



**The PFM Group**

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Cathy Qureshi  
Deputy Finance Director  
City of Pittsburgh  
City-County Building, 5<sup>th</sup> Floor  
414 Grant Street  
Pittsburgh, PA 15219

Dear Ms. Qureshi:

We have reviewed the Cogsdale Microsoft Dynamics cost analysis provided to us at our bi-weekly meeting last Wednesday.

As you know, we have been working since the City adopted the Act 47 Recovery Plan in 2004 to move the City to a reliable, enhanced financial data processing and report platform (commonly referred to as Enterprise Resource Planning, or ERP). To this end, with funding from the Commonwealth, the Act 47 Coordinator sponsored an evaluation of the existing system by the Government Finance Officers Association. Delivered in 2007, that report found that the City's aging financial tracking and reporting system was at risk, considered six options for change, recommended a new system, and highlighted steps the City should take to mitigate the risks of such a complex and expensive project. Subsequently, the Act 47 Coordinator sponsored and the Commonwealth funded a report by Smart Business Advisory and Consulting on the potential for a Shared Service Organization (SSO) structure to deliver an ERP for the City. *Inter alia*, the report (completed in April 2008) determined that there were multiple potential SSO partners, especially in the long term.

More recently, the Recovery Plan adopted by the City in June 2009 included specific initiatives to move to an ERP in the chapter titled "Enterprise Resource Planning System" (pages 128-133). As you know, the 2009 Plan was written in the context of the City's decision to negotiate with Allegheny County to merge into its ERP. That work was well underway at the time of Plan approval, but we were concerned about delay after five years of consideration and no results. Accordingly, the very first initiative in the Plan directed the City to merge its ERP into the County's ERP platform. If that did not happen by December 31, 2009, the initiative directed the City to issue an RFP for its own ERP or pursue another solution.

While the City did not merge its ERP with the County by that date, the City reported significant progress to that end. Working with the County, and with the active oversight of the Intergovernmental Cooperation Authority (ICA), the City negotiated with the County and with its providers; progress was reported throughout last year. In our annual status report in September 2010, we noted both this progress and outstanding items; several of the outstanding items were resolved last fall. In addition, on December 14, 2010, Pittsburgh City Council unanimously approved and Mayor Ravenstahl signed a resolution providing funding to move forward with the County ERP approach.

We provide this background in order to make clear that based on the language of Act 47 Recovery Plan initiative EP01, we believe it important to provide a response to the document you provided yesterday. However, until Wednesday, we were unaware that you were not fully committed to implementation of the

County solution. This is important given the Recovery Plan's emphasis on system stability and a prompt implementation.

After examining the five-page document provided to us, and in the context of the Recovery Plan's ERP initiatives, we have the following general and specific comments:

The material provided is not a comprehensive ERP proposal

One of the five pages provided compares – at a summary level – the County/Oracle ERP approach to the Cogsdale Microsoft Dynamics approach. Three pages – a small portion of a document dated almost a year ago but never provided to us – provide a summary analysis by GFOA revalidating numbers presented in its 2007 study and adding a short table suggesting that the County/Oracle costs are higher than what they estimated the City could obtain with another approach in 2007. The final page briefly describes three “Critical Decision Factors.” To effectively review an alternative approach, we would expect to see at a minimum a detailed technical and operational proposal, supporting documentation from the software provider, implementation and management provider and host (which we understand to be the Pittsburgh Water & Sewer Authority, or PWSA), and an expression of interest from the system's most significant user – the City Controller. Given the role of City Council in approving and funding such a system, their review would also be expected. Other requirements identified in the Act 47 Plan for any ERP, as discussed below, should also appear. At a minimum, a full narrative description of the system with supporting documentation would be necessary to fully understand what you are proposing.

The proposal does not address the requirements of the Act 47 Recovery Plan

Recovery Plan *initiative EP01* directs the City to move its ERP to the County by December 31, 2009, or pursue another solution. Based on representations made and actions taken by the City since that date, we observed substantial progress toward the County solution. The reservations raised in the limited information provided yesterday were known years ago as a series of decisions were taken that led to the negotiations with County/Oracle. Given the well-documented urgency of updating the City's at-risk PeopleSoft ERP, the benefits of beginning a new process at this late date are not well-described in the material provided.

Plan *initiative EP02* requires establishment of a project management team for the ERP, and *initiative EP04* requires adequate project staffing. How would the City's existing team change under the proposed PWSA alternative? Also, prior studies suggested a very substantial cost – in the seven figures – for an internal support team under a City-only ERP approach. What is the likely impact of this cost – noted as “backfill staff” in the document – on the bottom line of the new proposal?

Plan *initiative EP03* requires that the ERP address critical financial needs. The proposal lists system components (less than 20 words), but does not describe at all how and when the basic ERP requirements will be met.

Plan *initiative EP05* requires minimizing customization of the ERP. This is not addressed in the proposal.

Plan *initiative EP06* requires an effective training program for the ERP. This is not addressed in the proposal.

A strategy for abandoning the County alternative now has a high threshold for approval

The Recovery Plan recognized the difficulty of moving to a County system and the inherent limitations and opportunities of that approach. As a result, it set a deadline for moving forward. However, as noted in initiative EP01, that deadline was early last year (after an already too-long process, in our opinion). The materials provided do not document a collapse of the County option, and offer only a rudimentary

explanation of why the Cogsdale Microsoft Dynamics approach might be better. The quality and detail in the documents imply that this is a last-minute idea that the City has not had an opportunity to fully develop or evaluate. In both of the studies we sponsored there was an emphasis on carefully thinking through alternatives and following a steady path to implementation, and a warning of the well-documented risk of failure when a thorough approach was not followed. While the material presented could not allow us to endorse or even fairly evaluate the Cogsdale Microsoft Dynamics proposal, it is clear that developing a more comprehensive proposal, carefully evaluating it independently and in comparison to the County alternative, and executing that approach would set the process back by many months after years of delay. We simply do not have enough information based on what you have provided to determine the viability of the Cogsdale alternative, but there is a high threshold for suddenly abandoning the course you have followed for over two years now.

To summarize, it is well beyond the deadline for a change of course. What you have provided is many weeks or months from being a comprehensive proposal, much less a viable alternative with stakeholder buy-in. After years of fits and starts to replace a system that has already experienced dangerous failure, and given the high priority on providing better and more reliable financial information, this does not meet the very high threshold for a last-minute change of course.

Sincerely,



Dean Kaplan



James H. Roberts

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The Honorable Darlene Harris, President, City Council, City of Pittsburgh  
The Honorable Michael Lamb, Controller, City of Pittsburgh  
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