CITY OF POMONA
COUNCIL REPORT

February 27, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted By: Onyx Jones, Finance Director

Subject: **Authorize the City Manager to execute an amendment to the current Mitchell Humphrey FMS contract to expand current services of the City financial system and Adopt a Resolution amending the FY 2016-17 Capital Improvement (CIP) Budget by creating a new CIP project #428-2590-XXXXX-71048, "Financial Software Project" and appropriating $632,675 of available Series "AV" Bond Proceeds**

OVERVIEW

> **Recommendation** – Staff recommends that Council authorize the City Manager to:
>
> 1.   Execute an amendment to the current Mitchell Humphrey (FMS) contract to expand current services of the City financial system and annual maintenance in the amount of $352,675.
>
> 2.   Adopt a Resolution amending the FY 2016-17 CIP Budget by creating a new CIP project #428-2590-XXXXX-71048, "Finance Software Project" and appropriating $632,675 of available Series "AV" Bond Proceeds.
>
> **Fiscal Impact** – The cost of the FMS upgrade/enhancement is $352,675 and the cost for "other modules" that FMS cannot provide will cost approximately $280,000 for a total of $632,675. See table of page 2 for a detailed list of those modules. The "other modules" will also require either a separate request for proposal (RFP) process or an Informal Bid process to select the right software companies. These modules will be brought back to Council, if needed for approval, per the purchasing ordinance. We will also ensure these modules will interface with FMS.

Submitted to City Council: _____
Approved: _____
Continued to: _____
Denied: _____

Agenda Item # _____
Resolution No(s): _____

_____
Ordinance No. _____

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There are two separate modules for Utility Billing and a Work Order Management System
that will be funded by the Water and Sewer Fund in the amount of $1,200,000 and it will be
budgeted during the FY 2018 budget process.

FMS Upgrade/Enhancement (AV Funded)	
Modules	**Amount**
General Ledger	$9,500
Accounts Payable	$25,000
Purchasing	$10,200
Accounts Receivable	$5,000
Project Accounting	$33,800
Budgeting	$21,000
General Enhancements Various	$43,750
Planning/Configuration/Admin	$65,850
Training	$45,225
Annual Maintenance	$23,350
Contingency	$20,000
Project Manager	$50,000
Sub Total:	**$352,675**
Other Modules (AV Funded)	
Modules	**Amount**
HR/Benefits	$40,000
Payroll/Timekeeping	$60,000
Cash Management	$20,000
Cash Receipting	$10,000
Debt Management	$20,000
Parks & Recreation	$50,000
Reporting	$30,000
Project Manager	$50,000
Sub Total:	**$280,000**
Total:	**$632,675**

Separate Modules (Water/Sewer Funded)	
Modules	**Amount**
Utility Billing	$500,000
Work Order Mgmt System	$700,000
Total:	**$1,200,000**

Previous Related Action – None

BACKGROUND

The City's current financial system, Mitchell Humphrey FMS, is over 30 years old. Since its
inception, the system has been minimally maintained in order to function at a rudimentary level. The
last major upgrade that was performed was the Y2K switch where the system was moved to a
platform in order for it to function at all. Since then minimal upgrades or enhancements have been

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performed. Recently, the City upgraded to FMS III from the previous FMS II. The upgrade was free per the current contract which did improve its current services; however there are numerous services/modules that FMS offers that the City does not have. The software in its current state without the additional modules is very labor intensive; it's limited in its capabilities and requires many manual system integrations requiring a full time programmer to be on hand.

Accordingly, as a part of the Finance Department's on-going efforts "to do more with less" Finance has been researching new systems to move the City's City-Wide Software System into the 21st century in the most cost-efficient manner possible. This included putting out a Request for Proposal (RFP) for a new City-Wide Software System encompassing many modules that would reach out through the entire City. New systems of this sort are expensive and require a long timeline in order to implement. The City received two proposals that ranged from $2.5 million to $7 million. In considering the most cost effective method, the City decided to look at the current system to see what they could offer in terms of enhancements as well as other features that the City currently wasn't using or could purchase. Mitchell Humphrey and the City worked together to view many demonstrations of the "new" modules, features and enhancements and felt they were adequate to create a new age technological environment needed to promote efficiency and functionality along with keeping the City's available resources in mind.

The City's external auditors had expressed concerns with the current financial system during the audit. The concerns come from their experience with various other cities and their knowledge of the Cities financial systems.

1. There was a concern with the way Fixed Assets are recorded. The City currently tracks all of its fixed assets in an excel spreadsheet. The City uses the spreadsheet to compute annual depreciation and gain and losses on disposition of assets. While excel spreadsheets are ideal for one time analysis, they become problematic as the data grows and evolves over time. As new rows and columns get added, the summary ranges and formulas may need to be modified or new ones created. If the data and formulas are not consistently updated, mistakes will occur and will lead to incorrect financial reporting.

2. Due to the limitations of the City's financial system, the Payroll Master file is maintained and edits are made by the payroll department. This is a segregation of duties issue. Human Resources should be the department to make edits to the employee payroll master file. This is not possible due to the current HR and Benefits system not being able to integrate into the payroll software.

3. The City's journal entry process is manual and requires a lot of paper. Users in the current financial system cannot be limited to just preparing, approving, or posting journal entries. This represents a segregation of duties issue. The auditors would like to see the City obtain or improve the financial software in order to facilitate the proper controls and segregation of duties.

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DISCUSSION/ANALYSIS

MITCHELL HMPHREY, FMS

The City of Pomona has a very old and antiquated system. It is limited in its functions and does not produce reports to efficiently operate in today's environment. Growth in the City and in services provided has significantly affected our accounting requirements. In order for the City to maintain this growth in services, it must enhance its technology to promote and create efficiency.

Some of the current limitations of the Mitchell Humphrey FMS system include:
1. Antiquated, not modern
2. Limited functions
    a. Limited reporting capabilities
    b. Inability to customize reports as needed
    c. Limited capabilities of looking of details in the system
3. Requires a lot of paper work resulting in manual/inefficient processes
4. The Fixed Asset System module is very difficult to navigate and requires duplicate entry.
5. The system does not have a special period that is designated for entries required by auditors
6. Data does not export out of FMS into Excel properly, which requires financial reports to be created manually in excel
7. Some reports have balances that don't always match
8. The City currently does not have a budgeting software system. The City uses excel spreadsheets that are extremely complicated which could result in possible errors if not treated or used carefully.

Some of the current benefits of upgrading the Mitchell Humphrey FMS system include:
1. The City would become paperless with many of its processes.
2. The City would obtain a purchasing module which would be used by all departments Citywide. It would increase efficiency by automating processes and decrease the amount of paper being processed.
3. It would connect the Fixed Asset module to the Purchasing module to flag assets which would increase efficiency by not having to enter the information twice and improve accuracy.
4. The City would create a new bank reconciliation process that is more streamline and efficient.
5. The upgrade would include approval routing which is a paperless function to where PO's or Journal Entries are routed through the system with a scanned document rather than a paper

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document.

6. The upgrade will allow the City to have faxing capabilities through email.

7. The upgrade would include a workflow system for Accounts Payable, Purchasing, Fixed Assets, General Ledger, and Journal Entry process. The workflow system includes a paperless process that allows an approval cue to flow from the various departments to the Finance department. This promotes efficiency as well as cost savings City-wide.

8. The new system upgrade would include training on existing and new modules. The training as well as the upgrade would result in ease of use so more staff would be able to use the system to monitor the budget and other functions.

9. The upgrade would include a Project Accounting module to track the large number of Capital Improvement Projects resulting in more efficient and accurate reporting.

10. The City would benefit from an upgraded budgeting module. It would include a workflow system where the other departments would be able to submit all of their budgeting work papers electronically along with an electronic approval process. A budgeting module would be able to assist in providing 5 and even 10 year projections based on trends and analysis performed in the system.

OTHER MODULES

During the RFP and Demonstration stage of the process, it was determined that Mitchell Humphrey was not able to provide all the modules the City needs. These "Other Modules" are items Mitchell Humphrey could not provide and it will require staff to do a separate RFP or Informal Bid process to select the right software companies. Any modules that exceed $30,000 will be brought back to Council for approval as required per the purchasing ordinance. We will also ensure these modules will interface with FMS.

Some of the current limitations of the Other Modules include:

1. **Human Resources & Benefits System:** The City's Human Resources & Benefits system is very old and doesn't integrate with the payroll system. Proper internal controls require that integration between the two systems.

2. **Timekeeping System:** The City currently does not have a timekeeping system. The City uses paper time cards to be entered manually by time entry clerks. This is a very inefficient way of processing time cards.

3. **Payroll System:** A new payroll system is very important to the City. The current company is Canadian based and has a limited understanding of the various payroll issues that surround the state of California. They have limited experience with CalPERS which is a major hindrance. The company also has provided the City with poor customer service and still has an outstanding item the City requested help with over a year ago. The City was also told that the company was working on rolling out a new version of their software and would no longer support the City's version after July 2018.

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4. **Cash Management System:** The City does not have a cash management system to assist in its investment portfolio of $123 million.

5. **Cash Receipting System:** The City's cash receipting system is a home grown system created by our IT analyst. New software and hardware needs to be purchased in order to increase its functionality and efficiency. It also needs to be implemented throughout the City.

6. **Debt Management System:** The City has an enormous amount of debt which requires a lot of manual processes such as monthly reconciliations done manually on spreadsheets.

7. **Parks and Recreation System:** The City currently does not have a Parks & Recreation system. Not having a system is resulting in a hand written cash receipting system which is a greater risk for fraud and does not allow for the proper tracking of classes taken by Citizens. The lack of a system limits the amount of citizens that can be reached through the various classes and opportunities the Department has to offer.

8. **Reporting System:** The City currently does not have an efficient and customizable reporting function in the General Ledger. The lack of a reporting function results in less timely reporting to executive management plus it limits the capabilities of what can be reported.

Some of the current benefits of the Other Modules would include:

1. **Human Resources & Benefits System:** By purchasing a new Human Resources & Benefits system, the City will be able to serve its employees in a more efficient manner. There would be a self-service feature where the employees could log in to change their exemptions for tax purposes as well as their address. Features like this would increase the productivity of the employees as well as increase their functions.

2. **Timekeeping System:** Having a timekeeping system would help bring the City into the 21st century. Time entry clerks would be relieved of a lot of their time due to the employee entering their own time into the system. No paper would be required. The timecard would go through an approval cue thus increasing efficiency and decreasing paper costs.

3. **Payroll System:** A new payroll system is very important to the City. By obtaining a new payroll system, the City would have a US based company with many other clients that are in California. They would be able to understand the various CalPERS issues facing the City as well as provide the City with better customer service. A new system would also be able to integrate with the HR system which would increase the level of internal controls in the City.

4. **Cash Receipting System:** New software and hardware needs to be purchased in order to increase its functionality and efficiency. It also needs to be implemented throughout the City. This would allow all the locations the City cash receipts to be integrated and show real time activity with more detail.

5. **Debt Management System:** The City would benefit from having debt management software. The City has eleven different issuances of debt amounting to $222 million which is difficult to keep track of the various debt service payments and fiscal agent activity. Each

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bond has approximately five different accounts to reconcile. This software would track all available unspent bond proceeds, track all the various debt service payments to provide reminders before they come due, track the fiscal agent activity and verify it ties to the general ledger. It would take a lot of the manual process out of the tracking and provide efficiency and accuracy.

6. **Parks and Recreation System:** A Parks and Recreation system would greatly benefit the City. A new system would replace hand written receipts plus create internal controls for cash handling. It would also be able to track all the classes provided and number of participants for each class. This would benefit the department by showing them which classes are effective and worthy of City resources so it can run their classes in a more efficient manner.

7. **Reporting System:** The City would benefit from a reporting module that is customizable and functional for various reporting needs. The Finance department reports to the Council on a quarterly basis the financial position of the City. The reports currently used are manually created which is time consuming. The reporting module would have a template set up and a click of a button would generate the reports instead of using a time consuming inefficient method. The reporting module would also allow for the City to be able to generate its own financial statements on an annual basis without relying on the external auditors to do this for the City. This would cut down on annual audit costs as well as foster a mentality of owning the financial statements by preparing them ourselves. The reporting modules would also be able to produce budget documents as well as the State Controllers report resulting in additional cost savings.

CONCLUSION/RECOMMENDATION

The Finance Department solicited requests for proposals (RFP) for a full new Financial Software Solution but felt a whole new system was cost prohibitive. Furthermore, the Finance Department with cooperation from other departments, feels it's in the best interest of the City to upgrade and enhance the current financial system as well as implement other various modules that would increase the efficiency and effectiveness of financial reporting Citywide.

Attachments:
1. Mitchel Humphrey FMS Quote/Agreement
2. Budget Resolution