

**Efficiency and Effectiveness Analysis  
Non-prioritized Targeted Base Review  
Central Payroll Unit**

**Department:** Personnel & Administration, Division of Finance and Procurement

**Request Title** Central Payroll Unit

**Priority Number:** N/A

**Summary of the Request**

The Department of Personnel & Administration has completed a targeted base review of the Central Payroll Unit (CPU) within the Division of Finance and Procurement to determine if it was operating as efficiently and effectively as possible.

**Performance Evaluation**

A review of selected practices and functions was conducted at the CPU. The review included a hands-on assessment of the processing and distribution of payroll reports, system constraints, and changes in staff workload since FY98. The CPU continues to meet its important responsibilities of ensuring that over 38,000 state employees receive their biweekly and monthly pay either as warrants (checks) or by direct deposit. The CPU reported that it has never missed a biweekly or monthly payroll deadline despite system/process problems or external factors. This is one of the best overall measures of the CPU's efficiency and effectiveness. However, we found that improvements could be made in work practices that have resulted in some staff working uncompensated overtime (1040 hours/year) and losing annual leave (88 hours/year).

**Problem or Opportunity Definition**

CPU is responsible for ensuring that the biweekly and monthly payrolls are processed accurately and on-time. The CPU and agency personnel enter and update personnel data to ensure correct pay and deductions for employees. The CPU also directs the processing of the payroll which includes providing information and data (reports) for it and the agencies to control and monitor this activity. In order to meet these goals, two CPU staff routinely work overtime and lose annual leave. If these individuals became ill or were unwilling or unable for personal reasons to work extra hours the CPU might be unable to meet its goals in a timely manner. This targeted base review identified specific short-term measures (within one year) that would help reduce this risk. In addition, the review identified broad long-term needs that should be reviewed further.

The short-term problem is eliminating the handling of hard copy reports. It consists of:

1. Making all payroll related reports accessible by Document Direct. Document Direct is a user-friendly web-based method of accessing mainframe system reports. This includes reports in the Colorado Financial Reporting System (COFRS) and the Central Personnel and Payroll System (CPPS).
2. Ensuring that all state agencies that utilize the CPU have access to Document Direct.
3. Eliminating and discontinuing a majority of all hardcopy payroll related reports. There are exceptions to this objective. These include payroll advices similar to a pay stub for employees on direct deposit. Another example is personnel action forms of benefit changes that are updated annually for all state employees and each time there is a change.

The short-term opportunity would be readily accomplished with additional staff (FTE) resources (Alternative 3).

The broader (long-term) opportunity consists of defining, developing, and establishing an integrated personnel and payroll system. This will require more time and a greater financial investment to accomplish than the short-term opportunity. The Department of Personnel & Administration (DPA) is taking steps in that direction and has initiated an effort to define the priorities and approach for improving common statewide administrative systems for which it is responsible, including Human Resources and Payroll.

It is recognized that the current and anticipated economic environment would probably not allow for funding additional staff. As a result, it would not allow for additional staff to address the short-term opportunity or the broader (long-term) opportunity of a new more efficient and effective personnel and payroll system if the existing system can be maintained. Consequently, this targeted base review focuses on developing solutions and being more efficient with the current system.

### **Available Alternatives**

#### Authority

The authority for DPA to implement this proposal derives from several sources.

- The State Controller has the responsibility to manage the finances and financial affairs of the state (CRS 24-30-201 (1) (e)).
- All State Agencies shall use the State Payroll System to record and maintain employee payroll information and data; and to pay employees unless the State Controller has granted an exception. (Fiscal Rule 9-1)

- State employees paid either monthly or bi-weekly on the State Payroll System shall be on Direct Deposit Payroll Program unless an exception is approved by the State Controller, or delegate. (Fiscal Rule 9-2)

In addition, DPA's Strategic Plan Budget Request for FY2002-2003 included a prior year objective for developing the framework for strategic, flexible, open and streamlined compensation and leave systems (3.5). In addition, another objective includes conducting a feasibility study to evaluate the cost effectiveness of internet based enrollment to the state's eligible employee population for all state offered benefit programs, thereby reducing state agency labor costs (3.16).

#### Synopsis of Short-term Alternatives

There were three alternatives identified during this review. The above authority and DPA objectives support the alternatives. DPA has chosen to implement changes by prioritizing work in order to reallocate existing resources. As a result, this review does not result in the request for additional funds.

#### Alternative 1

Continue the current approach with no changes.

#### Alternative 2

Implement strategies to enable all agencies to access payroll reports with Document Direct eliminating the need to print, sort and distribute, and mail hardcopy reports. Document Direct is a user-friendly web-based method of accessing mainframe system reports. This includes reports in the Colorado Financial Reporting System (COFRS) and the Central Personnel and Payroll System (CPPS). Document Direct is considered more user-friendly and easier to work with than the current system-based method (InfoPac).

#### Alternative 3

Continue the current approach of printing and handling hard copy payroll reports and request an additional 0.6 FTE for the Central Payroll Unit. This approach will not require any changes in CPU business practices or require the use of other resources to enable all agencies to access payroll reports with Document Direct. Although the issue of overtime and lost annual leave would be resolved with additional staff, the current and anticipated economic environment would probably not allow for additional funding. As important, it does not address the underlying problem of the handling of hard copy payroll reports and agency access to payroll data when a more efficient approach (Document Direct) is currently available. This estimate of additional FTE is based on uncompensated overtime worked and lost annual leave.

## Synopsis of Long-term Alternative

The broader opportunity consists of defining, developing, and establishing an integrated personnel and payroll system. Currently, two systems are used in the administration of personnel (EMPL) and payroll (CPPS) system. EMPL is an in-house developed program. CPPS is a payroll system purchased from an outside vendor.

These systems are used by all agencies in the state excluding the four-year colleges. It is generally acknowledged that the combination of the two systems is not efficient or effective and that the personnel database (EMPL) is not user-friendly. This has in-part raised some questions about data integrity. In addition, both systems store the same personnel data for classified employees resulting in duplicative databases.

This alternative will require more time to plan and implement and a greater financial investment to accomplish than the short-term opportunity. In addition, the current and anticipated economic environment would probably not allow for funding additional staff. As a result, it should be considered in a future efficiency and effectiveness analysis, if appropriate, and not evaluated in this review.

### **Analytical Technique**

The analytical technique used for this request is "benefit-cost" analysis. This technique involves identifying, quantifying and/or valuing the benefits as well as the internal and external costs.

- Some internal benefits cannot be easily monetized such as not processing a bimonthly or monthly payroll accurately and on-time because key staff are unwilling or unable to work overtime or forego annual leave.
- The elimination of hardcopy reports should result in a reduction of printing charges from the data center that may be partly offset by the cost of printing reports at the agency level. However, this is not considered to be a material increase in statewide costs because agencies will only print reports or portions of reports that are needed.

### **Assessment of Alternatives**

#### Background Information

The CPU is staffed with 5.4 FTE with daily responsibilities as well as processing biweekly and monthly payrolls. The performance of these duties is important to ensure the accurate and timely receipt of payroll by over 38,000 state employees. The CPU staff has remained unchanged since FY1997-98 when it was reduced by 1.0 FTE. However, work activities have increased for several reasons, such as the administration of benefit and tax law changes. For example, in FY2001-02, the CPU implemented the PERA Matchmaker program by making contributions to employee's allowable deferred

compensation plans on each bi-weekly and monthly payroll. These activities are in addition to daily responsibilities of helping agencies update and maintain the personnel and payroll database.

Currently, two systems are used in the administration of personnel (EMPL) and payroll (CPPS) system. These systems are used by all agencies in the state excluding the four-year colleges. It is generally acknowledged that the combination of the two systems is not efficient or effective and that the personnel database (EMPL) is not user-friendly. This has in-part raised some questions about data integrity.

The EMPL system is a personnel system used to hire, promote, transfer, and terminate classified employees. This system was custom designed by department personnel. CPPS is a payroll system used to pay both classified and non-classified employees that is purchased from an outside vendor. An online interface between the systems allows an immediate update in the payroll system (CPPS) when there is a change in employee data (EMPL). As a result, both systems store the same personnel data for classified employees resulting in duplicative databases and interface problems.

The CPU processes a typical monthly payroll for over 31,700 employees and biweekly payrolls for over 6,300 employees. Fiscal year data for payroll activities are noted below.

<b>Central Payroll Activities</b>			
<b>Documents/Activities</b>	<b>FY2000</b>	<b>FY2001</b>	<b>Change (%)</b>
Payroll Advices (Pay Stubs)	425,490	488,785	15
Warrants (Checks)	86,271	29,527	-66
Hand-drawn checks	2,268	2,053	-9
Other	1,169	1,178	1
<b>Total</b>	<b>515,198</b>	<b>521,543</b>	<b>1</b>
<b>Source: Central Payroll Unit Reports</b>			

The CPU also routinely distributes over 100 payroll related reports (hardcopy) to agencies each month. The reports are distributed daily, biweekly, and monthly. The reports are printed by the data center and initially organized by organization code (AAA-WAA). The paper handling process includes sorting and binding (stapling or banding) each report by agency and then combining all same agency reports for distribution. The following table provides an indication of the report volume and the time expended on this process.

<b>Hard Copy Reports Processed by Central Payroll Unit</b>				
	<b>Daily</b>	<b>Biweekly</b>	<b>Monthly</b>	<b>Total/Year</b>
No. of Boxes	2	4	16	816
Sort Time (Hours)	1.5	4.5	10.5	633
No. of Reports	16	52	56	6184
<b>Note: Based on field observations of work activities.</b>				

It would be more efficient and cost effective if the reports were accessible to state agencies through Document Direct because only reports or portions of reports that are needed would be printed. Document Direct is a user-friendly web based method for obtaining COFRS and CPPS reports. However, only some payroll reports are available by using Document Direct because most have not been defined and set-up for access because of other work priorities.

In addition to not having all payroll related reports available by Document Direct, some agencies including the Departments of Transportation, Health, and Education as well as the community colleges are unable to access Document Direct because of system (firewall) constraints. Since hard copy reports are printed for these agencies they are also printed unnecessarily for agencies that access and use Document Direct (Corrections, Human Services). This occurs because reports are printed sequentially for all agencies (AAA-WAA).

There are also indications that agencies may not need or routinely use all of the reports sent to them. According to CPU staff, it appears that some agencies do not review or look at all reports based on the questions that they direct to the CPU staff. Also, the CPU recently discontinued providing a hard-copy report to agencies after it became accessible through Document Direct. Only one agency questioned the discontinuance of the report.

This targeted base review has confirmed that there are ways to resolve or work around these issues.

## **Linkage to Outcome Improvements**

### Chain of Events Description

Alternative 1 maintains the status quo and there would be no chain of events to reach an outcome. Alternative 3 maintains the current work practices and requests funding for additional staff. However, it is not considered because of the current funding environment.

The following outlines the chain of events that occurs before agencies can access all payroll reports with Document Direct under Alternative 2.

1. Identify resources needed and available to accomplish objectives by partnering efforts with the Technology Management Unit, Division of Information Technology, and the Office of the State Controller.
2. Identify agencies that use the CPU and do not have access to Document Direct. Work with agency information technology staff to develop solutions to allow access.

3. Identify all payroll reports that are not on Document Direct. Define, prioritize, and set-up reports for access by Document Direct. These activities will involve staff from the Central Payroll Unit and the Technology Management Unit.
4. Address security issues with Document Direct related to access and sensitive data such as employee social security numbers, etc.
5. Conduct training sessions for agency payroll officers on how to access, view, and print reports through Document Direct.

#### Internal and External Benefits

1. Reduce the amount of overtime (1040 hours/year) or lost annual leave (88 hours/year) attributable to two CPU staff by about 644 hours realized through Alternative 2. Both employees are exempt and do not receive overtime pay.
2. Reduce the risk that payroll activities including the processing of biweekly and monthly payrolls will be adversely impacted if these individuals became ill or were unwilling or unable for personal reasons to work extra hours.
3. Implementing this alternative will make the work environment more manageable. For example, the CPU will have more flexibility to provide its customers with higher value services such as training for agency payroll officers.
4. The elimination of hard copy should result in decreased printing costs of about \$.04 per printed page for CPU. Although not quantified, postage and courier costs should also be reduced.
5. Agency payroll officers will have ready access on Document Direct to payroll reports in a timelier manner because they will no longer be mailed or delivered.
6. The data center will benefit because hard copy reports will not have to be printed, boxed and sent to the CPU for further distribution. Also, mail services should benefit because the volume of hard copy reports delivered to CPU will be reduced.

#### Internal and External Costs

1. The approval of either Alternative 1 or 2 would result in no additional increase in the personal service line item.
2. For Alternative 2, existing resources will be reprioritized and reallocated to accomplish this alternative.
3. Agencies may incur printing costs if they decide to print some payroll reports under Alternative 2. However, on a statewide basis, any increased costs should be

offset by agencies only printing reports or portions of reports that are actually needed. Further, agencies (Corrections, Human Services) that already access Document Direct will not be sent hard copy reports unnecessarily because of the way they are printed in sequence (AAA-WAA) at the data center.

**Alternative 1.** Continue the current approach with no changes.

Budgetary Costs. No incremental cost change.

Budgetary Costs Avoided. None.

Non-budgetary Costs. None currently. However, payroll processing would be adversely impacted if the two CPU employees declined to work overtime, took all annual leave earned, or were on sick leave for an extended period of time.

Quantitative and Qualitative Benefits. None.

**Alternative 2 - Recommended.** Implement strategies to enable all agencies to access payroll reports with Document Direct eliminating the need to print, sort and distribute, and mail hard copy reports. This includes reports in the Colorado Financial Reporting System (COFRS) and the Central Personnel and Payroll System (CPPS). Document Direct is considered more user-friendly and easier to work with than the current system-based method.

Budgetary Costs. None. No incremental costs will be incurred because existing resources from the Central Payroll Unit and the Technology Management Unit will be made available by reprioritizing some work activities. These resources will be used for activities such as defining and set-up of reports for access by Document Direct and training payroll officers in how to use Document Direct.

Budgetary Costs Avoided. A statewide cost savings could result from agencies accessing Document Direct and printing only the reports or portions of reports that are needed. The data center may need to adjust its print billing rate to recover some fixed overhead costs. However, statewide cost savings could be meaningful since about 2 million pages are printed each year. The table below provides data on number of pages printed and costs for the CPU.

<b>General Government Computer Center Summary Cost and Activity Statement</b>			
	<b>FY 2002</b>	<b>FY2001</b>	<b>FY2000</b>
<b>Pages Printed</b>	1,914,030	2,006,131	1,990,443
<b>Print Costs (\$)</b>	80,520	50,153	49,761
<b>Total GGCC Costs (\$)</b>	190,047	195,082	143,735
<b>Print Cost/Page (\$)</b>	.042	.025	.025
<b>Note:</b> Printed pages includes some reports for Human Resource Services			



Non-budgetary Costs. None. This alternative will require staff resources from the Central Payroll Unit and Technology Management Unit to define and set-up reports for access by Document Direct. It is anticipated that prioritizing and reallocating existing resources will accomplish these activities. However, this means that other work activities may have to be deferred.

#### Quantitative and Qualitative Benefits

Implementing this alternative will result in a more manageable workload for the CPU and partly offset the necessary overtime and loss of annual leave. It will also reduce the risk the payroll deadlines will be missed. It is estimated that two CPU staff work 1040 hours of overtime annually, the CPU supervisor (780 hours) and one staff person (260 hours). Both employees are exempt and do not receive overtime pay. In addition the CPU supervisor lost a total of 88 hours of annual leave in both FY1999-2000 and FY2000-2001 because of the ability to work overtime, commitment to work, and the need to meet payroll deadlines.

#### **Alternative Funding**

None.

#### **Key Issues for Decision-making**

Alternative 2 will result in an overall improvement in the efficiency of the service provided by the Central Payroll Unit. The basic payroll service of paying state employees will not change or be affected. The reports (data) used by agencies to administer the system will be available in a more accessible manner. Key security issues related to Document Direct also need to be resolved. Because social security numbers are included on payroll reports, great care must be taken with accessibility to these reports. Currently, Document Direct is only available with the state CIN.

Employees of the State of Colorado have always been paid on time with very few errors. One of the main reasons for this is the knowledge and dedication of the individuals who work in the Central Payroll Unit. They are all committed to this effort no matter what it takes to accomplish it. This targeted base review points out just one thing that would result in an overall improvement. This division is determined to make these types of improvements within the payroll unit. It is imperative that, with the web-based version of the payroll software purchased and scheduled for future implementation, the current processing is as efficient as can be so that there are resources available for this implementation effort.