Reason for and Lessons Learned Converting Payroll from Current to Arrears

Trish Donahue

tdonahue@vbgov.com

May 11, 2016

4th Annual Collaborative Oracle Round Table

Topics for Discussion

- Introduction and Background
- Arrears Transition Plan & Policies
- Conversion Calendar
- Arrears- Why we did it
- Savings and Costs
- Starting the Arrears Process
- Potential Risks
- Options for Conversion
- Policy Considerations & Process Decisions
- Change and Communications
- Technical Project Plan
- Technical Considerations, Steps and Changes
- Testing and Defects
- Lost Opportunities
- Questions

Background on Virginia Beach

Implemented Financials – GL, AP, PO, Cash Management, Fixed Assets in 1998

Implemented Oracle Managed Cloud Services 2006 (Private Cloud)

Implemented HRMS – HR, Payroll, OAB, Self-Service in 2009

Approximately $400 Million Annual Payroll Process

Over 229,000 Payments Annually (Employees, Third Party Payments, Benefits)

8,500 W-2s issued annually

6,500 Garnishments, liens, child support payments annually

$86 Million in Federal and State Tax Withholdings

$60 Million Retirement (VRS) Payments

Why we did it? Phase I of Plan

City wanted to convert from paying in advance through the current process to paying in arrears

- Arrears – Based on Actual Time Worked
- Best Practice
- Oracle Standard Configuration-fewer customizations – easier to find consultants with knowledge of biweekly system set-up
- Reduced Pay Entry and Processing Issues
- Reduced Retro Pay Processes

City of Virginia Beach
VB Finance

Phase II of Plan- Biweekly

Substantial savings with Arrears – Phase II will do the following:

Employee Advantages
- More frequent pay-checks every 14 days not 13-18 days
- **OT paid closer to when earned, No look backs for OT Straddling Pay Periods**
- Aligns with WC and VLDP workweek
- Consistent, Easy to Understand – Hours Worked = Hours reported

Transparency – Accurate Data
- Analytics between periods more meaningful. Always 10 workdays per pay period.
- Ensures Accuracy – Easier to reconcile, identify errors and train PALS
- Improved Management Oversight: Data Driven Decisions

Accountability – Reduce Risks
- Reduces risk of overpayment – eliminates smoothing, rounding errors for 86.67 hours
- Positions City for future cost accounting

System Efficiencies – Lower Costs for Taxpayer
- Optimizes system configuration – use system as designed
- Positions for future additional automation – mobile time entry, scheduling, workforce planning
- Lowers time and cost of maintaining, testing, upgrades
- Eliminates need for shadow OT systems

City of Virginia Beach
VB Finance

Costs of Implementation

$450,000 Oracle EBS Technology Costs

$7.1 Million to provide 9 days of conversion pay to employees ($3 Million from the General Fund balance, remainder from existing salary appropriations at year end)

On-going Accrual Cost for Paying in Arrears – Average $300,00

City of Virginia Beach
VB Finance

Costs for Technology Plan

Project Manager
        Part-time 50%

Oracle Payroll Functional Consultant
        8 weeks total – On-site 3 weeks

Technical HRMS Developer
        In-house – Full-time – 100%

Reports Consultant /Developer
        In-house - Part-time 20%

Oracle Cloud Services
        Refresh instance fees, setup test instances

City of Virginia Beach
VB Finance

Why we did it?   Soft Savings

- Fewer overpayments for terminated employees
- Fewer adjustments by Payroll and Leave Specialists
- Pay Dates remained the same
- Pay Period still at semi-monthly
- Process time shortened due to arrears and better controls for time entry
- OT paid closer to when earned (but still not within the same period)

City of Virginia Beach
VB Finance

Why we did it?   Savings Realized

- Eliminate 9 days of advance payment
- Eliminated 70,560 (84%) of retroactive adjustments processed for prior pay periods
- Eliminated $560,000 in LWOP losses annually
- 12 Hours per Payroll and Leave Specialist (PALS) saved (1,224 Hours annually)
- 52% Reduction in Voided Checks
- 86% Reduction in Off-Cycle Payments

City of Virginia Beach
VB Finance

Arrears Transition Plan & Policies

Conversion Date: May 22, 2014

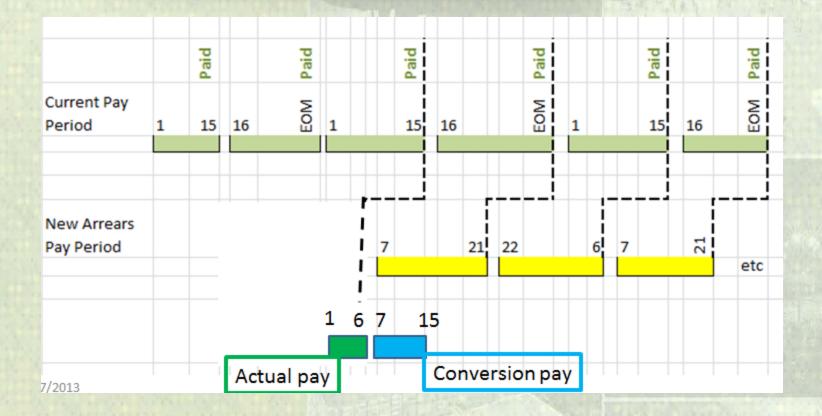Semimonthly Pay periods moved from 1-15, 16-End, to 7th-21st, 22nd – 6th

Semimonthly Pay dates = 15th and last day of month – remained the same

Hire dates moved from 1st and 16th to 7th and 22nd,

City of Virginia Beach
VB Finance

Conversion Calendar

May 2014

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15 *Pay Date- Current for May 1-15 time*	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30 *Pay Date Actual 16th-21st, 9 Days Conversion Pay*	31 *June 15 Pay Date, Actual for May 22-June 6*

Pay Dates	Included in Pay
May 15	Salary for May 1-15
	Overtime thru April 30
	Part-time thru April 30
	Leave thru April 30
	Promotions/Acting Pay thru April 30
May 30th	Salary for May 16-21
	Conversion Pay 9 Days (equal to May 7-15)
	No Overtime
	Leave thru May 14
	Part-time thru May 14
	No Promotions/Acting Pay
June 15	Salary May 22-June 6
	OT May 1-June 4
	Holiday –May 26
	Leave thru June 6
	Part-time thru June 6
	Promotions/Acting Pay thru June 6

Conversion Calendar

Arrears Transition Policies

All salary changes effective on the first day of the pay period – promotions, demotions, career progressions, merit, or change from part to full-time

Salary changes are not be prorated within a pay period

Change to Health and Benefits Coverage – Health Care begins on the first of the month following date of hire (7th and 22nd)

If hired after 6th of month, VRS credit begins the 1st of the following month.

If termination is prior to 21st of month, VRS retirement credit is end dated effective the last day of the previous month.

How did we start the process?

Collect data – What are others doing? What will our organization sustain?

Evaluate Options – What are the costs? Benefits?   Alignment with goals?

Determine Decision Criteria – How does this impact the City? The Employees? Management? Timekeepers?

Feedback and Input from Stakeholders – What needs are not being met? How will this improve? Save Money? Prepare us for the Future?

City of Virginia Beach
VB Finance

Potential Risks

Political – High visibility of this project to all levels of the organization

Employees – Potential impact if something goes wrong

Accuracy – Paychecks, reports, interfaces to 3rd party providers

Timeline – Aggressive timeline with little wiggle room

Instance Management – Use of 2 instead of 3 test instances – risk of corruption, testing, rollback issues

Project team – Burnout

City of Virginia Beach
VB Finance

Options for Conversion

7 day Arrears Options	Additional Information	FY13/14	FY14/15	FY15/16	Total
Option #1 A Move Pay Date Later Incrementally. Pay Period remains the same.	One Year with 23 instead of 24 pay periods	$0	$0	$0	$0
Option #1 B Bonus Move Pay Date Later (In Combination with Bonus in Budget). Example shows 1.5% and 1.25% bonus	One year with 23 pay periods and Bonus	TBD	TBD	TBD	TBD
Option #2 A Move Pay Period Back 9 calendar days in 3 years. Pay Date remains the same.	Fund with year end balance	$2.34 M 3 days	$2.34 M 3 days	$2.34 M 3 days	$7.03 M
Option #2 B Move Pay Period Back 9 calendar days. Pay Date remains the same.	Fund with year end balance	$7.03 M	$ 0	$ 0	$7.03 M
Option #3 A Pay Date Forward 4 days Pay Period Back 5 days (over 2 yrs.)	Fund with year end balance	$2.34 M 3 days	$1.6 M 2 days	$0	$3.94 M

Policy Considerations

Conversion Pay not taxed at supplemental rate – aggregated as regular pay and paid concurrently

PALS need to get exception time entered in pay period prior to conversion period

No HR, Pay or Benefit adjustments during conversion period

Policy Considerations

Employees who terminate during conversion period or within month after will not receive conversion pay

NO new Hires for the conversion period

No OT or Comp pay processed during conversion period

Preparations made for Rollback of Payroll if necessary

City of Virginia Beach
VB Finance

Process Decisions

Changes to SUBMIT Pre Conversion Period	Changes to HOLD until Post Conversion Period
Employee Termination, Suspension Actions	OT or Comp Earned that wasn't submitted on time by the supervisor
New Hire Additions	Leave taken/earned not impacting LWOP
Leave Without Pay Actions	Additions to Recurring Earnings Elements like: Cell Phone Stipend, Clothing Allowance
Any changes that would prevent an overpayment to the employee or refund to the City.	Any Non-recurring Earnings Elements like: Field Training allowance, Performance Bonus
Deletions or Negative Changes to Recurring Earnings Elements	Any additional compensation outside of base salary

City of Virginia Beach
VB Finance

Preparing the Organization for Change

Discussions with Executive Management and Department Directors

Planning with Information Technology team

Discussions with Key Stakeholders – HR, Benefits, Communications

Environmental Scanning of Oracle Municipal Governments and Regional Cities

Analysis of other municipal and government transitions to arrears

Completion of Return on Investment

Review of APA Best Practices and Other Workforce Management Studies

Support Letter from the City Council Business Process Improvement Committee

Support Letters from the City Auditor and City Department Directors

Survey of Department Payroll and Leave Keyers

Testimonials from Stakeholders

➢City Auditor – "Payment in arrears is a best business practice in public and private industry."

➢Independent Financial Auditor – CBH

➢Process Improvement Committee –"This committee recommends that the City move to a bi-weekly arrears payroll structure…"

➢City Attorney – "Recovering overpayments is a timely, expensive process that will be reduced by paying in arrears."

➢Director of Finance-"Improving accountability and transparency with arrears payroll will benefit the organization and employees."

➢Director of Human Resource- "Employees will benefit from more accurate leave balances and up-to-date reports."

➢Chief Information Officer-"Moving to arrears will help improve the efficiency of the application designed for arrears processing."

➢Payroll Administrator-"Non-value added work processes will be reduced by going to arrears payroll."

VB *City of Virginia Beach* Finance

Organization Communications

City Council Briefings

City Leadership Briefings

Budget Process Briefings

Oracle IT Advisory Board Briefings

Employee Newsletter

Department PALS (Payroll and Leave Specialists) Quarterly Meetings

Intranet site with Blog and FAQs

Department Leadership Team Meeting Presentation and Q&A

Department Meetings – Road show with Payroll Staff

Employee Communications

Employee Communication
- No reduction in Salary or VRS Retirement
- No reduction in W-2 Earnings
- Pay Date cover all regular worked
- Leave balances accurate
- Significant reduction to retro time adjustments
- Will result in pay following separation from service

Employee Newsletter

Member*update*

October 22, 2013 ~ Vol. 15 No. 15 ~ City of Virginia Beach

A Payroll Change You May Not Even Notice
But you definitely want to know what it's about

To improve processes that will save the City time and money, the way in which full-time Members are paid will be changing by the end of this fiscal year (May/June 2014). (City Council approved this change tonight.)

Before you start worrying about what negative impacts this change might have on you, worry not. Your monthly paycheck amount will not change nor will your annual salary amount. And, for now, our pay dates – the 15th and the last day of the month – will not change. If it wasn't for this communication, you might not even notice the change. So why tell you about it? We simply want you to know what and why it's changing.

What is the change?
The technical term for the change is that the City will...

The n... ...oll process:
- enab...
  actu...
  use...
  you...
- he...
  tir...
  (t...
  ...

In the May 15 paycheck, you'll be paid for May 1-15. In the May 30 paycheck, you'll be paid for May 7-21. So, the period of May 7-15 will appear in both paychecks. **However, this overlapping will not cause your current monthly paycheck amount nor your current annual salary to change.**

Also, because w... arrears, not in advan... will receive one final p... they retire/leave the City.

Here's a classic example of ...an happen. You plan t...

What drove the change?
Currently, about nine days i... paycheck is an advance paym...

The Switch t...
The way in which full-tim... Members are paid will change ...ning with our May 30, 2014 ...chnical term for the ...begin to

...ne May 30 paycheck,...
...arrears:
enables paychecks to include time actually worked as well as leave used in that pay period
- helps improve the timing of ...me pay so that it's more ...who earn overtime

How will the change occur?
The new process will begin around the end of this fiscal year (May/June 2014). **More information about the actual date will be shared as we get closer to May and June.**

Here's how it will work: **The City will provide conversion pay in the first arrears pay period only, so that you receive your regular pay even though the pay period will be short-ened by nine days.** From that point on, our pay periods will be the same number of days as they currently are.

This conversion pay will **not** impact your annual pay or the FY 14/15 budget (existing budgeted salaries from FY 13/14 will cover the cost).

changing
- W-2 & VRS will not ... by this switch
- The work week is **not** changing
- For now, our pay dates are **not** changing (15th, last day of month)
- Overtime pay will be more ...d term

Project Plan – Technical

October 2013   Project Initiation – Kick-off

October – November 2013   Hire Consultants, Environment Setup

October – February 2014

- Policy Decisions
- Impact Analysis
- Preliminary Set-up, Configuration and Testing
- Update Business Processes, Reports
- Create/Modify Requirements
- Establish Communication Plan

February – April

- Testing, Testing and Testing
- Prepare Implementation Steps

April 2014

- User Acceptance Testing
- Prep for Go-live

May 2014

- Go-Live

June 2014

- Post Implementation Support

City of Virginia Beach
VB Finance

Technical Steps

Set up the new Arrears Payroll in Oracle Payroll (called Semi-Monthly Arrears)

Set up the GL Mapping for the Arrears Payroll

Update all Assignments to reflect the new Semi-Monthly Arrears payroll

Update 21 fast formulas for calculations

Update 6 accrual plans to make pay period calendar changes

Update Accrual Carry Forward fast formula calculation based on the new payroll calendar.

Update Benefit Coverage Start Date and End Dates and some life events

Updated Reports and Interfaces

Technical Considerations

Arrears Payroll Calendar started effective January 1, even though not used until May 7th-21st Pay Period

No major issues with tax accruals & balances as had no extra pay periods, and employees received conversion pay.

Required every employee be associated with new payroll calendar. If you are changing the payroll calendar and have complex pay plans, it may be easier to take advantage of system functionality by setting up new plans to tie to the new calendar.

VB City of Virginia Beach Finance

Fast Formula and Report Changes

Changed look-up values in formulas from "semi-monthly payroll" to "semi-monthly arrears" value.

Fast formulas hard coded with pay dates were corrected.

In-house reports hard coded with dates and Values also were corrected

City of Virginia Beach
VB Finance

Conversion Steps

Ensure all HR, Pay and OAB transactions completed before conversion period (FREEZE on HR, Benefit life events and Pay transactions during conversion period, Disable User Access to self-service and HRMS modules)

Run audit reports pre conversion
Process Pay Current (with retro)
Process Pay Arrears (with no retro)
Run interfaces, Costing, Transfer to GL

Run audit reports post conversion

Testing

HR

113 Discoverer Reports

6 SSRS Reports

12 Interfaces

6 Concurrent Programs to support Discoverer reports and Alerts

Payroll/OTL

All payroll elements

59 Discover Reports

1 SSRS Report

6 interfaces

14 Concurrent request reports or staging of Discoverer reports

Benefits

26 Discoverer Reports

13 HR Interfaces

13 HR Concurrent Programs to support Discoverer reports
and Alerts

Defects

Major Issue – Quickly Resolved
- Hybrid Employees did not accrue PTO leave on Conversion Payroll.   Easily corrected with manual process – did not have many Hybrid employees

Major Issue with Year End Leave Accruals and Carryforwards
-   Would count Compensatory and Other leave balances twice for period Dec 22-January 6th
-   Would deduct leave taken hours twice

Minor Issue – Quickly Resolved
-   Would not calculate creditable compensation for mid-month salary change for reporting to VRS retirement system

Minor Issue – Quickly Resolved
- Two Reports with incorrect leave data – easily corrected.

City of Virginia Beach
VB Finance

Lost Opportunities

Work deferred and placed on hold during arrears implementation included:

Maintenance and fixes to non-critical production defects

Hold any new non-critical enhancement requests

Requests for new HRMS reports

City of Virginia Beach
VB Finance

Questions???

City of Virginia Beach
Finance