Board of Supervisors Memorandum

July 2, 2013

Recommendation for Service Contract Award to Automatic Data Processing for a Human Resources, Payroll, Benefits and Time Management System

Background

I previously provided to the Board of Supervisors information regarding transition of the County's payroll and human resources information systems from our current mainframe COBOL application to a more sophisticated and contemporary service contract system. This memorandum provides specific information regarding the at-risk condition of the County's mainframe human resources/payroll system and the technical and economic benefits of a services contract with Automatic Data Processing.

The Need for Change

Over the last several years, the County has moved to eliminate use of mainframe and COBOL based information technology systems. This technology is outdated and no longer supports the needs of the County. Additionally, this technology is no longer taught at universities and colleges, making finding qualified programmers almost impossible. The current human resources/payroll system is over 25 years old and has been highly customized during that time period. This creates major difficulties when changes to the system must be made, such as updating retirement rates, insurance programs, and tax rates. The chance of a failure is becoming increasingly likely.

The current system is an antiquated, mainframe-based system. Long-term maintenance and vendor support is of significant concern as the system further ages and the industry moves away from mainframe-based systems. The County systems are not integrated, lack reporting capabilities, and require extensive manual and redundant effort for data entry and standard business processes.

At this time, our mainframe human resources/payroll system has a high degree of risk and is critical for the following reasons:

1. Customization of processes over the last 25 years renders the system prone to error whenever changes are made.

2. All payroll systems require minimal changes on a periodical basis. Due to the inflexible nature of the mainframe system and the extensive process customizations, even easy changes become complex. Within the last 12 months, the County has had two situations where required changes almost prevented payroll from processing timely and

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included one payroll being issued with incorrect tax calculations that had to be corrected in the next payroll.

3. The last employee who was knowledgeable of the system retired in October 2011. Finding staff that can program changes to the system has become extremely difficult. For the past year, the Information Technology Department (ITD) has had a contractor working to keep the payroll system functioning at a cost of $165,000 annually.

4. The County incurs $535,000 annually in fees and licenses to operate the system which is hosted on the Arizona Department of Administration mainframe.

5. Time capture and payroll processing are highly manual, including the use of paper timesheets. This manual process requires personnel with specialized skills to ensure the system functions throughout the year.

6. The County does not have an electronic human resources system, and the entire process is paper and data entry based, which limits the capabilities and availability of historical data.

7. The County currently requires applicants to complete typed or handwritten paper applications. Paper applications are outdated and discourage technically savvy applicants from applying for employment with the County.

Product Evaluation Process

The Finance, Human Resources, Information Technology and Procurement Departments completed an evaluation of the human resources/payroll requirements of Pima County, and a business case supporting the use of Automated Data Processing (ADP) through use of a Maricopa Cooperative agreement was prepared. A Request for Information was issued to further explore other solution providers, resulting in the evaluation of two other systems: Ceridian and Paychex. Paychex was eliminated from contention based on their lack of experience with large customers the size of Pima County and because their solution seemed to integrate separate third-party providers and was not a single provider solution. Ceridian was not considered further because they demonstrated portions of their final solution not yet available to the marketplace without a firm date of availability.

Based on the demonstrations of the three vendor solutions during the summer of 2012, the system provided by ADP was determined to be the one that would provide the greatest value to Pima County. Maricopa's ADP contract contained language authorizing cooperative use of that agreement, which provides the same terms and pricing level to Pima County and other cooperative agencies. Pima County issued a Request for Offer to ADP, and their response further confirmed we would receive the same pricing levels

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provided to Maricopa County. Negotiations with ADP were completed on the scope and associated fees for implementation.

ADP Company Profile

ADP has more than 5,000 public sector clients and has systems that meet the requirements of public entities such as the County. ADP's clients include the Cities of Baltimore, Detroit and Seattle; Maricopa County; McHenry County in Illinois; and the States of Georgia and Florida. ADP pays one out of every six American workers. Because ADP is responsible for servicing such a significant section of the American payroll, it must maintain and support the system at a level that enables organizations of all sizes, in every industry, to manage payroll, tax, HR, and benefits administration to maintain regulatory.

The ADP solution will meet the increasing demand for timely, accurate and consistent information and will provide easy access and visibility to the activities of County. The efficiency of the County's business processes will be enhanced through the use of a fully integrated human resources/payroll solution that integrates recruitment and selection (applicant tracking), human resources/payroll, time capture and leave management, benefits administration and employee access.

ADP's Enterprise HR solution allows human resources and payroll processes to be performed quickly, correctly and easily so our Human Resources and Payroll staffs spend less time on the manual administrative tasks of paper management. The broad range of human resources, benefits and payroll services that ADP Enterprise HR encompasses will enable us to deliver essential employment functions with reliability, consistency and increased efficiency.

ADP Services Agreement Components

The services agreement for the ADP solution includes the following four basic components:

1. Applicant/Recruitment Training. The services provided include a recruitment and applicant tracking component, referred to as Virtual Edge, which enables the County to recruit using the internet and paperless application systems. Although the County advertises positions on the internet, our application and data base system is paper based. This process tends to discourage technically savvy applicants from completing the application process. The ADP services provide on-line recruitment management, screening and selection to optimize the recruiting process while reducing costs and increasing the number of high-quality applicants.

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2. <u>Enterprise Human Resources/Payroll</u>. ADP Enterprise Human Resources/Payroll provides an automated Web-based integrated human resources, benefits and payroll service. The service includes human resources Management, multilevel strategic reporting, regulatory compliance management, compensation management, payroll processing, time and leave accrual accounting, and historical information tracking.

3. <u>ADP Benefits</u>. Pima County currently uses an older version of ADP's Benefits software for open enrollment for employee benefits, .The ADP solutions in the proposed agreement feature a single point of contact to simplify benefits administration and employee benefit packages. ADP benefits integrate with ADP Enterprise HR/Payroll to reduce duplicate data entry and to facilitate communication and provide benefit deduction calculators and open enrollment systems.

4. <u>Time and Attendance Management</u>. ADP's time and attendance tracking tool, eTime, manages employee time and attendance. eTime provides flexible time collection methods, from time clocks to computers. Leave accrual calculations are automated, and reporting of hours worked and paid time off is automated based on the County's pay policies. This will simplify the processes to manage labor costs, control overtime, and provide employees with self-service electronic access to hours, schedules and vacation balances. Use of terminals and time clocks will accurately report time worked and eliminate the current process where hundreds of employees report "estimated" time each pay period in paper timesheets that are subsequently amended in the next pay period.

<u>Utilization of a Hosted System</u>

Staff recommends a "hosted solution," which essentially means we will lease the software and processing capabilities from ADP, rather than purchase and install system software on County servers. County personnel will continue to be responsible for human resources and Payroll processing. The County will not be required to make a large capital outlay for equipment and software that will be obsolete in a short amount of time. Software and hardware upgrades to ensure our systems function efficiently and effectively will be the responsibility of ADP.

The ADP services agreement does not "outsource" payroll or human resources responsibilities; it replaces the antiquated mainframe system with access to ADP's systems for processing. Staff currently working in the Human Resources and Payroll areas will continue to work in their respective areas, and no County jobs will be eliminated.

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County employees with questions or concerns regarding payroll, benefits, and time and leave reporting will continue to be directly addressed by County Payroll or Human Resources staff. If an issue requires interface with ADP, responsible County staff will communicate with ADP and then directly communicate the outcome to the inquiring employee.

Cost Analysis

A cost analysis comparing our current mainframe COBOL application to the recommended ADP services contract will be provided to the Board of Supervisors in the near future. We will eliminate vendor services for the mainframe payroll system; annual maintenance costs for use of the vendor's software; mainframe charges by the Arizona Department of Administration to run our mainframe payroll system; and the mainframe contractor annual expense to keep the old payroll system operational.

What This Transaction is Not

There may be some misconceptions about the impacts of the transition to ADP payroll and human resources services. It is important to note the following:

- We are not outsourcing payroll. We are simply using a professional service provider who will address technology changes as a part of its core business to stay in business. As a matter of course, ADP will replace their payroll solutions by implementing them with new technology as required.

- There will be no loss of jobs in Pima County. We will eliminate a contractor who is not from Pima County.

- County employees with questions or concerns regarding payroll or benefits will continue to receive assistance directly from responsible County Payroll and Human Resources staff. Employees will not be required to contact ADP directly for information.

- We are eliminating the need to purchase software; install the software on new servers and disk space within our data center; and over time, replace servers/storage used for the human resources/payroll system, as well as apply many software patches supplied by a software vendor to address ongoing tax and benefit changes imposed through state and federal legislation.

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Recommendation

I recommend the Board of Supervisors authorize the County to enter into a five-year contract with Automated Data Processing for human resources and payroll services as outlined above, which will include:

1. Virtual Edge (Recruitment and Applicant Tracking)
2. Enterprise HR/Payroll
3. ADP Benefits
4. Time and Attendance Management (eTime)

Respectfully submitted,

C.H. Huckelberry
County Administrator

CHH/mjk – June 20, 2013

c: Allyn Bulzomi, Director, Human Resources
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