

Board of Directors
Asset, Real Estate and Infrastructure Policy Committee

July 8, 2003 Board Meeting

8-6

Subject

Authorize \$4.038 million to purchase the Oracle E-Business Suite and implement the Project Accounting and Grant Management modules (Approp. 15411)

Description

The Information Technology Strategic Plan (ITSP) identifies a high priority need to improve project accounting and grant management capabilities by reducing the number of custom-developed and redundant applications and implementing commercial off-the-shelf products where available. The Competitive Action Team (CAT) recommended consolidating cost and labor reporting into a single corporate application.

To help achieve the goals put forth by the ITSP and CAT, this board letter requests funding to purchase the Oracle E-Business Suite of software, and implement Oracle's Project Accounting and Grant Management modules. These two modules are part of the Oracle E-Business Suite of products. Because these modules are by necessity tightly integrated with the rest of the financial and procurement systems already in place at Metropolitan, Oracle Corporation is the only available supplier. A return-on-investment analysis was conducted for this project, which shows that benefits will exceed the initial investment within three years.

Oracle's Project Accounting and Grant Management modules give Project and Grant Managers improved visibility over charges and credits that impact their programs and gives them the ability to proactively monitor both actual and committed costs. The Grant Management module tracks information through all stages of the grant process, from proposal through completion, and complies with regulatory reporting requirements. Currently, Grant Managers have developed stand-alone tools to track and report grant-related information. The implementation of this software will provide a single enterprise source for grant information, ensuring complete and consistent reporting.

Some beneficial features of Oracle's Project Accounting module include: (1) the ability to validate costs at point of entry, helping ensure only authorized charges are billed to projects, (2) the ability to allow for varying overhead and additive rates by organization or project, and (3) a cross-charging feature that allows employees in one organization to work on and charge to projects sponsored by another business unit within Metropolitan. Currently these features are not available in Metropolitan's financial systems. Due to these limitations, project management staff must perform labor-intensive research and then request that manual accounting adjustments be made after-the-fact where necessary. Additionally, the Project Accounting module provides capabilities to better track receivables and perform timely billing of customers on reimbursable projects (e.g. services for Department of Water Resources). Project Accounting provides labor and cost reporting, with "drill-down" capabilities to see related detailed data in other subsystems such as accounts payable, purchasing and inventory, thereby providing staff with complete visibility of financial transactions. The implementation of Oracle Project Accounting and Grant Management is the foundation for creating a single, integrated corporate reporting system that will provide Project Managers with the timely information required to successfully manage their work.

The Oracle Corporation has adopted the strategy of bundling the majority of their software products, including Project Accounting and Grant Management, into the Oracle E-Business Suite. In addition to providing software licenses needed for this project, purchasing the E-Business Suite will lower Metropolitan's current Oracle product-related annual maintenance fee by approximately \$200,000 each year for the next five years. This represents a savings of \$1 million in maintenance costs over the five-year period and will also give Metropolitan

the flexibility to implement other suite modules in the future if deemed necessary. The E-Business Suite has a one-time cost of approximately \$720,000. Staff performed an internal analysis, met with peer agencies and consulted with an independent technical advisory service to validate the competitiveness of the Oracle proposal.

Funds for this project are included in the capital investment plan (CIP) for fiscal year 2003/04. The CIP Evaluation Team reviewed and recommended approval of this project as part of the CIP review process.

Attachment 1 is a detailed financial statement. **Attachment 2** is a detailed report.

Policy

Metropolitan Water District Administrative Code § 5108: Capital Project Appropriation
 Metropolitan Water District Administrative Code § 8103 (d): Exception from Competitive Bidding
 Metropolitan Water District Administrative Code § 8115: Negotiated Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Staff Recommendation:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as purchases of supplies, general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other government fiscal activities, which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

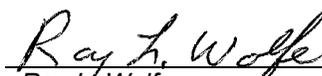
The CEQA determination is: Determine that the proposed actions are not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Staff Recommendation

Adopt the CEQA determination and

- a. Appropriate \$4.038 million; and
- b. Authorize award of contract not to exceed \$720,000 to purchase the Oracle E-Business Suite.

Fiscal Impact: Initial capital expenditure of \$4.038 million in budgeted fiscal year 2003/04 funds. Reduction of \$1 million in Oracle software maintenance costs over a five-year period and avoidance of one-time cost of \$2M to upgrade the Project Management Information System.



 Roy L. Wolfe
 Manager, Corporate Resources

6/24/2003

Date



 Ronald R. Gastelum
 Chief Executive Officer

6/24/2003

Date

Attachment 1 – Financial Statement

Attachment 2 – Detailed Report

BLA #2192

Financial Statement for Financial Systems Improvement Plan

A breakdown of Board Action No. 1 for Appropriation No 15411 to purchase the Oracle E-Business Suite and implement Oracle’s Project Accounting and Grants Management modules is as follows:

**Board Action
(July 2003) – Project Accounting Implementation**

Labor	\$1,572,480
Materials and Supplies	\$ 0
Incidental Expenses	\$ 50,000
Professional/Technical Services	\$1,400,000
Remaining Budget	\$ 295,750
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Subtotal	\$3,318,230

(July 2003) – E-Business Software Purchase

Labor	\$ 0
Materials and Supplies	\$ 720,000
Incidental Expenses	\$ 0
Professional/Technical Services	\$ 0
Remaining Budget	\$ 0
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Subtotal	\$ 720,000

Total Funding Requested: \$4,038,230

Funding Request

Program Name:	ITSP-Business, Finance and Human Resources		
Source of Funds:	Pay-As-You-Go Fund		
Appropriation No.:	15411	Board Action No.:	1
Requested Amount:	\$4,038,230	Capital Program No.:	03406-C
Total Appropriated Amount:	\$4,038,230	Capital Program Page No.:	E-44
Total Program Estimate:	\$14,985,500	Program Goal:	E-Efficiency

Detailed Report

Oracle E-Business Suite

The Oracle Corporation has changed their strategy to now sell the majority of their software products bundled as a suite rather than as individual modules. This allows for a lower total cost of ownership (TCO) by lowering annual maintenance costs and providing greater flexibility for the implementation of additional modules of the suite in the future at no additional software cost. Staff plans to migrate from current individual Oracle software licenses to the Oracle E-Business Suite at an estimated one-time capital cost of \$720,000. By migrating to the Oracle E-Business Suite, substantial maintenance cost savings will be realized by Metropolitan. The current annual maintenance for the individual modules is \$600,000 with a 4 percent cost escalation per year. If Metropolitan migrates to the E-Business Suite, the cost of annual maintenance will be \$420,000 with a 0 percent escalator for five years. The overall net savings, including factoring the initial capital cost of the E-Business Suite license, is \$385,000 over the five-year period.

The migration to the Oracle E-Business Suite provides Metropolitan with a needed additional software component, Grants Management. The Project Accounting/Grants Management project is dependent upon this purchase. Additionally, this purchase will position Metropolitan to move away from custom-developed systems to commercial off-the-shelf products from Oracle that are integrated with the rest of the Oracle financial applications. Such a migration is consistent with the recommendations in the IT Strategic Plan.

Project Accounting/Grants Management

Metropolitan is continuously striving for process improvement and this letter seeks funding for implementing systems to optimize the areas of project and grant management. Metropolitan project managers currently use a custom developed application called the Project Management Information System (PMIS) to monitor costs and progress on both O&M and Capital projects. PMIS was implemented in 1996 and is not integrated with the Oracle Financial systems. Additionally, technology has advanced significantly since PMIS was originally developed. As PMIS is now seven years old, it is time to either upgrade or replace the system. The estimated cost to upgrade PMIS is \$2 million. This cost will be avoided by implementing Project Accounting. In addition, the upgraded PMIS would not have the many of the capabilities of the Oracle's Project Accounting software, not be integrated with the Oracle Financial applications, and not support the grant management process.

With regard to grants, Metropolitan does not have an automated nor integrated system to assist with the management of grants. Consequently, the manual administration of these complex agreements is extremely labor intensive for staff.

The Oracle Corporation provides two fully integrated modules, Project Accounting and Grants Management, for project and grant managers. Implementation of these commercial software products will eliminate the need for preparing manual labor-intensive invoices on grants and reimbursable projects, searching multiple systems for data to validate project costs and progress, and staff time associated with maintaining custom-developed applications used for producing reports.

Currently, there are approximately 80 project/grant managers and 50 project/grant administrators. The overall number of capital projects is increasing in the future. Through the implementation of the Oracle Project Accounting and Grants Management modules, it is estimated that project/grant managers and project/grant administrators will realize significant increases in efficiency while monitoring project cost and progress, and preparing invoices. These increases in efficiency will be achieved through automating the invoice preparation process, reducing the amount of manual accounting adjustments through validation of data at the point of entry, providing project/grant managers with a system truly integrated with the corporate financial system thus eliminating the need to go to multiple sources to gather information, and leveraging current technology to provide enhanced reporting. It is projected that the identified gain in efficiency, coupled with the cost avoidance of not having to upgrade PMIS, will provide Metropolitan with an overall return on investment within three years.