



# OSCAR

## The OSC Activity Report

Office of the State Controller

Robert L. Powell, State Controller

Spring Quarter 2006

## Kickoff for BEACON HR/Payroll project draws 400

North Carolina began its multi-year effort to modernize its outdated computer systems and business practices April 20 with a project that will create -- for the first time -- standardized human resource and payroll systems used by nearly all state agencies.

"We can no longer operate as a business entity with a patchwork quilt of computer systems and business practices," State Controller Robert L. Powell told 400 legislators, state officials, chief financial officers and business office employees from state agencies and universities at a kick-off meeting. "We must create a seamless system for our business operations that will make state government more efficient and economical."

The HR/payroll project is the first for BEACON – Building Enterprise Access for NC's Core Operation Needs. The program, which was previously known as the Statewide Business Infrastructure Program, has been in the research and planning phases for four years.

Over the next two years, teams of state employees dedicated to the project, consultants from BearingPoint and other groups will work with individual state agencies to update and streamline their business practices to provide uniformity and consistency across state government. Many business functions that now require manual processing will be automated, and each agency's business practices redesigned to fit the shared, standard computer network. State employees on the teams will be trained to maintain the system when the consultants leave in two years.

That unified system, which replaces individual systems developed by agencies as much as 30 years ago, will use software developed by SAP to produce a uniform business process. Once the \$80 million HR/payroll project is completed, the SAP software will provide the technological backbone for future BEACON projects to modernize the State's accounting, budgeting, tax and revenue operations.



**State Controller Robert L. Powell,  
Representative Joe Tolson**



**State Chief Information Officer  
George Bakolia**

The HR/payroll project includes all state agencies, with the exception of eight universities which will continue to produce their own payroll. The entire BEACON program is expected to take seven to 10 years to complete.

“BEACON will transform the way North Carolina State Government manages its business functions and serves its citizens by increasing efficiency, simplifying decision making and improving access to information,” Governor Mike Easley said in a taped message at the kickoff.

Representative Joe Tolson, co-chair of the Joint Legislative IT Oversight Committee, told the audience the project had the support of legislative leaders, who understand the need for more efficient business systems in state government.

The collaborative effort includes support from the Office of State Personnel, the Office of the State Chief Information

Officer, the Office of State Budget and Management, and the Department of Transportation, which will become a part of the Central Payroll system under this project.

George Bakolia, the State's Chief Information Officer, said BEACON mirrors efforts to revamp the State's information technology that is used to deliver services to citizens.

“North Carolina is not alone in recognizing that redundant systems and outdated business practices are costly and inefficient,” Bakolia said. “Three quarters of the states are consolidating core information technology systems and sharing common services among agencies.”

State agencies will continue to need specialized computer systems to carry out their unique missions, Powell said, but many of the core business functions of agencies are the same or similar. Those functions can best be provided with a system that all agencies share.

The new system also will allow employees to transfer between agencies without having to re-file all their payroll and benefit information, and to check or update payroll and personnel information individually on-line rather than filing cumbersome paperwork through agency human resource offices.

“This project will use technology to its greatest advantage,” said Powell, whose office manages the State's accounting and payroll systems, and will oversee BEACON. “It will provide not only a more efficient business operation that benefits the taxpayers, but it also will provide better service to state employees.”

SAP provided breakfast at the kickoff, and BearingPoint gave each member of the audience a “beacon” to commemorate the occasion. Officials of both companies also attended the celebration.

The timeline for the project includes blueprinting, building and testing the shared system over the next 18 months, with piloting of the new HR/payroll system projected for October 2007, and expansion to all participating agencies by April 2008.



**Representative Joe Tolson, Revenue Secretary Norris Tolson,  
Administration Secretary Britt Cobb, and State Personnel  
Director Thom Wright**

---

## Implementation phase built on earlier groundwork

BEACON has officially started the implementation phase, with teams working to design, build, test and implement North Carolina's first integrated HR/payroll system. The groundwork for this phase was laid over the last two years.

Phase I (Planning) concluded during the summer of 2005. The purpose of this phase was to develop a detailed set of functional and technical requirements along with a corresponding business process redesign approach for the State's Human Resources and Payroll areas. This work also included the identification of significant changes needed within state agencies, management practices and organizational structure in order to accomplish the recommended re-engineering business practices.

During Phase II (Procurement) the State completed negotiations with SAP. The negotiations with SAP leveraged the existing Department of Transportation licenses and acquired the software needed for implementation. Bid requests for a SAP systems integrator were posted in early October. Negotiations were completed with BearingPoint, the selected vendor, in early March 2006.

In addition to procurement activities, Phase II included the development of the HR/Payroll Project Management Office, the identification of the State project team, space planning, initial project team training, and pre-implementation activities.



**Part of the group of 400 from across the State who attended the BEACON kick-off**

## As new system develops, old ones will be supported

As OSC moves forward to build a new HR/Payroll system, we will not ignore the existing systems, says Julie Batchelor, the Assistant State Controller for the Financial Systems Division.

“All of our efforts to support state agencies – the help desk, training and maintenance – will continue while BEACON blueprints the new system,” Batchelor said. “We will not lose track that as a new system is being designed, existing systems must continue to be supported in the same manner that they always have been.”

BEACON's projected timeline calls for piloting the new HR/payroll system in October 2007 and bringing on other agencies by April 2008. Until that cutover is successfully completed, agencies will be using existing systems for personnel and payroll business functions. During 2007/2008, we will begin the process of evaluating the next phase of the project, the Financials System.

Throughout the current and future phases of BEACON, OSC will continue supporting all aspects of the current systems including Payroll, NCAS, Decision Support, and Cash Management Control to name a few.

Phase III, the Implementation Phase, is divided into five distinct segments: Project Preparation, Design, Build & Test, Training & Roll Out, and Support & Maintain. We are wrapping up Project Preparation with the creation of BEACON Support Teams. The teams, comprised of subject matter experts and change agents representing every state agency and university, will assist in designing and testing the system with the BEACON project team. These teams will be integral to the success of the new HR/Payroll system.

The Design Phase will follow the Project Preparation Phase. The Design will include conducting design sessions, gathering information, determining the technical infrastructure, and creating the future state design. Additionally, members of the BEACON project team will visit agencies and universities across the state to begin a dialogue about the new HR/Payroll system.

Communication will be key to the success of BEACON. Over the next two years, it is our goal to keep you informed, engaged, and excited about project activities. We encourage you to bookmark the BEACON Web site ([www.beacon.nc.gov](http://www.beacon.nc.gov)) and subscribe to the BEACON newsletter to stay abreast of our progress. More importantly, we want to make every effort to address your concerns. If you have a question or concern, please email [beacon@ncosc.net](mailto:beacon@ncosc.net).

## Controller's Message: After years of planning, it's good to be on our way

After four years of planning, seemingly endless discussions and countless committee meetings, we are finally putting our human resources/payroll project in motion. Teams of BearingPoint contractors and state employees dedicated to the project are starting to blueprint what I believe will be the most important technology project North Carolina has ever undertaken.

As the Information Age developed over the last 30 years, individual state agencies used their own resources – both funding and staff – to develop their own computer systems to process personnel and payroll information. Agencies with greater funding resources and larger IT staffs were able to develop customized systems that kept pace with changes in technology; those without the resources could not.

The result was a patchwork quilt of technology systems that could not be easily synchronized, maintained, or updated to provide the kind of self-service that computer users now expect. State employees changing agencies faced the same stack of paperwork as new employees, even though their ultimate employer – the State of North Carolina – had not changed. Changes in beneficiaries or benefits had to be manually submitted, then keyed into outdated computer systems. An employee who wanted to check the status of benefits had to submit a written request and then wait days or weeks to get a report which might, or might not, answer the questions posed.

The personnel and payroll systems, if they could be called systems, were simply unworkable and in constant danger of collapse.

Over the next two years, that will change. Not only will state agencies be tied together in an integrated, unified technology system, but their business practices will be brought into the 21<sup>st</sup> Century. Many manual paper-shuffling tasks will be replaced with automation; self-service options that are now impossible to provide will become standard; and agency IT staffs will be able to focus on their unique service-delivery systems, not core business systems shared by all agencies.

I am excited to see this project finally get going. It will take a lot of commitment and energy but it will bring long-term benefits to the next generation of state employees and the taxpayers who will benefit from increased efficiency in their government.

A lot of credit goes to North Carolina 's elected leadership, which had the foresight to realize that our core business systems were crumbling and dangerously close to collapse. These systems do not have the public or political appeal of highway bypasses, university buildings or museums, but they are absolutely critical to making those other projects possible. North Carolina is truly fortunate that its government leadership understands that and has made the commitment to see this project through.



---

## New electronic funds transfer contract cuts fees nearly in half

OSC's E-Commerce program has negotiated a new contract for electronic funds transfer services (EFT), and is in the process of negotiating a new contract for merchant card services for North Carolina .

The terms of the new EFT contract with Wachovia Bank, which became effective October 1, 2005, make it easier for agencies to take advantage of the program. The primary enhancement is that the fees associated with the services under the new contract are about half of what they were under the old master contract, which expired.

David Reavis, who directs e-commerce efforts for OSC, said similar savings are possible from the new Merchant Card Services contract which is under negotiation.

In October 2005, the OSC also made its first comprehensive revision of e-commerce policies for all state agencies since initially developed in the year 2000. Development of those policies is an evolving process to keep pace with the explosive growth in e-commerce transactions and with the changes taking place in payment card industry.

In another e-commerce initiative, OSC and the State Treasurer have worked to expand the system that allows governmental entities to make inter/intra-governmental transfers of funds without issuing a paper check. That keeps cash under the control of the State Treasurer and out of the private banking system as payments are made within and between state agencies.

The Federal Reserve has confirmed that electronic payment transactions now exceed check payments in the United States . With the expansion of the Statewide Electronic Payments Program, electronic payments in North Carolina should keep abreast of the national trends.

---

## Tougher enforcement of credit card security standards coming

The growth of electronic commerce brought with it increasing concerns about security and the theft of cardholder information. That trend is driving increased attention and regulatory actions by the major credit card associations to ensure that cardholder data, as well as the payment network, is protected and kept secure.

To counteract this problem, and to improve the integrity and security of the payment system, each of the leading card associations has required that merchants meet Payment Card Industry (PCI) Security Standards. The primary focus of the PCI Security Standards is to help merchants improve the safekeeping of cardholder information by tightening their overall security standards, which in turn reduces their chances of experiencing security breaches, fraud, and potential catastrophic financial losses.

To assist with compliance, the Office of the State Controller entered into a one-year contract with a recognized industry leader in PCI compliance assessment solutions. Under the purview of the State's Master Merchant Card Services contract, many of the State's merchant accounts have reached compliance; however, several still remain non-compliant and are at risk for potential cardholder data compromises and/or fines and penalties assessed by the payment card industry.

"If you are not in compliance with the PCI requirements, you are at risk for having severe monetary penalties imposed upon your organization," said Ben McLawhorn, the manager of Risk Mitigation Services for OSC. "Those fines would be assessed on us by the Merchant Card Services Provider and we would in turn have to pass them down to the offending organization. We hope that none of the State's merchants are fined, but to ensure that, they must be diligent in their compliance efforts."

The new Merchant Card Service contract that OSC is now negotiating will bring with it a renewed push for tighter security. In order to continue participation under the State's master agreement, OSC will require that all merchant accounts certify that they are in compliance with the PCI requirements.

---

## Wesley Ray joins OSC as Assistant Controller

J. Wesley Ray, Jr., has joined the Office of the State Controller as the Assistant State Controller overseeing the Statewide Accounting Division.



Ray, a University of North Carolina at Chapel Hill graduate, received his CPA certification in 1979. From 1994 to 2005 he served as Deputy State Auditor in the Office of the State Auditor, responsible for senior management oversight of all financial, compliance, information system and performance audits.

Prior to being named Deputy State Auditor, he had served as an auditor, audit supervisor and audit manager during a career with the Office of the State Auditor which began in 1977. After leaving the auditor's office in 2005, he served as a consultant to North Carolina State University and as Assistant Secretary for Administration with the Department of Cultural Resources before joining OSC earlier this year.

As head of the Statewide Accounting Division, Ray is responsible for ensuring proper financial reporting and accounting for all state agencies and institutions, maximizing cash availability to the State and compliance with all state and federal requirements.

"While employed with the Office of the State Auditor and the Department of Cultural Resources, I was well aware of the importance of the Office of the State Controller to state government operations," Ray said. "I am honored to be a team member of this organization and will do my best to make contributions which enhance the accountability, compliance and performance of state government."

---

## Direct deposit for mid-month payrolls could come by June

State employees have been able to use direct deposit for their paychecks for decades – as long as they were on a month end

pay cycle. In agencies with mid-month payrolls, the ability to use direct deposit was hit or miss, depending on where you worked.

That could change by this summer as OSC begins offering direct deposit for all agencies that have a mid-month pay cycle.

"We are projecting that it will be available June 15," said Edith Cannady, manager of the Central Payroll section. "The key word there is 'projecting.'"

"It depends on how the program testing goes," said Roger Farmer, the retired payroll manager who is working on the project under contract. "Until the system is proven, it is not a step you go forward with." Cannady said direct deposits for mid-month pay cycles should be popular with employees.

"We have had lots of requests to have it done," she said. "There has been a big demand for the service."

Direct deposit saves the State thousands of dollars annually over the costs associated with processing printed checks. It also saves shipping costs to get paper checks back to agencies by payday, and lowers the chance of human error as workers rush to package payroll in time to meet courier service deadlines.

---

## OSC ahead of curve on immigration issues

Immigration issues, which have long been on the back burner in North Carolina, moved quickly to center stage this spring as Congress debated how to deal with the massive influx of illegal aliens working in the United States.

OSC began moving on those issues two years ago with the foreign nationals tax compliance initiative. Recognizing the existence of problems within the current environment, and understanding the State's vulnerability to the potential liabilities, OSC formed a representative work group to develop measures for all state entities when paying or compensating a foreign national.

The Office of the State Controller brought these concerns to the attention of the executive and legislative leadership and sought support for additional resources to advise state entities on immigration and related taxation matters. OSC also moved to provide statewide training and to purchase software which would be used to assist state entities in monitoring the residency status of aliens and for complying with the complex tax rules that apply to payments made to aliens. Also through Central Payroll, Social Security numbers provided by state employees are periodically checked to be sure they are valid.

The General Assembly authorized funds in the 2004 Session for OSC to purchase the software. Funds also were directed to the Office of State Personnel for training and a contract position to ensure compliance with federal laws.

The University of North Carolina System and the North Carolina Community Colleges System were directed to also take appropriate measures, with their existing funds, to ensure compliance with applicable federal laws.

With the funds received from the General Assembly, along with a grant from the United States Department of Homeland Security, OSC purchased the software and deployed it statewide during 2005.

For many state entities, the implementation of the uniform policies and related procedures, in addition to the tax compliance and reporting software, required the development of new business processes - processes which often required tailoring to fit a particular organization. North Carolina is perhaps the first state in the nation to approach the foreign nationals tax compliance issue from an enterprise perspective and to make tax compliance and reporting software available to all state entities.

---

## OSC gearing up for year-end cash management/closeout crunch

OSC is gearing up for the annual closeout of the fiscal year, posting year-end packages for state agencies, universities and community colleges; and reviewing the annual cash management plans for state entities.

OSC officials have gone to the annual university and community college conferences to talk about the packages and changes made since last year.

"In May, our people will go out on planning conferences," said Anne Godwin. "They will meet one-on-one with the agencies."

They'll be talking about any problems we had last year and going over the packages.”

The cash closing for the fiscal year will be June 30, and then the “13 th period” kicks in when cash basis will be translated into accrual basis for the year. The packages, which are used to create the Comprehensive Annual Financial Report, must be back to OSC by August 31.

OSC staff also are reviewing agency cash management plans for the year.

“As we finish the reviews, the agencies will get an official response,” said Amber Young. “If there are any problems with their plans, they will be notified.”

Second notices for the cash management plans, which are required for any entity that has a state disbursing account, will go out the first of May, she said.

At least three changes to accounting standards will affect financial reporting for this year: a new rule on impairment to capital assets, like damage to buildings; a revamped statistical section for the CAFR; and a new rule on net assets restricted by legislation.

A more sweeping change, requiring governments to account for “Other Post-Employment Benefits,” like retiree health insurance costs begins to take effect next year.

“Unlike the pension fund, where a pool has been set aside during a person's career to pay the benefits, health benefits have been pay-as-you-go,” said John Barfield. “But the bonding agencies are looking at that as debt, and they want to know how you're going to pay it off.”

A study of the impact of that accounting change is scheduled to be completed for the State Health Plan by October 31. The financial impact could amount to billions of dollars on the state's financial reports. Retiree health care on a pay-as-you-go basis cost over \$380 million in 2005.

---

## OSC has part in successful lottery debut

Shuffling duties and divisions among agencies is not unheard of in state government, but rarely, if ever, does that shuffling require starting an entire entity from scratch. North Carolina 's Education Lottery, which began in March was one of those rare projects.

While the lottery was busy hiring staff, contracting with a game provider, checking potential sales outlets and deciding on the games to offer, OSC was busy helping them set up their accounting and business systems from scratch.

“It actually went smoother than what you might think,” said Anne Godwin. “We worked with the Treasurer's Office to get their banking system up and going. We set up what accounts they needed.

“Accounting for instant winner tickets is something we'd never seen before,” she said. “We actually went to a lottery class to learn about it. We will have different accounting transactions when they start offering PowerBall.”

A number of OSC employees were involved in setting up the business operations for the lottery. The biggest problem came not from having to set up accounts or work on computer interfaces and security issues, but the tight deadlines set by the Lottery Commission to get the games going.

“It was the pace,” Godwin said. “It was like, we're starting; we're hiring from scratch. There was no staff to start with; it all just sort of grew at once.”