

Progress Report on the City's SAP Implementation

Date:	June 24, 2008
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2008\Internal Services\I&T\ac08007I&T (AFS #7648)

SUMMARY

The purpose of this report is to provide the Audit Committee with a progress report on the implementation of the City's SAP installation in comparison with the original business case that was approved by Council in 1998.

Financial Impact

There are no financial impacts as a result of this report.

DECISION HISTORY

This report was requested at the April 22, 2008 meeting of the Audit Committee during the Committee's review of the Auditor General's report on the TTC's management of Information Technology. Specifically the Deputy City Manager and Chief Financial Officer was requested to provide "the original business case information for SAP as it applies to the City and its agencies, boards and commissions, including an update on the current and planned development of the SAP system".

ISSUE BACKGROUND

As part of the amalgamation process, a competitive process was undertaken to purchase a Financial Information System (FIS) to replace and merge the various municipal financial systems and to purchase a Human Resource/Payroll (HRP) system to replace and merge the various legacy systems. The purchases were also part of the City's Y2K readiness plan.

In July 1998, the results of the procurement process were presented to Council for approval. The procurement was structured so that the City could either purchase the best

of the FIS systems proposed and the best of the HRP systems proposed or it could purchase an integrated FIS/HRP system. Based on staff's recommendation, City Council chose the integrated option proposed by SAP.

In December 1998, the final negotiated agreement with SAP and final project scope was provided to Council for approval. The final agreement allowed for the City's ABCs to obtain access to the City's SAP application through the City's licence agreement. The 1998 reports and Council recommendations at the time spoke to encouraging the City's ABCs to use SAP as the standard FIS and HRP replacement system. The Toronto Police Service chose to use SAP as its FIS. It uses PeopleSoft for its HR system.

Both of the above mentioned reports spoke about and recommended an integrated FIS/HRP system. There was also reference in an Appendix to "Further Integration Opportunities". It stated that by selecting the integrated FIS/HRP now, this would pave the way for further integration with other software that could support other city operations.

In 2001, the City Treasurer provided a final report on the SAP implementation, its cost and its benefits. In March 2003, the Auditor General reported on the City's SAP FIS/HRP implementation. Key concerns raised by the AG included:

- The costs of the project were understated by the staff time invested in the project.
- The dollar value of the intended benefits could not be proven.
- The City was only using 38% of the licenses it had purchased from SAP.
- The expected migration of SAP to the City's ABCs was not happening.
- The development and maintenance of the City's installation should be improved.

As part of the 2004 budget process, the Corporate I&T Division put forward a business case to create a SAP Competency Centre to develop and maintain the City's SAP installation. Since that time the SAP Competency Centre has played a key role in the development and maintenance of the City's SAP installation.

COMMENTS

Original Business Case: Promised vs. Delivery

As reported to City Council at its meeting of January 27, 28 and 29, 2004, the final cost of the SAP implementation after adjustments recommended by the Auditor General was as follows:

Capital budget available	\$ 34.3 M
Final capital costs	\$ 34.1 M
Staff costs charged to operations	11.3 M
Total cost	45.4 M

The 1998 report to Council projected an economic benefit of \$89 million to the year 2005 if the SAP system was purchased. Savings in staff costs was the driver of the economic benefit. Although administrative staff reductions were achieved in the first few years of amalgamation, the staff reductions were not tracked specifically to the SAP implementation. Therefore, the projected economic benefit could not be verified.

The 1998 reports to Council outlined the main objectives of the FIS and HRP projects. The following table summarizes what was planned and what was delivered:

FIS

Promised in 1998	Delivered
General Ledger – Chart of Accounts, journal entry posting, standard balance sheets and profit and loss statements	Yes
AP/Disbursements/cheque printing	Yes
Purchasing	Yes
Inventory for 11 main sites	Yes
Capital budgets	Yes
Operating budgets	Yes
Funds Control	Yes

At the time the final scope was approved by Council in December 1998, the report identified potential additional functionality that would be investigated and implemented on a case by case basis. This included Accounts Receivable, Cash Management, Electronic Data Interchange (EDI), Work Flow and Plant Maintenance (work orders). Some of this functionality was implemented, as noted below:

HRP

Promised in 1998	Delivered
Payroll	Yes
Time and attendance	Yes
Position management	Yes
Compensation and salary administration	
Recruitment	
Training Management	Yes

SAP Licences

In his 2003 report the Auditor General reported that the City was only using 38% of the licences that it purchased. As of December 31, 2007, the City was using 90% of its SAP licences with plans to be close to 100% by the end of 2008. This was reported in as part of the report to Council January 26, 27 and 28, 2008. This increase in licence utilization

was due to the extension of SAP functionality across the organization since 2003 and the recent license restructure with SAP Canada

Migration of SAP to the ABCs

The Administration Committee received a joint report from the Commissioner of Corporate Services and the CFO in November 2004 on the migration of SAP to the City's ABCs. This report outlined the status of ABC FIS/HRP reviews and implementations. It also highlighted the fact that the decision to migrate to SAP was not just a matter of using a copy of the City's SAP implementation and paying the licence fee. ERP systems like SAP are not "vanilla" one size fits all systems. Each installation is unique and requires thoughtful planning and execution to meet the specific business process rules of the entity. This process can represent the bulk of the cost of an implementation.

The SAP Competency Centre

In February of 2004, the Administration Committee was provided a report from the Commissioner of Corporate Services entitled "Moving Forward with SAP" which recommended the creation of a SAP Competency Centre and an improved governance structure to improve the development and management of the SAP installation.

Since that report, the SAP Competency Centre was established in 2004 and the full complement was in place by 2007. By mid-2005, a 5-year plan was introduced to respond to both business and technical opportunities across the City's divisions. The SAP Competency Centre has become the key point of contact for all SAP initiatives across the City's Divisions and ABC's. The SAP Competency Centre has developed relationships across the SAP stakeholder community. As of March 2008, a new Integrated SAP Steering Governance structure was approved by the Business Advisory Panel, which is chaired by the City Manager. The SAP Competency Centre will continue to play a key role under the new governance structure.

The latest SAP upgrade project went live on time and under budget at the end of 2007. This was planned and managed entirely by the SAP Competency Centre without the need for external services. The cost saving for this type of consulting is estimated to have been over \$500K. This was one of several projects where City staff completed tasks that would have been completed by external contracted services.

All outstanding items from the former eFact committee have been addressed. New change management processes have been implemented which have addressed outstanding audit recommendations.

The SAP Competency Centre is the key liaison to SAP Canada. SAP system demos of various SAP components have been planned and/or presented to City Divisions including:

- Geographic Information System integration with SAP work orders
- Environment, Health and Safety
- eRecruitment

The SAP Competency Centre staff have developed and deployed the content for an SAP Competency Centre intranet web site.

All of these activities have been completed without external consulting contracts.

Improvements Beyond the Business Case

The City has implemented SAP functionality beyond the original business case and continues to do so. The following is a list of improvements made, current works in progress and future plans.

Improvements Made

- General Accounts Receivable
- Facilities, Real Estate (FR&E) work order system
- F&RE lease management system
- Integrated Purchasing Card transaction reporting
- Expansion of Inventory Management module to 13 Divisional stores
- Former Metro time entry system replacement (not in original scope)
- Payment to vendors by direct deposit
- Toronto Police Services Implementation

Highlights of Extensive Activities In Progress:

- Financial Planning, Analysis and Reporting System (FPARs)
- Capital Asset Accounting
- Parks, Forestry and Recreation work order system
- Integrated document management and workflow to support accounts payable
- SAP Governance model
- Disaster Recovery
- Section 37/45 compliance

Highlights of Future Plans (Pending SAP Governance prioritization)

- Migration of fleet management system
- eProcurement
- PF&R lease management
- Capital project management
- Integrated geospatial technology with asset management and leasing
- Preventative maintenance (F&RE)
- Business Intelligence (data warehousing)
- Environment, health and safety (hazardous material handling)
- Integration to Children's Services systems

- Integration to new Revenue Services Point of Sale
- eLearning
- Employee Self Service / Manager Self Service

The City has implemented and exceeded what was promised in the original SAP business case and has continued to expand the use of SAP within its divisions.

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