



Board Report 21-44

Date: August 17, 2021
To: Board of Deferred Compensation Administration
From: Staff
Subject: Human Resources and Payroll (HRP) Project Update

Board of Deferred Compensation Administration

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Discussion:

Following is a discussion regarding the progress of the HRP transition and the potential impact on Deferred Compensation Plan (DCP) administrative functions.

A. Background

The Human Resources and Payroll Project (HRP) is an effort to replace the City's current payroll system, known as PaySR, with a new comprehensive payroll and human resources management system. The new HRP system is a product and service of Workday, an American on-demand financial management and human capital management software vendor. The Workday team has identified the following attributes of its system as benefits to the City of Los Angeles:

1. Secure & Compliant – Workday is Criminal Justice Information Services (CJIS) compliant meaning that it meets higher protocols for security requirements.
2. Access Anywhere – Workday can be accessed anywhere with its mobile friendly design and application.
3. Self Service – Employees should have access to more data and transactions in Workday, allowing them to find information or execute tasks with greater independence.
4. User Friendly – Workday's intuitive and modern interface is intended to be more user-friendly.
5. Real-Time Data – Workday is expected to provide for more immediate updates when data is entered or a transaction is processed.

The HRP project team is broken into multiple different "workstreams," and each workstream has a Workday lead and City lead. These leads meet with PaySR users and "subject matter experts" to configure the HRP system and manage the HRP transition process. All workstream leads are striving to meet a HRP launch date sometime in December 2021 with a goal to have the first City

paycheck in 2022, scheduled to be paid on January 12, 2022, processed out of the new Workday system.

DCP staff are active daily users of the City's current PaySR payroll system to manage DCP eligibility, payroll contributions, and special deferrals (Accrued Leave Payouts and Catch-Up Contributions) for over 38,000 civilian and sworn City employees. DCP contributions factor into W2 tax reporting, and DCP staff are the sole users of certain legacy PaySR components pertaining only to the administration of the DCP, such as the processing of Accrued Leave Payouts and Catch-Up Contributions.

B. HRP Implementation Process

Since the fall of 2020, staff has been attending meetings with Workday to share information regarding DCP functions and their relationship to the City's current PaySR system, and to support Workday's defining of requirements for the Workday implementation. For the DCP, the implementation process includes:

- **File Exchanges** – Establishing two files for managing DCP functions: 1) the inbound payroll file from the DCP Third-Party Administrator, Voya to the new payroll system (contributions and loans processing) and 2) the outbound census file sent from the City's new HRP system to Voya (eligibility data). The outbound census file determines DCP eligibility based on employment status (full-time or half-time) and participation in one of the City's pension plans – LACERS or LAFPP. Voya uses the data sent on the census file to identify newly eligible employees who may participate in the DCP and to verify eligibility to process enrollment for those eligible employees into the DCP.
- **DCP Special Processes** – Many DCP processes which are currently performed manually in PaySR and have significant tax implications (e.g. Catch-Up Contributions, Accrued Leave Payouts, contributions processing, refunds, adjustments, W-2 corrections, etc.). These processes need to be configured within the new Workday system to ensure DCP staff is able to process these types of transactions.

The PaySR to Workday change is not a direct replication of systems and data. The current PaySR system uses extensive coding to record employment changes, which in turn, directly relate to determining DCP eligibility. The Workday system will not use any codes. Instead, the file sent to Voya will translate the new information, stored as plain text event descriptions in the Workday system, into the old coding used in PaySR. This method provides the least amount of risk as it would not require a change in the Voya system to process the information that is sent from the new Workday system. However, this approach includes inherent risks for adequately and consistently translating data and execution of eligibility from Workday to Voya. A substantial and timely executed level of testing is necessary to ensure that employment change processes created in the Workday system are comprehensively accounted for on the outbound file to Voya during the testing process and remain correctly accounted for when the system goes live. Additionally, measures will need to be put in place which can identify and account for changes to the Workday system and the ways employment changes are recorded so that, in the event any

new processes are created, any change to process will be correctly translated and sent to Voya. The administration of the DCP relies on a full and complete exchange of data between the payroll system and Voya's system. Any loss or error in data can result in negative impacts to DCP members.

In addition to file data exchanges, staff will need to access the new Workday system and confirm its ability to continue performing daily payroll functions adequately. Workday and City leads have proposed the following testing process of the new HRP system:

- (1) **End-to-End Testing** – The End-to-End Testing process requires system users to test functions of the new Workday system. Users will go into the system and perform tasks, one-by-one, from start to finish. This testing process will include physical use of the system components, and exchanges of data through file feeds. The End-to-End testing process will require a substantial time commitment from DCP staff, including certain staff committing a majority of their time to End-to-End testing over a two to three week – or more – period. The dates of this testing period have not yet been proposed by Workday.
- (2) **Parallel Testing** – The Parallel Testing process requires system users to test functions of the system in the same manner as in End-to-End, but this process will require users to perform real data functions simultaneously in both the PaySR and Workday systems to ensure the same process under the exact same conditions returns the expected results in both systems. The Parallel Testing process will also require a large time commitment from DCP staff, including certain staff committing a majority of their time to Parallel Testing over a two to three week – or more – period. The dates of this testing period have not yet been proposed by Workday.

The two testing processes identified above must be separate and distinct from each other, and must be performed in sequence with some amount of time gap in between each process for programming adjustments. Therefore, although no dates have been identified for each process, the entire testing process is expected to require a minimum of six to eight weeks to complete. The Workday system is expected to “go live” at some point in December 2021, and is anticipated to have some level of a staggered-use launch where first administrative users and then City employees will gradually learn and use the system over a period of time while PaySR remains the active City payroll system. Active use of the PaySR system is generally considered to end by early January, and the HRP system will be the permanent payroll system of record afterwards.

C. Notable Concerns for the DCP

The change of a major system, one which has been in place for almost two decades, presents inherent challenges and risks. Staff is devoting its resources and support to the implementation effort to mitigate risks and impacts related to the DCP. The larger risk areas are discussed as follows:

- **DCP Special Processes** – Many DCP processes which are currently performed manually in PaySR and have significant tax implications (e.g. Catch-Up Contributions, Accrued Leave

Payouts, contributions processing, refunds, adjustments, W-2 corrections, etc.) remain to be fully configured in the Workday system. These processes are highly complex and require significant review and input by DCP staff in conjunction with Workday and City Controller payroll staff to ensure the build is consistent with DCP day to day processing and expectations of results before the testing phase begins. Staff is still awaiting for these DCP processes to be fully built and sufficiently vetted before testing starts.

- **Payroll Workstream Involvement** – DCP staff works with DCP payroll deductions on a daily basis. Only recently has DCP staff been invited to participate in the payroll workstream. It is critical for DCP staff to help review and vet how DCP deductions will be reflected and processed in the Workday system, including ensuring the new system is programmed to apply appropriate checks on annual DCP contribution limits and eligible compensation types that can be deferred into the DCP. DCP staff has not had substantive training or interaction with payroll processing, as most of the work staff has been involved in to date with the Workday team relates to integrations of file exchanges between the Workday system and Voya.
- **Historical Records** – The Workday system will apparently convert some, but not all, of the current data in PaySR. The PaySR system contains employment and payroll records which are vital to DCP processes in multiple ways. DCP staff uses PaySR heavily to reconcile DCP contributions, tax reporting, and to perform other research tasks. The City has proposed storing historical PaySR data not converted into the HRP system in a separate database system. DCP staff will need to ensure that the storage of these historical records contains all of the data that is required by DCP staff to perform its duties related to processing DCP transactions.
- **Catch-Up Contribution History** – For the DCP, PaySR maintains a historical database of each employee’s “unused balance” of amounts that the employee was eligible to contribute to the DCP but did not, dating back to the employee’s original hire data. This historical data is required to be maintained as this very important and frequently used provision allows employees to make additional higher contributions to the DCP as they near retirement. It is our understanding that the Workday system does not allow for recording this historical data. A solution will need to be identified by Workday and the City as this will severely impact staff’s ability to approve and process Catch-Up Contributions in the Workday system.

D. Next Steps

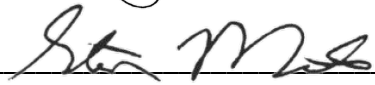
Staff continues to work directly with Workday and City leads to support resolving the items identified in this report. Staff will continue to update the Board regarding progress of the HRP transition.

Submitted by:



Jenny M. Yau, Senior Benefits Analyst II

Approved by:



Steven Montagna, Chief Personnel Analyst