



**City of Kingston
Report to Council
Report Number 15-019**

To: Mayor and Members of Council
From: Desiree Kennedy, Chief Financial Officer and City Treasurer
Resource Staff: Stephen Dickey, Director of Financial Services
David Johnston, Chief Information Officer
Date of Meeting: December 16, 2014
Subject: Award of Contract – Financial Management System

Executive Summary:

During the 2014 Capital Budget deliberations in November, 2013, Council approved the replacement of the City's current Financial Management System (FMS), noting that the existing solution, which had been acquired following amalgamation approximately 15 years ago to address the City's expanded information processing needs at that time, was no longer cost effective nor meeting the City's current and future needs.

A new FMS is strongly linked to the City's strategic goals of continuous improvement and risk management, with an emphasis on leveraging information technology and integrated systems to achieve sustainable, effective and efficient financial business processes. Replacing the current system at this time will result in measureable and realizable efficiencies that will reduce the time and effort spent on financial administrative processing, ensuring more resources can be dedicated to core business activities and service delivery.

The purpose of this report is to seek Council approval to award a contract to Tyler Technologies Inc. to implement Microsoft Dynamics AX as the City's new Financial Management System, replacing the legacy Oracle PeopleSoft Financials.

The submission from Tyler Technologies Inc. for the Microsoft Dynamics AX system received the highest ranking and demonstrated the highest overall value and best fit to the City's envisioned solution for a Financial Management System that would be utilized by staff to manage financial administration supported by an automated purchasing system, integrated financial reporting and a multi-year capital project system.

In accordance with By-law 2000-134, A By-Law to Establish Purchasing Policies and Procedures, City Council approval is required to award a contract that will exceed \$50,000 where the successful proponent was not the lowest price.

Recommendation:

That the contract for the Financial Management System (FMS) be awarded to Tyler Technologies Inc. to implement and support Phase 1 of a new financial management system at a cost not to exceed \$1,300,000 excluding HST;

That Tyler Technologies Inc. be confirmed as a “vendor of record” for the purpose of acquiring additional FMS user licenses, software modules and implementation services to expand the capability of the FMS in City departments and Utilities Kingston;

That annual software support and maintenance expenses for year two and onward estimated at \$113,825 plus annual increases, be included in future operating budgets;

That Council authorize the Mayor and Clerk to execute the Phase 1 contract for software and implementation services with Tyler Technologies Inc. for the provision of a Financial Management System in a form satisfactory to the Director of Legal Services;

That Council authorize the Mayor and Clerk to execute subsequent contracts with Tyler Technologies Inc. for additional software modules and implementation services, as recommended by the Chief Information Office (CIO), subject to budget approval and in a form satisfactory to the Director of Legal Services; and

That the Chief Information Officer (CIO) be delegated authority to enter into and execute related maintenance and support agreements with Tyler Technologies, subject to annual review and in a form satisfactory to the Director of Legal Services.

Authorizing Signatures:

ORIGINAL SIGNED BY DIRECTOR OF FINANCIAL SERVICES

**Desiree Kennedy, Chief Financial Officer
and City Treasurer**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Commissioners:

Lanie Hurdle, Community Services	Not required
Cynthia Beach, Corporate & Strategic Initiatives	Not required
Denis Leger, Transportation, Facilities & Emergency Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required

Options/Discussion:

The City and Utilities Kingston have combined annual operating and capital budgets of more than \$500 million. Ensuring that the corporation's finances and assets are managed in accordance with the requirements of the regulatory and statutory requirements requires a robust and secure enterprise-wide solution. In addition, the underlying financial processes must be efficient and effective, providing key financial information and indicators of performance to inform decision-making by senior management, departments and Council.

Following amalgamation in 1998, the City acquired the PeopleSoft Enterprise Resource Planning (ERP) suite of applications to support financial and human resource information processing and administration. At that time, there were limited choices for a municipality of Kingston's size, and the available solutions were expensive to acquire, maintain, and support.

Today, there are alternative choices for small to medium size municipalities, and throughout Ontario many are replacing or reconsidering the larger ERP suites in favour of less expensive and more flexible solutions.

In 2010, the City conducted a detailed, independent analysis of the effectiveness of its PeopleSoft implementation. Specific issues which were identified include:

- **Information is hard to access and share because the City currently uses many disparate systems.** In addition to PeopleSoft Financials, the City currently uses Excel, Access databases and stand-alone systems to track and manage financial data that could be accounted for within an integrated and centralized Financial Management System. The resulting data is not always timely and manual data processes, including moving data from one source to another, increases the risk of error.
- **It is costly and inefficient for employees to perform a significant amount of their work using manual processes.** Approximately 125 manual processes have been identified as workaround solutions or to augment the functionalities of the existing Financial Management System.
- **The existing systems do not adequately support decision making within operations;** information is not always timely, easily accessible in flexible formats, in the right contexts for promoting process efficiency, process management, problem awareness\solving, collaboration and exploration\discovery.
- **Lack of automated audit trails.** A key element in ensuring data integrity is the ability to generate a complete audit trail of all changes made to data, including the "who", "what", "when" and "where" of each change, regardless of where the change originated. Automation of existing manual processes will facilitate and streamline auditing of data changes and related controls.

- **Work processes need to be improved.** Many of the current business processes are inefficient due to a lack of automation. In addition, self service capabilities are limited.
- **User Acceptance and Confidence in the system is low.** Users perceive the corporate system to be difficult to use and lack key features (e.g., commitment accounting).
- **The current system is not a good fit for the City.** Given the City of Kingston's size as a single tiered organization, the City requires a system that is manageable, requires reasonable investment to maintain and has a progressive licensing scheme.

Since 2010, staff have considered a number of options and scenarios, including a) the status quo, b) implementing additional PeopleSoft functionality, and c) completely re-implementing or replacing some or all of the current system. Staff concluded that the latter option, focusing initially only on replacing PeopleSoft Financials, was in the best long-term interests of the City at this time, offering the optimum realization of benefits/return on investment and payback, given the anticipated implementation costs, internal resource capacity and organizational change management impact.

In parallel with this planning work, the City has invested significant time and effort addressing "quick hits" and opportunities to reduce inefficiencies in current processes, and has seen modest success in financial process changes and additional roll out of PeopleSoft functionality. However, without further new investment in technology, supported by optimized, "best practice" processes, achieving the City's goals and objectives and full benefits of a corporate financial solution will be very difficult to achieve.

It is anticipated that the proposed solution will not only enable the City to improve the administrative efficiency of the organization by simplifying, standardizing and expanding the automation of financial processes, but also improve internal and external client satisfaction through a user-friendly, secure, robust and reliable solution.

Financial Management System Requirements

The business and technical requirements for a new FMS have been developed and documented in large part through the 2010 analysis, as well as subsequent consultation with stakeholder groups. The solution must be able to meet all statutory and regulatory requirements of the City of Kingston, Utilities Kingston and Kingston Hydro, as well as handle the financial processing and administration requirements of all service areas.

Core financial components of the FMS have been defined to include the following:

Phase 1(\$1,300,000)

- General Ledger
- Accounts Payable

- Materials Management (Inventory)
- Procurement
- Reporting (internal and external)
- Financial Statements

With an expected useful life of at least 10 to 15 years, the Phase I cost of the system equates to an annual amortized cost of approximately \$100,000.

Phase 2 (\$700,000)

- Project Costing (minimal implementation in phase1)
- Budgeting
- Accounts Receivable & Billing
- Fixed Asset
- Cash Management

Implementing a new Financial Management Solution will have significant impacts on the current manual and automated processes, and requires external assistance and an implementation partner/systems integrator with a strong understanding of the City's requirements and industry best practices and the proposed solution, combined with significant project and change management expertise and experience.

In order to maximize the benefits of a new solution, while managing the anticipated organizational change impacts, the deployment of a new FMS will address all of the above core components, over a 3 – 4 year phase-in:

- Phase 1 includes General Ledger, Accounts Payable, Materials Management (Inventory), Procurement and Reporting
- Phase 2 includes Budgeting, Project Costing, Accounts Receivable & Billing, Fixed Asset and Cash Management

The project is expected to eliminate manual and duplicate processing, achieve procurement efficiencies/savings, and allow the City to re-deploy hours of non-value added work.

The scope of work includes professional services for the delivery and installation of the FMS solutions, as well as providing change management support, user training and on-going business and technical support.

Financial Management System Selection

On May 28, 2014 the City issued Request for Proposal F31-CT-IS&T-2014-01 (RFP) to acquire a new Financial Management System.

The RFP closed on June 15th and seven qualified submissions were received from:

1. Illumiti, Inc. (SAP, ALL in One)
2. Diamond Municipal Solutions, Inc. (Microsoft Dynamics GP)
3. IBM Canada, Ltd (Microsoft Dynamics AX)
4. Tyler Technologies, Inc. (Microsoft Dynamics AX)
5. Unit4 Business Software (Agresso)
6. FreeBalance, Inc. (FreeBalance Accountability Suite)
7. BDO Canada, LLP (Microsoft Dynamics GP)
8. Mid-Range Software Services, Inc. (Oracle JD Edwards)

An evaluation team comprised of representatives from the City (Financial Services and Information Systems & Technology) and Utilities Kingston (Financial Services) was established to evaluate the submissions utilizing the evaluation criteria outlined in the RFP. A Steering Committee chaired by the Chief Information Officer, and comprised of the Chief Financial Officer and City Treasurer, the Directors of Financial Services and Human Resources & Organizational Development and the CFO of Utilities Kingston provided oversight and direction to the evaluation team. A representative from Purchasing was included during the evaluations to provide guidance and ensure compliance with the purchasing by-law.

A two-stage evaluation process was used to select the recommended proponent. In the first stage, the evaluation team reviewed submissions for compliance with the City's mandatory and rated requirements to identify a short-list of five (5) Proponents for further evaluation. The second stage of the review consisted of reference checks and demonstrations by each Proponent to the evaluation team and a panel of potential users, stakeholders and IS&T staff. The evaluation team then reviewed the scores from Stage 1 and made revisions where applicable based on the results of the demonstration and findings from the reference checks. Recommendations from the evaluation team were reviewed and approved by the Steering Committee.

The following table provides a breakdown of criteria and weight applied in the evaluation of proposals.

Criteria	Weight
Functionality, Capability and Fit	42%
Company Profile, Key Personnel, Experience & Client References	10%
Project Execution Methodology and Plan	20%
Financial Proposal	25%
Accessibility Considerations	3%

The evaluation team determined Tyler Technologies' proposed implementation of Microsoft Dynamics AX and Tyler's proprietary "Insight" extension for Dynamics AX to be the top-ranked solution. Tyler demonstrated that the proposed core system (Dynamics AX) met or exceeded all essential capabilities and requirements of the RFP but differentiated itself from the other Proponents with specific functionality for public sector organizations including the need to ensure strict fund management and reporting compliance for regulatory organizations and a very strong implementation team, approach and realistic plan.

Through Tyler "Insight", the proposed solution provides extended functionality above and beyond the core Dynamics AX product that includes document management, payment card processing and custom reports.

Dynamics AX is Microsoft's flagship business application platform for local government, targeted at the small to medium business market. Dynamics is currently in use in over 19,000 companies worldwide and supported by heavy levels of research and development in key areas including integrated workflow, business intelligence, role-based security and mobility.

Dynamics AX is a scalable product that can grow with the City's planned increased use of the system and its functionality, as well as strengths in leveraging mobile technologies and integrating with existing corporate systems. Some key attributes include:

- Critical functionality required to achieved process optimization, accountability, transparency, and performance targets (e.g. distributed purchasing, commitment based accounting, real-time transaction posting);
- Flexible and adaptable platform that will support evolving business demands and increasing levels of process optimization;
- Familiar Microsoft product structure, easy-to-learn, easy-to-use, web based user interface that will promote user adoption, satisfaction, and sustained use and ease the transition from the current system for existing and new users;
- Standards-based robust technology that is well supported, well used and continually enhanced;
- Strong integration with other commonly used Microsoft products (e.g. Excel) to provide users with the ability to use information in tools they are familiar with;
- Accelerates production information sharing through vendor self-services, multiple-business collaboration, and an easy-to-use employee portal that is also accessible from mobile devices.

In contrast with many of the other proposed solutions (including the current PeopleSoft Financials) which are highly modularized and priced accordingly, Dynamics AX solution includes all the functionality required by the City in a single, fully integrated product. This is an important consideration as the City plans to extend the solution and implement new capabilities over the next few years.

Tyler Technologies Inc. is a US-based company with revenues of \$400M and over 2600 employees and offices throughout North America, including Toronto. The company focuses exclusively on the public sector market, with more than 11,000 local government and education customers. Tyler has a strong partnership relationship with Microsoft, having heavily influenced and directly contributed to the direction/development of the product. Through its years of experience, Tyler has developed a strong, well optimized/streamlined, implementation approach that takes into account best practices in financial management, strong quality control, and integrated organizational change management.

Although Tyler has several Canadian public sector clients, this will be their first municipal implementation in Canada. Staff believe this risk is manageable - throughout the evaluation process Tyler demonstrated a strong understanding of municipal requirements and best practices, the majority of which are common to both Canadian and US organizations. Specific differences (e.g., HST) have been identified and Tyler will contractually commit to meeting these requirements.

Reference checks conducted by staff were extremely positive and confirmed a high level of customer satisfaction with Tyler's software solutions, implementation and support services, and a customer retention rate of more than 90%.

The Tyler proposal was not the lowest cost submission received, due in large part to their proposed implementation services and methodology. They clearly demonstrated an exceptional understanding of the importance of strong project and change management, as well as their commitment to ensuring that best practices in efficient processes and operations, gained from their experience with other customers, would be an integral component of the City's implementation process.

Existing Policy/By Law:

By-Law 2000-134, A By-Law to Establish Purchasing Policies and Procedures

Notice Provisions:

There are no notice provisions with this report

Accessibility Considerations:

None of the proponents demonstrated specific evidence of meeting the City's Accessibility Policy requirements within their proposal. However, Microsoft has demonstrated they are highly committed to accessibility technology and their office products and internet solutions will accommodate for persons with disabilities under applicable law for this specific project. As there may be integration points that users and constituents will be using to access the application, we have confirmed that the applications will comply with Web Content Accessibility Guidelines (WCAG) 2.0, Level A by 2014 and WCAG 2.0, Level AA by 2021.

Financial Considerations:

Sufficient funds exist for the Phase 1 software and implementation services in current Council-approved Information Systems & Technology Capital and Operating budgets. Funding for Phase 2 will be identified in the 2015 Capital budget.

Contacts:

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David Johnston, Chief Information Officer, Extension 1333

Other City of Kingston Staff Consulted:

Randy Murphy, CFO, Utilities Kingston

Angela Brown, Manager of Accounting

Stephen Skinner, Manager Corporate integration

Karen Matheson, Program Manager, IS&T

Debbie Donovan, Business Analyst, Financial Services

Janis Morrison, Purchasing Coordinator, Financial Services

Exhibits Attached:

None