April 17, 2017

REF: EXE-060-17

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

Subject: **HUMAN RESOURCE / PAYROLL PROJECT (COUNCIL FILE NO. 17-0075) SUMMARY**

Pursuant to City Council Motion (Krekorian/Blumenfield), Council File No. 17-0075, the Information Technology Agency (ITA) is submitting the following report regarding:

1. Preliminary requirements of the Personnel Department, the CAO and the Controller's Office for the replacement payroll software system; and
2. A timeline that indicates when ITA anticipates the City can begin phasing in a replacement payroll system and the intermediary steps that must be taken to begin testing; and
3. A budget request for any positions and funding to begin the first year of implementation.

BACKGROUND

The City of Los Angeles is among the top 10 employers in Los Angeles County, and the largest in the City with over 40,000 employees. It also has regularly revised complex labor and payroll requirements such as a large variety of job classifications, employment contracts, wage schedules, benefits, pensions, civil service rules, administrative codes, and labor laws.

The City's payroll system, implemented in 2004, can no longer serve as a long-term payroll and HR solution for the City of Los Angeles. Several risks that support this include: over reliance and dependency on a single contractor, limited internal resources to effectively support PaySR, limited functionality, and high financial and reputational risk exposure due to lack of process controls. These PaySR Challenges & Risks are detailed in the previous report to Council (*The City of Los Angeles Payroll System Replacement (PaySR) Project*).

Although City payroll is centralized, the human resource (HR) functions and processes it depends on are largely decentralized and manual across more than 40 departments. Roughly 2,000 HR and Payroll personnel use approximately 165 siloed HR-related systems. Due to the current situation, implementation delays and errors have been demonstrated in the City's payroll and across HR services. The priority and need for replacing the City's payroll system with an HR/Payroll system is communicated universally by the City Council, Controller's Office, Personnel Department, City Administrative Officer, and Information Technology Agency.

1. Preliminary Requirements of a Human Resource/Payroll Software System

According to Gartner Consulting, Human Resource/Payroll systems (aka Human Resource Management) encompass automated functions and features that help organizations attract, develop, engage, pay, retain, and manage their workforces (Gartner, 2016). These capabilities include:

- **Core HR and Payroll** functions include organizational and employee data, transactional employee and manager self-service, benefits, and payroll administration; they may also include occupational health and safety, grievance tracking, travel expense management, or other areas.
- **HR Service Delivery** includes direct access to policy and procedure guidance for employees and managers; they may also include case management, knowledge base, and digital document management.
- **Talent Management** applications are composed of recruiting, onboarding, performance management, compensation planning, career and succession planning, learning and development, and workforce planning.
- **Workforce Management** includes absence management, time and attendance management, task management, budgeting and forecasting, and scheduling.

To ensure the successful implementation of a Human Resource/Payroll solution at the City of Los Angeles, it is imperative to properly identify solution requirements and identify clear goals for the project. This will be accomplished through the business analysis and RFP development in progress by the HR/Payroll Steering Committee and vendor partner. This includes detailed review of current processes, organizational structures and rules, and priorities. In addition, this project will include finding opportunities to streamline processes, build from best practices, and modernize our services to reduce preventable delays, errors, and waste. The result is a prerequisite to producing a set of City-specific HR/payroll solution requirements and a RFP to solicit bids for a best-fit solution for the City of Los Angeles.

ITA, in partnership with a firm, is in the early stages of this business analysis. Appendix A includes an initial list of key system requirements developed by the ITA. While the list is extensive, it is in no way an exhaustive list for the City of Los Angeles or the requirements of a statement of work in a RFP process.

2. Anticipated Project Timeline
The PaySR replacement project consists of three major milestones: planning, solution and system integrator selection, and implementation.

Planning activities include: establishing a project steering committee, establishing a project team, procuring a business analysis vendor service to conduct business process re-design, and documenting critical use-cases and business requirements. These requirements have begun based on the importance of the project and will be in the RFI/RFP for the best-fit solution and system integrator for the HR/Payroll solution. The implementation activities will be further refined once the City has selected the solution and system integrator.

For an effort this wide-ranging and complex, ITA anticipates undergoing a series of projects to replace the current payroll system and conceivably a number of siloed HR systems and processes. These projects, along with their roughly estimated durations, are as follows:

Project	Estimated Duration
Business analysis & RFP development	9 to 16 months
RFP publishing, vendor interviews & selection	4 to 6 months
Contract negotiation and approval	4 to 6 months
Implementation of HR/Payroll Solution	12 to 24 months

The above timeline indicates that once business analysis begins, the City can begin phasing in a replacement payroll system after an estimated minimum of 29 to 52 months. While some of this duration is subject to the City's procurement process, we will work vigorously to compress this timeline and mitigate existing payroll system challenges.

3. Estimated First-Year Implementation Budget
ITA received $513,700 in the FY16-17 budget to contract with a vendor to conduct the business analysis for a Human Resource Management Solution. The estimated timeline for this process is 12 to 14 months, and work is anticipated to begin in May 2017 and last through May, 2018. No additional funding was requested for FY 2017-18. City staff will develop, release for bid, and award the Request for Proposal over the next four to six months, June, 2018 to November, 2018, so that Phase I implementation costs will be known by November, 2018, in time for the 2019-20 budget request deadline. Contract negotiation and approval will take place over the following four to six months, through June, 2019. It is anticipated that no additional funding will be required for FY 2018-19; Phase I implementation funding will be required in FY 2019-20.

The cost of the entire project is dependent on the solution, ranging from managed payroll services (dependent on City HR data) to cloud-hosted "software-as-a-service" solutions, to comprehensive software solutions that expand existing investments (e.g.

the Financial Management System). Depending on the solution, the implementation cost can range from $15-40 million based on similar implementations at other organizations. This cost does not include potential infrastructure or city staffing resources.

We trust the information provided herein addresses the Committee's direction. Please contact me or Jeanne Holm at (213) 978-3311 if you have any questions or require additional information.

Respectfully submitted,

Ted Ross
General Manager

Attachment: Appendix A

cc: Matt Szabo, Deputy Mayor
     Ron Galperin, City Controller
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     Vijay Singal, Controller's Office
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Sample Key Payroll System Capabilities for the City of Los Angeles

#	Requirement	HRM Application Category (Per Gartner)
1	The system shall record when employees are hired and when they pass probation	Core HR & Payroll
2	The system shall record employee transfers	Core HR & Payroll
3	The system shall record employee promotions	Core HR & Payroll
4	The system shall record when employees were terminated	Core HR & Payroll
5	The system shall distinguish between filled and vacant positions	Core HR & Payroll
6	The system shall identify the funding source for positions	Core HR & Payroll
7	The system shall distinguish between full time and part time employees and positions	Core HR & Payroll
8	The system shall distinguish between regular and resolution positions	Core HR & Payroll
9	The system shall identify employees' work locations	Core HR & Payroll
10	The system shall record and employee' work schedule and history of changes to work schedule	Core HR & Payroll
11	The system shall identify positions filled In-lieu, substitute, etc.	Core HR & Payroll
12	The system shall record job descriptions and keep a history of changes to descriptions	Core HR & Payroll
13	The system shall keep a historical record of individual employee positions	Core HR & Payroll
14	The system shall record licenses and certifications of individual employees	Core HR & Payroll
15	The system shall record specialized skills of employees such as language abilities, or specialized trades or experience	Core HR & Payroll
16	The system should ensure compliance with federal, state, and local employee regulations to reduce City risk, lawsuits, and penalties	Core HR & Payroll
17	The system shall process third-party payments and garnishments	Core HR & Payroll
18	The system shall perform benefit and deduction reconciliation	Core HR & Payroll
19	The system shall process/establish other deductions	Core HR & Payroll
20	The system shall monitor change in tax status of employees	Core HR & Payroll
21	The system shall perform on-cycle payroll processing	Core HR & Payroll
22	The system shall perform off-cycle payroll processing	Core HR & Payroll
23	The system shall process exceptions and adjustments	Core HR & Payroll
24	The system shall manage bank accounts	Core HR & Payroll
25	The system shall reconcile payroll payments to General Ledger	Core HR & Payroll
26	The system shall perform payroll variance analysis	Core HR & Payroll
27	The system shall calculate payroll tax for location and legal entity	Core HR & Payroll
28	The system shall book payroll tax accruals	Core HR & Payroll
29	The system shall allow for quarterly/annual payroll tax filings and payments	Core HR & Payroll
30	The system shall analyze payroll taxes	Core HR & Payroll
31	The system shall manage year end processes	Core HR & Payroll
32	The system shall prepare management and external reports	Core HR & Payroll
33	The system shall prepare periodic regulatory reporting	Core HR & Payroll
34	The system shall allow the management of annual payroll calendars	Core HR & Payroll
35	The system shall be able to print employee checks using third party vendor check stock and transmit direct deposit information to the city's financial institution	Core HR & Payroll
36	The system shall be able to provide interfaces to the city's retirement and pension systems	Core HR & Payroll
37	The system shall be able to provide interfaces to the various city vendors regarding employee's paycheck deduction information	Core HR & Payroll
38	The system shall be able to provide W2 employee information, bi-weekly IRS witholding tax information and EDD quarterly tax information	Core HR & Payroll
39	The system shall be able to reconcile vendor payments with Accounts Payable	Core HR & Payroll
40	The system shall allow employees to enroll and apply for employee benefits such as medical insurance, life insurance, individual retirement accounts, transportation benefits, etc.	Core HR & Payroll

Sample Key Payroll System Capabilities for the City of Los Angeles

#	Requirement	HRM Application Category (Per Gartner)
41	The system shall establish, maintain, and manage leave benefits such as vacation, sick, and maternity leave for individual employees	Core HR & Payroll
42	The system shall provide the necessary reporting to help manage usage and cost of employee benefits	Core HR & Payroll
43	The system shall allow employees to update their employee information such as emergency contacts, contact information, work location, etc.	HR Service Delivery
44	The system shall allow employees to view and download their pay information	HR Service Delivery
45	The system shall allow employees ot view and download their tax information	HR Service Delivery
46	The system shall allow employees to update their federal form W-4	HR Service Delivery
47	The system shall allow employees to view information regarding benefits they have requested or are currently receiving	HR Service Delivery
48	The system shall allow employees to make service requests regarding their payroll, employee records, and benefits	HR Service Delivery
49	The system shall allow employees to track the status of their service requests regarding their payroll, employee records, and benefits	HR Service Delivery
50	The system shall allow supervisors and managers to generate reports commonly used to help manage operations and budget such as reports on absenteeism, project/task billing, org charts, position fund source, etc.	HR Service Delivery
51	The system shall allow supervisors and managers to update employee reporting structure to help maintain accurate position controls and reports such as org charts	HR Service Delivery
52	The system shall help payroll, human resource, and benefits administrators with the coordination and tracking of service requests made by employees regarding their payroll, employee records, and benefits	HR Service Delivery
53	The system shall provide reports useful for payroll, human resource, and benefits administrators in maintaining their operations and quality of service for their customers	HR Service Delivery
54	The system shall maintain a record and history of all Job Classifications, their corresponding step increases, and associated compensation	Talent Management
55	The system shall maintain a record of all bonuses and which job classification, job characterstics, or other factors (licenses, certifications, specialized skills, language abilities, or specialized trades or experience) allow these bonuses to be awarded employees	Talent Management
56	The system shall check and monitor any expiration or renewal dates of all factors that may affect employee compensation and send any necessary and helpful notification in a timely manner to the appropriate personnel	Talent Management
57	The system shall allow time entry for a wide variety of time codes or options	Workforce Management
58	The system shall allow supervisor and timekeeper review and approval of time entries	Workforce Management
59	The system shall allow the ability to track and record time worked for specific projects or tasks for billing or cost accounting purposes	Workforce Management
60	The system shall provide validation of time entries according to the individual employee work schedule, leave accruals, and other related regulations, such as the Fair Labor Standards Act	Workforce Management
61	The system shall maintain leave and absence requirements as allowed by applicable regulations such as the Family Medical Leave Act	Workforce Management
62	The system shall be able to calculate an individual employee's eligibility and usage of leave benefits	Workforce Management
63	The system shall be able to keep a record of vacation and sick leave accrual amounts and which ones employees are eligible for	Workforce Management
64	The system shall be able to provide the necessary reporting and projection analysis that allows effective management of attendance to minimize loss due to employee downtime	Workforce Management
65	The system shall be able to integrate and/or interface with existing or future City systems	Workforce Management