



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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Justin P. Wilson
Comptroller

May 20, 2009

The Honorable Phil Bredesen, Governor
and
The Honorable Bill Ketron, Senator, Chair
The Honorable Charles Curtiss, Representative, Vice Chair
Fiscal Review Committee
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable David Goetz, Commissioner
Tennessee Department of Finance and Administration
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

By letter dated April 15, 2009, Senator Bill Ketron, Chairman of the Fiscal Review Committee of the Tennessee General Assembly, requested that the Comptroller's Office review the implementation of the State of Tennessee's Enterprise Resource Planning (ERP) Project, commonly referred to as Project Edison.

Senator Ketron's letter stated that members of the General Assembly had received reports of problems in the handling of payroll, insurance, and employee taxes under Edison. Senator Ketron's letter further stated that the Fiscal Review Committee was interested in a survey of all state employees, if possible, concerning their experience with Edison.

In addition to these payroll and benefits matters, Senator Ketron's letter referred to concerns relating to the timeliness of payments to state vendors under Edison as compared to the previous "STARS" system, and asked for a review of that area. "STARS" is the acronym for the State of Tennessee Accounting and Reporting System.

Senator Ketron's letter requested that the review be substantially completed by May 15, 2009, in a form that could be presented to the Fiscal Review Committee and the rest of the General Assembly during the week of May 18, 2009.

This office has attempted in this time frame to independently gauge problems with the Edison system, in order to provide the General Assembly and the Governor with a snapshot of where the system stands today. We emphasize that we performed a review of limited scope, not an audit.

The scope of our review focused on current issues related to the performance of the Human Capital Management (HCM) component of Edison, which includes time-keeping, payroll, and benefits. The "go live" date for the HCM component was September 16, 2008.

We deferred review of the timeliness of vendor payments by state departments and agencies that occurred through the Financials, Procurement, and Logistics component of Edison (financial component).

Responsibility for the HCM component extends far beyond the Department of Finance and Administration's Enterprise Resource Planning Division. The overall effectiveness of the HCM component relies heavily upon services provided by the Department of Finance and Administration's Benefits Administration Division and Division of Accounts, the Department of Human Resources, and to a lesser extent, the Department of the Treasury. The implementation of Project Edison resulted in major business process changes across the entirety of state government. Service delivery and success or failure cut across all of the above offices and require coordination beyond the core Edison team.

To obtain background information, our methodology included interviews with Project Edison staff, Payroll and Benefits Administration staffs of the Department of Finance and Administration, the Commissioner of the Department of Human Resources, and several Human Resource (HR) Directors of the largest state departments in terms of the number of state employees, as well as several state employees and members of the legislative branch.

We developed and administered a survey instrument for all state employees who were paid through the HCM component and who had state e-mail addresses, and a survey instrument for HR Directors of state departments and agencies, as identified for us by the Department of Human Resources. We noted in our transmittal of the survey that the response period was short and that we would not be sending a reminder or a second survey.

The survey of state employees was sent to 40,941 state employees via their state-assigned email addresses. We received 15,795 survey responses, a response rate of 39 percent. The survey of state HR Directors was sent to 51 HR Directors. We received 32 survey responses, a response rate of 63 percent. For both the state employee survey and the HR Directors survey, because of the expedited time frame, some recipients of the survey may have been out of the office and thus unable to respond within the deadlines.

From responses to both our surveys, particularly the written comments, it appears that there are considerable concerns among Edison users with regard to the accuracy, functionality, reliability, and efficiency of the HCM component of the system, which includes payroll and benefits. Among the written responses, many of the negative responses were very detailed in their discussion of specific problems with

the system, while the positive comments were usually short sentences that concluded that the system was working well, was an improvement over the prior systems, or was not causing that respondent any problems.

Both surveys included a comment box that provided an opportunity for respondents to write comments on Edison with the understanding that their comments might be compiled or summarized and published as part of our review. We received 7,798 such comments from state employees and 20 such comments from state HR Directors. The survey instruments, the compilations of the survey results, and the comments may be viewed from the Comptroller's website, at <http://www.tn.gov/comptroller/Edison>.

Overall, the following conclusions can be drawn from the answers to the survey questions and the comments provided by state employees and state HR Directors who completed the surveys:

1. There is serious dissatisfaction with the accuracy, functionality, reliability, and efficiency of the HCM component.
2. This dissatisfaction is pervasive.
3. There is the widespread perception that the HCM component is complex, confusing, cumbersome, not user friendly, and unduly time consuming.
4. There are extensive credibility problems with the HCM component and with both Project Edison and Executive Branch leadership efforts to replace multiple unintegrated legacy systems with a single integrated enterprise-wide system.
5. Respondents reported significant instances of dropped data; non-payment of salary; overpayment of longevity; miscalculation of pay, longevity, annual and sick leave balances, overtime, compensatory time, health insurance premiums, deductions for retirement programs, and taxes; disenrollment from insurance programs; and other problems.
6. Respondents attributed problems more to computer errors than to human errors.
7. The training for the HCM component was criticized, with a significant proportion of the respondents who had received training prior to implementation indicating that they were dissatisfied to some degree with the training process.
8. The complaint resolution process was criticized, with a significant proportion of the respondents who had problems indicating that they were dissatisfied to some degree with the complaint resolution process.

The concerns of the state employee respondents are reinforced by the HR Directors. The survey responses and comments of the state's HR Directors are significant because they represent the management level in state departments and agencies that is responsible for payroll and benefits. They are the experienced experts in these areas.

Of the 32 respondents, 29 (91%) indicated that their agencies' employees had experienced payroll or benefits issues with the HCM component, while 3 (9%) checked that their agencies' employees had not experienced any payroll or benefits issues. The 29 HR Directors who indicated that their agencies' employees had experienced payroll or benefits issues checked that their employees had experienced issues in every response category provided by the survey, including payment of salary and longevity; miscalculation of pay, longevity, annual and sick leave balances, overtime, compensatory time, health insurance premiums, deductions for retirement programs, and taxes; disenrollment from insurance programs; and other problems.

Of particular importance are the estimations of the number of discrete instances of each type of issue since implementation of the HCM component. According to the 29 HR Directors, the five issue areas receiving the highest estimated numbers were calculation of annual leave balances (1,483); calculation of sick leave balances (1,411); payment of longevity (489); calculation of longevity (347); and calculation of deductions for health insurance (245).

With regard to current, unresolved discrete instances of each type of issue, the five issue areas receiving the highest estimated numbers were calculation of deductions for health insurance (65); calculation of annual leave balances (47); calculation of longevity (46); calculation of pay (28); and calculation of overtime (25).

Moreover, 23 of the 29 HR Directors (79%) indicated that some of their employees' insurance coverage had been negatively affected, and 8 of the 29 HR Directors (28%) indicated that some of their employees had been negatively affected because of miscalculations related to their pay.

The survey instrument asked the HR Directors to indicate their degree of satisfaction with Project Edison's complaint resolution process and the performance of the HCM component. The survey also asked the HR Directors to compare the performance of the HCM component with that of the previous payroll and benefits system. For each question, the survey provided a nine-point scale for responses. Depending on the question, "1" represented very unsatisfied or much worse, while "9" represented very satisfied or much better.

The HR Directors provided the following rankings:

- Complaint resolution process: Of 29 respondents, 22 (76%) indicated varying and increasing degrees of dissatisfaction with the Edison complaint resolution process, while 7 (24%) indicated varying and increasing degrees of satisfaction with the process. Three HR Directors (10%) checked very unsatisfied, while two HR Directors (7%) checked very satisfied.
- Performance of the HCM component: Of 32 respondents, 16 (50%) indicated varying and increasing degrees of dissatisfaction with the performance of the HCM component, while 16 (50%) indicated varying and increasing degrees of satisfaction with the performance. Three HR Directors (9%) checked very unsatisfied, while no HR Director checked very satisfied.
- Comparison of the HCM component with prior payroll and benefits systems: Of the 32 respondents, 22 (69%) indicated varying and increasing degrees of negative comparison for the HCM component; 3 (9%) indicated that performance was the same; and 7 (22%) indicated

varying and increasing degrees of positive comparison for the HCM component. Three times as many respondents expressed a negative assessment of the HCM component as expressed a positive assessment in comparison to the prior payroll and benefits systems. Nine HR Directors (28%) checked much worse, while no HR Director checked much better.

We also asked HR Directors to indicate whether the HCM component required more, the same, or less HR staff time and employee time in comparison to the prior payroll and benefit systems. All 32 HR Directors answered these questions.

With regard to HR staffs' current experience, one HR Director indicated that the HCM component required 20 percent less time and one HR Director indicated that the HCM component required the same amount of time. The remaining 30 HR Directors estimated that the HCM component required from 10 percent to over 100 percent more time, with one indicating 100 percent more time and five indicating over 100 percent more time. For their employees, 3 HR Directors estimated that the HCM component required the same amount of time, while the remaining 29 HR Directors estimated that the HCM component required from 10 percent to 100 percent more time. Four HR Directors estimated 100 percent more time.

The HR Directors who responded to the survey indicated that there are significant problems and errors with the processing of payroll and benefits information and that the HCM component is less reliable than the systems it replaced. One of the most troubling aspects of the responses by the 32 HR Directors is the fact that 9 indicated that they thought that the issues appeared to be serious systemic matters that they doubted could be resolved, and one indicated that the issues showed that the HCM component was broken beyond repair. An additional 20 HR Directors indicated that the issues appeared to be more serious than they expected as part of the start-up of the new system. However, these 20 HR Directors also indicated that they believed the issues to be manageable as the system matures. The two remaining HR Directors indicated that the issues appeared to them to be expected and typical start-up issues.

We received prompt and full cooperation from the state officials we contacted for interviews and information. During the review process, Project Edison staff provided us examples of computer programming difficulties. These included paying 722 state employees twice for their longevity, totaling \$1,345,000.00; paying 46 state employees twice for their flexible benefits claims, totaling \$17,729.11; and paying 44 state employees above their flexible benefits maximum, or cap, totaling \$13,379.40. In many instances, extended repayment plans had to be established to attempt to recover the overpayments. We have not verified these amounts.

These examples demonstrate that the HCM component contained, and may still contain, an unknown number of configuration and programming errors that negatively affect state employees as well as the accuracy, reliability, and completeness of personnel and financial data.

The issues described to us by state employees, HR Directors, and Project Edison staff indicate that the HCM component is troublesome, time-consuming, flawed, and is not meeting management's goals. These problems clearly exceed what would be expected in a start-up. Furthermore, Edison's leadership has not adequately responded to the problems, and does not appear to comprehend the full nature and extent of these issues. There may be other flaws not yet apparent.

These circumstances demand a comprehensive, independent technical review of the functionality and ease of operation of the HCM component, as well as of the business rules that structure and control payments and information. This technical review should not be limited to addressing currently identified problems, but should also include an assessment of the best approach to enable the HCM component to achieve management's goals.

The problems with the HCM component indicate that there could be problems with the financial component, which includes financial reporting, procurement, and logistics. Furthermore, we have already received sufficient anecdotal evidence to indicate problems with the financial component that, if not rectified, could adversely affect the financial integrity of the state.

The financial component, when fully implemented, will contain critical financial data pertaining to assets, liabilities, revenues, expenditures, and transfers processed by the state. Accuracy, reliability, completeness, and timeliness of financial data are essential for the proper functioning of state departments, agencies, offices, and commissions, and for the preparation of financial statements.

Project Edison is implementing the financial component in three waves. The "go live" date for Wave 1 was in January 2009, while the "go live" date for Wave 2 was in April 2009. The "go live" date for Wave 3 is planned for July 2009. Wave 3 includes five of the eight largest state departments—Transportation, Human Services, Children's Services, TennCare, and Environment and Conservation—as well as Bond Finance, which is responsible for issuing all the state's general obligation debt and a substantial portion of the state's revenue-supported debt.

Given the difficulties experienced to date with the HCM component, the implementation of Wave 3 of the financial component should be postponed. Due to the critical, limited time period before the next fiscal year end, we further recommend that an independent review of the financial component be conducted by ERP specialists before the financial component is fully implemented. This review should include verifying the accuracy, completeness, timeliness, and reliability of information generated by the system.

While the state is in the process of contracting for these essential independent technical reviews, Project Edison and Department of Finance and Administration officials and staff should acknowledge that there are problems with the system's accuracy, functionality, reliability, and efficiency; work to identify and prioritize those problems; and allocate appropriate resources to resolve them. It would be appropriate to establish transparent monitoring and reporting on the progress made.

As part of the process of evaluating the performance of the financial component, staff of the Comptroller's Office will develop and administer surveys for state Fiscal Directors and fiscal staff.

The information we received during our interviews and through the two surveys did not result in credible evidence that state officials had engaged in illegal or potentially illegal acts. Nor did the survey respondents indicate that there has been a systematic effort to discourage complaints or criticism about Edison.

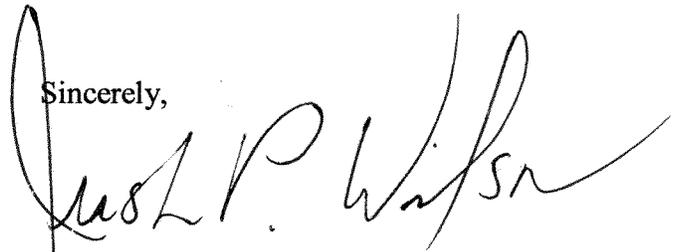
No matter how sophisticated a computer system may be, the design and implementation are challenges to staff that bring into play many human elements that cannot be predicted or controlled. The

staff charged with designing and implementing the Edison components have worked incredibly hard in trying to ensure that the state has the best system possible. Staffs at the user agencies have worked tirelessly to try to implement Edison.

We also noted repeated examples of the dedication, effort, and time—including nights and weekends—employees have spent to ensure that their fellow employees received the pay and benefits to which they were entitled, and to mitigate the difficulties experienced as a result of the HCM component's failures and inadequacies. Experience in our own office confirms the numerous comments in the surveys that staff responsible for time-keeping and administration has worked long hours dealing with the many challenges presented by the transition from the older systems to Edison. While there is always some resistance to change, and greater resistance to greater change, it appears that on the whole state employees have tried to make Edison a success in spite of setbacks and frustrations as roll-outs have been delayed and the details of the new system have not performed as expected.

The deleterious impact of the pervasive problems with Project Edison on the state's internal control structure cannot be overstated. While any change of systems introduces additional uncertainties and risks of fraud, waste, and abuse, the extent of the confusion and dysfunction of Project Edison on all levels of management and operations will require considerable efforts to reestablish clear and functional controls to protect the state's integrity. Moreover, all state employees deserve to be paid promptly and to receive all benefits to which they are entitled.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a large initial "J" and "W".

Justin P. Wilson
Comptroller of the Treasury

JPW/gmk
09-03