

PERFORMANCE AUDIT REPORT

Examining the Kansas Lottery's Plans for Acquiring New Computer Software and Hardware

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 1992**

Legislative Post Audit Committee

Legislative Division of Post Audit

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EXAMINING THE KANSAS LOTTERY'S PLANS FOR ACQUIRING NEW COMPUTER SOFTWARE AND HARDWARE

OBTAINING AUDIT INFORMATION

This 100-hour audit was conducted by Jim Davis, Senior Auditor, and Randall Reeves, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Davis at the Division's office.

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EXAMINING THE KANSAS LOTTERY'S PLANS FOR ACQUIRING NEW COMPUTER SOFTWARE AND HARDWARE

Summary of Legislative Post Audit's Findings

The Lottery recommended in March 1991 that its existing instant game software and hardware be replaced. Its fiscal year 1993 budget request included \$930,000 for a new computer system, and that amount has since been increased to just over \$1.4 million. In late February 1992, the Senate Ways and Means Committee deleted the Lottery's funding request because it was not convinced the Lottery had completed a sufficient needs analysis, and thought the Lottery had "preselected" a particular vendor's software that would not run on the agency's existing computer systems. That Committee requested the House Committee on Computers, Communication and Technology to study the proposed acquisition and to report its findings before the end of the 1992 legislative session. To address these concerns, the House Committee requested, and the Chair of the Legislative Post Audit Committee directed, a 100-hour audit to answer the following question:

Has the Kansas Lottery adequately planned for its computer software and hardware needs? Generally, an adequate needs assessment begins with an examination of current operations, an evaluation of existing problems and unmet needs, and a review of alternatives and costs. The Lottery prepared a number of reports regarding its request for new computer software and hardware. However, officials could produce very little documentation to support the planning and analyses that may have been done to prepare those reports. Most of the formal systematic review we saw of the Lottery's current operations and its computing needs was done by Andersen Consulting, and was specific to Andersen's own ACCLAIMS software package.

The Lottery did not adequately consider variables that could affect costs, schedules, and probable benefits of its proposed new system before it submitted its fiscal year 1993 budget request. We have conducted five audits since 1987 that have shown that State agencies generally did not adequately plan or manage their computer projects, consistently underestimated how long the projects would take and what they would cost, and consistently overestimated how much of the work could be handled by in-house staff. We have no way of knowing whether the Lottery would experience similar problems with its proposed project, but we think a careful review of the assumptions and analyses regarding estimated project costs, schedules, and benefits is warranted to help minimize potential future problems or misunderstandings.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.



Barbara J. Hinton
Legislative Post Auditor



Examining the Kansas Lottery's Plans for Acquiring New Computer Software and Hardware

For fiscal year 1993, the Kansas Lottery has requested about \$1.4 million to purchase new lottery software for instant lottery games that was developed and marketed by Andersen Consulting, and two IBM AS/400 computers to run it on. In testimony before the House Committee on Computers, Communications, and Technology, Lottery officials said the current software no longer had vendor support for problems or needed revisions, and the existing computer would no longer have vendor support after July 1993 because the computer technology was more than 10 years old.

Lottery officials also noted that Kansas was the only state that uses the current software, and that six other lotteries use the new software they want to buy. They pointed out that the new software would allow the Lottery to operate nearly 100 games at one time, so games could be continued until the tickets were sold out. (Few lottery games can be operated under the current software, and when new games are added, old ones must be stopped and the tickets destroyed.) Finally, they indicated that the new software could be modified to help provide an integrated financial ledger system to help meet the Lottery's financial reporting needs.

In late February 1992, the Senate Ways and Means Committee deleted the Lottery's funding request because, according to a memorandum from the Legislative Research Department, it was not convinced the Lottery had completed a sufficient needs analysis, and thought the Lottery had "preselected" a particular vendor's software that would not run on the agency's existing computer systems.

The Committee asked the Division of Information Systems and Communications and the Legislative Post Audit Committee to review these matters. It also requested the House Committee on Computers, Communications and Technology to study the proposed acquisition and to report its findings before the end of the 1992 session. The House Committee requested, and the Chair of the Legislative Post Audit Committee directed, the Legislative Division of Post Audit to conduct a 100-hour audit to answer the following question:

Has the Kansas Lottery adequately planned for its computer software and hardware needs?

To answer this question, we reviewed State statutes and interviewed officials with the Kansas Lottery, the Division of Information Systems and Communications, and Andersen Consulting. In addition, we reviewed previous audit work concerning State agency computer system acquisitions, as well as literature describing the steps that should

be taken in developing or acquiring computer software. In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

In general, we found that the Lottery could produce very little documentation to support the planning and analyses it may have performed. In addition, most of the needs assessment for this proposal was performed by Andersen Consulting and was specific to Andersen's own software package. Although the Lottery considered a number of conceptual alternatives, it apparently did not formally consider other prepackaged software until after it submitted its fiscal year 1993 budget request. Finally, we found that the Lottery's proposed software and hardware acquisition merits careful review in a number of key areas addressed in previous audits of recent State agency computer acquisition or development projects. These and other findings will be discussed following an overview of the Lottery's current and proposed computer systems.

An Overview of the Kansas Lottery's Current and Proposed Computer Systems

The Lottery Purchased Its Current Computer Software And Hardware in Mid-1987

In June 1987, the Kansas Lottery awarded a \$900,000 contract for computer software and hardware to operate its instant ticket games to British American Bank Note Corporation, a Canadian firm that had submitted the lowest-cost proposal. (By the end of June 1988, the contract had been amended several times and the Lottery had spent a total of \$1.6 million on computer hardware, software, and consulting services. Much of the increase was attributed to the unanticipated start of on-line games that year, and to staffing shortages in the Lottery.)

The selection of British American Bank Note Corporation was recommended by a procurement negotiating committee consisting of the Lottery's Executive Director, the Chair of the Lottery Commission, and the Director of Purchases, even though the Corporation had never developed or installed instant ticket software before. State law establishing the Lottery exempted the Lottery Director from obtaining approval from the Divisions of Purchases and Information Systems and Communications before acquiring computer hardware or software.

The software the Corporation subsequently developed was called LottoSTARTS, which was written for a Tandem computer. The computer hardware was delivered in August 1987, and the software systems were installed in September and October. Ticket sales for the first instant game started in early November 1987. During its start-up phase, the Lottery also acquired an IBM System 36 computer to handle its information management functions, such as the retailer licensing process, word processing, and office automation.

By early 1988, Lottery personnel concluded that the software was not performing as well as expected. As noted in our 1988 audit, Kansas Lottery: Reviewing Vendor Contracts and Financial Management and Accounting Practices, Lottery officials identified the following types of contract deficiencies: inadequate training, user manuals that were not up-to-date, the need to streamline the ticket validation software to prevent duplicative data entry and to provide increased security over validations and prize payments, and the need for better information to help monitor sales and identify marketing strategies.

Beginning in March 1988, Lottery staff met with officials from British American Bank Note Corporation to try to resolve these differences. The Corporation agreed to

address most problems at no additional cost, and to pay for \$6,000 of an estimated \$12,000 in additional training costs, with the Lottery picking up the balance. The modifications were to be delivered by October 1988. At the time of our previous audit, Lottery officials told us that the problems encountered with this contract did not have a significant impact.

By March 1991, the Lottery Was Recommending That Its Existing Computer Software and Hardware Be Replaced

A March 1991 memo from the Lottery's then-Deputy Director to the Division of the Budget pointed out a number of problems with the Lottery's computer software and hardware. These problems included the following:

- Kansas is the only State using LottoSTARTS software, and the Corporation no longer markets or supports LottoSTARTS or any other lottery software.
- LottoSTARTS is not fully integrated with the agency's other business functions, such as a general financial ledger system.
- the LottoSTARTS software is very poorly documented, making programming changes extremely difficult
- minor programming changes to the software can cause unexpected and unanticipated results, and take an "exorbitant" amount of time to resolve
- the Tandem computer is expensive and difficult to maintain

Because of these problems, the Lottery indicated in that memo that it had explored a number of options, including rewriting and customizing the LottoSTARTS software in-house, buying and installing instant game software being developed by the Washington State Lottery for its Tandem computer, and replacing the LottoSTARTS with other "packaged" software.

The Lottery projected that rewriting the software in-house would take five years and require six additional employees. It also dismissed the option of buying the Washington Lottery's software package because that software did not include a general ledger system, was not expected to be completed until January 1992 at the earliest, and would not be supported by Washington Lottery officials.

The Lottery proposed that the option of replacing LottoSTARTS with the ACCLAIMS software package developed and marketed by Andersen Consulting would resolve its current problems and address its long-term needs. The ACCLAIMS software included a general ledger system and was designed to operate on an IBM AS/400 computer. The Lottery recommended to the Division of the Budget that it purchase the ACCLAIMS software package and the new computer hardware. It estimated the cost at \$1.5-\$2.0 million.

**In April 1991, the Lottery's Budget Request Was Amended
To Include at Least \$1.4 Million for a New Computer System**

In the Governor's Budget Amendment No. 2 (April 18, 1991), addressed to the 1991 Legislature, the Governor recommended expenditures of \$100,000 for fiscal year 1991, \$125,000 for fiscal year 1992, and a fiscal year 1993 payment that would range from about \$1.2 million to \$1.7 million to purchase the new computer system. Over the three-year period, then, the amount to be spent was estimated at \$1.4-\$1.9 million.

The 1991 Legislature prohibited the Lottery from acquiring any new computer equipment and software in fiscal years 1991 or 1992. It directed the Lottery to submit its request to the 1992 Legislature as part of its budget request so that the Legislature could adequately review the proposed acquisition.

**The Lottery's Budget Request for Fiscal Year 1993
Included \$930,000 for a New Computer System**

The Lottery's fiscal year 1993 budget request included moneys to replace its Tandem and IBM System 36 computers and LottoSTARTS software with the ACCLAIMS software and two AS/400 computers. (A larger AS/400 model would be used to run the software, while a smaller one would be used for word processing, testing, an internal control system, and back-up. Both machines would be linked so that data could transfer between them.)

The new system the Lottery proposed would include the following:

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

The Senate Ways and Means Committee deleted the \$930,000 pending further legislative review of this proposal by the Division of Information Systems and Communications and the House Committee on Computers, Communications and Technology.

In response to the House Committee's request for information about the planning and needs analysis the Lottery had performed for this project, Lottery officials prepared a report with the assistance of the Division of Information Systems and Communications, and in accordance with the Division's "data processing acquisition justification guide-

**A Previous Audit Noted Problems
With the Lottery's Lack of
Integrated Financial Information**

As part of its justification for a new computer system, the Lottery said "the Legislative Post Audit Committee recommended that the Lottery explore the possibility of software enhancements and modifications to allow the installation of a fully integrated general ledger package to work with LottoSTARTS on the Tandem." A June 1989 Financial-Compliance Audit Report pointed out that the Lottery's financial systems were not fully integrated, which resulted in weaknesses in reconciliation between those various information systems. The audit noted that a fully integrated system would automatically tie this information together. It would also provide for timely and accurate management information and reduce the overall cost of information processing and reporting.

lines." (Officials with the Division of Information Systems and Communications said that they had little contact with the Lottery about the proposed acquisition before this time.) This report primarily explains the Lottery's current situation, summarizes its acquisition proposal, provides a detailed cost review, and discusses implementation issues and costs.

**The Lottery Has Since Increased Its
Estimated Cost for the New Computer
System to More Than \$1.4 Million**

In the report it prepared for the House Committee on Computers, Communication and Technology, the Lottery revised its cost

estimates upwards for the computer software and hardware systems by about \$500,000. Those revised cost estimates are as follows:

Cost of ACCLAIMS Software	\$ 460,000
One-time Systems Software Charges	80,227
Cost of Software Installation	400,000
Cost of Hardware Configuration	336,899
Consultants' Out-of-Pocket Expenses	97,200
Five-Year Equipment Warranty	<u>52,000</u>
TOTAL	\$ 1,426,326

As the table shows, estimated costs for the software and hardware were increased by about \$80,000 each, and additional expenses related to one-time costs, out-of-pocket expenses, and equipment warranty were included. Lottery officials stated that the \$1.4 million represented a maximum, and that they expected the costs would actually be somewhat lower by negotiating with the vendor for the software and obtaining hardware through a competitive bid process.

Has the Kansas Lottery Adequately Assessed Its Computer Software and Hardware Needs?

In general, an adequate needs assessment begins with an examination of current operations, an evaluation of existing problems and unmet needs, and a review of alternatives and costs. The Lottery could produce very little documentation to support the planning and analyses it may have performed. Most of the needs assessment for this proposal was performed by Andersen Consulting, and was specific to Andersen's own software package. Although the Lottery considered a number of conceptual alternatives, it apparently did not formally consider other prepackaged software until after it submitted its fiscal year 1993 budget request. And finally, the Lottery's proposed software and hardware acquisition merits careful review in a number of key areas addressed in previous audits of recent State agency computer acquisition or development projects.

In General, an Adequate Needs Assessment Begins With an Examination of Current Operations, an evaluation of Existing Problems and Unmet Needs, and a Review of Alternatives and Costs

To determine the elements included in a needs assessment, we looked at a number of "systems design methodologies." (Because computer systems are so complex, a systems design methodology is generally used to systematically organize the process of acquisition or development.) Although the various methodologies we looked at used somewhat different terms, they generally contained the same basic components. Those basic components included:

- **a review of current operations**—a systematic examination of current agency procedures, business practices, computer processes, data flows, and the like
- **an assessment of the current system's limitations and problems, and of the agency's unmet needs**—includes input from users and management to find out what does not work, does not work well, or does not meet the agency's objectives or goals, and what the agency needs to allow it to do whatever it does better
- **a review of the conceptual alternatives for addressing problems and meeting needs**—a high-level assessment of possible solutions (for example, consideration of the best approach to address problems and meeting needs by revising what the agency has through manual adjustments, developing a new system in-house, or acquiring prepackaged software)
- **a review of the variables that might affect costs and schedules**—for example, staffing required to develop, convert to, and operate a new system, additional staff training, whether outside consultants might be needed, equipment and space considerations, whether prepackaged software is available, and if so, what modifications would likely be needed

- **probable costs and benefits of a new system**—estimates of what a new system would cost and the benefits a new system would provide based on the steps done to this point, and on additional information from such sources as internal data processing staff, the Division of Information Systems and Communications, other states, and potential vendors

Depending on the size and scope of the project, the steps through this point may be done in-house (with or without the assistance of the Division of Information Systems and Communications) or contracted out. In addition, in a government setting, an agency may have sought planning moneys from the Legislature before seeking funding for software and hardware acquisitions.

Whether or not an agency has requested planning moneys, at this stage it would have made a decision as to how it wanted to proceed, and would be prepared to bring its plans to the Legislature to be funded through the budget and appropriations process. The steps an agency would follow after it has received Legislative approval are described in the accompanying box.

**Planning Steps To Be Followed
After the Agency Receives Legislative Approval**

Once it has received Legislative approval for a proposed project, an agency would be expected to follow a number of additional steps. These steps are as follows:

- **conduct a system requirements definition**—a thorough analysis of current operations, reports used, and work processes, as well as an assessment of user problems, objectives, and requirements for a proposed system. In a sense, a systems requirements definition is a more in-depth version of analyses already performed in the needs assessment described in this report. In many cases, an outside consultant may be hired to perform this step.
- **prepare detailed specifications**—the end result would be a request for proposals to be sent to potential vendors, unless the proposed system is available from only one source.
- **receive proposals and compare them with the agency's identified needs for its new system**—unless such system is to be acquired on a sole source basis (in which case, negotiations would be conducted with the vendor).
- **make a selection**—as a part of making its selection, the agency would need to work out specific details of the modifications necessary to make the proposed system conform to the agency's needs (for example, the reports to be produced, what elements those reports should contain, and even what the reports should look like).

To determine whether the Lottery adequately assessed its computer software and hardware needs, we reviewed reports, interviewed Lottery officials, and asked for and reviewed copies of any and all documentation Lottery officials could provide in support

of their planning effort. We compared what we found with the basic components of a needs assessment identified above. The results of our review are presented in the following sections.

The Lottery Could Produce Very Little Documentation To Support the Planning and Analyses It May Have Performed

A systematic needs assessment for computer systems generally results in a number of written memos or reports summarizing the outcome of that assessment and recommending a course of action. Such reports should be supported by documentation of the reviews, interviews, comparisons, and other analyses an agency may have performed during the needs assessment.

The Lottery did prepare a number of reports regarding its request for new computer software and hardware. In addition, in a March 1991 memo to the Division of the Budget, Lottery officials said they had gathered a "vast amount of information" concerning the various computer system options discussed in that memo. Based on that assertion, we expected to see considerable supporting documentation describing the Lottery's current operations, detailing the problems and limitations with the existing system, identifying unmet needs, and showing analyses of different options and costs.

Despite its assertion, the Lottery was able to produce little documentation to support the work it had done during the needs assessment. Lottery officials were able to provide some documentation concerning limitations and problems with the existing system. Nothing they produced appeared to be a systematic examination of the Lottery's current operations. Lottery officials indicated that there has been considerable turnover in the Lottery staff involved with this project, which likely contributed to the lack of available documentation.

Most of the Needs Assessment for this Proposal Was Performed By Andersen Consulting, and Was Specific to Andersen's Own ACCLAIMS Software

Whether the review of an agency's operations and computing needs is conducted in-house or contracted out, this step generally is not product-specific unless the agency was upgrading its current system or found that the desired system was available from only one source. Such a review should help provide an independent assessment from which the agency can determine an appropriate course of action.

Generally, the Lottery's needs assessment was specific to the ACCLAIMS software, and was not conducted independently. The only systematic review we saw of the Lottery's current operations and its computing needs was done by Andersen Consulting. This review was performed without charge.

According to Lottery officials, the former Deputy Director obtained promotional information about the ACCLAIMS package and contacted Andersen Consulting in 1990 to find out more about it. In addition, ACCLAIMS apparently also was recommended to Lottery officials by the firm conducting the Lottery's financial audit—Arthur Andersen and Company. Arthur Andersen and Company and Andersen Consulting are separate, but related entities.

An official with Andersen Consulting stated that individuals with his firm met with Lottery staff several times in 1990. Andersen staff spent about a week on-site at the Lottery meeting with the previous deputy director, director of administration, and data processing chief, as well as programmers and accounting staff, to ascertain the Lottery's business requirements and conduct a "fit analysis." Such a fit analysis was Andersen's process of matching the features of its system—ACCLAIMS—with what it determined the Lottery's needs to be.

The end result was a January 1991 preliminary proposal by Andersen Consulting to sell the ACCLAIMS package to the Lottery. This preliminary proposal was the basis of the Lottery's proposal and cost estimates in its March 1991 memo to the Division of Budget, and the budget amendment submitted to the 1991 Legislature.

Although the Lottery is not required to obtain the Division of Information Systems and Communications' approval for its computer acquisitions, it did submit an Information Management Plan to the Division. It also prepared a report for the House Committee on Computers, Communication, and Technology in accordance with the Division's "data processing acquisition justification guidelines." While the Division officials we talked with said they considered the report to be a sufficient justification for the proposed acquisition, they indicated they had not reviewed the information Andersen Consulting prepared.

Although the Lottery Considered a Number of Conceptual Alternatives, It Apparently Did Not Formally Consider Other Packaged Software Until After It Submitted Its Fiscal Year 1993 Budget Request

In its March 1991 memo to the Division of Budget, the Lottery discussed several different options for addressing its computer needs, including rewriting the existing software in-house, purchasing another state's software package, and acquiring a prepackaged software system.

The Lottery eliminated all options except acquiring prepackaged software, and appeared to focus exclusively on Andersen Consulting's ACCLAIMS package. Apparently, one reason for this decision was that the ACCLAIMS package has been used by several other states in establishing their lotteries.

Lottery officials said they had explored another prepackaged system marketed by Game Plan International, but had dismissed it as an unsatisfactory alternative because it had no general ledger package and was so new that it had no proven track record. We saw documentation indicating that Game Plan officials performed an on-site demonstration of their lottery management system in December 1991. In the report the Lottery prepared for the House Committee on Computers, Communication and Technology in March 1992, Lottery officials mentioned the Game Plan alternative, but stated it was more expensive and less comprehensive than the ACCLAIMS package.

In that same March 1992 report, the Lottery also indicated that its current Tandem computer's operating software would no longer receive vendor maintenance support after July 1993. Tandem officials told us that the Lottery's system could be supported if it upgraded its hardware to accommodate Tandem's newer operating software. Tandem officials also told us that they were in the process of putting together a proposal for the Lottery for the cost of such upgrades.

The Lottery Did Not Adequately Consider Variables That Could Affect Costs, Schedules, and Probable Benefits of Its Proposed New System Before It Submitted Its Fiscal Year 1993 Budget Request

In reviewing the report the Lottery prepared for the House Committee on Computers, Communications and Technology, we noted a number of comments or analyses that raised concerns about the adequacy of the Lottery's assessments in these areas. Our concerns were as follows:

1. *The completion time for this project could be underestimated.* Andersen Consulting apparently has projected that its ACCLAIMS software could be installed and fully operational in Kansas within six months. The Lottery refers to this estimate as an "aggressive" time schedule that is consistent with other states' experiences and with the firm's preliminary work with the Lottery. According to the Lottery's report, "a detailed implementation schedule, specific to the Kansas Lottery, would need to be jointly developed between Andersen Consulting, DISC, and the Kansas Lottery."
2. *The Lottery could be overestimating how much work its own staff could perform on the project.* In its report, the Lottery states that no additional in-house personnel would be needed to convert to and operate the new system, but that "during the conversion process the current technical support staff will divert their energies from maintaining LottoSTARTS to working with Andersen staff....It is estimated that over 2,000 person-hours of time will be dedicated by the data processing staff during this six-month full implementation schedule." The Lottery did not assign a projected staff cost to this figure.

The Lottery's 2,000-hour estimate assumes that two employees would work full-time for six months during the conversion process. It currently has only five technical support staff maintaining and operating the LottoSTARTS system on the Tandem computer. It would seem logical that until the new system was fully operational, these employees could have significant responsibilities continuing to operate and maintain the old one.

3. *The Lottery significantly underestimated the cost of the project in its budget request for fiscal year 1993.* As noted in the overview section, although the new computer system initially was projected to cost \$1.5-\$2.0 million, the Lottery's fiscal year 1993 budget request asked for only \$930,000. Following its review of information for the House Committee on Computers, Communications and Technology, the Lottery subsequently raised the estimated cost to more than \$1.4 million.
4. *Some of the assumptions behind the Lottery's cost/benefit analysis for the new computer system could be misleading.* In its report to the House Committee, the Lottery presented a table to show purported annual cost savings associated with ACCLAIMS of about \$200,000 per year. In its analysis, the Lottery showed that such savings would be achieved by buying twice as many tickets per game and receiving a volume discount. It also assumed that the Lottery would sell essentially all those additional tickets. However, we would point out that neither assumption is related to acquiring ACCLAIMS. The Lottery could have achieved those "savings" under its existing system.

We also questioned the Lottery's assumption in a later section of its report that it would end up destroying 3.5 percent of the tickets purchased whether it bought 3.7 million tickets or 7.5 million tickets. Finally, we noted that the Lottery incorrectly computed the savings figure it reported under the ACCLAIMS system for destroying or "shredding" unused tickets.

We thought it important to bring these concerns to the Lottery's and the Legislature's attention because of problems we have identified in five other audits that examined various aspects of State agencies' acquisition or development of major computer systems. Those audits showed that State agencies generally:

- did not adequately plan or manage their computer projects
- consistently underestimated how long it would take to complete a project and how much work was involved
- consistently overestimated how much work could be handled by in-house staff
- consistently underestimated the cost of the completed project

We have no way of knowing whether the Lottery's estimates and assumptions will hold true. However, because so many agencies have experienced problems in these areas, we think a careful review of the assumptions and analyses regarding project costs, schedules, and benefits is warranted to help minimize potential future problems or misunderstandings.

Conclusion

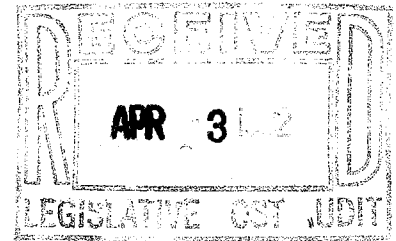
We saw considerable evidence that the Lottery's current system is lacking in a number of ways, and that the Lottery will have to take some sort of action in the relatively near future. Lottery officials appear to have eliminated the least practical alternatives, such as an in-house rewrite of their current software programs. But it was difficult to tell whether they have adequately explored other alternatives—however limited—besides the ACCLAIMS package offered by Andersen Consulting. For example, we saw no documentation that Lottery officials seriously considered upgrading their existing Tandem computer's operating system and continuing to operate the LottoSTARTS software. In addition, we saw no evidence that the Game Plan software received the same level of consideration as the ACCLAIMS software.

ACCLAIMS may well be the system that best serves the Lottery's needs; it is being used by a number of other state lotteries. But because the needs assessment 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 have given the Lottery a basis for evaluating how well different products or alternatives met its needs.

APPENDIX A

Agency Response

On March 31, 1992, we provided copies of the draft audit report to the Kansas Lottery. Their response is included as this Appendix.



Joan Finney
Governor

Kansas Lottery

Ralph W. E. Decker
Executive Director

April 3, 1992

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Dear Ms. Hinton:

We have completed our review of the Legislative Post Audit report, reviewing the Kansas Lottery's Plans for Acquiring New Computer Software and Hardware. We appreciate the difficult task facing your staff in reviewing all the documentation involved in this project within the very short time frame afforded them. The Lottery responds as follows.

Post Audit concluded that there is, 1) considerable evidence that the Lottery's current system is lacking in a number of ways; 2) the Lottery will have to take some action in the relatively near future; and 3) an in-house rewrite of current software is the least practical alternative. Also Post Audit states that the Lottery did not seriously consider upgrading its existing Tandem computer operating system. This has been covered both in our documents and in our meetings with Post Audit but will be repeated here. Upgrading the existing Tandem system would not resolve the software problem and would result in moneys being spent (approximately \$180,000) on equipment that would be replaced when the software problems are resolved. It was for this financial reason that the Lottery did not seriously consider this option. Upgrading the Tandem system would not resolve the problems being addressed by the Lottery's funding request. Post Audit also concluded that there was "no evidence the Game Plan software received the same level of consideration as the ACCLAIMS software." Two internal reports generated by Lottery data processing staff were supplied to Post Audit staff comparing three available options to the Lottery. The options were 1) rewrite the existing software, 2) acquiring Game Plan, and 3) acquiring ACCLAIMS. Game Plan was indeed reviewed and was found to be lacking financial reporting capabilities and word processing capabilities, both significant features in the Lottery's view. This coupled with Game Plan's much higher price and significant shortcomings and short track record made Game Plan a less attractive alternative. The Post Audit report states that the Division of Information Systems and Communications (DISC) told Post Audit that they considered the Lottery's DISC 3608 Guidelines Report to be "sufficient justification for the acquisition". The

Barbara Hinton
April 3, 1992
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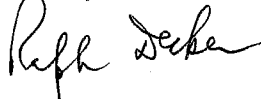
Lottery understands that DISC is the state agency that has been directed by the Legislature to oversee state agency requests for computer hardware and software acquisition.

Post Audit's conclusion also states that a more independent assessment would have given the Lottery a basis for evaluating how well different products or alternatives met its needs. Lottery officials told Post Audit that such an independent evaluation would cost a minimum of \$40,000 and had been deemed unnecessary based on conversations with DISC. Lottery officials also told Post Audit that the Lottery was more than willing to put both software and hardware out for bid via the R.F.P. process if that procedure was deemed prudent by Post Audit, the Computers, Communications and Technology committee and the Legislature.

Post Audit has been informed by Lottery officials that its choice of prepackaged software is extremely limited. Currently, only Game Plan and ACCLAIMS are available as prepackaged software for state lotteries. Game Plan has recently been acquired by GTECH, the Lottery's on-line games vendor. It is not known at the time of this writing what impact this acquisition will have on Game Plan's price or possible upgrades to its software.

The Lottery feels that it has conducted a sufficient needs analysis for its proposed acquisition of new computer hardware and software. The Lottery is also more than willing to take whatever route deemed necessary by the Legislature in order to secure funding for this acquisition. If funding is not approved this legislative session it would be a minimum of 21 months before a new computer system could be purchased and installed by the Lottery. This approximately two year wait could have a dramatic impact on the Lottery's ability to efficiently generate revenue for the state of Kansas. The Lottery feels that it has conducted an independent and thorough assessment of its needs and requirements with regards to a new computer system. Based on the Post Audit report it appears that the Lottery is being asked to meet standards that Legislative Post Audit is unable to clearly define. This is not meant as a repudiation of the Post Audit report but rather a request by the Lottery for clearly defined standards and procedures to be met other than those established by DISC guidelines.

Sincerely,



Ralph W. E. Decker
Executive Director

JNR:dg

