April 12, 2017

REF: EXE-052-17

Budget and Finance Committee
c/o Richard Williams, Office of the City Clerk
Room 395 City Hall
Los Angeles, CA 90012

SUBJECT: **THE CITY OF LOS ANGELES PAYROLL SYSTEM REPLACEMENT (PAYSR) PROJECT – COUNCIL FILE 17-0075**

Pursuant to City Council motion (Krekorian/Blumenfield), Council File No. 17-0075, the Information Technology Agency (ITA), in consultation with the Controller's office, was instructed to report on the status of the PaySR payroll system and the budgetary and staffing needs of ITA and the Controller to maintain the PaySR system while a replacement is in development.

In response to that motion, the ITA and Office of the Controller herein detail the risks and challenges of the current system and propose a PaySR Action Plan to address them, to be implemented in parallel with a proposed PaySR system replacement project. This Plan would create a PaySR Governance Committee (comprised of ITA, Controller, Personnel, and Employee Relations Board representatives), "freeze" the PaySR system to limit system change risks, restore PaySR staffing levels, and train City staff in the maintenance of the system. Our offices strongly believe that these steps are necessary to sustain the PaySR system over the three to four year period required to implement the recommended replacement project.

Background of the PaySR Payroll System

The City of Los Angeles Payroll System Replacement (PaySR) project was initiated in the year 2000 to replace a legacy mainframe payroll system. Based on a competitive Request for Proposal (RFP) process, the City awarded the PaySR project to Hess and Associates in 2000. The PaySR system is a custom developed software package by Bob Hess which has successfully processed City payroll since 2004.

Each year, PaySR:
- Pays 47,600 full time employees and 11,000 part time City employees across 40 departments
- Processes $3-4 billion in employee payroll transactions
- Withholds and transmits payroll deductions to 120 vendors and government agencies
- Is logged into ~4.5 million times

PaySR Challenges & Risks

The current status of the PaySR system is fraught with challenges and risks due to the nature of the custom-built system and the City's consistent attempts to over-customize.

1. **Constant Customization Resulted In Very Complex & Fragile System** - Since implementation in 2000, PaySR has been highly customized based on the needs and wants of various City departments. As a result, PaySR's technical code base is now extremely complicated, difficult to sustain, and represents a high risk when modifying for future MOU changes (i.e. changes in one part of the system can break other parts of system).

2. **Overly Complex & Proprietary** - The City of Los Angeles uniquely chose to build a custom payroll system through Hess & Associates. In consultation with Gartner Consulting and through separate surveys, the City of Los Angeles has confirmed that custom-built payroll systems are rare in both public and private sector. This has resulted in a code base that is not supported or comprehended by certified contractors or consulting firms.

3. **Reliant on Single Contractor (Bob Hess)** - PaySR is a product of Hess & Associates and primarily Bob Hess himself. Mr. Hess has been the architect and programmer for the PaySR system since 2000. System enhancements and complex program fixes still come through Mr. Hess. While the City has made multiple attempts to cross-train and perform knowledge transfer, these have generally not been successful (see Staffing & Budgetary Needs to Maintain PaySR for solution). Mr. Hess has set his retirement for November, 2018, and will thereafter take a much reduced role in the support of PaySR.

4. **Built Around 30 Year-Old Payroll Processes** - During implementation, the City required Bob Hess & Associates to conform the PaySR system to our legacy processes (designed in the 1970s and 80s). Much of the existing PaySR processes and features are designed around these processes, many of which are not best practices in the U.S.

5. **Unable to Provide Modern Payroll System Features** - Due to the age and complexity of PaySR, modifying the system for smartphone access (e.g. mileage reimbursements), employee self-service, moving onto Cloud infrastructure, etc, is not possible without high risk to system.

6. **Lacks Necessary Human Resource Management Features** - PaySR original mission was to process the City's payroll accurately and on schedule. In order to accomplish this, "bare minimum" Human Resource functions were added to the system (hiring, transfers, promotions, etc). Unfortunately, key HR system features have not been available to the City to effectively manage nearly 50,000 employees (e.g. digital employee records, position control, recruitment, succession planning, performance evaluations, discipline, skills inventory, etc). This has also resulted in the development of custom HR systems by multiple City departments.

7.   Limited & Expensive Disaster Recovery - Due to the PaySR technical infrastructure, the City has limited options for disaster recovery and business continuity in case of a natural disaster. The City has been required to maintain a costly footprint at a disaster recovery site to provide essential payroll processing in an emergency.

These challenges and risks were elaborated on by KPMG in their final report *City of L.A. PaySR Assessment* (dated August 17, 2016).

PaySR Action Plan

After detailed analysis and review, the Information Technology Agency and Office of the Controller recommend the following steps to resolve the challenges and risks of the PaySR:

1.   Dedicated PaySR Governance & Management - Creation of a *PaySR Governance Committee* responsible for managing, communicating and monitoring project deliverables by the contractor. This group will be accountable to closely manage the PaySR system, restrict system growth, mitigate City risk, and ensure staff knowledge transfer. This committee will include the Office of the Controller, Information Technology Agency, Personnel Department, and Employee Relations Board (non-voting member).

2.   "Freeze" PaySR System - A foundational cause of the PaySR system challenges is the over-customization and growth in complexity. The PaySR system must be "frozen" for all but the most critical changes (e.g. regulatory requirements). In addition, adherence to a best practice "change management" process will ensure adequate testing before the release of any system changes. This will greatly improve the stability and reliability of the PaySR system during the course of a replacement project.

3.   Restore PaySR Staffing Levels - While the growth and complexity of the PaySR system has dramatically increased since 2009, staffing levels and expertise have decreased. The addition of key staff resources are necessary to support the system and reduce dependency on the vendor. Presently, ITA has 6 employees supporting and programming modifications and enhancements for PaySR, down from 13 in 2004.

4.   Train Staff & Build PaySR Knowledge Base - Staff training and knowledge transfer are instrumental to the development of a self-sufficient City support team that can maintain core PaySR functions during the course of a replacement project.

In addition, the City must initiate the replacement of the PaySR system. Even with the best results from the above PaySR Action Plan, the PaySR infrastructure and platform have a finite life and must be replaced. Research and analysis are currently being performed and will be provided in a separate report requested by Council (Council File #17-0075).

Staffing & Budgetary Needs to Maintain PaySR
The ITA has submitted a FY 2017-2018 budget package, PaySR Support & Self Reliance in the amount of $228,375 and the Office of the Controller has submitted a budget package in the amount of $321,849.

These requests include:

1. ***Necessary PaySR Staffing***
   o Information Technology Agency
      ▪ (1) Programmer Analyst IV (1431-4) for PaySR support. ($85,454)

   o Office of the Controller
      ▪ (2) Senior Systems Analyst II (1597-2) To replace Controller 2017- 18 budget request for one Fiscal Systems Spec I. If the City does not wish to fund these two full time positions then it is requested to provide $300,000 for outside resources. ($92,112 each)
      ▪ (1) Upgrade one FSS I to Sr. Systems Analyst II ($128,112 each)
      ▪ (1) Upgrade one Sr. Systems Analyst II to FMS IV ($151,860 each)

2. ***PaySR Software ($95,421)***
   o Oracle Database, JBOSS Application Server, Jaspersoft, and VShere

3. ***Training ($51,625)***
   o Training for City employees in payroll operations and processing($37,625)
   o JAVA programming training ($14,000)

4. ***Hess & Associates Contractor Support ($33,500)***
   o Contractual Services to address emergency LAFD Fair Labor Standards Act compliance (FLSA)

5. **Controller's Office Training and Documentation Services ($100,000)**
   o Contractual services funding for payroll process training and documentation

Recommendations
That the City Council adopt the following recommendations:

1. DIRECT the ITA to create a *PaySR Governance Committee* responsible for closely managing the PaySR system, restricting system growth, mitigating City risk, and ensuring City staff knowledge transfer. This committee will include the Office of the Controller, Information Technology Agency, Personnel Department, and Employee Relations Board (non-voting member); and,

2. DIRECT the ITA to "freeze" the PaySR System for all but the most critical changes (e.g. regulatory requirements) to greatly improve the stability and reliability of the PaySR system during the course of a replacement project. Exceptions to the

PaySR code freeze must be reviewed and approved by the *PaySR Governance Committee*; and,

3.   Subject to approval by the Mayor, APPROVE the 2017-18 budget requests proposed by ITA and the Controller's Office to provide the necessary staffing, tools, training and technical support to ensure the capability to support the system is developed within the City workforce, while a PaySR replacement project is in progress.

Fiscal Impact Statement
Approving the funding recommendation in this report will result in a General Fund expenditure totaling $550,224, $228,375 for ITA and $321,849 for the Office of the Controller.

If you have any questions or would like further information regarding this report, please feel free to contact Joyce Edson, Assistant General Manager, at 213-978-3311.

Respectfully submitted,

JOYCE EDSON, FOR
TED ROSS

Ted Ross
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