These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks

report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

HOUSE COMMITTEE ON AGENCY REORGANIZATION AND REFORM

February 28, 1991Hearing Room D 3:30 p.m.Tapes 31 - 32

MEMBERS PRESENT:Rep. Clarno, Chair Rep. Katz Rep. Derfler

MEMBER EXCUSED: Rep. Brian Rep. Clark Rep. Jones

MEMBERS ABSENT:Rep. Hugo, Vice-Chair

VISITING MEMBER:Rep. Cease

STAFF PRESENT: Susan Browning, Committee Administrator Scott Kaden, Committee Assistant

MEASURES CONSIDERED:None - Informational Meeting Only

WITNESSES:State Accounting Systems - John Radford, Administrator of Executive Department Accounting Division.

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TAPE 31, SIDE A

005 CHAIRPERSON CLARNO: Calls the meeting to order at 3:34 p.m.. Addresses the business of the committee. Introduces John Radford.

048 REP. KATZ: Madame Chair, do you know if there is a report on accounting by the Legislative Audit Committee?

049 JOHN RADFORD, ADMINISTRATOR OF EXECUTIVE ACCOUNTING DIVISION: I believe we have brought forth a report at one point.

050 CHAIRPERSON CLARNO: Do you how long ago it was done?

051 REP. KATZ: It was done at the same time as Housing, the Children's report, as well at the JPTA program.

052 CHAIRPERSON CLARNO: Susan will look into that matter.

053 RADFORD: Introduction of himself and his division. - Discussion of compartmentalization of the State's accounting systems (see submitted written testimony). It is pretty unrealistic to expect these dated systems to provide the State with the services that we feel are necessary. Reference to page 2, EXHIBIT A (master plan). Reference to page 3, Exhibit A. (Concentrate on dotted lines which represent, for the most part, manual repetitive processes). - In addition to our concern about outdated technology, we also have to deal with many more accounting standards than in previous years. - Reference to page 4, Exhibit A, (Problems with our present system).

190 CHAIRPERSON CLARNO: The Committee Administrator and staff have been working on information concerning publications and the different costs associated with printing, graphics, postage, etc. They found that in each agency, there is a different code denoting what indicates what. Is that the type of thing you are speaking of?

196 RADFORD: Yes, that is the type of thing we are talking about. We have a different account code structure for our budgeting system. We have a different account code structure for our accounting system. Then, within that accounting system, we have an overwhelming proliferation of accounts. We probably have around 8,000 accounts, and that is just an estimate. You may have twenty to thirty accounts to choose from in order to classify a particular expenditure. It is very difficult to get enterprise-wide accounting and financial information. That is one of the reasons why it takes us six months to produce a financial statement that we feel comfortable with, just so it can be subjected to an audit. After the audit of the financial statement, we are looking at another six months needed to get a financial statement out of our office.

214 REP. KATZ: How did this get so bad?

215 RADFORD: I don't want to be too negative about this, but you have to think about the evolutionary nature of systems. You also have to look at the compartmentalization and specialization of state government. You have to understand that these systems are getting the job done (look at the bottom line).

222 REP. KATZ: You didn't answer my question. Was the Executive asleep at the switch? Were they not interested? What happened?

226 RADFORD: I don't think you could say the Executive Department was asleep at the switch. A lot of people knew about these problems, but they were facing financial pressures. No one wanted to ask for more cash to deal with the problem, especially in the face of Measure 5.

234 REP. DERFLER: I think we answered that the other day when we discussed the fact that we only look at two years at a time. Plus, the Board of Directors does not have the right to fire the CEO.

236 CHAIRPERSON CLARNO: The fact is, we are here for six months and the agencies have far too many issues to address in those six months. But please be aware of our frustration with regard to doing research and encountering the various accounting codes. - Please proceed with your presentation.

245 RADFORD: Reference to page 5, Exhibit A.

276 REP. DERFLER: I would question the value of integration. When you integrate to the degree that you speak of, one error equals seven errors. I am not sure that integration is always more efficient.

282 RADFORD: What we have found out in other states, that it is "doable." Three firms are providing accounting services to states. This is not viewed as a mega-system. This change can be done in small, manageable chunks. It must be well designed and well executed. There are states that have undergone this process.

300 CHAIRPERSON CLARNO: Do you have any error rates from other states which employ this system?

302 RADFORD: Madame Chair, I don't have that information at my finger tips. But I would be able to answer that question,   given some time. Certainly, there is no perfect system out there.

305 CHAIRPERSON CLARNO: So the states which have undergone this process utilize various systems? There is no state which has found that one system is better than another?

307 RADFORD: Fifteen of the states have utilized at least one of the major vendor's software package. That adds a lot of functionality and utility. As new accounting standards come down from the National Accounting Setting Standards, some efficiencies occur because you have one firm applying the new standards to fifteen states. Each state benefits from the other.

316 CHAIRPERSON CLARNO: I am a bit concerned with this discussion if you take it in the light of this costly CASCADE nightmare. I would want additional information so that I would know that we were not getting into another CASCADE scenario.

330 RADFORD: We could give you scenarios and written testimony from other states. For example, Washington State implemented a system about ten years ago. They can produce a financial statement much more efficiently than we. I knew Cascade would come up in our conversation. With accounting, we do have a good base of knowledge. We have plenty of history which documents successful accounting systems and their implementation.

357 REP. DERFLER: Would you run a parallel system during the change? Or would you make the changes all at once? You said that you would do it in chunks, what do you mean by that?

360 RADFORD: Even implementing the systems would be incremental. We would start with core accounting first, and then add in other applications. We wouldn't do a mega-system change all at once. We would take it application by application over a period of five to ten years. - Oregon is not set up in a centralized fashion to allow us to make a drastic change, by say July 1st. It would have to be implemented by teams on an agency by agency basis.

376 REP. DERFLER: Have you done any analysis on what that might save? Information doesn't mean anything unless it makes a change in your direction or effects your bottom line. If we went to this type of program, would we end up with less people? With a better system? Or would we just end up with more information?

383 RADFORD: We would not be saving lots of cash with implementation of

this system. There is enough not being done that should be done, specifically in the area of accounts receivable. We would be able to make better decisions. - Refers to page 6, Exhibit A. (Nine benefits of a new statewide financial system).

471 CHAIRPERSON CLARNO: One of the caseworkers who spoke to me about Adult and Family Services told me that in the Payment Unit Division, it would be possible to create a code number for a relative and send them cash. Do you think that is possible?

475 RADFORD: I am not really familiar with their dispersement system. I don't know exactly what that entails. Bill Miles might be able to address that issue.

TAPE 32, SIDE A

044 BILL MILES, Director of Audits, Secretary of State: I don't think I can answer that specifically because I am not personally familiar with the system. But I believe your worst fears could occur depending upon the controls within the specific branch offices. It is possible to create a fictitious case, and that did in fact occur.

054 CHAIRPERSON CLARNO: That is what I have been told, and I want to make sure I substantiated that before I brought it up to others involved.

054 REP. KATZ: The worst case would be if the client was an animal, a dog or something.

062 RADFORD: To follow up on that topic, no system could be made foolproof. If someone wants to do something badly enough, they will find a way. - Reference to page 7, Exhibit A. We are looking at options found within the third group.

077 CHAIRPERSON CLARNO: We have heard about the Data Processing Oversight Commission. Could you tell about their role?

083 RADFORD: That is an excellent point. We hope our project will result in a master plan that will give specific guidance to the different agencies. We want to tie what we do with the State's information systems plan. - Right now, we are unable to provide many services the agencies ask for. They come to us with genuine concerns and we cannot provide them with an answer. Often they have the resources and they are looking to us for a "yes" or "no." I cannot, in good conscience, say "no" when they have this real world need that they must cope with.

102 REP. DERFLER: Can you really make a five year plan, with technology changing so fast?

105 RADFORD: I think we can. Technology is an ever changing, moving target. Given our telecommunications capabilities, what we see in the marketplace will be a long term fix for the State. Those organizations that we have been dealing with are committed to keeping current with changes in technology and accounting standards.

116 REP. DERFLER: Can you utilize any of the programs that are presently out there?

117 RADFORD: We are looking at that right now. Generally, the feeling

is that our systems are so old, we would be worse off in the long run
and it would probably be more expensive.

122 REP. DERFLER: So it would be better to just start over again?

123 RADFORD: Basically what we have now is a checkbook.

124 CHAIRPERSON CLARNO: You mentioned a moment ago that there are
organizations that we are working with. You mean we are working with
some and not others, do some cooperate and others not?

127 RADFORD: What I meant by that was organizations that are in the
business of providing large accounting systems (governmental
applications) to large governments. There are basically three, maybe
four providers who are competitively bidding and have the horsepower
behind them to provide a system large enough to handle the state of
Oregon.

132 REP. DERFLER: Do you presently have a bid or a plan for the
possibilities that we want to look at?

134 RADFORD: Out of this master plan development process, based on the
"go forth" strategy, we will probably have the initial steps which the
state must take. One of those initial steps will probably be the
development of a Request for Proposal (RFP) and competitively bidding
for a particular package. "All we have done so far is invited, at their
nickel, if they would like to come to Oregon and conduct a three or four
hour training session so that members of the steering committee can get
an idea of what the parameters are. So far the steering committee has
attended two briefings and we have another one coming up in March. This
is at their cost."

147 CHAIRPERSON CLARNO: You mentioned that the agencies can, if they
have the money, go do what they would like as far as updating their
systems. You don't have the control over the agencies?

150 RADFORD: No, we do not have the control. We have funds in our
budget to maintain our current systems and for minor modifications.
But many applications are not provided in our current systems. So they
go out and develop their own sub-systems in order to meet their needs.

160 REP. DERFLER: They don't clear with anyone?

161 RADFORD: They are required to clear with the Executive Department
on two bases. One is technology and the other accounting. From the
accounting standpoint, we have to be functional. If we don't have the
capabilities to do what they ask for, then we have to act appropriately.

167 REP. DERFLER: If we had a master plan, then you could fit that in
to the system so they wouldn't be going on their own systems?

168 RADFORD: Yes, that is correct. We could mandate if we had a master
plan. The big question is the large systems that we currently have,
such as Higher Education and ODOT. With regard to Higher Education,
there is some discussion about their system being unique because of
different standards and integration with the student data base. It
might not make sense to bring them in to this system at the detailed
level, but clearly at some level their summary information should come
into the system and be available for policy makers.

186 REP. DERFLER: Certainly their general ledgers should be the same.

186 RADFORD: And that gets back to the account code structure and the integration of those accounting codes. ODOT is another example of the large, independent system. They have showed their willingness to join the Executive Accounting System, if it met their needs. They are very open in terms of integrating.

195 CHAIRPERSON CLARNO: Are there any suggestions that you might have that would get us a start on this project? What does the Joint Data Processing Committee do? Do they make recommendations? Are you familiar with them?

208 REP. DERFLER: I think they have been in effect since 1979, and yet we are still facing this sort of problem.

210 RADFORD: We came to the E-Board last August to get this project under way. We told the Legislative Data Processing Committee at that time that we would be happy to come back at each phase and report. Session has begun, and I don't think that committee has met. So I am going around, committee to committee, trying to tell my story, putting the issue on the table.

220 CHAIRPERSON CLARNO: I guess I am just trying to get an idea of how we can get on-line and start the process, even if we cannot make the $5 billion commitment.

229 RADFORD: Let me clarify that one comment. I meant with an organization spending $17 billion biennially, it would be wise to attempt to make the financial challenge even in the face of Measure Five.

237 REP. DERFLER: Wouldn't it be better to include all the other agencies into this?

240 RADFORD: That is what we were intending to do. We will provide a central system that all agencies can access.

243 REP. KATZ: I don't think you mean $5 billion to do this.

245 RADFORD: No. I am sorry, that is what I meant to correct. The $5 billion is not the cost of the system. From our information on other states, we are looking at $8 to $12 million, in comparison to other states.

256 REP. CEASE: Could you give us a sense of the system you would like if you had the money, and the savings that system would provide?

266 RADFORD: It is hard to get a handle on that. We suspect that there is a lot of waste in our system. It is difficult to quantify it. If you look at improved cash management, the wasted effort that is going into maintaining and feeding these systems, you are probably looking at millions and millions of dollars per biennium. It would be difficult to specifically quantify that figure.

281 CHAIRPERSON CLARNO: The main reason you can't is probably the same reason that the staff couldn't get publication and postage figures. It is impossible to follow the system because of the way it is done.

285 REP. KATZ: If you were going to do it in stages, what would it take to begin the first stage this biennium?

287 RADFORD: For this biennium, we do have budget hearing before Ways and Means. In our budget, we have one million dollars to start some effort. We are looking at starting that process about 14 months into the next biennium. That is when we would start spending the one million dollars. If we had more money, we would start earlier. That has to do with the progression of steps you need to go through and how much time and effort it would take to put this all together.

303 REP. KATZ: Madame Chair, this might be something that you would want to recommend. I think this is appalling and the Audit Committee would agree with me. If you were to look at the report, you would find recommendations to begin moving this.

307 CHAIRPERSON CLARNO: It is appalling. If you cannot find out how much you are wasting, then you will not have any concept at all.

312 REP. KATZ: It is not a sexy issue, but it is one of those things that keeps government going, or doesn't. Legislators don't really want to tackle it because it isn't sexy.

315 REP. DERFLER: Sometimes the agencies don't want us to know all these things. If the computer program could show us accurate figures, we could make better decisions if we had better information.

319 CHAIRPERSON CLARNO: I think that is absolutely correct. Mr. Radford, I hope that you will proceed with a very careful, well thought out plan that will work. I would like to see agencies told that if they could save so much money in their budget, that they could go ahead and proceed with updating within the master plan. I would also like to see you have some control so that you don't have agencies going out there and investing huge amounts of money in systems that are not compatible.

331 REP. CEASE: This is not sexy, so we put it off. It is like maintenance of state buildings. But after a while, it becomes a big issue. Could you provide at a later date, what the issue is of centralization and decentralization in reference to the control issue? (i.e. Higher Education) Who is controlling what, what priorities are going to be first and so forth. That does get into the picture. Saving money to the agency doesn't mean anything, especially if they lose control in the process. Isn't that correct, Mr. Radford?

351 RADFORD: I think that is correct. We want to make certain that the systems that we do install serve agency needs. If we do not link it with their business objectives, then we are developing a system that serves central needs better than it serves agency needs. If we serve agency needs first, then our needs get served.

366 REP. DERFLER: I think if that information were available, Ways and Means would have an easier time of understanding the various systems and their importance.

372 CHAIRPERSON CLARNO: I think you have provided this committee with some very helpful information that we can make recommendations on. I hope you find more friendly ears for your ideas.

376 RADFORD: Thank you very much. I appreciate your time.

377 CHAIRPERSON CLARNO: Thank you. That concludes the information meeting. We are adjourned (4:21 p.m.).

Submitted by: Reviewed by:

Scott Kaden   Susan M. Browning

EXHIBIT LOG

Exhibit A - John Radford - 7 pages