



Agenda Item 5a

August 14, 2012

ITEM NAME: Contract Extensions and Staffing Model for my|CalPERS

PROGRAM: Information Technology Services Branch

ITEM TYPE: Action

RECOMMENDATION

Extend the Accenture contract by one year, to September 13, 2014, and approve the reporting of the proposed Accenture contract amendment

EXECUTIVE SUMMARY

As part of CalPERS' overall strategy, staff is committed to decreasing our reliance on contractors in Information Technology Services Branch (ITSB) and replacing them with new state employees. This strategy allows CalPERS to reduce the number of contracted staff and most appropriately maintain my|CalPERS in the future. Since launch, the project team has been focused on stabilizing the system and implementing enhancements to improve our ability to meet member needs. As a result, we do not yet have on staff the number of trained employees we will need. We currently rely on Accenture and a number of other contractors to provide this support. We propose extending the terms of the contracts with Accenture and other contractors until September 2014 to allow us time to hire and train the staff in-house necessary to support my|CalPERS into the future. These contracts can be funded through existing project funds until the mid-year, at which time an additional appropriation will be necessary.

BACKGROUND

When the Board committed to the my|CalPERS project, it began the movement to an organization heavily reliant on technology to perform mission critical financial and business operations and functions. My|CalPERS is a complex system built on technology that we have not been supporting internally on a large scale. In order to ensure that mission critical business and financial functions to do not fail, appropriately skilled and trained staff must be in place to assume work currently performed by Accenture and other contractors. Accenture staff are currently scheduled to beginning rolling off the project in September 2012, and be completely gone in September 2013. We have approximately 68 other contractors who are currently supporting ITSB who are also targeted for elimination as quickly as practicable.

We are committed to bringing the operations and enhancement work in-house, breaking the long-standing approach we have had to using contractors. Specifically,

my|CalPERS requires that our staff have robust skills in Oracle and Java and our projections are that an additional 99 staff will be needed in ITSB to meet the maintenance and operations requirements and continue to enhance the system to improve service to our members.

The specific depth of the need for additional state staff to support for my|CalPERS was not known during the development of the 2012-13 budget and so adequate funding is not included in this year's budget for these identified needs. At that time, staff attention was focused on the initial launch of my|CalPERS and subsequent stabilization activities. As we resolved issues and completed planned, major releases, we have turned our attention to the specific support needs and the necessary strategies to achieve that support. These strategies require mid-year budget requests to support the hiring of new state staff and the extension of Accenture and other contractors to ensure that new staff are trained on my|CalPERS and ready to assume all responsibilities.

ANALYSIS

ITSB has identified the following areas related to emerging budget needs:

- Staff-up of State Employees
- PSR Maintenance and Operations (Accenture)
- PSR Transitional Support and Training during Staff-up (Accenture)
- Other PSR Project Support (non-Accenture resources)
- Legacy Systems Extension (non-Accenture resources)

Staff-Up of State Employees: We have identified the staffing levels, skills and abilities necessary to support my|CalPERS and believe we will be able to attract and retain new staff. Our plan calls for a two year hiring strategy to bring on and train staff. We anticipate hiring 52 staff this fiscal year.

My|CalPERS Maintenance and Operations (Accenture): Our current contract with Accenture includes two options to contract with Accenture for Maintenance and Operations support, each for a 2-year period (for a total of 4 years). We have already exercised the first 2-year option for Maintenance and Operations support, which is currently in effect through September 2013. Although CalPERS only has the right under the second option to engage Accenture for another 2-year period commencing September 2013 (through September 2015), we propose to waive this option and instead to extend Maintenance and Operations support by Accenture for just one year, through September 2014 (to which Accenture has preliminarily agreed). As with all aspects of contractor extensions, if we are able to hire and train staff sooner, we will endeavor to reduce the number of consultants sooner.

My|CalPERS Transitional Support and Training (Accenture): This work would be accomplished through a new extension of our current Accenture contract and include work to address system enhancements and fixes, and support infrastructure and software upgrades that have been deferred during PSR that have now become necessary. This work would also include the implementation of Identity Management, a critical component of our Security Roadmap that will improve our internal and external security. This Identity Management work must be accomplished and Accenture's in-depth understanding of the system will reduce the time for implementation and chances of error.

Other my|CalPERS Project Support: Separate from the Accenture contract, CalPERS has relied on other consultants to support critical aspects of the PSR project. We have already reduced from 147 consultants at system launch to 68 consultants. Further reduction without adequate additional fully trained staff will jeopardize the ability to maintain the system.

Legacy Systems Extension: We had anticipated that all legacy systems would be terminated after my|CalPERS was launched. Subsequent experience with the actual system and review by Legal and program staff have revealed that there will be an on-going need for some staff to have read-only access to some data. The cost to maintain these systems on an annual basis using our existing systems would be approximately \$3.5 million. However, by implementing an alternative file viewing system, we can reduce the on-going costs to approximately \$200,000 annually. In order to accomplish these savings will require an additional \$2 million in one time development costs for the current fiscal year.

Funding: We propose to fund these strategies out of existing project and administrative ITSB funds until the mid-year budget request, at which time we will ask for additional allocations to fund activities for the rest of the year. The mid-year funding request for all of these activities will be \$40.9 million (\$4.2 million for state staff increases and \$6.1 million request to replace expired Fiscal Year 2008/2009 contract funding). We anticipate a 2013/14 budget request of \$31.9 million (\$9.8 million for state staff increases). Attachment 2 provides a breakout of funding by fiscal year and activity type.

The total additional funding for Accenture is:
\$8.8 million this fiscal year
\$11.6 million for FY 2013/14
\$1.0 million for FY 2014/15

BENEFITS/RISKS

The proposals above are designed to minimize the overall risk exposure CalPERS faces as we transition from a contracted project structure to an in-house, state staff

structure. Together, these proposals create a reasonable framework to educate new and existing staff on the system, build a long-term support strategy, and fulfill our commitment to reducing our reliance on contractors.

Extending the term of the PSR Agreement to cover the period during which Accenture will provide additional Maintenance and Operations support, and System enhancements and other transitional services will serve CalPERS' interests in obtaining quality services at a reasonable cost because CalPERS has negotiated rates for these services that are very competitive with current rates for comparable IT projects. We have surveyed the market, to gain confidence that the hourly rates negotiated for these new services are fair and reasonable rates given current market conditions. Attachment 1 details specific considerations related to extending the Accenture contract. The Board has the authority to authorize this extension and we believe such an extension is consistent with its fiduciary duty, reduces risk and is less costly than other alternatives.

There is some risk with these proposals. We may not be able to hire, train and retain the necessary state staff to perform this work and thus be unable to meet our reduction targets. Project work may progress more slowly than we plan, delaying the release of contractors. Mid-year funding may not be approved for all articulated work, resulting in reprioritization of workload and delay of hiring new staff.

We believe that, on balance, the benefits of the proposal exceed the risks. The Board has made a significant investment in the technological future of CalPERS. At present, ITSB staff cannot assume full support of the system so to avoid system failure additional support must come from somewhere. On balance, the cost of extending current resources will be less, with lower risk, than releasing requests for proposals for these services which would result in new vendors needing to learn the system. Failure to invest in system support during this critical time could result in decreased service levels and even system failure.

Attachment 1 addresses the Board's specific authority and responsibilities related to the Accenture contract. Based on these criteria, we believe that the most appropriate course of action to ensure stability of the my|CalPERS system is to approve the extension of the Accenture contract for an additional year.

ATTACHMENTS

1. Considerations Related to Agreement with Accenture
2. Sustaining CalPERS Technology presentation
3. CalPERS Board of Administration Contract Activity Reporting Policy

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