THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: January 31, 2007   REPORT NO: 07-027

ATTENTION: Council President and City Council
                Docket of February 5, 2007

SUBJECT: Enterprise Resource Planning System Core Project

REFERENCE: None

REQUESTED ACTION:

1. Approve the conceptual plan for the Enterprise Resource Planning (ERP) System Core project for the City of San Diego.

STAFF RECOMMENDATION:

Approve the conceptual plan.

SUMMARY:

The major software systems being used by the Department of Finance and Business & Support Services no longer meet the City's requirements for responsible financial management, efficient human resources management, and information technology (IT) operational efficiency.

Background
The final report of the Audit Committee (Kroll Report) was delivered and presented to the City of San Diego on August 8, 2006. A comprehensive set of remediation steps was outlined in this report including the following under the heading of Information Technology: *"By no later than June 30, 2007, the CFO should evaluate the information technology needs of the City, including benchmarking of existing systems against available systems suitable for responsible management of the City's finances and the preparation of timely and accurate CAFRs and budgets as described above. Within 18 months the City shall have selected a new information system and taken all steps necessary for the system's implementation. Within 36 months, the City's new financial information system shall have been fully tested to ensure effectiveness and efficiency and will be implemented."*

Though specifically highlighted as part of the Kroll report, the need to replace the City's aging financial and human resource systems is not new. As early as the City's 2001 IT Strategic Plan, the City recognized a requirement to evaluate options for replacing core financial and human

resources systems. Several projects have been kicked off over the past few years to evaluate and/or replace these systems. To date, none of these projects has achieved success due largely to lack of executive support and inadequate funding.

The legacy financial and human resource systems:
- Create fractured business processes that require the manual integration of data across numerous disparate systems.
- Do not provide information in an easy to use manner for city staff.
- Require costly links between applications which have become increasingly complex and ultimately extends the time required to modify systems or implement new systems.
- Do not produce data in a manner to facilitate comparative analysis reporting, that would enable early identification of trends in revenue and expenditures.
- Provide inadequate user capabilities for ad-hoc reporting.

Approach and Scope
The ERP System Core implementation project will address this remediation concern by replacing the major software systems currently in use by the City's Departments of Finance and Business Operations & Support Services with an ERP system.

The major systems to be replaced within the scope of this project include:
- AMRIS (General Ledger)
- ALVA (Financial Reporting)
- APIS (Accounts Payable)
- ARIS (Accounts Receivable)
- FMIS (Budgeting)
- FAMIS (Fixed Asset Management)
- OPIS (Purchasing)
- CAPPS (Payroll)
- PATS (Applicant Tracking)

Other major and associated systems will also be evaluated and considered for replacement in future fiscal years. This project will also include evaluation of a replacement capability for the current Customer Information System (CIS) application for Utilities Billing and Customer Service/Support, as it is highly desirable that this capability be integrated with and provided from the same vendor that supplies the core ERP system.

Selection of the ERP system will include a high level assessment of the vendor's ability to deliver solutions for additional ERP and Customer Relationship Management (CRM) capabilities. These include such capabilities as 311 Call Center, Work Order Management, Real Estates Asset Management, and potentially others.

Key Objectives

The following key objectives have been outlined for this project:

- Implement a system that promotes effective and efficient management of the City's financial data and the preparation of timely and accurate Comprehensive Annual Financial Reports (CAFRs) and budgets.
- Implement and utilize an automated financial reporting system to prepare financial statements and complete year-end closing.
- Acquire an ERP system that supports major financial and non-financial modules in a single integrated environment.
- Select an ERP system with proven technology in the Public Sector, and in use by similar sized local government entities.
- Select an ERP system that is suitable as the foundation for the City's IT application architecture, and capable of meeting the City's needs for the next 15+ years. In selecting future systems the City will favor full integration over singularly focused functional applications.
- Provide a reduction in the number of custom and third-part software applications required to provide core and extended capabilities.

Timeline

The proposed timeline for the ERP System Core project is very aggressive to ensure that the City can achieve the targets provided in the Kroll Report and to enable the Chief Financial Officer to prepare and produce timely and accurate financial reporting. The optimal time to transition to a new financial system is at the beginning of the fiscal year, while the optimal time to transition to a new payroll system is at the beginning of the calendar year. To that end, the following timeline is proposed.

Milestone	Month	Year
Select ERP Software Vendor	Feb/Mar	2007
Select Systems Integrator	Apr/May	2007
Start Finance/Procurement Module Implementation	Jun/Jul	2007
Start Human Resources/Payroll Module Implementation	Sep/Oct	2007
Complete Finance/Procurement Modules	Jul	2008
Complete Human Resources/Payroll Modules	Jan	2009

FISCAL CONSIDERATIONS:

The overall estimated cost of evaluating, selecting and implementing the core functionality of the ERP system is $36.5 million, including $4.5 million for City staff costs. To support Fiscal Year 2007 costs related to the purchase and integration of the new ERP system, the City has identified $3.5 million from the SDDPC reserve and $3.5 million in current year "A-List" Fund (Fund 50066) that were budgeted for the maintenance and enhancement of systems that will be replaced by the ERP system. The City is pursuing financing of up to $29.5 million for the remainder of the project costs. The Mayor will return to Council for approval of the proposed financing package. The estimated annual commitment for supporting the ERP system has been included in the Mayor's five year financial plan.

The ongoing fiscal requirements for the ERP system will be offset through the elimination of the previously noted legacy systems and through efficiencies that will be gained through business process reengineering and by adopting best practices. This project is currently in the very early stages of the planning phase. As detailed planning progresses, a comprehensive business case will be developed outlining specific savings and return on investment calculations.

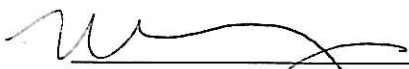PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On September 6, 2006 the Mayor presented to City Council his proposed responses to the remedial recommendations of the City of San Diego's Audit Committee. The City Council agreed to accept and adopt in principle the Mayor's responses to the remedial recommendations of the City's Audit Committee, knowing that any changes in appropriations, Municipal Code, Council Policy or City Charter, will come to the Council for further review and discussion as the plan is implemented.

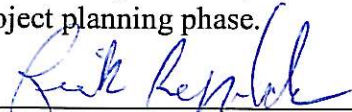COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On August 24, 2006 the Mayor discussed his remediation plan in response to the City of San Diego's Audit Committee Report at a town hall style meeting. In addition, the Mayor created a "Kroll News Center" on the City's public website that includes the Mayor's proposed Remediation Plan with Fact sheet and Remediation Plan Remarks as well as a video link to the previously mentioned town hall meeting and the Audit Committee Report itself.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The City is evaluating the impact of this project on its business partners and on related agencies to include the San Diego City Employee Retirement System (SDCERS) and San Diego Data Processing Corporation (SDDPC). It is anticipated that some effort will be required to integrate the financial systems used by these organizations with the City's ERP system. Detailed planning of these integrations will take place as part of the project planning phase.

Matt McGarvey
Chief Information Officer

Rick Reynolds
Assistant Chief Operating Officer