



Office of the President

1720 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin 53706-1559
(608) 262-2321
(608) 262-3985 Fax

email: kreilly@uwsa.edu
website: <http://www.uwsa.edu>

September 2, 2009

All Members of the
Wisconsin Legislature
State Capitol, Madison, WI 53707

Dear Legislators:

The University of Wisconsin System has been working to keep you apprised of major developments so that you are better prepared as state policymakers, and to respond to constituents' questions. As we prepare to move forward with the Human Resource System (HRS) project, we wanted you to have an advance copy of the enclosed summary, which will be presented to our Board of Regents next week. Please feel free to share this information with others.

I hope you will take the time to review this information, which covers a lot of ground. The following are a few key points that I intend to emphasize in my discussion with the Regents:

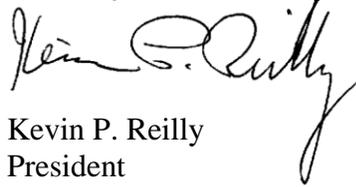
- 1) This is an important project, affecting 67,000 UW System employees who reside in every county and legislative district. They rely on this system for their monthly paychecks and benefits, and we are trying to avoid a major disruption in that system that would have serious consequences. Continued use, even for a few extra years, of the current outdated system built in the 1970s poses a significant risk to the UW and the state.
- 2) The HRS project is not about installing a single computer program. Rather, it is a multi-year effort to modernize hundreds of business practices, integrate recordkeeping systems, eliminate redundancies, and better safeguard employees' personal data.
- 3) UW System has overhauled its IT management practices. New UW policies and procedures require comprehensive semi-annual reporting to the Board and the Legislature, meeting or exceeding requirements in WI Act 20 and recommendations made by the 2008 Assembly Taskforce on IT Failures.
- 4) We are making tough choices to control costs. Recognizing today's challenging fiscal environment, we've already reduced the project budget by \$8 million – nearly ten percent – by reducing the project scope, re-negotiating contracts, and assigning our own employees to the project whenever possible.

- 5) No state funds are being requested for implementing this project. The costs are significant, but they are in line with similar projects at other universities. At next week's meeting, the Board will be asked to approve a one-year budget for the project. Additional expenditures beyond that period will be subject to further reviews and approvals.

We are committed to a high level of transparency for this project. In keeping with that commitment, I have already met with the Governor and legislative leaders in both houses, from both parties, to discuss this vital effort. We will be launching a new HRS website to provide additional information, and I would be happy to meet with any interested legislator who wants to learn more about HRS after the September 10-11 Regent meeting. I welcome your input and advice as the University works to address these major challenges.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin P. Reilly". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Kevin P. Reilly
President

Enclosure

Copy: Regents
Chancellors



Human Resource System (HRS)

A 21st-Century Business Solution

What is HRS?

With employees located at 13 four-year universities, 13 two-year colleges, 72 county extension offices, and several other locations, the University of Wisconsin System is the largest employer in the state. In any given month, the University issues paychecks to more than 67,000 faculty, academic staff, classified staff, and student employees. Allowing for normal turnover, the UW System issues approximately 100,000 tax forms to employees every year.

Delivering those paychecks and tax forms is a big job. Keeping accurate records about health insurance, accrued leave, and other benefits is equally complicated. Carrying out these tasks with an antiquated computer system poses significant challenges and risks.

The Human Resource System (HRS) project is a multi-year effort to modernize the UW System's recordkeeping systems and business practices. This is not as simple as installing a single computer program. Rather, it is the integration of hundreds of individual systems and a massive effort to redesign the workflow across multiple work units at all UW System institutions.

The UW System is deploying up-to-date technology to safeguard employee data and avert major problems associated with an increasingly fragile 35-year-old payroll system. The new system, designed to serve institutions and employees for decades to come, will ensure full compliance with a host of regulatory and legal requirements.

Aging system puts UW (and taxpayers) at risk

The UW System today does not have a single human resource system. Rather, UW institutions rely upon more than 700 "shadow systems" — individual computer programs at local offices that run independent of the master database. Often requiring that staff enter the same information two, three, or more times, these localized systems do not allow for reliable, accurate reporting. The existence of so many unconnected systems increases the likelihood that sensitive data may be vulnerable to theft or error.

At some point, the UW's old payroll system will fail. This will suddenly halt the flow of paychecks to employees in every Wisconsin county, immediately disrupting mortgage payments, car payments, credit card payments, and other routine financial transactions. In that situation, the University and the State would potentially face a significant liability, and the economic shocks would ripple across every community.

COBOL (Common Business Oriented Language) was developed in 1959, then standardized in 1968. Few colleges today offer instruction in COBOL, and the number of qualified programmers continues to decline. Most businesses have already replaced systems that utilize this obsolete language.

PeopleSoft is a modern software package that lets large businesses boost productivity by collecting personnel information in one place. This minimizes manual entries, improves data integrity, protects sensitive information, allows for better analysis, and ensures accountability. Many public and private universities, as well as major businesses, use PeopleSoft.

The clock is ticking. It will take about four years to prepare for and fully implement a project of this scope and complexity. That effort is underway and must continue.

The current UW payroll system was developed and installed in 1975, when VCRs were first being developed, and the Apple 1 computer was just being conceived. The old system runs on a mainframe computer, using millions of lines of code written in COBOL – a computer language that almost nobody uses anymore. The system functions today due to a group of dedicated UW staff. Like the payroll system itself, however, most of these employees are approaching or past their retirement age. Few young programmers today are willing to tie their future careers to an obsolete programming language.

Due to the old system's inflexible architecture, routine changes require days of work by many staff. Even minor programming changes can have unforeseen impacts on other parts of the system. This is true of most complex programs, but it is especially problematic with an old "handcrafted" program for which the only documentation resides in the head of the original programmer.

The current payroll system was not designed to handle evolving demands, such as the requirement to implement furloughs for all employees in FY 2010 and FY 2011. Full-time employees are required to take 8 days of unpaid leave, but professors with nine-month appointments take only 6 days. Part-time employees must take varying numbers of unpaid leave days, equal to a 3.065% pay reduction. Programmers are scrambling to accommodate this new requirement. Other potential changes, including those required by future legislative action, may impose additional unforeseen demands on the UW System, and would benefit from a more flexible system.

The separate system used for tracking and administering benefits is even more complex than the payroll system, and every UW campus has its own recruitment system. An independent student payroll system also must interface with the faculty and staff payroll. This hodgepodge of disparate systems results in enormous inefficiencies, and missed opportunities for sharing information about recruitments and candidate pools among multiple hiring campuses.

The outdated payroll system severely limits the UW's ability to implement "best practice" management strategies used by major American businesses and universities to control costs and manage human capital.

Using PeopleSoft, a modern suite of computer programs used by major businesses and universities around the globe, HRS will unite these systems for the first time. It will allow the UW to retire hundreds of redundant systems – saving approximately \$3 million per year – and vastly improve data security by housing information in a single data center. Sensitive data stored in a central repository can be better secured, efficiently monitored, and utilized to make strategic management decisions.

The Wisconsin Department of Administration (DOA) purchased PeopleSoft licenses in 2006 and intends to implement a similar Human Resource System for all state agencies in the near future. The UW System will provide any assistance that DOA may require as it configures the PeopleSoft system for use in other state agencies.

Implementing HRS is a major undertaking

Implementing HRS is an extraordinarily complex process. The University, like a very large business enterprise, has hundreds of business processes that must comply with University policies, state laws, federal laws, international tax treaties, and requirements imposed by hundreds of outside funding agencies. Unlike other businesses, however, the University employs people in unique personnel categories funded by various combinations of multiple state, federal, and private revenues.

Non-student UW employees generally fall into three categories: Faculty, Academic Staff, and Classified Staff. Some are paid for 12 months each year, while others are paid only during the academic year. Positions are funded through taxpayer support (GPR), tuition, student fees, federal grants, private grants, contracts, gifts, and other program revenues, and the mix of these funding sources can vary from semester to semester, and year to year.

Personnel costs comprise about 80 percent of the UW System's \$4.7-billion annual operating budget. Information from the payroll system is synchronized with other major systems dealing with financial management, student information systems, identity management, and many other areas. Major modifications will be required across each of these systems to achieve full integration.

In matching the University's needs to PeopleSoft's capabilities, the UW is re-engineering business processes to avoid altering the off-the-shelf software wherever possible. This is a major change from previous efforts, when UW staff insisted that new software be fully customized to accommodate existing business processes. This time, HRS project managers are looking for ways to adapt business practices to match the software's built-in capabilities. This is a conscious choice to control up-front costs, ensure a successful implementation, and reduce ongoing system maintenance costs.

In 2009, would you rely on a 1975 Chevrolet Nova for everyday transportation? Even if that vehicle runs fine now, maintaining an older, high-mileage car comes with a cost, and a risk. As the likelihood of mechanical failure increases, will replacement parts be readily available? Will you be able to find mechanics who know how to maintain it? What could you gain by upgrading to a car with anti-lock brakes, air bags, modern emissions controls, and other features? Do you wait until the car fails completely to begin shopping for a replacement?

Fit-Gap Case Study #1: *UW faculty members with traditional academic appointments are paid over 9 months, in equal payments. Many professors, especially those without summer income, would prefer to have their 9-month salary spread out over 12 months. This would require extensive modifications to PeopleSoft, adding nearly \$300,000 to HRS implementation costs. The modification would also require ongoing annual support of about \$145,000, bringing the 10-year cost of this single modification to over \$1.5 million. UW System's HRS team rejected this modification.*

Fit-Gap Case Study #2: *Faculty who are paid only during the 9-month academic year are still considered year-round employees. They have the option to pay additional insurance premiums to continue coverage through the summer, through multiple deductions from their May paychecks. PeopleSoft's built-in functionality would require that UW staff enter this data manually, requiring the equivalent of 13.75 dedicated staff each May and costing over \$200,000 annually. Modifying PeopleSoft to add this functionality will require 737 hours of work. However, the modification will better meet the UW's business needs, maintain employee morale, and will pay for itself. The HRS team approved this modification.*

Nearly 600 discrete UW business processes were reviewed to determine if they matched the PeopleSoft software or would need to be modified. Looking at the results of this "fit-gap" study, HRS project managers limited the number of modifications to a bare minimum. In fact, only 4% of the implementation costs will result from software modifications.

Even so, some modifications are needed to comply fully with legal and regulatory requirements, meaning that thousands of lines of code must be re-written. Where changes are unavoidable, UW project managers insist on having extremely detailed plans about the time and resources needed to close each gap.

Using this exhaustive process, the HRS team has developed detailed plans for about 530,000 hours of work required to move successfully from the old system to PeopleSoft. The UW System has spent more than a year creating this detailed blueprint of the human resources, payroll, and benefit processes at all 26 campuses, 72 county extension offices, and other units. This becomes the basis of a very detailed implementation plan.

UW and partners have expertise to succeed

Hundreds of staff from every UW System institution participated in the planning effort, and they are ready to begin the challenging work of implementation.

In-House Experts

The HRS implementation will be carried out by a professional team of experts, including a project manager who is a certified professional with years of successful project management experience in the private and public

sectors. The project team includes about 60 UW employees representing all areas of human resources, payroll, benefits, and information technology.

A project steering committee comprised of system and campus representatives makes business decisions, approves plans, and monitors the budget. The steering committee reports to an executive committee consisting of senior leadership from the campuses and system that must approve all major

changes to the plan and the budget. All groups ultimately report to the UW System Senior Vice President for Administration and Fiscal Affairs – the senior officer on this project.

Using the HRS planning documents as a blueprint, the UW System staff will direct all work on the HRS project, ensuring that critical tasks are accomplished within specified timeframes, and software modifications are made in accordance with exact specifications.

With a clear directive to hold down costs and maximize the project’s long-term viability, project managers are working diligently to hire more UW staff to work on HRS. No UW staff are being displaced by outside consultants. On the contrary, new and existing UW employees are being used wherever possible to perform critical functions and provide ongoing support in a cost-effective manner.

External Experts

To assist with key parts of the project where the UW lacks specific in-house technical expertise, the HRS team sought a consulting company with a successful history of helping universities implement PeopleSoft’s Human Capital management software suite. Using a standard state-mandated public procurement process, UW System selected Huron Consulting Group as the implementation partner on this project. Huron was selected because of its relevant experience, competitive costs, and other factors outlined in the request for proposals. Working with the highly qualified UW experts, Huron is the prime contractor, responsible and liable for the performance of any subcontractors.

Huron provides weekly progress reports to the HRS project manager, documenting the specific hours worked by individual consultants. Huron must also provide detailed quarterly reports to justify all time and materials billed to the project. If Huron fails to meet its quarterly goals, liquidated damages will be assessed.

Huron Consulting has worked with more than 175 higher education clients, including: North Dakota University System, University of Delaware, University of Florida, University of Massachusetts Amherst, University of Missouri System, University of Southern Mississippi, University of Utah, and University of Washington. Current clients include Brandeis University, Florida International University, University of Kansas, and University of Vermont.

HRS will add value to every UW System institution

HRS will safeguard against major personnel and payroll records failures and eliminate wasteful costs associated with outdated, redundant systems. There is no “good time” to embark on such a major project, but the probability that the current systems will fail will increase dramatically in coming years. At the same time, critical IT staff will be lost to retirement. Delaying the project now would mean higher costs later.

Along with providing an accurate, secure payroll and benefits system for all employees, the new system will enable a host of potential cost savings and improved services. Hundreds of isolated and disconnected HR management programs will be retired, freeing up significant time and costs now dedicated to maintaining them. Campuses will move to a paperless workflow, implementing a comprehensive “self-service” process where individual employees can access their own information

without relying on HR staff to answer individual calls. Recruitment and retention efforts will be streamlined, and tax-withholding procedures will be greatly simplified. Student payroll – serving some 34,000 student workers at any point in time – will be integrated with faculty and staff payroll records. When new statutory requirements are imposed or other required alterations are needed, changes will be vastly simpler, less labor intensive, and more reliable.

The old mainframe computer, which is expensive to upgrade and maintain, will be retired. Sensitive employee data, including social security numbers and bank account numbers, will be better protected. Access to this information by individuals with legitimate work-related needs will be even more rigorously monitored.

Planning and Implementation Costs

Implementation costs for the UW System's new HR System are significant, but appropriate for an organization of this size. Over several years, the complete transition from the old payroll and benefits system to the new HR System will cost about \$81.4 million, with the largest costs occurring in the first year of implementation (FY 2010).

Measure Twice, Cut Once:

In its April 2007 report, the Legislative Audit Bureau found that most problems with complex, high-risk IT projects resulted from inadequate planning. The UW System engaged in a meticulous planning process for HRS, making a strategic decision to get the project done right.

The Board of Regents will be asked to formally approve the one-year project budget in September 2009, and will provide formal approval for implementation expenditures in all subsequent years.

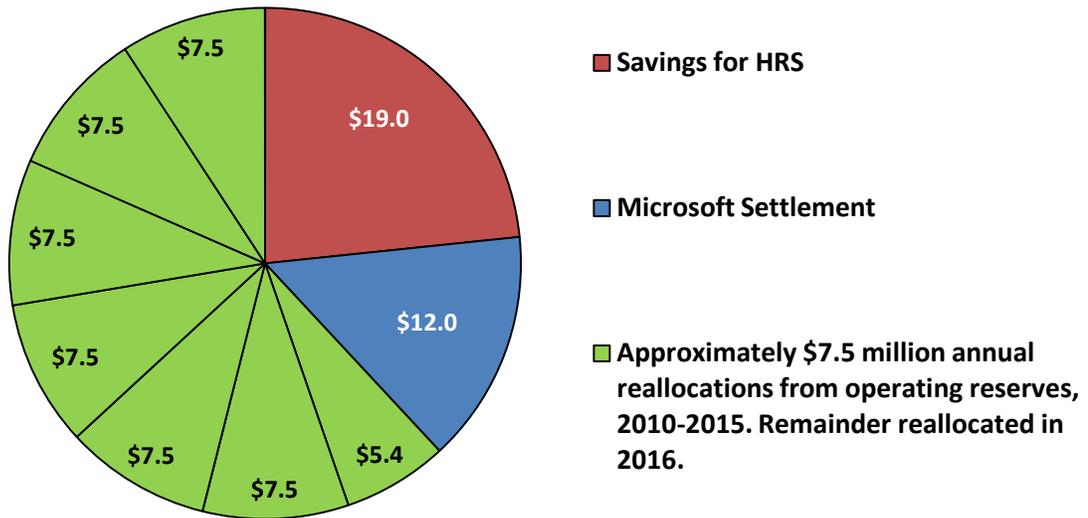
Where will the funding come from?

The UW System will not ask the State or students to provide any additional resources for HRS implementation. Instead, the University will reallocate existing revenues to accomplish this vital project while protecting core educational operations.

The UW System will receive \$12 million in technology rebates as part of a nationwide Microsoft class action settlement, and these will be applied entirely to HRS. Anticipating the growing need for this HRS project, the UW System has set aside \$19 million during recent years. To cover remaining costs, the UW System will reallocate \$7.5 million annually in operating reserves over the next seven years, depending on the final cost of the project.

This means that individual UW System institutions will not have annual operating budgets reduced to fund the HRS project. Using operating reserves in this way reduces near-term impacts on local universities and colleges but also diminishes the UW System's ability to manage future shortfalls in State funding or other revenues.

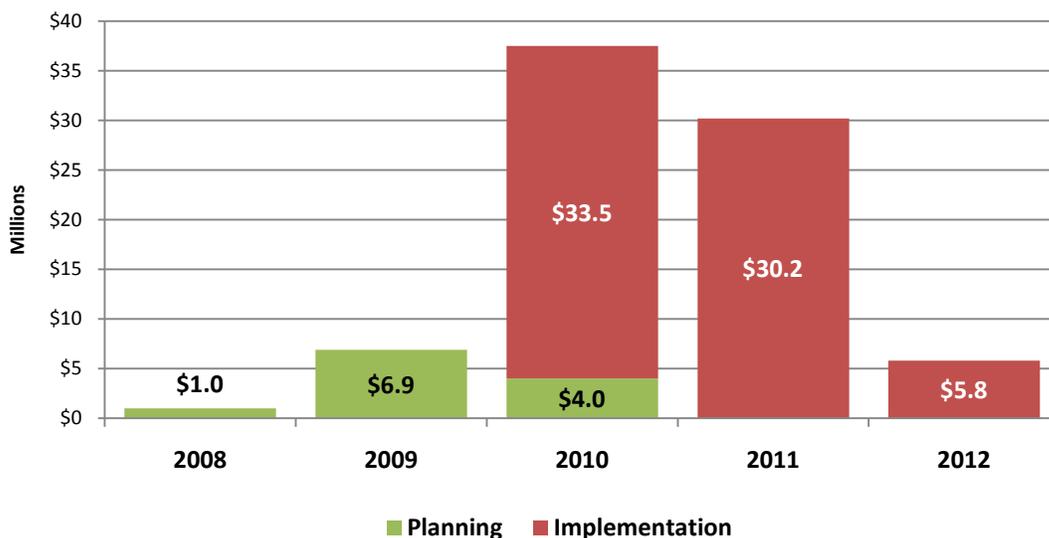
Where will Planning and Implementation Funds Come From?



When will the funds be expended?

The total project cost (\$81.4 million) includes \$12 million for HRS planning during fiscal years 2008-2010. Implementing the new payroll and benefits system during fiscal years 2010-2012 is estimated to cost about \$61.5 million and necessary changes to the University’s financial recordkeeping system (to create an interface with the payroll system) will cost \$7.9 million. Included in these estimates is a \$6.3 million reserve to cover unforeseen expenses. If reserve funds are not required, the total cost of the project will drop to \$75.1 million.

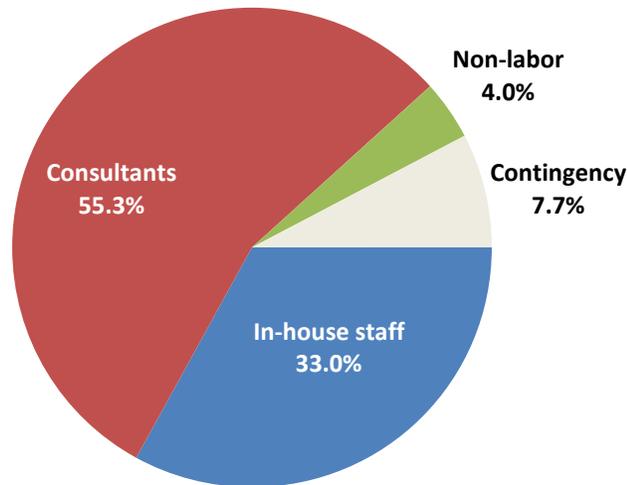
Projected Planning & Implementation Expenditures (by fiscal year)



These costs are comparable with other large enterprise management projects at Big Ten universities, some exceeding \$100 million. While the various projects are not identical, the magnitude of costs is instructive. It should also be noted that UW System is implementing across a system of universities and colleges – a much greater challenge than undertaking a similar project on a single university campus.

About 4% of the total planning and implementation budget will go to non-labor costs, for hardware, software, and other expenses. Salaries and benefits for in-house employees dedicated to the HRS project will account for about 33% of the costs, with outside experts (both on-site and off-site consultants) accounting for 55.3% of projected expenditures. The contingency funds, which will be held in reserve for unforeseen costs, account for about 7.7% of the project budget.

HRS Planning and Implementation Costs (by category)



UW System is approaching the HRS project like a major building construction project, with a plan to spread the costs over a number of years. Just as a home-buying family saves up for their down payment, then makes a monthly investment in the mortgage, the UW System has been planning for this expense over a number of years, and will reallocate funds in the future to pay off the investment.

Cost Controls and Oversight

Every March and September, the Regents and the Legislature receive a comprehensive report on major UW System IT projects, including implementation activities from the preceding year and plans for the year ahead. Once reviewed by the Regents, the reports are transmitted to State Legislators. This semi-annual public reporting process will continue.

UW System officials discussed HRS planning at the June 2008 and February 2009 meetings of the Board. When UW System officials decided to extend the planning phase of the project to maximize long-term success, the Regents were informed of this decision at a public meeting in June 2009.

At the September 2009 meeting, UW System officials will brief the Board of Regents on steps taken to manage costs, illustrating how the project budget was reduced by approximately \$8 million through a number of key actions:

- Ongoing efforts to hire UW staff to perform critical tasks, with a goal of ensuring that more work is done by in-house employees, relying less on higher-cost external consultants.
- Limiting the overall scope of the project.
- Engaging in an extensive planning process that will limit software modifications and provide detailed specifications for essential modifications.
- Requiring external consultants to continue providing immediate information about material events that may affect their ability to perform required services and fulfill all terms of the contract.
- Re-negotiating contracts with outside consultants to eliminate specific provisions that would have led to higher costs later.

At the September meeting, the Regents will review all major IT projects currently underway, including HRS. At that time, the Regents will be asked to approve the overall HRS implementation plan, and will be asked to vote on the implementation budget for FY 2010 only.

The HRS project budget will be re-visited annually by the Regents, with detailed progress reports and annual implementation budgets. The UW System will provide a formal report to the Regents any time there are significant changes to the project cost, timeline, or scope. This will continue until implementation is complete in 2012.

Learn more about HRS

For more information, see <http://hrs.uwsa.edu>