

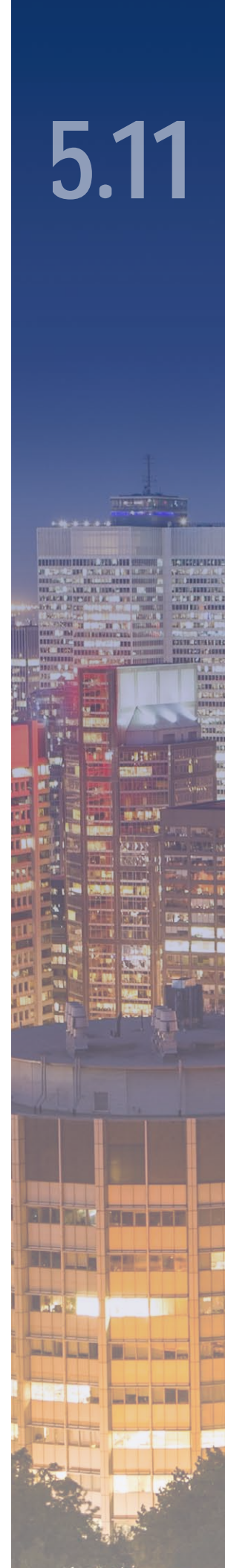


# Report of the Auditor General of the Ville de Montréal to the City Council and to the Urban Agglomeration Council

For the Year Ended December 31, 2012

## “Integrated Human Resources and Payroll Management System” Project

5.11





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## List of Acronyms

CSTI	Comité sectoriel des technologies de l'information	STI	Service des technologies de l'information
SPVM	Service de police de la Ville de Montréal	TM	time management

## 5.11. “Integrated Human Resources and Payroll Management System” Project

### 1. Introduction

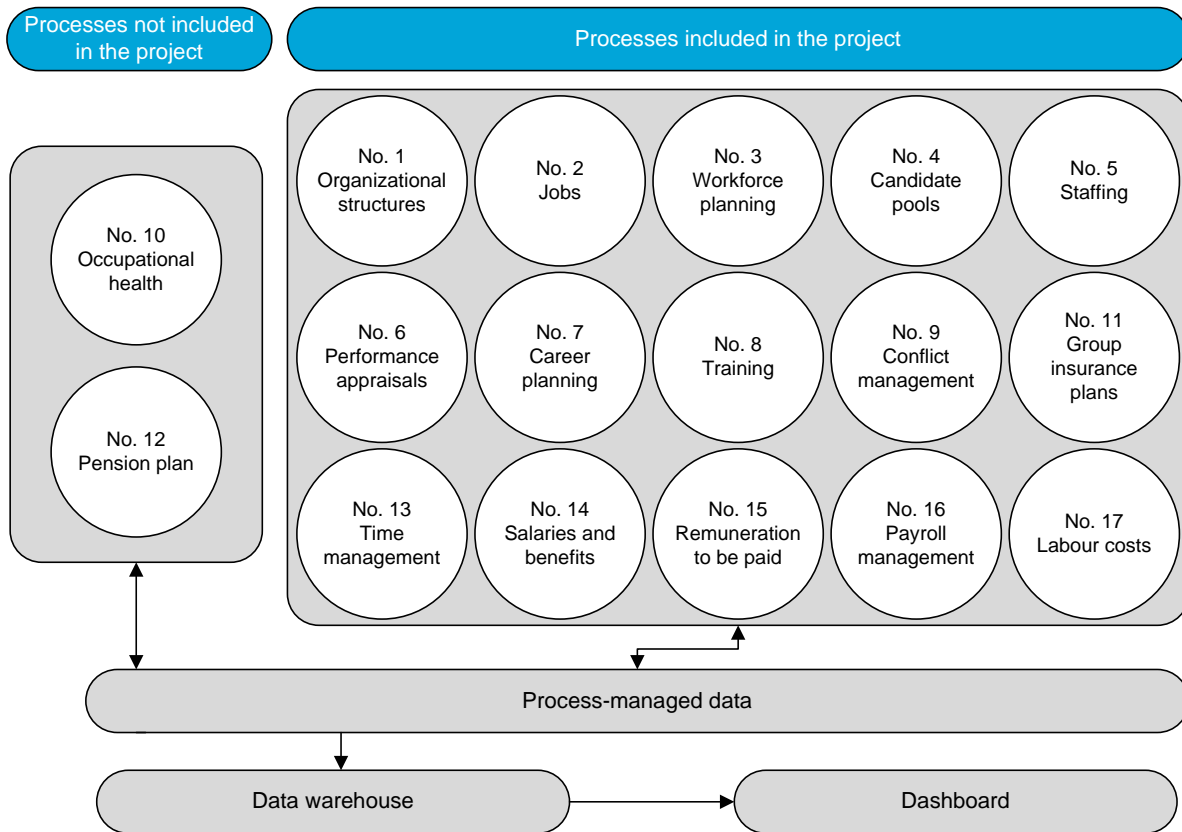
On October 8, 2003, the executive committee approved a project to implement a common and integrated platform regrouping the financial, procurement, human resources and payroll management systems. To this effect, the executive committee allocated a global budget of \$53.5 million to the project.

Once completed, this project—named “SIMON” (for *Système Intégré Montréal*)—was expected to:

- Support proximity services provided by the boroughs;
- Generate substantial savings through a reduction of payroll and accounting system management costs;
- Improve services to citizens and reduce the costs of these services by providing access to standardized management data at all times and at all levels as well as by offering activity-based cost tracking to measure performance improvement;
- Eliminate the duplication of activities and tasks by ultimately eliminating more than 50 major systems, streamlining decision making, reducing the workload associated with low-value added activities and automating a certain number of processes.

Moreover, the main objective of the SIMON program’s human resources and payroll component (the “Integrated HR-Payroll MS project”) was to provide the Ville de Montréal (the city) with an integrated management system supporting processes based on the best practices of large organizations. The initial scope of the Integrated HR-Payroll MS project included the following 15 processes as well as the management information production function, as shown in Figure 1.

**Figure 1 – HR-Payroll Function Processes**



From the aforementioned \$53.5 million global budget, a sum of \$25 million was to be spent on completing the Integrated HR-Payroll MS project. According to the estimated timeframe, all processes were to have been implemented by May 31, 2007. To promote the successful completion of the Integrated HR-Payroll MS project, the following orientations were determined:

- As with the financial resources and procurement components, Oracle Suite products would be used;
- The Oracle Suite products would be used in their “vanilla<sup>1</sup>” form;
- The services of external Oracle Suite product specialists would be retained to facilitate the integration of these data processes in the city’s IT environment;
- Appropriate and sufficient internal resources would be assigned to work with the “integrator” (external resources).

Between 2004 and 2006, some features related to processes of Integrated HR-Payroll MS project were implemented while the Service du capital humain was the project’s proponent

<sup>1</sup> This refers to the implementation of the original version of the software package in order to minimize change management activities.

and acting as the owner of these processes. Furthermore, the Kronos software package was selected to support the time management (TM) process. However, a moratorium on the SIMON program was announced in July 2006 and this brought all work on the Integrated HR-Payroll MS project to a sudden stop.

In April 2007, work on the TM process as part of the Integrated HR-Payroll MS project (the “TM subproject”) resumed under the responsibility of the Service des finances, which separated the subproject from the SIMON program. Moreover, the other processes inherent in this project remained pending for several years, although certain human resources management process functions had been developed since then as part of sectoral projects. In this regard, we note that the Service du capital humain decided in 2007 to continue developing the human resources management processes outside of the Integrated HR-Payroll MS project, as indicated in the IT business plan developed accordingly.

In April 2009, a summary report was produced on the experience with the SIMON program during the 2003–2008 period. This report dealt essentially with the finance and procurement functions, including the evolution of the SIMON program and lessons learned along the way.

In March 2010, the executive committee was presented with a progress report on the SIMON program and emphasized the relevance of pursuing the strategy that had been put in place in 2004. To this effect, reference was made to the fact that several of the Integrated HR-Payroll MS project’s initial processes as well as the complementary modules for the Finance and Procurement components of the SIMON program had not been completed. Furthermore, the report highlighted the fact that extensive planning of the overall project was scheduled for 2010. However, this planning had not been completed at the time we concluded our audit (October 2012) although the CSTI (Comité sectoriel des technologies de l’information) at the time approved the HMRS-Payroll project and the core human resources management processes to this effect.

Meanwhile, work on the TM subproject continued and was still under way at the end of our audit.

## 2. Audit Scope

Initially, our audit dealt only with the work carried out under the TM subproject. However, considering that the TM subproject is based on the Integrated HR-Payroll MS project and that—following the moratorium announced in July 2006—the revival of this subproject

remained both uncertain and challenging at the time of our audit, we decided to extend the scope of our audit to include the project's then current status.

Given that the scope of analyzing the status of the Integrated HR-Payroll MS project is in no way comparable to conducting an analysis of the TM subproject's status, we decided to tackle each of these analyses in separate audit reports. This audit report addresses the current status of the Integrated HR-Payroll MS project. In this regard, we set the following objectives for our audit:

- Take stock of the moratorium announced in 2006, the measures under way, the findings already established and the contemplated scenarios;
- Assess the current situation with respect to project governance and the capacity to efficiently manage human resources management processes, particularly payroll processes.

We conducted most of our audit work between April and October 2012, and our audit included a global review of the key aspects of the Integrated HR-Payroll MS project since its launch in 2004.

### 3. Findings and Recommendations

#### 3.1.A. Background and Findings

##### Impact and Aftermath of the July 2006 Moratorium

The Integrated HR-Payroll MS project began in 2004 and continued until the announcement of the moratorium in July 2006. An impact analysis of this moratorium on the Integrated HR-Payroll MS project carried out in January 2007 highlighted the following consequences *inter alia*:

- An additional load on the systems scheduled to be eliminated following the implementation of the Integrated HR-Payroll MS project, since those systems would need to remain operational for a longer period than initially anticipated;
- The high risk associated with the availability of the necessary expertise to support and develop some of these systems. Furthermore, no vendor support would be provided beyond 2007 for the payroll systems of certain boroughs created from former suburban municipalities;
- The non-use of a considerable percentage of licenses purchased and the annual recurring license support fees paid by the city. These fees represent 22% of the initial cost of these licenses or an annual expense of \$2 million;



- The risk of losing the Integrated HR-Payroll MS project’s architectural and functional expertise and knowledge and apprehended challenges of rebuilding a team having the same knowledge;
- The need to determine the orientations concerning the moratorium in order to establish and prepare the next phase of activities.

Based on our analysis of the events that followed the moratorium and of testimonies gathered during our audit, it is our understanding that the Integrated HR-Payroll MS project was ignored for several years. Indeed, at the time of our audit, the project had no official status and was no longer included in the three-year capital expenditures program (2012–2014). Nevertheless, some of this project’s processes were later completed through sectoral development whereas others were being completed or undergoing analysis and assessment.

Furthermore, we could not retrace a single official statement made by the Direction générale and authorities with respect to Integrated HR-Payroll MS project reorientations or even the continuation of the project. An informal progress report on the administrative systems—including those covered by the Integrated HR-Payroll MS project—was presented to the executive committee in March 2010, but no decision regarding a proposed “future vision” for these systems followed.

Substantial resources were invested to implement the Integrated HR-Payroll MS project’s management model, which is partially completed but for which core deliverables have yet to have been provided or even initiated. In our opinion, departing from the integrated management model advocated by the city comprises very significant risks. Among these are the risk of a disorderly development that no longer meets needs and encourages the duplication of processes and data, thus increasing operating and maintenance costs and jeopardizing the initial objective set for the completion of the Integrated HR-Payroll MS project as well as its benefits.

### Progress Status and Costs

At the time the moratorium was announced in July 2006, it was obvious that the Integrated HR-Payroll MS project was considerably behind schedule. Indeed, none of the 15 processes (see Figure 1) had been fully deployed, the configuration of three human resources management processes had not begun and the only payroll processes that had been deployed were those pertaining to judges, elected officials and retirees. It should be noted that work on managing the payrolls of the other city employee groups had not yet

begun and that the work on TM processes was under way only in the Lachine and LaSalle boroughs, the wastewater treatment plant and the Centre d'urgence 911.

With respect to costs, from the outset, the \$25 million budget allocated to the Integrated HR-Payroll MS project was never broken down into subprojects and deliverables. Furthermore, in the case of the SIMON program, expenses had been accounted for on a global basis over a period of years, thus making it impossible to differentiate the costs incurred by the Integrated HR-Payroll MS project from the subprojects and deliverables stemming from this project. Simply put, it became futile to attempt to accurately reconcile the costs incurred by the Integrated HR-Payroll MS project with the authorized budget in some detail.

We were nevertheless able to estimate certain costs incurred by the Integrated HR-Payroll MS project based on an estimate of the costs incurred until the announcement of the moratorium as well as cost projections for the TM subproject as at December 31, 2012. These costs were thus estimated at approximately \$4.5 million and \$18.5 million respectively, representing a subtotal of \$23 million out of an initial \$25 million global budget. Taking into account the work required to carry out or complete the deployment of the different processes and the fact that the preliminary cost estimate for the active employee payroll process subproject represents in itself an investment of at least \$20 million, the overall cost of the Integrated HR-Payroll MS project will undeniably be much higher than the initial budget.

Moreover, in our search for information to establish the cost of the Integrated HR-Payroll MS project, we examined a contract awarded by the city to CGI in November 2004 in which this firm was acting as the system integrator. The object of this contract, initially valued at \$10.9 million, was to provide the [TRANSLATION] “professional services required to assemble and deploy human resources and payroll work processes and all related services” and it was to end on May 31, 2007. To this initial amount of \$10.9 million could be added a sum of \$2.1 million to cover additional related professional services that could be required.

Our audit revealed that this contract ended up costing \$11.6 million and that Montréal paid professional fees under it until the end of the year of 2010. As previously mentioned, a considerable amount of work stipulated under this contract had not yet been completed or even initiated when the moratorium was imposed in July 2006. Furthermore, the possible contribution made by CGI under this contract to the TM subproject—which began in April 2007—can be very minimal at most, given how slowly work on this subproject progressed between April 2007 and the end of 2010. This assertion is all the more justified,

given the fact that the city retained the services of this same firm under another agreement signed in 2010 for the purpose of this same project.

In fact, CGI likely rendered services other than those initially provided under the contract to the city, as it appears inter alia from a legal opinion provided to the acting city manager on July 25, 2006. This opinion dealt solely with the city manager’s authority to mandate CGI to provide related services for the completion of the SIMON program’s finance and procurement functions (despite an initial mandate given to DMR Conseil) without issuing a public call for tenders. The opinion concludes that: *[TRANSLATION] “the city has the right to mandate CGI to pursue the completion of the new integrated financial, human and material resources management system using Oracle products, regardless of the fact that the city had initially entrusted only a part of this human resources and payroll functions project to CGI and that the city manager may require work to this effect.”* In our opinion, this conclusion is rather surprising in the following respects:

- The reason for this conclusion, according to which *[TRANSLATION] “the project managers had already used up the amounts allocated by contract to CGI to pay for part of the work provided under the contract with DMR Conseil. In a context where DMR Conseil spent all of the amounts awarded under its contract and that this firm is no longer able to continue its work without additional funding, it is our opinion that nothing prevents the city from mandating CGI to complete the overall project, including the finance [and] procurement functions, through its initial contract allocations for the assembly and deployment of human resources and payroll management processes.”*
- The contract with DMR Conseil was interrupted because of a lack of financial resources; however, most of the contract concerned work that the city intended to entrust to CGI.
- The legal opinion does not address the question as to whether DMR Conseil, whose services were retained at the end of a public call for tenders process to carry out the finance and procurement functions, was entitled to the additional work entrusted to CGI without first issuing a call for tenders.
- In fact, at the time the legal opinion was issued, the “main” contract, i.e., the contract with CGI, was subject to a moratorium resulting in the interruption of the work on the human resources and payroll management processes. How could a consequential amendment then be made in the absence of a main contract?

We raise the question of whether or not the author had access to all of the information for the purpose of issuing his legal opinion. Moreover, regardless of whether or not this legal opinion is founded, we remain concerned by this situation—which evokes a waiver of the fundamental public administration principle according to which amounts approved for specific purposes by authorities, in this case the executive committee, cannot be used for

other purposes without said authorities' prior approval. However, we note that this situation occurred under a former administration.

## Lessons Learned and Revival of the Project

We share the position stated in the aforementioned presentation made to the executive committee in March 2010, namely that *[TRANSLATION]* “*despite the significant gap with respect to the target<sup>2</sup>, the stakeholders are more than ever before convinced of the relevance of continuing the strategy initiated in 2004.*” In our opinion, it is unacceptable that an organization the size of Montréal does not yet dispose of appropriate administrative systems to manage processes that are *a priori* relatively simple.

Consequently, we believe that the entire Integrated HR-Payroll MS project must be revived and that the results it produced in the past must be built on. In this respect, we examined the root causes of the considerable delays and cost overruns that hindered the project. Although not comprehensive, our work led us to identify the following difficulties that will be instrumental in reviving the project. We must emphasize that several of these difficulties transect the lessons learned that were identified in the aforementioned summary report as far as the finance and procurement functions are concerned.

Moreover, we would like to point out that, at the time of our audit, the Service des technologies de l'information (STI) was in the process of implementing a new information technology project management framework which should, in principle, mitigate the risks of future projects being hindered by the same problems.

- **Customization of the Oracle Suite Products**

The initial intention was to complete the Integrated HR-Payroll MS project according to the following basic orientation: the Oracle Suite products were to be used in their “vanilla” form. This orientation was based on the presumption that the city's processes would need to be adapted in accordance with the Oracle products' data processes in order to minimize change management activities. We must emphasize that the best process management practices at issue are nested in the Oracle products.

The many changes made to adapt the Oracle Suite products to the city's processes explain the considerable delays and cost overruns that hindered the project.

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<sup>2</sup> The presentation document mentions that the project is twice as costly to complete than anticipated and takes four times longer than expected.

Furthermore, the departures from this basic orientation resulted in the city's processes being less closely aligned with the best practices.

- **Poor Risk Management**

A detailed risk analysis was initially conducted as part of the Integrated HR-Payroll MS project. However, the mitigation measures then identified were never implemented during the project. Furthermore, except for the first year of the project, this risk analysis was not updated thereafter to take into account the evolving circumstances under which the project had been carried out.

Admittedly, these deficiencies hindered the project team's capacity to foresee difficulties along the way and react promptly by implementing the necessary measures under the circumstances.

- **Numerous Changes to the Project's Structure and Organization**

The initial structure set up to manage the Integrated HR-Payroll MS project was aligned with current practices for projects of equivalent scope. However, the numerous changes made along the way hindered the proper unfolding of the project. Furthermore, the lack of resources and expertise in the business fields and affected units combined with the city's lack of experience in major business process transformation projects contributed to the aforementioned delays and cost overruns.

- **Lack of Leadership, Follow-Up or Accountability**

Over and above the aforementioned lack of follow-up with respect to risk management, we note that the summary report on the experience with the SIMON program (see above), which also applies to the HR-Payroll component, points to the absence of performance indicators which—in our opinion—are required to enable the Direction générale to ensure a rigorous control of this major project and periodic reporting to the executive committee on the project's progress. It should be remembered that one of the factors that was initially invoked to justify the need for this project was the fact that the large-scale savings that the organizational model for the “new city” was to generate stemmed mainly from the optimization and transformation of the business processes, including those under the scope of the Integrated HR-Payroll MS project. As we mentioned previously, the executive committee had allocated a \$25 million budget to this project.

While we understand that the moratorium announced in July 2006 made it impossible to continue the Integrated HR-Payroll MS project, it is imperative that the Direction générale rigorously track all major projects and report periodically thereon to the executive committee. This is fundamental for enabling the authorities to make informed decisions and fulfill their governance obligations.

Over and above considering the problems noted above, it is our opinion that the orientation focussing on internal development, initially adopted for the subproject to support work on the payroll process, must be re-examined as part of the revival of the Integrated HR-Payroll MS project. Indeed, that decision had been based mainly on the assumption that it would cost less to develop the project internally than outsourcing it for organizations employing more than 10,000 people (according to an analysis conducted by the STI).

The actual costs incurred to date by the subprojects under the Integrated HR-Payroll MS project are much higher than initially estimated. Furthermore, the outsourcing market has evolved since 2004, specifically with respect to prices. Under the circumstances, the opportunity analysis that had been conducted at the time to determine the best way to proceed with the payroll subproject must be updated in light of how the situation has evolved.

### **3.1.B. Recommendation**

**We recommend that the Direction générale take all necessary measures to:**

- A) Revive the entire Integrated HR-Payroll MS project in line with the strategy adopted in 2004 and the lessons learned from the past, and then decide on the objectives, development model and orientations that should be emphasized accordingly;**
- B) Update the cost estimates to complete the Integrated HR-Payroll MS project;**
- C) Make a recommendation to the executive committee proposing an action plan to revive the Integrated HR-Payroll MS project as well as an update of the costs to complete it;**
- D) Reassess the orientation focussed on internal development initially adopted for the payroll process;**
- E) Ensure a rigorous management framework for the project and periodic status reports on the project to the executive committee.**

**Business unit's response:**

- A) [TRANSLATION] *The CSTI resumed the Integrated HR-Payroll MS project in July 2011 during a presentation in the form of a summary business case.*

*The CSTI then authorized the project's feasibility study and business case. The project deals solely with the human resources management and payroll processes, which are essential to payroll management.*

*As part of the implementation of the Oracle payroll system, the unmet needs cover the following activities and processes (inclusions):*

- *Organizational structures (no. 1);*
- *Jobs (no. 2);*
- *Staffing (no. 5);*
- *Salaries and benefits (no. 14);*
- *Remuneration to be paid (no. 15);*
- *Payroll management (no. 16);*
- *Labour costs (no. 17, management of pay scales only);*
- *Implementation of the foundations for business intelligence functions;*
- *Review of the interfaces identified in the functional architecture.*

*The following activities and processes are not included in the project (exclusions):*

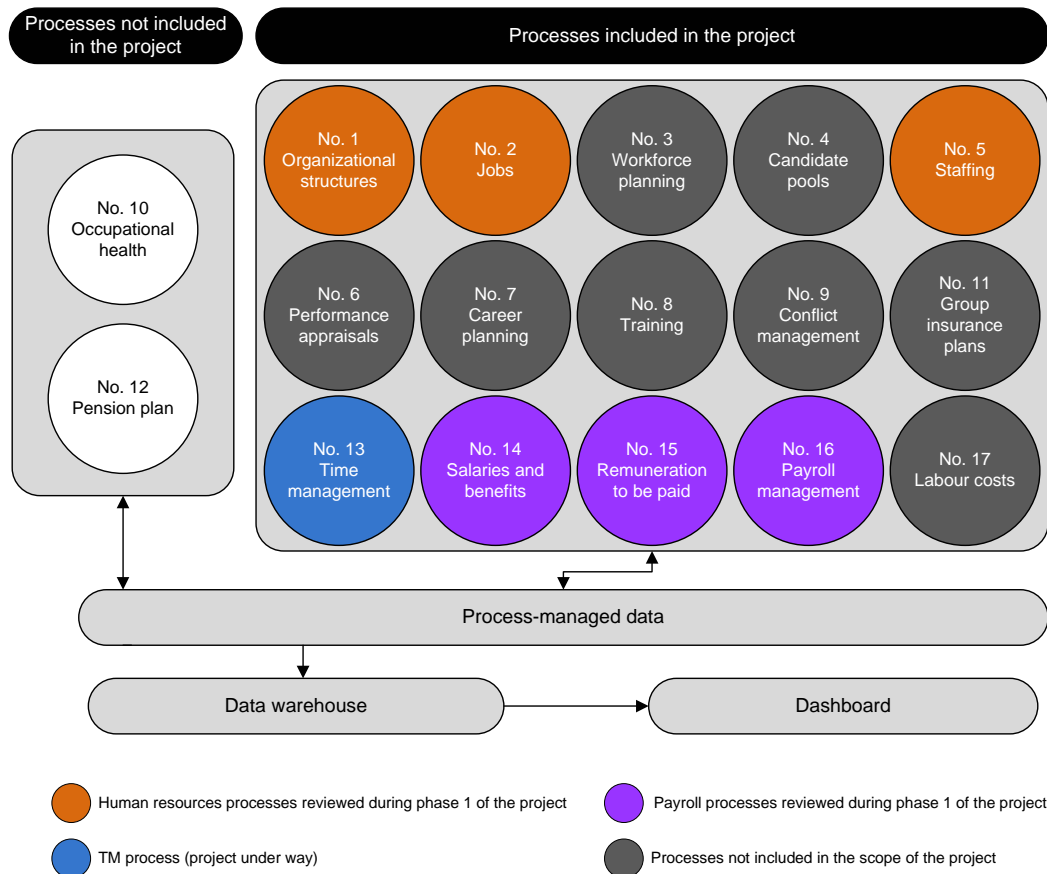
- *Workforce planning (no. 3);*
- *Candidate pools (no. 4);*
- *Performance appraisals (no. 6);*
- *Career planning (no. 7);*
- *Training (no. 8);*
- *Conflict management (no. 9);*
- *Group insurance plans (no. 11);*
- *Labour costs (no. 17);*
- *Archiving method for systems that are abandoned under the Archives Act;*
- *Replacement or linking of peripheral mission systems used by business units to manage their everyday operations;*
- *Implementation of new processes that will modify the data structure and impact several of the peripheral systems operated by SIMON external clients. The work required to adapt the external interfaces to the SIMON program will be carried out by the applicable system owners;*
- *High level of availability of the SIMON technological infrastructure that must be included in a related project (management of server capacities in the three-year capital expenditures plan);*
- *Payroll of the Service de police de la Ville de Montréal (SPVM) not included in phase 1.*

*The positioning of the aforementioned exclusions in the project must be updated, which will require a revision of the business needs. A cost and effort evaluation*



as well as work completion schedule will be filed before the end of the current year. **(Planned completion: December 2013)**

**Figure 2 – Positioning in Accordance with the Business Needs of the HR-Payroll Function Processes**



B) *With respect to the financial aspect of the project, a project case file totalling \$36.9 million was presented to the CSTI on June 21, 2012. An external audit was ordered at that time, and the audit results were filed with the CSTI on October 18, 2012. Upon completion of this audit, the total was reduced by about \$3 million. The report also highlighted three major project issues that had already been identified, i.e., the linking of the collective agreements to the Oracle software package, organizational capacity management as well as the convergence of three major projects in the SIMON program.*

*This financial evaluation was developed in accordance with the scenario that had been chosen by the project's steering committee, namely:*

- *Implementation of the human resources and payroll management processes for the employees paid by the city;*
- *Implementation of the SPVM human resources record (excluding the phase 1 payroll component).*



*The SPVM's TM and Payroll components will be implemented during phase 2, which has yet to be evaluated.*

*The financial evaluation will be reviewed and validated once again at the end of the collective agreement planning and analysis phase with the Oracle software package (scheduled for June 2013).*

*Furthermore, the evaluation of the costs for the entire Integrated HR-Payroll MS project will be reviewed before December 31, 2013 in order to estimate the cost of implementing the processes that are not included in the scope of the project under way, which is basically limited to the payroll processes. **(Planned completion: December 2013)***

- C) *Since the beginning of 2013, the project is in its planning phase (phase 3) and presentations will be made to the authorities to have the completion phase (phase 4) approved and launched in July 2013, in accordance with the major project management framework. **(Planned completion: July 2013)***

*Calendar:*

- Administrative systems steering committee;*
- Ad hoc proponent committee;*
- CSTI;*
- Major project monitoring committee;*
- Executive committee. **(Planned completion: June 2013)***

- D) *To our knowledge, these are the different studies and analyses that have been conducted for the city with respect to payroll outsourcing:*

- EDS, July 2004, Comparative payroll study: outsourcing versus internal management;*
- Internal study, December 2004, Human resources / Payroll project – Payroll management processes – Oracle versus outsourcing;*
- Raymond Chabot Grant Thornton, October 2006, Opportunity analysis for optimizing payroll management;*
- Internal study, October 2007, Project: PAYROLL positioning – Current situation and payroll management positioning for the Ville de Montréal;*
- Raymond Chabot Grant Thornton, April 2008, Benchmarking study and financial analysis of payroll management solutions – comparative analysis – outsourcing versus internal management;*
- Internal study, June 2012, HR-PAYROLL project case, 1.2.1. Outsource or not?, pages 6 and 7.*

*We generally conclude that a widespread opinion in the industry is that, beyond a certain number of employees, outsourcing payroll management is no longer worth the cost. In its report, the Bureau du vérificateur général sets the bar at 10,000 employees or more.*

*The only process that could be outsourced is payroll management (process no. 16). This process involves using the direct remuneration to be paid to*

*produce the employee payroll and making the different deductions required by law. This process includes printed cheques, pay slips, bank records and—in the case of certain external bodies—payroll accounting, tax slips and all regular and ad hoc reports.*

*Given all of the developments made with respect to the SIMON program in recent years, it is our opinion that outsourcing payroll production no longer offers the interests or benefits that could have justified the decision to outsource in the past. Our approach remains unchanged: we want to make use of our assets and continue to build on what has already been done while managing our risks and costs.*

*A meeting is planned with the city manager on April 26 to confirm the orientations that will be taken with respect to payroll outsourcing in the current situation. The study may be updated after this meeting. **(Completed, April 2013)***

- E) When the project resumed in 2011, it was carried out in accordance with the methodology implemented by the Division réalisation de projets TI. This involves reporting to the executive committee on all major projects, such as the HR-Payroll project, as soon as their completion phase is launched. Beyond reporting to the executive committee, the project must also be presented to the major project monitoring committee. It is also closely monitored by STI management in accordance with the project management mechanisms (project progress dashboards that are filed on a monthly basis). **(Planned completion: spread out over the project's planned duration, i.e., from July 2013 to December 2016, with reporting to the executive committee twice a year)***