

Minutes of the Work Session held December 8, 2014 at 6:02 p.m. in the Council Chambers.

MEMBERS PRESENT

Mayor Kenneth N. Weise and Council Members

Frank Scott, Vice Mayor
David Iwanski
Stephanie Karlin
Bryan Kilgore
Jim McDonald
Charles Vierhout

ALSO PRESENT

David Fitzhugh, City Manager
Gina Montes, Assistant City Manager
Kevin Artz, Assistant City Manager
Pilar Aguilar, Assistant Director – Finance & Budget
Cherlene Penilla, Human Resources Director
Rob Lloyd, CIO
Carmen Martinez, City Clerk
Andrew McGuire, City Attorney

1 ROLL CALL BY THE CITY CLERK

2 HUMAN RESOURCES INFORMATION AND PAYROLL SYSTEM REPLACEMENT

Pilar Aguilar, Assistant Director of Finance & Budget, noted that in 2006, the City of Avondale began the process of identifying an enterprise resource planning solution. The analysis determined that the City could bring together human resources, payroll, finance, and building permitting into one system. Staff evaluated different systems in early 2008 before selecting Lawson for the human resources solution, and Accela for the building permit solution. Contracts for those items were awarded in May of 2008, and staff transferred payroll to Human Resources. In November of 2008, City Council approved the purchase of the Kronos time management system, which included biometric clocks. The City also purchased a document management system, and software for creating personnel action forms. A consultant and a contract IT specialist were hired to assist with the implementation, which cost over \$1.3 million, not including maintenance.

Ms. Aguilar reviewed the outcomes. The City has realized some advantages by implementing Lawson and Kronos. Prior to Kronos, all time sheets were either done on an Excel worksheet, or on paper. The approval process was manual, and everything was viewed on paper. Kronos improved efficiency, and the new clocks have improved time keeping accuracy. Another benefit was that employees and managers had access to online information and self-service.

Ms. Aguilar noted that there have been some disadvantages to the system. The payroll process in Lawson is long and requires multiple steps. Each step in the process has the potential for failure. If a mistake is made, everything must be restarted from the beginning. On two occasions in the past six months, the City almost did not make payroll on time because of errors in the system. Some of this can be attributed to misconfiguration dating from the initial implementation. The system, as configured for Avondale, does not have the ability to accommodate multiple pay structures, like other cities can. Employees also do not have the ability to calculate leave balances carrying forward. There is also a lag between

Lawson and Kronos. Specialty pay rate information must be entered manually. This capability does exist in Lawson, and other cities use it, but Avondale's configuration was not set up properly.

Ms. Aguilar noted another major problem that a gap is widening between what is shown in the general ledger and what is in the payroll system. Staff is not able to correct mistakes in Lawson and have them uploaded to the general ledger. The general ledger has had to be adjusted to reflect the correct allocation of costs on many occasions.

Ms. Aguilar explained that the number of payroll issues has been increasing. Historical information related to healthcare rates is no longer accurate, because of an error in the system. A major Lawson upgrade has been budgeted and approved. Staff would like to postpone or avoid that cost altogether, because each upgrade magnifies the configuration issues.

Ms. Aguilar reviewed the available solutions. The City could undertake another system conversion that would involve additional hardware, software, and implementations costs. The current system took three years to fully implement. Staff also evaluated payroll and HR system outsourcing options. While there are also implementation costs associated with outsourcing, and the City would have to pay for services on a regular basis, the implementation period is shorter. An outsourced system also is better equipped to handle any changes in taxation rules or compliance issues.

Ms. Aguilar said staff could also opt to correct the existing system, which would incur costs similar to what the City paid for implementation before. A consultant would be hired to completely reinstall Kronos and Lawson as though they were brand-new. Staff has also considered reacquiring the Eden payroll module, which was used prior to the switch to Lawson, but that system did not offer all the same features. It has taken time to assess all of these options. Executive staff had a series of discussions dating back to October 2013, about replacing the system. Finance received a draft of an RFP for a payroll/HT system in February, but staff advised that the City instead issue a Request for Information, because one of the key components to replacing a system is understanding the needs. With an RFI, the payroll services or providers could give more guidance on refining the system according to the City's needs. A cooperative purchasing vehicle was located through TCPM, and ADP was contacted in April.

Ms. Aguilar stated that staff has been in discussions with ADP and identified 89 pages worth of needs. ADP indicated that they could provide outsourcing services. In September, multiple departments reviewed ADP's demonstration and developed questions for further information. Pricing was not finalized until October. The revised sales order was presented to City Council last week for approval. ADP was chosen because the cooperative purchasing vehicle means it would save time. ADP also serves a number of Arizona governmental entities who have indicated their satisfaction with the service. The ongoing costs that have been quoted are within Avondale's current ongoing budget.

Ms. Aguilar compared the cost of reinstalling software to outsourcing. Hiring a consultant at the same hours of service provided by the original implementer, Kinsey & Kinsey, would result in a potential cost of \$317,000, and maintenance costs of \$151,000 per year.

Ongoing costs over the next five years would be about \$638,000 with ADP, compared to \$755,000 with Lawson. The one-time cost of reinstalling Lawson would be \$390,000, compared to the one-time ADP cost of \$115,000. Going with ADP would resolve many operational issues since it will be their responsibility. In summary, staff requests a hosted solution where all the data is stored on ADP's site. ADP would issue checks, tax filings and W-2s. The Kronos system is built into the ADP interface, which means it will be familiar to existing staff. Employees would have multiple options to clock in, including a mobile app.

Ms. Aguilar said the City has learned an important lesson through this experience. Staff will work directly with ADP to set up the new system without third-party consultation. The implementation team will involve input from all City departments. The team will be required to sign off at every testing point. Two payrolls will be run simultaneously in a parallel testing environment to detect variances. It is conceivable that by June or July of 2015, Avondale could be running payroll through ADP. The system conversion and competitive solicitation option would take longer.

David Fitzhugh, City Manager, said it is important that the system works properly so that employees are paid correctly and on time. It is a liability to the City whenever staff has to dedicate resources to address such significant problems. It is essentially a business decision to cut the City's losses. HR had high hopes for the Lawson system, but it has turned into a nightmare. The department needs to get back to what they do best. IT has also had to dedicate some of their resources to resolving payroll issues. He summarized that the annual ongoing costs would basically be the same as what is being paid for Lawson, but there will be an additional one-time cost to get the system in place. Moving forward, this approach will free up people in HR and IT, and the employees will have a better payroll system.

Mayor Weise said he does not want to dwell on the past, and is interested only in solutions moving forward, but these types of surprises should never happen again. From now on he expects that City Council will be kept informed when a problem like this develops.

Council Member Vierhout said the City should not be in the payroll business. Avondale did not have the personnel resources available to support the Lawson system. He felt payroll should be outsourced, but questioned ADP's ability to customize their service to accommodate Avondale's unique situation. Ty Arlint of ADP responded that only a few companies handle payroll. ADP differentiated itself eight years ago, recognizing that organizations like Avondale differ substantially from private sector companies. While other competitors specialize in payroll for organizations with fewer than 50 employees, ADP has over 5,000 government clients, and about 75% of them are the same size as Avondale. His company is very comfortable with the complexities of city governments and the unique differentiators they have.

Council Member Kilgore inquired about the number of customization hours Avondale would receive per year, and the cost of overruns. Mr. Arlint explained that ADP's implementation model is very different from a consultant who charges by the hour. It is a service-based solution. All of the steps required to implement and manage the system occur at ADP's expense. Avondale would incur new charges only when major changes are made, but fine-tuning and tweaks are done at no cost. Council Member Kilgore inquired about the potential

for self-customizations. Mr. Arlint said it depends. Staff could make database changes in response to a new collective bargaining agreement, for example, but could not change the underlying code to the software.

Council Member Iwanski said ADP would have to stay ahead of changes to ensure that employees are paid on time and properly. Mr. Arlint said payroll can experience 5,000 changes each year just from federal government legislation. ADP employs over 1,000 people in Washington D.C. whose job it is to pay attention to legislative changes so that ADP's clients can comply with the law. Clients are kept informed about upcoming changes that will affect them.

Council Member Karlin asked whether ADP has ever handled payroll for police and fire personnel. Mr. Arlint clarified that ADP handles police and fire payroll for many clients, including Maricopa County; Pima County; City of Seattle; Larimer County, Colorado; City of Baltimore; and the Town of Greenwich. Some smaller clients have complex schedules that can be problematic, but he expressed complete certainty that the solution identified for Avondale will be successful.

Vice Mayor Scott noted that the City of El Mirage uses the same fire department work schedule as Avondale does, and they say ADP's system does not work for them. Mr. Arlint said he is aware of that situation and explained that El Mirage implemented a different solution than the one planned for Avondale. ADP has the ability to handle El Mirage's needs, but they opted for a much cheaper solution that does not handle complex scheduling.

Council Member McDonald asked about the linking of Lawson with Kronos. Ms. Aguilar responded that both systems were set up by the same implementer. Kronos was not set up properly to handle fire department payroll. Mr. Arlint added that ADP has the exact same software that Kronos sells; the difference is that ADP integrates it directly with its payroll solution, using a tried and true process that has worked for over 20 years. Since Avondale staff has been using Kronos, the transition to ADP should be a smooth one.

Council Member McDonald emphasized the importance of good customer service. Mr. Arlint said ADP's average client tenure is more than 17 years. As a service-based organization, ADP must keep clients happy. Council Member Vierhout inquired about time clock integration. CIO Mr. Rob Lloyd explained that since ADP uses the same software, they can be tightly integrated. Mr. Arlint added that ADP would handle all the server software patches and hardware upgrades. ADP is one of only 50 companies with a Tier 4 data center, which ensures maximum security and redundancy.

Fire Chief Paul Adams said the Avondale Fire Department runs a 48/96 rotation, whereas the typical fire department runs 24-hour shifts. That idiosyncrasy has been causing problems because it splits the end of the pay period. He said ADP is confident that they can address those concerns. Mr. Lloyd added that there are still some details to work out, but the process is on the path to a solution. Council Member McDonald asked whether ADP would be flexible enough to fix something that does not work if it fits within the existing scope of the project. Ryan James stated that ADP will take care of everything that has been contracted for, including those types of fixes. Something like a new module would incur an

additional cost on the same type of per employee per month cost structure used for the initial quote.

Council Member McDonald asked the City Manager whether he felt Avondale was getting the right package, or would an upgrade be warranted. Mr. Fitzhugh responded that staff is pursuing a package that best meets current needs within the current budget. Some contingency funding will be necessary to cover one-time expenditures. The package that includes everything costs \$440,000 per year. If Avondale finds the need to add another module to improve efficiency, it can be considered at that time. Mr. Lloyd advised getting the important key operational concerns fixed first; other modules later may be added on as needs arise. Kevin Artz added that the payroll outsourcing approach is the most cost-effective and efficient system moving forward. Mayor Weise requested monthly updates on the implementation process.

Andrew McGuire clarified that the contract with ADP has already been signed, but that Avondale has an out should a solution not materialize. Council Member Karlin inquired about the possibility of including a probationary period. Mr. Fitzhugh said staff will contemplate that idea. Mayor Weise inquired whether Avondale could get by on the current Lawson system until July 2015 without an upgrade. Mr. Lloyd suggested that the City only purchase the upgrade if it intends to keep Lawson.

Mr. Fitzhugh noted that moving forward, payroll will be run out of the Finance Department, though HR will still play a significant role. The City is looking at an expense of \$241,000 for one-time and ongoing costs. A request for \$80,000 from contingency funds has been made, and the remainder of the funding would come from line items in the budget.

Vice Mayor Scott asked whether the City would have to pay to swap the time clocks. Ms. Aguilar explained that the City intends to buy additional clocks, but these will be offset through a credit dispersed over three years. Vice Mayor Scott requested a failure analysis report, saying it will be important to learn how the Lawson deal went wrong, so that it doesn't happen again. The City went too far down the road before deciding to make a change. This should be viewed as a learning experience, not an exercise in establishing blame.

Mayor Weise said this solution will allow staff to get back to doing what they should be doing, instead of expending so much energy on something they should not.

3 ADJOURNMENT

There being no further business before the Council, Council Member Iwanski moved to adjourn the work session. Council Member Kilgore seconded the motion, which carried unanimously.

City Council meeting adjourned at 7:25 p.m.



Mayor Weise

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the Council of the City of Avondale held on the 8th day of December. I further certify that the meeting was duly called and held and that the quorum was present.



City Clerk