DATE: **May 25, 2023**

FROM: **INFORMATION TECHNOLOGY DIVISION**

SUBJECT: **ORACLE ERP CLOUD MIGRATION - SCOPE, BUDGET, AND SCHEDULE CHANGE 2023**

SUMMARY:

On May 3, 2023, staff received Project Development Committee (PDC)'s approval to extend the Oracle Enterprise Resource Planning (ERP) Cloud project schedule that is currently in the Construction Phase. The implementation phase that originally was to be completed on June 30, 2023 will be extended for an additional 12 months with the revised construction completion date of June 30, 2024 for July 1, 2024 Go-Live. The total project changes will increase the overall capital budget from $15,978,720 to $28,595,134 and the operating budget from $10,936,577 to $11,405,757.

DISCUSSION:

Project Need:
The Oracle Enterprise Resource Planning (ERP) Cloud project is necessary for the Harbor Department to replace the current core, on premise financial business information system. Oracle ended standard Software maintenance and support for the current ERP system in December 2021, and it was decided to move to the Oracle Cloud ERP Project as opposed to upgrading the on premise Oracle System. This project will move the current system and provide solutions to challenges with the current system such as inadequate reporting capabilities, cumbersome user interfacing, labor intensive software maintenance, and inflexibilities to accommodate the Port's business process changes.

Project Scope:
The original project scope is to migrate the Department's on-premise Oracle EBS financial system to a new Oracle ERP Cloud system. These new cloud systems will allow for new, enhanced, and improved functionalities for various modules as outlined below:

- New Analytical, Reporting and Dashboards functionality; including the ability to use SmartView (MS Office integration) throughout the system;
- Streamlining monthly and annual close processes, including automated accruals;
- Leveraging Best Practices in Service Level Agreement (SLA) rules and validations;
- Automating budget book and other document creation through collaboration and workflow assignment for budget books and the Comprehensive Annual Financial Report (CAFR), which is facilitated by direct connections of reports and narratives to source data within ERP and the budget system;

- Automating the entire Source-to-Pay process, from creating purchasing requisitions to issuing checks;
- Improving internal process of ordering goods from the Warehouse managed by the Contracts & Purchasing Division;
- Enhancements to the Inventory and Contracts & Purchasing Modules;
- Automation of procurement process (electronic signature);
- Contract Management – MBE/WBE Tracking;
- Streamline invoice processing through invoice optical recognition functionality within Accounts Payable (AP) module;
- Implementing Oracle Digital Assistant to make it easy to submit expense items;
- Utilizing application reporting tools to build out the Schedule of Expenditures of Federal Awards (SEFA);
- Automatically accumulating project/grant-related transactions;
- Full project and grant reporting (e.g. inception to date reporting);
- Integrating with MaintStar System - C&M's Computerized Maintenance Management System (CMMS) to support the division's legacy, current, and future operations; and
- Implementing a data archive solution to ensure continuous access to historical/legacy finance data.

Cash, investment, and bond management will be managed in a separate cloud system called SymPro, as the Oracle Cloud ERP does not offer this functionality.

Project Scope Update:

The original Construction phase of the project timeline was to be completed within 12 months from the start of July 1, 2022 and planned Go-Live on July 1, 2023. After extensive review of various options, and to ensure the overall success of the project, the ERP Project Team has presented timeline extension recommendation to the Project Steering Committee and determined that the project should be extended with scope, and cost changes. Below is a summary of necessary scope changes with justifications:

- The Chart of Accounts (COA) is an essential and foundational element of an enterprise-wide system. The scope increase allows for extra time to perform deep dives into design decisions and validations so the Port's future redesigned COA will comply with the recommended leading practice and provide additional operational data to support staff and management in making business decisions.

- Conference Room Pilot (CRP) 1.2 testing event requiring an additional eight (8) weeks of configuration, testing and execution. Based on lessons learned from CPR1, CRP 1.2 includes verifying additional test scripts and validating all future state business models and value drivers.

- Additional five (5) weeks for Systems Integration Testing (SIT) to test the system, capture valuable user feedback. The added time is needed to complete integration unit testing, and to review SIT test scripts, scenarios, and configuration workbooks. After testing, additional time will allow for comprehensive remediation of issues, retesting, and system configuration updates based on testing results and user feedback.

- User Acceptance Testing (UAT) four (4) weeks extension to prepare and review test scripts with functional leads and end users who have not been involved in testing during SIT. Testing activities involve defect remediation, retesting, and configuration updates based on feedback.

- The total number of integrations is increasing by twenty-three (23) integrations from eighteen (18) to forty-one (41), as a result of business transformation and design decisions from the CRP 1 testing events, as well as various deep dive sessions. For example, new integrations with Oracle ERP Cloud systems include:

- o Computerized Maintenance Management System (MaintStar) to capture Work Order numbers, labor costs, inventory, assets and purchasing details;
- o Planet Bids, which handles all the sourcing activities for Construction, such as RFP, RFQ and RFI development, publishing, receiving bids from contractors, and awarding contractors. Once the contractor is selected and contract is near final the contract and contract lines need to integrate into Oracle Purchasing to create a purchase order to record the obligation of the contract against the adopted budget and capture the project. The negotiated contract will also need to integrate with Oracle for final workflow review/ approval and signed through DocuSign per the agreed direction with the City Attorney's office. This process follows the standards being implemented across POLA in regard to finalizing and record keeping of contracts.
- o Reginal Alliance Market Place (RAMP) on the latest information on contracts activities and Vendors attributes;
- o Project Information Control System (PICS) to capture project detail, budget data and Grant Project funding data;
- o City of Los Angeles Department Contract Filing System (DCFS) Contracts, to capture Purchase Order or agreement details;
- o City of Los Angeles Financial Management System (FMS) to exchange Account Payable transactions for the reconciliation process;
- o LATAX (City of Los Angeles, Office of Finance Business Tax Registration Certificate Record System) data check to determine if the vendor is onboarding to determine if payments can be sent to vendor; and
- o Construction Payment System (CPS) to capture Purchase Order (PO) information such as Schedule of Values and Billing Amount to create and match multiple PO lines.

- Full Planning and Budgeting Cloud Service (PBCS) implementation, and implementation of additional Enterprise Performance Management (EPM) functionalities to allow the consolidation of planning processes performed outside the system to be directly incorporated into EPM and ERP. Some examples of these processes include revenue modeling, Profit and Loss (P&L) allocation creation and reporting, expenditure plan management and reconciliation, detailed sub-divisional budgeting, and expense monitoring. The primary goal of the overall ERP/EPM project is to enhance connections between EPM and ERP through new, detailed Chart of Accounts (COA) segments and data transfers between ERP sub-ledgers and EPM components. The ability to extensively map and transfer data between ERP and EPM requires more extensive work than would have been allowable through a simple lift and shift as provided in the originally planned scope.

- Following the Vision Phase, CRP 1, and the completion of the Report Inventory deliverable, 40 additional custom reports were identified from the originally planned scope and will be developed.

Passed PDC Review:
- On December 2, 2020, PDC approved the project with a capital budget of $10,341,766 for 3 years to be completed on June 30, 2022.
- On November 3, 2021, PDC approved the revised construction completion date to be June 30, 2023. The project change increased the overall capital budget from $10,341,766 to $15,978,720.

Project Budget:
The proposed Capital project budget is $28,595,134. Of this amount, $25,314,460 is for consulting service costs; $3,251,022 is for POLA Labor; and $29,652 is for office equipment. The total proposed additional estimated increase of $12,616,414.

	Approved Estimated Cost	Amount Estimated Increase	Proposed Estimated Cost
Engineering In-House	$		$
Construction In-House	$		$
Environmental In-House	$		$
Construction & Maintenance In-House	$		$
Design Consultant	$		$
Environmental Consultant	$		$
Construction Management Consultant	$		$
Miscellaneous Professional Services	$		$
Construction Costs	$		$
Materials	$		$
Other	$ 15,978,720	$ 12,616,414	$ 28,595,134
Project Total	**$ 15,978,720**	**$ 12,616,414**	**$ 28,595,134**

Consultant Services Cost Breakdown:

Due to the project extension, below is the consultant services cost breakdown. The current approved cost is $13,515,822. The new estimated consultant service cost is $25,314,460; an increase amount of $11,798,638.

Item	Estimated Approved Cost	Amount Increase	Estimated Proposed Cost
Oracle ERP Cloud Implementation	$ 9,000,022	$ 9,240,332	$ 18,240,354
Staff Augmentation	$ 4,395,500	$ 2,558,306	$ 6,953,806
D&T SymPro	$ 120,300	$ 0	$ 120,300
Total Estimated Consultant Services Cost	**$ 13,515,822**	**$ 11,798,638**	**$ 25,314,460**

Project Schedule:

The ERP Project team recommends extending the Go-Live date from July 1, 2023 to July 1, 2024 to better accommodate the following:

- Based on lessons learned from CRP 1, the project team identified a need to revamp CRP 1 and re-test configurations. As a result, CRP 1.2 was designated as a 3-week testing event, allowing for 5 weeks of prep time for review and validation of the Target Operating Model (TOM), validation of work and process flows developed in the Architecture of Integrated Information Systems (ARIS), validation of test scripts and smoke testing prior to the CRP event. The event will involve review of test scripts by POLA business users to allow for meaningful configuration testing prior to moving into CRP 2 / SIT. There were over 40 additional scripts identified for testing in CRP 1.2.

  The CRP 1.2 testing event will provide added benefit to POLA end users, business analysts and core team leads. The objective is to provide additional configuration and details to test scripts that will allow POLA testers to better leverage the CRPs events to review and correct system processes in advance of System Integration Testing (SIT).

- Additional time for CRP2/SIT is to accomplish the following:
  - Additional time to complete integration unit testing and configuration building;
  - Review of SIT test scripts, scenarios, and configuration workbooks; and
  - Remediation, retesting, and configuration updates based on user feedback.

This allows for an exit from CRP 2 / SIT that is comprehensive and prepares POLA for a successful UAT. The extra time also gives POLA functional and technical users a chance to review, in detail, configurations, workflows, and integrations and agree upon updates or fixes well in advance of the next testing event.

- Four (4) additional weeks of UAT testing is beneficial for the project team to prepare and review the final Configuration Workbooks and obtain approval prior to any pre-cutover or cutover tasks before Go-Live as well as to accomplish the following:
    - Prepare and review test scripts with the entire extended team that will be involved in UAT (as opposed to only reviewing with a limited number of functional leads); and
    - Remediation, retesting, and configuration updates based on user feedback.

The schedule below shows the current approved project schedule and the proposed new extension dates for the project. The approved capitalized portions of the project originally were to be completed by June 30, 2023. The proposed completion date is extended to June 30, 2024 with the new Go-Live date July 1, 2024.

	Approved Schedule		Proposed Schedule	
	Start	Finish	Start	Finish
Planning	01/02/2021	03/31/2022	01/02/2021	03/31/2022
Environmental	12/02/2020	12/02/2020	12/02/2020	12/02/2020
Design	04/01/2022	06/30/2022	04/01/2022	06/30/2022
Bid and Award	10/02/2021	03/31/2022	10/02/2021	03/31/2022
Construction	07/01/2022	06/30/2023	07/01/2022	06/30/2024

Project Resources:
The project resources will be:
- Information Technology Division staff;
- Other Division staff, part-time as needed from Finance, Contracts & Purchasing and others;
- Awarded Oracle ERP Cloud Implementation vendor; and
- Awarded Business Analysts and IT for staff augmentation

ENVIRONMENTAL CONSIDERATIONS:
Based on the preliminary review of the information provided, it is anticipated that this project could be exempt from CEQA.

FINANCIAL IMPACT:
If approved by PDC, the budgeted cost of $28,595,134 is for the capital portion of this project, including $25,344,112 for external costs, and $3,251,022 for POLA employee costs.

The project will also include operating expenses that cannot be capitalized for a total of $11,405,757 including $9,844,636 for external software, support, consulting, and other costs; and $1,561,121 for POLA employee costs.

As of April 2023, the total capital amount spent is $3,931,750. As a result of the requested cost increase and schedule change, funds are expected to be spent as follows:

Expenses from the Operating Budget for the project include the following:

Item	Original Board Approved Budget	Proposed Budget
Oracle ERP Software, CASB, PaaS Subscription	$ 1,860,756	$ 1,860,756
Oracle Advanced Customer Services (ACS) Support	$ 150,000	$ **210,000**
Training (Oracle University and Guided Learning)	$ 863,673	$ 863,673
NITI Cloud Managed Basic Services Support	$ 1,440,000	$ 1,440,000
NITI As-needed Level 1 ERP cloud maintenance support and Enrichment Services	$ 1,857,600	$ 1,857,600
NITI EBS Consulting Services (Functional & Technical)	$ 755,000	$ **990,000**
Other Software and Hosting/Support/Subscription	$ 690,227	$ 690,227
Finance Staff Augmentation	$ 1,183,100	$ **1,319,900**
IT Staff Augmentation	$ 575,100	$ **612,480**
Internal Labor	$ 1,561,121	$ 1,561,121
Total OPEX Estimated Cost	$ **10,936,577**	$ **11,405,757**

Breakdown costs by Fiscal Year for the project are the following:

Fiscal Year	Original Board Approved Total Budget			Proposed Total Budget		
	Capital	Operating	Total	Capital	Operating	Total
2020/2021	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2021/2022	$ 1,365,749	$ 226,016	$ 1,591,765	$ 253,393	$ 226,016	$ 479,409
2022/2023	$ 14,612,970	$ 1,620,370	$ 16,233,341	$ 5,998,208	$ 1,605,370	$ 7,603,578
2023/2024	$ 0	$ 6,317,291	$ 6,317,291	$ 22,343,533	$ 1,486,670	$ 23,830,203
2024/2025	$ 0	$ 2,772,900	$ 2,772,900	$ 0	$ 6,438,901	$ 6,438,901
2025/2026	$ 0	$ 0	$ 0	$ 0	$ 1,648,800	$ 1,648,800
Total Budget	$ **15,978,720**	$ **10,936,577**	$ **26,915,297**	$ **28,595,134**	$ **11,405,757**	$ **40,000,891**

Following the completion of the entire projection, annual operating expenses for ERP software and support will be about $3,237,529 which includes software licenses and hosting, consulting support, and storage/reporting for legacy systems. Initial annual consulting of $2.1 million is expected to be reduced significantly in future years.

TRANSMITTALS:
None

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