

City of Los Angeles
California



ERIC GARCETTI

August 7, 2014

Honorable Members of the City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, CA 90012

Attention: Innovation, Technology and General Services Committee

Subject: **SUPPLY MANAGEMENT SYSTEM REPLACEMENT PROJECT
UNAPPROPRIATED BALANCE APPROPRIATION REQUEST**

Dear Councilmembers:

The replacement of the City's purchasing system - the Supply Management System (SMS) – and the requisite upgrade of the City's Financial Management System (FMS) is a critical project that will provide substantial benefits to the City of Los Angeles. Currently, SMS is at end-of-life, standard vendor maintenance has been terminated, and the system has been frozen for any enhancements or updates. Under the direction of the Information Technology Oversight Committee (ITOC) and with the approval of the Mayor and City Council (CF 13-1255), the detailed system requirements and design "Envision" phase was completed from September 2013 through July 2014 for a new Procurement system, which will be integrated with FMS. However, the build, test, and launch of this new system is a multi-year project requiring significant investment.

There are two major components to the SMS Replacement Project:

- 1) FMS Technical Upgrade which is required to begin immediately in order to remain on the current level of support and to take advantage of the latest procurement functionality, and
- 2) Replacement of SMS with the "Procurement, Inventory, and Vendor Self-Service" modules of FMS.

The total project cost will be \$23.8 million, including contractual services for \$17.9 million, \$2.2 million set aside for contingency, and \$3.7 million for City staff and equipment, over the next four fiscal years.

The Mayor's Office is pursuing a parallel procurement excellence project focused on optimizing City business processes to realize efficiencies and savings. While the Mayor's initiative is not addressed in this report, the technology replacement effort in replacing SMS is a critical component of procurement reform for the City.

REVISED PROJECT PLAN AND FUNDING NEEDS

The Controller's Office, General Services Department (GSD), and Information Technology Agency (ITA) submitted FY14-15 budget packages for the SMS replacement project. The FY14-15 Adopted Budget included a \$3.965 million line item in the Unappropriated Balance (UB) for the SMS replacement. A report back to the Budget and Finance Committee indicated that the budgeted amount was significantly less than the \$8.3 million requested by the Controller's Office, GSD, and ITA for the first year of this implementation under the original two year implementation plan.

Over the last two months, multiple options were evaluated by GSD and ITA, with the support of the Controller's Office. Our departments recommend a new implementation plan that would extend the project by one year in order to work within the \$3.965 million funding available in FY14-15.

The revised project implementation plan will commence on September 2014 with a new go-live date of July 2017, including one year of post-implementation support through June 2018.

At the time of the Adopted Budget, the contractual services for the project were estimated at \$14 million, while a concurrent Envision phase was in progress. At the completion of the Envision phase in July 2014, the revised contractual services cost is \$17.9 million. The net increase of \$3.9 million was the result of the following:

- 1) The initial Fit-Gap Analysis identified 217 business requirements. The final Fit-Gap Analysis increased those business requirements to 356, including new functionality for eProcurement and Service Contracts. The Fit-Gap Analysis also resulted in additional Software Customizations to increase efficiency for Inventory and Vendor Self Service (\$1 million),
- 2) Recognizing that End User Training is a key area for a successful implementation and given the large number of users of the Procurement system, additional End User Training was required to ensure Citywide adoption of the new system for the 1,500 users Citywide (\$0.7 million),
- 3) Post-implementation production support was increased from three months to one year to ensure a smooth transition and training for City support staff, as well as additional support for the annual-close operations (\$0.9 million), and
- 4) The one-year project extension requires additional contractor resources and support to ensure continuity of the project. During this time, additional focus and effort will be spent on User Acceptance Testing and adoption of the system by the City (\$1.3 million).

The table below shows the timeline and projected costs of the revised implementation plan.

SMS Replacement Project Requested Resources

	FY14-15 Implementation	FY15-16 Implementation	FY16-17 Implementation	FY17-18 Post- Implementation	Total
Contractual Services Payment Schedule	\$3.6 million	\$5.8 million	\$5.4 million	\$3.1 million	\$17.9 million
15% Contract Contingency	\$0.0 million	\$0.9 million	\$0.8 million	\$0.5 million	\$2.2 million
Contract Subtotal	\$3.6 million	\$6.7 million	\$6.2 million	\$3.6 million	\$20.1 million
City Staff and Equipment Direct Costs	\$0.4 million	\$1.1 million	\$1.1 million	\$1.1 million	\$3.7 million
Total	\$4.0 million	\$7.8 million	\$7.3 million	\$4.7 million	\$23.8 million

The focus in FY14-15 will be on the FMS Technical Upgrade while starting the design and build tasks of the SMS Replacement in order to keep the continuity of the project. In FY14-15, the \$3.965 million in the UB will pay for \$3.575 million in Contractual Services and \$0.39 million for two technical positions in ITA and hardware/software costs.

In order to support the implementation for future fiscal years, the Controller's Office, GSD, and ITA will submit budget requests for additional City staffing in order to fulfill the roles and responsibilities as described in the Additional Supporting Information section.

For details on the project's scope and contractual services, please refer to the attached Appendix A – Draft Professional Services Agreement and Statement of Work. Although the City already owns the license for the FMS Procurement Module to replace SMS, the FMS Software License Agreement C-114341 will need to be amended to add the third party software for the SMS Replacement Project, and the FMS Software Maintenance Agreement C-114342 will need to be amended to add the software maintenance for the Procurement Module.

PROJECT BENEFITS

As the technical backbone for Procurement Transformation, the FMS Procurement System will allow the City to achieve significant tangible benefits, such as:

- 1) Improve the Vendor Experience of Doing Business with the City
 - a. Speed up vendor payments through internet-based electronic invoicing
 - b. Enable 24x7 accessible payment and invoice information through the internet
 - c. Attract more bidders through more efficient contracting and procurement processes
 - d. Transform and Reform Procurement Processes for Improved Decision-Making, Accountability, and Transparency
 - e. Increase Citywide purchasing power with a one-stop shopping experience across City contracts, inventory, and eProcurement
 - f. Enable more transparency to citizens around vendor spending and contracting through real-time, internet-accessible data
 - g. Expand automated, real-time security and system controls to better enforce citywide compliance / standardization and improve departmental accountability
 - h. Empower City managers to improve citywide vendor management processes by giving them timely decision-making tools and consolidated financial, procurement, and budget information
- 2) Reduce Risk and Improve Compliance
 - a. Replace the unstable, "end-of-life" SMS system to avert critical system failure for which vendor support and a viable contingency plan are no longer available
 - b. Resolve external audit findings and improve compliance with State and Federal requirements
 - c. Enforce contractor compliance through expanded system controls
- 3) Save Time and Money
 - a. Minimize time-intensive daily reconciliation between FMS and SMS (approximately \$800k annually)
 - b. Consolidate multiple systems (for example, eliminating eProcurement system saves approximately \$250k annually and merging SMS into FMS will save millions of dollars in the long-term in hardware, software, maintenance, and licensing costs)
 - c. Reduce time and expense of issuing paper checks and manually processing paper invoices (150,000 invoices were manually processed in FY13-14)
 - d. Automate inventory replenishment to maintain availability of critical City supplies and reduce emergency orders at higher costs
- 4) Take advantage of the latest version of FMS
 - a. The newest version of FMS includes the latest improvements and functionality of the Procurement Module in FMS
 - b. The current version of FMS will be unsupported by CGI in 2016. Upgrading now ensures the continuation of support for FMS.

RECOMMENDATIONS

It is recommended that the City Council, subject to the approval of the Mayor:

1. Appropriate \$3.965 million from the Unappropriated Balance to Information Technology Agency (ITA) Fund 100, Department 32, as follows:

Account	Total
Contractual Services Account 3040	\$3,574,609
Salaries General Account 1010	\$165,684
Office and Administration Account 6010	\$224,707
Total	\$3,965,000

2. Authorize by resolution two positions as follows:

Quantity	Class Title	9 Months Salary
1	1455-2 Systems Programmer II	\$80,446
1	1431-5 Programmer Analyst V	\$85,238
	Total	\$165,684

3. Authorize the General Manager, ITA, or his designee, to negotiate and execute a Professional Services Agreement totaling \$19.8 million with CGI Technologies and Solutions, Inc. for the implementation and post-implementation of the Procurement, Inventory, and Vendor Self-Service modules of FMS for a four year term effective from September 1, 2014, with a ratification clause subject to the inclusion of a funding clause and approval of the City Attorney and the City Risk Manager; and,
4. Authorize the General Manager, ITA, or his designee, to execute the Fourth Amendment to the Amended and Restated Proprietary Software License Agreement C-114341 with CGI Technologies and Solutions, Inc. This agreement includes all FMS software licenses. This amendment will add the third-party software licenses for the SMS Replacement Project totaling \$152,344; and,
5. Authorize the General Manager, ITA, or his designee, to execute the Fifth Amendment to the Proprietary Software Maintenance Agreement C-114342 with CGI Technologies and Solutions, Inc. This agreement includes all FMS software maintenance. This amendment will add software maintenance for the SMS Replacement Project totaling \$137,505; and,
6. Acknowledge that this project is a funding priority for future fiscal years.

FISCAL IMPACT STATEMENT

Approval of the proposed Contractual Agreements will result in expenditures of \$20.1 million dollars over a four year period, including \$3.6 million in FY14-15, \$6.7 million in FY15-16, \$6.2 million in FY16-17, and \$3.6 million in FY17-18. There is no fiscal impact to the current FY14-15 budget because \$3.965 million has been included as an appropriation in the UB which will cover the expenditures associated to this Agreement for FY14-15. Approval of the recommendation of this report is in compliance with the City's Financial Policies as budgeted funds are available to support the proposed current year contract expenditures and future fiscal year expenditures are subject to annual appropriation within the Adopted Budget.

ADDITIONAL SUPPORTING INFORMATION

What is SMS?

The SMS system is a 13 year-old citywide application managed by GSD and used by non-proprietary departments to purchase materials and supplies totaling \$500 million annually from vendors and City warehouses. Everything from janitorial supplies, to vehicles and helicopters are procured and paid for through the system. SMS is a mission critical system to the core operations of the City. SMS interfaces financial information to the City's Financial Management System.

What is FMS?

The City's Financial Management System (FMS) is an Enterprise Resource Planning (ERP) system and is the City's system of record for accounting transactions and financial reporting. FMS is an "off-the-shelf" system provided by vendor CGI Group (CGI), a major government ERP provider. In July 2011 the City implemented the following modules of FMS:

- General Ledger
- Cost Accounting
- Accounts Payable
- Accounts Receivable

The City owns additional FMS licenses including Procurement, Inventory, Vendor-Self Service, and Performance Budgeting.

What issues is SMS encountering?

Since 2005, the SMS system and its interface to FMIS/FMS has been experiencing issues in stability, functionality, and performance due to losses of personnel, system customization, lack of vendor supported maintenance, and heavy reliance on contractor support.

1. SMS is Unsustainable – The system is end-of-life and no longer supported by the vendor. If the system fails or requires any changes the City is at-risk.
2. Audit Findings – Discrepancies between SMS and FMS have resulted in external auditor findings which present a risk to critical required financial reporting of the City in accordance with State and Federal requirements.
3. Reconciliation – Inefficient interfacing with FMS is resulting in significant daily and annual year-end reconciliation processes, wasting considerable staff time of GSD, ITA and the Controller.
4. Vendor Payments – Payments are sometimes held due to system inconsistencies resulting in delays of receipts to City vendors.

This situation, along with various other issues, spurred many discussions about the long-term strategy for SMS.

What have ITA, GSD, and Controller done to address these problems?

In March 2013, the Information Technology Oversight Committee (ITOC) reviewed a requested report from ITA and GSD regarding potential long-term strategies for the SMS system (upgrade existing system versus system replacement). The ITOC requested additional information regarding five-year cost estimates that were delivered in a separate May 2013 report to ITOC.

Shortly after taking office, City Controller Ron Galperin brought additional direction and support to the SMS replacement discussion, advocating that the system be replaced to not only address the issues encountered by SMS, but also to integrate the City's enterprise systems resulting in inherent efficiencies, as well as to realize the potential benefits of a modern procurement system, particularly in improving the City's business partnership with vendors.

Based on the issues and benefits outlined, ITOC instructed GSD, Controller and ITA to begin the SMS replacement project by evaluating the FMS Procurement system functionality during FY13-14.

An Overview of the SMS Replacement Project

The SMS replacement project was planned as a five-year project that began in FY13-14, with system implementation in July 2017, and post-implementation support in FY17-18. The contractor proposed pricing based on this schedule and initial statement of work and ITA, GSD, and Controller identified resources required for successful project implementation. The project timeline as proposed is as follows:



I. Envision Phase

In FY13-14, the City contracted with CGI in an initial “Envision-Part 1” phase to document existing purchasing processes, establish business requirements for a new system, document a “fit-gap” between the baseline FMS Procurement system with the needs of the City, identify interfaces/technical requirements of the new system, and develop a project roadmap for implementation.

Between September 2013 and February 2014, the Envision-Part 1 analysis was conducted and the initial fit-gap assessment indicated a good overall fit between City requirements and the baseline FMS Procurement system. Based on this fit, the City continued with Envision-Part 2 to finalize analysis and develop a detailed implementation plan to ensure that the project would begin on-time and complete on-schedule. Envision Part-2 is scheduled to conclude in August 2014.

II. Implementation Phase

The Implementation Phase is anticipated to begin September 2014. This start date is critical to a successful system go-live in July 2017. It is critical to cutover to a new financial system at the beginning of the new fiscal year to avoid major risks to closing the books and production of required financial reporting. The implementation of a new procurement system is a major project with significant impacts not only on the Controller, GSD, and ITA, but the entire City. GSD, as the procurement system and business owner will be leading the replacement effort. In order to take advantage of the functionality in the latest versions of the Procurement, Inventory, and Vendor-Self Service modules of FMS, the current FMS and reporting system must be upgraded to the latest version as well. The FMS upgrade is a major project in itself with great technological challenges.

City-led implementation tasks include:

Task	Year 1 Implementation	Year 2 Implementation	Year 3 Implementation
Project Management	Upgrade / Procurement	Upgrade / Procurement	Procurement
Software Modification/Configuration	Upgrade / Procurement	Procurement	
Reporting Universe Modifications	Upgrade	Procurement	
Report Creation/Modifications	Upgrade	Procurement	
Forms Creation/Modifications	Upgrade	Procurement	
Interface Integration/Modifications	Upgrade / Procurement		
Data Conversion/Cleansing	Upgrade / Procurement	Procurement	Procurement
Nightly Cycle Updates	Upgrade	Procurement	Procurement
Security and Workflow Updates	Upgrade	Procurement	Procurement
Centralized Repository Updates	Upgrade	Procurement	Procurement
User Acceptance Testing		Upgrade	Procurement
End User Training		Upgrade	Procurement
Policy and Procedures Updates		Upgrade	Procurement
Help Desk		Upgrade	Procurement
Change Management	Upgrade / Procurement	Upgrade / Procurement	Procurement
Readiness Assessment		Upgrade	Procurement
Production Cutover		Upgrade	Procurement

III. Post-Implementation Phase

Subsequent to system implementation, post-implementation contractual support services will be required in FY17-18. As the project progresses and the Procurement system goes live, resource requirements will be reevaluated and adjustments to staffing will be brought forward as appropriate.

What staffing resources does the City require and why?

System replacement work will take place simultaneous to ongoing support and maintenance of existing systems. It is imperative that project resources be devoted to a system implementation of this magnitude to help mitigate risk and allow for existing business continuity. A dedicated project team was a critical success factor in the implementation of FMS and this project merits replication of this model to the greatest degree possible, although each department anticipates significant levels of involvement from existing staff in order to launch a new Citywide procurement system. It should also be mentioned that these same staff, particularly for ITA and

Controller, are also being leveraged for other new technology initiatives including Performance Budgeting, Disaster Recovery, Treasury Workstation, Open Data and more.

Following are the additional positions required for project staffing:

General Services	FY14-15	FY15-16	FY16-17	FY17-18
1596-2 Systems Analyst II		X	X	X
1596-2 Systems Analyst II		X	X	X
1555-2 Fiscal Systems Specialist II		X	X	X
1368 Sr Clerk Typist		X	X	X
1835-2 Storekeeper II		X	X	X
1859-2 Procurement Analyst II		X	X	X
Total Positions	0	6	6	6

Information Technology	FY14-15	FY15-16	FY16-17	FY17-18
1597-2 Sr Systems Analyst II		X	X	X
1455-2 Systems Programmer II	X	X	X	X
1431-5 Programmer Analyst V	X	X	X	X
Total Positions	2	3	3	3

Controller	FY14-15	FY15-16	FY16-17	FY17-18
1555-2 Fiscal Systems Specialist II		X	X	X
Reallocation of (1) 9198-2 Financial Management Specialist II to (1) 9198-4 Financial Management Specialist IV				
Total Positions	0	1	1	1

The following table summarizes some of the major responsibilities for each department:

Major Task	Project Implementation
Change Management	Controller, GSD
Infrastructure / Technical Environments	ITA
Software Configuration	Controller (Setup), GSD (Business Rules)
Interfaces	ITA (Development), Controller & GSD (Business Rules)
Reports	Controller (Development), GSD (Business Rules)
Forms	Controller (Development), GSD (Business Rules)
Security and Workflow	Controller (Setup), GSD (Business Rules)
Centralized Repository	ITA
Nightly Cycle	ITA

System Testing	Controller, GSD, ITA
End User Training	Controller (Financial), GSD (Procurement / Inventory)
Policy and Procedures	Controller (Financial), GSD (Procurement / Inventory)
Help Desk	Controller, GSD, ITA
Post-Implementation Support	Controller, GSD, ITA

What is the bottom line?

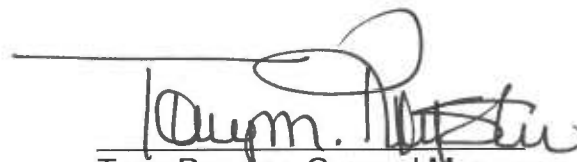
Thousands of direct users across all City Departments process billions of dollars through FMS and SMS annually. Adequate dedicated resources are essential to a successful major technology implementation with citywide impacts. Lack of resources will pose risk and potential scope and timeline changes which would require further evaluation.

The total direct cost of this project is anticipated to be approximately \$21.6 million over the next four years. An additional \$2.2 million is recommended as 15 percent contingency on the contractual services for a total \$23.8 million cost.

Respectfully submitted,



Steve Reneker, General Manager
Information Technology Agency



Tony Royster, General Manager
Department of General Services

Attachments:

Attachment A - Draft Personal Services Agreement and Statement of Work

cc: Rick Cole, Office of the Mayor
Miguel Santana, City Administrative Officer
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