CITY OF NEWTON

IN BOARD OF ALDERMEN

LONG RANGE PLANNING COMMITTEE AGENDA

WEDNESDAY, MARCH 11, 2009

7:45 pm
Room 222

ITEMS SCHEDULED FOR DISCUSSION:

#72-09   ALD. PARKER AND LAPPIN requesting discussion with the administration
              regarding which Citizens Advisory Group recommendations are appropriate to
              implement as part of the Fiscal Year 2010 operating budget.

#73-09   PRESIDENT BAKER, ALD. HESS-MAHAN, VANCE, ALBRIGHT, LENNON,
              SALVUCCI & SCHNIPPER requesting discussion of the recommendations of the
              Citizen Advisory Group as may be relevant for long-range planning for the City
              for coming fiscal years.

                                        Respectfully submitted,

                                        Alderman Ted Hess-Mahan, Chair

COMPTROLLER'S OFFICE
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February 26, 2009

TO: Tony Logalbo & Ruthanne Fuller,
          CAG Municipal Cost Structure Committee

FROM: David Wilkinson, Comptroller
          Ann Cornaro, Information Technology Director

SUBJECT: **Bi-weekly payroll recommendation**

Pages 29 and 30 of the Municipal Cost Structure Committee's January 19, 2009 draft report contains a recommendation that the City move from a weekly to a bi-weekly payroll cycle in order to improve the efficiency of the payroll administration process. The draft report concludes that "…while no city position would be eliminated, the time savings throughout the departments and in the central administrative functions related to payroll will be significant."   These cost savings are estimated to be as much as $140,000 annually.

Description of Payroll Administration System

Newton currently maintains three payroll cycles: monthly for retirees and elected officials; semi-monthly for most employees of the Newton Public Schools; and weekly for all municipal employees and Newton Public School custodians and cafeteria workers. The City's payroll system contains pay rate and deduction tables for each payroll cycle which control all payroll activity except for time and attendance and employee expense reimbursements. Individual departments are responsible for maintaining time and attendance records for each payroll cycle and at the end of each cycle are responsible for reporting absences, both compensated and uncompensated, for salaried and hourly employees and hours actually worked for hourly employees. Leave accruals for compensated absences are maintained within the payroll system.

Unlike many organizations of Newton's size and complexity, payroll administration responsibilities are shared by several departments in Newton. The City's Human Resources Department is responsible for adding and removing employees from the payroll system; maintaining all pay, leave and deduction tables; and employee benefits administration. Individual departments are responsible for maintaining time and attendance records for their employees and reporting this information electronically to the Comptroller's Office. The Comptroller's Office is responsible for monitoring additions and deletions to the payroll system; verifying that changes in pay rates and employee expense reimbursements are properly documented and authorized and that payrolls are balanced and approved; and updating the general ledger for all payroll expenditures and

payroll deduction credits. Following authorization from the Comptroller's Office, the Information Technology Department is responsible for running the payroll and generating payroll checks, direct deposit vouchers; payroll journals. The Treasurer's Office is responsible for funding and distribution of payroll checks and direct deposit vouchers; the disbursement of certain payroll deductions that must be disbursed electronically on the payroll date, and state and federal tax reporting. Most payroll deductions disbursements are generated automatically on the next vendor warrant following the payroll date.

Newton's decentralized approach to payroll administration provides important internal controls that are often difficult to achieve except in very large centralized payroll administration structures. The approach has also been found to be extremely cost-effective when compared to payroll outsourcing options that have been considered by the City.

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<u>Economics of Weekly Payroll Cycle</u>

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Since there are important collective bargaining and human resources implications associated with changing the frequency of employee pay dates, I'll defer to the City's Chief Administrative Officer and Human Resources Director to comment on these aspects of the issue. I do think that it would be helpful, however, to review the economics of a possible transition from a weekly to a bi-weekly payroll from the City's perspective.

Human Resources Department: Employee hires and terminations and payroll deduction and benefit changes need to be made as the changes occur and are reported and are not tied to payroll frequency. It therefore does not appear that the replacement of the weekly payroll cycle with a bi-weekly cycle would have any impact on the operations of the Human Resources Department, except in terms of the entry of the department's own time and attendance.

Comptroller's Office: The Comptroller's Office currently devotes approximately 5 hours per week to weekly payroll review and accounting. This consists of approximately 4 hours per week of clerical review and one hour of an Assistant Comptroller's time in payroll review supervision, updating the of the general ledger and production of a payroll disbursement warrant. The weekly cost of these activities is $132. If these efforts were only required (26) weeks per year, instead of (52), 130 hours with a value of $3,432 could be used for other financial accounting and reporting purposes. This would be helpful in light of the fact that a full time staff position in the department was reduced from full time to .6 time in 2009 and is being further reduced from .6 time to .4 time for fiscal year 2010.

Information Technology Department: The City's Information Technology Department spends approximately 4 hours per week running the weekly payroll. Since the department's organization no longer includes a computer operator, either the IT Director or the Assistant IT Director is now responsible for running all payrolls. The value of (4) hours of the IT Director's time is $208 per week, which amounts to $5,408 over 26 weeks. The extra 104 hours per year that are needed to generate a weekly payroll could certainly be redirected towards more productive information technology purposes.

Treasurer's Office: The Treasurer's Office commits approximately 7 hours per week to the weekly payroll cycle. This consists of 5 hours of clerical time and 2 hours of the Treasurer's time. The weekly cost of staff time devoted to these activities is $215 or $5,590 over 26 weeks. Given recent staff reductions and the work backlog of the Treasurer's Office, these hours could also most certainly be redirected to more productive collections and treasury management functions. There are no banking services fees associated with the City's payroll disbursement account. The City funds the net payroll in full on the check disbursement date, as we understand we are required to do by law.

Operating Departments: While larger City Departments have staff with primary payroll responsibilities, time and attendance record keeping and reporting responsibilities in most departments is handled by a staff member who also has clerical responsibilities for a variety of other support functions such as purchase requisitioning; payables processing; department receipt processing; etc. Except where the department has hourly employees, the weekly workload associated with entering time and attendance into the payroll system is immaterial.

The **Department of Public Works** has the largest hourly employee count in the City and therefore the largest staff assigned to payroll time and attendance record keeping and reporting. The Department currently devotes approximately 60 staff hour per week to payroll tasks, at a cost of $1,623, or $84,396 per year. It is estimated that approximately 7 hours per week could be saved if the department's payroll were processed on a bi-weekly instead of a weekly basis. This translates into approximately $233 per week or $12,116 over a complete fiscal year.

The **Police Department** currently devotes approximately 18 hours per week to payroll administration activities, a little over a quarter of which is related to police private duty detail payrolls, at a cost of $454 per week. If payroll frequency could be reduced from 52 to 26 weeks per year, approximately $11,400 in support staff hours could be redeployed.

The following table summarizes similar information on other major City departments.

Department	Total Weekly hours	Weekly Cost		Cost over 26 weeks
Parks	8	$	200	$ 5,200
Library	5		132	3,432
Fire	2.5	$	57	$ 1,486

Conclusion

The transition from a weekly to bi-weekly payroll cycle does offer the opportunity to make more effective and efficient use of City staff members, particular in the administrative support departments of Information Technology; Comptroller's and Treasury, where staff reduction continue to be necessary in order to balance the budget.

Staff hour savings in operating departments also appear to be possible, however, these savings would likely be enhanced most significantly by further automating the collection of time and attendance data, particularly in the larger departments with sizable numbers of hourly employees.

Although it's not specifically addressed in the CAG recommendation, additional investment income earning would accrue to the City from a change to a bi-weekly payroll since cash that would otherwise be paid to employees would remain in the City treasury and could be invested at money market rates. Based upon a typical weekly payroll of $1.3 million, earning 2%, the City should be able to add $13,000 per year to its investment income earnings.

As noted previously, there are collective bargaining and human resources implications , as well as economic ones, associated with the transition from a weekly to a bi-weekly payroll cycle. The City's Chief Administrative Officer and Human Resources Director are in the best position to address these points.

The final point that needs to be made about implementation of this recommendation is that given continuing staff reductions, particularly in the City's Information Technology Department, adding a bi-weekly payroll cycle to the existing weekly cycle during a transition period will most certainly create a real hardship in the City's Information Technology Department and to a lesser degree in the Comptroller and Treasury Departments. If the powers that be determine that the transaction is in the best interests of the City, the best course of action would be to negotiate the changes as they can be made, but hold up implementation until the weekly payroll can be replaced in its entirety with a bi-weekly payroll.

Cc: Board of Aldermen
        Chief Administrative Officer
        Human Resources Director