

# TORONTO STAFF REPORT

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October 12, 2004

To: Audit Committee

From: Auditor General

Subject: The Migration of the SAP Financial and Human Resources/Payroll System to the City's Agencies, Boards and Commissions

Purpose:

To provide the Audit Committee with information relating to the migration of the SAP Financial and Human Resources/Payroll System to the City's Agencies, Boards and Commissions.

Financial Implications and Impact Statement:

There are no financial implications resulting from the receipt of this report.

Recommendation:

It is recommended that the Chief Administrative Officer initiate a process whereby all information technology acquisitions throughout the City, including the Agencies, Boards and Commissions, are effectively planned and coordinated. Such a process take into account the potential of establishing a corporate governance model which provides the appropriate level of authority for initiating, coordinating and approving technology investments at the City's Agencies, Boards and Commissions. If appropriate, the Chief Administrative Office be required to propose changes to legislation to ensure that such a process takes place. The Chief Administrative Officer report back to Audit Committee for its July 11, 2005 meeting in regard to this matter.

Background:

The selection of the SAP system as the City's Financial and Human Resources/Payroll System was approved by City Council on July 29, 1998. The general consensus and widely held view at that time was that the SAP system would eventually be rolled out to the City's Boards and Agencies. In this context, various reports to City Council supported this contention. These reports and specific extracts from each of these reports were as follows:

- (1) Joint report to City Council in July 1998, from the Chief Financial Officer and Treasurer, the Commissioner of Corporate Services and the Executive Director of Human Resources, entitled "Financial and Human Resources/Payroll System":

"It has been anticipated that many of the City's Agencies, Boards and Commissions will make use of the new business systems to be implemented. In particular, the Toronto Police are in the process of considering options to address the inadequacies of their existing systems relative to the Year 2000 issues. We have been advised that the Police do not believe that Computron can adequately address their complex needs. The Police are prepared to work closely with the City, towards a joint system, if SAP is selected."

"In addition, the Toronto School Board has recently opted to pursue a contract with SAP for installation of financial systems. It is anticipated that synergies could be obtained through collaboration with the Board, and initial discussions have been held. In particular, it is possible that joint training ventures could be set up, significantly reducing costs for both parties."

"It is also possible that broader administrative efficiencies could be obtained through partnership with these and other public sector organizations jointly or with an outside agency. Such partnerships are more likely to be possible when the organizations share a systems infrastructure. However, it is felt that such a proposal should be considered once the initial implementation period is complete and when the City has captured the maximum savings itself."

- (2) Report to City Council in July 1998, responding to a request from the Corporate Services Committee at its meeting of June 22, 1998 to provide recommendations respecting the inclusion of all Agencies, Boards and Commissions, including the Toronto Hydro Commission in the FIS/HRIS system being proposed.

The recommendations approved by Council in this report were that:

- (1) all City Agencies, Boards and Commissions be strongly urged and requested to use the recommended City's FIS/HRIS systems, on a timetable that is mutually agreed upon, but within five years at the latest; and
- (2) on a priority basis, that City staff accommodate those Agencies, Boards and Commissions with non year 2000 complaint FIS/HRIS systems, i.e., the Toronto Police Services by including their participation in the City's implementation program.

Also included in the report was the following:

“As a general vision, all of the City’s department, Agencies, Boards and Commissions should be using the same FIS and HRIS systems. The vision promotes efficient record keeping, efficient database management, efficient and accurate reporting and analysis of financial information and consistent financial controls. Adequate security exists within FIS/HRIS systems to ensure that each department, agency, board and commission’s detailed financial information is kept confidential.

One FIS/HRIS system for all departments, Agencies, Boards and Commissions would reduce the cost of auditing the internal controls once fully implemented since the review of the systems which produce the financial statements of all entities would only need to be done once. Similarly, any requests for financial analysis including variance reporting can be done on a much more timely basis with one system.”

The conclusion in this report was as follows:

“The efforts to date by City staff to bring in the City’s Agencies, Boards and Commissions that are consolidated into the City’s financial statements need to continue. We are confident that we can include those ABCs that need year 2000 compliant systems in the current City implementation schedule and that with our success at implementing the new FIS/HRIS for the City that the remaining ABCs can be brought in within the next three to five years. Given the robustness and diversity of clients served by SAP for its FIS/HRIS products, it is anticipated that the needs of all the ABCs can be accommodated in the recommended solution.”

- (3) Joint report to City Council in May 2002 and entitled “SAP Implementation Final Report”, from the Chief Administrative Officer and Acting Chief Financial Officer/Acting Treasurer and Director of Accounting Services. The report indicated that:

“During the budget discussions and approval of the implementation of SAP, Council directed that in the future as ABCs need to replace their existing Financial and Human Resources/Payroll systems, that SAP should become the corporate standard. It has been decided to delay the implementation of SAP for other ABCs for a year in order to allow the evaluation of the system, and other enhancements or increased functionality that have been requested from City Departments.”

At the same meeting it was recommended that the “Chief Administrative Officer be requested to submit a report to Council, through the Administrative Committee, on the status of the migration of SAP software to the City’s Agencies, Boards and Commissions.”

- (4) Report to City Council in April 14, 15 and 16, 2003 and entitled “SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review”, from the Auditor General. It was recommended that:

“the Chief Administrative Officer continue to require that all requests for new management information systems from City Departments, Agencies, Boards and Commissions be reviewed and approved or recommended by the Executive Director of Information and Technology. Such requests to include a detailed business case and justification analysis and include complete financial evaluations comparing SAP functionality with any other system being proposed. Unless there are compelling financial and operational reasons for selecting non-SAP systems, all new developments be restricted to SAP.”

Comments:

SAP is what is termed as an Enterprise Resource Planning software. Its major feature in regard to its application to the City is to provide a common platform within a single computer system that can serve the majority of processing and functionality requirements of City Departments, Agencies, Boards and Commissions. In actual fact, as indicated in the report dated November 22, 2001, the licence agreement with SAP extends to:

- (1) Canadian National Exhibition Association
- (2) City of Toronto Non-Profit Housing Corporation
- (3) Exhibition Place
- (4) Hummingbird Centre for the Performing Arts
- (5) Metropolitan Toronto Housing Company Limited
- (6) St Lawrence Centre for the Arts
- (7) The North York Performing Arts Centre
- (8) Toronto District Heating Corporation
- (9) Toronto Economic Development Corporation
- (10) Toronto Historical Board
- (11) Toronto Humane Society
- (12) Toronto Licensing Commission
- (13) Toronto Hydro-Electric Commission
- (14) Toronto Parking Authority
- (15) Toronto Police Services Board
- (16) Toronto Public Library Board
- (17) Toronto Transit Commission
- (18) Toronto Zoo
- (19) Tradelink

In response to the request of City Council in May 2002 that the “Chief Administrative Officer be requested to submit a report to Council, through the Administration Committee, on the status of the migration of SAP Software to the City’s Agencies, Boards and Commissions”, a joint report dated October 21, 2004 from the Commissioner of Corporate Services and the Chief Financial Officer and Treasurer was forwarded to the City’s Administration Committee. This report indicated that in connection with the Agencies, Boards and Commissions “there is a need to develop a more formal evaluation methodology to be used for assessing the application of the SAP First Policy.”

The cost to acquire and implement the SAP Financial Information System, including staff time, has been in the range of \$44 million. Consequently, the City has a significant and ongoing investment in the SAP system and it is imperative that the returns on the investment are maximized. In addition and as reported in April 2003 by the Auditor General, the City has a significant number of surplus licences which are not being used and could be utilized by the City’s Agencies, Boards and Commissions.

As previously stated, the original intent of management was that SAP would eventually be rolled out to the Agencies, Boards and Commissions. However, none of these reports to Council provided information in relation to the costs regarding the roll out, although such costs have been provided in various subsequent capital budgets. Based on current information, it is likely that these costs will be significant and in some cases in excess of estimated costs relating to non-SAP “stand alone” financial software. The Toronto Zoo for example, has recently conducted an evaluation of its financial/human resource requirements and has determined that a SAP solution will be in the range of \$2.6 million compared to the cost of the solution proposed which is \$1.6 million.

In addition to the Toronto Zoo, Exhibition Place has implemented a non-SAP financial system and we have been advised that TEDCO will be proceeding along similar lines.

In regard to the Toronto Transit Commission, the Commission in 2003, selected a non-SAP system to replace their vehicle maintenance and inventory management systems. A primary factor in the Commission’s decision was the fact that the cost of the SAP solution was approximately \$1 million higher for comparable functionality provided by the selected vendor’s product.

In addition, over the next two to three years, it is likely that the Toronto Transit Commission will be required to replace their old mainframe based financial/payroll/human resource applications that are nearing the end of their useful lives. Based on information currently available and provided by the Toronto Transit Commission, it appears that any solution will likely involve costs in excess of \$25 million.

In October 2002, a document entitled “eCity - Building an Information and Technology Vision for Toronto” was prepared, which described a vision and statement of direction for information technology at the City. This document makes reference to the fact that “investments in information management and technology must be planned, coordinated across the City and Agencies, Boards and Commissions and be fiscally prudent.”

It is apparent, based on our observations, that the coordination of technology acquisitions is not being conducted to the extent contemplated by the eCity document. In general terms, one of the reasons for this relates to the lack of an effective overall governance model, which has the authority to make information technology decisions for the benefit of the City and the Agencies, Boards and Commissions.

Recommendation:

It is recommended that the Chief Administrative Officer initiate a process whereby all technology acquisitions throughout the City, including the Agencies, Boards and Commissions, are effectively planned and coordinated. Such a process take into account the potential of establishing a corporate governance model which provides the appropriate level of authority for initiating, coordinating and approving technology investments at the City's Agencies, Boards and Commissions. If appropriate, the Chief Administrative Officer be required to propose changes to legislation to ensure that such a process takes place. The Chief Administrative Officer report back to Audit Committee for its July 11, 2005 meeting in regard to this matter.

Conclusion:

City Council was advised that SAP would likely be the financial and human resource information system of choice for its Agencies, Boards and Commissions. While the cost to implement SAP was approximately \$44 million, it appears that costs to migrate SAP to the Agencies, Boards and Commissions will add significantly to these costs. In addition, certain of the Agencies, Boards and Commissions are in the process of, or have implemented non-SAP financial/human resource systems. While certain information relating to these proposed financial information and human resource management systems may have been communicated to the City, there has been little coordination of these acquisitions either at the City, or by the Agencies, Boards and Commissions.

There is a need to establish a governance framework which has the authority and responsibility to address City-wide technology acquisitions. While appreciating that the governance issue not only applies to technology acquisitions, the prominence given to technology relates to the fact that significant funds will likely be expended on this area in the near future.

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