

**COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT**

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August 29, 2007

TO: CAPS Steering Committee
FROM: Dr. Peter Hughes, CFA 
Director of Internal Audit Department
SUBJECT: IAD Role on CAPS+ Upgrade Implementation

The purpose of this memorandum is to update you regarding our planned audit coverage of the CAPS+ Upgrade Project. The project was approved by the Board of Supervisors as Item 18 on July 24, 2007.

First, I want to thank you for your insights and valuable comments during the past six months regarding the best way OC IAD could add value to the CAPS+ Upgrade Project (CAPS+). Since our last draft MOU dated July 18, 2007, one of our Senior Audit Managers attended the CAPS+ Overview Training and the Project Team Off-site Meeting – Phase 1 Kick-off. During the training and kick-off meeting, we were able to validate our proposed role on the CAPS+ Project, as suggested in our last draft MOU.

To summarize, our expertise is in reviewing and providing feedback on internal controls. It is our understanding that the CAPS+ Project functional teams (with the support of a vendor - GCAP) will be documenting the key business processes/work flows and will prepare Internal Control Plans (ICPs) for each of the functional areas of the CAPS+ Phase 1. Our role will be to review and provide written feedback on the various ICPs to ensure the processes contain appropriate internal controls. The focus of our reviews will be proper segregation of duties, appropriate reviews and approvals, audits trails related to preservation of source documents and recording of reviews and approvals, and sound account reconciliations.

It is our understanding that the business process documentation/work flows and related ICPs will be available in approximately February or March 2008. Rather than waiting until February or March 2008, we would like to continue the momentum and understanding we have begun to gain and therefore, we plan to have our audit staff attend the configuration training for the functional areas of the CAPS+ Phase 1. This will allow us to gain a better understanding of the CAPS+ processes to prepare for our review of the ICPs.

In addition, prior to February or March 2008, we would be happy to offer some internal control training to the CAP+ Project functional teams. We would also be happy to provide suggestions on how to best design or approach the ICPs.

Our reviews of the ICPs will adhere to the basic elements of our standard audit procedures and protocol with the exception of an accelerated time line in order to ensure the timely completion and dissemination of the audit conclusions so as to not to impede the progress of the CAPS+ Project. Your advanced understanding regarding your critical role in providing us with timely and requisite documentation necessary to audit the proposed ICPs will be essential to our collective success in this pursuit.

IAD Role on CAPS+ Implementation

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The audit team will be headed by my Deputy Director, Eli Littner, CPA and Certified Information Systems Auditor (CISA) and my IT Senior Audit Manager, Autumn McKinney CPA, CISA. Additional qualified staff will be selected in the upcoming weeks.

Our next step in the audit process is to make contact with the key CAPS+ functional team leads and develop protocols and specific timelines for coordinating our review of the ICPs. If you have any questions or observations, please don't hesitate to contact me directly or Eli Littner at (714) 834-5475.

We look forward to providing our internal control expertise as identified in this memo to aid you in the successful implementation of the CAPS+ Project.

cc: Honorable Board of Supervisors
Audit Oversight Committee
Larry Chanda, CAPS+ Project Manager



AGENDA STAFF REPORT

ASR Control 07-001674

MEETING DATE: 07/24/07
LEGAL ENTITY TAKING ACTION: Board of Supervisors
BOARD OF SUPERVISORS DISTRICT(S): All Districts
SUBMITTING AGENCY/DEPARTMENT: Auditor-Controller (Approved)
DEPARTMENT CONTACT PERSON(S): David Sundstrom (714) 834-2457
 Larry Chanda (714) 834-2181

SUBJECT: CAPS+ Upgrade Implementation

CEO CONCUR Concur	COUNTY COUNSEL REVIEW Approved Agreement to Form	CLERK OF THE BOARD Discussion 3 Votes Board Majority
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Budgeted: Yes **Current Year Cost:** \$15,359,900 **Annual Cost:** No Change

Staffing Impact: No **# of Positions:** **Sole Source:** Yes
Current Fiscal Year Revenue: N/A
Funding Source: GF: 100%

Prior Board Action: Board Minute Order Dated September 12, 2006, Item #59

RECOMMENDED ACTION(S)

1. Receive and file "CAPS+ Upgrade Analysis Document" and "CAPS+ Upgrade Phase I Implementation Project Governance Plan."
2. Authorize the County Purchasing Agent or his designee to issue Price Agreement N1000009062 for CAPS+ Upgrade with CGI Technologies and Solutions Inc. for a five (5) year term, effective July 24, 2007 through June 30, 2012, in an amount not to exceed \$17,481,419.
3. Without further Board Action, authorize the County Purchasing Agent or his designee to execute a contingency amount increase to Price Agreement N1000009062, not to exceed 10 percent of the original contract amount for the first year of the contract in accordance with the 2007 Contract Policy Manual and subject to approval requirements established by the County Purchasing Agent.
4. Without further Board Action, authorize the County Purchasing Agent or his designee to change the Scope of Work set forth in Price Agreement N1000009062 as required. Such authorization to change shall be limited by the following:
 - a) Changes to the Scope of Work may not materially alter Price Agreement N1000009062 by more than the contingency amount of \$754,770;
 - b) All changes must be approved in advance by the CAPS Steering Committee;

- c) The term of Price Agreement No. N1000009062 may not be extended without Board approval; and
 - d) All oncontract changes that exceed \$50,000 must be reported by the CAPS Steering Committee to the Board of Supervisors in the quarterly project update report.
5. Authorize the County Purchasing Agent or his designee to issue Price Agreement N1000009063 for CAPS+ Upgrade Phase I Quality Assurance and Risk Management Services with AERIS Enterprises, Inc. for a two (2) year term effective July 24, 2007 through December 31, 2009, in an amount not to exceed \$769,000.

SUMMARY:

The County Auditor-Controller, as Chairman and on behalf of the CAPS Steering Committee comprised of the County Auditor-Controller, Deputy CEO/Chief Financial Officer, Deputy CEO/ Chief Information Officer, Human Resources Director and Chief Assistant Auditor-Controller, requests the receipt and filing of the CAPS Financial/Purchasing System Upgrade Analysis Document and CAPS Financial/Purchasing System Upgrade Phase I Implementation Project Governance Plan; approval of contract N1000009062 (\$17,481,419) with CGI Technologies and Solutions Inc. for implementation services, additional software licensing, and software maintenance services; and approval of contract N1000009063 (\$769,000) with AERIS Enterprises, Inc. for project quality assurance and risk management professional services.

BACKGROUND INFORMATION:

CAPS Replacement Strategy

The County's financial, purchasing, human resources and payroll information systems, collectively known as "CAPS" ("County-wide Accounting and Personnel System"), are a vital component of the County's infrastructure. These systems are required for County operations, such as financial planning, budget development, maintaining financial records, generating financial statements, collecting costs for federal and state program billings, procuring goods and services, making vendor and trust fund payments, processing payroll, and administering personnel records. CAPS is licensed to the County by CGI Technologies and Solutions, Inc. ("CGI") and is comprised of their multiple ERP (Enterprise Resource Planning) Advantage 2.x software products.

CAPS, in its current form, is nearing the end of its useful economic life. On May 16, 2006 the Board of Supervisors adopted strategies to address this issue:

- Pursue a CGI Technologies and Solutions Advantage 3.x upgrade strategy for the County's Finance and Purchasing systems
- Pursue a value driven replacement strategy for the County's current Human Resources and Payroll systems

These Board adopted strategies were a result of recommendations proposed by the CAPS Steering Committee (CSC) which is comprised of the County Auditor-Controller, Deputy CEO/Chief Financial Officer, and Deputy CEO/Chief Information Officer, Director of Human Resources and Employee Relations, and Chief Assistant Auditor-Controller. The CSC recommendations were derived from a strategic assessment completed by Gartner, Inc., under the auspices of the CSC, to evaluate alternatives

available to the County to replace CAPS. This agenda item addresses the implementation of the finance / purchasing information system upgrade. The human resources / payroll project is on a separate track and will be addressed in a future agenda item.

To initiate the Finance / Purchasing upgrade strategy, the Board took the following actions:

- Approved a fixed price contract with CGI to assist the County with an Advantage 3.x Finance System Fit Analysis and complete the project Envision Phase
- Directed the CSC staff to complete the Envision Phase of the upgrade project and return to the Board with an plan and recommendations for implementation

The Envision Phase has been completed and both an Upgrade Analysis Document and a Phase I Implementation Project Governance Plan have been prepared. These two documents in conjunction with the CGI Technologies and Solutions, Inc. and AERIS Enterprises, Inc. contracts contain the CSC recommended plans for upgrading CAPS to CGI's Advantage 3.x ERP product. CAPS in its updated form has been named CAPS⁺ to differentiate it from the older version and in recognition of its additional capabilities.

CAPS+ Upgrade Analysis Document

This Upgrade Analysis Document summarizes the results of the fit/gap analysis, technical assessment and implementation planning conducted during the Envision Phase of the Upgrade Project. This document defines the overall functional and technical blueprint for the implementation of the Upgrade. The CAPS⁺ Upgrade Project is compromised of two implementation phases. Phase I includes Financial and Procurement while Phase II consists of Budget Preparation (BRASS replacement), Vendor Self Service and Year-End Close processing. This agenda item addresses the Phase I implementation only. Phase II will be addressed in a future agenda item.

CAPS+ Upgrade Phase I Implementation Project Governance Plan

The Upgrade Phase I Implementation Governance Plan delineates the CAPS⁺ Upgrade project approach, organization, roles and responsibilities, staffing requirements, schedule, costs and management plans for the first phase. It also shows the estimated cost of the Phase II implementation and the projected cost for operation and maintenance of the systems once the implementation is complete.

CGI Technologies and Solutions, Inc Contract (N1000009062)

Services supplied under this fixed price agreement include: Advantage 3.x implementation services (\$10,244,840), software modifications (\$3,230,560) additional third party software licensing (\$809,201), and software maintenance fees (\$1,065,606 annually for three years starting in July, 2009). The total cost of the contract is \$17,481,419 for the period July 24, 2007 through June 30, 2012.

The contract with CGI is a sole source procurement. The Advantage 3.x information systems are proprietary products of CGI. Only CGI can supply the implementation, licensing and maintenance services necessary to upgrade the CAPS systems.

For this contract a 10% contingency is being requested, not to exceed \$754,770, and authorization to make material changes to the Scope of Work within this contingency amount without returning to the Board for authorization to amend the contract. The implementation phase of this project will take place over several years. While every effort has been made to develop a fully complete Scope of Work, there will most likely be unforeseen circumstances that result in changes to the contract tasks and/or deliverables. Flexibility is needed to make minor changes quickly so that the project is not delayed.

AERIS Enterprises, Inc. Contract (N1000009063)

Services supplied under this agreement include: project quality assurance, project risk assessment and departmental implementation readiness scorecard management. These services are essential to help ensure the implementation phase of this multi-year upgrade project is completed successfully.

The contract with AERIS Enterprises, Inc. (“AERIS”) is a sole source procurement. AERIS has unique technical expertise and experience with CAPS and the Advantage 3.x products. Their staff were integral members of the original CAPS implementation team and supported the County in several major upgrade efforts. In addition, they have worked with several other clients (e.g., counties of Los Angeles and San Bernardino, City of Anaheim) who have or currently are upgrading to Advantage 3x. AERIS unique knowledge of CAPS and the County’s business processes are not available from any other vendor.

Contract Terms and Conditions

Contract N1000009062 with CGI contains changes to some of the County’s standard terms and conditions. CGI has requested mutual termination rights so that both parties (instead of solely the County) have the right to terminate the contract for cause. The contract contains a limitation on the vendor’s indemnification to claims for personal injury and property damage only. Finally, the contract contains a limitation of liability paragraph which, except for payment of settlements, costs or damages and legal fees, as required in the Indemnification/Insurance paragraph, limits damages from the vendor to the amount of the County’s actual direct damages, not to exceed the amount paid by the County for the services. These language modifications are typical for the software industry. Contracts for major software systems are usually unique and require negotiation of terms. Variances from the standard language are to be expected. For this contract, the level of risk is considered minimal for these services. The indemnification and liability limitation language modifications for Contract N1000009062 have been reviewed and determined to be acceptable for these services by CEO/Risk Management.

The contracts proposed in this agenda item contain language which permits reduction or termination of contracts immediately without penalty if approved funding or appropriations are not forthcoming. These contracts are filling a critical service need and approval to proceed is recommended.

Copies of the contracts are on file with the Clerk of the Board.

FINANCIAL IMPACT:

Funding for the CAPS Financial and Purchasing information system upgrade is 100% County General Fund. A combination of funding from Fund/Agency 014, CAPS Program budget, for FY2006-07 through FY2010-11 (\$27,164,700) and the Strategic Financial Reserves (\$17,835,300) is required for the entire upgrade project. Below is a breakdown of estimated costs and funding sources:

Item Costs Totals

Estimated Upgrade Costs:		
Envision Phase (<i>completed</i>)		\$2,576,300
Implementation Phase I	31,674,200	
Phase I Contingency (<i>10%</i>)	<u>3,167,000</u>	
Total Phase I Costs:		34,841,200
Implementation Phase II	6,892,500	
Phase II Contingency (<i>10%</i>)	<u>690,000</u>	
Total Phase II Costs:		<u>7,582,500</u>
Total Upgrade Costs:		<u>\$45,000,000</u>

Upgrade Funding Sources:		
Funding from CAPS Program (agency 014)	27,164,700	
Funding from Strategic Reserves	<u>17,835,300</u>	
Total Funding:		<u>\$45,000,000</u>

A detail breakdown of estimated costs by fiscal year is shown in the CAPS Finance and Purchasing Phase I Implementation Governance Plan in Exhibit F.

The on-going operations and maintenance costs of the upgraded CAPS Finance/Purchasing system will average an estimated \$4,526,760 annually over the first five years the systems are running in a production mode starting in July, 2009. The projected cost is significantly less than the current CAPS Finance and Purchasing system which will cost approximately \$6,000,000 in FY2007-08. The reduction is primarily due to a change in operating platform, mainframe to server based, and the high cost of maintaining the current CAPS system. The following is a breakdown of operations and maintenance estimate costs and funding sources for the first 5 years:

<u>Item</u>	<u>5-Yr Costs</u>
Estimated Operations & Maintenance Costs:	
Application Support Staff - (A/C, CEO, CSD / Vendor-10 FTE)	\$8,680,000
Platform O&M - (Data Center & HW/SW maintenance costs)	7,378,000
CGI Software Maintenance (includes platinum support)	5,599,800
Platform Capacity Growth - (additional HW/SW costs)	<u>976,000</u>
Total Costs:	<u>\$22,633,800</u>
Operations & Maintenance Funding Sources:	
Funding from CAPS Program (agency 014)	\$22,633,800
Funding from Strategic Reserves	<u>0</u>
Total Funding:	<u>\$22,633,800</u>

A detail breakdown of estimated costs by fiscal year is shown in the CAPS Finance and Purchasing Phase I Implementation Governance Plan in Exhibit F.

STAFFING IMPACT:

The Auditor-Controller's Office and County Executive Office will assign a significant level of staffing to complete the Upgrade. However, a number of limited-term (13) and permanent (3) positions are required

to adequately staff the project. A project staffing plan containing both County and contractor staff is shown in Exhibit E of the Upgrade Governance Plan.

The Auditor-Controller has added, through the FY2006/07 quarterly budget report process and the FY2007/08 budget adoption a total of ten (10) limited-term administrative manager positions to staff the upgrade project. The limited-term positions will expire over a two year time period in 2010 and 2011. These positions are funded 100% by the Upgrade project.

The County Executive Office has added through the FY2006/07 quarterly budget report process and the FY2007/08 budget adoption three (3) permanent and three (3) limited-term administrative manager positions to staff the upgrade project. The limited-term positions will expire in 2010. The permanent positions are needed to adequately support the on-going operations and maintenance of the upgrade systems once they are implemented. These positions are funded 100% by the Upgrade project.

This staffing impact analysis is being presented for informational purposes only. There are no additional positions being requested as a part of this agenda item.

ATTACHMENT(S):

CAPS+ Upgrade Analysis Document

CAPS+ Upgrade Phase I Implementation Project Governance Plan

AERIS Enterprises, Inc. Contract

CGI Technologies and Solutions, Inc. Contract