Attachment 60

GOVERNMENT OF THE DISTRICT OF COLUMBIA

OFFICE OF THE CHIEF FINANCIAL OFFICER

Glen Lee
Chief Financial Officer

December 18, 2023

The Honorable Kenyan R. McDuffie
Councilmember At-Large
The Council of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 506
Washington, DC 20004

Re: DIFS Procurement – OIG Observations

Dear Councilmember McDuffie:

Thank you for the opportunity to respond to your inquiry in reference to the September 20, 2023, letter from the Office of the Inspector General (OIG) regarding their audit (Audit) of the OCFO's procurement and implementation of the District Integrated Financial System (DIFS).

Since last fall, OCFO staff have worked closely and cooperatively with OIG staff in connection with the Audit. OCFO staff provided requested documents, sat for multiple hours of interviews, and responded to dozens of questions and requests for information from OIG staff. In fact, as a courtesy to OIG, due to their impending office move, the OCFO hosted OIG staff full-time in our offices at 1100 4th Street, SW during the Audit.

The OCFO appreciates the value derived from a complete and detailed audit with findings and recommendations that allow for opportunities for improvement. However, OIG's closeout letter (OIG letter) contains several observations and conclusions that are not supported by, or contradict, the actual documentation in the contract file. I believe that it is important to document in this letter the most significant inaccuracies.

The procurement process for the selection of an integrator to implement DIFS was competitive. On page 3 of the OIG letter, OIG staff conclude that the procurement of services to implement DIFS was a sole source procurement. This assertion is inaccurate. Both the procurement of the financial system and the procurement of consulting services to implement the new system were competitively bid and procured in accordance with 27 DCMR Chapter 16, which governs competitive Requests for Proposals. Determinations, findings, and other information that document the procurement of DIFS are in the contract file provided to OIG staff.

The procurement for a new financial system to replace the District's System of Accounting and Reporting (SOAR) was competitively bid in 2009. The evaluation of that competitive process led to the selection of a financial system produced by the information technology firm *Oracle* in 2010. Subsequent to this decision, OCFO staff entered into a licensing agreement with Oracle to use its financial system.

OCFO received the funding to implement Oracle's financial system in Fiscal Year 2019. Prior to beginning the system implementation process in 2018, OCFO staff re-examined previous decisions and determinations regarding its selection of Oracle. Specifically, using competitive processes, the OCFO hired two consulting firms to accomplish the following three tasks: (1) assist with drafting the needs requirements for the District's new financial and accounting system, and the statement of work for the system's implementor; (2) assess the suitability of the Oracle platform to best serve the District's needs; and (3) to implement DIFS. ISG Public Sector, Inc. was selected through a request for proposal (CFOPD -18-R-005) to complete the first task. Deloitte Consulting, LLP (Deloitte) was selected through a request for proposal issued on October 10, 2018 (CFOPD-19-R-001) to complete the second and third tasks. The procurement process for these tasks included a pre-proposal conference to gauge vendor interest, and was advertised both in the Washington Times and online. The results of the assessments in the first and second tasks led OCFO to determine that the Oracle product suitably fulfills the District's needs. Thus, the Audit closeout letter's reference to the DIFS project being a sole source procurement governed by 27 DCMR 1700.1 is inaccurate.

Modifications to the contract for DIFS implementation ($8.1m) were consistent with District procurement law. Table 2 on page 7 of the OIG letter suggests that modifications to the contract with the DIFS' implementation consultant (Deloitte) amounted to $28.7 million, an amount that we cannot explain. In fact, modifications to Deloitte's contract were just over $8.1 million for a total contract cost of $56.3 million.

The District's contract for DIFS implementation services with Deloitte (CFOPD-19-C-001) was originally awarded with a not-to-exceed total of $48,187,570 (see Table 1 below). The modifications for the contract were executed in accordance with 27 DCMR Chapter 16 and resulted in increases in scope and price of $8,102,630 over the course of four years for a not-to-exceed total of $56,290,200 (see Table 2 below). This final amount is still within the budget for the implementation vendor.

The OCFO can provide detailed documentation for the purpose and cost of each modification to the Deloitte contract. In general, these modifications were necessary to address changes in implementation strategy due to the increasing risk of SOAR failure and to mitigate the additional complications of implementing DIFS under the unprecedented circumstances of the COVID pandemic in which staff were unable to participate in in-person group collaboration or training sessions.

TABLE 1

Description	Base	Option Year 1	Option Year 2	Option Year 3	Option Year 4	Option Year 5	Option Year 6	Total
Blueprint Phase – Fixed Price	$3,750,000							$3,750,000
Implementation Phase (Attachment J.17)		$13,700,396	$9,325,363	$6,796,081	$5,477,003	$642,170	$0	$35,941,013
Operations (Post Implementation Support and Warranty) – Fixed Price		$57,967	$2,051,550	$2,092,590	$2,288,939	$2,005,511	$0	$8,496,557
Contract Year Total	**$3,750,000**	**$13,758,363**	**$11,376,913**	**$8,888,671**	**$7,765,942**	**$2,647,681**	**$0**	
Original Not to Exceed Total								**$48,187,570**

TABLE 2

Description	Base	Option Year 1	Option Year 2	Option Year 3	Option Year 4	Option Year 5	Option Year 6	Total
Blueprint Phase – Fixed Price	$4,500,000							$4,500,000
Pre-Construction / Ramp-up Phase (Fixed Price)		$10,352,526						$10,352,526
Implementation Phase (Not-to-Exceed)			$21,634,957	$18,450,157	$0	$0	$0	$40,085,114
Operations Phase / Warranty (Fixed Price)			$0	$1,352,560	$0	$0	$0	$1,352,560
Contract Year Total	**$4,500,000**	**$10,352,526**	**$21,634,957**	**$19,802,717**	$0	$0	$0	**$56,290,200**

Modifications to the Deloitte contract did not require separate competitive bidding. Consistent with District law (27 DCMR 3601), OCFO procurement policies require that OCFO managers develop an Independent Government Estimate (IGE) and Statement of Work (SOW) as the first step in procuring professional services. Once a vendor is selected and awarded a contract, necessary changes are mutually agreed upon through the Changes Clause of the existing contract as long as these new tasks are consistent with the SOW. The OCFO does not solicit these tasks

from other independent vendors as the intent is to complete the project within the scope of the existing agreement.

On page 4 of the OIG Letter, OIG suggests that some or all of the services identified in the modifications to OCFO's contract were subject to the District's competitive procurement procedures. In fact, these services (including developing a sprint plan, test strategy and other preconstruction activities) were components within the original SOW in Deloitte's contract, and in our view, not subject to separate competitive bidding. To re-compete services that are consistent with the statement of work would unnecessarily expose the District to protest from the incumbent vendor.

The OCFO verified the accuracy and completeness of vendor billings as well as the qualifications of key project personnel. The implementation contract was a firm fixed price contract based on firm, fixed unit prices and, not, as OIG auditors seem to believe, labor-hours or time-and-materials. Vendor billings were reviewed in accordance with the responsibilities delegated to the Office of the Chief Information Officer (OCIO) that:

> You must monitor and therefore anticipate any potential cost overruns. You must not permit the Contractor to work in the absence of a modification to the contract; it is your responsibility to monitor any potential cost overruns and notify the Contracting Officer to ensure the timely completion of a modification to the contract. You are required to review the contractor's invoices/vouchers for accuracy, and to recommend to the Contracting Officer and/or the OCFO FINOPS your approval, conditional approval, or disapproval for payment. [1]

In this instance, the OCIO Contracting Officer's Technical Representative (COTR) reviewed the contractor's deliverables to ensure that the work conformed to the technical requirements of the contract. The contractor's invoices were reviewed for completeness in accordance with the contract type of meeting deliverables within the firm-fixed-price ceiling of the contract. For example, Table 3 in the OIG letter identifying the pricing for preconstruction activities in the amount of $9,287,472.50 was below the contract ceiling of $9,360,000.

The OCFO verified vendor employee qualifications in accordance with the contractual agreement between the District and Deloitte. Section H.17.5 of the Solicitation was a reserved clause in the resultant contract. The review of resumes was required for key personnel as defined in the contract. Deloitte had a contractual responsibility to ensure that any resources assigned to the project had the requisite experience for that role. The contract required Deloitte to provide resumes for any change to key personnel. The contract did not require Deloitte to provide resumes for other Deloitte managers hired internally to assist them in doing the work. If the District (OCFO) had problems with performance, we would raise those concerns with Deloitte representatives.

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[1] Appointment of Contracting Officer's Technical Representative (COTR) for Contract CFOPD-19-C-001 for the Enterprise Financial System (EFS), dated May 31, 2019.

The OCFO engaged in active project management and oversight. To ensure that the DIFS implementation project remained on schedule and within budget, OCFO not only engaged District subject matter experts but also hired a separate consulting contractor (Gartner) to provide Independent Verification and Validation (IV&V) services. Gartner provided routine assessments of the progress and quality of the implementation effort. Gartner's assessments provided insight that helped OCFO staff and Deloitte identify and resolve implementation problems.

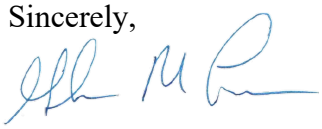
During the course of a project of this magnitude and complexity, it is not unusual that performance and project management issues arise. The OCFO's contract with Deloitte allowed for ongoing mitigation of performance issues. Communication around performance and project risks was encouraged, and the Executive Steering Committee and Deloitte routinely engaged in dialogue to address outstanding issues. The identification of performance and project management issues does not always lead to the issuance of a notice of deficiency (Cure Notice). The OCFO appropriately issued a Cure Notice post go-live based on actual evidence of implementation gaps and our belief that sufficient progress was no longer being made to address them. It is important to underscore that all outlined deficiencies were effectively remediated by Deloitte.

Conclusion

From the project's inception, the OCFO has conveyed the challenges and complexities associated with implementing a cloud-based enterprise financial system. In fact, according to leading industry experts, fifty percent of all financial system implementations fail (where success is defined as delivered on time and within budget). Despite the complexities, Phase I of DIFS was delivered on time and within budget. We continue the work to improve DIFS. In August, we engaged Guidehouse, Inc., to conduct a post-implementation review and remediation of DIFS to ensure that the system achieves optimal performance and reflects best practices.

While the OIG did not issue a formal audit report nor provide the OCFO the opportunity to respond to the "reportable observations" contained in their letter prior to issuance, we thought it important that the OCFO's comments and responses be included in this discourse. I hope that you find this information helpful. Please let me know if you have any further questions.

Sincerely,



Glen Lee

cc: The Honorable Muriel Bowser
The Honorable Phil Mendelson
The Honorable Anita Bonds
Daniel W. Lucas, D.C. Inspector General
Kathy Patterson, D.C. Auditor