
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 5, 2010

IBA Report Number: 10-87

City Council Meeting Date: November 8, 2010

Item Number: 150

As-Needed Contracts for SAP Support

OVERVIEW

At the City Council meeting of November 8, 2010, the City Council will hold the first public hearing for the requested action to amend the FY 2011 Appropriations Ordinance to increase appropriations of \$1.5 million utilizing fund balance in the OneSD Support Fund for consultant services; the second public hearing is expected to be held on November 16, 2010.

In addition, the City Council will also be requested to authorize the Mayor to enter into six as-needed consultant agreements with a total expenditure authorization not-to-exceed \$2.5 million annually, for the provision of SAP consultant services related to the OneSD system, for up to five years. Authorization for spending for future fiscal years, beyond FY 2011, is contingent on the approval of each year's annual budget, and funding availability.

FISCAL/POLICY DISCUSSION

Since 2007, the City has been working to implement the \$50 million OneSD project, including SAP's Finance, Logistics, Payroll, and associated modules, replacing the City's various outdated legacy mainframe computer systems. The Finance and Logistics module became operational in July 2009, followed by the Payroll module in January 2010, and then the Accounts Receivable module which became effective March 2010. Other functional areas include employee self-service of benefits, and Public Budget Formulation for the development and publication of the City's annual budget. The eRecruitment function, which is comprised of recruitment, evaluation, certification, and selection tasks, is the next to go-live. The City has plans to continue computer upgrade efforts including the Water Utility billing system.

The OneSD system will require ongoing maintenance and support similar to all other information technology systems. Adjustments, fixes, and business improvements are part of normal system maintenance activities.

The City established the OneSD Support Department to provide the ongoing functional and technical support of the City's OneSD system. The FY 2011 Budget for the OneSD Support Department totals \$17.3 million. All City funds contribute proportionally to the OneSD Support Department, which includes 19 budgeted positions, and funding for the lease-purchase payments of the system of \$6.1 million. Of the \$17.3 million, \$10.1 million comes directly from the City's General Fund.

In July 2009, the City and SAP performed a Support Assessment which included determining roles, skills and a staffing plan for the City's OneSD Support department. The assessment showed that the City could benefit from supplementing current staff with consultant services. Best practice support models, such as those used by the support departments at Houston and Portland, include the use of contract vendors to perform support activities that are technical and highly specialized in nature. This strategy was presented and discussed with the Rules Committee at its meeting of July 24, 2009.

A Request for Proposals was released through Purchasing and Contracting Department in October 2009 with the intent to issue "not-to-exceed" contracts to a group of qualified vendors to provide as-needed SAP support services to the City.

A selection team was comprised of representatives from the OneSD Support Department, the Department of Information Technology, and Financial Management. The team reviewed and scored the twenty-two bids received, and completed reference checks on short-listed vendors in January 2010. From this process, six vendors have been selected and are recommended for as-needed agreements.

The as-needed consultant agreements were presented to the February 24, 2010 Rules Committee meeting. The Committee requested clarification that the \$2.5 million was a not-to-exceed amount on an annual basis, and also asked that each contract be provided and that vendor company information be included in the report to Council. Since that time, contractual details were completed with each of the six vendors. In the interim, these contractual services have been provided to the City through San Diego Data Processing Corporation (SDDPC). The \$2.5 million amount for consultant services has been projected based on the size of the City organization, the various modules implemented and planned as part of the OneSD and related systems, and relying on the experience of other cities.

The Mayor has committed to provide annual reports to the Rules Committee and the City Council describing the amounts paid to each of the six vendors each fiscal year, prior to Council consideration of funding for these contracts for the next fiscal year. This important oversight will permit the review of the actual level of spending each year, which will be helpful in analyzing and determining the appropriate amount to commit for this purpose for the coming fiscal year.

The requested actions include the appropriation of \$1.5 million in fund balance within the OneSD Support Fund to supplement the FY 2011 approved budget for consultant services. The fund balance has accrued due to less than projected spending in the prior year. A review of current spending through the first quarter of FY 2011 (July through October) shows that IT

Services budgeted at \$5.5 million have been 44% expended (\$2.4 million), with approximately \$3.1 million remaining for the balance of the year. If spending continues at this pace, additional budgetary authority and funding is justified. However, no financial projections have been provided.

CONCLUSION

The IBA has committed to work carefully to review consultant agreements, especially those with multi-year terms and significant dollar values, in order to determine relative priorities given limited funding. With an expected deficit of at least \$73 million projected for FY 2012, it will be important that the City does not obligate itself to ongoing expenditure commitments that it will be unable to fulfill, and look for options to minimize costs where possible.

The IBA believes that ongoing support for the OneSD system is a critical function, especially at this initial stage. It is possible that as the City transitions in the future from implementation to maintenance activities that the costs for these specific consultant services can be expected to be reduced. However, the City has implemented a large number of complicated functions in a short period of time, with more features coming on-line shortly.

It is vital that the City ensure all necessary steps are taken for the successful implementation of the OneSD system. It is necessary in order to maximize the significant investment it has made to automate important and critical functions, which use shared and centralized data, and will significantly improve internal controls.

As proposed, the as-needed consultant contracts allow for flexibility for the City to access highly-specialized technical expertise, without committing to a guaranteed level of spending. Annual reports to the Rules Committee and the City Council will allow for important oversight, and the annual budget development process will provide the opportunity to determine the appropriate level of funding for future fiscal years, based on priorities and funding availability at that time. However, these needs should be carefully monitored, with efforts made to minimize costs as much as possible. It continues to be important to balance the City's many priorities given the City's fiscal constraints.

[SIGNED]

Elaine DuVal
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst