



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 4, 2016

FROM: INFORMATION TECHNOLOGY

SUBJECT: RESOLUTION NO. _____ - AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CHERRYROAD TECHNOLOGIES INC. FOR ENTERPRISE RESOURCE PLANNING SYSTEM TECHNICAL SUPPORT SERVICES

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) is requesting approval to enter into an Agreement with CherryRoad Technologies Inc. (CherryRoad) for technical support services for the Harbor Department's Enterprise Resource Planning (ERP) System. The term of the proposed Agreement is five years with a not-to-exceed amount of \$2,948,000.

The ERP is the Harbor Department's core business information system. It is used for financial and purchasing functions, including but not limited to, general ledger, accounts payable, accounts receivable, cash management, fixed assets, budgeting, projects, grants, purchasing and inventory. As with any sophisticated software package, staff cannot perform all of the work required to support and maintain the ERP due to its proprietary and specialized nature. In order for the ERP to continue to meet the Harbor Department's requirements in the most efficient and productive manner, both functional and technical support services are required. The proposed Agreement is for only ERP technical support. A separate Board action is requested for ERP functional support.

The recommendation to select CherryRoad is based on a competitive Request for Proposals (RFP) process performed by the Harbor Department. CherryRoad is headquartered in Morris Plains, New Jersey, with an office in Sacramento, California.

Support and maintenance of the ERP system is the financial responsibility of the Harbor Department.

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RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Agreement with CherryRoad for a term of five years and an amount not-to-exceed \$2,948,000 for ERP technical support services on an as-needed basis;
3. Direct the Board Secretary to transmit each Agreement to the Los Angeles City Council for approval pursuant to Section 373 of the Charter of the City of Los Angeles and Section 10.5 of the Los Angeles Administrative Code;
4. Authorize the Executive Director to execute and the Board Secretary to attest to each Agreement, upon approval by the City Council; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The ERP is the core business information system of the Harbor Department. It provides mission critical financial and purchasing functionality required to support the Harbor Department operations, decision support, and other information needs for twenty five business areas, including but not limited to, general ledger, accounts payable, accounts receivable, cash management, fixed assets, budgeting, projects, grants, purchasing and inventory. It is interfaced to seven systems, including the City of Los Angeles' Financial Management System. Without the ERP, the Harbor Department would not be able to meet the needs of a modern enterprise in terms of timely reporting, and financial and process integration and controls. The ERP has been in use since October 1, 2012, when it replaced the previous mainframe financial system.

The Board approved the existing agreement for ERP Support Services at its meeting on June 6, 2013. The existing agreement is with C3 Business Solutions (C3) for an amount not-to-exceed \$1,900,000 over three years. The existing agreement includes both functional and technical support services. The actual expenditure to date is \$1,361,160. The anticipated final expenditure of the existing agreement is anticipated to be \$1,500,000.

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Together with Harbor Department staff, the existing agreement has been used on an as-needed basis to help realize the financial and business benefits from the ERP since it went live, which include integrated workflows and processes, automated approvals of documents, including automated audit trails, real-time capabilities, ability to search history of transaction from end-to-end within seconds, strict internal control system integrated across all modules, separate operating and capital budgetary controls, direct link with banks for cash receipts and credit card activities, eliminating manual processes (e.g. – capitalization of fixed assets, depreciation calculation, cash reconciliation, invoicing, and grant reimbursement), closing monthly ledgers within two business days, monthly financial statements available in ERP within seconds of closing the ledgers, fully integrated fiscal year-end closing, fiscal year end ledgers closed within 15 days of June 30, comprehensive annual financial report released within 3 months after year-end closing, and extensive clean-up of purchase orders. The existing agreement has also been used to meet external requirements, including the Mayor's Open Data initiative, Controller's Office policies, and changes to interfaced systems. The existing agreement has also been used to help support the expanded usage of the ERP, which now has more than twice the number of users since going live.

Proposed Agreement – Harbor Department staff will continue to perform most of the work to support and maintain the ERP. However, the proposed Agreement (Transmittals 1) will assist the Harbor Department staff with technical support services on an as-needed basis.

The proposed Agreement is for only ERP technical support. A separate Board action is requested for ERP functional support. Both functional and technical support services are needed. Functional and technical support services will be coordinated jointly with each Agreement to solve complex issues, however, the services will not overlap. By having separate functional and technical support services Agreements, the Harbor Department will benefit by utilizing the strengths of each vendor. The Los Angeles World Airports similarly uses two agreements – one technical and one functional – to support its ERP system.

The proposed Agreement for technical support will include the following services on an as-needed basis:

- **Maintenance and System Support:** Maintenance and system support includes services to keep the ERP running and meeting the Harbor Department's requirements. Technical support includes services to assist the Information Technology (IT) Division staff, including 24x7 system monitoring, software programming, bug fixes, database support and technical training. These services also include support due to changes in external systems that are connected to the ERP. The estimated amount for technical maintenance and support is \$1,000,000 over five years.

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- **Training and Knowledge Transfer:** Training and knowledge transfer includes both formal classroom training and informal one-on-one support. These services provide the knowledge that Harbor Department IT staff require in order to operate and maintain the ERP. The services include training for configuring the system, applying system patches, running jobs to interface data to other systems, and running reports to extract information from the system. These services are also needed due to anticipated retirements over the term of the proposed Agreement. These services will be used to provide coverage and bridge the period when an employee retires and the time required for a new employee to be hired and become proficient. The estimated amount for technical training and knowledge transfer is \$948,000 over five years.
- **ERP Software Upgrade:** Services to assist with the upgrade of the ERP software are included in the proposed Agreement. The upgrade is required because Oracle Corporation has announced an end-of-life date of December 31, 2019 for the ERP software version used by the Harbor Department. The upgrade must be completed before this end-of-life date in order to continue to receive security patches and software updates. The Harbor Department is planning to upgrade the ERP in Fiscal Year 2017/18. The estimated amount for technical support for the upgrade is \$1,000,000.

The actual expenditures for maintenance and support, training and knowledge transfer, and the ERP upgrade may vary from the estimates provided above. However, the total aggregate amount will not exceed the total not-to-exceed amount of the Agreement. The term of the proposed Agreement is five years at a not-to-exceed amount of \$2,948,000. The proposed Agreement will be administered by the IT Division. The Harbor Department is not committed to spending these entire amounts because the services will be used on an as-needed basis.

Selection Process – The selection of CherryRoad is based on a competitive RFP process performed by the Harbor Department. Six firms responded to the RFP and submitted proposals (Transmittal 2). The Selection Committee evaluated the proposals based on: 1) firm's qualifications, experience, and references; 2) project organization, personnel, and staffing; 3) approach and engagement management; 4) rates, fees, and budget control; and 5) quality and responsiveness of the proposal. The Selection Committee was comprised of Harbor Department employees from the IT and Accounting Divisions, and an external rater from Los Angeles World Airports. Four firms were invited to participate in interviews with the Selection Committee and present their proposal. Based on the scoring criteria, the Selection Committee recommends CherryRoad for the proposed Agreement for ERP technical support (Transmittal 3). Under a separate Board action, a different agreement with C3 Business Solutions is being proposed for ERP functional support.

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As part of the 1022 process, the Contracts and Purchasing Division (CPD) asked the other City of Los Angeles (City) Departments if they had City staff that could do this work. For the Departments that did respond to CPD’s inquiry, they stated that they do not have available staff. A few City Departments did not respond, which is understood to mean that they cannot provide staff.

CherryRoad is headquartered in Morris Plains, New Jersey, with an office in Sacramento, California.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a professional services agreement for support and maintenance of the Harbor Department’s ERP System, which is an administrative activity. As such, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed five-year Agreement with CherryRoad authorizes the IT Division to retain ERP technical support services with a not-to-exceed limit of \$2,948,000 over five years. As part of the annual budget process, fiscal year 2016/17 funds in the amount of \$200,000 were requested to be budgeted in the IT Division (Center 0640, Account 54310, Program 000). Upon Board approval, funding for future fiscal years will be requested to be budgeted as shown in the table below.

Fiscal Year	Estimated Amount
2016/17	\$200,000
2017/18	\$1,434,000
2018/19	\$441,000
2019/20	\$426,000
2020/21	\$447,000
Total Not-To-Exceed Amount	\$2,948,000

The actual expenditures may differ from the estimated amounts in any given fiscal year presented in the tables above. However, the total aggregate amount will not exceed \$2,948,000 for the CherryRoad Agreement over five years. The Harbor Department is not committed to spend the entire proposed amount. Expenditures will be based on an as-needed, task order basis.

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Office space for one to three consultants will be used intermittently within the space reserved for the IT Division. This office space will be used only when on-site work is required. Staff will not be displaced.



A Termination for Non-Appropriation of Funds Clause (also known as a Funding Out Clause) is included in each Agreement.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the Agreement as to form and legality.

TRANSMITTAL:

- 1. Agreement with CherryRoad Inc.
- 2. List of Proposers
- 3. Scoring Matrix

FIS Approval:  (initials)
 CA Approval:  (initials)


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