

A Best Software Industry Guide

A Practical Guide To Taking Control of Your Payroll



Best Software, Inc.

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Executive Summary

Enabling Payroll for the Future

Paying your employees accurately and on time is a basic function of operating your business. An affordable, efficient and smooth process is essential. It's an important aspect of employee satisfaction, and it's fundamental to your company's success. Payroll is so fundamental that it's frequently a given, and its strategic importance is often understated.

A growing number of companies have turned to external service providers for functions like payroll processing. According to CFO Magazine, payroll is the most common service that companies outsource. Yet many of these companies have found that the so-called "convenience" of an outside payroll service is bought at the expense of control, flexibility and responsiveness—three qualities most payroll departments depend on.

Your business is competitive—your payroll processor may not be nimble enough to help you compete successfully. While you wouldn't want to overhaul how you manage payroll every year, it makes good business sense to periodically reexamine your options.

A Practical Guide to Taking Control of Your Payroll was created by Best Software to provide you with tools to evaluate your existing method of payroll processing and a step-by-step guide to enabling your payroll for the future.

QUIZ—Assessing your payroll process

- Are you currently using a service bureau?
- Do you feel disenfranchised with service bureau promises?
- Is your staff spending significant time preparing for payroll processing?
- Is the process smooth and efficient?
- Are employees satisfied with its accuracy?
- Are you limited by service bureau deadlines?
- Do you need pro forma reports for budgets and planning at your fingertips?
- Does the lack of control over this process bother you?

Step 1: Evaluate Your Needs

Take an Objective Look

First, consider how your company arrived where it is today. If your company is like most, farming out your payroll system to a service bureau seemed at one point to be a logical choice. Mainframe computing had driven up payroll processing costs, time, and resources—the computer itself required an operator to run it. The prospect of doing payroll in-house was overwhelming—keeping up with current tax laws alone was a frightening thought.

Years ago, outsourcing the payroll function made sense strategically—why expend precious resources on this area with no direct bearing on customers or the company's competitive advantage? Service bureaus also promised more efficient use of your human and monetary resources.

For a majority of organizations, the service bureau "promise" has not rung true. While outsourcing may off-load some of the processing work, that's typically less than half the work done in payroll. The data entry, interface maintenance, and monitoring of changes must still be done in-house. Payroll adjustments, allocating funds for payroll, and making the necessary in-house deductions, like car allowances, must also be done in-house. Information must then be entered into an in-house computer system, telephoned, faxed, or submitted electronically through software provided by

the payroll outsourcing company. These processes take considerable time and effort. Is this the “paperless,” efficient, prompt, accurate solution you expected? Like many companies, you may be disappointed with the reality—somehow outsourcing sounded much simpler than it actually turned out to be.

The first step to determining whether continuing to outsource your payroll makes sense is to step back and look at your company as an outsider—perhaps a potential investor—might see it. As you consider your company’s situation, remember there are no right or wrong answers, just valuable insights.

Assessing Your Payroll Processing	
1. For how many employees do you process payroll?	
1-49	100-499
50-99	500+
2. How complex is payroll processing?	
Simple	Somewhat simple
Somewhat Complex	Very complex
3. Are changes to payroll required?	
Not often	Sometimes
Frequently	Always
4. Does payroll go out error-free?	
Always	Frequently
Sometimes	Rarely
5. Do you have a high confidence level in the process?	
Always	Frequently
Sometimes	No
6. Can reports be conveniently run when necessary?	
Always	Frequently—with minimal effort
It takes considerable effort	It’s difficult to impossible
7. Is knowledge from payroll information being used as strategically as possible?	
Yes, management counts on it	Frequently—it adds value
It contributes on occasion	Rarely or never
8. Can various personnel changes and their impact on payroll be viewed and analyzed up-front?	
Yes, quickly and easily	Yes, but it’s expensive and slow
Sort of—but it’s convoluted	It’s difficult to impossible
9. What is the company paying for payroll processing?	
A very fair price/good value	Not sure—no one’s asked
Not sure—seems like a lot	Way too much
10. How are competitors processing payroll?	
Do it themselves manually or use service bureau	
Software and/or service provider	
Software supporting LAN & WAN environments or possibly a service bureau	
More sophisticated software or Enterprise Resource Planning	

Where do your answers fall on the spectrum? Do you find it difficult to keep emotions out of the picture as you formulate your answers? Were you able to answer all of the questions? Many companies have not put forth the effort to determine their answer to question 9. If that's true for you, walk through our guide to determining your own true costs for outsourcing payroll.

Step 2: Determine The True Cost Of Outsourcing Your Payroll

Hidden Costs Revealed

Changing how you process payroll would be a big decision. Making the wrong choice could mean headaches. Making the right choice can result in a positive impact to your company's efficiency, employee satisfaction, and even the bottom line. You would not want to make this type of change every year, but you probably do need to know what it costs you to manage the process in a given year.

An essential element of taking charge of your payroll is to see your own costs broken down. Use the worksheet on page 6 to calculate your own cost of outsourcing.

About Sample Company

Sample company ABC Manufacturing pays 250 employees an average of \$10/hour each Friday. ABC runs payroll 52 times a year using a service bureau. ABC's weekly gross payroll is \$100,000, generating an annual taxable wage base of \$5.2 million. Annual federal tax liabilities are approximately \$1.3 million, or roughly \$24,000 per weekly payroll. ABC prepays tax liabilities two banking days before the pay date to their service bureau. As a semi-weekly depositor, ABC's federal taxes are due 3 banking days after the pay date. The float fee in the example above assumes that ABC could invest their federal tax liabilities for 7 days (5 banking days plus 2 weekend days) at a short-term interest rate of 5.25%. Our example does not include state and local taxes, which also must be paid in advance to the service bureau. Adding float associated with state and local taxes, and the ability to increase return on operating cash will increase the float figure markedly.

ABC contracts with the service provider for a number of services, but must do all of its own data entry. As you can see, ABC occasionally does a bonus payroll. The service bureau charges a flat fee plus additional charges for special reports, additional services, like changes, etc. Only

"Service bureaus just don't know our business as well as we do. If we had been processing payroll in-house, we could have easily spotted a mistake as obvious as double-sized paychecks and saved ourselves a lot of embarrassment."

-Hospice of Naples

"Float"

Service bureaus understand the concept of float very well. It is an important part of payroll processing. This is how it works. As an individual taxpayer, you would like to know as early in the year as possible whether you owe money to the IRS. If you owe, you know that waiting until the April 15th due date means that you have earned interest on the money you owe instead of giving that interest earning opportunity to the IRS. Of course, if you're eligible for a refund, you file as early as possible so you get your refund and benefit from being able to invest the cash on hand.

This float principle may be applied to quarterly and yearly business taxes, as well as direct deposits and wage garnishments. Paying your taxes when due, not days or weeks in advance, means your company earns the interest, rather than allowing your service bureau to impound your tax liabilities. ABC would have been able to earn thousands if they had invested it themselves instead of using a service bureau.

Payroll Processing Costs Worksheet

Worksheet Tips

1. If you don't see these line items on your invoices, they may be bundled with other services, sometimes referred to as "other processing charges".

2. Labor rates vary widely. This figure depends on the type of employee(s) who perform various tasks. Sample company uses a clerical employee for data entry and related tasks.

3. Training figures vary and are hard to determine. This depends on the number of people who need to be trained in a given year. In year 1, training fees are usually included in implementation.

Service Bureau Fees	Description	Sample Company (Annual Costs)	Your Company (Annual Costs)
Implementation	Typically one-time fees based on a flat percentage of your first year processing fee. Estimated at 10%	\$2,600	
Standard payroll & tax filing services	Estimated at \$2 per employee x # of payrolls per year	\$26,000	
Examples of Additional Services			
• New Hire Reporting		\$1,000	
• Check Delivery/Signing/ Stuffing		\$1,000	
• Direct Deposit		\$1,500	
• Check Reconciliation		\$400	
• Special Payroll Runs	Bonus pays, exception/error handling	\$1,000	
• Reporting		\$850	
Standard/Custom Reports		\$2,000	
Access to data		\$1,250	
Report Writer		\$1,500	
• W-2 Processing			
Float (see description, p. 5)	Annual payroll taxes x interest rate* x (Avg # days tax liabilities are prepaid to service bureau/360) This prepaid figure will vary based on tax ID	\$200,000 payroll taxes x (364 days/360) x estimated interest rate of 7.75% = \$15,600	
Labor	Cost per labor hour x # of pay periods x # of employee hours spent coordinating with external provider, handling special requests, customer service, etc.	\$10 x 52 payrolls x 10 hours per week = \$5,200	
• Cost of data entry			
• Cost of managing service bureau relationship			
Total Year 1		\$58,900	
Total Year 2	Omit implementation fee	\$56,300	
Total Year 3	Omit implementation fee	\$56,300	
3-Year Total		\$171,500	

* based on your expected return on operating cash

certain line item charges are listed, so some information is summarized. This may be a familiar scenario or it may not reflect your situation at all. It's better if you take some time to do your own calculations.

What do you think of your 3-year total? Is it what you expected? Many companies that farm out payroll are becoming disillusioned, and when they see the true costs, they question the value they are receiving for this price. Why? It is difficult for service bureaus to maintain the service level you may require, because it inherently means maintaining an understanding of your changing business, keeping up with your management's need for information, and providing a high level of service year after

year. The pace of business means that change is the only constant—and change means more exceptions, which result in transaction fees you did not anticipate, in addition to your “regular” transaction fees.

Understanding this cost figure is only part of the reason why many businesses are finding outsourcing payroll behind the times. Now that you have a clearer picture of what your needs and your costs are today, consider the future.

Step 3: Envision The Future

Your Unique Role

With your company’s needs and costs understood, set your sights on the future. You play an important role in your company’s future, because you probably have an in-depth understanding of the combination of your company’s business, employees, and payroll needs. What will take your company successfully into the future in terms of payroll? Think broadly—consider the realm of possibilities. How do you think payroll should work in the future? Where do you think your company will be one year from now? In three years? In five years? As you look ahead, consider the following:

Payroll and employee satisfaction

Some may argue to the contrary, but you know that payroll is a fundamental element of employee satisfaction. When an employee receives his or her paycheck on time, without error, regularly, there is an underlying assumption that your company is operationally competent and financially sound—an important aspect of employee satisfaction. If payroll goes out with errors, or if it fails to go out, a wave of uncertainty ripples through the organization’s ranks. You understand this, and you realize the challenges and complexities in making accurate, timely payrolls happen.

Access to Information

Payroll information pertains to your employees, policies, procedures, and your company’s money. Having accurate and easy access to this information, when and how you need it, is a realistic expectation. You should have the ability to organize and analyze data in the format that best fits your company’s unique situation on an ad hoc basis, or as often as necessary. Do you have access to your information? Will you need readier access in the future?

Flexibility

People come and go, and their situations change. They get promoted, make changes to their 401(K) elections, insurance, and so on. Consequently, payroll changes do occur and must be managed quickly and easily. When you outsource payroll, you know that changes are often brought to your attention just after you’ve accommodated your service provider’s deadline. So even if you knew about the changes seemingly early enough to do something about them, it’s complicated and expensive to make it happen. Otherwise, changes won’t be reflected until the next pay period. In some companies, this is sufficient. In others, more flexibility is a must. How much flexibility does your organization need?

Proactive Decision Making

Many companies increasingly need the ability to be proactive—to be able to project different business scenarios and their respective impacts on the business. Having the ability to anticipate changes brought on by government legislation, workplace developments, and economic shifts may be a business necessity. So is the ability to plan for the future. As you do this, determine what role payroll will have for decision making.

Comprehensive Reporting

Companies are always looking for ways to tighten their belts. Since payroll is a huge expense, you are probably asked for reports on all sorts of configurations of payroll information, including basic company and employee listings, legislative reports and forms, analytical and audit reports, notifications of upcoming events, reconciliation reports, and date or event-driven historical reports. Getting these reports when you need them, and getting them right, should not be a nightmare in terms of effort or expense. These reports provide valuable information for strategic decision making, and making them available should be simple and straightforward.

Integration of data with HR system

The ability of your payroll system to interface with other human resources systems may be one of the key areas to consider for your company's future. As you look for ways to streamline processes, consider alternatives that enable deductions to be automatically calculated against benefit changes made in HR systems, or attendance plan accruals that can be automatically flagged during the payroll time entry process. Think about whether your payroll data can feed other sources of information in the company, like budgeting and general ledger systems. This is the wave of the future, and something worth a look.

In what direction is your company headed? The trend is toward more access, more flexibility, more proactive thinking, and more control. With your future in mind, consider the alternatives.

Step 4: Assess The Alternatives

Controlling Payroll Matters

Outsourcing may have been a reasonable option for payroll processing when you chose it, but is it the best alternative for you now? Just as PCs brought tax programs like TurboTax® and TaxCut® to individuals, businesses now have high quality alternatives, which allow payroll processing and tax filing to be done in-house. As a result, many companies are implementing software solutions that provide more control of the payroll process.

The reasons make sense. Consider when organizational changes are imminent—being able to see what happens to your payroll before these changes occur is important, so you can factor in what that change will mean to the company. It is extremely useful to fully understand how different deductions and tax rates impact your bottom line. You also

"It probably took me an hour" to process a special bonus payroll. "With the service bureau, it took several days for them to do the run, then return it to us. We had to call and schedule it, and we were charged for the extra service."

*-Kelly Williamson
Company*

need to make last-minute changes as necessary—without setup charges or other fees. Ideally, you should be able to cut a special payroll or make last minute corrections without an ordeal. Think about the value of your payroll itself, and then consider the value that information holds. You should be able to preview what a new tax law will mean to your company without moving mountains. Is this too much to ask of your service provider? Or are you afraid to ask for fear of what it will cost?

Here's why many companies are choosing the in-house alternative:

Ready Access to Payroll Information

The software programs on the market today facilitate access to information, when and how it is needed, at no extra charge. You organize and analyze data in the format that best fits your company's unique situation. You keep track of basic employee information, including salaries, benefit plan contributions, and emergency contacts, and make changes quickly and easily—directly into the payroll system.

Flexibility

With in-house payroll processing, you choose the deadline that works for you, and have flexibility to make last minute changes. You handle benefits enrollment and administration when and how you like.

Proactive Decision Making

The software solutions on the market today allow you to project different business scenarios and their respective impacts on the business, at no extra charge. This means you can objectively analyze your business units and how they are staffed, and spot trends while monitoring the skills and training of your workforce. You can also develop realistic budgets using historical salary information.

Comprehensive On-Demand Reporting

A significant difference between what is available with service bureaus versus an in-house software solution is in the number and type of reports that can be run. Getting usable information out of a payroll system has historically been a major problem. Payroll systems stored massive amounts of data but only database experts could access the data. For payroll and finance departments, the net result was often long waits, coupled with high costs, for adequate reporting. The better payroll software on the market today lets administrators generate custom reports easily, offers standard reports that fit many common corporate situations, and meets government reporting requirements.

How Software Solutions Reduce Compliance Risks

You may be concerned about compliance with software solutions. If you think you're a candidate for an in-house payroll system, but are unclear about how this issue is handled, it's an excellent question for potential software providers. The software community is aware of these concerns and the best payroll software does an excellent job addressing them, especially in the following areas:

How the IRS Penalizes Companies Who Fail to File a Return or Fail to Pay Taxes on Time

**FAILURE TO MAKE
TIMELY DEPOSITS**

# days payment is late	% of under- payment
1 to 5 days	2%
6 to 15 days	5%
16 or more days	10%

1. New Hire Reporting

The software world reduces your compliance worries by offering new hire reporting capabilities. As you know, your company is required to notify various levels of government each time you hire a new employee. Again, this can get complicated, as these requirements vary by state. The more sophisticated software alternatives have embedded each state's current requirements to create a file that can be exported and accepted electronically by the state to meet this requirement.

2. Constant Tracking of Current Regulations

One of the key concerns with bringing payroll processing in-house is compliance with government regulations. Payroll regulations set forth by the government are difficult to track; they change regularly, and are different in every state. Most software providers have experts who monitor and track state and federal laws and build this knowledge into their quarterly updates, so you don't have to worry about keeping up with 50 different sets of state regulations, in addition to federal laws.

3. Integrated Service and Software

As an added convenience, certain software packages available today have an integrated service component. This means the administration of payments and quarterly filing of taxes can be handled either through the software (you manage it) or via the software provider's service arm, which can manage it for you. Integration with HR administration and general ledger software provides lots of information that can save time on the payroll side when the data is already entered in the system. Service options are available to maintain compliance in areas of wage garnishment, which helps companies assist the government as it cracks down on child support issues, for example. Using integrated software minimizes not only redundant work but also mistakes that can be made when the same data is keyed into multiple systems. A high degree of integration provides high-level information sharing, improves data accuracy, saves hours of costly redundant entries and provides more control.

Step 5: Implement The Best Option

Make an Informed Choice

You have examined your needs, reviewed your true costs, considered the future, and examined the alternatives. Will a service bureau meet your company's needs moving forward? Should you further explore an in-house payroll processing system? The options are:

- Retain Service Bureau for most payroll processing and other service options
- Retain Service Bureau for selected processing
- Move to an in-house solution and augment with services
- Move to an in-house option for total control of payroll processing

If you decide to change from a service bureau to a software solution, use the following checklist when you talk to software providers:

1. How long has your company been around?
2. What experience does your company have with payroll processing?
3. What version of the software is currently available (be wary if they say 1.0)?
4. Is the software integrated with other programs? If so, what types of packages are they? Can they be of use to me?
5. Try to determine their service reputation? (Have they won awards, will they readily provide references, etc.)
6. What does it cost to implement?
7. What training is involved? What is the learning curve?
8. What does maintenance cost? What does that figure include? Is 24x7x365 help available?
9. How frequently are updates sent (to stay current with tax regulations)?
10. How many customers are supported?
11. How do customers rate the product and support?
12. Is the payroll software fully integrated with an excellent HR package?
13. Will the payroll software work with your GL?
14. Is local support, either from the company or via consultants, readily available?

Payroll Processing For The Future

The payroll process should be affordable, efficient and smooth. It is an essential element of business operations and its accuracy is important to your most valuable asset—your employees.

Recently, companies have begun to explore alternatives to service bureaus, the traditional approach for small to medium-sized companies to manage payroll. Due to increased dissatisfaction with service bureaus, in addition to tremendous advancements in capabilities of payroll processing software, many companies are finding the latter an easy, flexible, workable alternative which puts control of payroll processing back into the organization's own hands.

But before making a change, you must evaluate your own company's situation and determine whether this might be for you.

Look at your company objectively—write down company goals, costs and expectations. Then evaluate the alternatives. Ask a lot of questions. Expect real answers. Look beyond what is available today and consider the future.

If your company is like most, you will be making major changes to bring about more access, flexibility, control and responsiveness to your payroll processing system. Companies that must keep pace with rapid changes in their business environment are increasingly implementing in-house software solutions to address these requirements.

Abra Suite is Best Software's industry-leading integrated HR/Payroll solution. Designed for completeness, ease of use and affectability, Abra Suite offers comprehensive HR and payroll processing, recruiting, training, and benefits administration. The software also allows users to effectively track and prepare reports on employee benefits, employee attendance, payroll processing and taxes, job and project costing, EEO, Workers Compensation, FMLA, COBRA, OSHA, and numerous other areas of concern to human resource and payroll professionals.

Best! Imperativ HRMS is Best Software's award-winning client/server HRMS that delivers a powerful, flexible, enterprise-wide HR/Payroll solution. Quickly implemented and easy to use, Best! Imperativ HRMS uses integrated roles based self-service to incorporate multiple user views based on employees' HR needs.

About Best Software, Inc.

Founded in 1982, Best Software is the world's leading provider of Corporate Resource Management (CRM) solutions — software that allows organizations to better manage their people, fixed assets and planning process. With over 40,000 customers worldwide, Best Software is dedicated to delivering scalable solutions for growing businesses.

Today, tens of thousands of businesses benefit from the improvements in organizational effectiveness that our high-value, feature-rich solutions deliver. By truly automating and streamlining the management of employees, assets and the annual and ongoing budgeting and planning process, companies are now able to make strategic long-term decisions based on solid data, giving them a competitive edge.

Industry-leading products from Best Software reflect a richness of expertise and long-term commitment to customers. The full line of Corporate Resource Management solutions from Best Software include best-selling Abra Suite® for HR and Payroll management, FAS™ solutions for fixed asset management and tracking, and the new client/server Best! Imperativ line of solutions, including Best! Imperativ HRMS™, Best! Imperativ Asset Accounting™ and Best! Imperativ Analytics™.

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