

**To the Mayor and Members of the City Council****January 28, 2020**

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SUBJECT: PAYROLL TASKFORCE UPDATE

City of Fort Worth employees are paid every other week resulting in 26 payroll periods per year. Each payroll period processes approximately 6,800 employees with gross expense around \$19.3M with some seasonal variation. Total gross payroll for FY19 was \$503M.

The City of Fort Worth has several distinct employee groups. General employees are classified into Fair Labor Standards Act Exempt and Non-exempt employees. Sworn Public Safety employees are members of either the Police Meet and Confer Unit or the Fire Collective Bargaining Unit. Federal Law, State Law City of Fort Worth Policy, Meet and Confer Agreements, and Collective Bargaining Agreements govern the compensation system for the employee groups. The compensation system is designed to attract and retain the highest caliber employees. Over the last several years, the number of pay types, pay nuances and rates have grown as agreements mature and laws change. The result is an increasingly complex compensation system.

Employees, Payroll Staff and Internal Audit reported a number of payroll errors over the past several years which result in either overpayments or underpayments to employees. Numerous exception reports and payroll system changes were implemented over the years which increased the complexity and time required to calculate payroll. While the dollar amount of errors is small in comparison to total gross payroll, the incidence of errors erodes employees' confidence and creates administrative workload to remedy the errors.

To address these concerns, the City established a taskforce in November of 2019 to examine the root cause for payroll errors and recommend steps to reduce or eliminate future errors. Members of the committee are drawn from the Information Technology Services (ITS), Human Resources (HR) and Financial Management Services Departments (FMS). The Taskforce sought input from more than one hundred timekeepers across the City, mapped the payroll process, and reviewed all audit findings over the last several years. The Taskforce evaluated whether audit recommendations were fully implemented and resolved the identified issue. The Taskforce also met with each of the teams from ITS, HR and FMS to identify known issues and recommendations that were not part of Audit reports. The results of this analysis found the following challenges:

- Many steps in the process – The Payroll Task Force identified more than 200 process steps, jobs, and tasks across ITS, HR and FMS that are required to complete each payroll period. Many of the processes are interdependent requiring close coordination between ITS, HR, FMS and Departments.
- Many manual steps in the process – Over the years a number of manual steps and/or workarounds were introduced into the process to address errors or facilitate timely calculation of payroll. Human error in the manual steps was identified as the number one root cause of payroll errors.
- Accelerated pay period close – The time between pay period close and payment is abbreviated. There isn't adequate time for error checking to identify errors and make correction prior to payment.
- No single Department is designated to own the payroll process from beginning to end.
- A lack of knowledge in the departments of how employees are paid, what they are paid for and how that is calculated.
- No orderly change management process to perform system changes and validate the end result of changes.
- Resources – The staff supporting payroll in ITS, HR, and FMS may need to be reorganized or increased to manage the complexity of payroll.

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The Task Force is prioritizing corrective efforts in the following order of importance:

1. Address issues in terminal pay process
2. Assess the overall structure of the payroll function and best practices
3. Address manual processes to reduce the potential for human error
4. Examine issues reporting of time worked, consistent application of policies and other administrative activities

The Taskforce identified some immediate actions to correct errors. The terminal pay process was moved to the off-payroll week to allow more time for review and error correction. In the process a number of manual calculations and data entry were eliminated. The City has also contracted with PFM to assess the overall organizational structure and effectiveness of the payroll function within the City of Fort Worth. The consultant will provide recommendations regarding staffing and/or procedural changes to align the City with best practices for internal controls, quality control, role segregation/separation of duties and staffing levels for the payroll process.

If you have any questions, please call Brian Dickerson, Director of Human Resources, at 817-392-7783 or Reginald Zeno, Director of Financial Management Services / Chief Financial Officer, at 817-392-8500.

David Cooke
City Manager