess the available options to replace DOR’s existing primary tax system.

The FY 2017 \$1,000,000 appropriation will be financed by a transfer from the Liability Setoff Program Revolving Fund to the APF.

The Business Reengineering and Integrated Tax System (BRITS) is the IT tax system for collecting and processing tax data used by DOR and is made up of 2 separate programs: 1) the Taxpayer Accounting System (TAS) which processes Individual Income Tax, Transaction Privilege Tax, and Withholding Taxes, and 2) AZ Taxes, which is the web-based application that allows taxpayers to register, file and pay their taxes online.

DOR has reported that BRITS is outdated and in need of replacement due to reduced software support and an antiquated programming language that makes the system cumbersome to use and difficult to modify. The \$1,000,000 will be used to hire a vendor to lead the assessment and selection phases which will identify options to replace BRITS with a modern commercial-off-the-shelf tax system. DOR estimates these phases will take approximately 1 year to complete.

Other Issues

Additional Legislation

ADE Intellectual Property

Laws 2016, Chapter 317 establishes the Department of Education Intellectual Property Fund and allows ADE to

deposit and retain 40% of the profits generated by the sale or lease of software, computer systems, or intellectual property that it develops. The remaining 60% shall be deposited into the General Fund.

ADE has reported that other states have expressed interest in the system capabilities developed as part of the ELAS project and believes it may be able to recoup project development expenses and/or provide support for the ongoing operational costs through the sale or lease agreements with other states.

ADE may not utilize monies in the Intellectual Property Fund for marketing purposes. Monies in the fund are subject to appropriation, but no appropriation is provided in the FY 2017 budget.

Third-Party Quarterly Reports

For IT projects over \$5.0 million, A.R.S. § 41-3504 requires agencies to contract with an independent contractor for a third-party review of the proposed project. 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. The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127) requires agencies to submit an independent third-party report regarding the progress each project over \$5.0 million to ITAC and JLBC on or before the 30th day following the last day of each calendar quarter.

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, the General Fund deposits into the APF costs are projected to decrease by \$(9,881,600) in FY 2018 below FY 2017 and remain unchanged in FY 2019. These estimates are based on:

e-Procurement System Replacement

The long-term estimates assume funding for e-Procurement System replacement will decrease by \$(3,000,000) in FY 2018 to zero. There would be no funding for the project in FY 2019.

Educational Learning and Accountability System

The long-term estimates assume the General Fund deposit for ELAS will decrease by \$(7,300,000) in FY 2018 to zero. The estimates assume there would be no General Fund funding for the project in FY 2019.

CHILDS Replacement

The long-term estimates assume funding for CHILDS Replacement would increase by \$418,400 in FY 2018 to the level of \$5,000,000. Funding would remain unchanged at this amount in FY 2019.

APF Revenues and Transfers

Since the APF's inception in FY 2013, state agencies have transferred monies into the APF to finance specific IT projects. *Table 2* summarizes APF revenues from FY 2015 through FY 2017.

Table 2			
Automation Projects Fund			
(\$ in thousands)			
	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Beginning Balance	40,843.4	46,062.8	6,549.1
Revenues			
General Fund Appropriation	18,400.0	2,383.0	
General Fund Transfer (ADOA)			3,000.0
General Fund Transfer (ADE)	10,400.0	5,400.0	7,300.0
General Fund Transfer (DOR)	1,700.0		
General Fund Transfer (DCS)	5,000.0		4,581.6
e-Procurement Automation Charges ^{1/}			9,000.0
ADE Education Learning and Accountability Fund	1,600.0	1,600.0	
ADOA Automation Operations Fund	9,057.3	5,700.0	7,420.6
ADOA State Web Portal Fund		3,775.0	5,650.0
ADOA Information Technology Fund			527.8
ADC Inmate Store Proceeds Fund			1,000.0
ADC Special Services Fund			4,000.0
ADC Prison Construction and Operations Fund	5,500.0		
ADC ARCOR Enterprise Services Revolving Fund			1,000.0
ADC State Charitable Land Fund			1,000.0
ADC Penitentiary Land Fund			1,000.0
ADC Corrections Fund	2,500.0		
AHCCCS Traditional Medicaid Services	1,000.0		
DES Special Administration Fund		936.4	1,294.7
DEQ Emissions Inspection Fund	6,800.0	5,000.0	
DOR Liability Setoff Program Revolving Fund			1,000.0
Total Funds Available	102,800.7	70,857.2	54,323.8
Total Expenditure (Current FY Appropriation)	30,521.0	24,794.4	47,774.7
Total Expenditure (Previous FY Appropriation)	26,216.9	39,513.7	6,549.1
Total Expenditures	56,737.9	64,308.1	54,323.8
Ending Balance ^{2/}	46,062.8	6,549.1	0
^{1/} The FY 2017 amount consists of charges to eligible state agency funds for the replacement of the state's e-procurement system.			
^{2/} The FY 2016 ending balance includes \$4,197,800 of unspent AFIS replacement project funds.			