TO: **Joint Legislative Oversight Committee on General Government, N.C. General Assembly**
          Fiscal Research Division, N.C. General Assembly

FROM: **Blake Thomas, General Counsel and Temporary Legislative Liaison, Office of State Human Resources**

DATE: **October 1, 2024**

RE: **Quarterly Report on the Status of the Human Capital Resource Management Project**

In accordance with the provisions contained in Section 29A.1A.(b) of S.L. 2023-134, the Office of State Human Resources (OSHR) submits the following report on the status of the Human Capital Resource Management project as of October 1, 2024.

I.   Background and Funding Status

A.   Basic Features of the Project

This project seeks to replace the State executive branch's existing disparate information technology solutions for Human Resources with a single integrated Human Capital Management (HCM) solution. A single integrated HCM solution will:

- Improve the hiring process, enabling the State to be flexible and nimble in how it recruits employees.

- Enable more consistent employee onboarding and offboarding processes.

- Deliver automated workflows that will reduce process times and increase productivity.

- Provide a consistent user interface that will save end user time.

- Provide better data analytics.

- Eliminate the need for multiple vendor contracts and licensing agreements.

- Reduce the administrative overhead from having to build data integrations between different systems.

- Eliminate duplicative shadow systems procured by individual agencies.

This system will not solely serve OSHR – instead, it will be an enterprise solution that will be touched by approximately 489,000 applicants per year, by more than 55,000 employees and their managers, and by HR professionals at every executive branch agency.

Because the funds appropriated in 2023 will not be sufficient to activate all the options and implement all the components of a complete HCM solution, OSHR is using a phased approach to the implementation. As funding becomes available and appropriated, OSHR plans to activate the procurement option for additional HCM components to be implemented and deployed. See Section I.B below for a discussion of funding.

At this time, OSHR expects that Phase I of the solution will include Recruitment, Applicant Tracking, Onboarding, and Offboarding. Subsequent phase(s) of this initiative will continue the effort to meet the agencies' demand for a user-friendly, intuitive, and cohesive HR solution. The intent is to make it easier to navigate and access essential HR information while providing agencies with a single source of truth for data-driven decisions.

B.   Funding Status

S.L. 2023-134 appropriated $5.6 million in nonrecurring funds for the 2023-2024 fiscal year "to plan and design a system to replace the currently used human capital resources management (HCM) components, such as recruitment/applicant tracking, organizational management, and personnel management, under the purview of OSHR." The new HCM solution is expected to integrate with the State's current SAP payroll system as designated by the North Carolina Office of the State Controller (OSC).

Using the funds appropriated in 2023, OSHR has been able to plan, develop a procurement strategy, and engage in procurement for an option to license each component of a complete enterprise HCM solution. See Section II of this report below for a summary of the current procurement status.

For the 2024-2025 fiscal year, the Governor recommended appropriating (by transfer from the Information Technology Reserve) an additional $2,613,439 in nonrecurring funds for the HCM project. This was made up of:

(a) $1,427,436 to backfill subject-matter experts whose time is being taken to procure and implement the HCM system,

(b) $436,003 to plan implementation of Phase II, and

(c) $750,000 for HR data integration, through the GDAC Human Asset Research Project (HARP), that would migrate data from vendor servers to State servers.

The House budget released on June 17, 2024, included only the $750,000 for GDAC/HARP expansion to archive the large volume of applicant tracking data, once the existing vendor contract is no longer in place, to ensure accessibility to the historical data for analysis and trend reporting as the State moves to the new HCM solution. See the table on the next page for a summary of existing funding, the Governor's recommended funding, and the recommended funding in the House budget.

Summary of Funding for HCM Project		
(all funds nonrecurring)		
2023-2024 Fiscal Year (S.L. 2023-134, Section 29A.1A.(a))	**2024-2025 Fiscal Year, Governor's Budget**	**2024-2025 Fiscal Year, House Budget** (H263 report, page F 59)
$5,600,000 "to plan and design a system to replace the currently used [HCM] components, such as recruitment/applicant tracking, organizational management, and personnel management…"	SME backfill: $1,427,436	No funds for SME backfill
	Phase II planning: $436,003	No funds for Phase II planning
	Data migration: $750,000	Data migration: $750,000
	Total: $2,613,439	**Total: $750,000**

Along with funding for the completion of the current work, as listed above, OSHR continues to seek funding to complete Phases II and beyond for the full HCM initiative. In the 2025 long session, OSHR looks forward to discussions about funding the entire project, so that the State can move expeditiously to keep up with the necessary technology to support the State's recruitment and employment needs.

II. Status of the Procurement

The procurement remains on its original timeline, which is expected to result in selection of a vendor in the next few months and implementation of Phase I in 2025-2026. Details follow.

Using the initial funding of $5.6 million which was appropriated for the State to commence the project, OSHR released a Request for Proposal (RFP) for a cloud-based HCM solution and the services needed to implement and deploy the solution. The RFP was released on Tuesday, January 30, 2024. Vendors expressed great interest through participation in the Pre-Offer teleconference held on February 8. By the March 7 deadline, five vendors submitted written proposals in response to the RFP.
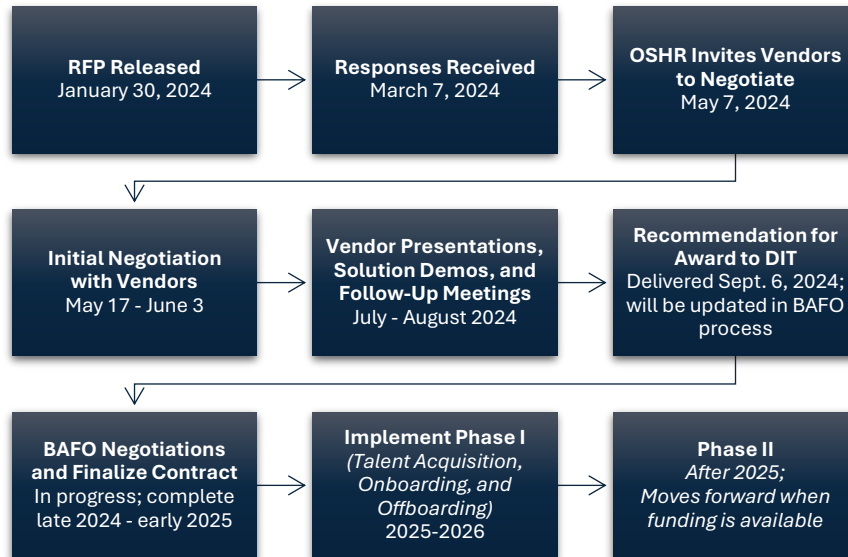
Issues with vendor responses required the State to cancel the RFP and negotiate with sources of supply. This is a standard process under the IT procurement rules in the North Carolina Administrative Code.[1] OSHR requested to begin negotiations with all five vendors that responded to the RFP. As described in the Administrative Code, the negotiations are a series of "communications … between the State and Offeror(s)" that will allow "Offerors to revise their offers" to better meet the State's needs."[2] For evaluation of vendors in the negotiations, the same evaluation criteria have been used that were set out in the RFP.

On May 6, 2024, the state Department of Information Technology (DIT) approved OSHR's request to cancel the RFP and begin negotiations with all five vendors that responded to the RFP. Invitations to negotiate were sent to all five vendors on May 7. Negotiation meetings began on May 17 between vendors and the Negotiation Committee (made up of OSHR, DIT, and Office of State Controller staff). Further vendor presentations, solution demos, and follow-up meetings followed in June, July, and August. On September 6, 2024, the Negotiation Committee provided a recommendation memo to NCDIT listing preferred vendors. Vendor negotiations are continuing. These negotiations will culminate

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[1] 09 NCAC 06B .0301(d)(4)(C) and 09 NCAC 06B .0316(b).
[2] 09 NCAC 06A .0102(11).

in a Best and Final Offer. The recommendation memo will be updated to reflect the Best and Final Offer. The State aims to finalize a contract in late Q4 CY2024, but no later than Q1 CY2025. Then, the State expects to implement Phase I in 2025-2026. Phase II will take place after Phase I, with timing dependent on when funding is available/appropriated. The following table shows the key stages in the process.

RFP Released January 30, 2024	→	Responses Received March 7, 2024	→	OSHR Invites Vendors to Negotiate May 7, 2024
Initial Negotiation with Vendors May 17 - June 3	→	Vendor Presentations, Solution Demos, and Follow-Up Meetings July - August 2024	→	Recommendation for Award to DIT Delivered Sept. 6, 2024; will be updated in BAFO process
BAFO Negotiations and Finalize Contract In progress; complete late 2024 - early 2025	→	Implement Phase I *(Talent Acquisition, Onboarding, and Offboarding)* 2025-2026	→	Phase II *After 2025; Moves forward when funding is available*

As required by Section 29A.1A.(a) of Session Law 2023-134, OSHR is consulting with and "shall obtain the prior approval of the State CIO and Controller on the selection of final system functions and information technology vendors." DIT and OSC were consulted throughout the development of the procurement documents, and staff from DIT and the Controller's Office have participated in the procurement as voting members of the Negotiation Committee. In addition, on September 12, 2024, OSHR formally presented the recommendation memo—including the Negotiation Committee's proposed vendor recommendations—to the State CIO and Controller as required by Section 29A.1A.(a) of the session law. OSHR, DIT, and OSC have been meeting weekly since then to discuss the recommendation memo and answer questions.

III.   **Oversight and Governance Process**

OSHR has established a governance model, similar to that of OSC's Financial Backbone Replacement (FBR) project, to provide oversight and guidance throughout the HCM Program's implementation and deployment. We are committed to doing what it takes to ensure success. Meetings have commenced with both the **HCM Steering Committee** and the **Executive Governance Council**.

The Executive Governance Council will help advocate for a statewide HCM Solution (where appropriate, based on the merits of the project), provide information regarding other statewide initiatives which may impact the HCM program, and consider the project in the light of overall statewide Human Resources strategies, plans and resources. The Steering Committee will consider specific process components, provide change leadership and advocacy, prioritize program activities, examine program

messaging to ensure it is clear and understandable, and provide input to program planning and key project deliverables.

The representatives serving on the Executive Governance Council include executives and leaders from OSHR, OSC, DIT, DOA, DHHS, DAC, DOJ, DOT, and DOR. The Steering Committee has members from DIT, OSHR, OSC, DAC, DEQ, DOJ, DOT, and OSBM. To date, these two groups have met on the following dates:

Executive Governance Council	Steering Committee
May 16 September 19	May 2 June 13 August 1 September 12

The September 19 meeting of the Executive Governance Council included a discussion of functionality that is available in a modern HR information system. To avoid touching on confidential information, this presentation showed features that are broadly shared across the vendors who provide HCM systems, and different slides showed screenshots from different vendors' solutions. The slides showed that a modern HCM system will:

- Be **responsive to work on mobile devices**.
- Have a **consistent new hire experience**, with **pre-boarding before a new hire joins**.
- Have **easy-to-understand org charts** that allow users to drill down, either into the current environment or in hypothetical scenarios for planning.
- Have **HR dashboards and metrics** that are accurate and make data directly available to agency decisionmakers.
- Have **guided workflows** – not only built-in functionality, but also configurable for agencies' use.
- Have a **digital assistant**, so users will not need to remember menus structures. Instead, users will be able to simply type in "Request time off" and be taken to the right screen.

Governance Council members expressed their great interest in getting this new functionality implemented and available.

At the September 12 meeting of the Steering Committee, OSHR asked for committee members' thoughts on how to structure the upcoming Phase I training to be most effective. Steering Committee members stressed—and OSHR agreed—that the training sessions need to be efficient and need to be rooted in North Carolina's specific HR terminology and HR policies, rather than being generic and using vendor terminology. The Controller's Office also shared important lessons about how to effectively train staff, based on that Office's recent training program for the Financial Backbone Replacement (FBR) Project. Multiple Steering Committee members shared insights about how to identify particular staff who will be most effective in a train-the-trainer model.

IV. **What's Planned for the Future**

The need for an intuitive, engaging and effective HCM solution is critical to the State. We will be working aggressively to complete the procurement on schedule and bring Phase I functional capability live while addressing the challenges and importance of effective agency engagement, communications, training, and change management. We look forward to partnering with agencies, the selected vendors, and legislators to ensure the success of this initiative.

OSHR is excited about the next steps on this project and would be happy to speak at any time with legislators or legislative staff. We expect that in the next quarterly report, OSHR will be able to discuss the pending procurement in more detail, including the new vendor (if negotiations are complete by January 1) and the structure and funding needs for Phase II. Because Lockhart Taylor has been appointed and confirmed by the General Assembly to his new role on the Board of Review, the OSHR legislative liaison role is temporarily vacant. OSHR's General Counsel, Blake Thomas, is serving as OSHR's temporary legislative liaison. If you have any questions, please contact him at (984) 236-0822.