



ATTACHMENT B

MEMO TO: Finance and Administration Committee

FROM: Malisa Files, Finance Director

DATE: August 25, 2020

SUBJECT: Big Four Project: D365 Financial System Upgrade

I. PURPOSE ☐ For Information Only ☒ Potential Agenda Item

II. RECOMMENDATION

Discuss the work to date and continued implementation of the D365 Financial System Upgrade, one of the Big Four technology projects, including operations implementation plan, outcomes, estimated return on investment, timeline and budget. Full implementation of the D365 would require an investment of approximately \$5.1 million.

III. DEPARTMENT CONTACTS

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IV. DESCRIPTION/BACKGROUND

In 2009, the City of Redmond entered into an agreement with Microsoft to become a Technology Adoption Partner (TAP) to help develop the public sector vertical for the Dynamics financial product. At the time, the City worked with Microsoft and Tyler Technologies (a Microsoft partner) to implement Dynamics to replace the City's aging financial system. As a TAP partner the City paid very little for the system, but rather dedicated the staff time to develop and implement the new product. As a result, Redmond went live on the release to market (RTM) version of the product in July 2011.

Since that time, the City has upgraded the financial system and now uses the Dynamics 2012 version of the financial system and the cloud version of Microsoft's Budget Planning tool.

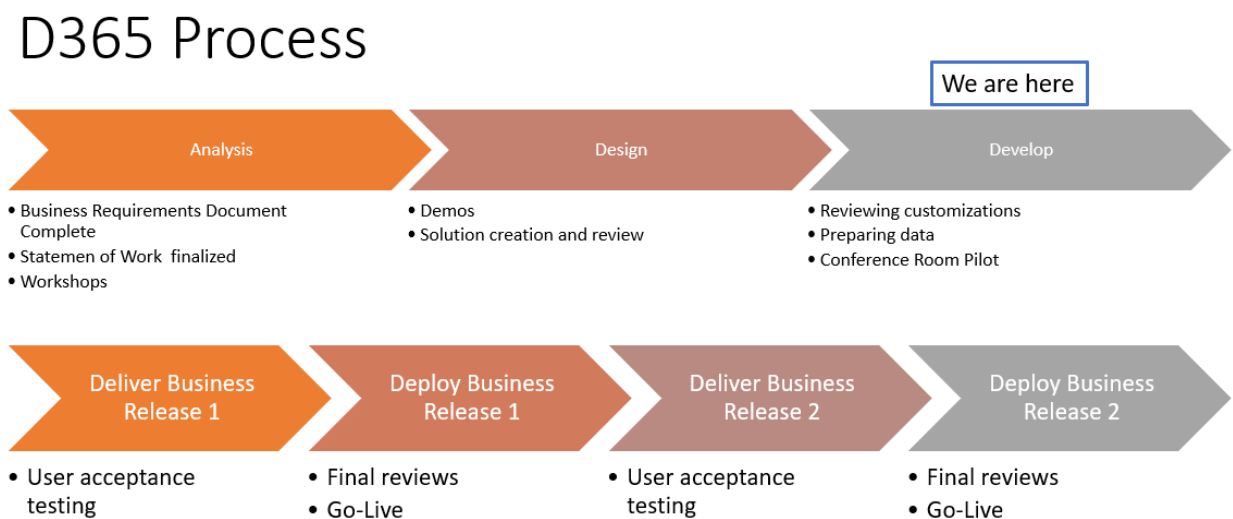
Knowing that the City's foundational financial system was aging and that the version of the product would become unsupported in 2021, on September 25, 2018, Council approved a consulting services agreement with HSO for services in support of the City's Dynamics AX Enterprise Resource Planning (ERP) system. The City has worked with HSO to evaluate our current Dynamics 2012 environment to mitigate current challenges,

analyze customizations and produce a fit/gap analysis comparing the City's processes with the capabilities of the new D365 cloud version of Dynamics.

Approximately eight months ago, staff began a conference room pilot which consisted of process mapping each of the core business functions such as, general ledger, accounts payable, purchasing and cash management. In addition, identifying shadow systems, spreadsheets and work done outside of the system, was also part of this phase of the work. The goal of the conference room pilot is to give staff a chance to look at new ways of doing their work that fit within the D365 environment, to eliminate customizations that exist in the current financial system and get hands on experience and insight into how the D365 system would work using a subset of City data. The conference room pilot is scheduled to be finished in mid-September of this year.

D365 Implementation

As stated earlier, the version of Dynamics that runs the City's financials will be unsupported by Microsoft at the end of 2021, so it is imperative to upgrade the financial system to the newest/cloud-based version of the product. The graphic below illustrates the D365 implementation process.



Benefits and Outcomes

At a glance the business benefits and outcomes can be broken down into four categories, including:

- Responsible Government
 - Standardizes and improves business processes
 - Continues strong accounting practices
 - Increases accessibility to data
 - Increases accuracy and reduces record redundancy
 - Supports integrated systems and organization wide business analytics
- Customer Service

- Improves quality of service
- Improves accessibility to public records
- Enhances user experience
- Streamlines processes
- Provides better visibility and tracking of budget information for operations and project managers
- Efficiency
 - Improves productivity and/or reduces future costs
 - Measures tangible results
- Risk Management
 - Increases system and data security
 - Replaces at risk and outdated technology

Return on Investment

The effort put into business process mapping has identified several tangible returns the City can expect by continuing the upgrade process. Below is an example of some of the savings that have been identified. The estimates is based on the process mapping phase of the conference room pilot and have not been fully vetted in the new system.

Processes	Annual Hours Saved	Annual Cost/Effort Savings	5 Year Cost/Effort Savings
Project Management & Accounting	591	\$22,639.98	\$120,198.73
AP Automation	4264	\$256,403.68	\$1,361,281.96
Accounting Accuracy (ALE corrections)	129	\$4,494.33	\$23,861.03
Total	4984	\$283,537.99	\$1,505,341.72

The project management and accounting returns are based on the time it takes to accomplish project reconciliation between the current project accounting module and the general ledger, project error corrections, report generation and difficulty with project accounting set up.

Accounts Payable Automation is where we think we will see the largest cost savings. The Accounts Payable Division processes approximately 13,000 vendor invoices per year at an approximate cost of \$24.00 per invoice. Based on industry standards for accounts payable processing, the improved process should drive the cost per invoice down to approximately \$3.50 per invoice.

Advanced ledger entries (ALEs) are journal entries used for planned monthly transfers and to make corrections in inaccurate data entry. In 2019, Accounting processed 388 ALEs due to inaccuracies in the system. The average cycle time for each ALE is 25 minutes or approximately 13.5 hours of employee time per month. Processing in the new user friendly system will promote better accuracy and quicker processing could decrease the amount and time spent by approximately 10.8 hours per month.

As the Finance Department continues to test the new processes in the system, we expect to identify additional process efficiency savings.

Timeline

The project has been broken down into two phases, including:

Business Release 1	Business Release 2
Finance: <ul style="list-style-type: none"> • General ledger • Accounts receivable • Accounts payable • Procurement <ul style="list-style-type: none"> ○ Requisitions ○ Purchase orders • Vendor management • Receiving • Treasury • Cash management • Project management and accounting • Reporting (Power Business Intelligence) 	Finance <ul style="list-style-type: none"> • Fixed assets • Travel and expense • Procurement <ul style="list-style-type: none"> ○ RFP process ○ Vendor collaboration ○ Inventory and warehouse management • Cash receipting

Please note that the modules in each release are subject to change.

With the approval of an implementation contract, Business Release 1 would begin in late September or early October with full implementation by the end of 2021. Business Release 2 is estimated to begin in the Fall of 2021 and last for nine months into the beginning of 2022.

Budget

The total cost for full implementation is \$5.1 million including project contingencies. A break down of the one-time versus ongoing costs are shown in the table below.

Budget Summary

One-time Implementation	\$ 3,867,346
Ongoing Licensing and Maintenance (2021-2022)	\$ 813,435
Contingency	\$ 447,576
Total	\$ 5,128,357

Please note, these costs are net of ongoing maintenance and costs the City already invests in the operations of the system. Ongoing maintenance costs for the new D365 system are higher than what the City currently pays due to the new cloud technology versus an on-

premise system. However, the City will realize a long-term savings as there will be no need to replace the server hardware that currently runs the financial system.

Finance recommends using a portion of the money the City has received from one-time sales tax on construction to fund the project.

Next Steps

The next steps in this project include:

- Answering any questions the Council may have about the project and its components
- Continue to work on the return on investment data as the staff wraps up the conference room pilot project.
- Finalize the contract with HSO for full D365 implementation in the timeframe described above.
- Solicit Council approval for the budget appropriation to the project and contract acceptance with HSO.

V. TIME CONSTRAINTS

The Finance Department would like to begin the D365 implementation at the end of the conference room pilot which is scheduled for late September-early October so that most of the core financial operations can be moved to the new system before Dynamics 2012 is unsupported.

VI. LIST OF ATTACHMENTS

None