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Honorable Members of the City Council  
City of Los Angeles  
Room 395, City Hall  
Los Angeles, CA 90012

Attn: Personnel, Audits, and Hiring Committee

**SUBJECT: REPORT ON ONGOING ISSUES & CHALLENGES OF CITY'S EXISTING PAYSR  
PAYROLL SYSTEM (COUNCIL FILE 23-1417)**

Pursuant to City Council Motion (McOsker - Blumenfield), Council File No. 23-1417, the Information Technology Agency (ITA), City Administrative Officer (CAO), and Office of the Controller are submitting the following report regarding ongoing operations, issues, and challenges of the existing PaySR payroll system.

## **BACKGROUND**

The City's current payroll system, known as PaySR, started in 2000 and pays out over \$192 million to 50,000 employees every two weeks. However, since its launch, the City has significantly increased the capabilities and customization of the PaySR system. As a result, maintaining the PaySR system has become highly complex, expensive, and over-reliant on a single individual/vendor for support. Additionally, at the core of PaySR's design are 30-year-old payroll processes that limit the City's ability to provide modern payroll system features (as detailed in the "City of L.A. PaySR Assessment" completed by KPMG in 2016).

In light of these risks, the City Council (C.F. 17-0075) instructed the Information Technology Agency (ITA), City Controller (Controller), and Personnel Department (Personnel) to begin the replacement of the PaySR system. Funding was provided for a system analysis, requirements gathering, and process improvement study. The review was completed in 2018 in partnership with a consulting firm, incorporating the input of all City departments currently serviced by or reliant on PaySR for operational success. The results of this extensive effort provided the foundation for a Request for Proposal (RFP) to select the new Human Resources and Payroll (HRP) platform. Through this process, Workday was unanimously selected in 2019 by an RFP Review Committee composed of representatives from various City Departments.

The HRP Project began in March 2020 with Phase 1 Human Capital Management being implemented in May 2022. The Phase 2 Workday Payroll system is in progress and scheduled to be completed in June 2024. Given delays to the Phase 2 implementation, the current City payroll process is a "split system" approach with human resource processes completed in Workday (employee hiring, position control, job changes, etc.) and payroll processes still completed in PaySR. The split system approach is not ideal as interfaces and integrations between Workday

and PaySR not originally planned, have been required. Furthermore, the security and technical risks of keeping the PaySR platform operational have increased. Overall, the PaySR platform is demanding a great deal of effort on the part of multiple departments to meet biweekly payroll and is in imminent need of replacement.

Per Council Motion 23-1417, the following report summarizes ongoing operations, issues, and challenges of the existing PaySR payroll system.

### **ONGOING OPERATIONAL ISSUES WITH PAYSR PAYROLL SYSTEM**

The majority of the City's payroll process can be categorized as either "biweekly payroll" or "special retroactive payroll." The following information will describe ongoing operational issues with the PaySR payroll system in these two instances:

#### *Issues with Ongoing Biweekly Payroll Processing*

- Integration Between Workday & PaySR - Starting in May 2022, the City moved to a temporary "split system" approach whereby the Workday HRP system was used for basic human resources functions and the legacy PaySR system was used to process all payroll functions. This is intended to be a temporary state until the full implementation of the Workday Payroll system (HRP Phase 2) that will completely retire the legacy PaySR system.

In the first few months after May 2022, the City encountered some integration issues between the Workday system and PaySR (aka INT5000 integration). The issues occurred between the compensation and human resources functions with some classes and steps not receiving the correct pay. Within the first few months, the INT5000 integration was stabilized and has not been a large challenge since. This integration was not designed to be in use for a period of over 2 years and the runtime for this integration is lengthening which causes our production payroll runs to take longer and adds complexity to the process.

A separate integration exists to synchronize employee data between the Los Angeles Department of Water and Power (LADWP) and the City Workday system in order for Personnel staff to determine the seniority calculation. This integration only executed once in production and issues were put in the backlog when we went live because of go live priorities. ITA is actively working with LADWP to fix this integration.

- Untimely Entry of Employee Data by Department Human Resources Staff - A frequent ongoing challenge in the current PaySR system is the lack of timely entry of critical employee information by HR staff in City departments. For example, a new City employee will be entered into Workday, but will be missing critical personnel file information, such as their birth date or home address. In this case, the individual will receive their first paycheck, however, their benefits cannot be processed until this information is corrected by their department's HR staff. Medical and dental benefits and insurance rates are all based on employee age which requires the birth date in the system. Data validation rules can be added to Workday to notify HR staff of missing or incomplete information during on-boarding or updating of employee information.
- Incorrect Entry of Employee Data by Department Human Resources Staff - Another frequent ongoing challenge in the current PaySR system is the inaccurate entry of important employee pay information HR staff in City departments. This is not a system

issue and highlights the importance of accurate data entry. For example, if a new (or promoted) City employee is entered into the system with an incorrect compensation package assigned to them (e.g. hired into the wrong step of their classification), they will be paid inaccurately. In this case, they will receive an inaccurate paycheck that will need to be corrected going forward and then retroactively resolved (e.g. in case of underpayment to the employee).

- Untimely Review of Compensation Configuration - The City's payroll system relies on updated compensation configuration to ensure accurate and timely payment to employees. If the base rate for a certain job classification is increased, it is critical for Controller staff to make the updates in the system before that affected pay period. At times, compensation configuration can lag behind the effective dates, requiring retroactive adjustments for the employee.

*Issues with Retroactive Payroll Processing*

- MOU Changes Require Substantial Analysis & Time to Process - Memorandums of Understanding (MOUs) are negotiated between the CAO and the respective bargaining units ("labor"). These MOUs periodically contain complicated payroll arrangements that, at times, have never been programmed into the existing PaySR payroll system and require new programming. In addition, the MOU process can be lengthy to confirm the details of the MOU changes that need to be programmed into the PaySR system. The following process is required:
  - New MOUs are negotiated between the CAO and labor union
  - New MOU is voted on by union members
  - New MOU is voted on by City Council
  - CAO, Controller, ITA, and Hess & Associates (PaySR vendor) meet to discuss new MOU terms and implementation plan for the PaySR system. This typically requires several weeks of meetings, analysis, and documentation.
    - The overall timing is impacted by when the Controller's Office is notified of the MOU changes and details.
    - The timeline is also impacted by staff availability due to operational support, existing tasks, and competing priorities.
    - Typically, MOU changes are implemented into the ongoing biweekly payroll process first (to get employees paid as soon as possible)
    - Next, retroactive MOU changes are implemented (if applicable)
  - PaySR vendor must then implement PaySR programming changes and use Controller's Office and City Department for testing
    - PaySR vendor implements PaySR programming changes to change employee base rates and bonuses (typically 1-2 months)
    - Controller's staff review system changes in test environment (typically 2 weeks)
    - Department Payroll Teams review MOU changes in test environment (typically 2 weeks)
    - PaySR change is scheduled for implementation from test environment into the PaySR production environment (typically 1-2 weeks)
- MOU Changes Are Complicated & Programmatically Difficult - Historically, some MOU negotiated changes are unique to the City and can be programmatically difficult to implement, especially those provisions not seen before in the PaySR system. For example, changing a pay rate as of a certain date in the past requires the re-running of

previous pay cycles and can be further impacted by employee changes of departments during the timeframe (a very complicated process that impacts benefits, pension, etc.), whereas, a one-time payment for past rate changes is significantly easier to process across thousands of employees. Other examples can include changes to system structure that have never been programmed before (such as changing an employee pay scale from 5 steps to 15 steps or 15 steps down to 12 steps, etc.). Negotiating a benefit or payroll process that has been done before is much less risky and time consuming for the employee to receive their benefit.

Respectfully Submitted,



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