

Approved \_\_\_\_\_ Date 5-6-92

MINUTES OF THE House COMMITTEE ON Computers, Communications & Technology.

The meeting was called to order by \_\_\_\_\_ George Dean \_\_\_\_\_ at  
Chairperson

9:45 ~~xxx~~ p.m. on April 11, \_\_\_\_\_, 1992 in room Rail of the Capitol.

All members were present except:

All present

Committee staff present:

Julian Efird, Research

Conferees appearing before the committee:

A meeting was held at the "Rail" on April 11, 1992 at approximately 9:45 p.m., to discuss the draft report of proposed computer system purchase requested by the Lottery (attachment 1).

Rep. Patrick made a motion to delete Item 3, Page 1, and approve remainder of draft report. Seconded by Rep. McKechnie. Motion carried.

After discussion of State Finance Council authority and role of Governor, the meeting was adjourned until Friday, May 1, 1992.

DRAFT  
COMMITTEE REPORT

April 11, 1992

TO: House Appropriations Committee  
Senate Ways and Means Committee

FROM: House Committee on Computers, Communication, and Technology (CCT)

RE: Proposed Computer System Purchase Requested by the Lottery

The House CCT Committee reviewed, as requested by the House Appropriations Committee and the Senate Ways and Means Committee, the Lottery's proposal for a computer system acquisition project. The results of a Legislative Post Audit report, *Examining the Kansas Lottery's Plans for Acquiring New Computer Software and Hardware*, served as the basis of this review and the subsequent conclusions adopted by the Committee.

**> CONCLUSIONS AND RECOMMENDATIONS**

The CCT Committee concurs with the Legislative Post Audit report's conclusion that ACCLAIMS may well be the system that best serves the Lottery's needs. It is being used by six other state lotteries. But because the **needs analysis** for this project apparently was done solely with respect to what ACCLAIMS had to offer, there is much less assurance that the Lottery's true needs were evaluated. A more independent assessment would give the Kansas Legislature a basis for evaluating how well different products or alternatives might meet the Lottery's needs.

1. The CCT Committee recommends that an independent contractor be hired to perform a **needs analysis** as defined by the Legislative Post Audit report in its elements included in a **needs assessment** (pages 7-8 of the report). The CCT Committee recommends that the contractor not be an entity formerly or currently associated with the Lottery's proposal to acquire ACCLAIMS. The CCT Committee notes that at least five contractors were interviewed by DISC to provide a state contract for programming and services relative to performing this type of contractual service. It is highly recommended that DISC be consulted to provide a list of contractors who might provide this service. This work should begin in FY 1992 (the current fiscal year) and be paid out of the Lottery Operating Fund.
2. The CCT Committee recommends that during the 1992 interim, the Joint Committee on Computers and Telecommunications (JCCT), review the **needs analysis** to be performed by the contractor. The JCCT would make recommendations after reviewing the **needs analysis** in order for the Lottery to proceed. Once the Lottery has received approval for the proposed project, the agency would be expected to follow a number of additional steps as detailed on page 8 of the Post Audit report. The JCCT would monitor this acquisition process.
3. Another option would be for funding to be appropriated to the State Finance Council, subject to release after acquisition steps are completed by the Lottery. These steps would be subject to the approval of the JCCT, which could then recommend whether any or all of the FY 1993 amount appropriated for acquiring a new computer system ought to be released by the State Finance Council.

House CCT  
Attachment 1  
4-11-92

## > COMMITTEE CONSIDERATION

The Committee reviewed the Lottery's proposed computer system acquisition, which includes both software and hardware components. The original plan (see Attachment A) included information associated with the FY 1993 budget submitted to the 1992 Legislature. A revised plan was presented to the CCT Committee, and this second plan (see Attachment B) provides for additional expenditures.

The CCT Committee requested that the Chairperson of the Legislative Post Audit Committee authorize a 100-hour audit to examine the question, "Has the Kansas Lottery adequately planned for its computer software and hardware needs?"

That audit was approved by members of the Post Audit Committee, and the audit findings were presented to the CCT Committee on April 8, 1992, by staff of the Legislative Division of Post Audit. A summary of that report is included as Attachment C.

To answer the question about planning, the audit looked at various "systems design methodologies" to see what steps generally are included in a **needs assessment**. The report noted that depending on the size and scope of the project, the **needs assessment** may be done in-house or contracted out. In addition, an agency might seek planning moneys from the Legislature before seeking funding for new software or hardware.

This step should not be product-specific. Such a review should produce an independent assessment from which an agency can determine an appropriate course of action. Generally, the post audit report found that the Lottery's **needs assessment**, as performed by Andersen Consulting, was not independent. Andersen Consulting performed a "fit analysis" to show how their ACCLAIMS package would work for the Lottery.

An independent assessment would have given the Lottery a better basis for evaluating different products and other potential alternatives. The report also noted that the Lottery did not adequately consider variables that could affect costs, schedules, and probable benefits of its proposed new system before it submitted its FY 1993 budget request.

The CCT Committee has consistently recommended that a thorough **needs analysis** be undertaken by state agencies prior to proposing acquisition of computer systems. This **needs analysis** should include a review of both the hardware and software which would comprise the computer system. The conclusions and recommendations made by the CCT Committee reflect this particular point of view. The elements of a **needs analysis** as defined by the CCT Committee include:

1. A review of current operations.
2. An assessment of the current system's limitations and problems.
3. A definition of both immediate and long-term needs.
4. A review of the conceptual alternatives for addressing problems and meeting needs.

5. A review of the variables that might affect costs and schedules.

The CCT Committee believes that at least three alternatives which the Committee has heard about should be considered by the contractor, as well as others which the contractor might define. The three alternatives include upgrading the present computer system (hardware and software); purchasing a new computer system (hardware and software); and outsourcing the project by letting a contractor provide both the hardware and/or software for operating a computer system.

In addition to a **needs analysis**, the Committee believes that monitoring of the acquisition process would be warranted in the case of the Lottery. The Post Audit report lists a number of additional steps which agencies would be expected to follow after receiving approval for a proposed project. These steps are:

1. Conduct a system requirements definition.
2. Prepared detailed specifications.
3. Receive proposals and compare them with the agency's identified needs for its new system.
4. Make a selection.

The reviewing of the Lottery's **needs analysis** and the monitoring of any subsequent steps in the acquisition process could be accomplished during the 1991 interim by the JCCT.

> **BACKGROUND**

In a March 1, 1991, memorandum to the Division of the Budget, Lottery officials indicated a need for new computer software and hardware to replace the agency's LottoSTARTS software and Tandem computer system purchased in 1987. The total cost of the original computer system, including hardware, software and consulting, was \$1,608,846, according to the Legislative Division of Post Audit.

In the Governor's Budget Amendment No. 2 (April 18, 1991), addressed to the 1991 Legislature, the Governor recommended expenditures of \$100,000 in FY 1991, \$125,000 in FY 1992, and an FY 1993 payment which would range from \$1.15 to \$1.65 million to purchase a new computer system. The cost of the Andersen Consulting software known as ACCLAIMS and the IBM computer system necessary to operate the software was estimated at \$1.5 to \$2.0 million in the Lottery memorandum.

During the Omnibus period of the 1991 Legislature, the House added a proviso in 1991 H.B. 2640 prohibiting the acquisition by the Lottery of any new computer equipment and software in either FY 1991 or FY 1992. The Lottery was directed to submit its request for the proposed computer system and software to the 1992 Legislature as part of its budget request in order for a full review of the proposed acquisition to take place. The Senate concurred with the House proviso.

After June 12, 1991, the Lottery submitted its information management plan to the Division of Information Services and Communications, including details about funding being requested in FY 1993 for its proposed new computer system. The cost of the new computer system (which would include two AS/400 computers to replace both the Lottery's Tandem computer and IBM System

36 computer) were estimated (see Attachment A) as follows:

Cost of Software	\$ 380,000
Cost of Software Installation	400,000
Cost of Hardware Configuration	250,000
Anticipated Trade-In Value	<u>(100,000)</u>
Net Cost	\$ 930,000

Next, on September 15, 1991, the Lottery submitted its FY 1993 budget request to the Division of the Budget, including a capital outlay estimate of \$930,000 to purchase an AS/400 platform on which to run ACCLAIMS software.

During the 1992 Session, the Senate Ways and Means Committee adopted the recommendations of its Subcommittee on the Lottery and added an additional recommendation on February 25, 1992, including the following which pertains to the proposed computer system:

1. Delete \$930,000 recommended for a new computer and software system. The Subcommittee is not convinced that the agency has completed a sufficient needs analysis, and instead has preselected a particular vendor's software which will not run on the Lottery's existing computer systems, of which there are two different systems (an IBM System 36 and Tandem computers). The Lottery indicates that the proposed software package, known as ACCLAIMS, was recommended by Andersen Consulting (an affiliated unit of Arthur Andersen and Co., the Lottery's external auditing firm which has performed recent finance audits of the Lottery under contract to the Legislative Division of Post Audit). The new software would run on an IBM AS/400 platform, according to the Lottery's Information Plan, and the new computer would replace the two existing computers which have an estimated trade-in value of \$100,000. Both computers and operating software were purchased when the Lottery began operations in 1987, or almost five years ago. The Subcommittee would like to point out that the Lottery is exempted from certain statutory requirements pertaining to DISC review and approval of data processing acquisitions, and that HB 2579, which is pending in Senate Ways and Means, would remove those exemptions (among other things addressed by the bill). The Subcommittee is not convinced that the proposed purchase has been reviewed adequately by people outside the Lottery, and would propose that the Divisions of Information Systems and Communication and Purchases, as well as the Legislative Division of Post Audit, review these matters.

The full Committee amended the Subcommittee Report to add the following information:

1. In regard to the proposed computer acquisition (item 1), the Subcommittee was not able to spend enough time studying this proposal and following up on a number of questions which the House should examine. The House Committee on Computers, Communications and Technology is requested to study this proposed acquisition and to report its findings before the end of the 1992 Session to both the House Committee on Appropriations and the Senate Ways and Means Committees.

The House Appropriations Committee concurred with the Senate's recommendation to refer this matter to the House CCT Committee.

During a public hearing in the House CCT Committee on March 18, 1992, the Lottery presented a revised data processing justification dated March 17, 1992, in which the cost of the proposed computer system was increased (see Attachment B) as follows:

Cost of Software	\$ 460,000
Cost of Software Installation	400,000
Cost of Hardware Configuration	417,126
Other Expenses and 5-Year Warranty	<u>149,200</u>
Net Cost	\$1,426,326

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