

State Budget Systems: Considerations to Modernization

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Overview

States are increasingly facing demands to modernize their budget systems as technologies advance, business processes change, workers retire and old or legacy software systems no longer remain viable. Like any large-scale information technology (IT) project, upgrading a state budget system is a substantial undertaking. Moving to a new budget system, whether it is an off-the-shelf product or a custom-built system, requires planning, resources, communication and stakeholder involvement. While efficiency gains and cost reductions can be achieved from new systems, budget officers, agencies and elected officials face a significant amount of risk if implementation goes awry. In such instances, the toll on staff morale, service recipients and state resources can offset any potential benefits. This brief identifies risks and highlights good practices for budget officers, procurement specialists and IT project managers to consider in the acquisition and implementation of a new budget system.

Introduction

State budget systems vary in their complexity and purpose, depending on the role of the budget office. At the very least, a budgeting system needs to facilitate the compilation of agency needs into a single, executive proposal for legislative consideration. After the budget is enacted and becomes law, the spending plan must then be executed. A budget system may or may not be used to execute the budget. For example, after budget approval in some states, the budget is executed through the accounting system. However, this means that even a basic budget system still needs to accommodate many users across executive branch agencies that are responsible for budget development.

Many budget systems also need to be integrated with other financial management systems in order for the budget office to carry out its duties of execution. Budget systems are often modernized as part of a larger upgrade of a state's financial management system. More complex budget systems interface with software used for other business processes such as accounting, grants management, procurement or payroll. As budget officers look to modernize financial management, they are pursuing budget systems that can leverage other financial data that is collected and reported by the state to control costs, improve decision support and promote overall financial accountability.

States build and execute budgets using a variety of different software systems. Some states have a custom software program that is specifically designed to fit the needs of the budget office and agencies. This allows for greater control, reduces contractor risks and can result in an IT system that better navigates statutory guidelines and regulations. However, custom budget systems have drawbacks as well. The software is less likely to keep pace with technological change, it relies more on niche expertise for engineering and maintenance and is less likely to be well-integrated with other financial systems in the state, such as accounting and payroll that may rely on market-based software solutions.

In contrast to custom software programs, a number of states have budgeting systems that are off-the-shelf products designed by large IT companies. By using a budget system that is offered through the commercial marketplace, states gain wider access to IT expertise; they may modernize their system more frequently and develop improved functionalities as technology advances. Off-the-shelf products can also be configured and adapted to meet the disparate needs of states, but

they too pose a different set of risks than custom-built budgeting systems. With a more standardized budget system, states' budgeting needs become vulnerable to a potential change in company ownership, termination of ongoing support from the developer, and differing incentives between the state and the software company. Significant risks can also arise from overly configuring an off-the-shelf product early on in the implementation process, before all the needs of the budget office, agencies and officials are fully considered.

Acquiring a New Budget System: Considerations and Needs

There is a significant amount of planning and outreach that goes into the acquisition of a new budgeting system. Many states have found that greater up-front strategic planning can increase the likelihood that a system modernization will be successful. One of the first decisions is whether the state should design a custom budget system or purchase an off-the-shelf product. This requires an in-depth needs assessment by the budget office, users of the budgeting tool, such as executive branch agencies, and state IT officials. Conducting a needs assessment in conjunction with a state IT strategist can reduce information gaps and facilitate a decision within the context of the state's entire IT portfolio.

Throughout the needs assessment, many states may find that financial IT systems are too siloed or independent. This has led many states to implement an Enterprise Resource Planning (ERP) system, which is a suite of integrated software applications for common business functions like budgeting, payroll, accounting, credit or cash transactions, etc. State ERP systems allow information to be shared across different databases through a centralized repository and are designed to meet a broad array of financial management needs, with budgeting being just one of several. State budget planners have to assess the likelihood of needing to interface with an ERP system in order to successfully develop and execute the budget. Integrating financial data between the budget system and ERP system has proven to be difficult for state budget offices in the past. Additionally, the ERP suite may determine the options available for a new budget system, or the budgeting module available for the ERP system may not meet all of the needs of the budget office.

In conducting a needs assessment, budget officers have stressed the importance of the output from a new budget system and how the end result contributes to decision-support for the governor and the legislature. While the user experience at the agency level is important, the data analysis and decision-support capabilities on the output side of the budget system are critical. Budget officers are looking for systems that can deliver the right information at the appropriate level in a timely manner, and in a way that is consistent and without duplication to that of other financial reporting systems.

Traditionally, state budget systems have been designed to support line-item budgeting and more recently, aspects of program budgeting and performance budgeting. Increasingly, there is greater emphasis on measuring outcomes and linking common budget activities across agencies to track a desired result from expending state resources. For example, spending that targets college readiness in K-12 education programs may be linked with higher education appropriations and institutional outcomes such as four-year completion rates. Budget systems that can provide data analysis tools that link spending across agencies to desirable outcomes are better suited for providing the kinds of decision-support information relevant in today's fiscal environment.

A key selling point for budgeting products on the market today is that they are highly configurable, which appears appealing for states looking to tailor software to meet their needs. However, over-configuring a budget system right from the start of the implementation phase has proven problematic for states in the past. Although software programs have configuration capabilities, they should not be overly utilized until the budget system has been in place for a cycle or two. This will allow agencies time to provide feedback on the system and reduce the extent to which potentially unnecessary capabilities are built into the system. Budget officers have noted that the required level of data entry for budget requests should be useful for the decision-making process. Software programs that change the way budget requests are made or executed may also require a revised statutory framework. Before considering configuration, it is important to understand the legal framework for budgeting and how it may hinder the changing business needs of government and technology.

The Request for Proposal

After states have conducted a thorough needs assessment and made the decision to buy or build a budget system, they will submit a request for proposal (RFP) if looking to work with a vendor. In putting together an RFP, the budget office will need to work closely with the state procurement office and IT strategists to produce a proposal for vendors to competitively bid on and win the contract. Developing an RFP is a substantial task because it outlines all the legal, technological and contractual requirements that must be met by the company responsible for developing the budget system. To limit future problems with a new budget system, budget officers generally recommend spending a lot of time and effort developing the requirements of the new system. Conducting demonstrations with different vendors using state data is a good way to see a prototype of the new budget system in action. And inviting agency heads and state IT leaders to the demonstrations can help build stakeholder support for the final decision.

In producing an RFP, it is important to think about the business needs of the budget office, governor's office and system users, as well as different business models that pervade state government. This can help frame the partnership that the budget office is seeking to cultivate with a private company, which extends beyond the original purchase of the product. To reach a decision on the right vendor that can meet the needs of the state, there should be a plan for how the system will be maintained and supported over the lifecycle of the system. And the winning vendor should be able to provide insight on how the product can be adapted to other financial systems that may undergo change in the future. Despite the importance of the RFP, it is not recommended to pick a vendor just because they are able to navigate the regulations and the RFP process. States should seek to find the best vendor for the job, not the vendor best able to complete the proposal, because submitting a successful bid is different from actually developing and implementing a new budget system. Also, some states have found that the lowest bid may not be the best fit for the project.

Implementing and Maintaining the Budget System

Once a new budget system has been built or procured, plans for system implementation and maintenance need

to be in place. Going “live” with a new budget system carries risk for both the budget office and elected officials. Failures can lead to project cancelation, cost-overruns, and frustration amongst system users and budget staff. To counter such risks, it is helpful to keep the implementation of the new budget system simple from the outset, even if more complex capabilities are available. Another way to hedge risk of system failure is to go “soft live” with a new budget system while keeping the old system temporarily in place. This may create extra work for users but allows for kinks to be smoothed out with a backup system on standby. Phased-implementation of a new budget system also allows for greater cohesiveness overtime because users learn throughout the process.

Successful data integration from different financial management systems is often cited as a challenge to budget system implementation, partly because software applications used for various financial management activities are managed by different vendors. For example, the accounting system may use software developed by a different vendor than the budget system. This can make communication between the programs difficult, particularly if the internal architecture from two software applications is incompatible. Data integration issues can arise even when using a suite of products all managed by the same vendor.

After the initial implementation phase, modern budget systems have additional capabilities that can be configured or adapted depending on the needs of the budget office. Implementing different aspects of the budget system in various phases can limit agency and budget office work demands, while allowing room for gradual improvements. States also have the option to conduct incremental software upgrades to extend the budget system's lifecycle. By working with vendors, post-implementation configurations and incremental software updates can help strengthen and modernize the budget system over time.

Conclusion

Some of the biggest challenges for states considering a new budget system are the unknown risks that arise from large-scale IT upgrades. Such risks may not stem from the new budget system, but instead may originate from old, legacy systems that limit the functionality of new software. A new budgeting system that is difficult to integrate with a state's

old accounting system may leave stakeholders feeling like they have taken a step backwards on the road to budgeting modernization. Unknown risks like data integration can make the prospect of relying on legacy software systems look more appealing because the state may end up worse off from an efficiency standpoint, than before the upgrade. However, as technologies advance, states are facing demands to update their budget systems and to keep pace with other software applications being used across state government. New budget systems are not only needed in

such an environment, but they can also be used to leverage the financial data already being collected and reported by the state to improve financial management, resource allocation and overall accountability. Information technology is changing rapidly and many states will be considering changes to their budget system over the next few years. Successful upgrades require a degree of caution to ensure thoughtful strategic planning, along with enough foresight to modernize legacy systems before they become unworkable.

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