

## MEMORANDUM

**Date:** November 19, 2018  
**To:** Mayor and Members of the City Council  
**From:** Finance Commission  
**Subject:** Restructuring of Finance Department

### Introduction

At its meeting of November 7, 2018, the South Pasadena City Council approved a restructuring of the City's Finance Department, including awarding contracts for business tax licensing and payroll processing. As part of their action, the Council matter was referred to the Finance Commission for a special meeting to review the matter and report back.

The Commission was generally supportive of the staff effort to reorganize the Finance Department in a manner that would provide an increased level of service and improve Department operations at a minimal cost. Additionally, the City Council and City staff should be commended for their actions to aggressively negotiate the best possible prices for the work to be contracted.

It should be noted, however, that the Commission was concerned that the reorganization was not presented to it for review and recommendation prior to action by the City Council, which has been the practice for many years. Additionally, none of the Commission Members were informed that the matter was being placed on the agenda for the November 7, 2018 City Council meeting. Commission Members obtained knowledge of the matter after the agenda had been published. The Commission fully recognizes that the City Council has authority to direct the activities of the Finance Commission however and whenever it chooses. However, the processes employed for this most important matter placed the Commission in the role of reviewing the reorganization as a *fait accompli*.

### Organizational Changes

During its review, the Commission very carefully avoided any mention or discussion of confidential personnel matters. However, it did address the current and proposed organizational structure, analyzed the workload of the new and current positions, and considered the impact of the reorganization on the City's budget.

Concern was expressed that the staff report did not contain a comparison of the Finance Department organization chart listed in the adopted FY 2018-19 budget to the proposed new organization. The Commission were also concerned that a revised budget amount for the entire Finance Department was not included in the staff report. The following chart compares the staff

positions approved in the adopted FY 2018-19 budget to the reorganization approved on November 7, 2018:

<b>Position</b>	<b>Adopted Budget</b>	<b>Approved Nov. 7</b>
Finance Director	1	1
Assistant Finance Director	1	0
Accounting Manager	0	1
Finance Manager	0	1
Principal Management Analyst	1	1
Payroll Coordinator	1	0
Filming Liaison [1]	1	1
Accounting Technician	1	0
Accounting Technician I	0	1
Management Assistant	1	1
Senior Account Clerk [2]	2	0
Total	9	7

[1] This position was described as to be eventually transferred to another department, ultimately resulting in six positions in Finance.

[2] The Accounting Technician II and Accountant classes were also created, but it appears from the staff report that they will remain vacant and provide future promotional and pay grade advancement opportunities.

According to the staff report, the duties of the three deleted positions will now be accomplished by contracts with HdL Companies (business licensing) and ADP (payroll).

HdL Contract

HdL Companies is considered a pioneer and leader of auditing, operations, and revenue solutions for public agencies and is clearly capable of providing the services required by the City. The level of compensation to HdL for this service is dependent on business tax licensing activity, including discovery and recovery of unlicensed businesses. There was no information in the staff report indicating how the \$39,000 annual cost estimate was developed.

There are other companies in California that also provide turnkey business license management. The Commission was advised that HdL was selected without a competitive process because the company had been providing those services to the City on a month-to-month basis. However, with a month-to-month arrangement in place, it may have been advisable to solicit proposals from other companies to determine if HdL is the best fit for the City’s needs and if its pricing is competitive.

The Commission also expressed concern with contract section 2.4 of Exhibit B that addresses the City’s option to waive tax recovery. The section provides that HdL would be entitled to

compensation at 50% of the recovery amount in the event that the City opts to waive a tax recovery. It was unclear if this section would apply to erroneous billings, such as a billing based on a business having a post office box in South Pasadena when the actual business is located in another jurisdiction. This section could result in the City compensating HdL for instances where it does not and could not legally collect a business tax. If deemed necessary, the City should consider initiating a side letter with HdL regarding the financial impact of this example and possibly others.

There was also concern expressed during the meeting regarding the efficacy of replacing two filled staff positions, which may have performed tasks other than business licensing, with a company that will only manage business licensing activities.

#### ADP Contract

The Commission was informed during the meeting that ADP was chosen after staff had met and evaluated two of the largest payroll processing companies. However, the Commission did not receive an acceptable answer when staff was asked if the functionality of the current Human Resources/Payroll system, a subsystem of the City's current accounting system could provide an acceptable level of payroll processing with proper staffing and cross training. This alternative, if technically feasible and possessing the needed functionality would likely have saved the City money, even if some minor custom modifications needed to be made.

Had the payroll processing issue been brought to the Commission in advance of the City Council's action, it is likely that the Commission would have recommended that a short test period with the new payroll system running parallel with the old system be employed. This would assure that there are no implementation issues when ADP goes live with its payroll services. The Commission is unaware if such a test period can be implemented at this time due to the employment status of the Payroll Coordinator, which is unknown.

#### Conclusion

In summary, the Commission acknowledged that changes were necessary to the Finance Department organization and its work processes. The Commission did express concern with the process to bring the reorganization to the City Council for approval, including the need for immediacy. The Commission was of the opinion that the City Council would have been better prepared to assess the structural and financial impact of the reorganization if the Finance Commission had been given the opportunity to review the non-confidential areas of the reorganization in advance, as is customarily done with major financial matters that will affect the City.

cc: City Treasurer  
City Manager  
Finance Director  
Finance Commission members