



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

Board Report 21-15

Date: March 16, 2021
To: Board of Deferred Compensation Administration
From: Staff
Subject: Deferred Compensation Plan Financial Audit

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board) defer commencement of the Deferred Compensation Plan (DCP) financial audit until the DCP Senior Personnel Analyst I or the Defined Contribution Plan Manager position is filled and, once one or more positions is filled, direct staff to return to the Board with an updated recommendation.

Discussion:

A. Background

The last DCP audit occurred in 2003. Following staff's research and recommendation regarding ongoing plan audits (Board Report 18-09), the Board directed staff to draft and issue a Request for Proposals for financial auditing services. Following a competitive bid process, the Board selected Crowe LLP (Crowe) to provide financial auditing services for the DCP. The contract with Crowe was executed on December 18, 2020. Subsequently on January 6, 2021, staff met with Crowe staff to discuss a proposed project plan for the commencement of a financial audit. At its **January 19, 2021** meeting, the Board considered Board Report 21-03, which included the financial audit as a strategic initiative for Plan Year 2021. During the discussion of this report, the Board indicated certain concerns with the number of initiatives relative to available staff resources. Staff indicated it had a particular concern regarding the audit and would review in more detail and report back. This report provides the results of staff's analysis.

B. DCP Audit Scope of Work

According to Crowe, a financial audit would require a significant amount of dedicated DCP staff time to assist in the audit work including extensive payroll and record data mining, as well as serving as a liaison to work with the Controller's Office and the Department of Water and Power

to obtain payroll records not available to staff. Staff would also play an integral role serving as point of contact with the DCP's Third-Party Administrator, Voya to assist in collecting plan data and information required for the audit, and taking an active role in the review and evaluation of the data and audit results. Crowe also advised that as the last plan audit was conducted over 17 years ago, the audit would essentially start from ground zero. The first year of the audit will require more time to complete because it involves a full scale review of the entire plan including but not limited to review of the following:

- DCP's organizational structure
- Board policies and procedures, including the Investment Policy Statement
- Pertinent Board meeting agenda and minutes
- Plan Document, including any amendments since the latest adoption
- Department of Labor and/or IRS correspondence
- Full employee census based on payroll records – employees employed at any time during the plan year including but not limited to name, employee number, date of birth, date of termination, compensation, employee deferral amount, etc.
- Payroll data including year-end wage reporting to the IRS
- Eligibility sample – demographic data from the City's payroll systems including date of birth, date of hire, and any other factors relative to determining plan eligibility and participation
- Contributions detail – payroll records of all contributions for the pay periods during the plan year under audit
- Contribution sample – amount of payroll contributions, contribution rate elected, and investment election(s) during the plan year
- Plan distributions – a list of all plan participants who received distributions from the plan during the plan year including name, amount of distribution, and date of distribution and related payroll records to validate termination status
- Plan paid expenses – a list of all expenses paid by the plan for the year including payee name and amount paid, including any incurred liabilities that have not been paid
- Investments – statement that summarizes the plan investment balances as of the first and last day of the plan year, detailed list of all investment purchases and sales during the plan year, detailed listing of investment income by investment, plan quarterly statements

Subsequent plan year audits will be less labor intensive as all of the ground work for setting up the audit would have been completed in the first year audit. Crowe indicates that typically clients can take anywhere from six to eight weeks to over five months to complete an audit.

C. Current Status of DCP Staffing

A summary of staff positions, including their status and estimated percentage of time reimbursed by the DCP is as follows:

- Defined Contribution Plan Manager (vacant) – 100%

- Chief Personnel Analyst (filled) – 20%
- Senior Personnel Analyst II (filled) – 40%
- Senior Personnel Analyst I (vacant) – 100%
- Management Analyst (filled) – 100%
- Management Analyst (filled) – 100%
- Benefits Specialist (filled) – 100%

The Senior Personnel Analyst I position became vacant effective February 18, 2020 when the incumbent was internally reassigned to another division within the Personnel Department. The newly created Defined Contribution (DC) Plan Manager classification was created on June 25, 2020 and a new resolution position authority was subsequently authorized in the Personnel Department's FY 2020-21 budget. Accordingly, the DC Plan Manager position has been vacant since July 1, 2020.

Once filled, the DC Plan Manager will serve as the Executive Director of the DCP. At its meeting on December 15, 2020, the Board recommended to the General Manager Personnel Department that, pending filling of the DC Plan Manager position, duties of the DC Plan Manager continue to be assigned on an interim basis to the current Chief Personnel Analyst and Senior Personnel Analyst II supporting the DCP. The staff members in both of these positions are expected to continue their support of the DCP.

D. DCP Audit Plan Challenges: Payroll Conversion and Staffing

The City is currently undergoing a transition to a new payroll system provided by the vendor, Workday to replace the City's 20+ year old legacy payroll system, PaySR. The planned go-live date of the new payroll system is January 2022. DCP staff has been working closely with the project team from Workday and the Personnel Department to support the successful transition of DCP eligibility and contribution processing to the new payroll system. Additionally, staff has been working with Workday to address potential enhancements to manual DCP-related payroll processes that are currently performed in PaySR. Ongoing meetings will continue throughout the next few months to determine if these manual processes can be automated in the new payroll system. The implementation of the new payroll system is a high priority for the City given its impact on almost every aspect of City administrative operations and functions and all City departments have assigned this additional task to their staff to ensure the project is successful and meets the go-live date. In addition, the Department of Water and Power (DWP) is also planning a conversion to Workday, and that process is expected to begin in earnest in 2022.

Given the current staffing gaps and additional work posed by the payroll system implementation, a number of challenges exist to conducting an audit in this environment. A plan audit requires a significant amount of staff time to assist in the audit work. The scope of documents and information that are required to be gathered as outlined in Section B on page 2 is a substantial undertaking. In addition to gathering materials and documentation, staff's primary concern is the amount of direct payroll-related data mining that would be required of staff in order to complete

the project. This is a particular challenge given that, realistically, little assistance can be expected from City payroll staff given the Workday conversion process presently underway.

Two key leadership positions that would play an integral role in the oversight and administration of the plan audit are currently vacant – the DC Plan Manager and Senior Personnel Analyst I positions. The proposed scope of the audit work could take months to complete and at this time, given staffing vacancies, adding a full financial audit in addition to current priorities (e.g. payroll conversion work, investment procurement/searches, the consultant procurement, plan governance items, execution of participant engagement goals and strategies, ongoing participant support functions, etc.) does not appear realistic.

Staff also considered the merits of launching the audit incrementally and attempting to make some, if not complete, progress. Staff's concern is that the bulk of the data and steps taken become "stale" and need to be repeated, thereby incurring additional billable hours from the auditor. To reduce that risk, staff believes it would be valuable to have a higher level of confidence in being able to see the project through to fruition.

Given all of these factors, staff believes that the prudent course of action is to pause initiation of this project until, minimally, more staff resources are available. Staff therefore recommends that the Board defer commencement of the DCP audit until the DCP Senior Personnel Analyst I or the DC Plan Manager position is filled and, once one or more positions is filled, direct staff to return to the Board with an updated recommendation.

E. Status of Citywide Hiring Process and Filling of DCP Vacant Positions

Staff consulted with the Office of the City Administrative Officer (CAO) regarding the status of the City's current hiring process. The CAO advised that as part of the second Financial Status Report (FSR), the Mayor and the Council approved a temporary Citywide moratorium on hiring and promotions on December 21, 2020. The moratorium suspends the current hiring freeze exemption request process, and only allows departments to submit requests for hiring freeze exemption that are technical or administrative in nature (e.g. employees on emergency appointment being appointed from an eligible list, automatic pay grade advancements, movement of employees from part-time to half-time or full-time status after working requisite hours, 1014 transfers, reversions, etc.). All hiring freeze exemption requests submitted by departments that are not consistent with this direction to date are now being held by the CAO. The MHC will not review any requests from departments during this temporary moratorium. The CAO will report in the Mid-Year FSR with recommendations as to whether the City should reinstate the previous hiring freeze exemption-request process, continue the temporary moratorium, or institute an alternative hiring review process.


As part of the newly executed Memorandum of Understanding (MOU) between the Board and the Personnel Department, the DC Plan Manager or equivalent DCP manager, working with the Board, shall have the sole responsibility for designing and conducting selection process(es) and making recommendation(s) to the Board, which shall subsequently provide recommendations to

the Personnel Department General Manager with respect to appointment of all DCP staff. All selection processes will be consistent with the Charter and Los Angeles Administrative Code and with selection and Civil Service rules applying to all City employees. Accordingly, separate from the Personnel Department, the DCP manager working in conjunction with the Board has sole responsibility for directing hiring process(es) for DCP staff.

Based on the above, the Board has a few options on how to proceed with next steps for filling the DC Plan Manager and Senior Personnel Analyst I positions:

- Wait until the Mid-Year FSR is issued for further instruction on filling positions based on the CAO's recommendation(s)
- Communicate directly to the Council and Mayor to request an exemption from the Citywide moratorium on hiring to fill the DC Plan Manager and Senior Personnel Analyst I vacancies
- Take no action at this time; wait until the City's budget situation is more certain before deciding how to proceed

Staff can support any next steps deemed appropriate by the Board to further pursue filling the DCP's vacant positions.

Submitted by: 

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Approved by: 

Steven Montagna, Chief Personnel Analyst