

**MEMO TO: BOARD MEMBERS  
DR. SARAH RISS  
DR. JOHN SIMPSON**

**FROM: DR. DIANE MOORE  
MS. JOANN KITE**

**DATE: APRIL 11, 2016**

**RE: PAYROLL**

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The Business Office reached out to ADP Payroll to discuss future contract options for payroll services. The current 2015-2016 budget covers the following costs:

- \$83,909 for processing payroll;
- \$27,874 for E-Z Labor to track time and attendance records to meet Federal guidelines;
- \$75.00 per hour for amended tax filings if an employee's employment status changes in any given year (this cost varies from year to year based upon need);
- \$6.55 rate per W2;
- \$111,783 – Current base cost (without estimated amendment cost and W2 cost).

Upon our annual review with ADP last month, Ms. Kite expressed a desire to look outside of ADP for services. The client representative assigned to the district account reviewed services provided and modified the ADP costs if the district agrees to a two year or a three year contract. The base price for payroll processing would be reduced from \$83,909 to \$65,444 and the cost for E-Z Labor would reduce from \$27,874 to \$19,502. This would lower the overall base cost from \$111,783 to \$84,946, creating a savings of \$26,837. ADP provided two possible multi-year contracts:

- A two year agreement – first year would reflect the savings listed above. The second year would include a 1% increase.
  - 2016-2017 cost = \$84,946
  - 2017-2018 cost = \$85,795
- A three year agreement – the first and second year would reflect the savings listed above and the third year would include a 1% increase.
  - 2016-2017 cost = \$84,946
  - 2017-2018 cost = \$84,946
  - 2018-2019 cost = \$85,795

Both multi-year agreements would still include the current \$75 per hour cost for any necessary amendments and a \$6.55 rate per W2. ADP did not provide a one year agreement and it is assumed no decrease in costs would be provided if the district chose to continue services only for the 2016-2017 school year.

As indicated in previous conversations with the Board, if the district were to assume responsibility for payroll processing internally, an additional FTE would be needed within the Business Office to meet audit expectations for segregation of duties. Segregation of duties is critical to effective internal control. This process reduces the risk of inappropriate or erroneous actions. The approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. This is a deterrent to fraud within payroll because it requires collusion with another person to perpetrate a fraudulent act. The Business Office does not have sufficient staffing to accommodate segregation of duties within payroll. Costs in 2016-2017 associated with hiring an additional employee and implementing payroll in-house would be:

- \$46,716 - annual salary and benefits for beginning payroll employee
  - \$ 5,000 - internal SISFIN training for H.R. /Payroll personnel
  - \$20,000 – annual cost timeclock software (track work hours for non-exempt employees)
- \$71,716 Total Cost for 2016-2017 school year.

The approximate overall cost savings to provide payroll in-house for 2016-2017 would be \$13,230. Should the Board choose to direct the district to process payroll internally, there would be a limited time to try to accomplish this for the start of the 2016-2017 school year. An additional position would need to be advertised and hired. The implementation process would also require training to take place for both the Human Resources Department as well as the Business Office Department. Creating a transitional period would allow the district time for hiring, training and testing to assure payroll is processed with minimal errors. In addition this cost analysis assumes SISFIN would be the software used to process payroll. SISFIN requires ALL employees to be on a salary schedule. While there is a certified salary schedule outlining annual steps, the district does not use salary schedules with annual steps for support staff or administrative staff. Such schedules would have to be created for internal processing.

As I struggled to provide a recommendation for the Board to consider, I chose to consult with the district's auditor, Darryl Songer. Mr. Songer indicated the trend among the firm's non-

school district clients is to outsource payroll. Employees as well as federal, state, and local tax collection agencies need to be paid in full, on time, and in the proper manner. Usually, late payments are cause for monetary penalties. The IRS has reported that one out of every three employers has been charged for a payroll mistake. Due to the continuously changing nature of tax regulations, it's easy to make errors that can negatively affect the district's finances. Outsourcing payroll relieves the district of this liability. You will recall the reason the district chose to outsource payroll over twenty years ago was due to the departure of the two existing payroll employees. The loss of their knowledge of the payroll process as well as taxes and changing guidelines left the district with a significant liability and cost. Using an outside service eliminated that risk. Mr. Songer also confirmed the need for the school district to segregate duties for proper internal controls should the district process payroll in-house. The Human Resources Department as well as the Business Office has minimal staffing levels. To meet audit requirements and to mitigate risks of fraud, an additional employee would need to be hired. While the district could theoretically save between \$13,000 and \$20,000 annually by moving payroll in-house, I am reluctant to recommend this. The savings is minimal compared to the potential risk and liability of errors.

I would suggest the district approve either a two year or three year contract with ADP. The district should then continue to investigate the possibility of bringing payroll in-house or to develop an RFP for outsourcing payroll in the final year of the ADP contract. This will provide sufficient time to thoroughly research all possibilities to make the best long-term decision for the district.

Please do not hesitate to contact me with any questions.