

PERSONNEL, AUDITS, AND ANIMAL WELFARE COMMITTEE and BUDGET AND FINANCE COMMITTEES REPORT relative to proposed amendments to contracts in connection with the Human Resources Payroll (HRP) Project.

Recommendations for Council action:

1. AUTHORIZE the Information Technology Agenda (ITA) to:
 - a. Negotiate and execute an amendment to the HRP Workday contract (Contract No. C-135368), to revise the Statement of Work and increase the contract compensation, in order to incorporate the changes needed to complete Phase 2 implementation.
 - b. Negotiate and execute an amendment to the Hess and Associates contract (Contract No. C-105458), to increase the contract compensation, extend the contract term, and revise the Statement of Work to incorporate changes in order to complete the HRP project and retire the old PaySR legacy system.
 - c. Negotiate and execute an amendment to the KPMG Task Order engaged through the Controller's Office contract (Contract No. C-138949) to extend their engagement as project managers of the HRP Project to incorporate the changes needed to complete HRP Phase 2 implementation.
 - d. Transfer \$30,000,000 from the Reserve Fund No. 101/62 to the General Fund No. 100, Unappropriated Balance No. 58, Account No. 580329 Human Resources and Payroll System Contingency.
2. AUTHORIZE the City Administrative Officer (CAO) to draft Controller's Instructions and technical corrections to transfer appropriations up to \$30 million from the Unappropriated Balance No. 58, Account No. 580329 Human Resources and Payroll System Contingency to HRP Project sponsor departments within the General Fund No. 100 for contractual services including Quality Assurance, hardware, and software costs required to complete Phase 2 implementation, and authorize the Controller to implement those instructions.

Fiscal Impact Statement: The Information Technology Oversight Committee (ITOC) reports that the General Fund impact is estimated at \$30 million in additional project costs. Once final negotiations with Workday have been completed, the ITA may request additional funds through the budget process if needed.

Community Impact Statement: None submitted.

Summary:

On November 29, 2022, the Personnel, Audits, and Animal Welfare (PAAW) Committee considered a November 3, 2022 ITOC report relative to proposed amendments to contracts in connection with the HRP Project. According to the ITOC, the HRP Project formally commenced in April 2020 with a 21-month implementation timeline and an initial go-live date of January 2022. In October 2021, the HRP Steering Committee comprised of executive managers from the HRP Sponsor Departments (Office of the Controller (Controller), Personnel Department (Personnel), City Administrative Officer (CAO), and Information Technology Agency (ITA)) took action to modify the project implementation from a single go-live date to a Phased Approach after evaluating factors such as readiness, user impacts, effort, COVID-19 impacts to department participation, risk, and cost.

The Phased Approach consists of two phases (Phase 1 and Phase 2) with separate go-live dates, and each one focused on specific modules of the system. Under this Phased Approach, Phase 1 focused on Human Capital Management (HCM), Compensation, and PRISM reporting modules. Phase 1 went live in May of 2022, with eight weeks of customer support (Hypercare) from the vendors to assist the HRP Project team with the transition to production and managing the system independently. Since HRP Phase 1, the City now uses Workday as the system of record for all employee onboarding, hiring, transfers, promotions, electronic employee records, position control, and other human resource functions.

Phase 2 of the Project includes the Benefits, Payroll, Absence, and Time Tracking modules, as well as, enhancements to the Compensation module. With the implementation of Phase 2 the City will finally be able to retire its current payroll system, PaySR, which is critical due to the known cybersecurity vulnerabilities that risk exposure of sensitive personnel data, failing PaySR hardware (servers and databases), limited support by the vendor, and the current error prone split payroll process (Workday used for HR functions and PaySR used for payroll functions) that requires substantial manual intervention of Controller, Workday, and ITA staff to function reliably.

Completing the HRP Phase 2 Project Plan will move the entire process into the new Workday system, eliminating the aging and problematic PaySR system. The Phase 2 go-live date was originally set for December 2022 (Council File No. 20-0313). However, additional delays to the project have made achieving this go-live date impossible. Based on the current project timeline, the HRP Phase 2 is no longer expected to go live in the current fiscal year. Unfortunately, this delay presents a number of challenges for the project that stem from having to work with two systems concurrently which necessitates additional integrations between HRP and PaySR, additional enhancements to PaySR even while its future is limited, and additional resources to complete the project overall.

The required additional resources are expected to be in the range of \$ of one20 to \$30 million for the HRP project alone, and about \$3 million time costs to provide hardware, software, and security life support for the legacy PaySR payroll system in the interim. These estimates are based on a new Phase 2 go live date of December 2023. While the HRP Steering Committee has not set December 2023 as the new golive date, several of

the Sponsor Departments consider this date to represent the best and earliest possible feasible transition period between payroll systems. Not only does this date incorporate critical testing periods required for a successful implementation, it also takes into account the value gained by having only one system of record for tax related purposes like the printing of W2s and simplified reporting to payroll tax compliance agencies .

While much of the remaining work to implement the Phase 2 has already been completed (6 of 7 modules are about 80 percent complete), Phase 2 cannot move forward until the Payroll module is ready. Currently, the Payroll module (~70 percent complete) is experiencing significant configuration delays as the Controller and the Workday vendor review the requirements of the system and identify viable solutions for several critical issues that have been identified. Given the importance of the Payroll module to the overall HRP project, any delay to this module is a delay to the project as a whole. The Controller's Office, the lead department on the Payroll module, with the assistance of the other Sponsor Departments will continue to work with Workday on the solutions, including temporary ones that will allow the development of long term ones via changes to the Workday platform or the City's practices.

At this point, the HRP Steering Committee feels strongly that the system will need to launch in the calendar year 2023. This delay poses a critical risk to the City as we continue to keep the current payroll system PaySR in production and juggle a difficult split payroll process in which Workday performs the HR and a portion of the compensation functions while PaySR must mirror compensation settings to produce the payroll. To ensure that the current payroll system PaySR continues to perform reliably and securely, additional investments to the PaySR system are essential to keep the aging hardware working and secure the system in the interim. Finally, the extended go live date will require additional funding for all aspects of the project including project delivery, change management, project management, quality assurance, and post go live support.

After consideration and having provided an opportunity for public comment, the PAAW Committee moved to recommend approval of the recommendations contained in the ITOC report. Subsequently, on December 5, 2022, the Budget and Finance Committee also considered this matter. After consideration and having provided an opportunity for public comment, the Budget and Finance Committee moved to concur with the PAAW Committee. This matter is now submitted to Council for its consideration.

Respectfully Submitted,
Personnel, Audits, and Animal Welfare Committee

COUNCILMEMBER VOTE

KORETZ: YES

HARRIS-DAWSON: YES

BONIN: ABSENT

Budget and Finance Committee

COUNCILMEMBER VOTE

KREKORIAN: YES

BLUMENFIELD: YES

RODRIGUEZ: YES

PRICE: YES

BONIN: YES

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12/5/22

-NOT OFFICIAL UNTIL COUNCIL ACTS-