

**BOARD OF SUPERVISORS
FINANCE/GOVERNMENT OPERATIONS and ECONOMIC DEVELOPMENT
COMMITTEE
INFORMATION ITEM**

SUBJECT: Monthly Report/Implementation of the Enterprise Resource Planning (ERP) Project

ELECTION DISTRICT: Countywide

STAFF CONTACTS: John Sandy, County Administration
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Wendy Wickens, Information Technology
Penny Newquist, Finance and Procurement
Vince Marchesano, Vivad Technologies, LLC

PURPOSE: To provide an update on the status of the County's Enterprise Resource Planning (ERP) system implementation.

BACKGROUND: The Loudoun County Government and Loudoun County Public Schools (LCPS) began implementation of a new Enterprise Resource Planning (ERP) Commercial Off The Shelf (COTS) system in January 2012 as part of a larger program to replace three core financial systems [i.e., ERP, Computer Aided Mass Appraisal (CAMA), and Integrated Tax Revenue (ITR)]. This action was based on an independent assessment of the County's legacy financial, human resources and taxation systems, as well as the future replacement of those systems.

In November 2008, Digicon Corporation completed the assessment and concluded that when the County acquired its current systems, more than 20 years ago, the functions and features provided, and the architecture upon which they were built (IBM), met the County's business and budgetary requirements. However, over the years, the technology exceeded its useful lifecycle, and operations and support was proving to be increasingly complex and difficult to maintain. Digicon recommended the County consider implementing a state-of-the-art ERP system to improve business and operational efficiency, which also would meet the demands for information in a more reliable and timely manner, with requisite quality and accuracy. More specifically, Digicon concluded and recommended:

"At this point, the batch interfaces of current systems have become so numerous and complex that users report processing errors as a frequent problem. Architectural constraints also make it difficult to interface these systems with modern web-based

applications. Most of the systems have little or no technical documentation and must rely on the experience of support staff that is fast approaching retirement age.

The current system architecture has not been widely employed for nearly two decades; therefore, the skills necessary to support these systems are not readily available in the open market. Most importantly, the users of these systems have unequivocally stated that the systems are not supporting current business processes without “Herculean” efforts by staff members such as manual workarounds using MS Access databases and MS Excel spreadsheets.

The general findings indicate that the current Financial, Human Resources, and Tax Revenue business systems being employed by the County should be replaced by ERP and other COTS systems. Digicon recommends that the Tax Revenue systems be replaced first, followed by the Financial system, and lastly the Human Resources systems.

The remainder of FY09 should be devoted to creating and publishing an RFP (Request for Proposal), selecting the appropriate replacement systems, and planning a multi-year implementation schedule to minimize the financial impact to the County’s budget in any one year.”

Per the Digicon assessment, the County released a single RFP to include acquisition of all three systems, allowing vendors to propose any combination of system solutions. A Proposal Analysis Group (PAG) was formed to assess each system (CAMA, ITR, and ERP), and actively participated in proposal reviews, product demonstrations, and Questions and Answers sessions with each vendor. The PAGs provided unbiased scoring for each of the vendors in the following categories:

- Experience/Qualifications
- Implementation Strategy
- Ability to Meet Non-Baseline Requirements
**Note: Per the RFP, vendor proposals must address all baseline (mandatory business) requirements, and preference would be given to vendor proposals that also addressed non-baselined (nice-to-have) requirements.*
- Response to RFP Section 4.0
**Note: Per the RFP, vendor proposals must identify the commercial-off-the-shelf (COTS) product (e.g. Oracle EBS, SAP, Lawson, etc.), as well as how the proposed COTS product would meet Loudoun’s baseline requirements.*
- Compliance with Loudoun’s Terms and Conditions
- Warranties
- References
- Technical Architecture
- Cost

Based on final scores and Best and Final Offers (BAFOs) from the selected vendors, the PAG recommended selection of the following vendors:

- **CAMA:** Tyler Technologies
**Note: The Board of Supervisors (the Board) authorized award on February 14, 2011 in an amount not to exceed \$1,898,800.*
- **ITR:** PCI
**Note: The Board authorized award on July 19, 2011 in the amount of \$4,234,259.*
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- **ERP:** Applications Software Technology Corporation (AST) Corporation/Oracle
**Note: See details below.*

On November 2, 2011, the Board authorized the negotiation of a contract not to exceed \$21,050,064 to implement ORACLE EBS (eBusiness Suite) as the ERP System for Loudoun County Government and LCPS, The contract was awarded to AST, a Platinum Oracle partner, which included the Oracle EBS licensed software and implementation services for the ERP system in three phases, each of which are detailed below.

- **Phase 1: Financials, Procurement, Grants and Document Management**
 - *Duration:* January 2012 – July 1, 2013
 - *Status:* COMPLETE
 - *Modules:* General Ledger, Accounts Payables, Accounts Receivables, Fixed Assets, Purchasing, Cash Management, Projects/Grants, and Hyperion Budgeting, iProcurement, iExpense, Inventory & Document Management Integration.
- **Phase 2: Human Capital Management (HCM) Applications**
 - *Duration:* January 2014 – TBD – missed last three planned finish dates
 - *Status:* PAUSED
 - *Modules:* HR, Self Service HR, Advanced Benefits, Payroll, Oracle Time and Labor, Self Service Human Resources, iRecruitment, Learning Management, Performance Management, Compensation Workbench & Document Management Integration
- **Phase 3: Advanced Procurement**
 - *Duration:* November 2013 – May 2014
 - *Status:* COMPLETE
 - *Modules:* iSupplier, Procurement Contracts, Services Procurement, Sourcing & Document Management Integration

On December 4, 2013, the Board appropriated an additional \$9,160,925 to the capital project budget (ERP Implementation Contingency), which was used to complete outstanding items for Phase 1, and to provide additional resources to complete Phase 2. Not all funds have been expended to date. An additional 7.00 FTEs were added to the Department of Information Technology (DIT) and the former Department of Management and Financial Services' Finance

and Budget Divisions, to provide needed system support. In December 2015, the Board appropriated an additional \$1,500,000 from the FY 2015 fund balance to complete the Phase 2 implementation, bringing the ERP capital budget to \$32,228,494. It should be noted that this amount does not include budgeted contracted project management services, which totals \$3,465,848. Expenses for consulting and other technical support through Fiscal year 2016 not in the project budget are \$1,595,771.

ISSUES: This item provides a monthly update from the Department of Finance and Procurement (DFP) and DIT on the implementation of the ERP system.

The Program Manager, Vince Marchesano, and County staff will be present to discuss details and answer questions.

AST Contract Information

Loudoun County entered into a firm fixed price contract with AST to implement an ERP solution. It was determined during contract negotiations that payment would be deliverable-based. The County interests are protected with regard to AST's contract for implementation services as per a performance bond in the amount of \$11,290,720, which represented the value of the AST contract at that time. Unlike construction initiatives, for which completion of work is solely managed and executed per the discretion of the contractor, software implementations such as this require a collaborative partnership between customer and vendor—that is, both parties manage and execute significant and interconnected portions of the project. Due to the interdependent nature of the work, liquidated damages were not included in the contract terms. However, either party may seek remedy for actual damages, if incurred.

In addition, Loudoun withholds a 20 percent retainage (\$995,401 has been withheld to date) from each deliverable payment, of which, 15 percent is released to AST upon Loudoun's final acceptance of each project phase. The remaining 5 percent will be released upon Loudoun's final acceptance of the overall system, which includes settlement of all outstanding change orders and/or claims.

Phase 2 - Human Resources and Payroll

The Phase 2 implementation began in January 2014, however, after failing to meet three different planned go-live dates (i.e. March 2015, June 2015, and September 2015), AST was notified in August 2015 that they were in material breach of the contract. To move the project forward, AST and Loudoun collaboratively defined a different approach to successfully implement a fully functioning system. However, due to continued issues and missed critical path and milestone dates, Loudoun notified AST on November 6, 2015 that the project is being placed on hold until an acceptable cure plan is in place to address all outstanding issues.

AST and County executives met on November 13, 2015, and again on December 15, 2015, to discuss the path moving forward, and both parties are actively working towards a solution to successfully complete the project. The County also engaged Oracle Consulting and Sales in October 2015 to assess the overall "health" of the project, from which it was determined that the

solution built to date has overly complex and unnecessary configurations. The County has further retained Oracle Consulting to conduct a comprehensive assessment of the Phase 2 solution using the standard Oracle Unified Method (Oracle's methodology for deploying Oracle-based business solutions) to determine if AST's designs were optimal for Loudoun's requirements (leveraging out-of-the-box functionality where possible), as well as to define what it will take to implement a fully functional system that meets Loudoun's requirements. This five week effort is scheduled to commence on January 11, 2016, and the objective is to define the scope of work for the Phase 2 restart and implementation, including any requisite technical upgrades.

FISCAL IMPACT: All ERP Implementation Funds have been released, however, the remaining balance of funds has not been fully expended. An estimated \$6.8 million of funding remains available in the budget. It also should be noted that the ERP Implementation includes \$3.5 million for Post Go Live Support. Further, the cost to complete the implementation will be determined pending completion of the Oracle assessment, and payment terms are being addressed per the ongoing contractual discussions between AST and the County.