
The CEO’s Office is pleased with the overall results of the review of CEO-IT by the Office of the Performance Auditor. The report points out that there is an ongoing planning process both strategically and operationally and that there have been a number of highly successful IT projects such as Business Continuity Planning and deployment of the CAPS+ platform. It also highlights that projects such as CAPS+, ATS and PTMS continue to receive major focus and, in fact, drive many of the budget impacts.

The report also suggests areas for improvement such as finding a way to better report on operations and maintenance costs in relation to project costs and making adjustments to the sole source process which has already been implemented.

The County’s Chief Information Officer has the responsibility to provide leadership in Countywide Strategic Initiatives and to provide shared IT data and telephone services in a cost-effective manner. CEO/IT staff has cooperated fully with the Office of Performance Auditor (OPAD) in gathering data both internally and from Agencies and Departments and providing it to the OPAD in a timely manner.

Over the past four years CEO/IT has experienced significant changes with a stronger focus on process improvement, fiscal responsibility and accountability. It is due to these efforts that CEO-IT has been able to meet the needs of its clients, whether they be for new platforms for CAPS+ or ATS or for ensuring the availability of key business services through institution of the business continuity planning and disaster recovery programs.

CEO-IT is responsible for the management of Information Technology ISF 289. As such, the ISF’s expense budget is directly dependent on the demand (revenue) from Agencies/Departments. Constantly monitoring and responding to changing demand has always been an essential practice for ensuring that the ISF remains financially sound. This has especially been the case over the last two years where, given the current challenging economic conditions and reduced demand for services due to budget cuts, CEO-IT has taken the responsible approach to reducing costs wherever possible. Actions have included a reduction in the budget for Information Technology ISF 289 from $61M for FY 08-09 to $47M in FY 09-10, a reduction of 23 percent. Costs for IT in Fund 017 were reduced by 7 percent.

With a reduction in demand, unit costs would be expected to rise. However, with the exception of one rate, rates for FY 09-10 were reduced an average of 2 percent.

To further exemplify our efforts to manage costs and to minimize the impact of transition costs to Agencies for technology upgrades, we have been able to reduce IBM Mainframe costs from $8.8M in FY 06-07 to $4.8M in FY 09-10 as key systems migrate from the mainframe to open systems. The $4.8M cost for FY 09-10 now includes costs for the Mainframe and the new open systems platforms for CAPS+, ATS and PTMS.
We appreciate the constructive feedback provided in the OPAD’s report and welcome the opportunity to provide further, section by section, clarification that follows.
Executive Summary

Key Task I Data and Findings

Countywide IT Costs

- (p. vi) To put the projected spending for Countywide IT in perspective, the $166M of projected expenditures in FY 09/10, represents 3 percent of the total County budget.

- (p. vi) The Agency 038/Data Systems Development Projects spend of $40.8M over the last four years includes major system re-engineering projects such as the ATS Re-engineering project ($10.1 M) and the PTMS project ($4.3 M). It also includes approximately $10M for the legacy CAPS System Operations and Maintenance support which was funded out of Agency 038 until FY 06/07.

- (p. vi) ISF 289 charges to agencies as a percentage of total Countywide IT spend for FY 05/06 through FY 08/09 have been 31.3%, 32.6%, 30.3% and 29.5% respectively.

- (p. vii) The top IT Service Area charges from ISF 289 to the County agencies/departments in FY 08/09 were for the County Telephone System (OCTNET) ($8.0M), use of the County network ($7.2M), and Application Development staff augmentation. CEO/IT and agencies/departments have recognized that Telephone and Network services represent an opportunity to reduce costs and improve services in these areas through the implementation of a VOIP and converged network solution. Applications staff augmentation also represents an opportunity for allowing agencies flexibility in staffing projects with the appropriately skilled resources for the duration of the project and this need will be addressed during the development of the IT Sourcing Strategy.

CEO/IT Costs

- (p. vii) As directed by the CEO, the CIO developed a plan to modernize IT service delivery both strategically and operationally. In order to do that, key positions were identified for being insourced, to reduce costs, to provide the County with greater control over resource utilization and to mitigate any risk associated with a possible transition from the current vendor to a new provider in the upcoming re-bid of the outsourcing contract. This included replacing contractor positions supporting Business Continuity Planning, County Internet Website support (eGov) and Program Management. Key technical positions were identified and staffed with skilled personnel for County oversight of Network and Server Support, Security Architecture, Network Architecture and Oracle Database Support.

- (p. vii) Contractor staffing reductions for FY 09-10 are already being realized based on changes in demand from Agencies.
Key IT Project Costs

- (p. viii). In reference to tracking actual expenditures for Key IT projects, the Quarterly Status Report provided to the Board does include both projected and actual expenditures which have been reported on since June 2005. The Clarity IT Project Portfolio tracking system that is used by CEO/IT has the capability to provide budget to actual information and interfaces are being developed to capture such data from the Financial/Procurement Systems (CAPS+) as well as Timekeeping systems.

- (p. viii). CEO/IT does use external consulting and advisory services when necessary to augment County staff with specific expertise that is not available internally or for one time activities where it would be more cost effective than hiring permanent or even limited term positions. Such services would typically be used for implementation of turnkey software systems or for strategic initiatives that involve significant stakeholder involvement both County wide and regionally. In some cases, a third party provides an unbiased view to non-County stakeholder such as cities.

- (p. viii). While CEO/IT-driven projects are primarily for “Business Strategic Priorities”, it should be noted that projects such as Disaster Recovery/Business Continuity are more fundamental and critical to ongoing business operations. The stated projects were strategic by design to improve the overall state of IT in the County.

ACS Contractor Analysis

- (p. ix). The Overhead and Profit Margin of 30.3% that ACS adds to the direct salary and benefit costs of its employees is one of the key reasons that the Board approved the development of a Sourcing Strategy. Service delivery models have changed as has pricing particularly in services that have become more like a utility or commodity (e.g., networking, telephone services, server support).

IT Strategic Plan

- (p. 6). The creation of the IT Strategic plan was authorized by the Board on 12/05/2006, and was presented to and approved by the IT Working Group. It was subsequently agendized for Board review and approval, but set aside at Board direction pending further review. The creation of the plan involved over 700 County managers, executives, County IT subject matter experts and the resulting plan reflects a truly County wide view of IT.

The IT Strategic Plan provides a framework for prioritizing investments in Information Technology. It also deals extensively with Countywide IT management and governance and delineates clear roles and responsibilities.
Task I Data, Findings & Recommendations

I. Identification of IT Costs Countywide

- (p.7). Finding 1: Information Technology is a major County cost center, but no detailed framework has been consistently implemented for the collection, analysis, and reporting of these costs, both budgeted and actual, in order to inform policy makers as they allocate scarce resources.

**Response:** IT spending has never been budgeted as a line item and costs have been typically included in various object codes under the Services and Supplies budget category with the exception of major projects which are brought before the Board as separate items in the proposed Annual Budget. CEO/IT has developed a proposal for adding specific budget Object Codes for IT expenditures within the County budgeting process such that actual expenditures to budget can be tracked by specific categories, either at a departmental level or in aggregate. This proposal has been discussed with both CEO Budget and Auditor-Controller staff.

- (p.8). Recommendation 1: CEO/IT should work with County agencies/departments to develop a budget to actual database to track all Information Technology costs in the County. The analysis of this information needs to be conducted annually, the results of which should be formally presented to the Board of Supervisors. Any cost-related performance measures identified through this process should be incorporated in the County’s ongoing Balanced Scorecard initiative.

**Response:** Concur with recommendation. CEO/IT has developed a proposal for adding specific budget Object Codes for IT expenditures within the County budgeting process such that actual expenditures to budget can be tracked by specific categories, either at a departmental level or in aggregate. This proposal has been discussed with both CEO Budget and Auditor-Controller staff. This effort will be given a high priority and the proposal seeks to leverage existing investments (CAPS+) and processes to accomplish its objectives.
Historical Agency/Department IT Expenditures

- (p. 13). Changes in IT expenditures in Agencies/Departments were not part of the scope of this audit. These expenditures represent 70 percent of total Countywide IT spending.

Internal Service Fund 289 Charges

- (p. 18). Regarding the statement that CEO/IT will adjust rates during the course of a Fiscal Year, this is not a typical practice as it impacts Agency budgets.

Total ISF 289 Charges

- (p. 19). Charges to agencies for FY 09-10 are expected to be $38.5M which represents a 6.5% reduction from the FY 08-09 budget.

- (p. 20). It should be noted that the Assessor’s decision to directly procure the services of ACS was at the recommendation of CEO/IT in order to reduce project costs.

- (p. 21). Budgeting for ISF 289 is dependent on projected demand from agencies/departments and rates are established based on projected units of demand and the associated cost to provide services. CEO/IT staff meets with the top ten consumers of their services up to three times during the budget development process to ensure that projected demand is up-to-date before finalizing rates. Furthermore, CEO/IT staff meets with agencies throughout the year to validate projections. In the past two years, due to budget uncertainties, there has been significant variance between projected and actual demand. CEO/IT has responded accordingly to balance revenue with expenditures. Actions have included reductions in equipment expenditures, contractor staffing reductions and County staffing reductions including filled positions. Over recovery for OCTNET telephone systems was planned in order to set aside funding for upgrades / replacement of the existing infrastructure.

- (p. 22). Rates include some recovery for future refresh of existing infrastructure. Funding for such activity is through the ISF’s retained earnings and are not included in the rate for the year in which the project is executed.

Agency/Department ISF 289 Charges

- (p. 23). In reference to historical charges to Agencies, the increase in charges to the Probation Department was as a result of the Department’s relocation of their equipment to the County Data Center.
CEO/IT Budget and Organizational Statistics

CEO/IT Total Expenditures

- (p.25). As noted in the footnote to the table, a substantial portion of Agency 038 spending is for non-CEO/IT driven projects such as CAPS (for FY 05/06) and ATS/PTMS (for FY 06/07 through FY 09/10).

- (p.25). Aggregating Agency 038 expenditures with those of Agency 017 and 289 does not provide a clear picture of funding and spending priorities. Funding for ISF 289 is based on client demand and is focused on required operations and maintenance activities. Funding for Agency 038 fluctuates and is dependent on departmental funding requests for new projects as well as allocated funds. Separation of these budgets provides visibility to decision makers in terms of setting priorities.

CEO/IT Position Count Analysis

- (p.29). In order to address reductions in expected demand for services, CEO/IT has responded accordingly to balance revenue with expenditures. Actions have included reductions in equipment expenditures, contractor staffing reductions and County staffing reductions (including filled and vacant positions). As a result, in FY 08-09, CEO/IT eliminated 4 filled and 3 vacant County positions. In FY 09-10, an additional 2 filled and 4 vacant positions have been eliminated.

Compensation Expenses

- (p.33). The scope of responsibilities and the breadth and depth of expertise required for support of Countywide infrastructure is not comparable to departmental positions.

CEO/IT Driven Key IT Project Expenditures

- (p.37). Finding 2: In some cases, the full costs of CEO/IT-driven Key IT projects are not always reported to the Board via the IT Quarterly Reporting process.  
  Response: Costs for ongoing operational activities for systems are included in the Department’s operational IT budget and are not included in Agency 038 funding. Project management practice tracks project costs from project initiation to implementation. The project funding justification process, which is part of the annual budget submission process, does require information to be provided for ongoing maintenance costs for up to five years.
(p. 38). **Recommendation 2:** CEO/IT should compile the full costs for all ongoing CEO/IT driven Key IT Projects and report this information via the IT Quarterly Report process.

**Response:** Partially Concur with Recommendation

CEO/IT will report on subsequent implementation phases for a project. However, ongoing costs would be included in the operational budget. Once implemented, any system, whether it is CAPS+, Cerner, ATS, PTMS or eGov, will have an ongoing operational cost component for the life of the system. These costs were not intended to be reported on in the Quarterly Status Report as the purpose of the report was to report on the health of a project during design and implementation.

An alternative approach to monitoring ongoing costs for key systems is to follow a programmatic model such as that for CAPS+ where all costs are budgeted for and managed through Agency 014 which was established specifically for CAPS.

**ACS vs. County Staffing Cost Analysis**

**Methodology**

- (p. 50). In reference to the County to ACS contractor salary comparisons, responsibilities and the level of complexity are significantly higher for Data Center staff than most agencies and departments. The volume of traffic, the number of servers as well as the sophistication required to support networks that ensure Agency privacy while allowing Countywide data and transactions to flow uninterrupted require staff with the appropriate skills. Therefore, a gross comparison of rates does not provide a complete picture.

**Analysis Limitations**

- (p. 50). Given the many limitations stated in the analysis, in particular the fact that it does not incorporate the anticipated increases in retirement costs to the County, which are expected to be significant, it is difficult, if not impossible to draw out any meaningful comparison relative to ACS vs. County staffing costs.

**Sole Source IT Contracts**

**CEO/IT Sole Source IT Procurement Review**

- (p.54) **Finding 3:** Several CEO/IT sole source procurements did not adhere to the administrative requirements of the Contract Policy Manual.

**Response:** Sole Source Justifications for the contracts were developed and signed by the authorized Agency/Department signer. However, they were not
signed by the Deputy Purchasing Agent, but were placed in the contract file folder.

This issue was identified in an Internal Audit Report dated February 11, 2009 (Audit No. 2827) which recommended that CEO/Information Technology establish a process by which Sole Source justification requests are reviewed by contracts or purchasing. It further recommended that the review process should include a verification of all authorized signers of Sole Source requests and contain the reviewer’s signature(s) on the Sole Source justification form.

The CEO/IT Contracts Manager who is a Deputy Purchasing Agent now reviews and approves all sole source contract documentation to ensure compliance with policy requirements. As additional oversight of sole source contracts, the County Procurement Office (CPO) established procedures in April 2009 requiring their review of all sole source requests that exceed certain monetary thresholds prior to Board approval. In September 2009, the CPO issued a document “Sole Source Contracts – Process Enhancements” that provides further guidelines for preparing, approving, and tracking sole source requests.

A follow up audit report issued by Internal Audit on November 5, 2009 (Audit No. 2927-A) considered the recommendation to have been implemented and the issue closed.

- (p.55) **Recommendation 3:** CEO/IT should follow all sole source procurement requirements, including ensuring that every Justification Form is reviewed and signed. In addition, Deputy Purchasing Agent review should not be delegated back to department management for approval, but referred to the County Purchasing Agent for review, if necessary.

**Response:** Concur with recommendation.
As stated above, the CEO/IT Contracts Manager who is a Deputy Purchasing Agent now reviews and approves all sole source contract documentation to ensure compliance with policy requirements. This process was covered during internal procurement training that occurred for Office of the CIO staff in January 2009 and highlighted in a formal procurement manual.

- (p.55) **Finding 4:** Some sole source leases of IT equipment/software procurements are not taken to the Board for approval.

**Response:** As stated in the report, the County Procurement Manual has been silent on the subject of sole source contracts for equipment/software leases whereas there are specific criteria that determine when Service and Professional sole source contracts require Board approval.
• (p. 56) **Recommendation 4:** The County Purchasing Agent, in consultation with the CEO and County Counsel, should recommend to the Board of Supervisors a specific dollar threshold above which sole source equipment/software leases require Board approval.

  **Response:** Concur with recommendation. The County Purchasing Agent will provide a recommendation to the Board.

• (p. 56) **Finding 5:** The current contract with ACS is unnecessarily vague with respect to ACS’s ability to purchase/lease IT software/equipment for County agencies/departments.

• (p.57) **Recommendation 5:** CEO Purchasing, with County Counsel assistance, should negotiate a re-write of this portion of the ACS contract.

  **Response:** Requires further analysis. CEO/IT will review the language with County Counsel to determine its intent and make changes as appropriate while ensuring compliance with CPM thresholds.

• (p.57) **Finding 6:** Several CEO/IT sole source procurements performed by CEO/IT Purchasing for other County agency/departments did not adhere to the administrative requirements of the Contract Policy Manual.

  **Response:** Sole Source Justifications for the contracts were developed and signed by the authorized Agency/Department signer. However, they were not signed by the Deputy Purchasing Agent, but were placed in the contract file folder.

  This issue was identified in an Internal Audit Report dated February 11, 2009 (Audit No. 2827) which recommended that CEO/Information Technology establish a process by which Sole Source justification requests are reviewed by contracts or purchasing. It further recommended that the review process should include a verification of all authorized signers of Sole Source requests and contain the reviewer’s signature(s) on the Sole Source justification form.

  The CEO/IT Contracts Manager who is a Deputy Purchasing Agent now reviews and approves all sole source contract documentation to ensure compliance with policy requirements. As additional oversight of sole source contracts, the County Procurement Office (CPO) established procedures in April 2009 requiring their review of all sole source requests that exceed certain monetary thresholds prior to Board approval. In September 2009, the CPO issued a document “Sole Source Contracts – Process Enhancements” that provides further guidelines for preparing, approving, and tracking sole source requests.
A follow up audit report issued by Internal Audit on November 5, 2009 (Audit No 2927-A) considered the recommendation to have been implemented and the issue closed.

- **Recommendation 6:** CEO/IT Purchasing and the initiating agency/department should ensure that all sole source procurement requirements are followed, including ensuring that every Justification Form is reviewed and signed. In addition, Deputy Purchasing Agent review should not be delegated back to the soliciting department, but referred to the County Purchasing Agent for review, if necessary.

**Response:** Concur with recommendation.
As stated above, the CEO/IT Contracts Manager who is a Deputy Purchasing Agent now reviews and approves all sole source contract documentation to ensure compliance with policy requirements. This process was covered during internal procurement training that occurred for Office of the CIO staff in January 2009 and highlighted in a formal procurement manual.