

Award of Negotiated Request for Proposal No. 3405-20-0131 to Deloitte, Inc. for the Provision of System Integrator Services for the Financial Systems Transformation Program

Date: March 15, 2021

To: General Government and Licensing Committee

From: Chief Financial Officer and Treasurer; Deputy City Manager, Corporate Services; and Chief Procurement Officer, Purchasing and Materials Management

Wards: All

SUMMARY

This report is to advise on the results of the Negotiated Request for Proposal (NRFP) No. 3405-20-0131 (Ariba Doc2481086143) for the provision of system integrator services to enable the City's financial systems transformation, and to request authority for the Chief Financial Officer and Treasurer to enter into a contract with Deloitte, Inc.

The Financial Systems Transformation Program is required at this time as the current version of the City's financial software is approaching end of life in 2027. In the current state, there are numerous systems with financial information that exists outside of the core financial platform. Extensive manual intervention and workarounds are required in most aspects of financial processes and reporting. The result has been a network of over 70+ systems that do not meet the City's current needs.

The new version of the core financial platform provides the City with the opportunity to review and build more efficient and effective business processes and consolidate the number of systems and financial information which will support an integrated and seamless delivery environment that will be critical for all City operations.

The cost of the contract over three (3) years to the City of Toronto is \$44,035,968 net of all taxes and charges (\$44,811,001 net of Harmonized Sales Tax recoveries). The award amount is inclusive of a contingency to address potential scope adjustments and additional services that may be required and confirmed once the supplier has completed Phase 1, the Business Transformation and Technology Solution Design Phase of the program, which shall assist in defining the required scope of work for the following Build to Deploy Phase. Details are provided in the comments section.

If approved, the program is tentatively scheduled to begin in April/May 2021, with a target implementation date in Q2 2023. Funding for this program is included in the Council approved 10-Year Capital Budget and Plan within the Office of the Controller's capital budget

RECOMMENDATIONS

The Chief Financial Officer and Treasurer, Deputy City Manager, Corporate Services, and Chief Procurement Officer, Purchasing and Materials Management recommend that:

1. General Government and Licensing Committee, in accordance with Section 195-8.4 of Toronto Municipal Code Chapter 195 (Purchasing By-Law), grant authority to the Chief Financial Officer and Treasurer to enter into, and execute an agreement with the successful proponent, Deloitte Inc., being the top-ranked proponent meeting the requirements set out in the NRFP for the provision of system integrator services to enable the City's financial systems transformation, for a period of three (3) years in the amount of \$44,035,968 net of all taxes and charges (\$44,811,001 net of Harmonized Sales Tax recoveries), on terms and conditions satisfactory to the Chief Financial Officer and Treasurer and as set out in the NRFP and negotiated Master Services Agreement and initial Statement of Work, and in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

The total potential contract award amount, inclusive of contingency amounts, is \$44,035,968 net of all applicable taxes and charges (\$44,811,001 net of Harmonized Sales Tax recoveries), with anticipated cash flows from 2021 to 2023 as detailed in the table 1 below.

The Council approved 10-Year Capital Plan includes sufficient funding for this requirement within the Office of the Controller's capital budget as part of the Financial Systems Transformation program.

Table-1 Total Contract Award Summary (all values are net of all applicable taxes and charges)

	Year 1 2021	Year 2 2022	Year 3 2023	Total Cost
Phase 1 - Business Transformation and Technology Solution Design	8,741,490			8,741,490
Phase 2 - Build to Deploy	1,512,353	19,660,588	4,537,059	25,710,000

	Year 1 2021	Year 2 2022	Year 3 2023	Total Cost
Phase 3 - Post-Implementation Support			2,245,150	2,245,150
Sub - Total	10,253,843	19,660,588	6,782,209	36,696,640
Program Contingency (20%)				7,339,328
Total Costs with contingency				44,035,968

DECISION HISTORY

The City of Toronto has a long history with implementing SAP. City Council approved the original SAP Implementation back in 1998:

<http://www.toronto.ca/legdocs/1998/agendas/council/cc/cc980729/cs10rpt/cl001.htm>

<http://www.toronto.ca/legdocs/minutes/council/cc980729.htm>

The Auditor General performed an audit in 2003 on SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review which included amongst other things a recommendation for the Chief Administrative Officer to develop an SAP First Policy.

<https://www.toronto.ca/legdocs/2003/agendas/council/cc030414/au1rpt/cl009.pdf>

In 2004, City Council adopted staff's SAP First Policy in the report entitled "Moving Forward with SAP":

<https://www.toronto.ca/legdocs/2004/agendas/council/cc040518/admcl012b.pdf>

<http://www.toronto.ca/legdocs/2004/agendas/council/cc040518/cofa.pdf>

In 2009, City Council adopted GM23.13, "Sole Source SAP Licence Framework" which adopted a Strategic Investment Framework for SAP software licenses. The license framework was based on an envelope approach which proposed a flexible acquisition model that allows software to be staged in when needed for critical projects over the next 3 years. As part of this acquisition, the City purchased SAP Procurement for Public Sector Licences (SAP-PPS).

<http://www.toronto.ca/legdocs/mmis/2009/gm/bgrd/backgroundfile-21085.pdf>

In 2014, City Council adopted EX32.3, "Results of the Shared Services Study – City Agencies" which, in part, directed City Staff to work on "rationalizing information technology applications" which is consistent with the SAP First Policy to leverage existing technology to the extent possible before adding new software applications.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX32.3>

COMMENTS

Background

The City implemented its current financial software, SAP ECC in 1999¹. This version of the enterprise wide financial platform is approaching end of life and will no longer be supported by the licensor.

As part of the 2020 Budget², the Financial Sustainability Corporate Strategic Priority was presented to Council as the overarching framework that would enable the City to make informed financial decisions and effectively manage resources in the future.

The 8-year roadmap noted five key pillars for financial sustainability (Budget Modernization, Financial Systems Transformation, Innovation, Capital Asset Management Plan and Organizational Design) with planned implementation timelines from 2019-2026. Investment in a modern, robust financial management capability, as part of Financial Systems Transformation, is a core pillar to financial sustainability.

Current State

Since SAP ECC was originally implemented over 20 years ago and will no longer be supported, a new version of the core SAP Enterprise-Wide financial platform provides the City with the opportunity to resolve our current challenges, ensure we build streamlined business processes and create an optimal financial platform.

Some examples of current challenges that can be addressed by this initiative include:

- 70+ auxiliary financial systems exist across the organization outside of the core financial platform.
- Extensive manual intervention is required in all aspects of financial processes and reporting.
- Data is not integrated; a holistic view of the City's financial picture requires a lengthy manual process

The impact of these issues is that the City is functioning with significant risks across the organization, as shown by category and priority in the table below.

¹ The City of Toronto's current financial software is SAP ECC 6 EhP 8 Suite on HANA On Premise.

² <https://www.toronto.ca/legdocs/mmis/2020/ex/bgrd/backgroundfile-145968.pdf>

Table 2 - Risks with Current State of Financial Platform

Risk Category	Risk Ranking
Enterprise-Wide	The lack of access to timely and complete financial information exposes the City to the risk of making decisions based on incomplete or inaccurate information.
	Susceptibility of legacy platform to Cybersecurity attacks, security issues and external threats could result in information, data and IT platform being compromised (based on previous risks noted in prior Auditor General reports).
	Current IT platform may not support the City's evolving business needs and processes, impacting service delivery to residents.
	Internal controls may be circumvented, and policies and procedures may not be applied consistently across the City.
	Existing platform may not have the capacity or capability to continue operating without investment in enhanced versions and / or increased vendor support potentially resulting in platform inoperability, manual workarounds, and loss of data.
Operational	Current business processes and platform does not allow for timely closing of the City's financial information on a monthly basis; this current state is inconsistent with leading practices in financial management for organizations of similar size (i.e. \$13 billion operating budget).
	The City is not able to provide validated monthly or quarterly actual spending to compare against budgets.

The absence of robust financial information impedes the delivery of the City's other Corporate Strategic Priorities, and introduces further risk related to transparency and accountability in the decision making process. The uncertainty around the ability to demonstrate the City's fiscal sustainability also degrades the City's investment and business climate and puts socio-economic achievement of City residents at risk.

While City staff are managing under the current platform, there is a need to implement changes to better align the City with modern financial business processes and technology.

Future State

The Financial Systems Transformation Program (FSTP) is a response to the City's need to undergo a financial transformation, enabled by modern technologies that will meet current and future business needs. This includes standardizing finance processes,

modernizing its finance service operating model, and streamlining the underlying financial platform to ensure consistent access to timely financial information in an efficient and effective system. This plan includes:

- Comprehensive modernization of City business processes and service delivery, freeing up staff and resources to be invested in other City priorities.
- Best-in-class software choice and service strategy of SAP S/4HANA platform, consistent with the City's Technology strategy transitioning to modernized cloud services and City's SAP First Policy.
- Robust competitive procurement process to secure a world-class system integrator supplier to transform business processes and implement the new software.
- Innovative contract structure, such as a "fees at risk" mechanism based on performance, to minimize risk and hold the supplier accountable for successful delivery.
- Active risk management of the FSTP throughout implementation in accordance with current implementation leading practices. To mitigate risks related to cost overruns and delay and enable the successful delivery of FSTP, the City will be moving forward with an open competitive procurement for an Active Risk Management Advisor for the program.

Benefits of the Program

Anticipated benefits once the finance transformation and platform are implemented in 2023 include:

- A single authoritative source of financial information through streamlined end-to-end processes and integrated platform to support decision making.
- Reduction of manual processes to allow for timely and accurate reporting and provide access to consistent, accurate City-wide financial information through quarterly and monthly financial reports.
- Standardized accounting structure through a redesigned Chart of Accounts.
- Stronger governance of key financial processes through a centralized repository of financial policies.
- A reliable, automated, and robust financial platform enabled by modernized technology that acts as a key enabler of digital work in a post-COVID environment.

An integrated financial platform will provide the City with timely, reliable information to aid in making informed financial decisions and effectively manage resources in the future. City staff continue to fully develop a cost and benefits model for the FSTP to quantify in detail expected efficiencies and benefits. The finalization of the model will be completed at the end of Phase 1, Business Transformation and Technology Solution Design Phase. The City and Supplier will be able to quantify the final costs and benefits from the redesigned finance business processes, refined future target state finance operating model, and the finalized solution design and technical architecture for the S/4 HANA platform at that time. Preliminary analysis indicates that the FSTP will have a substantial impact on the City's overall finances with a payback period ranging between 5 and 8 years based on cost and benefit data currently available.

By improving the City's financial processes and enterprise-wide financial platform, it is anticipated that the FSTP can deliver:

- Operational benefits – There are significant expected benefits of releasing staff capacity from currently manual, transactional processes. Automating and standardizing these processes will allow staff to focus on analytical and management reporting. Leveraging S/4 to its full capacity, and bringing in financial processes, are expected to result in IT cost savings and avoidance. Based on the City's baseline review of the current network of auxiliary systems, 21 systems were identified that could be integrated into the S4/HANA platform as they currently perform duplicate functions to the core financial platform. Additional review will need to be conducted by the system integrator Supplier; as a result, the estimated savings is subject to change.
- Qualitative benefits – simplifying processes are expected to improve staff engagement, result in higher quality management and statutory reporting and enable future transitions to service-based, multi-year budgeting as part of the Budget Modernization work as well as other key Financial Sustainability initiatives.
- Efficiencies in financial management - Improving the quality and availability of information allows the City to more efficiently plan for revenue and allocate expenditures annually. This includes managing operating and capital budget allocations more effectively, with less uncertainty and contingency built into the process. With faster access to real time information, the City will be also be able to readjust resources during the year to respond to service level demands.

Greater Confidence and Accountability

Overall, FSTP will enhance trust and confidence within the City. In addition to the benefits to the organization, there are various stakeholder groups that will experience targeted benefits through the financial transformation work:

- **City Council** – enhanced understanding of the City's financial position through a single-source of accurate information, timeliness of financial reporting, and improved reporting on the efficiency and effectiveness of City policies, programs, investments and services; also enhances Council's ability to deliberate, set, monitor, and achieve fiscal objectives.
- **Toronto Public Service** – enhanced understanding of policy, program, investment or service financial performance; enhanced evidence-based information allows for better management decisions that are responsive to service needs; and better advice to Council contributes to overall efficiency and effectiveness of City's fiscal performance.
- **Residents / Public** – enhanced transparency of how City services are funded and delivered, and outcomes are achieved; enhanced transparency and understanding of how taxes / rates are determined and invested in the delivery of City policies, programs, investments and services; may also impact residents' civic participation including their roles as community members and voters.

The Procurement Approach

As large scale financial transformation programs are complex and a significant undertaking for an organization outside of its regular operations, the City engaged the expertise of a Specialized Procurement and System Integrator Advisor, Ernst and Young LLP ("EY"), prior to the development of the procurement documents to ensure the procurement strategy and approach were built to mitigate common risks associated with these complex programs.

A team comprising of staff from Accounting Services Division, Technology Services Division, Office of the Chief Information Security Officer, Purchasing and Materials Management Division, Internal Audit, Insurance and Risk Management and EY, with support from Legal Services, developed the NRFP for Financial Systems Transformation. The team relied on several different inputs to understand industry key finance, technology and procurement leading practices, trends, challenges, innovation and new technologies with the aim to develop a procurement strategy that would allow the City to identify a partner to enable its financial transformation work.

A NRFP was chosen as the procurement vehicle to ensure there was an opportunity to come to a common understanding and align objectives between the City and the selected proponent at the end of the evaluation process, during the Negotiations Process. As part of the NRFP and to ensure cost certainty as part of the pricing approach, the City required a fixed fee contract for Phase 1, Design Phase. The NRFP also included a Joint Solution Design (JSD) evaluation process in place of traditional oral evaluations for the final evaluation step. This was used to address a major risk area of system implementations, business process redesign.

The scope of work that the System Integrator will provide is broken into three phases as follows:

- Phase 1: Conduct a Business Transformation and Technology Solution Design Phase to redesign finance business processes, refine a future target state finance operating model, gather detailed requirements, and define the solution design and technical architecture for S/4 HANA platform required to enable these business processes.
- Phase 2: Implement the proposed S/4 HANA platform, as part of the Build to Deploy Phase; and
- Phase 3: Support the City as part of the Post-Implementation Support Phase

At the end of Phase 1, Design Phase, the supplier will document any changes in the scope and assumptions which may impact the timeline or price of Phase 2, Build to Deploy Phase and Phase 3, Post-Implementation Support Phase. The supplier will provide a revised timeline and fee estimate for Phase 2 and 3, at which point the City will evaluate the design and refined price prior to making a decision on whether to proceed with the supplier to Phase 2. The contingency included as part of the award amount would be used to address potential scope adjustments and additional services that would be required at this stage. The City has the right to choose whether to proceed with the supplier or to retender the subsequent work after the first phase of the program, Business Transformation and Technology Solution Design Phase ("Phase 1,

or Design Phase") if it is not satisfied with the supplier's performance, or the revised assumptions around timeline and / or price for Phase 2 and 3. This built in "off-ramp" ensures the City is not locked into a long-term contractual agreement.

Ensuring an Open, Fair and Transparent Process

The following steps were taken to ensure an open, fair, and transparent procurement process:

- The City procured a third-party Fairness Monitor from MNP LLP to review and monitor the procurement process to ensure the openness, fairness, consistency and transparency of the communication, evaluation, and decision-making processes. This included reviewing and monitoring communications and evaluations (including participating in the Joint Solution Design oral evaluation process and consensus meetings) and the review of the draft and finalized published documents (including evaluation matrix, etc.). While the Fairness Monitor was not involved in the development and issuance of the NRFP document and conduct of the pre-bid meeting, they did review the materials prepared by the City in this stage. MNP LLP has produced a fairness report attesting to the fairness of the process (see Attachment 1).
- A comprehensive evaluation team was chosen to evaluate the proposals, with representation from all service areas across the organization including business, technology and operational areas.
- Engagement and consultation with service areas throughout the procurement process including workshops to confirm the scope during the RFP preparation stage, assembling a diverse evaluation team, City staff participation from divisions as part of the Joint Solutions Design oral evaluations, and subject matter experts as part of the negotiations process.

Evaluation of Negotiated Request for Proposal (NRFP) Document Number 2481086143 Submissions

A Notice of Intended Procurement was issued on June 23, 2020 to impacted vendors to inform them of the upcoming release of a finance transformation NRFP and provide them with an engagement opportunity.

The NRFP No. 3405-20-0131 (Ariba Doc 2481086143) for the provision of system integrator services to enable the City's financial systems transformation was issued on June 29, 2020, and made available to download electronically through the City's online electronic bidding system.

A pre-bid information meeting was held on July 16, 2020 to provide additional background to the vendor community and to address questions on the RFP. Responses to over 350 questions were provided through five addenda which were issued in late July and early August 2020.

The NRFP was on the market for seven and one-half (7.5) weeks, after a one and one-half (1.5) week extension was granted. The deadline for submissions was August 19,

2020. The City received responses from the following five (5) proponents at the submission deadline:

- Accenture Inc.
- Deloitte, Inc.
- EPI-USE America, Inc.
- HCL Canada Inc.
- Infosys Public Services, Inc.

The evaluation of the FSTP NRFP was divided into five stages, with the second stage further divided into two sub-stages.

Stage 1: Mandatory Submission Requirements
Stage 2: Rated Criteria Evaluation
Stage 3: Pricing Evaluation
Stage 4: Joint Solutions Design Process
Stage 5: Contract Negotiations

A formal evaluation panel was established in August 2020 to complete Stages 1 to 4 of the evaluation process. Stage 2 of the evaluations began in late August 2020, with evaluation of Stage 4 completed in November 2020.

Stage 1 Mandatory Submission Requirements

In accordance with the NRFP, each proponent was required to submit by the closing time through the City's online procurement system, the Bid Submission Form, Pricing Form, and response to the components of the NRFP. All five (5) proponents met the mandatory requirements and advanced to Stage 2 of the evaluation process.

Stage 2 Rated Criteria Evaluation

The second stage had two sub-stages, consisting of:

- Stage 2A - Organizational Capabilities and References (based on rated criteria)
- Stage 2B - Solution Approach (based on rated criteria)

Each proponent's proposal was evaluated against non-price related criteria. Stage 2A included a review and evaluation of organizational capabilities and references and was scored out of 30 points. Proponents were required to receive a minimum passing score of 18/30 points or 60 per cent to proceed to Stage 2B - Solution Approach. Only the following two (2) proponents met the minimum passing score:

- Accenture Inc.
- Deloitte, Inc.

For Stage 2B - Solution Approach, each proponent's proposal was evaluated against non-price rated criteria. This included a review and evaluation of the solution approach, consisting of methodology, approach, tools and enablers and team capabilities and was

scored out of 70 points. Proponents were required to receive a minimum passing score of 42/70 points or 60 percent to proceed to Stage 3. Both proponents met the minimum passing score.

Stage 3 Pricing Evaluation

In Stage 3 - Pricing Evaluation, the cost of services envelopes were opened for the two (2) proponents. Stage 3 evaluated pricing and consisted of scoring the submitted pricing proposals from the qualified proponents from Stage 2B. Pricing was evaluated in accordance with the price evaluation methodology as set out in the NRFP. There were no minimum thresholds for Stage 3 Pricing Evaluation.

Both proponents were invited to move on to Stage 4 Joint Solution Design Phase. Scores were reset to zero at this point.

Stage 4 Joint Solution Design

The final evaluation stage saw the two highest scoring proponents invited to showcase their process improvement approach on a real-life City financial process within a multi-day workshop environment. Proponents were expected to:

- demonstrate how their proposal will meet the City's desired outcomes related to quality and timelines
- demonstrate their transformational approach to process redesign, standardization, requirements gathering and benefit maximization, including an understanding of the people and organizational impacts that may be related to process redesign
- demonstrate how they will help the City implement leading practice process based on standard S/4HANA configuration and assist the City in achieving its objective of zero/minimal customizations
- demonstrate the effectiveness of any tools / accelerators associated with the design phase they have proposed
- present outputs from their work for the City to review

City staff were able to "test drive" the Proponent's capabilities in finance transformation. This ensured that proponents demonstrated their capabilities to work with City staff to transform business processes, fit within standard SAP functionality and minimize customizations to the financial software.

The City evaluated each proponent in accordance with the criteria established in the NRFP. Following evaluation of the JSD process, Deloitte, Inc. was identified as the top ranked proponent and therefore proceeded to Stage 5 Contract Negotiations.

Stage 5 Contract Negotiations

Negotiations with the top-ranked proponent, Deloitte, Inc. began on November 30, 2020 and concluded on February 26, 2021. Negotiations were led by the City's Negotiation Lead Lucia Lau, in conjunction with Legal Services and external legal counsel retained to assist on the Program. Key negotiated outcomes for the City include:

- The City and Deloitte, Inc. agreed that the second phase of the program, Build to Deploy Phase, would also be on a fixed fee basis to ensure cost certainty for the City.
- To ensure a transfer of risk and rewards, the City and Deloitte, Inc. agreed on a fees at risk approach, where a percentage of the supplier's fees will be held back from payment. These fees at risk would then be payable to the supplier when it has achieved agreed upon objectives based on the City's favourable assessment of the supplier's performance in alignment with the overall FSTP and Financial Sustainability objectives.
- A robust contract governance and dispute resolution section is included in the MSA to ensure proper administration and implementation of the agreement. This includes:
 - A detailed governance structure to manage the relationship between the City and Vendor, and to ensure performance of the obligations for both parties under the MSA, and SOW. The governance structure establishes and details the functions and responsibilities for the Joint Executive Committee, Joint Management Committee and the Program Management Team.
 - Certain operational protocols, including meeting attendance, meeting materials, minutes, and issues logs.
 - Process and timelines that will be followed in the management of the relationship between the City and the Vendor. This includes a detailed dispute resolution process outlining the process and timelines for the internal escalation and resolution of any disputes that may arise.

Award of Contract

The terms and conditions of the NRFP process do not form a legally binding agreement until such time the agreement is fully executed after obtaining approval from General Government and Licensing Committee to award the contract. As a result, City staff are seeking authority to award and enter into an agreement with the recommended proponent, Deloitte, Inc. as the top-ranked proponent meeting the requirements set out in the NRFP.

The total potential value of the award over three (3) years is \$44,035,968 net of all taxes and charges (\$44,811,001 net of Harmonized Sales Tax recoveries). This is inclusive of a contingency to address potential scope adjustments and additional services that may be required and confirmed once the supplier has completed Phase 1, the Business Transformation and Technology Solution Design Phase, of the program.

The proponents' scores and staff analysis of the evaluation results can be provided to Members of Council in an in-camera presentation if requested by Members of Council.

Fair Wage Office Review

At the conclusion of the procurement process, the Fair Wage Office confirmed that the recommended proponent indicated agreement to comply with the Fair Wage Policy.

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SIGNATURE

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ATTACHMENTS

Attachment 1 - Fairness Report from MNP LLP, Financial Systems Transformation