



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: APRIL 22, 2015

FROM: INFORMATION TECHNOLOGY

SUBJECT: RESOLUTION NO. _____ - FIRST AMENDMENT TO AGREEMENT NO. 13-3138 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND C3 BUSINESS SOLUTIONS, INC. FOR ENTERPRISE RESOURCE PLANNING SYSTEM SUPPORT SERVICES

SUMMARY:

The Information Technology (IT) Division is requesting approval for the First Amendment to Agreement No. 13-3138 with C3 Business Solutions, Inc. (C3) to increase the authority amount of Agreement No. 13-3138 by \$700,000 from \$1,200,000 to a total not-to-exceed amount of \$1,900,000. The proposed First Amendment is needed due to more than anticipated costs for compliance with new business requirements, additional functional process flow improvements, and additional technical and end-user support required for the City of Los Angeles Harbor Department's (Harbor Department) Oracle Enterprise Resource Planning (ERP) system.

The selection of C3 for Agreement No. 13-3138 was based on a competitive Request for Proposals (RFP) process performed by the Harbor Department. C3 is a qualified Small Business Enterprise (SBE); therefore 100% of the proposed Amendment and the original Agreement will contribute towards the Harbor Department's SBE goals. C3 is located in Santa Ana, California and also qualifies for the Harbor Department's Local Business Preference Program.

ERP support is the financial responsibility of the Harbor Department.

RECOMMENDATION:

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

1. Find that in accordance with the Los Angeles City Charter Section 1022, it is more feasible for outside contractors to perform this work than City employees;
2. Approve the First Amendment to Agreement No. 13-3138 with C3 Business Solutions, Inc. which increases the total, not-to-exceed authority amount of the Agreement to \$1,900,000;

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3. Authorize the Executive Director to execute and the Board Secretary to attest to Agreement No. 13-3138 as amended; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background/Context– At its June 6, 2013 meeting, the Board approved Agreement No. 13-3138 for professional services to support and maintain the Harbor Department's ERP system. Agreement No. 13-3138 was for an authority amount not to exceed \$1,200,000 and a term of three years. It was the first ERP support agreement since the ERP system went live on October 1, 2012.

The ERP is the core financial and purchasing system of the Harbor Department. It provides mission-critical functionality required to support the Harbor Department business operations, decision support, and other information needs. 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 encompasses the finance and supply chain modules and interfaces to five other systems. The finance and supply chain modules include 25 functional areas, including but not limited to, general ledger, accounts payable, accounts receivable, cash management, debt management, fixed assets, budgeting, projects, grants, purchasing, and inventory.

Some of the financial and business benefits realized from the ERP since it went live include lower overall operating costs than the previous mainframe system, 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, eliminated manual process (e.g. – capitalization of fixed assets, depreciation calculation, cash reconciliation, invoicing, and grant reimbursement), close 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.

In spite of these improvements, there continues to be the need for additional support for issues, new business processes and enhancements. The IT Division has five full-time staff and others on a part-time basis supporting the ERP. However, Harbor Department

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staff alone cannot perform all of the required work due to the need for specialized and proprietary knowledge of the software.

To date, task orders under Agreement No. 13-3138 in the amount of \$1,034,162 have been issued to support the ERP through February 2015 (Transmittal 1). On a prorated basis, the expenditure originally estimated for the first 19 months of the Agreement should have been approximately \$633,000. The difference of approximately \$400,000 between actual and anticipated expenditures is due to the following:

- Major New Enhancement: \$120,750 was spent to develop and implement capital budgetary controls.
- Additional Support: Approximately \$312,000 more than anticipated was spent for support, primarily due to: 1) turnover of business and technical staff, and 2) greater use of the system due to additional functionality. The staff turnover required the use of additional consulting services to bridge the time gap to fill the vacancies and to assist staff during the learning curve. Additional support was also required for approximately twice as many staff now using the system than when it first went live due to additional ERP functionality and greater use of the system.

Proposed Amendment– The proposed First Amendment (Transmittal 2) will increase the authority of Agreement No. 13-3138 by \$700,000 from \$1,200,000 to a total not-to-exceed amount of \$1,900,000. This increase is necessary to continue to provide needed business and technical support of the ERP system to maximize its use and benefits. Expenditures based on actual needs will be incurred only when the Harbor Department authorizes an order. Although the Harbor Department is not committed to spending this entire authority amount, staff estimates that the actual expenditures will be approximately equal to the full authority amount. The anticipated support needs for the duration of Agreement No. 13-3138 include:

- Functional and Technical support
 - Problem resolution support 24 hours a day, 7 days a week via telephone, electronic and onsite technical and functional support.
 - Proactive 24x7 monitoring for ERP databases, application, servers, storage disk and volume services, backup & recovery, network and web services.
 - Tasks that cannot be performed by Harbor Department staff due to the specialized knowledge and proprietary nature of the software system.
 - Coverage due to staff turnover. For example, one of the five full-time employees in the IT Division transferred to another City Department in early January 2015. In spite of efforts to backfill that position, which included repeated postings of City-wide transfer opportunities, it continues to be vacant. A consultant is required to bridge the gap until a new

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employee is hired and develops the necessary skills to support this critical system.

- Expanded use of the ERP. While the expanded use of the ERP is positive for overall Harbor Department efficiencies, additional support is required for the larger number of users. Since the system went live in October 2012, there are now more than twice the number of Harbor Department staff using the ERP system.
- Knowledge transfer and training. Harbor Department staff continue to require training and knowledge transfer to be proficient in the system and its new functionality. This includes knowledge transfer and training for both technical and functional staff.
- ERP Enhancements
 - Additional ERP enhancements due to new business or technical requirements, including workflow, reporting and automation needs, which require consultant assistance to design, develop, implement and transfer knowledge.
- Support for City Initiatives and Other Changes
 - Support for City Initiatives that require information from the ERP. For example, there is currently a backlog of pending system changes required to comply with new requirements from the Office of the City Controller and for the Open Data initiative.
 - Support for interfaces that are impacted by changes to the City's and other external systems. For example, the Harbor Department's automated electronic transmittal of information to other systems (e.g. – City, State, banks, etc.) encounters problems when changes are made to their system. Additional support is required to address similar issues that are beyond the control of the Harbor Department.
 - Support for organizational changes. For example, changes in the Harbor Department organization involve changes that require support to create and modify automated workflows and provide training and support for end-users.

With the proposed First Amendment, the operating cost of the ERP system will still be less than the cost of the previous mainframe system by approximately \$200,000 per year. The consulting support needs for future years are anticipated to be reduced as the ERP functionality is stabilized and staff become more familiar with the system.

As part of the 1022 process, the Contracts and Purchasing Division (CPD) asked the other 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. Therefore, the consultants will provide services on an as-needed basis alongside the existing Harbor Department staff.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a First Amendment to Agreement No. 13-3138 with C3 for ERP system support services to increase the authority under the Agreement. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Spending under the Agreement with an approval of the proposed First Amendment will support 4 direct and 14 secondary one-year equivalent jobs for the five-county region.

FINANCIAL IMPACT:

Approval of the proposed First Amendment with C3 would authorize the Harbor Department to increase the not-to-exceed authority amount of Agreement No. 13-3138 by \$700,000 from \$1,200,000 to a total of \$1,900,000. Funds for Fiscal Year 2014/15 are budgeted in the IT Division in the amount of \$400,000 and are available in the Accounting Division in the amount of \$150,000. The amount available in the Accounting Division includes a budget transfer in the amount of \$15,000 from the Management Audits Division. For Fiscal Years 2015/16 an appropriation is required as part of the annual budget process in each respective fiscal year. Funds are expected to be expended from Account 54310, Center 0640, Program 000, and Account 54310, Center 0630, Program 000 as follows:

<u>Fiscal Year</u>	<u>Anticipated Amount</u>
2013/14	\$800,000
2014/15	\$550,000
<u>2015/16</u>	<u>\$550,000</u>
Total	\$1,900,000

The annual amounts may change between fiscal years up to the available budget in that fiscal year. However, the total aggregate amount will not exceed \$1,900,000 over three years, the not-to-exceed amount of Agreement No. 13-3138.

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A funding out clause has been included in Agreement 13-3138.

Office space for one to three consultants will be used within the space reserved for the Information Technology Division. Staff will not be displaced. This office space will be needed for the duration of the proposed agreement.

CITY ATTORNEY:

The City Attorney has reviewed and approved the First Amendment to Agreement No. 13-3138 as to form and legality.

TRANSMITTAL:

1. Task Orders
2. First Amendment to Agreement No. 13-3138 with C3 Business Solutions, Inc.

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



LANCE KANESHIRO
Chief Information Officer



RONALD J. BOYD
Chief of Public Safety & Emergency Management

APPROVED:



FOR
EUGENE D. SEROKA
Executive Director

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