

**Permanent Fund Corporation Investment Portfolio
Accounting and Reporting System**

**FY2010 Request: \$500,000
Reference No: 47034**

AP/AL: Appropriation **Project Type:** Information Systems
Category: General Government
Location: Statewide **Contact:** Marshal Kendziorek
House District: Statewide (HD 1-40) **Contact Phone:** (907)796-1504
Estimated Project Dates: 07/01/2009 - 06/30/2014

Brief Summary and Statement of Need:

This project is requested to secure an investment portfolio accounting system and improve general ledger reporting. The current investment portfolio accounting system is over 12 years old and has limited ability to report on and account for the asset types Alaska Permanent Fund Corporation (APFC) is now investing in. Key functions include reconciliation of assets with the custodian bank, monitoring performance and dealing with the range of corporate actions such as dividends, pay-downs and calls. This funding will be spent on servers and related hardware, business analysis, needs analysis and system requirements consulting, system design consulting, licensing, implementation and project management consulting.

Funding:	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Total
PFund Rcpt	\$500,000						\$500,000
Total:	\$500,000	\$0	\$0	\$0	\$0	\$0	\$500,000

<input type="checkbox"/> State Match Required	<input checked="" type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	100,000	0
One-Time Startup:	0	
Totals:	100,000	0

Additional Information / Prior Funding History:

This project has received no prior funding.

Project Description/Justification:

Information Technology Capital Project Review Form FY2010

1. Has this project been previously approved?

No

2. What is the purpose of the project?

Portfolio accounting is a critical piece of the fiduciary duty of the APFC. Portfolio accounting, distinct from the more common General Ledger type of accounting, is part of the process of maintaining and monitoring our investment portfolio. This new system will replace the more than 12-year-old system we are currently using for Portfolio Accounting. Portfolio accounting is used to interface with our

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Fixed Income trading system, interface with our Real Estate Investment Management system, interface with our custodial bank and interface with our GL accounting. Key tasks include reconciliation with the custodian bank, monitoring performance and dealing with the range of corporate actions such as dividends, pay downs and calls.

Monitoring and reconciling our investment accounts is a critical portion of the fiduciary duty of the APFC. Without good internal controls and monitoring we will not be able to achieve the primary goal of the APFC, to produce a 5% real rate of return based on the "Prudent Investor Rule". Monitoring, reconciliation and compliance are key to prudent investing and minimizing the risk exposure of the Fund. Operational risk is the only type of risk in the investment arena that has no potential upside, i.e. added risk in an investment is compensated by potentially higher investment return as compared to added operational risk which has no potential for higher return. Conversely, a reduction in operational risk does reduce the chances of a loss. The system proposed here is critical to monitoring and minimizing our overall operational risk posture.

Project cost:	Capital:			Annual O&M costs or savings
	Prior Years	FY 2009	FY 2010	
General Funds				
General Fund Match				
General Fund Program Receipts				
I/A Receipts (dept. and fund source)				
Other Funds (Alaska Permanent Fund receipts)			\$500,000	Cost estimate between \$50,000 and \$100,000
Federal Funds				
Total			\$500,000	\$50,000 - \$100,000

3. Is this a new systems development project?

No

Upgrade or enhancement to existing department capabilities?

This is a modernization of existing capabilities to address new asset classes such as Hedge Funds, Infrastructure and other alternative investment vehicles as well as interface with our new Trade Order Management System.

4. Specifically, what hardware, software, consulting services, or other items will be purchased with this expenditure? (Include a line item breakdown.)

- Requirements Definition consulting – This will be used to determine detailed scope and project requirements
- System Design consulting
- Software Acquisition – specifics to be determined via RFP
- Software Installation / Programming

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- Hardware / Infrastructure Acquisition – varies with system selected via RFP but will probably include two servers. Details to be determined as part of this project.
- System Integration and Testing consulting
- Installation and Deployment consulting
- Training

Contractual - \$450,000

Equipment - \$50,000

5. How will service to the public measurably improve if this project is funded?

This is not a publicly facing application but all residents of Alaska benefit from a well managed Permanent Fund that is able to accurately account for assets under management.

6. Does project affect the way in which other public agencies will conduct their business?

No

7. What are the potential out-year cost implications if this project is approved? (Bandwidth requirements, etc.)

This will be a “local” application and will have no impact on bandwidth of other State of Alaska resources.

8. What will happen if the project is not approved?

The APFC will continue to have to manually handle the portfolio accounting functions that our current systems are not able to manage. This takes a significant amount of human resources that could be better spent performing more advanced portfolio accounting functions using a modern system. There are substantial operational risks of using old systems to manage our complex mix of assets under management with a current value in excess of \$28 Billion. These risks range from improper valuation, missing assets and incorrect performance measures to outright fraud. A modern accounting system that understands these complex assets will assist in this critical fiduciary duty.