SOUTH FLORIDA WATER MANAGEMENT DISTRICT

Review of Critical KPMG E-Quest
Readiness Recommendations

Report # 04-04

Prepared by
Office of Inspector General

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SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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Audit Committee Members:
    Mr. Lennart Lindahl, Chairman
    Mr. Kevin McCarty, Vice Chairman
    Mr. Irela Bagué, Member
    Mr. Michael Collins, Member
    Mr. Hugh English, Member

Re: Review of Critical KPMG
Readiness Recommendations,
Report No. 04-04

This review was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S and is part of the approved FY 2004 Audit Plan. In April of 2003, the E-Quest Project Team engaged KPMG LLP. to assess the District's readiness to implement the SAP software that was selected and purchased for the new financial system. The audit focused on reviewing and substantiating the status of those items contained in the KPMG assessment that needed to be completed prior to negotiating a contract with the software implementation consultant. This report was prepared by Tim Beirnes.

Sincerely,

John W. Williams, Esq.
Inspector General

Enclosure

c: Henry Dean
    Carol Wehle

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INTRODUCTION

The District is implementing an Enterprise Resource Planning (ERP) system using SAP software, which is known as the E-Quest Project. In April 2003, the E-Quest Project Team engaged KPMG LLP to perform a diagnostic to assess the District's readiness to implement the SAP software that was selected and purchased for the ERP system. Our office has reviewed and substantiated the status of those items that need to be completed prior to negotiating the contract with BearingPoint, Inc., the software implementation consultant. In our opinion, all the critical items have been sufficiently addressed to commence negotiations with the Consultant. We will report on the status of the other issues at the appropriate milestones.

The SAP system will replace the current LGFS financial system and related interfaced systems. The District currently operates a number of different systems that are attached to the LGFS financial system through interfaces. The current financial system, LGFS, has been used at the District for over 11 years, is outdated, and no longer fulfills the District's information needs. The LGFS system runs on a VAX/VMS system. The VAX/VMS system is obsolete and its manufacturer, Hewlett Packard, Inc. (HP), no longer produces the systems and intends to discontinue supporting existing VAX systems by the year 2010 (or sooner depending on business demand). Hence, it is imperative that the District move forward with implementing the new financial system.

SAP is an integrated set of business applications designed to operate on a single database. SAP is a suite of prewritten business application codes that customers can configure to accommodate their own business rules and processes. Although the basic functionality can be modified to accommodate specific requirements, customers usually adjust business processes to one of SAP's methods. SAP products are distributed as applications with functional modules inside each application. Each application focuses on particular business functions. The main functions are Accounting, Human Resources, and Logistics. The modules within each application perform specific business tasks. For example, the business tasks within the accounting module include financial accounting, controlling, investment management, etc. Human Resource tasks include benefits administration, payroll, recruitment, time management, etc. Logistic tasks include plant maintenance, project systems, etc. SAP software is a very popular ERP software solution

used very commonly by Federal, state and local governments. SAP has approximately 64,500 installations, of which approximately 6,000 are public sector customers (including the State of Florida, Department of Revenue).

The E-Quest Project was commenced based on a feasibility study performed by the Government Finance Officers Association (GFOA), which recommended that the District implement an ERP system. SAP was selected through a competitive process. An RFP was developed that defined system requirements and user functionality. ERP software vendor proposals were solicited and evaluated, which resulted in selecting SAP as the product most suitable for the District's overall needs. The District has already invested approximately $3 million in the ERP system for software licenses, hardware, and consulting services. The total E-Quest Project implementation cost is projected to be approximately $12 million through the final phase in FY06. In contrast, the District invested approximately $5 million ($7.6 million adjusted for inflation) in the now outmoded LGFS system, which does not contain anywhere near the functionality of SAP. (The costs shown for both systems reflect external expenditures only and do not include the value of District staff time.)

Some of the significant benefits of the SAP system are:

- Eliminating data redundancy through a centralized database.
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- Operating a set of software applications that work together seamlessly.

- Providing a user friendly Graphic User Interface (GUI).

- Improving workflow and accountability through paperless processing.

- Providing consistent application of processes and procedures through work flows, which are imbedded in the system configuration.

- Incorporating reporting features that provide easier access to data for non-technical users.

- Automating the updating of the documentation for processes and procedures configured into the system.

Since SAP is a configurable set of software code, it provides the flexibility to modify the system's configuration as the District's information needs change over time, rather than replacing the system. Consequently, the SAP system will likely have a longer useful life than non-configurable products. Some companies have been using SAP for over 20 years. In our opinion, the procurement process resulted in selecting a software product that will serve the District's information needs well and the project should continue moving forward.

REVIEW RESULTS

**Critical Items Sufficiently Addressed to
Commence Negotiations**

As stated above all the critical items have been sufficiently addressed to commence negotiations with the Consultant including the following issues:

- The project budget has been updated for FY04 through FY06.

- District staff resources have been identified and dedicated to the E-Quest project.

- Written quality control for the software integration firm has been addressed.

- Criteria have been developed for inclusion in the Consultant's contract for determining when the project is ready to progress to the next phase.

However, during the course of our review, we identified several issues that need management's attention.

**No Provision for Backfilling Project
Staff's Regular Job Responsibilities**

Costly change orders could ensue if the Consultant is not provided the staff assistance agreed to in the contract. Implementing SAP is a joint venture between District staff and the Consultant. This project model is necessary in order to merge the knowledge of those who understand the District's processes with those who understand the software. Consequently, the SAP implementation will require a significant amount of District staff time, especially from accounting staff and other financial professionals. The Consultant's proposal contained a schedule of staff resources to be dedicated to the E-Quest Project totaling 37,920 District staff hours. This proposal will be incorporated into the contract by reference, and hence part of the legal binding agreement. The District Leadership Team (DLT) has verbally committed these resources to the E-Quest Project; however, no provisions or funding have been provided for temporary personnel to

perform these employees' regular job responsibilities while they work on the E-Quest Project.

Decision to Host System In-House or
by an ASP Needs to be Finalized

The decision as to whether hosting IT technical support will be provided in-house or by an Application Service Provider (ASP) has not been finalized. This decision may have a slight effect on the Consultant's scope of work and hence the contract price. On April 18, 2002, the E-Quest Steering Committee made the decision to host the system in-house and the project proceeded accordingly. Subsequently, the District Leadership Team (DLT) was formed and the DLT decided to readdress this issue; however, no final decision has been made.

Considering that the software and hardware have already been purchased and the software installed, many up-front costs normally absorbed by an ASP have already been incurred by the District. One of the benefits of an ASP is the ability to spread some of the up-front costs over the life of the contract. This advantage is no longer available considering the project's current status. If the DLT changes course and decides to use an ASP, any affect on the Consultant's scope of work could be handled with a change order.

Inadequate Funding for Technical Training

Assuming the E-Quest project continues on the current path, of hosting and supporting the system in-house, the IT staff members selected to fulfill the support roles will need SAP technical training. Such training is estimated to cost approximately $300,000. The current E-Quest project budget includes only $75,000 for such training; therefore, an additional $225,000 needs to be provided for SAP technical training. The FY04 training budget for the entire IT Department is only $97,000.

Formal Project and Committee Charters Not Finalized
Project Decisions are Not Documented

Neither a formal E-Quest Project charter nor a formal Steering Committee charter have been finalized and adopted. When the project commenced, an E-Quest Steering Committee was formed consisting of members that were primarily department managers in the Corporate Resources area. The Steering Committee met with the Project Team once or twice a month to review the Project's status, address various issues, and make major project decisions. Minutes were maintained of the E-Quest Steering Committee's discussions and decisions. However, the E-Quest Project lacked executive sponsorship and also lacked representation from the District's operational units, which are important elements to a successful ERP implementation. Executive sponsorship is essential because an ERP system supports the entire organization, thereby requiring participation and resources from many different organizational units. Thus, executive authority is needed to ensure cooperation among organizational units and to ensure that the staff resources needed from each organizational unit are committed to the project.

When the District Leadership Team (DLT) was formed, it took on the executive sponsorship role that the E-Quest Project was lacking. The DLT receives periodic project status reports, addresses certain project issues, and provides direction to the E-Quest Project. The E-Quest Project Steering Committee also continues to meet weekly. Distinction of responsibility and authority between the DLT and the Steering Committee has not been formally established in writing. Also, to our knowledge, neither group maintains minutes of their meetings nor documents their decisions and directives in some other written form.

RECOMMENDATIONS

1. **Provisions need to be made for temporary personnel to perform the regular jobs for District staff that will be spending a significant amount of their time on the E-Quest project.**

    Management Response: Preliminary recommendations have been made to back fill these positions. Final recommendations will be reviewed with the eQuest project manager and Department of Finance and Administration before submitting to the Steering Committee for review and approval. The contract negotiated with BearingPoint for the implementation services will have an impact on the number and type of personnel affected.

    Responsible Department: Finance and Administration

    Estimated Completion: November 4, 2004

2. **The decision regarding system hosting and technical support needs to be finalized.**

    Management Response: The decision to host the system internally was made in October 2003.

    Responsible Department: Finance and Administration

    Estimated Completion: Completed

3. **Funding needs to be provided for technical staff training - assuming the system is supported in-house.**

    Management Response: Provisions have been made in the FY 2005 budget for IT staff training prior to commencement of the project currently scheduled for January 2, 2005.

Responsible Department: Finance and Administration

Estimated Completion: Completed

4. **Distinction between the responsibilities and authorities of the DLT and E-Quest Steering Committee need to be documented in the form of a written charter.**

   Management Response: A project charter that includes a project management organization structure and role descriptions is available and will be presented to the new Steering Committee for approval.

   Responsible Department: Finance and Administration

   Estimated Completion: October 4, 2004

5. **DLT and E-Quest Steering Committee decisions and directives regarding the E-Quest Project should be documented in writing to ensure directives are clearly communicated and provide for Project Team accountability.**

   Management Response: A project communication plan is currently available. It features details on the documentation of project decisions that ensure accountability of the project team and project management.

   Responsible Department: Finance and Administration

   Estimated Completion: Completed