TRANSMITTAL

TO		DATE	COUNCIL FILE NO.
The City Council		09-17-13	
FROM			COUNCIL DISTRICT
Information Technology Oversight Committee			

At the September 12, 2013 meeting of the Information Technology Oversight Committee (ITOC), the Committee favorably considered a request from the Information Technology Agency (ITA), City Controller, General Services Department (GSD), and City Administrative Officer (CAO) regarding Amendment No. 9 to City Contract C-114340 with CGI for Supply Management System Replacement and Performance Budgeting Implementation.

It is therefore recommended that the Council approve Recommendations 1 and 2 of the attached joint ITA, Controller, GSD, and CAO report, authorizing the execution of Amendment No. 9 and a corresponding transfer of funds.

Miguel A. Santana, City Administrative Officer
Chair, Information Technology Oversight Committee

MAS:MAF:11140014c

CAO 649-d

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: September 6, 2013   REF: ASB-246-13

To: Information Technology Oversight Committee

From: Ted Ross, Assistant General Manager, Information Technology Agency
         Faith Mok, Principal Deputy Controller, City Controller's Office
         Deborah Ramos, Assistant General Manager, General Services Department
         Ben Ceja, Assistant City Administrative Officer

Subject: **AMENDMENT NO. 9 TO CONTRACT C-114340 WITH CGI FOR SUPPLY
         MANAGEMENT SYSTEM REPLACEMENT AND PERFORMANCE
         BUDGETING IMPLEMENTATION**

RECOMMENDATIONS

That the Information Technology Oversight Committee (ITOC) approve and forward the
following recommendations to the Council for approval:

1. Authorize the General Manager of the Information Technology Agency, or his
    designee, to execute Amendment No. 9 to City Contract C-114340 with CGI
    Technologies and Solutions, Incorporated, in order to increase compensation
    by $1,134,920 for the Envision Phases for the Supply Management System
    replacement ($499,800) and Performance Budgeting implementation
    ($635,120); and,

2. Transfer $635,120 from the Unappropriated Balance, Fund 100/58, Account
    No. 000153 "Performance Based Budgeting," to the Information Technology
    Agency, Fund 100/32, Account No. 003040 "Contractual Services," for CGI
    contract expenditures for Performance Budgeting implementation.

SUMMARY

The Financial Management System (FMS) is the official Citywide financial system used
by all Council-controlled departments. FMS has over 1,500 users across 40
departments and is the official audited "system of record" for City of Los Angeles
financials. Implemented in July 2011, FMS replaced multiple aging City systems,
including the 24 year-old FMIS mainframe financial system. FMS utilizes the CGI
Technologies and Solutions, Incorporated (CGI) Advantage Enterprise Resources
Planning (ERP) software solution. CGI's ERP product, which includes Financial
Management, Procurement, Human Resource Management, and Performance
Budgeting components, was selected through a comprehensive Request for Proposals
(RFP) process (C.F. 07-2186-S1). To date, the City has only implemented the Financial
Management component of the CGI ERP product. The current FMS system utilizes four
modules of CGI's Advantage product: General Ledger, Accounts Payable, Accounts
Receivable, and Cost Accounting. FMS is jointly managed by the Controller and the
Information Technology Agency (ITA). The Controller provides functional support, and
ITA provides technical support through a combination of City staff and a limited number
of contractors.

The City currently has two aging systems: (1) the Supply Management System (SMS) used for Citywide commodity procurement and warehouse inventory; and, (2) the Budget Reporting and Analysis Support System (BRASS) used by the City Administrative Officer (CAO) to develop the City's budget. As detailed in the sections below, both of these aging systems are in need of replacement or significant investment in upgrades. In order to fully integrate budget management and commodity procurement functions with Citywide financial data in FMS, replacing these two systems with modules of the CGI Advantage software may be warranted. However, before such a replacement decision is made, our Departments recommend performing a thorough review of the CGI modules and our requirements, detailing the replacement process, and developing an implementation plan. The recommended Amendment No. 9 to City Contract C-114340 with CGI will therefore increase compensation in a total amount of $1,134,920 (Refer to Exhibit A), to include:

- $499,800 – Envision - Part 1 Phase for Supply Management System Replacement

- $635,120 – Envision Phase for Performance Budgeting
    o $34,000 included for As-Needed Functional Support from CGI

The Envision Phase will result in the development of the implementation scope and cost estimate for consideration of future potential steps.

SUPPLY MANAGEMENT SYSTEM REPLACEMENT
The Supply Management System (SMS) is a Citywide application used by all Council-controlled departments to acquire materials and supplies through outside vendors or from the City's warehouses. Approximately $500 million in purchases are made annually in SMS. SMS was implemented in 2001, and currently runs on Oracle's PeopleSoft Financials version 9.0 software. SMS is managed jointly by the Department of General Services (GSD) and ITA. GSD provides functional support, and ITA provides technical support through a combination of City staff and contractors. Both departments have experienced significant personnel losses over the past four years, making it difficult for the current support levels to continue.

SMS and FMS are two separate systems and are not integrated. They are software packages from different vendors with separate Accounts Payables components, which need to be synchronized. Both systems exchange information via flat file interfaces on a daily basis, which has resulted in significant maintenance costs and reconciliation challenges. In addition, there is no real-time access from FMS to "budget-check" information, or confirm that budgeted funds are available. By implementing the FMS Procurement module, the procurement functions would become fully integrated within FMS, be able to share the same financial modules, have access to real-time related financial information, and provide a single view for reporting.

The development of the FMS-SMS interfaces was a major component of the FMS project. ITA and GSD delayed PeopleSoft application maintenance and the technology

upgrades, both due to limited project staffing/budget and in order to minimize potential risks to the FMS conversion project. As a result, the City is several years behind in applying application software maintenance due to a continued lack of resources and other higher priority projects. This means that while Oracle released various PeopleSoft software "bundles" that would include new bug fixes and features, the City did not apply the bundles. As a result, the City cannot get full support from Oracle for all production issues, and system users are impacted by known bugs and ongoing occurrences of data corruption requiring one-time data fixes.

Lastly, there have been several audit findings by the Controller and external auditors related to SMS. Since 2009, SMS has had findings in 'Audit Observations and Recommendations' from the Simpson & Simpson external auditors related to reconciling items between SMS and the City's financial systems. Additionally, the Controller, GSD, and ITA staff invest considerable manual effort reviewing, reconciling, and resolving SMS differences with the City's FMS financial system (both on-going and year-end).

On May 9, 2013, the ITOC approved recommendations from GSD and ITA to explore the replacement of SMS with the Procurement and Inventory modules of CGI Advantage. ITA and GSD presented two options to the ITOC for consideration: 1) replace SMS with the CGI Advantage modules (the recommended option by both Departments); or, 2) invest in upgrading the existing SMS to a more current version of PeopleSoft. Following is a summary of the advantages of replacement of SMS with the CGI Advantage modules:

- Reduce long-term hardware, software, and upgrade costs (one system vs. two)
- Increase user productivity (budget, vendor, contract, and purchasing processes are integrated real-time in one system – no processing delays between systems)
- Improve financial reporting (budget and procurement details are combined in one system and data warehouse)
- Resolve on-going/year-end reconciliation issues and previous system audit findings
- Reduce staffing and training required for support services (one system vs. two)
- Improve business processes for the City of Los Angeles
- Reduce annual maintenance costs, which would partially subsidize the new system (the City would discontinue PeopleSoft maintenance support payments while beginning the system replacement process)

As the City moves forward with the SMS replacement project, ITA and GSD will effectively freeze the existing SMS as it currently functions. Therefore, any enhancements or improvements to SMS will no longer be made, in order to limit the potential for system issues and outages. ITA will discontinue maintenance payments for PeopleSoft, as the City is currently receiving limited benefits for these maintenance payments given that previous bundles have not been applied and will not be applied during a system freeze. ITA proposes to establish a contract for third-party vendor support of SMS, in-lieu of maintenance payments, until a new system is in place.

The Controller, ITA, GSD, and CAO recommend that the City contract with CGI for the Envision – Part 1 Phase of the Supply Management System replacement. The objective of the Envision – Part 1 Phase is to determine the alignment between the City's current business processes and CGI Advantage Procurement, Inventory, and Vendor Self Service Module functionality by performing application prototyping based on the City's documented business processes. A fit-gap analysis of the prototype results will determine the modifications required to both the CGI Advantage application and to the City's business processes. A high-level assessment of the current interfaces between SMS and other systems and the data conversion requirements to convert SMS data to CGI Advantage will also be conducted.

The Envision – Part 1 Phase is anticipated to be completed by February 2014. During this process, the City will obtain a full list of new system requirements, a detailed project plan for the replacement of SMS system with the currently owned CGI Procurement module, and a full implementation cost quotation from CGI for the modules. If the City elects to move forward with the implementation of the Procurement, Inventory, and/or Vendor Self Service Modules and identifies funding for implementation, the new modules could be available as early as July 2016. The Envision – Part 1 Phase for SMS replacement totals $499,800 (Refer to Exhibit C). In the 2013-14 Adopted Budget, $400,000 was allocated in ITA's Contractual Services account to assist with the development of the project scope, system requirements, and project plan for the replacement of SMS. To support this critical City effort, ITA has identified additional Contractual Services Account savings to fund the remaining $99,800 Envision – Part 1 CGI contract expenditures.

PERFORMANCE BUDGETING

In October 2011, the City Controller issued a blueprint for Performance-Based Budgeting (PBB) that asked City leaders to engage in strategic planning and goal setting, while establishing performance metrics that can measure the performance and effectiveness of City programs. The blueprint also proposed tying these performance metrics to FMS through the available Performance Budgeting (PB) Module. The Council subsequently directed the CAO to begin phasing in a performance-based budget process into the City's budgeting process (C.F. 11-1702-S1). As a result, $900,000 was included in the 2013-14 Adopted Budget to begin work with CGI to replace the existing BRASS budget system with a PB Module within FMS.

The CAO has been using BRASS as a budgeting system since 2000. The age and capabilities of the current BRASS system make it difficult to make substantive changes to the way the budget is currently produced, including implementation of a performance-based budgeting methodology which would link budgetary allocations to performance deliverables. Currently, approximately 50 percent of the materials published in the Mayor's Proposed Budget are not directly generated by BRASS, but instead consist of variety of Microsoft Word, Excel, or Access documents for which data is extracted from BRASS or for which duplicative data entry is manually completed by CAO staff. Transitioning to the PB Module would improve the City's overall budget process by automating the development, submission, and production of the City's budget, while

achieving greater transparency on the connection between dollars and deliverables. With its connection to FMS, all budgetary data could be integrated in the system and tied to existing appropriations. Currently, BRASS operates in isolation from FMS, and there is minimal ability to link the budget development process, which occurs in BRASS, and the budget control process, which occurs in FMS.

The Controller, ITA, and CAO recommend that the City contract with CGI for the Envision Phase of the PB Module implementation. The objective of the Envision Phase is to develop the plan for the potential implementation of the PB Module. During this phase, CGI will analyze the system implementation requirements and create strategies for data conversion, system interfaces, reporting/inquiry, training, documentation, security and workflow, and develop a high-level plan to transition from BRASS to Performance Budgeting. These strategy documents will establish the implementation scope and document the approach as to how each area would be implemented.

The Envision Phase is anticipated to be completed by March 2014, at which time the City will receive a full implementation cost quotation from CGI for the module. If the City elects to move forward with the implementation of the module and identifies funding for implementation, it could be available as early as October 2014 for use during the 2015-16 budget development process. The Envision Phase for Performance Budgeting totals $635,120 (Refer to Exhibit B), which includes $34,000 for as-needed functional support services from CGI. These functional support services would allow the CAO to obtain support from CGI during the development of the 2014-15 budget, as the City continues to integrate a performance budgeting methodology while BRASS will still be in use. It is recommended that this total amount of $635,120 be transferred from the $900,000 authorized for this purpose in the Unappropriated Balance to ITA for CGI contract expenditures.

FISCAL IMPACT STATEMENT
Approval of Amendment No. 9 to City Contract C-114340 with CGI will result in increased contract expenditures of $1,134,920. As the 2013-14 Adopted Budget included funding for this purpose, there is no additional impact to the General Fund. Approval of the recommendations of this report is in compliance with the City's Financial Policies as budgeted funds are available to support the proposed contract expenditures.

Implementation of CGI modules in the Financial Management System to replace the Supply Management System and/or the Budget Reporting and Analysis Support System (BRASS) would have an additional cost to the City, at an amount not yet identified. If such an implementation is subsequently recommended, a request for funding will be submitted.

Attachments:

Exhibit A: Summary of Cost for Contract Amendment No. 9
Exhibit B: Detail of Cost for Supplement B1: SMS Replacement - Envision -
Part 1: Fit-Gap Analysis
Exhibit C: Detail of Cost for Supplement B2: Performance Budgeting - Envision
Draft Amendment No. 9 to City Contract C-114340 with CGI
CGI CA#9 - Exhibit A-B1 - Supplement to SMS SOW
CGI CA#9 - Exhibit B-B1 - Supplement to SMS Deliverables Definitions
CGI CA#9 - Exhibit C-B1 - Supplement to SMS Project Plan
CGI CA#9 - Exhibit K-B1 - Supplement to SMS Project Assumptions
CGI CA#9 - Exhibit L-B1 - Supplement to SMS Pricing Schedule
CGI CA#9 - Exhibit A-B2 - Supplement to PB SOW
CGI CA#9 - Exhibit B-B2 - Supplement to PB Deliverables Definitions
CGI CA#9 - Exhibit C-B2 - Supplement to PB Project Plan
CGI CA#9 - Exhibit K-B2 - Supplement to PB Project Assumptions
CGI CA#9 - Exhibit L-B2 - Supplement to PB Pricing Schedule

cc: Karen Kalfayan, Chief Legislative Analyst
Mandana Khatibshahidi, Chief Legislative Analyst
Melissa Fleming, Office of the City Administrative Officer
Stephanie Magnien Rockwell, Council District 3
John Trevgoda, General Services
Todd Bouey, Office of the Controller
Steve Reneker, Information Technology Agency
Mark Wolf, Information Technology Agency
Laura Ito, Information Technology Agency
Maryam Abbassi, Information Technology Agency
Jose Alvarez, Information Technology Agency