

MEMORANDUM

August 16, 2023

TO: Harry Black, City Manager

FROM: Jay Kapoor, Deputy City Manager
Kim Trammel, Chief Financial Officer
Rosemary Rivas, Director of Human Resources

SUBJECT: **CONTRACT WITH BAKER TILLY TO PROVIDE PAYROLL AND CALPERS AUDIT AND IMPLEMENTATION SUPPORT**

While dealing with Tyler MUNIS implementation and staff turnover, the Administrative Services (ASD) and Human Resources (HR) departments have identified a need for audit, implementation, and process mapping support related to payroll and CalPERS calculations and processes.

Staff reached out to and interviewed Moss Adams, Alliant Insurance Services, and Baker Tilly (formerly Management Partners).

Moss Adams was not able meet the full needs of the City's request, and therefore did not submit a proposal.

Alliant's proposed scope of work lacked sufficient detail and proposed fees based on time and materials costs at \$185/hour, not including travel and expenses. Contracts based on time and materials costs are generally not recommended.

Based on the interview and proposal, Baker Tilly appears to be well equipped to address the City's needs, even providing additional process mapping that will be an asset to both departments for years to come. The estimated cost is \$58,000.

Sufficient funds are available in FY2023-24 from the Retirement Internal Service Fund (account #2520-050-670006-550-000-00-25-000-000-).

Feel free to contact me if there are any questions or concern on this item.

Thank you,



Jay Kapoor
Deputy City Manager



July 24, 2023

Mr. Jay Kapoor
Deputy City Manager
City of Stockton
425 N. El Dorado St.
Stockton, CA 95202

Baker Tilly US, LLP
18500 Von Karman Ave., 10th Floor
Irvine, CA 92612
+1 (949) 809 5588
bakertilly.com

Delivered electronically

Dear Mr. Kapoor:

It was a pleasure meeting you and your team on July 17, 2023, to discuss your new payroll system and the need to ensure your calculations are correct and that staff have appropriate training. A new financial system brings with it additional challenges, and staff turnover can add to the need for documentation of processes and additional training.

Based on our conversation, we propose to provide the City with payroll system implementation support that will focus on the setup of the payroll system, to ensure the proper calculations are being made specifically for the California Public Employees Retirement System (CalPERS) pension reporting. Key activities for this project include interviews with you, finance, and payroll team members; reviewing existing memoranda of understanding and personnel rules that may influence the types of pay subject to CalPERS reporting; analyzing the Tyler Munis system setup for payroll calculations, with a focus on pay codes that are subject to being included as wages subject to retirement benefits ("PERSable pay"); and analyzing payroll data from the date of implementation of Tyler Munis to date, to determine any changes that will be necessary in CalPERS reporting.

About Baker Tilly

Celebrating more than 90 years serving our valued clients

As a future-looking firm, we celebrate more than 90 years in the marketplace by honoring our roots and continuing to shape our future. As we help our clients identify new needs and opportunities, we innovate and change to work better.



Our roots took hold in 1931 in Waterloo, Wisconsin, where we began as a public accounting firm specializing in canning factory audits. Since that time, we have grown with more than 40 different business combinations, each with its own rich history, expanding our presence coast to coast and globally, and expanding our scope across industries, services and areas of expertise. One thing has not changed over time: **our shared passion for enhancing the services our clients deliver.**

State and local government is a complex, unique environment shaped by fiscal, regulatory and operational considerations not found in other industries. We recognize this complexity, and we are eager to serve as a truly valued advisor to the public sector. Nationwide, our state and local government practice serves nearly 4,000 state and local governmental entities, including municipalities, special districts, counties, public utilities, school districts and transit.

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Celebrating our recent combination with Management Partners

In October 2022, Management Partners combined with Baker Tilly to create a premier public sector consulting practice. To continue serving and improving communities, local leaders need trusted consultants to help navigate change. This combination adds a unique and significant layer of experience to Baker Tilly's robust public sector practice. Our project team members are former local government leaders and managers stemming from all operational facets.



OUR COMBINED SERVICES INCLUDE:

- Executive Recruitment
- Executive Coaching
- Executive Performance Assessment
- Organization Assessments
- Organization Development
- Performance Management
- Process Improvement
- Strategic and Business Planning
- Service Sharing and Service Consolidation
- Management Services
- Financial Planning, Budgeting and Analysis

Understanding of the Engagement and Approach

We understand that effective January 1, 2023, the City moved its payroll system to Tyler Munis. As with any new technology system implementation, staff must learn about the new system, and understand its functionality and how it operates, to ensure payroll calculations are correct. Training manuals are key to providing staff with the tools they need to successfully provide payroll services. City leaders are concerned that payroll is not properly set up to accurately report PERSable pay and meet other CalPERS reporting requirements.

CalPERS is expected to be on site shortly to provide the City with additional compliance training, to help address retirement reporting issues that have come up in prior reviews which the City has begun to address. Part of that compliance is to ensure the payroll system is properly set up to accurately calculate reportable pay to CalPERS each pay period.

The City has requested our assistance to independently review the set-up of the Tyler Munis system and to provide recommendations on improving the set-up and payroll reporting, to ensure compliance with CalPERS requirements. Baker Tilly will work with payroll staff to review the Tyler Munis financial system toward this end and train staff on the proper use of the system and reporting features.

Work Plan

Activity 1 - Start project

Baker Tilly will begin this project with a careful learning phase, starting with a planning meeting with you and the appropriate finance staff, which collectively will comprise the Project Team. During this meeting, we will work with you to ensure the plan of work and schedule are precisely tailored to your needs. Throughout the project, we will keep you informed of our progress, observations, and initial recommendations.

The project start-up activity forms the foundation of the relationship between Baker Tilly's team and the City of Stockton. We know that the work associated with this payroll review is in addition to the normal work of the organization. Our goal is to integrate our activities in a manner that is thoughtful and minimizes disruption to the City's operations. However, the cooperation of staff in providing requested data and giving meaningful feedback is crucial to a successful project.

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We will provide a document request prior to this meeting and will review the material collected by staff to identify any other data needs.

Activity 2 - Gather and review background information

Next, Baker Tilly will gather and review background information and conduct initial interviews as described below.

- ***Gather and review background material.*** To develop an informed understanding of the issues surrounding the payroll function we will ask for relevant background information including:
 - CalPERS retirement plan contracts affecting represented and unrepresented employees;
 - Memoranda of Understanding and/or compensation and benefits plans with all represented and unrepresented labor groups, including any pay plans impacting part-time staff;
 - Personnel rules and any related municipal codes that may impact employee compensation and benefits;
 - Correspondence/reports from CalPERS regarding issues with payroll calculations for current employees, retirees, and soon-to-be retirees;
 - Any annual comprehensive financial report (ACFR) audit findings related to the payroll function;
 - Calculations used to prepare personnel costs as part of the annual budget process with detailed payroll projections for all employees;
 - Sample reports that are produced with each payroll cycle and any monthly and/or quarterly reports that are generated, with a particular focus on reports relative to CalPERS retirement withholdings and employer contributions; and
 - Any other data or information that will inform the analysis of CalPERS retirement calculations.
- ***Conduct initial interviews.*** We will conduct up to five (5) initial interviews via videoconference with payroll and finance staff to understand existing payroll processes and the procedures used in implementing Tyler Munis for payroll reporting.

Activity 3 - Conduct on-site visits with payroll staff and review Tyler Munis configuration and use

Baker Tilly will conduct a series of two (2) onsite visits, encompassing four (4) days, with payroll staff and others to review the current configuration of the Tyler Munis payroll system and to review how payroll is processed. At least one of these visits will occur during the processing of payroll. Our visits will focus on the following payroll processes:

- Payroll configuration changes (new classifications/pay plans, new/revised additional pays, uniform allowance, PERSable pay codes, deferred compensation);
- Setup for new employees, including any differences for Classic vs. PEPRAs members;
- Personnel changes from personnel action forms (promotions, demotions, new classifications, add pays, certifications, uniform allowance, step increases, other changes);
- Leaves of absence (paid and unpaid time off, medical leave, workers compensation);
- Benefit elections (open enrollment, other benefit changes);
- Overtime compensation (earned and paid);
- Separation of employment (resignations, terminations, death);
- Retirement processing (normal, disability); and
- Other payroll changes or processes impacting PERSable compensation and benefits.

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During our visit, we will also review the implementation of the Tyler Munis payroll system. We will review how pay codes that have an impact on PERSable pay, CalPERS withholdings, and calculations impacting the normal rate contributions were established. We will also review how the City handles calculations and payments relative to the fixed contribution toward the unfunded actuarial liability (UAL) for the year. Finally, we will review how the CalPERS upload files were developed and are being created for each payroll period.

At the conclusion of each site visit (or immediately thereafter), we will meet with the Project Team to summarize what we learned and clarify questions that came up because of our work.

Activity 4 - Conduct analysis

Taking the information we learn in Activities 2 and 3, we will conduct our analysis to inform recommendations on how to improve the setup of the Tyler Munis system. Our recommendations will focus on ways to improve the accuracy of CalPERS data regarding PERSable pay, employee withholdings, employer normal cost contributions, UAL payments, and the various data points that CalPERS requires in the pay period reports.

As part of our analysis, we will request a download of payroll data for each payroll period from the date of Tyler Munis implementation to the most current payroll at the time of our field work. We will use this data to analyze any potential inaccuracies in the calculations of CalPERS data elements and summarize the analysis for discussion with the Project Team.

We will also identify key processes that inform the preparation of a user's manual for payroll staff to use in making changes to the payroll system and handling payroll processing changes relative to CalPERS-related compensation and benefits calculations.

We will check in with the Project Team to discuss any significant issues that require additional analysis to inform our recommendations.

Activity 5 - Report results and prepare user's manual

We will prepare a draft memorandum that summarizes the results of our work and our preliminary recommendations. We will review this draft memorandum with the Project Team. The recommendations made remain the responsibility of Baker Tilly. However, we find it helpful to review our preliminary recommendations with the Project Team, to clarify any misunderstandings or anything that might necessitate additional analysis to refine our recommendations. After we receive the Project Team's feedback, we will finalize the memorandum.

Concurrent with developing the memorandum, we will also develop a CalPERS payroll calculations and reporting user's manual for staff that can be used as both a reference document and training guide. In drafting the manual, we will review a proposed outline with the Project Team, to determine that the manual will include the necessary elements to inform payroll users in processing CalPERS-related compensation and benefits calculations and reports. We will then begin to create the user's manual content based on the approved outline. We will then review the draft manual with you and finalize it based on your feedback.

Optional Activity A - Prepare process maps for payroll process

In our experience, some agencies find that process maps that depicts the workflows of business processes are helpful in demonstrating what happens from one step to another, where bottlenecks occur, and where future improvements can be made. If desired, we would conduct the following:

- Facilitate a process mapping session with payroll staff during Activity 3 focused on the CalPERS payroll processing and reporting elements of the entire payroll process; and

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- Incorporate recommendations based on the session and our analysis and develop "to-be" process maps that portray the proposed workflows.

Once we have the draft process maps prepared, we will review them with the payroll staff and the Project Team to ensure the steps we have identified are accurate, and then finalize them.

Our Qualifications

We have a strong project team that is qualified to complete this work for Stockton. Steve Toler will serve as project director. He will oversee the substantive work of the project and will serve as the primary subject matter expert. He will be supported by Jessica Oliphant. Brief qualifications for Steve and Jessica are provided below.

ENGAGEMENT TEAM FOR CITY OF STOCKTON



Steve Toler - Director

Project role: Engagement leader; Subject matter specialist

- Steve joined the firm in 2015 after spending nearly 20 years in local government public service working for the cities of Foster City, Cupertino and Millbrae.
- He has served in management positions ranging from assistant city manager to information technology manager.
- Steve has skills and knowledge in a wide range of areas including budgeting and revenue forecasting, financial management and reporting, accounting, payroll administration, CalPERS reporting, labor relations and negotiations, organizational development and training, purchasing, information technology management, water and wastewater rate modeling, regional shared services planning, business continuity planning, risk management, economic development and redevelopment, tax ballot measures, and public engagement.



Jessica Oliphant - Consultant

Project role: Research and financial analyst

- Experienced in many facets of local government management, including budget preparation and analysis, process improvement, community engagement, and understanding the fiscal impacts of policy changes.
- Served as a budget analyst in the Finance Department of the City of Kansas City, Missouri and was a Cookingham-Noll City Management Fellow in Kansas City's City Manager's Office. Duties included analyzing large fiscal datasets, developing fixed cost rates, analyzing historical budget trends, and improving the process of applying to the City's Board and Commissions.
- Won an All-America City award based on her research of innovative programs in response to the Covid-19 pandemic.
- Also served in the AmeriCorps VISTA program, as a research assistant examining management techniques, and as an intern in the ACLU's Women's Rights Project.

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- Received a master's degree in public administration from New York University's Wagner Graduate School of Public Service and a Bachelor of Arts degree in public policy, also from New York University.

Hours and Cost

Baker Tilly proposes a not-to-exceed contract for this work of \$50,000, that will include all fees and expenses. If the optional process mapping activity is desired, it will add another \$8,000 to the cost, increasing the total not-to-exceed contract to \$58,000. The rates for our consultants assigned to this project are as follows:

Consultant	Hourly Rate
Steve Toler (Director)	\$235
Jessica Oliphant (Senior Consultant)	\$180
Peer review	\$225
Production	\$60

The ultimate test of a quality project is that the client is pleased with the results, and we are committed to achieving that goal. Please let me know if we can provide any additional information.

Sincerely,

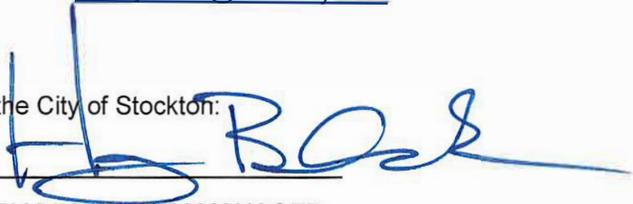
Carol Jacobs, Managing Director
Baker Tilly US, LLP
+1 (949) 809 5588 | carol.jacobs@bakertilly.com

Accepted for the City of Stockton:

Name:

Title:

Date:


HARRY BLACK, CITY MANAGER

AUGUST 16, 2023

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