Project Atlas Update (SAP - FIS/HR/Payroll System)

(City Council on December 14, 15 and 16, 1999, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends the adoption of the Recommendation of the Administration Committee embodied in the following communication (December 1, 1999) from the City Clerk:

Recommendation:

The Administration Committee on November 30, 1999 recommended to the Policy and Finance Committee and Council, the adoption of the joint report (November 22, 1999) from the Chief Financial Officer and Treasurer, the Acting Commissioner of Corporate Services and Executive Director of Human Resources, the Executive Director of Information and Technology, and the Commissioner of Community and Neighbourhood Services, Members of the Project Atlas Steering Committee, respecting the SAP – FIS/HR/Payroll System.

Background:

The Administration Committee at its meeting on November 30, 1999, had before it a joint report (November 22, 1999) from the Chief Financial Officer and Treasurer, the Acting Commissioner of Corporate Services and Executive Director of Human Resources, the Executive Director of Information and Technology, and the Commissioner of Community and Neighbourhood Services, Members of the Project Atlas Steering Committee, reporting on the implementation progress of the SAP Financial, Human Resources/Payroll Systems - Project Atlas - covering the period May – October 1999; providing information previously requested on account structures and financial policies; and recommending that:

(1)   the City's project budget be increased by $1 million for payment of specially priced software license fees under the City's existing contract for the implementation of SAP financials for the Toronto Police Services, with the balance of $2.5 million for implementation cost in 2000 and 2001 be approved in the 2000 Capital Budget request of Toronto Police Services.

(2)   this report be forwarded to the Policy and Finance Committee for their approval of the recommendation above, and

(3)   this report also be forwarded to the Budget Advisory Committee for information.

(Joint report (November 22, 1999) from the Chief Financial Officer and Treasurer, the Acting Commissioner of Corpoate Services and Executive Director of Human Resources, the Executive Director of Information and Technology, and the Commissioner of Community and Neighbourhood Services; Members of the Project Atlas Steering Committee.)

Purpose:

To report on the implementation progress of the SAP financial, human resources/payroll systems, Project Atlas covering the period May – October 1999; to recommend proceeding with the implementation of SAP Financials for Toronto Police Services with the payment of license fees under the existing City contract, and to provide information previously requested on account structures and financial policies.

Financial Implications:

A report to Budget Advisory Committee on additional project funding for staff backfills (as described in the December 1998 Council report on the project) and sustainment resources will be tabled to the December wrapup meetings. Funds in the amount of $1 million are currently requested to cover the cost of licenses for the Toronto Police Service SAP financials implementation.

Recommendations:

It is recommended that:

(1)   the City's project budget be increased by $1 million for payment of specially priced software license fees under the City's existing contract for the implementation of SAP financials for the Toronto Police Services, with the balance of $2.5 million for implementation cost in 2000 and 2001 be approved in the 2000 Capital Budget request of Toronto Police Services.

(2)   this report be forwarded to the Policy and Finance Committee for their approval of the recommendation above, and

(3)   this report also be forwarded to the Budget Advisory Committee for information.

Background:

Council, in approving the implementation of the SAP project in December 1998, requested that quarterly project updates be provided and that funds for additional backfill resources be subject to a report to the Budget Advisory Committee. Council, in April 1999, also requested information on the account structure methodology and financial policies being implemented as part of the project.

This report is the second update on the Project Atlas implementation. The first update covered the period January to April 1999 and was contained in a report to then Corporate Services Committee at its meeting of May 20, 1999 and through to Council on June 9, 10 and 11, 1999. The first update reported minor revisions to the golive dates for the Financial Information Systems piece of the project – splitting it into two phases –Phase 1A: with a Go Live on June 30, for Etobicoke, East York, York, North York and Scarborough and Phase 1B: with a Go Live on August 30 for Metro and Scarborough.

The update also presented the major findings of the Ernst & Young review of the project to that point and outlined the actions being taken by City staff in response to those issues.

Discussion:

This second update report for the period May to October 1999 presents the accomplishments on the project. It focuses on the implementation, training, and rollout of three milestones:

(i)   FIS Stage 1A:
        Etobicoke, North York, York and East York - Go Live – June 30

(ii)   FIS Stage1B:
        Metro, Toronto – Go Live – August 30

(iii)   HR/Payroll Stage 1A:
        North York, York and East York – Go Live - August 3.

This report also reports on the recommendation of Toronto Police Services and City Finance to proceed to implement the SAP Financial system in 2000, taking advantage of the discounted license fees in effect to December 31, 1999 in the City's contract.

(I)   City's Implementation:

        All three major milestone dates as listed above have been met as planned. as of August 30, 1999, the City is on a single financial system. The process for "retirement" of the former financial systems has begun. The first stage towards a consolidated HR/Payroll system has also been achieved. As of August 3, 1999, 9000 employees are being paid by the SAP HR/Payroll system. As of September 1, there are 821 users of the system, mainly for data entry.

        Our aggressive implementation dates were set to meet the priority objective of consolidating to one financial system as expeditiously as possible to provide for greater financial integrity and efficiency. This project was also a Y2K solution for several of the City's legacy financial and HR/Payroll systems. Being implemented in the same timeframe as all the City's efforts on Y2K also meant competing for resourcing of deployment, training, communications and IT support on the project to an unanticipated extent.

        Phase 1 implementation of the Financial system focussed on a predominantly centralized data entry function in Finance in purchasing and accounts payable. A series of workshops were conducted to evaluate impacts across the departments, to identify all affected interfaces, and to provide training in manual procedures from a workflow perspective including forms management. Deployment to programs then took the form of data entry training and forms training as the first priorities.

Basic requirements for programs were met for operating and capital accounts for the September 1999 month-end. Phase 1 implementation of funds checking for operating budgets and capital funds has been implemented at the end of August. Funds checking has presented delays in invoice payment due to problems with the level of budgets in some areas as well as some data entry practices. Action has been taken to remedy the most affected areas with further action required to address other business process issues. In 2000, full funds control for operating and capital budgets will be implemented in accordance with a new Financial Control bylaw that will be tabled to Policy and Finance Committee in January 2000.

Training and Help Desk:

Two hundred and forty staff were trained in June 1999 on the use of the financial system by six instructors in accounts payable, general ledger, purchasing and materials management. Approximately 100 staff were from Finance with the balance of 140 staff from departments. These departmental staff were also trained in navigation and reporting. Six training sessions were held on the manual procedures and forms in the various civic centres.

HR/Payroll training occurred throughout July 1999 in both data entry and forms. A 'train the trainer' session was used for forms training for each department.

To date approximately 1,015 staff have been trained as at the end of October largely in navigation and reporting. The breakdown of those trained is as follows:

Finance	126
Purchasing Functions	309
Department Functions	342
HR/Payroll	238

Training will continue to be scheduled for data entry, navigation and online use through to year end and is an area of the project where increased emphasis is required by the project team. Management training for programs is also a key area of attention in the next few months.

New users have been advised to call the help desk to report issues with using the system. Help Desk calls are being logged and monitored. The Project Advisory Committee, consisting of senior level directors of Finance, Human Resources, and the FIS User Group chair, a senior director from Community & Neighbourhood Services, meets weekly and is reviewing the number and nature of issues and in turn, putting together action plans on resolving the issues.

In July and August, the help desk received an average of 25-30 requests per week with the bulk of the questions coming directly to implementation team members, trainers or deployment resources. Initial calls to the help desk following the August go live are substantially higher (131 per week).

User Group:

In September 1999, an FIS User group was formed with representation from each program area. Terms of reference have been developed and adopted. The FIS User group, chaired by a senior staff member from the Community & Neighbourhood Services department who also sits on the Project Advisory Committee, meets every two weeks to identify and prioritize issues for the SAP implementation team. An HR/Payroll Group will also be formed after the implementation of Phase 1, similar to the FIS.

Communications:

Manual procedures, forms, cross-reference tables and update bulletins, as well as other communiqués have been developed and are now available on the project Intranet site. (*insideto.city.toronto.on.ca*) In addition to this, 13 bulletins (Atlas Flashes) have been prepared and distributed. With every HR/Payroll go live, target communication is sent to employees, management and unions as appropriate. Communications effectiveness is an area for improvement over the next quarter. Communications issues include: high level functional capability of SAP; midlevel problem resolutions; identifying most effective communication methods i.e. bulletins, meetings, emails.

Support/Sustainment:

As per our contractual arrangements, SAP has provided support during the first 30 days following the go live dates for the FIS and HR/Pay implementation. The City is going through a period of transition before it becomes self-supporting. It is envisioned that the City will evolve towards creating a competency center, responsible for all issues and actions related to the SAP application, whether business or technical. In the meantime, however, the City's resources are still involved with the on-going implementation, particularly for the HR/Payroll part of the project, and have limited time for training for ongoing system support. Our rapid

implementation of the system has not allowed for City staff to be fully trained and knowledgeable on the system as yet. During the transition period, consulting resources beyond what was planned are required. Knowledge transfer, as well as formal training will be planned in the next quarter to mitigate the SAP resources required for sustainment.

The rollout of the SAP modules this summer showed the need to prepare the organization for production support. More work is required for production readiness, and on-going corporate support.

Phase 2 (September to December 1999):

> Phase 2 implementation, scheduled to rollout through to yearend, will focus on not only adding additional functionality but also on management training. Phase 2 will also see continuing development of standard and alternate reports to meet program information needs.

> The following outlines activities planned for Phase 2:

(1)   FIS Stage 2:

The second scheduled phase of the FIS implementation will include:

(i)   Planning and Budgeting (Enhancements to the input of Capital budget processes);

(ii)   Procurement and Inventory Management Processes;

(iii)   Accounts Receivable Module;

(iv)   Additional Reports; and

(v)   Year-end Processing:

(2)   HR/Payroll – Stage 1B - Metro/Scarborough Payroll HR –November 19, 1999 with paycheques produced for 17,100 employees on December 9, 1999. This milestone is on track as at November 16, 1999. In recognition of the complexity and risks of the payroll go-live, Stage 1C;

(i)   Etobicoke go live date has been moved from December 1999 to February 2000 while Stage 1D;

(ii)   Toronto go live date has moved from January 2000 to April 2000. The legacy systems processing payroll for these former municipalities have been remediated to be Year 2000 compliant. This allows both the staff and the project team to ensure yearend processess are handled effectively.

(3)   Year 2000 Testing:

        The SAP application is Year 2000 certified. However, in order to satisfy the requirements of the Year 2000 Office, Year 2000 testing has been conducted on both the Payroll/HR and the FIS systems.

(4)   Deployment:

        Work will focus on the on-going resolution of post-implementation issues from the Financial systems implementations this summer. Work will also focus on deployment of Phase 2 FIS, and continued deployment of Stage 1B HR/Payroll. The work will involve training, new business processes, and forms management.

(5)   Support:

        The next period is one of transition. Currently, planning is being conducted to evaluate the training required to allow members of the Project Atlas Team to transition from development to support. Analysis is also being conducted to identify other business and technical resources that, through training, may also move into SAP supporting roles.

(6)   Ernst and Young Quality Assurance Review:

        In late September 1999, Ernst & Young began their second review of the project. Their report expected shortly, will be forwarded to the Steering Committee by the end of November for review and appropriate action. Ernst & Young has also performed an applications control review after the June go live of the financial system and will be reporting shortly to the Project Steering Committee as well.   The City Auditor is performing the applications control review on the payroll/human resources system as well.

(II)   Toronto Police Services – SAP FIS Implementation:

        In a report to Council in December 1998, the SAP contract terms provided for software license prices be protected at contract rates for the City as well as its Agencies, Boards and Commissions until December 31, 1999. The cost of the license and implementation of the Toronto Police Services project was not included in the original approved project cost.

        Since Council approval of SAP in July 1998, City Finance staff have been in discussions with Toronto Police Services staff on the possible implementation of SAP to replace the existing financial system. In preparation for Year 2000, Toronto Police Services made minimal investments in their existing financial system with the concurrence of City Finance staff in anticipation of joining the City's implementation of SAP.

        Over the course of the past year, discussions among SAP, Toronto Police Services and City Finance have resulted in the recommendation to proceed with replacing the Police

financial system with the City's financial system. A detailed project blueprint has been completed for the Toronto Police Services. This blueprint has identified the timeframe required for implementation and required financial resources. It is recommended that the startup of the implementation would be April 2000 with expected completion in 2001 at a cost of $3.5 million; $1 million for software licences; and the balance for project implementation. The project implementation costs have been included and recommended in the 2000 Capital Budget for Toronto Police Services.

At this time, it is requested that project approval be given to proceed to pay the license fees in December 1999 associated with implementation of the Police Services Financial System and the balance of the costs be approved for project implementation. These costs are reasonable given that the City's financial system implementation was based on the former City of Etobicoke template, and that the Police will now benefit from the City's implementation – both in terms of project resources and project framework.

(III)   SAP Cost Structure and Financial Policies:

One of the basic elements of the SAP account structure is the definition of a cost center. A cost center is defined as the 'smallest' or 'lowest' level of significance for capturing costs incurred in a business activity. Once defined, cost centers can be grouped together into one or more 'hierarchies'. A 'standard' hierarchy is defined and 'alternate' hierarchies can be also be developed in response to management information needs.

For example, Appendix A highlights four sample cost centers that can be grouped together to provide management reports – one that focuses on a type of instruction, and the other that is location based.

For the 1999 implementation of SAP, departments and programs developed cost centers on an expedited basis in January 1999. Managers were asked to identify what the lowest level of significant grouping of financial information would be for their programs. As programs have had experience with SAP reports and have begun the business planning process, adjustments to the initially developed cost centers are being identified. Some programs have too many cost centers; some do not have enough. All together, currently the City has approximately 10,000 cost centers created. A 'program map' is being developed in the business planning process that starts from a high level view of relevant reporting of financial information, and progressively expands the elements of detail down to the basic cost center. Plans are in place for both Finance and the CAO's Office to review the program maps for every City program in the spring of 2000 to ensure that the entire base of a program account structure is complete and consistent. Once signed off, new and revised cost centers will be created for 2001 implementation.

Guidelines are being developed to assist departments in developing their program maps and resulting cost centers. Key to the establishment of the proper cost centers for a program is the definition of required management reports whether those be hierarchical (i.e ,organization structure based/responsibility based), geographic (facility/location), or business (activity/service).

Each cost center tracks cost elements and cost element groups. Appendix B illustrates the City's cost element groups while Appendix C highlights some of the cost elements within the salaries and benefits.

Financial policies:

As part of the initial implementation of the FIS system, there were decisions made on various financial policies and procedures to expedite and maintain the functioning of internal controls for the immediate term. Now that almost two months have passed since the FIS go live, these policies are being reviewed.   These financial polices include but are not limited to:

(i)   -signing authorities and security access to system;

(ii)   -the establishment of funds control in operating and capital budgets;

(iii)   -the handling of interdepartmental charges; and

(iv)   -the use of journal entries.

Work has also been underway to update and replace the Interim Financial Control bylaw with a new Financial Control bylaw and a new Purchasing bylaw. These new bylaws, while not part of the policies implemented, will be implemented in SAP once adopted by Council.

Procedures were also developed to assist in the initial implementation. A manual of these procedures was created and distributed as part of the training. This manual is currently being updated to reflect our ongoing implementation.

Financial policies and procedures are being presented and reviewed by the Support Services Directors in each Department on behalf of their department program areas. This is an ongoing initiative and process.

Conclusion:

Work is proceeding as planned on the implementation of the SAP financial and human resources/payroll systems. Contractual obligations have been met. Project milestones have been met. Plans are in place for the fourth quarter milestones to be met. Ernst & Young is currently undertaking their second quality assurance review this month.   Communication of SAP functionality currently available and that which will be available in Phase 2 will continue over the next phase.

Contact Names:

Mandy Rattner, Project Director, Telephone No.: 397-4980

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(A copy of Appendices A, B and C attached to the foregoing report was forwarded to all Members of Council with the December 7, 1999, agenda of the Policy and Finance Committee and a copy thereof is also on file in the office of the City Clerk.)