

Due Diligence Review

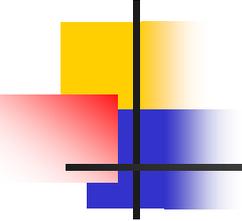
Accountable Business Transformation Program – Cost Benefit Analysis



September 17, 2008

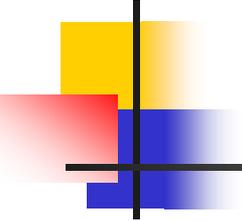
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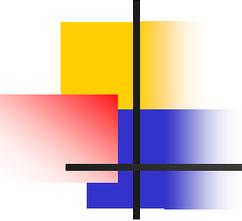
Main Conclusions

- Under a reasonable range of assumptions, ABT shows benefits exceeding costs.
 - Those benefits are most sensitive to assumptions on the discount rate, the useful life of the new systems, staff cost inflation, financing costs, and FTE reductions and staffing efficiencies over time.
- ABT will not pay for itself unless the estimated dollar savings can be achieved.
- King County has adopted a methodology that can be employed to help capture the savings.
- There are opportunities for King County to become more cost-effective in future years.



Cost Benefit Analysis in Perspective

- The cost of the ABT project being proposed by the executive is \$84 million.
- The analysis conducted by the ABT program has identified costs and benefits, but has quantified only those benefits related to potential reductions in FTEs or cost-avoidances associated with making staff more efficient.
- There are potential benefits estimated to follow from implementation of the ABT program that are not reflected in the dollar values presented in the Cost Benefit Analysis.



Do the Quantified Benefits of ABT Appear to Outweigh the Cost?

- **Yes.** Based on the estimates provided, and applying life cycle cost analysis, the Net Present Value (NPV) of benefits is positive.
- However, because the outcomes of the life cycle cost analysis are very sensitive to certain assumptions, it is better to look at a **range** of NPVs rather than to portray one number.

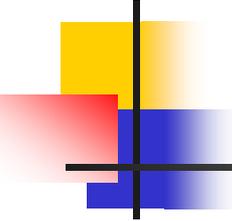
What are the Outcomes of the Auditor's Sensitivity Analysis?

15-Year Analysis (\$\$ in Millions NPV)

Real Discount Rate = 7%

	Staff Cost Annual Inflation		
Benefits	4%	5%	6%
100%	\$60.9	\$71.0	\$82.0
75%	\$38.1	\$46.3	\$55.1
50%	\$15.4	\$21.6	\$28.3

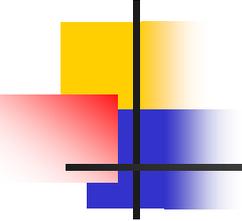
Source: Auditor's Revised ABT CBA



Do the results of the Sensitivity Analyses mean ABT will pay for itself?

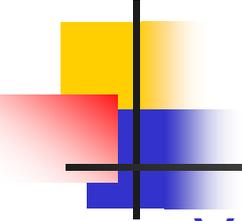
- **Not necessarily.** The estimates of benefits are based on potential reductions of 147 FTEs or cost-avoidances associated with those FTEs.
- The Hackett Group has cautioned:

Due to the fragmented and decentralized nature of most processes, these generally (except as noted) represent fractional FTE reductions across the County. In these cases, a more in-depth analysis would be required to pinpoint specific impacts by location and determine if benefits might be translated to savings.
- Furthermore, the county agencies that would be subject to the FTE reductions or cost-avoidances have not agreed to any specific staffing reduction estimates.



What can be done to ensure that potential savings are realized?

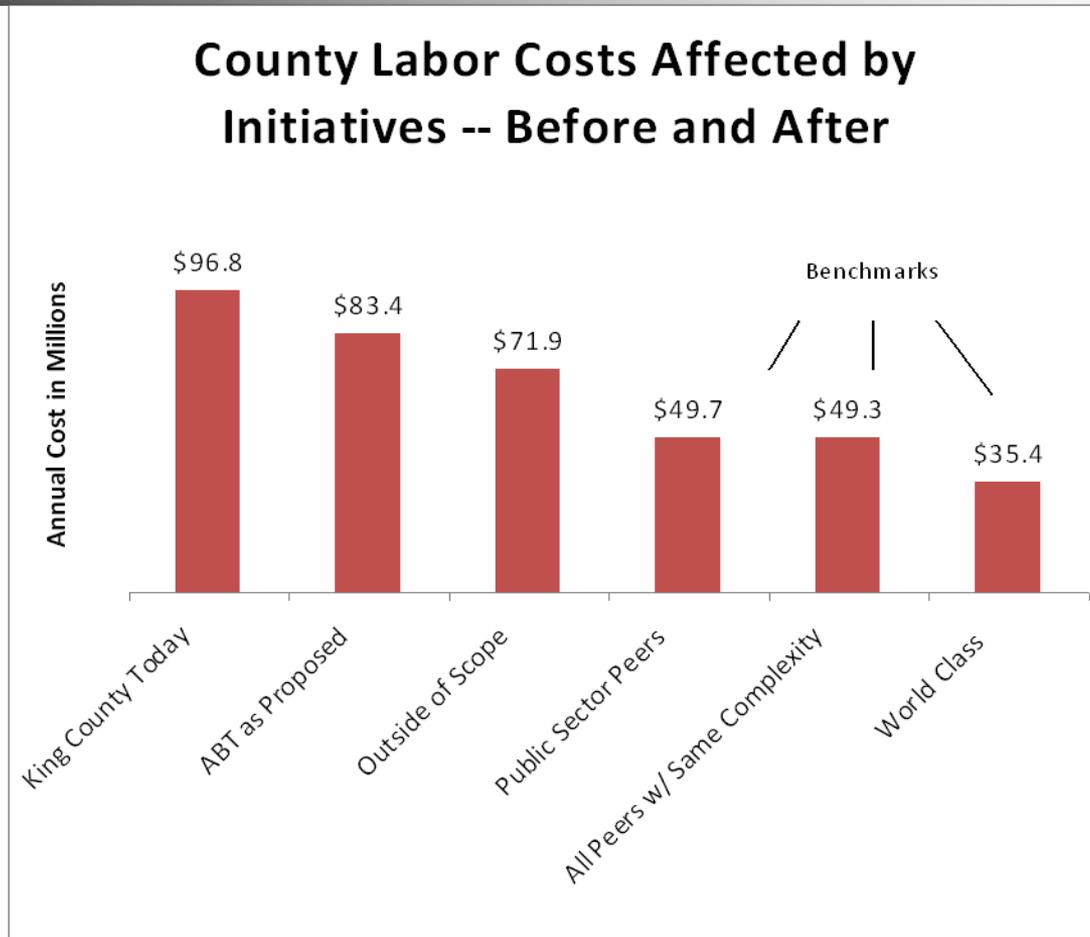
- It may not be possible to ensure that all the savings are realized, but the County Council anticipated situations like this when it included a proviso in the 2006 Budget Ordinance for the executive to develop a methodology for capturing budget savings from technology projects.
- In Motion 12356 (October 10, 2006) the County Council approved the eight-step methodology submitted by the executive for identifying, validating, capturing, and reporting on cost savings opportunities from information technology efficiency projects:
 1. Identify new project opportunities
 2. Develop a Business Case
 3. Approve the project – Set budget action/expectations related to cost savings
 4. Execute the project
 5. End the project
 6. Measure and report on operational benefits realized
 7. Implement budget actions based on realized benefits
 8. Report on budget actions as part of annual budget submittal

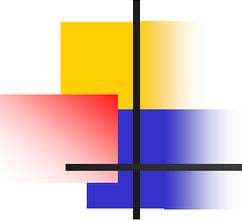


Are there other potential savings and service enhancements that have not been captured in the Cost Benefit Analysis?

- **Yes.** For example, the Hackett Group has provided information showing county labor costs, in the areas of financial, budgeting, and human resources, compared to what the costs might be based on:
 - Further potential cost reductions are possible if King County operated more like benchmark organizations.
 - The core ABT project is a replacement of a financial, budgeting, and human resource system.
 - Its current scope does not address transformation in the full breadth of areas included in the Hackett peer comparison.
 - The Hackett analysis does not provide a roadmap for the investments, policy tradeoffs, and full range of business transformations that would be needed to bring King County closer to its peers.

Range of Long Term Potential Costs





Recommendation

ABT should provide an annual report to the council documenting its success and progress in achieving the program's estimated dollar savings, consistent with the eight-step methodology included in council motion 12356.