



KING COUNTY AUDITOR'S OFFICE

CAPITAL PROJECTS OVERSIGHT PROGRAM

ACCOUNTABLE BUSINESS TRANSFORMATION (ABT) PROGRAM OVERSIGHT REPORT FOR SECOND QUARTER 2010



CURRENT RISK RATING ◆ Corrective action is needed to address scope and schedule changes and issues and risks described below.

SPECIAL TOPIC DISCUSSION This report focuses on the recently-announced changes in the scope and schedule for the Finance Project and the Payroll, Time and Labor Project (PTL).

PROJECT STATUS ● = No Current Concerns ▼ = Attention Needed ◆ = Corrective Action Needed

▼ **Scope** - Increases in Finance Project work effort are necessary to address essential business requirements and to address system conversion complexities that were not fully anticipated in the original project plan. ABT identified scope elements to reduce or eliminate in order to manage risk and save time.

◆ **Schedule** - The PTL Project (Group 1) and the Finance Project are delayed by one year.

ABT Project	Council-Approved Go Live Schedule	Current Go Live Forecast	Comments
PTL Group 1	1/3/11	1/1/12	Reflects new forecast of one-year delay.
Finance	1/1/11	1/1/12	Reflects new forecast of one-year delay.

▼ **Budget** - ABT's preliminary estimate of the cost impact of scope and schedule changes is \$11.3 million. More work is needed to forecast the extent to which these costs can be absorbed within the approved implementation budget and how much of the contingency budget will be needed.

Budget Area	Approved Budget	Expenditures thru June 30, 2010*	Expenditures as % of Budget	Forecast Cost at Completion**
Planning	\$9,032,857	\$8,688,520	96%	Under development
Implementation	64,685,283	19,197,894	30%	Under development
Contingency	12,919,007	402,185	3%	Under development
Total	\$86,637,147	\$28,288,599	33%	Under development

* From ABT Quarterly Report, September 2010. County system-of-record reports expenditures lower by \$509,632.

**ABT is developing a new forecast, but it will not be completed until after the publication of this report.

◆ **Issues and Risks** - The scope and schedule revision indicates that ABT did not adequately plan for the magnitude of work and the resources and time to accomplish it. In addition, mitigation strategies were not adequate for the following issues and risks:

- Readiness of side system interfaces
- Ongoing, active, and effective participation by key agency staff to confirm that scope and approach meet their business needs
- Declining schedule performance indicators

For detailed information, see the following pages.

October 27, 2010

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King County Auditor’s Office – Cheryle Broom, County Auditor

The King County Auditor’s Office was created in 1969 by the King County Home Rule Charter as an independent agency within the legislative branch of county government. Its mission is to promote and improve performance, accountability, and transparency in King County government through conducting objective and independent audits and services.

Capital Projects Oversight Program – Tina Rogers, Manager

The Capital Projects Oversight Program (CPO) was established within the Auditor’s Office by the Metropolitan King County Council through Ordinance 15652 in 2006. Its goal is to promote the delivery of capital projects in accordance with the council approved scope, schedule, and budget; and to provide timely and accurate capital project reporting.

CPO oversight reports are available on the auditor’s website (www.kingcounty.gov/auditor/reports) under the year of publication. Copies of reports can also be requested by mail at 516 Third Avenue, Rm. W-1033, Seattle, WA 98104, or by phone at 206-296-1655.

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INTRODUCTION

This is the seventh quarterly oversight report prepared for and submitted to the Government Accountability and Oversight (GAO) Committee by the Capital Projects Oversight program (CPO) on the status of the scope, schedule, budget, and risks for the Accountable Business Transformation (ABT) Program. The King County Auditor's Office (KCAO) was directed to provide this independent oversight in 2006 by Ordinance 15595.

The ABT Program is a multi-year effort to standardize and streamline the county's business processes and information technology systems for its human resource, payroll, finance, and budget and performance management functions. The program consists of four business process improvement and software implementation projects: Human Capital Management (HCM); Payroll, Time and Labor (PTL); Finance; and Budget/Performance Management. In addition, these implementation projects are supported by functional projects, including communications, change management, and benefits realization.

The ABT Program recently concluded that the project plan for the Finance Project did not adequately plan for two of the county's essential business functions. Despite identifying potential scope decreases and a different implementation strategy for the PTL project, a one-year schedule delay for the finance and PTL (Group 1) projects cannot be avoided. We are showing the overall risk level for the ABT Program as "red" indicating that corrective action is needed to plan for the additional work and to avoid any further delays in go live dates. Based on a preliminary analysis, ABT has estimated that the cost impacts of these changes can be absorbed within the approved project budgets and contingency. ABT is now refining those estimates and is also preparing a new project plan, but this work will not be completed until after the publication of this report.

Our previous reports have provided updates on all four ABT projects, including changes in scope, schedule, and budget and related performance indicators. Because of the magnitude of the scope and schedule changes for the finance and PTL projects, and the potential impacts on implementation costs and benefits realization, we are narrowing the focus of this report to a "special topic discussion" on these two projects to document the changes and indicate what follow-up work we will be doing prior to our next report.

SPECIAL TOPIC DISCUSSION

On September 16, 2010, the ABT Program announced that the implementation of the Finance Project and the first deployment of the PTL Project will be delayed by one year, from January 2011 to January 2012. The decision was made after the Finance Project experienced resource issues and schedule slippages earlier this year and ABT, at the direction of the ABT Management Team, conducted an assessment to determine whether the Finance Project could be delivered as planned.

The assessment was completed in July. The conclusion was that a revised schedule should be considered, because the original project schedule had underestimated the amount of work required for “the county’s more complex business requirements, processes and side systems integration work.”¹ More specifically, the assessment noted that:

1. ABT discovered that the software functionality in the new Oracle finance system does not adequately meet the county’s business needs for cash management or for capacity charge billing in the wastewater program. These are essential county functions and time is needed for additional unanticipated development work and testing of treasury system integration with the new finance system.
2. The move from the county’s current organizational-based accounting structure to the new activity-based structure in Oracle is a major change in county practices and turned out to be more complicated than anticipated.
3. Side system integration work has demanded more time and resources from ABT and from county agencies than anticipated.

Between August and September, ABT conducted a validation of a revised schedule that would have implemented the finance system during the third quarter of 2011. The results, along with preliminary estimates of impacts on costs and benefits realization and feedback from county agencies, were presented to the ABT Management Team in early September. The management team concluded that mid-year implementation would be too risky because county agencies had identified significant resource constraints as well as problems with mid-year data conversion.

On September 16, the management team approved another option to delay Finance Project implementation to January 2012. Because of the critical link between the finance and PTL projects through labor distribution, the decision was made not only to delay the Finance Project by one year, but also to delay the first deployment of the PTL Project by the same amount of time.

The remainder of this report documents the changes in scope and schedule for the finance and PTL projects, reports ABT’s preliminary estimates of the impacts of these changes on project costs and benefits realization, and indicates what work CPO will be doing prior to our next report.

Revised Scope

As shown in Table 1, the Finance Project increases in level of effort and scope to address cash management, capacity charge, and other finance issues. In addition, the project identified several areas of scope to reduce or eliminate in order to manage risk and save time. In addition, some functionality was eliminated because it did not work as anticipated. The total scope reduction is a small percentage of the overall Finance Project Implementation.

¹ ABT Finance Project Scope Management Plan, July 27, 2010

Table 1. Finance and PTL Project Scope Changes

Scope Changes	Nature of/Rationale for Change
Finance Project Increases:	
Cash Management	Add to work effort. New design and customizations are required to fully support the county's treasury functions for 120 jurisdictions.
Capacity Charge	Add to work effort. Additional development work is required to fully support capacity charge billing for the wastewater program.
Public Health Inventory	Previous addition to scope. Inventory system for public health is a high-value business need.
eBusiness Tax	Add to scope. This new module in the current Oracle release will require complex configuration.
Finance Project Reductions:	
iSupplier	Reduce work effort by removing from scope. Consider implementation after the ABT Program is completed.
Procurement Punch Outs	Reduce work effort by providing catalog information and direct ordering for only two vendors, maintaining current functionality. Consider adding other vendors after the ABT Program is completed.
Grants and Awards	Reduce work effort by restricting implementation to "simple to moderate" grants awards structures until the county gains more experience with this module.
Progress Payment and Retainage	Remove from scope because functionality does not work as needed to meet county's business requirements.
Approval Management Engine	Reduce work effort by simplifying design and consider implementing more complex models over time.
PTL Project Reduction:	
Implementation of Automated Pay Rules	ABT will implement PeopleSoft with pay rules and calculations pursuant to appropriate regulations and collective bargaining agreements.

Revised Schedules

Finance Project

As indicated above, the go live date for the new finance system has been delayed by one year, from January 2011 to January 2012, although the plan is to fully configure and test the system by August 2011. According to ABT, the schedule delay will not only allow the time needed for additional development work required for cash management and capacity charge billing functionality, but will also provide time for additional testing to validate the functionality of treasury system integrations with the new finance system. In addition, the delay provides the time to ensure the accuracy of conversion to the new project-centric accounting structure, which will involve the conversion of over 17,000 existing project entries.

Between the March 31 and June 30 earned value analyses,² schedule performance indicators (SPI) for the Finance Project dropped from .91 to .78, a level indicating that is very unlikely the project will be completed on schedule. An SPI of 1.0 or greater would have indicated that the project was on track for completion on schedule. This drop in the SPI also reflects that the project focus shifted from planned implementation tasks to the unplanned need to evaluate and revise the project scope and schedule.

PTL Project

Delaying the finance system go live date necessitates a delay in the PeopleSoft payroll system, because the two systems are integrated through labor distribution and cannot be implemented separately without additional cost and risk. Consequently, the first deployment of the PTL Project has also been delayed by one year.

² Earned value analysis compares actual cost and schedule performance against the project plan.

PeopleSoft functionality consists of biweekly payroll for county employees currently paid twice a month through the legacy MSA payroll system,³ and labor distribution and automated pay rules for all county employees. The original PTL implementation approach was approved by the council in the ABT Detailed Implementation Plan in October 2008. The plan called for dividing county agencies into three groups and delivering PeopleSoft functionality to each group over a period of one year. The go live date for each of the three groups was to be: January 2011 (Group 1), July 2011 (Group 2), and January 2012 (Group 3). That approach was later modified to delay Group 2 by six months and combine it with Group 3. Table 2 displays these PTL schedule changes.

The current approach is to:

- Implement biweekly payroll for all MSA system users in January 2012.
- Implement labor distribution for all county employees in January 2012.
- Implement PeopleSoft with pay rules and calculations pursuant to appropriate regulations and collective bargaining agreements.

Table 2. PTL Project Schedule Changes

PTL Go Live Schedules	# of Employees (2009)
Original (October 2008)	
January 2011	9,358
July 2011	5,227
January 2012	2,431
Total	17,016
Revised (October 2009)	
January 2011	9,358
January 2012	7,658
Total	17,016
Current (Sept. 2010)	
January 2012	17,016
Total	17,016

Between the March 31 and June 30 earned value analysis, schedule performance indicators (SPI) for the PTL Project dropped from .89 to .78, a level indicating that is very unlikely the project will be completed on schedule. Contributing to the drop in schedule performance was that the level of effort related to bargaining the effects of PTL took longer and was greater than planned and that the project's focus shifted to the unplanned activity of revising the PTL project plan. Also contributing to the PTL schedule challenges to a lesser degree was the delay in the HCM Project. Because the PTL project plan relied on shared resources with the HCM Project, when HCM began to experience schedule slippage, resources were diverted from PTL to HCM. Consequently, PTL was not fully staffed as planned, delaying start of some project work.

Estimated Impact on Costs

Table 3 below shows ABT's preliminary estimates of the cost impacts of scope increases and schedule delays: \$6.1 million for the Finance Project and \$5.2 million for the PTL Project, for a total of \$11.3 million. These estimates include CIBER consulting and county personnel costs related to scope increases for the Finance Project and schedule extensions for both projects as shown in the table below.

³ About two-thirds of county employees.

Table 3. Preliminary Estimates of Cost Impacts of Finance and PTL Project Scope and Schedule Changes

Project	Approved Budget	Estimated Cost Impacts			Total Impacts as % of Approved Budget
		CIBER	King County	Total	
Finance	\$29,097,703	\$2,595,139	\$3,458,987	\$6,054,126	21%
PTL	\$20,424,577	\$3,040,753	\$2,168,355	\$5,209,108	26%

Although the estimated cost impacts are preliminary and ABT has estimated that the impact can be absorbed through underexpenditures within the approved project budgets and through the contingency budget, they do represent substantial percentage increases when compared to the approved budgets. ABT is currently working to validate these preliminary estimates as part of their development of new project plans.

CPO will be reviewing the level of rigor used to develop the cost estimates and schedule when the new plans are available, and will be reviewing the reasonableness of the work breakdown structure to support the estimates. We will also be looking for evidence that the plans reflect any “lessons learned” as a result of the delivery challenges experienced by the HCM Project and those that surfaced earlier this year with the Finance Project. We will communicate with the ABT Quality Management Consultant to inform our oversight in this area.

CPO has not had an opportunity to fully assess ABT’s preliminary cost impact projections nor their assumptions for offsetting cost savings and therefore cannot comment on their validity. ABT is currently working on new forecast costs at completion, and we will review the new forecasts when they are available and will provide comments in our next report. We will focus our review in particular on the magnitude of cost impacts that ABT assumes can be absorbed considering the level of surpluses projected in ABT’s annual report in June.

Impact on Benefits Realization

In 2008 the County Auditor’s Office was asked to conduct a due diligence review of ABT’s cost benefit analysis of the ABT Program. The auditor found that, under a reasonable range of assumptions, the benefits of ABT exceed the costs. The auditor also found, however, that the benefits are sensitive at varying levels to several assumptions, such as FTE reductions and staffing costs over time.⁴

The increases in scope and schedule delays for the finance and PTL projects will have a negative impact on the cost benefit analysis by increasing project costs to the extent that offsetting underexpenditures cannot be found and by delaying realization of cost savings from staff reductions. ABT has conducted a preliminary analysis of the impacts on benefits realization, and concluded that the benefits still indicate a positive net present value for the ABT Program. This analysis is now being updated, and we will be reviewing ABT’s work to verify their findings.

Conclusion

The major factor contributing to delays in the finance and PTL projects was the inadequacy of the project plans. In both cases, the amount of work, and therefore the amount of time and resources needed to accomplish the work, was underestimated. Also contributing were three risks that we had cited in our previous oversight reports:

⁴ Due Diligence Report - Cost Benefit Analysis: Accountable Business Transformation Program, King County Auditor’s Office, September 17, 2008.

- the adequacy of resources to ensure the readiness of agency side system interfaces prior to go live dates;
- the need for ongoing, active, and effective participation of agency personnel in critical readiness activities to confirm that the scope and approach meet their business needs; and
- the declining schedule performance indicators for the finance and PTL projects as well as other projects.

The need to revise the scope and schedule for the finance and PTL projects indicates not only that ABT's original project plans were not adequate, but also that some of ABT's mitigation strategies were not adequate. Based on our observations of past ABT program challenges and as reported in our September 7, 2010 presentation to the GAO Committee, ABT's success in meeting the revised milestone dates in the new finance and PTL project plans will depend upon:

1. Development of realistic project plans that do not repeat mistakes in underestimating resource and schedule needs. The plans must be informed by ABT's experience to date and must provide sufficient time and effort to address the challenges posed by the county's breadth and diversity of business needs.
2. Adequate agency resources to provide necessary input to final development work and to conduct the work within their agency to be ready for implementation.
3. ABT's continued effective coordination, communication, and support to the agencies.

We will be reviewing ABT's revised analyses of the impacts of finance and PTL project scope and schedule changes on both costs and benefits realization when the analyses are available. We will also review the new project plans to determine whether they meet the criteria for success identified above. We will report our results in our next quarterly report, along with any new risks and recommendations as needed.

We have been asked by the GAO Committee to present updated information at its December 7, 2010 meeting, subject to the availability of time on the committee's agenda.

ACKNOWLEDGEMENTS

We appreciate the collaborative efforts of the staff from the ABT Program, OMB, and council for their input to effective oversight of the ABT Program consistent with council intent. We also appreciate the assistance from the ABT Quality Management consultant, PCG, Inc., and the staff of the Project Review Board towards coordinated oversight of this important countywide program. This report was prepared by Ron Perry, Tina Rogers, and Shelley Sutton. Should you have questions or comments on the report, please contact Tina Rogers, Capital Projects Oversight Manager, or Ron Perry, Deputy County Auditor.

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