

March 12, 2007

Business Operations
Ofelia San Pedro, Deputy Superintendent

**SUBJECT: REQUEST AUTHORIZATION TO ENTER INTO CONTRACT
NEGOTIATIONS WITH SAP PUBLIC SERVICES INC.,
PURSUANT TO REQUEST FOR PROPOSALS
NO. 102-FF04 - ENTERPRISE RESOURCE PLANNING
(ERP) SOFTWARE AND DELOITTE CONSULTING LLP,
PURSUANT TO REQUEST FOR PROPOSALS
NO. 011-GG04 - ERP SYSTEMS INTEGRATION AND
IMPLEMENTATION PROCESS**

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

**LINK TO DISTRICT
STRATEGIC PLAN: IMPROVE FINANCIAL SERVICES**

The Enterprise Resource Planning System for Business, was first approved by the Board on December 14, 2005, as part of the District's Comprehensive Information Technology Blueprint. This Agenda Item requests authorization to enter into negotiations with Deloitte Consulting LLP, to provide implementation services for MySAP ERP Solution software, and with SAP Public Services Inc., for the acquisition of the mentioned software.

The Need to Replace District Business Systems

The District faces risks, inefficiencies and costs related to our current business software and processes. These stem from such factors as the age of the systems, the extent of customizations, the procurement and implementation of separate non-integrated solutions rather than packaged implementations, the profusion of completely manual and in many cases, duplicate processes. The implementation of an integrated ERP package, along with changes in the District's business processes, will yield significant improvements in productivity, reduction in costs, improvement in the accuracy and timeliness of information and an improvement of service to our schools, community and staff.

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Some of the key benefits of our ERP initiative to our stakeholders include:

- More dollars and resources spent directly at the school level as new technology driven processes will reduce operating costs, in many central office departments.
- Administrative processes will require less time and effort from our staff, especially Principals and APs, thereby allowing more time to be spent focusing on the students.
- Enhanced and more timely data will be accessible to decision makers at all levels, especially, Principals and APs.
- Improved access to employee pay history, time entry and demographic data about employees through employee self-service; reduced wait times to have employee transactions processed; improved accuracy and timelines of retroactive pay.
- More widespread use of strategic sourcing, which extends the purchasing power of schools and offices; more timely payment of vendors and ability to take advantage of payment discounts.
- Decreased risk to the District in business operations ranging from: risk of failure in the aging general ledger and payroll system; risks posed through potential gaps in our internal controls; and lack of integration in our systems.

See additional information on benefits to be derived on Attachment A.

The RFP Process

In Phase I, along with the District's staff, AnswerThink conducted an analysis of the District's current business practices and mapped out an ideal future environment based on best practices from both the public and private sectors.

In Phase II the procurement selection process for the Enterprise Resource Management (ERP) software (RFP No. 102-FF04) was conducted and resulted in the recommendation by the Selection Committee to the School Board of SAP Public Services, Inc. as the provider of this software. The recommendation was accepted at the September 16, 2006 School Board meeting, as well as a directive was given to the District to present the School Board with a recommendation for an implementation services vendor; recommendations to enter into contract negotiations with both the software and the implementation services vendors; and a Total Cost of Ownership (TCO) analysis for the ERP initiative.

Phase III is the selection of the implementation services vendor which was conducted through an RFP process (No. 011-GG04) with three firms responding, BearingPoint, Inc., Deloitte Consulting LLP, and Universal System Technologies, Inc. Based upon all

the submissions and evaluations, the recommendation to award this contract to Deloitte Consulting, LLP was the unanimous recommendation of the Selection Committee as bringing the best value to the District. If a contract cannot be successfully negotiated with Deloitte Consulting LLP, then the Selection Committee recommended negotiations with the second ranked firm, BearingPoint, Inc.

Financial Issues

At the current time the estimated Total Cost of Ownership is estimated to be \$89.4 million over five years. Of that amount, \$85.4 million is to be provided through a Technology Leasing Program; the balance of the resources needed, maintenance costs in the fourth and fifth years, which cannot be financed are estimated at \$2 million per year. Funding for the lease payments from the 2 mill Local Optional Millage Levy (LOML) will be determined based on certifying that the District meets all the five year instructional space needs, with the exception of Class Size Reduction, and a subsequent School Board Workshop to review all district wide capital needs and debt capacity analysis.

The Technology Leasing Program will be structured similar to the Line of Credit Program where draws will reimburse the District for funds already expended. This type of financing will allow the matching of the loan repayments in accordance with the cost and revenue benefits received from the implementation of this software.

The four-year project draws (in millions) are as follows:

	2007-08	2008-09	2009-10	2010-11	Total
Technology Lease	14.52	28.18	28.18	14.52	85.40

The above amounts will cover the direct costs of the project during four years and includes resources for the following: planning resources for defining District requirements; ERP software license fees and related annual "maintenance" fees for the project period; data center hardware; contract services for system implementation including a Systems Integrator, project advisors, and any necessary contracted personnel; District staffing of the project including subject matter experts and IT professionals; communication, training and rollout expenses; and limited interim improvements in existing business operations in advance of the ERP implementation.

Return on Investment

A Value Engineering Study was performed by SAP with the assistance of our staff. The study estimates a savings of approximately \$15 million a year, once the system is implemented, with a total payback in approximately ten years. This level of payback has been reported by other agencies that have implemented ERP solutions, as shown in Attachment B. The following estimated Cost and Benefits Analysis (in millions) is based on SAP's initial Value Engineering Study which results in a Return on Investment (ROI) of 18% over 10 years:

	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Benefits	-	1.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Costs *	-	(2.3)	(6.8)	(13.3)	(15.6)	(15.6)	(15.6)	(15.6)	(13.3)	(8.8)
Net Cash Flow	-	(1.3)	3.2	1.7	(0.6)	(0.6)	(0.6)	(0.6)	1.7	6.2

* Costs represent interest and principal payments over the technology lease term plus the \$2 million yearly maintenance cost.

Project Schedule

The project is scheduled to begin immediately after the contracts are awarded, and run for approximately 30 months. The project is divided into three phases which are outlined in attachment C.

Project Leadership and Accountability

The **Executive Sponsor** of this project is Ofelia San Pedro, Deputy Superintendent, Business Operations. She is supported by an **Executive Steering Committee** of the key business operations leaders affected by the implementation.

The **Project Executive** responsible for the day-to-day operations of the project is Andy Mayobre, ERP Management Officer. Currently, a Project Management Office (PMO) team, of key department personnel, works in the project on a part time basis as needed and will be assigned to the project through its duration. In the future an **Advisory Team** of District Directors and Managers from the business and technology operations will be set up to work closely with the Project Executive in reviewing project approach, status, business reengineering issues and implementation options. A **School Advisory Committee** comprised of Principals, Assistant Principals, School Administrative Assistants, School Accounting Clerks, and Union Representatives will be established to meet and review business issues, implementation proposals and potential impact on the schools.

Next Steps

Upon approval of this agenda item, negotiations with the vendors will commence and once finalized both contracts will be brought back to the School Board for final approval with an updated Total Cost of Ownership (TCO), a full financial and Return on Investment (ROI) analysis, a Financing Plan and a report on any additional benefits to be expected.

RECOMMENDED: That The School Board of Miami-Dade County, Florida **AUTHORIZE** the Superintendent of Schools, to enter into contract negotiations between the School Board of Miami-Dade County, Florida, and SAP Public Services, Inc., pursuant to Request For Proposals No. 102-FF04 – ENTERPRISE RESOURCE PLANNING (ERP) SOFTWARE and Deloitte Consulting LLP, pursuant to Request For Proposals No. 011-GG04, ERP SYSTEMS INTEGRATION AND IMPLEMENTATION PROCESS, to provide an integrated business solution, effective March 14, 2007, as follows:

1. SAP PUBLIC SERVICES, INC.
3999 WEST CHESTER PIKE
NEWTON SQUARE, PA 19073
2. DELOITTE CONSULTING LLP
200 S. BISCAYNE BLVD, SUITE 400
MIAMI, FL 33131
3. Authorize negotiations with BearingPoint, Inc., the second highest ranked proposer, should negotiations fail with Deloitte Consulting, LLP.
4. Once the contracts are finalized with SAP Public Services, Inc., and Deloitte Consulting LLP, both contracts will be brought back to the Board for final approval, including an updated Total Cost of Ownership (TCO), a full financial and Return on Investment (ROI) analysis, a Financing Plan, and a report on any additional benefits to be expected.

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Attachment A

Examples of Efficiencies to be Gained by Miami-Dade County Public Schools

For Miami-Dade County Public Schools, we anticipate dramatic improvements in the cycle time and service delivery in most business and human resources operations, as well as reduced costs. A few very specific examples of how we anticipate the SAP ERP solution will impact daily lives of teachers, employees and schools are provided below. These examples are meant to be illustrative of the type of efficiencies anticipated and, are by no means intended to be comprehensive. It will change dramatically the way we do business and will bring us in line with public and private sector companies that have implemented these improvements.

Retroactive Pay Adjustments

There are many instances in the District where employees are entitled to retroactive pay adjustments. One good example is adjustments to pay resulting from completed contract negotiations. Currently, there is a manual review process which can take significant time depending upon the volume of and reason for the adjustments. The process requires significant overtime and many weeks to complete. For example, it took two months and significant overtime to process all retroactive pay adjustments resulting from the recent negotiations of the teachers' contract.

With the SAP ERP solution, the ability to calculate this kind of retroactive pay transaction is automatic because the system is "date effective". It can calculate pay based upon the effective date of the transaction, something which the current system does not do. This will result in employees receiving their retroactive increases in a much timelier manner and, will result in a significant reduction in the workload in Payroll. It will also reduce the number of inquiries that Payroll and Principals will need to respond regarding paychecks for these employees.

Employee Self Service

Currently, most employee transactions related to Human Resources and Payroll activities such as address changes, direct deposit bank information, and leave requests are manual, paper-based processes. Employees must complete paper forms and route them to their supervisors who manually send them along to Human Resources or Payroll for processing. Employees cannot view the status of their requests and Human Resources or Payroll duplicates the data entry on the forms and often responds to employee requests for status updates.

The Employee Self Service functionality in the MySAP ERP solution will allow many employees to manage their own data and relieve Human Resources and Payroll from having to duplicate data entry. This will provide more accurate information and give employees the sense of "owning" their own information.

Grants Management

The current Grants Management process is very manual intensive and information is kept in a variety of systems that can only be accessed by a few staff members. Grant payables and receivables are not integrated into the General Ledger requiring significant time and effort to reconcile information. Grants receivables are a mostly manual process which requires significant effort. A significant level of human intervention is required to get data accurate for state and federal reporting. Schools have a difficult time tracking expenditures which requires added administrative effort at the school level and detracts from executing the main purposes of

the grants. Tracking of grant outcome measures and performance becomes secondary to tracking expenditures to ensure grant revenues are fully utilized.

The SAP Grants Management solution is fully integrated with financial, procurement and human resource applications providing for more effective management of grant programs. This frees up school resources to be more strategic with its grantors and provides the time and information to submit higher quality grant applications thereby increasing the overall level of grant revenues to expand educational funding and resources to enhance student achievement. The Grants Management solution will provide principals with daily up-to-date information on all grant available balances and provide all stakeholders better access to funding opportunities on-line. It will also provide current and easily accessible information for principals on the status of grant budget transfers, expenditures and position assignments.

Having accurate and timely information will allow management to make better and more timely decisions which can result in optimizing revenue generation as well as controlling costs and grant management.

Procurement

The current procurement process at the District is manual and labor intensive even though some strides have been made in the last several years, e.g., e-catalog. The procurement solution provided through the SAP Supplier Relationship Management solution will eliminate the need for duplicate data and will facilitate the updating and maintenance of catalogs electronically. It will also facilitate vendors doing business with the District electronically by providing for on-line vendor set-up and maintenance, capability for electronic purchase orders and invoices, the ability to pay vendors electronically and take advantage of prompt payment discounts, and the ability for vendors to self-inquire on order or payment status. This will reduce the volume of calls to schools from vendors inquiring on payment status. It will also provide schools with the ability to immediately view the status of their requisitions no matter where they are in the process, which is a significant weakness of the current system.

Benefit to Schools

There are several areas where schools will benefit from the SAP ERP solution thereby freeing up resources to focus on their core charter of educating students. They include the ability to utilize one system to streamline internal funds and purchase card reconciliations and the ability to view their budget and purchases on-line in a real-time status. Schools will also benefit from e-recruitment which will reduce the amount of time needed to hire a teacher thus putting more permanent educators with students. As previously mentioned, principals will have better access to available grant balances and grant opportunities and current and easily accessible information on status of budget transfers, expenditures transfers, and personnel action requests.

Attachment B

Examples of Efficiencies Gained in SAP ERP Implementations

Many large school districts and public sector organizations across the country have replaced their legacy business and human resources systems with modern ERP solutions like those provided by SAP Public Services, Inc. (SAP) and have gained great efficiencies. Several have done a good job of documenting their savings and improved operating procedures. Examples of these include the following:

Orange County Public Schools

Orange County Public Schools in Florida implemented ERP solutions from SAP in 1999 and recently upgraded to SAP's latest state-of-the-art system with no disruptions to operations. Benefits achieved include a 75% reduction in payroll processing time, a 90% reduction in time evaluation, and a 750,000 hour reduction in key program run times per year, leading to savings of more than 100,000 work hours per year. In addition, they reduced year-end downtime from one week to several hours, and streamlined maintenance processes resulting in significant productivity savings.

Houston Independent School District

Houston Independent School District (HISD) implemented Financial, Procurement and Maintenance Management solutions provided by SAP. They experienced an overall 42% return on investment including areas such as a 50% reduction in order processing costs, a 50% reduction in inventory, and a 2% reduction in purchased materials cost. HISD also improved the availability of budget reports from 2 weeks to immediate and had a one-time reimbursement for warranty claims of approximately \$1 million.

Seattle Public Schools

Seattle Public Schools implemented ERP solutions from SAP including e-procurement. They were able to reduce the requisition process from 14 steps to 3 steps and reduce requisitioning costs by 50%. In addition, the District was able to increase negotiated discounts with vendors by 25% to 60% and achieved savings from reduced maverick spend of 34%. They also provided significant service level improvements to schools.

Florida Department of Revenue

The Florida Department of Revenue implemented Financial and Tax & Revenue Management solutions provided by SAP. They have achieved significant benefits including reducing administrative costs by over \$15 million per year, improving new tax collections by \$320 million, and increasing annual tax collections by 180%.

Sacramento County

Sacramento County implemented the SAP ERP solution and was able to reduce the time to complete the hiring process by over 2 weeks and shorten the time to complete the monthly financial close time by 40%. They reduced the time to produce periodic financial reports by 100% to available immediately and eliminated the need to distribute paper reports by 80 hours every 4 weeks.

Other

There are several K-12 systems in Florida that have or are in the process of implementing ERP solutions. Amongst them are: Broward, Duval, Hillsborough, Orange, Palm Beach, and Polk district school systems. Other large K-12 school districts nationally that have implemented ERP solutions include Los Angeles Unified School District and Chicago Public Schools.

Proposed SAP ERP Implementation Phasing

Implementation Timelines

The project is scheduled to begin immediately after the contracts are awarded, and run for approximately 28 to 30 months.

Phase 1

Phase 1 is focused on implementation of most financial capabilities and core procurement capabilities. The scheduled go-live date is 16 months after project kick-off followed by a 2 month post implementation support period. Core financial and procurement capabilities include:

- Accounts Payable
- Accounts Receivable
- Capital Planning
- Cash and Capital Management Planning
- Budget
- Fixed Assets
- General Ledger
- Outlook
- Procurement Card
- Procurement Transactions
- Supply Data Management
- Business Performance Reporting

Phase 2

Phase 2 is focused on implementation of most Human Resources capabilities. The scheduled go-live date is 22 months after project kick-off followed by a 2 month post implementation support period. Core Human Resources capabilities include:

- Benefits Administration
- Compensation Management
- Employment Data Management
- Exit Management
- Organizational Effectiveness
- Payroll
- Position Management
- Recruiting and Staffing
- Time and Attendance
- Business Performance Reporting

Phase 3

Phase 3 is focused on implementation of the remainder Procurement capabilities and Travel and Expense management. The scheduled go-live date is 26 months after project kick-off followed by a 2 month post implementation support period. Core capabilities include:

- Contract Management
- Inventory Management
- Sourcing
- Travel and Expense
- Business Performance Reporting