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MSU Business Process Review Business Case: Payroll Team

Summer Session Payroll Process

Executive Summary

Recommendations

- Explore various avenues to find best alternative to processing approximately 15 to 20 extra summer payrolls across the four campuses that pay on the same dates as our regular payrolls, all in an effort to control when summer session instruction and research expense will hit the budget.
- Based on the findings of a task force headed by Controllers in 2005, the Banner Finance Team, in coordination with IT, HR and Security, have come to agreement via conference call about concentrating efforts on the first of three interesting options that were proposed.
- HR, Finance, and IT have agreed to work together to test Option 1 first, which essentially holds summer expenses in a table to feed to finance later when the new budget year has opened. At this time, Option 1 may have the best probability of meeting most of our needs without modifying baseline Banner, which is valuable from an IT and an audit standpoint.
- In-depth testing is necessary to monitor the behavior of the database as each small step of the summer payroll process is evaluated by the test team. Of primary concern is how to make payroll processing seamless to departments and how to keep NHIDIST in sync with the history tables.
- If Option 1 cannot address our needs adequately, the Summer Session Task Force will then have to reconvene and determine the next best course of action, including but not limited to the following actions:
 - make concessions and compromises among the HR, Finance and IT modules with respect to what would be nice versus what we must have,
 - incorporate a database modification into Option 1 to obtain the results we are looking for,
 - pursue one of the other two options identified in this business case, both of which involve modifications to baseline Banner, or
 - maintain status quo which leaves the taxation issue and the fund imbalance issue unaddressed, but at the very least automate the summer payrolls as much as possible to minimize the strain on limited resources, particularly on the larger campuses.
- If a satisfactory solution cannot be found, we recommend that the MSU Banner Finance Team lobby for support from other Banner schools to put a Request for Program Enhancement (RPE) on the table to Sungard SCT *if this is an issue for other schools*.

- With regard to deadlines, testing and confirmation must be completed by April 15, 2007, in order to implement for Summer 2007. If that deadline cannot be met, we recommend that vigorous testing continue through December 2007 in order to address this situation well before Summer 2008 payroll deadlines.

The BPR Payroll Team makes these recommendations based on our perception that processing approximately 15 to 20 additional payrolls each summer to accommodate the needs of the finance module causes

- employees to be taxed incorrectly because they are taxed separately on two smaller check amounts paid on the same date rather than being taxed based on total earnings received each payday of summer,
- payroll fund imbalance prior to fiscal year end because vendors need to be paid from funds that do not register summer activity until the summer payrolls have fed to finance in mid-July,
- additional workload for the payroll staff, and
- increased probability of more payroll errors associated with the confusion of processing two payrolls side by side and possibly taking deductions in error from both payrolls.

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A. Introduction

1. MSU Business Process Review

The four campuses of MSU were invited to participate in a business process review of all administrative and financial business processes across the four campuses.

There were several strategic objectives:

- develop a single process to be used by the 4 campuses,
- have a consistent set of definitions for all data elements, and
- improve institutional and system efficiencies and effectiveness.

Each of the processes will be:

- Redesigned,
- Modified, or
- Remain unchanged.

Each process will have a business case to support the final recommendations.

The investigation and development phases (Phases I and II) occurred during 2006 and 2007. Implementation of approved recommendations will occur during 2007 and 2008 in alignment with business cycles and resource availability.

a. Summary of Payroll Processes to be Redesigned or Modified

Process Title	June 23rd 2006 Recommendations
Payroll and Benefit Orientation	Redesign
Benefit Administration	Redesign
Create/Update Employee	Redesign
Collect Time	Redesign
Process Payroll	Redesign
Checks and Direct Deposit	Redesign
Finalize Payroll	Redesign
Summer Session Payroll	Redesign

The Payroll Team reviewed ten processes in Phase I and brought the above eight recommendations to the Oversight Committee in June. Since June, we have reviewed in greater depth the processes that held the highest priority for redesign. This document describes Summer Session Payroll in its current state and our recommendations.

Summer Session Payroll describes our current process of establishing positions and jobs in Banner explicitly for summer session instruction and research. We determine for each employee whether specific deductions will be taken from summer pay or not, designate specific e-classes, earn codes and account codes to identify summer session expenses, and process 15 to 20 summer payrolls separately from regular payrolls. By this method, research and instruction-related expenses incurred in May and June are held in limbo, then fed later to finance after the new fiscal year opens in Banner in July. This has been our way of deferring the expense to the new fiscal year, in accordance with budgeting guidelines, since fiscal year 2001. Journal entries are prepared in Finance to record the prepaid expense, liability and cash.

b. Business Process Review Objectives

The Payroll Team's goals for summer session payroll are to:

- Continue using our common, standardized method of creating and identifying summer jobs and earnings,
- Improve efficiency and lighten staff workload by paying summer and regular jobs in the same payroll rather than running separate payrolls for each,
- Begin correctly taxing employees based on total taxable earnings for each payday.

c. Scope of This Case – Summer Session Payroll

All four MSU campuses currently share a common process for naming summer positions and building summer jobs that connects them to a separate pay id for each campus established specifically for summer instruction. All four campuses use summer earn codes, e-classes, and account codes in a common manner as well.

While the current practice of running separate summer payrolls beginning in May and delaying the feed to finance until July works for finance, it has less appeal to the payroll managers due to the extra processing time required and increased potential for error involving deductions and check numbers. In addition, since Banner views each payroll separately, employees are essentially being under-taxed because their taxes do not reflect the total combined gross earnings for the pay period.

A task force comprised of controllers, budget officers and key payroll personnel from all four campuses investigated the summer-session payroll process in the fall of 2004. They consulted with staff members who work for the University of Montana regarding how U of M handled summer session instruction; then, in January 2005, the task force proposed two options as well as created a list of outstanding issues. In January 2007, our finance module took a second look at how Missoula handles the situation and identified the UM process as the third possible option.

Since the task force opinion in 2005, there has been no progress towards testing any of the options, all of which would require that the Information Technology Department work closely with Finance and Payroll to write or create a process to accomplish our goals.

2. Business Process Review Business Case Purpose

This business case describes the Summer Session process, the data that we have collected to review it, and the recommendation we have developed. It also addresses security and software concerns raised during our review. The Oversight Committee and President Gamble may use this document to inform their decisions regarding whether or not to approve our recommendations. We do not expect any purchase to follow from this decision.

3. **Background**

The Payroll Team expects that summer instruction can be processed and paid more efficiently with the use of technology. The best minds in MSU payroll and finance participated on the task force in order to brainstorm alternatives and arrive at a choice of options. Each option has a possible down side as well as an upside that we may evaluate only when something is in place to test.

a. **Problems and/or Opportunities Addressed by Business Process Review**

As with the entire BPR process, the Payroll Team sees several opportunities presented by BPR. Not all of the overall issues are applicable to the Payroll functions. Those that we explicitly addressed during our review of summer session payroll include:

- Single process across four campuses to promote efficiency, succession planning, and training. We have and will continue to process our summer session payrolls in a like manner wherever practical and efficient.
- Data consistency to improve the reliability of management reports, from an individual campus perspective and a comparative cross-campus perspective. All four campuses will continue to identify summer instruction and research with the same account codes, earn codes, e-classes, and position number naming convention as previously established.
- Quality process that reduces error rates and improves the targeting of training and reference materials. Changing the way we deal with summer session expenses will allow us to correct the taxing of employees, and will make better, more efficient use of staff time.
- Automate the process of charging summer expense to the proper fiscal year, thereby decreasing the possibility for errors and making better use of staff time.
- Development of Business Continuity Plan (BCP) based on a risk assessment of improved processes. A BCP will also link in with an IT Disaster Recovery plan.

b. **Connections to other Projects/Products or Programs**

The Payroll Team BPR project has ongoing links with:

- Accounting Functions BPR
- Reappointment Functions BPR
- Budget Functions BPR
- Recruitment Functions BPR
- Classification Functions BPR
- Accounts Payable Functions BPR

The Summer Session Payroll Process review relates to:

- SABHRS
- Banner Finance Reports
- Accounting Functions
- Budget Functions
- Information Technology

- Testing resources
- Production set-up time required for summer session

c. Other, Alternative Actions

If the Oversight Committee or President Gamble does not approve our recommendation for requesting an IT solution to eliminate the need to run separate summer payrolls, we propose reverting to the *status quo*.

d. Current Problems or Limitations

In brief, Option 1 provides for pulling summer salaries identified by earn code and account code out of a payroll and holding the data until we feed it to finance in the new fiscal year. With this option, no transactions are recorded in finance at the time cash is paid out, requiring the creation of journal entries which would be reversed in July.

The Controllers identified Option 2 as preferable where an automated modification to Banner would change the summer expenditures to prepaid and liability expenses, then feed them to finance in real time right along with the regular payroll expenses. After the new fiscal year rolls, the mod would switch the account codes back to salary and benefit expense codes.

Option 3 is the solution used by the University of Montana. The payroll staff members who work for University of Montana use an activity code in the payroll labor distribution FOAPAL on summer jobs to identify summer session expenses, allowing charges to feed to the current year when payroll is processed. Reports then capture the activity code data to create a journal voucher at fiscal year end that effectively moves the salary and benefit expense to a prepaid. A special rule code or document number identifies the journal for reversal the following year. This option also includes a program that was designed to keep NHIDIST in sync with finance.

All three options eliminate the need for separate payrolls for summer sessions. While Option 1 just provides for holding the summer data, Option 2 and Option 3 involve actual modifications to baseline Banner that have lasting and far-reaching effects and complications. Each time Banner software goes through an upgrade, modifications have the potential to break so require more strenuous testing.

e. Other Important Historical or Situational Information

In 1999, when MSU went live with Banner, each campus processed its summer and regular payrolls using a single pay id per campus, so a few of our current staff have this experience for reference about how to set up the jobs. The following year we created separate pay ids for summer payroll to streamline the process for the finance module.

In addition to finding a solution that satisfies all Banner modules, the timing of a change to summer payroll is also an issue. Information is already filtering in to the Payroll Office for summer session, primarily in Bozeman, and typically, staff would begin building those jobs in February. If we anticipate that our process will change for this summer, then we have to hold off on job set-up, which may cause a crunch problem in April and May that could jeopardize payroll processing.

B. Security Analysis

IT Security and Internal Audit Concerns

a. Programming and Documentation

The BPR Payroll Team has expectations that Information Technology leads that work directly with Banner HR and Finance modules will write the programming needed to implement any one of the three options. In addition, we may require their expertise to write ad hoc reports or otherwise verify that the action taken has not broken the system in any way.

b. Data Extracted, Entered, and Stored

Very sensitive and private information is at stake when processing Summer Session payroll. If we manipulate the payroll data, then employee pay, benefits, taxes, and bank accounts, as well as University resources and reputation, could be at risk. Option 1, which proposes to store the data and feed it later, would require a high level of security. Option 2, which proposes to actually change the data, and then change it back again later, is also a very risk-laden procedure. Option 3 depends heavily on payroll technicians using the activity code correctly and consistently. IT Security will be better prepared to weigh in on security concerns once one of the three options has been chosen.

c. Record-keeping and Reconciliation

Regardless which option gets implemented, very careful reporting will need to be in place to ensure the data (dollar amounts and labor distribution) which is put into payroll and processed is exactly the same as the data that ultimately gets sent to finance and fed to SABHRS. Both options will require that deduction funds be reconciled and balanced on an ongoing basis.

d. Training

Once an option has been thoroughly tested and accepted by all modules, the new process will be documented from both an IT and functional perspective, and used by all campuses in a like manner.

C. Conclusions and Recommendations

1. Conclusions

The conclusion we have drawn is that there would be no need to address the issue of summer session payroll if one of two things were to change. Either the Office of the Commissioner of Higher Education could change its practice and allow the University system to budget in the year that the University System makes expenditures, or Sungard SCT could allow clients to use balance sheet accounts when setting up labor distribution on jobs. Even if Banner allowed balance sheet accounts, MSU would still need a mechanism to reverse back to salary expense the next fiscal year. However, because neither of those solutions is possible at this time, the Payroll BPR team wishes to make the following recommendation.

2. Recommendations

It is the recommendation of the BPR Payroll Team that MSU conduct research with the goal in mind to discontinue processing separate summer session payrolls. For that to happen based on

our current way of doing business, payroll and IT must work together to discover whether Option 1 is a viable choice. There is no way of knowing short of testing, examining results, making minor changes and testing again. We all must keep in mind the overall desire to keep Banner in “vanilla” form wherever possible, and the short window of opportunity if we wish to implement by Summer 2007.

Our implementation timeframe is to begin work on this project immediately with a drop-dead date for acceptance testing to be finished by April 15. Summer session instruction actually begins in mid May and payroll technicians will need to create jobs no later than the end of May, so that allows just a one-month window for payroll set-up in MSTR. On April 16 we will determine whether the IT and functional experts are comfortable about proceeding to production with the option that has been chosen and tested. If the group consensus is to maintain status quo for yet one more summer while option testing continues, our recommendation is to press forward with testing in order to finalize and document the process by December 2007.

The implementation plan calls for the following steps:

1. Representatives from Finance, HR, IT functional and IT security met twice via conference call to discuss pros and cons, and ultimately chose Option 1 as outlined in this business case. In addition, HR IT is investigating the feasibility of running more of the payroll processing steps through appworx, thereby making summer payroll, at least on the larger campuses, more automated and less labor intensive to process.
2. The Bozeman testing team directed by Dawn Watkins volunteered to be the first to test some summer payrolls. This testing involves running the processes slowly and carefully enough to monitor the results within the database each step of the way. When Bozeman runs out of summer payrolls in the TEST database, any one of the other three campuses can provide test data for them to work with. Ultimately, both monthly and biweekly payrolls will have to be tested.
3. Each test payroll will include a mixture of employees who will receive Regular pay only, Summer Instruction/Research only, or a mixture of both Regular and Summer Instruction/Research pay.
4. Testers will attempt to create scenarios that are seldom seen but very real (for instance, a new employee who is only receiving summer pay but is eligible for insurance benefits immediately).
5. All reporting tools typically accessed—for data integrity, error checking, and vendor payments—need testing to ensure that they still work.
6. We will continue to run test payrolls at the request of IT, up to and including the biweekly payroll that splits between fiscal years.
7. All concerned parties will monitor the database after the fiscal year rolls in TEST and summer expenditures feed to finance, if we can time the payroll testing with other testing that is dependent on the budget roll in TEST.
8. Unless all parties concerned are comfortable with testing results by April 16, payroll managers will be instructed by the task force to maintain status quo for yet one more summer. Further development and testing of any one of the three options will continue for the remainder of the calendar year 2007, with December being the deadline for achieving a satisfactory way to discontinue running separate summer session payrolls.

9. Once an option has been tested and approved for implementation, team members from the Finance and HR Banner modules will collaborate to document the process.

If the Finance Module discovers they are not completely satisfied with any of the three options identified so far, the Payroll Team recommends that the Finance Team contact Sungard SCT with an RPE (Request for Product Enhancement). The Finance Module is better equipped than HR to garner support from other schools to take their case forward with others who are experiencing the same difficulty.