

Payroll Best Practices Recap

32nd Annual
Congress
2014 Banish Your Payroll Nightmares



Speaker

John V Raguz, CPP

Payroll Manager

Progressive Insurance

jraguz@progressive.com

Adam Golden

Managing Partner

Major Oak Consulting

agolden@majoroakconsulting.com

John Raguz, CPP

**Payroll Manager
Progressive Insurance**

Biography

- Payroll Manager – Progressive Insurance
- APA Vice-President
- Co-Chair of the APA's Strategic Payroll Leadership Task Force (SPLTF) Best Practices Subcommittee
- APA's Board of Contributing Writers

Adam Golden

**Managing Partner
Major Oak Consulting**

Biography

- Co-Founder / Managing Partner of Major Oak Consulting
 - Boutique Management Consulting firm
 - Strategy, Process Excellence, Change Management, Performance Management and Project/Program Management
- Co-Chair of the APA's Strategic Payroll Leadership Task Force (SPLTF) Best Practices Subcommittee
- Former Payroll Manager for ACNielsen
- Significant hands-on experience in HR / Payroll including Strategy, Process Excellence, Shared Services, ERP Strategy, Metrics, Pay Cycle Changes and 27th Pay Period

Definition of Best Practices

(Wikipedia) "A method, process, activity, incentive, or reward that is believed to be more effective at delivering a particular outcome than any other technique, method, process, etc. when applied to a particular condition or circumstance"

- ◆ A best practice is any policy, process, technology or management technique (incentive, reward) that helps your organization perform better in realizing its stated goals
- ◆ A best practice for one organization may not be a best practice for another organization, depending on your goals
- ◆ Focus on what seems to be best practice for you / your organization's perspective

Best Practices Subcommittee

The Best Practices Subcommittee of the Strategic Payroll Leadership Task Force (SPLTF) presents and discusses how leading organizations deal with a variety of situations and goals through the use of business process, technology, and organizational changes. These best practices help employers, from small to large, understand how to operate their payroll process and organization in the most effective, efficient, and compliant manner.

- ◆ To join: <http://info.americanpayroll.org/pdfs/forms/apa-volunteer-form.pdf>
- ◆ Monthly meetings
- ◆ Topics discussed
- ◆ Data collection

Agenda

- ◆ Phantom Employees
- ◆ Time and Attendance
- ◆ Overpayments
- ◆ World Class Process Mapping
- ◆ Year-End
- ◆ Pay Frequencies/Changing Pay Frequency
- ◆ Other Best Practices
- ◆ Questions

Phantom Employees



Best Practices

- ◆ Not as common
- ◆ Continue to monitor - YES
- ◆ Physical Distribution yes/no?

57% of Best Practices Subcommittee Companies monitor for Phantom Employees



Source: January 2014 Best Practices Subcommittee Data Collection and Analysis
 Note: All best practices listed above are suggested only in states that allow this practice

Best Practices

- ◆ Review for Similar:
 - Direct Deposit Account #'s
 - Home address
- ◆ EE Count vs. Budget
- ◆ Benefit Cross Check
- ◆ EE Tracking
 - Linked to equipment
 - Cube/office location



Source: January 2014 Best Practices Subcommittee Data Collection and Analysis
 Note: All best practices listed above are suggested only in states that allow this practice

Time & Attendance



Best Practices

- ◆ Often “owned” by Payroll
- ◆ Exempt – Exception time reporting
- ◆ Nonexempt – Daily hours
 - Punch times vs. rounding

Time and Attendance reports to Payroll in 79% of Best Practices Subcommittee Companies

Source: January 2014 Best Practices Subcommittee Data Collection and Analysis
Note: All best practices listed above are suggested only in states that allow this practice

Time Entry

- ◆ **Electronic vs. manual**
- ◆ **Paper**
- ◆ **Biometrics**
- ◆ **Self Service**
- ◆ **Electronic**
- ◆ **Time Clock**
- ◆ **Your Company?**
- ◆ **Multiple Options – Vendor Hall**



Source: January 2014 Best Practices Subcommittee Data Collection and Analysis
 Note: All best practices listed above are suggested only in states that allow this practice

Process

- ◆ **Prior period corrections**
 - Yes
 - Limited periods
- ◆ **Manager Approval**
 - Yes
- ◆ **Consistent Deadlines**
 - Yes

68% of Best Practices Subcommittee Companies require approval of some time submission prior to Payroll processing

Source: January 2014 Best Practices Subcommittee Data Collection and Analysis
 Note: All best practices listed above are suggested only in states that allow this practice

Outcome

- ◆ Compliant pay calculations
- ◆ Low error rates
- ◆ Communicate policies / practices



Source: January 2014 Best Practices Subcommittee Data Collection and Analysis
Note: All best practices listed above are suggested only in states that allow this practice

Overpayments

Overpayment Laws - Repayment

Federal Law

- ◆ **DOL position**
 - Same as a wage advance or loan
- ◆ **May deduct from future wages to recoup**
 - FLSA suggests “reasonable deduction”

State Laws

- ◆ **Allowed in all but a few states:**
 - Voluntary
 - Expressly authorized by the employee
 - Do not take the employee below minimum wage
- ◆ **Silent states**
 - Look to federal law
- ◆ **Washington and New York have very specific requirements**

Source: December 2012, Best Practices Subcommittee Data Collection and Analysis
Note: All best practices listed above are suggested only in states that allow this practice

Best Practices Dealing with Overpayments

Gather Information

- ◆ Reason for overpayment
- ◆ Employee Status
- ◆ Timing
- ◆ State
- ◆ Other deductions impacted?
- ◆ Review the state law
- ◆ Review company policy

Collection

- ◆ Work with HR or Legal
- ◆ Document plan to recoup
- ◆ Notify employee of error
- ◆ Find a win-win solution
- ◆ Follow state law
- ◆ Provide and collect authorization forms
 - Deduction Authorization
 - FICA refund authorization

Most common overpayment reasons: incorrect division/BU input, payroll data entry errors, time received late, late termination action from HR/Managers and leave of absence related issues

Source: December 2012, Best Practices Subcommittee Data Collection and Analysis
Note: All best practices listed above are suggested only in states that allow this practice

Best Practices Dealing with Overpayments

◆ “Good Faith Effort”

- Make a good faith commitment to comply
- Have a policy
- Communicate the policy
 - Upon hire, Handbook, On-Boarding
 - Company website
- Have a complaint mechanism
- Reimburse for improper deductions

◆ Timing

- Current year – repay net, refund taxes
- Subsequent year – repay gross

Best Practices Subcommittee Survey:

- *Overpayment volumes are typically less than 0.1% of all payments*
- *83% pursue collection of all overpayments, 17% use a threshold*
- *78% handle the collection activity internally (vs. using a collection agency)*

Source: December 2012, Best Practices Subcommittee Data Collection and Analysis
Note: All best practices listed above are suggested only in states that allow this practice

World Class Process Mapping

Gather Data to Develop a Process Map

Tools to capture process information and gain an understanding of the current state include:

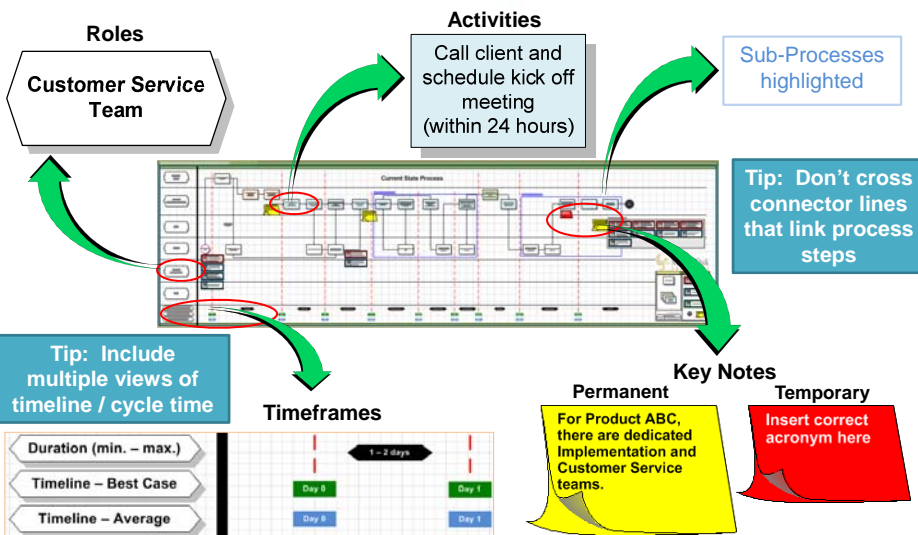
- ◆ **Existing Documentation**
 - Always leverage existing process documentation
- ◆ **Interviews**
 - 1-on-1's with process participants and manager
- ◆ **Observations / Walkthroughs**
 - Watch a process in action – can be transaction specific
- ◆ **Workshops**
 - Targeted sessions with people who perform the process
- ◆ **DILOs (“Day In The Life Of”)**
 - Shadow individuals for a full day

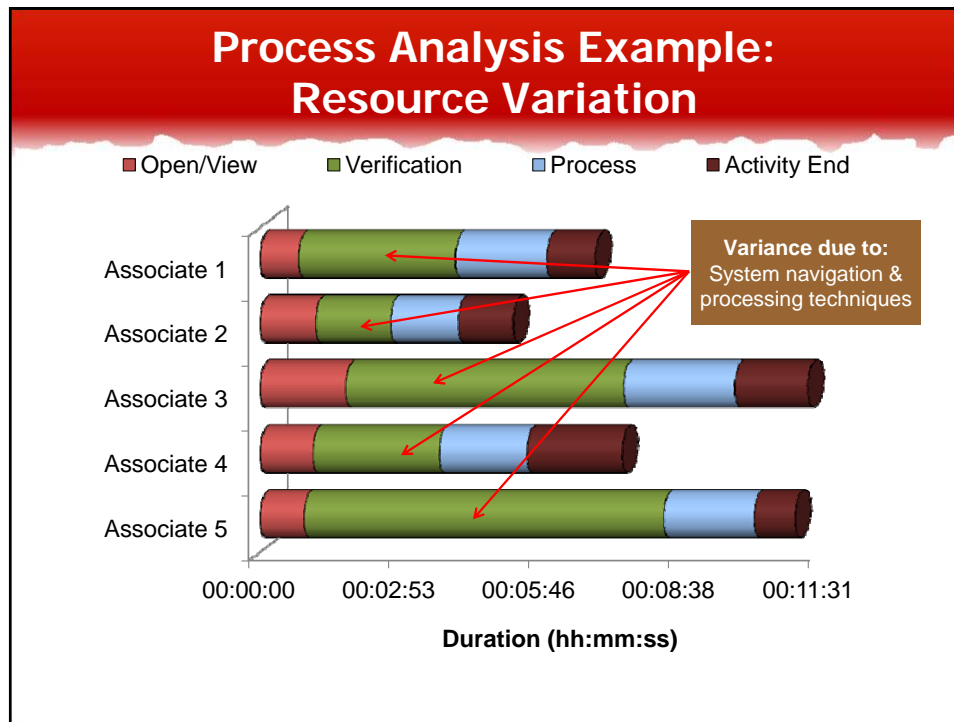
Tip: Use a mix of these techniques



Conduct Interviews / Observe Processes

Key Elements of Your Process Map





Best Practices

1. The people doing the work are the best source of real data
2. Generalities are the enemy of good process maps
3. Gather data with multiple approaches
4. Quantify as much as possible – quantification = relevance
5. Swim lanes make the map much more relevant
6. Capture process exceptions, but don't map them
7. The timeline tells a whole story in itself



Year-End & W2s



Tips

- ◆ Checklists
- ◆ Document – SharePoint, database, binder, etc.
- ◆ Start early
- ◆ Communicate
- ◆ Order early, order extra



Note: All best practices listed above are suggested only in states that allow this practice
Source: Various Best Practices Subcommittee Data Collection and Analysis

More Tips

- ◆ APA Year-end class
- ◆ Test plan
- ◆ No short cuts
- ◆ Validate, validate, validate



Note: All best practices listed above are suggested only in states that allow this practice
Source: Various Best Practices Subcommittee Data Collection and Analysis

Wrap-up

- ◆ Communication
- ◆ Documentation
- ◆ 12 months
- ◆ Celebrate



Note: All best practices listed above are suggested only in states that allow this practice
Source: Various Best Practices Subcommittee Data Collection and Analysis

Pay Frequencies / Changing Pay Frequencies

What's the Best Pay Frequency? It Depends....

Pay Cycle Characteristic	Weekly	Bi-Weekly	Semi-Monthly	
Non-exempts understand	Yes	Yes	No	Best Practices Subcommittee Survey: • 18% have single, standard pay cycle • 46% use a mix of weekly / biweekly AND monthly / semi-monthly • 14% have or plan to change pay cycles
Exempt understand	Yes	Yes	Yes	
Overtime always in sync	Yes	Yes	No	
Number of payrolls year	52	26	24	
Payroll accruals eliminated	No	No	Yes	
Extra Pay Period	Yes	Yes	No	
Complies with all state laws	Yes	Yes	Maybe...	

Note: All best practices listed above are suggested only in states that allow this practice
Source: January 2014 Best Practices Subcommittee Data Collection and Analysis

Different studies show different cycles are most commonly utilized; varies by workforce demographics, states and industry

Best Practices

- ◆ **Compliance first, then best practice for consistency and efficiency**
- ◆ **One standard pay cycle for all employees**
- ◆ **Less frequent cycle wherever possible**
- ◆ **Partner with Unions to overcome resistance**

Note: All best practices listed above are suggested only in states that allow this practice
Source: December 2011 Best Practices Subcommittee Data Collection and Analysis

Changing Pay Cycles - Best Practices

- ◆ **Business case to analyze if a change makes sense**
- ◆ **Include EEs impacted, states, impact to operations**
- ◆ **Establish a separate project team**
- ◆ **Partner with vendors and HR early, talk often**
- ◆ **Simplest timing: Quarter-end and Year-end**
 - If moving to semi-monthly, evaluate other dates
- ◆ **Inbound and outbound feeds – are they impacted?**
- ◆ **Don't forget Change Management**

Note: All best practices listed above are suggested only in states that allow this practice
Source: January 2014 Best Practices Subcommittee Data Collection and Analysis

Root Cause Analysis

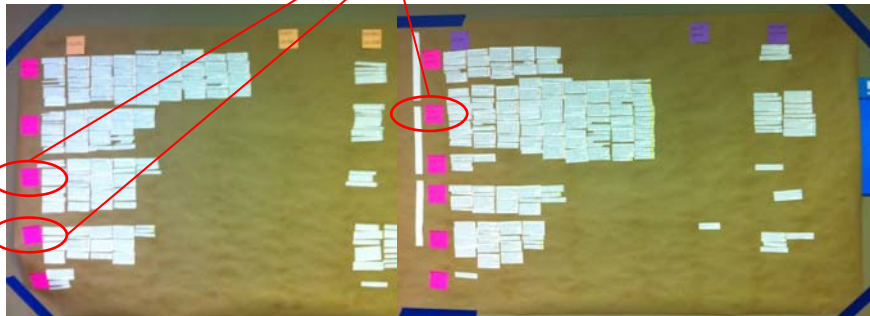
What is a Root Cause Analysis?

1. Root Cause Analysis (RCA) is a useful tool for identifying the origins of a problem
2. Solves problems by identifying and correcting the root causes of events (vs simply addressing their symptoms)
3. Jumping to solutions without understanding the underlying root causes is very risky
4. Most people know what a fishbone diagram is, but not many people know how to develop one properly

Note: There are many ways of performing Root Cause Analysis, this is just one method

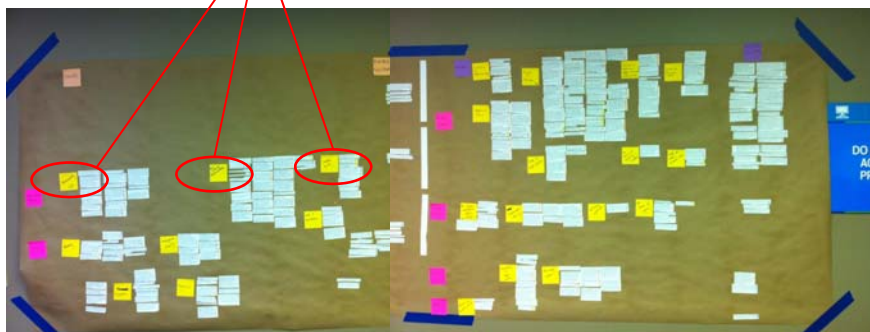
Group Issues Into Common Themes

Identify common themes / topics



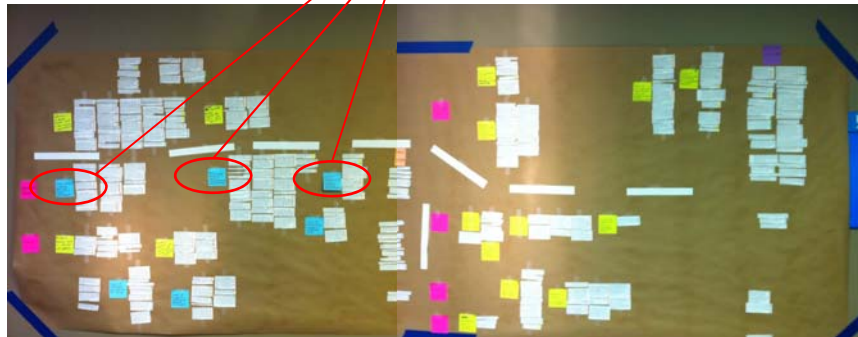
Break Themes Into Sub-Groupings

Identify sub-groupings

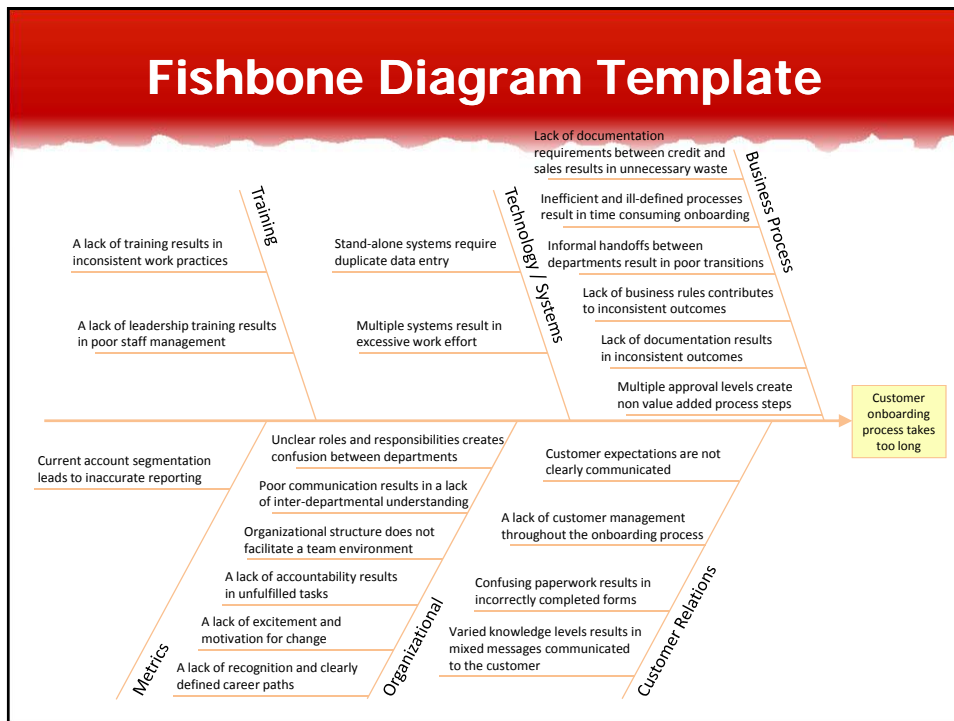


Define a Root Cause For Each Issue Set

Define the root causes



Fishbone Diagram Template



Root Cause Analysis Best Practices

- ◆ When interviewing, keep questions open-ended
- ◆ Write **EVERYTHING** written down during interviews / workshops / process mapping sessions / etc.
 - Good quality qualitative data is fundamental to this exercise
- ◆ Make anonymous (use codes)
- ◆ Do the exercise with the group
- ◆ Let the group determine the root cause groups
- ◆ Do one pass then do a second / third pass if required
- ◆ Re-stick where required
- ◆ Be open minded about the possible root causes
- ◆ Group first, determine root causes last
- ◆ Always provide the grouped raw data as an appendix

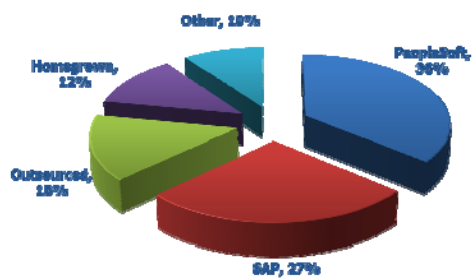
Other Best Practice Topics

Other Best Practice Topics

- ◆ **Data Masking**
 - Emerging as an important consideration to protect sensitive data
- ◆ **Total Rewards**
 - More robust, dynamic version of the Annual Compensation Statement
- ◆ **PA Act 32**
 - Specific strategies to ensure compliance
- ◆ **Mergers, Acquisitions and Divestitures**
 - Tips and practices to ensure a successful project

Note: All best practices listed above are suggested only in states that allow this practice
 Source: Various Best Practices Subcommittee Data Collection and Analysis

Payroll Technology Platform



- ◆ Majority of companies have ERP solutions
- ◆ 33% of companies had a global payroll scope
- ◆ 54% rate current satisfaction very high / excellent
- ◆ Many companies with ERP Platforms outsource point solutions (tax, printing, distributions, etc.)

Note: All best practices listed above are suggested only in states that allow this practice
 Source: November 2013 Best Practices Subcommittee Data Collection and Analysis

Other Best Practice Topics

- ◆ **Business Continuity**
- ◆ **Direct Deposit**
- ◆ **Paperless Pay**
- ◆ **27th /53rd Pay Period**
- ◆ **Training & Education**

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Source: Various Best Practices Subcommittee Data Collection and Analysis

Questions?

