University System of Georgia
Payroll Consolidation: A Shared Services Approach
## White Paper

Purpose:
The purpose of this white paper is to provide information regarding the consolidation of payroll using a shared services strategy, which is under consideration for approval by the Board of Regents at the June meeting.

The financials strategy for shared services will be brought to the Board at a later date once the financial databases have been consolidated, and a business plan developed with appropriate review and participation by institutions.

Introduction:
Goal six of the Board of Regents strategic plan calls for achieving best-in-class efficiencies for our administrative support functions in the University System of Georgia. The Hackett Benchmarking study from June 2007 showed that the University System had opportunities to improve efficiencies (see chart below) and the follow-up Accenture study from January 2008 recommended adopting a shared services approach.

DRAFT

Board of Regent's Value Grid Indicates Opportunity to Improve Efficiency and Effectiveness

Hackett Value Grid
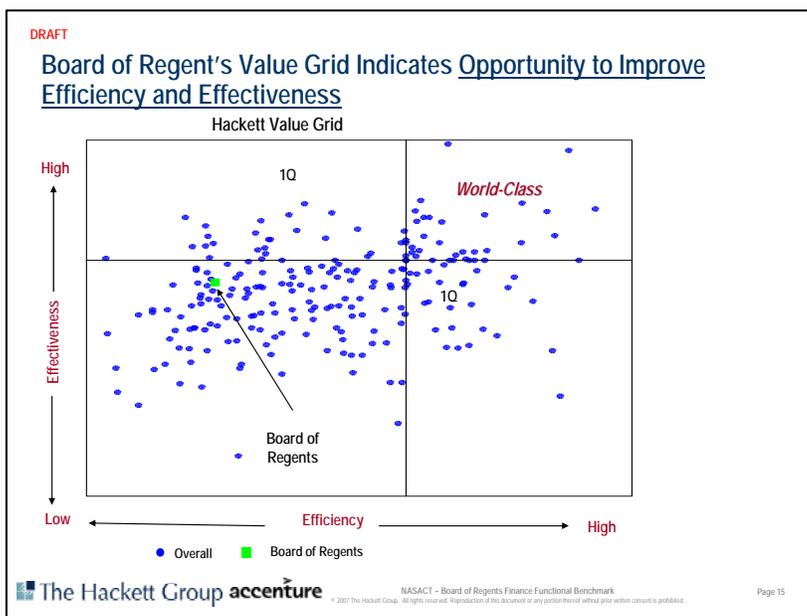
The first step in improving efficiency and effectiveness for the University System of Georgia is to consolidate payroll through a shared services strategy.

Background: Shared Services Strategy

I. What is Shared Services?
A shared services strategy allows institutions to create synergies to provide world-class administrative services. to all institutions of the University System of Georgia. The shared services approach allows all institutions, regardless of size, to leverage the latest in best-of-breed technologies to enhance services to their customers. The shared services center will be customer-focused and institution-centered. The sole mission of the shared services center is to provide services as efficiently and effectively as possible. The

primary difference between a consolidation of administrative support functions and a shared services center is that the center is governed by representatives from the institutions themselves rather than the system office. There is critical emphasis on "shared" responsibility /governance by customers for end results and on "service" for a high level of customer satisfaction. They will set standards for performance, establish service-level agreements with institutions, and monitor performance.

To put it simply, the shared services center is of the institutions, for the institutions and governed by the institutions. It combines the best of both worlds: the customer service associated with a decentralized model with the scale and efficiency associated with a centralized model as the chart below illustrates.
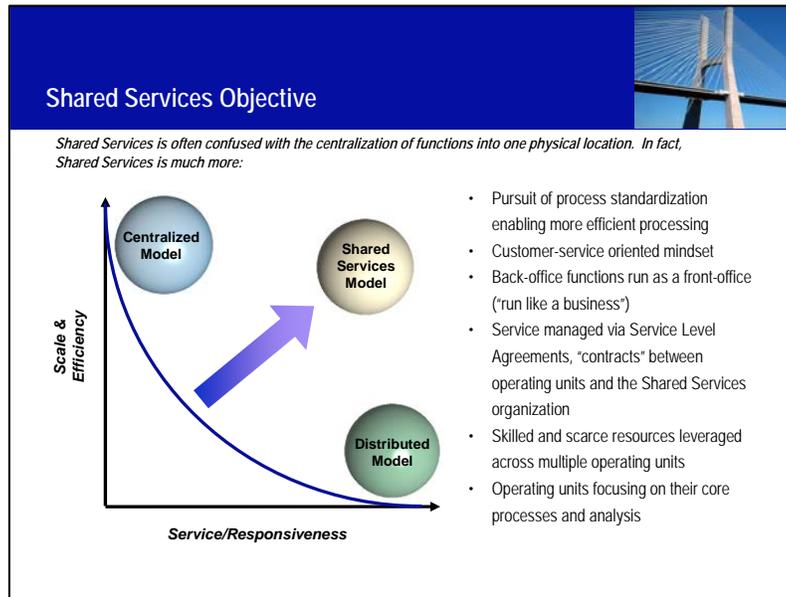
2. Why are we pursuing a shared services concept?

A sustainable shared services center in the University System will establish a service-oriented culture as well as other tangible benefits. *It will increase the quality and consistency of information, increase functionality and service to customers, will facilitate managing and controlling risk, especially where one person is performing a critical function, and reduce costs through economies of scale.* Implementing shared services will result in the following benefits:

1. **Reduce overall risk by creating redundancy in critical support areas through shared services, providing for disaster recovery and business continuity.**
2. **Reengineer processes utilizing best practices.**
3. **Upgrade systems to latest technology to automate and streamline manual processes.**
4. **Facilitate complex financial reporting through highly-integrated technology platform and databases.**
5. **Enhance specialized knowledge through training and skills development.**
6. **Standardize processes, policies and procedures to minimize variability and errors.**
7. **Increase customer service through dedicated service desk.**

Shared Services also provides a variety of highly valuable intangible benefits that are not quantified in the business case.

Strategic	Efficiency / Speed	Quality
■ Provides a system for staffing back-up in critical areas (managing risk) ■ Scalable platform for future growth ■ Business focus on core competencies ■ New business models enablement ■ Process simplicity	■ Reduced process cycle times ■ Timely financials and reporting ■ Easier data gathering	■ Consistency and integrity of data ■ Improved satisfaction of internal customers through defined service level agreements ■ Improved information for decision making ■ Customer focused/driven ■ Reduced error rates

3. Will employees lose jobs?

No. Employees are our best resources, and the University System has always adopted a people-centered approach to all change. We have more than a year's lead time before full implementation. We expect that any employee affected by shared services *will be retrained and reassigned to other vacant or new positions* in other growing areas of the institution. Several presidents have already reassured their staff that they will be matched up with other opportunities at the institution. This approach allows institutions to retain good employees and redirect efforts to directly support instruction, student services, and other mission-critical activities.

4. What about local banking relationships and vendors?

Each institution in the University System of Georgia has a unique and important mission in its area of service. Town and gown relationships are extremely important. The establishment of a shared services center does not require the consolidation of banking into one central account – it is important for institutions to retain those relationships. Institutions can also continue to use local vendors.

5. Can institutions request a waiver from participating in shared services?

Under limited circumstances, institutions can request a waiver from the Chancellor from participating in the shared services project. The Chancellor will consider a host of factors from an institutional and system-wide perspective in the decision process such as economic factors, risk management, impact on the system as a whole, and local community factors.

6. What are other systems of higher education doing?

The consolidation of business functions across institutions has been around for a long time. Here are some examples:

1. University of Wisconsin System:

The University of Wisconsin System is one of the largest systems of public higher education in the country, serving more than 170,000 students each year and employing more than 32,000 faculty and staff statewide. The UW System is made up of 13 four-year universities, 13 freshman-sophomore UW Colleges, and a statewide UW-Extension.

The UW-System has a shared financial system whose vision is to provide a single integrated financial system which provides institution flexibility and is shared by all financial users in the UW-System. The payroll functions are centralized at the payroll processing center in Madison. The Central Processing Center processes the payroll, maintains systems, regulates and controls the database, and establishes standard rules and schedules for all campuses, and remits all employee payroll deductions for taxes, health insurance, life insurance, garnishments etc. The Central Processing Center also issues all W2s (90,000 last year) and 1099s. The Central Processing Center has a staff of approximately 20 to serve about 40,000 employees. Once the payroll is run by the Central Processing Center, the file is transmitted to the Department of Administration at the State of Wisconsin, which actually issues the check/direct deposit. Each institution has a small contingency fund from which they can write any emergency check for missed timesheet, etc. up to 85% of the paycheck amount. Questions about paychecks and benefits go from the individual to the institutional staff, who, will then follow up with the Central Processing Center. Each institution has a payroll and HR staff representation to take care of the human interface with the campus. For example, UW - Milwaukee - the size of Georgia State University, has 5 benefits and 4 payroll employees on staff.

2. SUNY System:

The **State University of New York**, is the largest comprehensive system of universities, colleges, and community colleges in the world, with a total enrollment of 413,000 students, plus 1.1 million continuing education students spanning 64 campuses across the state. The SUNY system has 28,000 faculty members and 6,650 degree and certificate programs overall. SUNY includes 4 doctoral institutions, 13 university colleges, 8 technical colleges, 30 community colleges, 2 state-wide colleges and 4 University Centers.

All administrative processing is centralized in the SUNY system. All payroll checks are issued at the state level, with payroll authority vesting in the State Comptroller. Each institution feeds data into the state's payroll system.

3. The University System of Maryland launched an efficiency and effectiveness (E&E) initiative in an effort to achieve savings for redirection to the system's highest priorities:

- preserve and build the quality of system institutions;
- address enrollment demand;
- enhance the academic opportunities and services available to students;
- moderate tuition increases;
- promote and demonstrate effective stewardship of resources.
- In brief, E&E is supporting the system's overarching goals of Quality, Accessibility, Affordability, and Accountability. They are exploring centralizing shared services (e.g., finance, human resource management) as well in this regard.

4. Pennsylvania Colleges Offer New Business Models for Higher Education With Shared Services:

Six independent colleges and universities in Pennsylvania are leveraging an existing joint venture to reduce their property and casualty insurance costs through a joint-purchasing program operated by The Shared Services Consortium (SSC). This program already has resulted in savings of more than $750,000 for the six participating institutions.

A similar effort four years ago, aimed at reducing workers compensation costs, resulted in initial savings of $800,000 for the founding institutions, and has since worked to minimize annual increases. The University & College Insurance Consortium now insures more than 20 nonprofit colleges, universities and preparatory schools.

"This latest project is just one of several successful initiatives that we have undertaken to help control costs and to introduce much-needed, new business models for higher education in America -- models based on cooperation rather than competition," said William G. Durden, president of Dickinson College and SSC board chairman.

SSC enables institutions to pool buying power to contain costs associated with running institutions of higher education. SSC members include Bucknell University and Bryn Mawr, Dickinson, Franklin & Marshall, Gettysburg and Haverford Colleges. SSC projects include banking services, employee benefits, long-distance telecom agreements and bookstore contracts. The SSC continues to pursue additional opportunities for cost control, including health insurance and energy costs.

Summary:

Clearly, consolidation of payroll through a shared services approach is a business model that has the potential for success in increasing quality and enhancing services in the University System of Georgia.

Payroll Consolidation via Shared Services

1. <u>Need for a consolidated system for HR/Payroll:</u>

Currently, each institution of the University System has its own separate database for system operations. The Accenture report documented 491 instances of the database. The first step in the shared services is to consolidate the systems into a single database to facilitate processing and future upgrades in a cost effective manner. We have two options:

(1) Consolidate our current PeopleSoft system:
To consolidate the current PeopleSoft databases, Accenture estimated the cost at $3M for design, plus $10M for the actual consolidation. However, even with the consolidated system, we would still have to spend more to upgrade the system for the latest technology. They also estimated the annual ongoing cost at $6M. PeopleSoft is an expensive software with continuing licensing fees and significant operational costs because of the frequent required upgrades or else the software will not be supported by Oracle.

(2) Acquire an alternative technology solution:
A more cost-effective alternative is to lease a new consolidated system from a vendor who will do the "heavy lifting" of maintaining the technology, hardware, upgrades, tax tables and other system related requirements. Many organizations have found it beneficial to outsource the technology, since it is not their core competency.

We issued a competitive RFP incorporating additional functionality which has long been requested by our institutions, and selected ADP over AT&T/Oracle to provide a consolidated system for HR/Payroll. The cost is an initial investment of $4 million, followed by an annual cost of $4.9 million for the much enhanced system, as well as for additional services related to retiree billing, transmitting payments for health insurance, retirement and taxes, COBRA, and garnishments for example.

2. <u>How have institutions been involved in the project? How are we incorporating feedback from institutions?</u>

From the beginning, institutional representatives were involved as the steering committee for the Accenture project from October to January. Last fall, project teams for HR and payroll made up of institutional representatives were involved in the Accenture project and were extraordinarily helpful in telling us what the pressure points are in the current processes, what technology improvements will make their lives easier, what functions may or may not be appropriate for the shared service center, and in determining the process splits between the institution and the shared services center.

In February, HR and payroll experts from Kennesaw State University, Armstrong Atlantic State University, Georgia Southern University, Valdosta State University, Columbus State University, North Georgia College and State University, Georgia College and State University, and Georgia State University developed the requirements for the RFP for shared services. The primary enhancements that institutions have requested to address time-intensive processing activities are:

1. Time and attendance system to record time
2. Online benefits system for open enrollment
3. Robust self service so that new employees can enter their information online.

Soon after, a team of institutional Chief Business Officers representing all sectors was selected from peer nominations for the implementation of the project. The team included CBOs from Georgia State University, Kennesaw State University, Georgia Southwestern State University, North Georgia College and State University, Savannah State University, Clayton State University, Macon State College, and Bainbridge College. This team was instrumental in the following critical functions:

- Reviewed the RFP responses
- Checked references with other institutions
- Performed due diligence on the proposal
- Made a site visit to Florida International University that is currently using ADP
- Attended a demonstration of the ADP system to test specific scenarios and system capability
- Determined suitability and appropriateness of the ADP software to the needs of the institutions
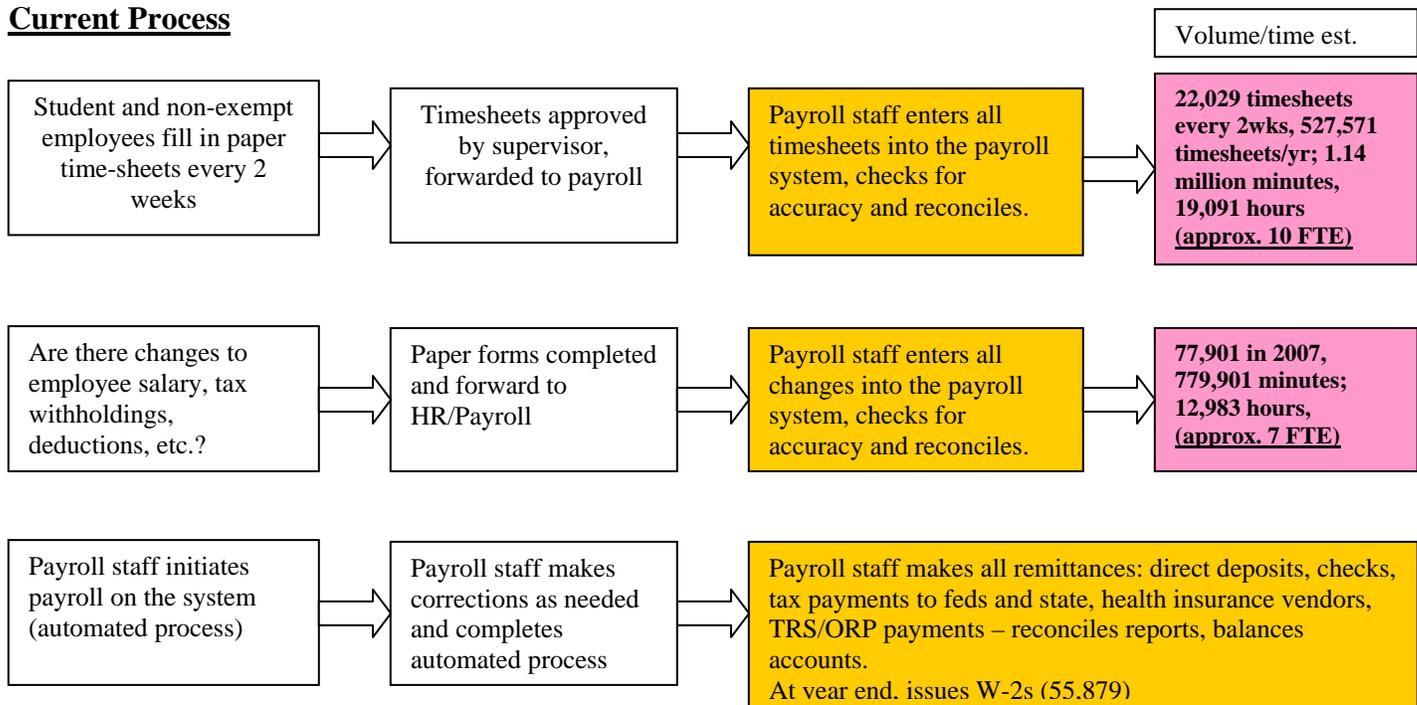- Negotiated the business terms on the contract

The team is currently working on change management, communications strategy and the implementation plan for the software.

Of course, the main general concern of institutions has been the impact on their employees. As stated previously, we have always expected institutions to reallocate employee efforts to other mission-critical activities.

3. How will the HR/Payroll process work?

The new process is being streamlined in the new design, taking advantage of all the online, best-of-breed technology that ADP has consolidated into one enterprise system to meet all HR/payroll needs. All HR functions will continue remain at the institutions. Here is a snapshot of the payroll process:

Current Process

			Volume/time est.
Student and non-exempt employees fill in paper time-sheets every 2 weeks	Timesheets approved by supervisor, forwarded to payroll	Payroll staff enters all timesheets into the payroll system, checks for accuracy and reconciles.	**22,029 timesheets every 2wks, 527,571 timesheets/yr; 1.14 million minutes, 19,091 hours (approx. 10 FTE)**

Are there changes to employee salary, tax withholdings, deductions, etc.?	Paper forms completed and forward to HR/Payroll	Payroll staff enters all changes into the payroll system, checks for accuracy and reconciles.	**77,901 in 2007, 779,901 minutes; 12,983 hours, (approx. 7 FTE)**

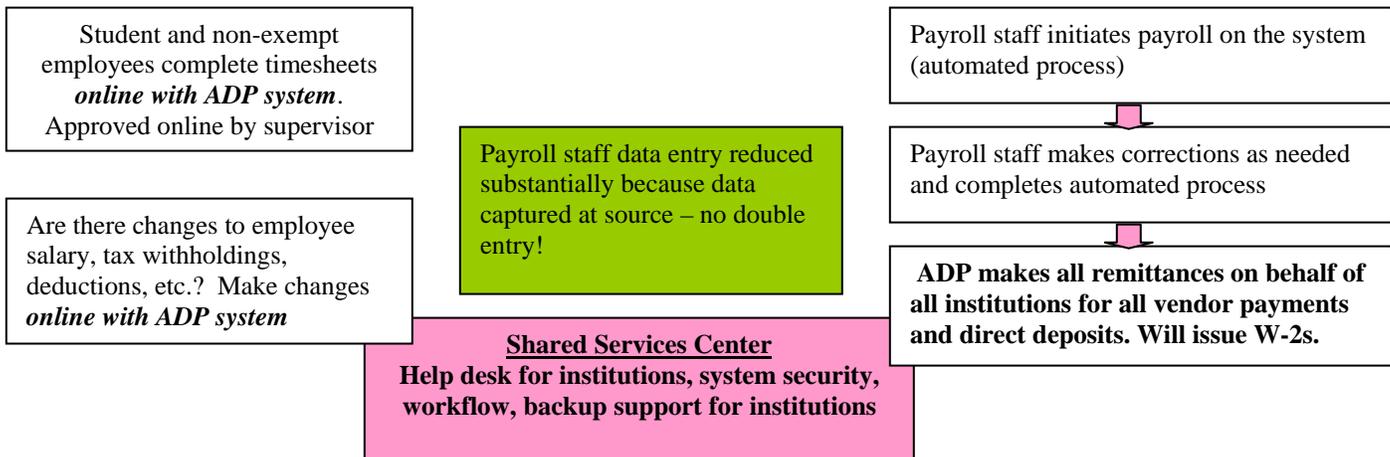|		
Payroll staff initiates payroll on the system (automated process)	Payroll staff makes corrections as needed and completes automated process	Payroll staff makes all remittances: direct deposits, checks, tax payments to feds and state, health insurance vendors, TRS/ORP payments – reconciles reports, balances accounts. At year end, issues W-2s (55,879)

What will be different in the new process?

The new process aims at leveraging technology to capture data at source, and reduce data entry by the payroll staff as well as reduce the efforts related to balancing, reporting and remitting payroll amounts. Instead of all

32 institutions/units filing taxes and sending payments to vendors, ADP will consolidate the files across the system. Thus, much of the front-end data entry and the tedious work on the back-end is being reduced at every institution. These steps are highlighted in gold in the boxes above.

New Process:

Student and non-exempt employees complete timesheets *online with ADP system*. Approved online by supervisor		Payroll staff initiates payroll on the system (automated process)
	Payroll staff data entry reduced substantially because data captured at source – no double entry!	Payroll staff makes corrections as needed and completes automated process
Are there changes to employee salary, tax withholdings, deductions, etc.? Make changes *online with ADP system*		**ADP makes all remittances on behalf of all institutions for all vendor payments and direct deposits. Will issue W-2s.**
	Shared Services Center **Help desk for institutions, system security, workflow, backup support for institutions**	

4. Are we outsourcing HR/Payroll?

ADP will provide the technology, application hosting and maintenance, remittances for taxes, direct deposits and other payments. Actual control of processing of HR/Payroll will continue within the University System. Human Resources functions such as recruiting and hiring, employee relations, benefits counseling will continue to happen at the institutions taking into account the organizational culture and the unique characteristics of that institution.

5. Projected Impact on Institutions:

At the very least, 40% of the *data entry* work is designed to be reduced by leveraging the new technology. At the same time, services will be enhanced by at least 25% by putting more information readily in the hands of the customers.

Example 1: Georgia State University:
1. Currently has 21 positions in payroll and benefits
2. In the new environment, 9 positions are projected to remain centrally at the University in the payroll/benefits office
3. 6 positions are projected to be assigned to individual colleges within the University to assist with training and assisting employees in use of the payroll system in a shared services environment.
4. 6 positions are projected to be reallocated to other positions in support of the core mission. Georgia State is in a growth phase and needs more positions to process applications for admission and financial aid. Affected staff will be given opportunities in this area that will ultimately help more students attend the University and receive a higher education.

Example 2: Bainbridge College:
1. Currently has .8 FTE for payroll.
2. Data entry efforts are projected to be reduced by at least 40%.
3. This will create capacity for the employee to perform other value-added functions. This individual will be retrained to provide face-to-face benefits counseling.

6. What does the system cost? How realistic are the numbers?

The negotiating team for the HR/Payroll contract is pursuing a fixed price implementation of $4 million with ADP. This is a one-time cost for FY 2009. The continuing cost for hosting and managing the system and to provide additional services is also negotiated at a fixed price of $4.9 million for 5 years. This includes all upgrades in the future. The only caveat is that if the volume of transactions increases significantly (by more than 12%), the cost will increase by the number of employees /transactions (the rate stays the same).

7. What will the shared services center cost for HR/Payroll?

The cost is expected to be minimal for the facility because the HR/Payroll operations will only have core nucleus of support staff for the entire system (no more than 10). Institutions and/or communities have expressed interest in supporting this venture in providing suitable space. The cost of operating the center, including personnel, benefits, travel and operating expenses will be approximately $1M.

8. What are the projected savings?

It is important to emphasize that the project's primary emphasis is on qualitative benefits rather than immediate savings. However, with the automation of manual processes, the central work effort for a payroll staff is expected to reduce by as much as 40% of the current data entry work, in addition to work related to COBRA, retiree billings, etc. This will translate to freed-up capacity (soft savings) that an institution can reallocate to other mission-critical functions. Since the University System of Georgia is a growing enterprise with an expected enrollment increase of over 100,000 over the next several years, this freed-up capacity will be in high demand. In addition, the decision to lease the new HR/Payroll software rather than the continued costs of annual license fees, upgrades, and ongoing maintenance of separate databases will also translate to savings. In total, we expect the overall total cost of payroll operations (including central IT) to decline by approx. $1.9M, which is a payback period of less than 3 years on an initial investment of $4M.

9. Where will the shared service center be located?

The location of the Shared Services Center has not yet been determined. The following selection criteria would be applied to narrow the number of potential locations to a final recommendation:

- Quality: Labor supply, labor market conditions, communications infrastructure, travel, quality of life.
- Quantitative (cost): Labor, real estate, telecommunications, community incentives
- Analysis: FTEs and office space based on process analysis and benchmarking, forward looking regarding trends.

10. Downsides/Concerns – Other items for consideration:

- Resistance to change
- Perception that jobs will be lost
- Will one size fit all? (scalability)
- Perceived loss of local autonomy
- Reliance on single vendor

An open communication and collaborative approach with institutions will serve to mitigate many of these concerns.

Summary:

The payroll consolidation through shared services provides the University System of Georgia with the opportunity to provide world class administrative support services by leveraging new technology, enhancing functionality, and minimizing risk through a shared services environment.

Strategy for Financials:

The preliminary focus for the financial system is to consolidate the 491 database instances. The enhancements that we are building in this project will include business intelligence software for financial controls and risk management across the system. Once the consolidation is completed, we will begin an analysis of the likely functions that could benefit from being included in the shared services center. Our current roster of possibilities includes: accounts payable, fixed assets, travel and expense, accounts receivable, and P-card. Once the strategy is finalized, it will be brought to the Board for review and consideration.