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TRANSMITTAL

TO The City Council	DATE 11-03-22	COUNCIL FILE NO. 20-0313
FROM Information Technology Oversight Committee	COUNCIL DISTRICT ALL	

At its meeting held on November 3, 2022, the Information Technology Oversight Committee adopted the recommendations of the attached Information Technology Agency (ITA) report dated October 31, 2022. Adoption of the report recommendations would authorize ITA to negotiate Amendment No. 2 to Contract No. C-135368 with Workday, Inc. to revise the Statement of Work and increase the contract compensation in order to incorporate the changes needed to complete Phase 2 implementation and would transfer \$30 million from the Reserve Fund to fund anticipated expenditures. The General Fund impact is estimated at \$30 million in additional project costs. Once final negotiations with Workday, Inc. have been completed, ITA may request additional funds through the budget process if needed.

A handwritten signature in blue ink, appearing to read 'M. Szabo', followed by the word 'for' in a smaller font.

Matthew W. Szabo, City Administrative Officer
Chair, Information Technology Oversight Committee

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October 31, 2022

REF: EXE-326-22

Information Technology Oversight Committee
City of Los Angeles
City Hall East, Room 1500

SUBJECT: HRP PROJECT - CRITICAL RECOMMENDATIONS FOR PHASE 2 GO LIVE

OVERVIEW

The Human Resources Payroll (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 of Los Angeles 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 (C.F. 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 \$20 to \$30 million for the HRP project alone, and about \$3 million of one-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 go-live 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 Office of 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.

PHASE 2 PROJECT PLAN DELAYS

Right after the launch of Phase 1 in May 2022, the Executive Sponsors from Workday and the City of Los Angeles met to confirm the timeline, assumptions and scope for the remainder of the Phase 2 project (as Phase 2 tasks were already underway during Phase 1 of the project). As requested by the sponsor departments (Controller, Personnel, and CAO), the project plan was reviewed again with sponsor department leads based on recommendations from the Project's Quality Assurance (QA) consultant, Gartner, and the Personnel, Audits, and Animal Welfare (PAAW) Council Committee to incorporate renewed buy-in for the remainder of the project. The HRP Project Management team allowed sponsor department staff to make suggestions and additions/edits to the structure of the project plan tasks in order to get the sponsor departments to buy into the project plan. This was requested by PAAW and Gartner QA as a key success factor for Phase 2. The requested exercise above of inputting additional tasks into the project plan by the department staff delayed the completion of the plan, requiring about eight weeks to perform. The original estimated completion date for the Project Plan was the end of June 2022.

An additional delay came up due to concerns identified by sponsor departments which required the Project Management team to include an assessment of functionality that was necessary versus "nice to have". Upon the recommendations of the Gartner QA and PAAW Committee, this

led to the Project Management team creating a spreadsheet called the “Requirements Traceability Matrix”, the purpose of which is to map the project plan tasks created by the department leads to requirements identified in the Statement of Work of the contract. After initial mapping was completed, Workday reviewed the requirements that were not mapped to a task in order to determine which requirements were covered by “out of the box” functionality, as well as what requirements were absolutely necessary as a minimum in order to meet standards for US Payroll. This effort took over a month to complete, and was finished September 2022.

Gartner QA also volunteered to offer additional recommendations regarding the approach for project planning. In this case, the CAO sponsor and QA briefed the Project Management team on the new approach, which was to take the resource requests created by the sponsor departments and compare them with available resources on the project in order to determine the timeline. Based on this approach, the results of the new proposed timeline were used to meet with sponsor departments to find areas of improvement within the timeline, which resulted in the proposed December 2023 go live date.

IMPORTANCE OF COMPLETING HRP PHASE 2 BEFORE PAYSR SYSTEM FAILURE

In 2017, KPMG issued a 95-page report titled “Validation of PaySR Current State Assessment and Risk Assessment” to the Controller’s Office detailing the substantial risks, issues, and problems of the PaySR legacy payroll system. These risks have only grown since that time. A consolidated list of these current risks include:

- PaySR software contains known cybersecurity vulnerabilities that risk exposure of sensitive personnel data for the entire City of Los Angeles workforce. Any further delays in HRP go-live will likely require the removal of popular tools like the MyPayLA website to prevent a data breach.
- PaySR hardware (servers and databases) are beyond their end of life and are no longer supported by the vendor (risking lengthy outages of the system as antiquated servers have become difficult to acquire). The PaySR system was expected to be retired in January 2022 based on the original project timeline. The cost for replacing the hardware, making the necessary software changes to use the new hardware, and the renewing of the Hess & Associates contract is estimated at about \$3 million (for an investment that only maintains PaySR short-term until it is replaced by the HRP Workday Phase 2 software).
- The current split payroll process (Workday used for HR functions and PaySR used for payroll functions) is problematic and risks substantial payroll errors without the manual intervention of ITA, Workday, and Controller staff. Completing the HRP Phase 2 Project Plan will move the entire process into the Workday system, eliminating this key weakness in the current process.
- Changes to MOUs and labor contracts are extremely difficult and complicated in the PaySR system. A high volume of changes are traditionally seen at the start of a new Fiscal Year. HRP Phase 2 needs to be completed by FY23/24 to minimize the risk of having major MOU changes in a split PaySR/Workday payroll process.

The main impetus for the HRP system project has been the replacement of PaySR and the major risks to City functions that are posed with every month we use this legacy system. The Workday vendor has an identified project plan to eliminate these risks listed above. However, it requires

the members of the HRP Steering Committee to commit to the plan, complete the tasks listed in the plan in a timely fashion, and perform thorough testing validations of the soundness of the system before a go-live.

MITIGATION EFFORTS

In an effort to mitigate further delays to Phase 2 of the HRP project, changes to the Project Management team structure have been made in order to “reboot” and streamline the project management process. The ITA Project Management team has introduced new project tracking tools (ServiceNow) to improve communication and accountability, established new executive check-in meetings, frequently solicits Sponsor department input to prevent unnecessary delays, introduced automated testing software, revised project team meeting schedules, and expanded Workday’s payroll team. Per Personnel, Audits, and Animal Welfare (PAAW) Committee and Gartner’s Quality Assurance contractor requests, ITA has also contracted with an enhanced project management team from KPMG to perform additional Project Management duties for the remainder of the HRP project, with the ITA Project Management team assuming a support role. Additionally, the Controller’s Office has brought in two consultants from Grant Thornton to assist with Project Management support for the Controller’s Office.

In addition to the restructuring of the project management team, Workday is also evaluating options for improving and streamlining the testing phases for the City of Los Angeles in Phase 2 based on lessons learned from the Phase 1 deployment, the current resources available and best practices. The goal of this effort is to reduce the timeline while increasing quality during the testing phase to aid in making a go live date in Fiscal Year 2023-2024.

CONTRACT AND PROJECT BUDGET

Originally, the Workday contract (C-135368) was a comprehensive replacement of the City’s existing PaySR payroll system with a new human resources and payroll system implemented by the vendor Workday, Inc. and 10 years of licensing for a total amount of \$62,109,339.70. In April 2022, an amendment to the contract was processed to increase the total amount of the contract to \$76,773,449.00. This amendment was to account for the change to a Phased Approach, as well as a modification of the Statement of Work. At this time, the implementation scope of work of the contract expires in December 2022.

With the delay of the project and the new target deadline of December 2023, the HRP project will require additional resources and contract amendments with the various City consultants supporting the project namely Workday, Hess and Associates, KPMG, and Gartner. Besides the contract amendments, additional one-time investments will be needed in order for the City to maintain its current PaySR payroll system longer than originally planned. This is to ensure that PaySR continues to remain secure and functional. The total additional cost for the HRP project and PaySR enhancements are estimated to be in the range of \$20 to \$30 million.

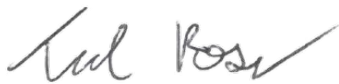
RECOMMENDATIONS

The HRP Steering Committee and the Information Technology Agency (ITA), as designated HRP City Project Manager, respectfully request the City Council to approve the following recommendations:

1. Authorize the ITA to negotiate and execute an amendment to the HRP Workday contract (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;

2. Authorize the ITA to negotiate and execute an amendment to the Hess and Associates contract (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;
3. Authorize the ITA to negotiate and execute an amendment to the KPMG Task Order engaged through the Controller's Office contract (C-138949) to extend their engagement as project managers of the HRP Project to incorporate the changes needed to complete HRP Phase 2 implementation;
4. Transfer \$30,000,000 from the Reserve Fund No. 101, Department No. 62 to the General Fund No. 100, Unappropriated Balance No. 58, Account No. 580329 Human Resources and Payroll System Contingency; and,
5. Authorize the City Administrative Officer 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.

Respectfully submitted on behalf of the HRP Steering Committee,



Ted Ross
General Manager

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Councilmember Paul Krekorian, Council District 2
Councilmember Paul Koretz, Council District 3
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