



*Cobb County...Expect the Best!*

***INTERNAL AUDIT DEPARTMENT***

***Report Number 2015-002***

***FINAL Supplemental Letter Report –  
CLASS Software License***

***January 6, 2015***

***Latona Thomas, CPA, Director  
Steven Harper, Staff Auditor I***

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## COBB COUNTY INTERNAL AUDIT

Latona Thomas, CPA

100 Cherokee Street, Suite 250  
Marietta, Georgia 30090  
phone: (770) 528-2559 • fax: (770) 528-2642  
latona.thomas@cobbcounty.org

Director

January 6, 2015

### MEMORANDUM

**TO:** David Hankerson, County Manager

**FROM:** Latona Thomas, CPA, Director 

**SUBJECT:** **FINAL** Supplemental Letter Report – CLASS Software License

During our ‘Review of the Controls over Revenue Processed Through the CLASS System’ (Report Number 2015-001), we found that inadequate contract management controls resulted in a significant discrepancy between the number of installed copies of the software and the authorized licenses per the software license agreement. See the above referenced report for additional background information.

### *Results of Review*

During our preliminary survey process, we reviewed the County’s software license, general software services, and software support and maintenance agreements with The Active Network, LTD and noted a limited number of workstation licensed modules<sup>1</sup> were purchased. We also reviewed the system structure and analyzed the system configuration among the user departments. Our initial results indicated that the software installations had exceeded the number of licenses purchased. Subsequent discussions with the County’s CLASS System Administrator and Information Services (IS) staff highlighted an incorrect interpretation of the type of licenses (i.e. individual, concurrent,<sup>2</sup> or unlimited) purchased. IS agreed to research the issue and provide clarification regarding the discrepancy. As a result, IS agreed with our initial assessment in that the software was not for concurrent use, and installations had exceeded the number of licenses purchased. It is our understanding that the misinterpretation occurred during the initial installation of the software in 2005; however, proper contract management, oversight, and monitoring controls had not been implemented to timely identify and resolve discrepancies.

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<sup>1</sup> Workstation licensed modules are limited to the number of individual computers the software can be installed on.

<sup>2</sup> Concurrent licenses are limited to the number of users of the software at the same time, not the number of installations. Online (internet) customer access was for concurrent users.

## **Evaluation of Possible Solutions**

Several meetings were held between County staff to discuss the licensing issue and possible solutions. Three options were evaluated based on a range of factors including cost, impact on existing operations, and implementation requirements. Below is a summary of those options:

### ***Continue with existing CLASS Software System***

Continuing with the existing CLASS software system would have no impact on existing operations or additional implementation requirements, but could result in an additional \$766,329, according to an invoice received from the vendor. Legal guidance and assistance would be required to determine final outcome and costs due.

During the research and analysis process, the CLASS System Administrator performed a self-audit<sup>3</sup> on the number of software modules installed at County locations. The results were provided to IS and the vendor for further discussion and analysis. As such, the vendor submitted an invoice for the total cost of licenses, in use as of the self-audit, for \$613,063, exclusive of discounts the County may receive. In addition to the licenses, the vendor indicated the County had underpaid the annual maintenance fees. The original invoice for 2014 maintenance support totaled \$33,914; however, the vendor submitted a revised invoice, based on increased licenses, in the amount of \$153,266. The additional maintenance fees did not account for prior years since the installation of CLASS in 2005.

This option would have a long-term impact on existing operations. County staff was aware that the lifecycle for CLASS is nearing its end, and the vendor is phasing out the product. Once the product lifecycle ends, maintenance and support for the program will cease and no additional upgrades would be available. Ownership of user support and technical issues would then become the responsibility of the County IS department, if it chose to continue to use CLASS.

### ***Upgrade to a hosted system offered by The Active Network, LTD***

Upgrading the existing system to a hosted system (ACTIVE Net) offered by the vendor, The Active Network, LTD, would increase functionality and support an unlimited number of users, workstations, locations, and internet sessions. The hosted system would require an implementation strategy, and IS estimated the cost to be approximately \$40,000.

The ongoing cost of this option is based on revenue transaction fees versus annual maintenance and ongoing credit card costs. A number of other factors to be considered include, but is not limited to, the following: loss of control over information; online and credit card transactions collected by vendor with bi-weekly remittance to the County; financial exposure for cancelling the contract with the current credit card processor; fees for non-revenue transactions; and additional service fees, if any.

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<sup>3</sup> Internal Audit did not assess the Administrator's review and makes no attestation as to the completeness or accuracy of the results.

### *Assess available systems*

The final option discussed was a long-term solution that included a countywide needs assessment and evaluation of available systems to meet those needs. The costs and impact on existing operations could not be determined at the time of discussion. The estimated timeline from initiating a Request for Proposal (RFP) through implementation and full use of a new solution was estimated to take between 18 to 24 months. If this option was selected, the County would continue to utilize the CLASS system in the interim and could still be liable for the costs of the additional licenses.

### *Corrective Action Taken*

After evaluating the impact of each option, County staff recommended the option of upgrading to a hosted system. On October 14, 2014, the Board of Commissioners (BOC) approved entering into a Products and Services Agreement with The Active Network, Inc. to implement a hosted, web-based, software-as-a-service (SaaS) upgrade solution for the Public Services Event Registration System. The cost to implement the upgrade is \$40,258<sup>4</sup> and includes implementation and training, data conversion, and devices for reading and encrypting credit cards at desktop personal computers (PCs). In addition, the agenda item estimated the annual ongoing costs for the transaction fees would be approximately \$100,000 on an estimated \$3,450,000 of revenue. The contract with the vendor also included a clause to waive all potential amounts due for additional software licenses, and associated maintenance, installed by the County in excess of the original purchase as of the go-live date<sup>5</sup> of the hosted system.

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<sup>4</sup> Source: BOC 10/14/2014 Agenda Item.

<sup>5</sup> Date of first live operational use of the software.

*FINAL Supplemental Letter  
Report Distribution List*

Willie Hopkins, Support Services Agency Director  
Sharon Stanley, Information Services Director  
Ed Biggs, Information Services Division Manager  
Dr. Jackie McMorris, Public Services Agency Director  
Eddie Canon, P.A.R.K.S. Director  
Mary Ann David, CPA, P.A.R.K.S. Business Manager  
Deborah Dance, County Attorney  
Patrick Riley, Senior Assistant County Attorney  
Jim Pehrson, CPA, Finance Director/Comptroller  
Internal Audit Department File

### *Outcome Measures<sup>6</sup>*

This appendix presents detailed information on the measurable impact our findings and subsequent corrective actions taken, will have on County governance. These benefits will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

#### **Type and Value of Outcome Measure:**

- Cost Avoidance – Potential; \$573,063 for purchase of additional software licenses for currently installed modules. (See Pages 2-3).

#### **Methodology Used to Measure the Reported Benefit:**

Based on the schedule provided by the software vendor, \$613,063 would be due for additional licenses installed, prior to any discounts, less \$40,000 of estimated implementation costs of the new hosted system. The amount remains potential until the first date of the live operational use of the new software.

#### **Type and Value of Outcome Measure:**

- Cost Avoidance – Potential; \$119,352<sup>7</sup> annually for additional maintenance costs for the increased number of licenses. (See Pages 2-3).

#### **Methodology Used to Measure the Reported Benefit:**

Based on a revised invoice received by the software vendor, maintenance cost with increased number of licenses was \$153,266, prior to any discounts, less the original invoice amount of \$33,914. The amount remains potential until the first date of the live operational use of the new software.

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<sup>6</sup> See Report Number 2015-001 for additional outcome measures.

<sup>7</sup> Annual cost avoidance retroactive to 2005 for potential underpayments of maintenance was not included.