County Of Sonoma
Agenda Item
Summary Report

Department: Sonoma County Water Agency

Name and Phone Number: Lynne Rosselli - (707) 524-3771

Board Date: 12/13/2011

Deadline for Board Action: 4/5 Vote Required

AGENDA SHORT TITLE: Cost Accounting System Replacement.

REQUESTED BOARD ACTION:
a) Authorize Chair to execute the Second Amended Agreement for Implementing SAP ERP Central Component 6.0 between the Sonoma County Water Agency and HPC Heck & Partner Consulting Inc. (an increase of $619,259, for a new Agreement amount of $1,337,456; agreement terminates on December 31, 2012); b) Authorize the Water Agency’s General Manager to terminate the Agreement, if appropriate; c) Adopt a resolution authorizing adjustments to the 2011/2012 final budget for the Water Agency’s General Fund in the amount of $619,259.

CURRENT FISCAL YEAR FINANCIAL IMPACT

EXPENDITURES:

| Estimated Cost (FY 11/12) | $979,329 |
| Amount Budgeted (FY 11/12) | $360,070 |
| Other Available Appropriations (Explain Below) | $0 |
| Additional Requested (FY 11/12) | $619,259 |

ADDITIONAL FUNDS REQUIRING BOARD APPROVAL:

| Contingencies (Fund Name:) | $0 |
| Unanticipated Revenue (Source:) | $0 |
| Other Transfers (Source: General Fund) | $619,259 |

Explanation:
Original project amount was $275,000 from the FY 10/11 General Fund budget. First Amended Agreement added $443,195 (for a new project total of $718,195), including $73,120 from the FY10/11 General Fund and $360,070 from FY11/12 General Fund. The Second Amended Agreement will add $619,259 for a new project total of $1,337,456. Additional appropriations are required from General Fund (Account No. 672105) in the amount of $619,259 to process this expense. Fund balance will be appropriated with Board approval.

Prior Board Action:
05/17/2011: Approve Heck & Partner Consulting Inc. first amended agreement for implementation of cost accounting system replacement.


07/13/2010: Approve purchase of SAP America, Inc. software to replace Water Agency's cost accounting system.

08/11/2009: Initiate reorganization activities including the replacement of the cost accounting system.


Alternatives – Results of Non-Approval:
Without these implementation services, the Water Agency cannot fully replace its legacy cost accounting system and other programs, including its water billing system, vehicle pricing/charging, and fixed assets list. The business continuity and disaster recovery capabilities of the Water Agency would remain at significant risk, and improvements to the Water Agency’s capacity for financial analysis and planning would not be obtained, if the amendment were not approved.

BACKGROUND
In November 2005, the Water Agency adopted an Information Technology Master Plan based on an assessment by Westin Engineering. The Master Plan included replacing the Agency’s legacy Project Cost Accounting System (PCAS) as one of its elements. Ideally, the replacement system would:

1. Allow for a single time entry, eliminating the need for staff to enter time in two or three timecards;
2. Provide a strong cost accounting foundation;
3. Reduce hardware and maintenance costs;
4. Reduce programming support costs;
5. Provide a platform to allow for future additional capabilities;
6. Reduce business continuity risk.

In 2008, Water Agency staff conducted a literature and web search based on guidelines provided by the Government Finance Officers Association (GFOA) and requested proposals in Fall 2009. Water Agency staff received six proposals. After review and cost analysis, Water Agency staff determined that SAP’s Enterprise Resource Planning (ERP) software offered the most advantages, including a targeted, tactical approach to replacing the existing cost accounting and time-entry systems, coordinating with the County’s Kronos (Timesaver) software, and integrating the Water Agency’s existing maintenance management system (Maximo) and project management software (Primavera).

On July 13, 2010, the Board approved the Sonoma County Water Agency’s (Water Agency) purchase of SAP America Inc. software as the nucleus of the Water Agency’s plan to replace its aging cost accounting system and other programs, including its water billing system, vehicle pricing/charging, and fixed assets list. The Water Agency’s current system was developed in the 1960s and is hard to use, expensive to maintain, and increasingly vulnerable to failure.

Selection of Consultant
As part of the selection of SAP-America’s ECC 6.0 enterprise resource planning software, the Water Agency reviewed SAP’s recommendations for the best-suited, lowest cost companies to provide the remote web hosting and the software implementation to develop, load, test, and execute the application specific to the Water Agency’s requirements. The criteria for selecting the implementation consultant included an SAP-certified, locally-based company with utility experience and reasonable rates. Based on a comparison of companies, Heck & Partner Consulting Inc. (Consultant) best fit the criteria.

Project Scoping
In order to develop an accurate and realistic scope of work for the implementation agreement, on July 26, 2010 the Water Agency entered into a $25,000 contract with the Consultant to evaluate the Water Agency’s
current cost management and other data systems and to determine the data management capabilities desired by Agency staff from the SAP system and the steps necessary to implement the new system. The Consultant conducted extensive interviews and discussion with Water Agency, Auditor-Controller, HRMS (Human Resources Management System) Project, ISD and other County department staff. Based on this thorough analysis, the Water Agency was able to outline a more comprehensive strategy for replacing its multiple legacy software systems and retiring obsolete computer hardware. However, due to the complexity and magnitude of this project, it was expected that amendments to the agreement would be required due to this large and lengthy implementation project.

Current Implementation Project

The Water Agency and Consultant entered into an agreement dated November 9, 2010, in the amount of $275,000 (agreement expires on June 30, 2012), to replace the Water Agency’s legacy PCAS program with a system using SAP software. Under this agreement, Consultant configured and implemented the SAP cost accounting system module, and the Water Agency terminated use of its old PCAS system in April 2011.

Water Agency staff and Consultant have worked very closely with County staff to develop the needed interfaces with HRMS and Financial and Management Information System (FAMIS), coordinating extensively with Auditor-Controller and Information Systems Department staff.

With the SAP cost accounting module operational, Water Agency staff developed a priority list for converting other programs and functions to SAP modules so that all legacy programs on the Water Agency’s existing IBM mainframe could be eventually replaced and the server retired.

The following activities were identified as the next highest priorities:

1. PCAS Archive: Map the Water Agency’s pre-existing PCAS data to an SAP archive, to freeze and retain the PCAS legacy data and create a link for users to easily find and use the PCAS archived reports from the SAP user menu.
2. Vehicle Equipment Pricing: Input the Water Agency’s fleet inventory into SAP, create an SAP transaction to post fleet rental to project/task (SAP order) numbers, and configure additional fields in TimeSaver to capture vehicle use time by project.
3. Meter-to-Cash/Water Billing: Convert the Water Agency’s legacy water billing system to an Structured Query Language (SQL) server billing engine, configuring SAP modules to collect water meter reads and prepare invoices.
4. Grants Management: Design a replacement for the Water Agency’s manual grant processes to automate and integrate the process, to assure compliance with grant standards and accounting guidelines, and to establish appropriate indirect cost allocation calculations based on individual grant requirements to maximize reimbursements where available.
5. Fleet: Use standard SAP utilities to create measurement functions to track fuel usage and odometer reads that are unavailable in Maximo, (another Water Agency’s legacy system).
6. Application Management Services: Provide ongoing maintenance and support to Water Agency staff as SAP integration continues.

On May 17, 2011, the Board approved the First Amended Agreement (agreement expires on June 30, 2012) in the amount of $443,195 to continue work on the SAP implementation, based on the above priorities. As of November 15, 2011, $356,603 of this amount has been expended and the following tasks have been accomplished:

1. Priority 1 (PCAS Archive) -- 100% complete.
2. Priority 2 (Vehicle Equipment Pricing) -- 100% complete.
3. Priority 3 (Meter-to-Cash/Water Billing) -- 90% complete.
4. Priority 6 (Application Management Services) – Support continuous throughout term of agreement.

Implementation efforts for priorities 4 and 5 (Grants Management and Fleet) have not yet begun, because
priority 3 (Meter-to-Cash/Water Billing) proved far more complex than staff and Consultant originally envisioned. The terms and conditions of the existing water billing program have been layered over time in the Water Agency’s legacy system. Conversion of the legacy system billing code to the Consultant’s SQL server billing engine was significantly more involved than anticipated, and required numerous iterations and additional testing to ensure accuracy.

At this point in the SAP implementation, Water Agency has realized a significant return on the investment in SAP and has a deeper understanding of SAP. Water Agency staff now is refining some priorities and expanding others to make the best use of the investment in SAP software to effect improvements to the Water Agency’s capacity for financial analysis and planning and operational efficiency.

Water Agency staff recommends a Second Amended Agreement to add Financial Close reporting, described below, as a priority. Staff also recommends that the Fleet functionality should be significantly expanded under the Second Amended Agreement. Rather than using standard SAP utilities to supplement legacy Maximo functionality, Water Agency staff recommends implementing the SAP Plant Maintenance module as a full replacement for the fleet portion of the Maximo system. This will include the conversion of historical fleet maintenance data, and interfaces with both the TimeSaver system (to capture labor and equipment usage) and the Wright Fuel Purchase system (to capture the cost of fuel for specific fleet vehicles).

Water Agency staff anticipates returning to the Board for further amendments to this agreement. Future priorities may include complete integration of all Maximo functions and fixed assets into the SAP Plant Maintenance module and the subsequent retirement of Maximo software and related hardware, which could result in substantial annual savings. Another future priority may be additional funding to continue on-going support and maintenance of the SAP implementation.

**PROJECT HISTORY**


**SERVICES TO BE PERFORMED**

Under the proposed Second Amended Agreement, the Agency staff and Consultant will work on the following priorities:

1. Complete final work on Meter-to-Cash/Water Billing implementation.
2. Non-Metered Billing and Receiving: Convert non-metered customer invoices to SAP from legacy billing systems and provide training and support.
3. Grants Management: Replace manual grant processes with system automation and integration to assure compliance with grant standards and accounting guidelines. Establish appropriate indirect cost allocation calculations based on individual grant requirements to maximize reimbursements where available.
4. Financial Close – Validations, Allocations, and Reporting: Create seven financial reports and enhancements to existing financial reports in SAP and provide two training classes to end users on how to optimize SAP reporting.
5. Fleet Plant Maintenance: Determine business requirements for the Water Agency processes for preventive and corrective maintenance using the SAP Plant Maintenance module; configure a) functional location hierarchy, b) equipment pieces and notifications for corrective and preventive maintenance; c) maintenance plans and maintenance tasks; d) Plant Maintenance operations for specific tasks and confirmations for time entry; load the new equipment pieces to SAP; e) train-the-
trainers for creating notifications and scheduling Plant Maintenance orders and operations in SAP; and f) provide two months of support.

The Second Amended Agreement requests an additional appropriation of $619,259, bringing the agreement total to $1,337,456.

**TERMINATION**
The Agreement includes provisions for the Agency's General Manager to terminate the Agreement, if necessary.

**Attachments:** Resolutions (R1).

**On File With Clerk:** Agreement (4 Copies).

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