

# Payroll Systems and Technology

Chapter 12  
(2018)



# Objectives of a Computerized Payroll System

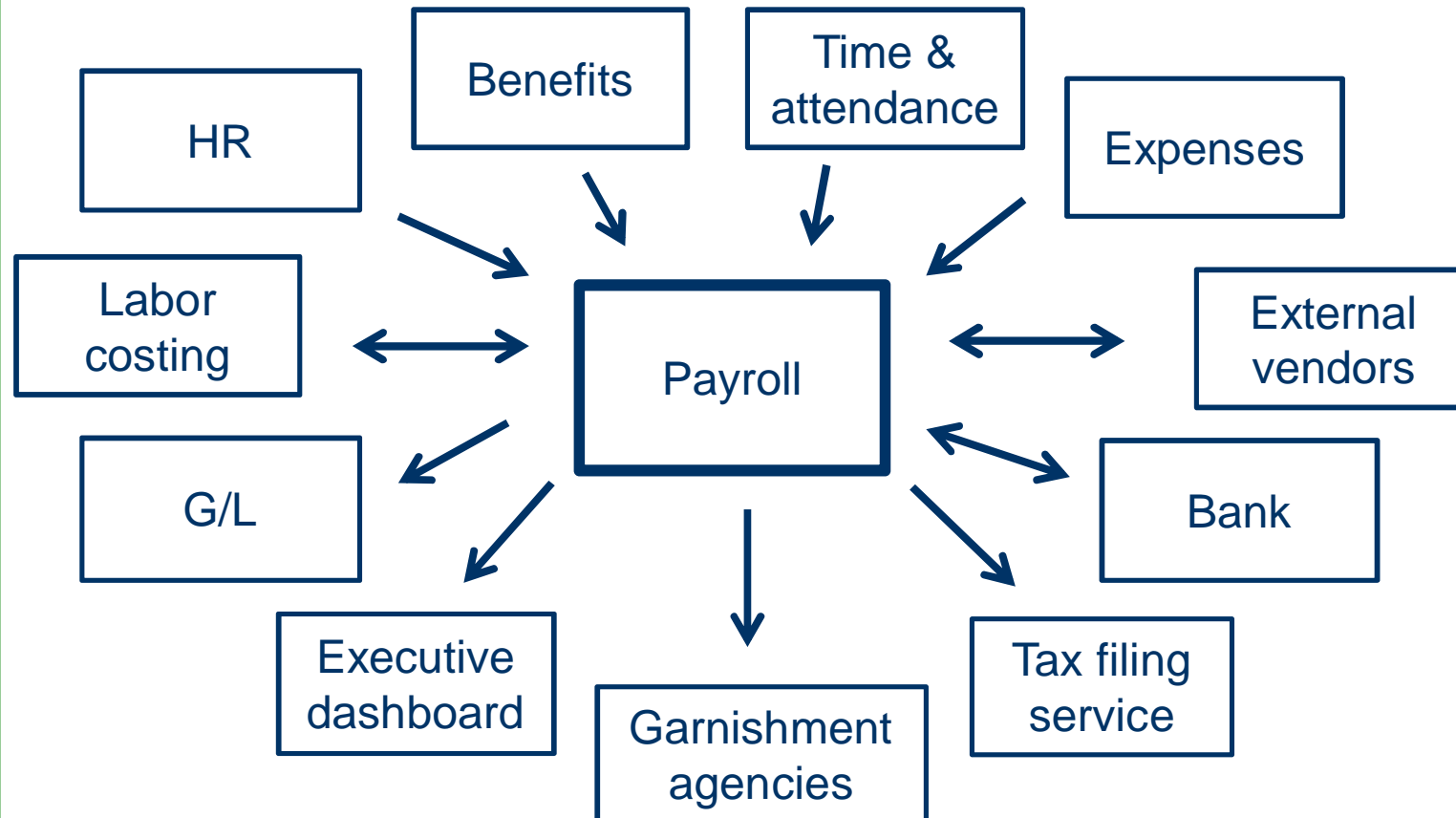
- Meet needs of customers, including:
  - EEs paid
  - Other departments, e.g. HR, benefits, finance
  - Upper mgmt
  - Government agencies – federal, state and local

# Objectives of a Computerized Payroll System

System must provide:

- Compliance with withholding, deposit and reporting requirements
- Timely and accurate paychecks
- Record of transactions
- Internal reports
- Cost saving opportunities, e.g. self service
- Guarantee of security

# Interfacing with Other Departments



# Reasons for Integration

IHRMS = Integrated Human Resources Management System

- Cost efficient to have benefits, payroll and HR integrated
- One stop shop for information needed to make critical business decisions
- Prevents conflicting or incomplete data
- Improving and maintaining three separate systems that should talk to each other is expensive and frustrating
- Increased data security

# Hardware and Software Choices

- Service provider
- In-house computer with vendor-supplied software
- In-house computer with custom software
- Subscription-based access to payroll software
- Combination of above

# Service Providers – Outsourcing the Payroll

- Traditional outsource model
  - Hardware and software belong to service provider
  - Data collected from employer to allow processing of payroll
- ASP – Application Service Provider or SaaS – Software as a Service
  - Provides the employer with an application to process payroll
  - Application and employers data reside on service provider's servers
  - Also referred to as “cloud” computing
- BPO – Business Process Outsourcing
  - Outsource of end-to-end business process, including administration
  - Small team required to liaise with vendor

# Service Providers – Outsourcing the Payroll

## Advantages:

- Low fixed cost
- No extra room or EEs
- New services can be added
- Reduction in processing delays
- Variable processing costs
- Fewer research problems
- Networking possibilities
- Training and support

## Disadvantages:

- Lack of control over security
- Responsibility for filing and deposit errors
- Unique needs create problems
- No control over breakdowns

# In-House Payroll Systems

## Advantages:

- Control
- Convenient access
- System security
- Scheduling flexibility
- Tailored applications

## Disadvantages:

- Sufficient space
- High fixed cost
- Additional staffing
- Working below capacity
- Shelfware (unused upgrades)
- Disaster recovery
- Wrong system chosen

# Selecting a Payroll System

## Basics:

- Pay processing
- Payroll reporting
- Check printing
- Direct deposit
- Retirement plan reporting
- Garnishment processing
- Time and attendance

## Advanced features:

- Compensation planning and management
- Global database and reporting
- Talent acquisition and management
- Learning and development

## Selecting a Payroll System – Key Decisions

- Integration for all employee-related data
- Interfaces with other departments
- Functions the system must perform
- System access
- User roles
- Authorization levels for data access
- Data access and processing
- Data storage
- Budget

# Managing the Process

- Build a project team
- Analyze what the system needs to do
  - Document current system
  - Identify current system problems and costs
  - Define objectives and requirements of new system
- Prepare an RFP (Request for Proposal)
- Select a system

# Build a Project Team

- Include all stakeholders:
  - Payroll
  - HR
  - Benefits
  - Accounts payable
  - Accounting
  - Tax
  - Risk or compliance
  - Finance
  - Data processing / IT / MIS
  - Senior management

# Analyze What the System Needs To Do

- “Needs and Wants Analysis” (a.k.a. Current Situation Analysis or CSA)
- Documentation
  - Work flow into the system
  - Results out of system
  - Procedures for maintenance
  - Manual processes
- Identify
  - Who receives info from system and how often
  - Compliance issues and current pain points
  - Costs of current system

# Define Objectives of New System

- Scope – refer to CSA
- Time – target date
- Resources – personnel, budget
- Processing requirements – integration, interfaces
- Output – reporting, compliance
- Training and support

# Prepare a Request for Proposal

- Identify prospective vendors / service providers
- Outline technical and functional requirements
  - Facts and figures, e.g. employees, pay frequency, etc.
  - Specific reporting functions required
  - Interfaces / integration needed
  - Implementation support
  - Ongoing training
- Vendor checklist to aid in comparison

# Select a System

- Compare proposals against requirements (scorecard)
  - Responsiveness
  - Functionality, incl reporting and ability to meet future needs
  - Price, incl implementation and training costs
  - Security and disaster recovery plans
- Ask for demonstrations from top candidates
- Make sure all stakeholders are involved
- Negotiate Service Level Agreements (SLAs)
- Background check / references

# Implement the System

- Prepare before implementation
- Train team members and payroll staff
- Prepare a gap analysis (old and new systems)
- Convert old data, add new data
- Test the new system
- Test it again, one more time!
- Parallel testing
- Convert

# Post Conversion

- Evaluate the system's performance
  - Identify problems / opportunities
  - Periodic reviews
- New requirements
  - Legislative
  - Missed in conversion
  - Nice to haves
  - Unions
  - Benefits

# Controls and Security

- System edits (warning system)
  - Alerts for events outside an acceptable range
- Periodic data audit and sampling
- Batch controls
  - Control totals
  - Is what went in, what was expected
- Correction procedures
- Balancing and reconciliation
  - Payroll liability accounts, bank, tax withholding

# System Documentation

- User guides / manuals
  - Introduction and confidentiality statement
  - Step by step instructions – system access, help resources
  - Payroll process
    - Processing calendar / schedules
    - Time entry
    - Adjustments and corrections entry
    - Check calculations
    - Production cycle
    - Taxes
    - Employee database management
    - Reports
  - Exclude company policies and technical information
  - Remember to review and update as things change

# Providing Security for the System

- Personnel concerns
  - Segregation of job duties
    - In small payroll depts, duties go to other depts
  - Rotation of job assignments
  - Paychecks only go to employees
  - Conduct 'physical payouts'
  - Background checks

# Providing Security for the System

- System security
  - Limit system access
  - Secure files
  - Develop audit trails
  - Protect against computer 'viruses'
  - Backup data regularly and store offsite

# Providing Security for the System

- Physical plant issues
  - Climate controlled rooms
  - Keep terminals from overheating
  - Do not store in cold area
  - Protect against power surges
  - Keep dirt out of components
  - Keep humidity down
  - Check for adequate power

# Disaster Recovery and Business Continuity Planning

- Identify recovery time objectives and document them
- Identify critical resources that will be required and document them
  - Staff, equipment, etc.
- Can any part of the process be performed manually?
- Find and secure interim office space
- Arrange office equipment rental
- Find temporary housing for employees
- Keep backup files off premises
- Keep employee safety uppermost in any plans
- Communicate the plan
- Test your plan
- Electronic vaulting (duplication of systems) can ensure a quicker recovery

# Automated Time and Attendance

- Determine:
  - Split of functions between T&A and payroll system
  - Special pay calculations, e.g. unions
  - Methods for collecting timecards
  - Configuration (data changes) vs customization required
- Benefits:
  - Less time spent on processing
  - Fewer errors introduced during processing
  - Decreased costs
  - Compliance ease: FLSA, FMLA, state wage & hour, ACA, SOX, multiple worksite

# The “New” Wave – Self Service, the Internet and Mobile Applications

- Employee and manager self-service
  - Personal data updates
  - Access paystubs
  - Electronic W-2s
  - Complete W-4s
  - Complete I-9s
  - Update voluntary deductions, e.g. benefits
  - Update direct deposit info
  - PTO requests / PTO tracking
  - Retirement plan administration
  - Access to company policies

# Implementing Internet Technology

- Build a project management team
- Select hardware and software
  - Client software
  - Server software
  - Type of connection to transfer data
  - Mobile device support
  - How to coordinate internet with payroll & HRMS database
- Encourage use of the technology
- Address security concerns
- Develop codes of conduct

# Web-Enabled Applications

- Uses the internet as another means of accessing an organization's data and the HRMS application logic
  - E.g. view payslips online and other self service tasks
- Two most important elements are:
  - Accessing the data – intranet vs internet (VPN)
  - Accessing the application logic behind the data which allows the data changes to be validated and processed, e.g. address zip code validation

# Web-Enabled Applications

- Elements needed for web-enablement
  - Internet infrastructure to allow large number of users to gain secure access easily
  - Web-enabling tools
  - Core technology expertise
  - HRMS application experience
  - Design and media skills
  - Workflow strategy

# Cloud Computing

- Definition:
  - Delivery of any computing process as a service rather than a product
  - Programs and data are not resident on the customers' computers but stored 'in the cloud' at a site controlled by the vendor

# Software as a Service (SaaS)

- Delivering a business function, via Cloud Computing
- Key attributes:
  - Shared software and hardware at a vendor's location
  - Off site, third party provider
  - Software is implemented, maintained and updated by the vendor
  - Accessed via Internet browser
  - Minimal / no IT skills needed to implement
  - Pricing based on usage
- Implementation:
  - Assess against system requirements
  - Security and data recovery is key

# Mobile Applications

- Save time, employees like them...security is the issue!
  - Develop a company policy on whether the company will supply a mobile device
  - Build a security plan – virus tools, employee education
  - Address how devices or apps that do not function properly should be handled
  - Build and communicate your policies, especially on confidentiality