



CITY OF WILMINGTON

Payroll Pre-Implementation Internal Audit Review

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City Auditor's Office

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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled review of the city's Payroll Pre - Implementation. The review was conducted in accordance with the city's FY23 Internal Audit Plan.

Methodology

The objectives were met through assessing the makeup of the implementation team, attending update meetings, and reviewing key project documents.

Audit Review Committee:

Ronald Pinkett, Chair

Angelique Dennis
Chris Johnson
James Spadola-Designee
Tanya Washington

Non-voting Member
Marchelle Basnight

Objective, Scope, and Methodology

The Internal Audit Department (IA) conducted a payroll pre-implementation review of Paycom, which is a third-party service provider that offers online payroll services. The company was launched in 1998 as one of the nation's first web-based Human Resources (HR) and payroll technology companies. Their cloud-based software encompasses the entire employment life cycle in one database. The review was conducted as part of the Internal Audit Fiscal Year 2023 audit plan because it qualifies as a major system implementation.

This report shares findings from our review of the City of Wilmington (CoW) Paycom Implementation. The overall objective of this engagement was to evaluate the effectiveness of the payroll system implementation prior to the Paycom "go-live date."

The scope of this review was to conduct a review of the implementation process to help minimize the risk to the city of something going wrong. This review included procedures considered necessary for the purpose of determining with reasonable, but not absolute, assurance whether proper planning, design, controls, and organization were in place to ensure the system will function as intended and interfaces with Tyler's Enterprise ERP (previously known as Munis), the city's system of record.

The following procedures were conducted to meet our objective and scope: assessed the makeup of the implementation team for suitable management and departmental representation; attended weekly update meetings and reviewed documents from the initial key meetings; reviewed the approach of the initial project plan/project schedule provided by Paycom; and obtained and inspected a copy of the Paycom contract, SOC and ISO Reports to ensure their controls were operating effectively based on industry standards.

Background

The CoW currently processes payroll in house, and it represents a major expense of the city's annual budget and consists of various pay types and schedules. For instance, there are non-union employees, Union 1102, Union 320, Police, Fire, and Pensions (non-uniform and uniform) that are paid by the city. Union 320 is paid weekly; all other employees are paid bi-weekly, and Pensions are paid monthly. The city's timekeeping is tracked via the Kronos (UKG) timekeeping system and fed through to the payroll module of Tyler's Enterprise ERP.

The current payroll implementation is the second attempt in recent years that HR has proposed a change to outsource the payroll function to an outside vendor. Their first proposal with ADP did not come to fruition, due to complexities encountered during the process. Most recently a contract was signed with Paycom to provide outsourcing of the city's payroll services.

This implementation was initially intended to only process payroll but has grown to include HR personnel services. However, due to some of the complexities highlighted in various meetings surrounding concerns over negative financial and risk implications the implementation has experienced numerous stops and delays. For instance, Paycom initially informed the city that they had completed a system implementation with customers that had a similar ERP system utilized by the city; however, as the project has progressed it has become evident that the CoW is not like Paycom's other clients.

Below are highlights of our observations and recommendations:

1. Lack of communication with all departments affected by the implementation prior to beginning the project.

Recommendation: With technology incorporated in all functional areas, it is important that the city assesses the effects any change in one area will have on others and avoid making changes in a silo.

2. There was a lack of documentation surrounding the current and to-be payroll processes.

Recommendation: Ensure documentation of the current and to-be payroll processes exist so a GAP Analysis can be performed, and mapping is completed prior to implementation. This will help identify gaps between the two systems and assist the city in developing process changes as deemed necessary to ensure requirements or objectives are being met and, if not, what steps should be taken to meet them. This may include exhausting all options with the current system prior to making a change to a new system or process.

Additionally, when processes are not fully documented and mapped, it may be necessary to hire a Business Analyst (BA) to ensure that the full process is captured. The need for a BA was identified during the Paycom implementation, which led to the city hiring a BA after the project started. At the time of drafting this report, the final documentation and mapping of the Payroll Process had not been completed. It is recommended that the city complete this task regardless of whether the Paycom implementation comes to an end before completion.

3. Failure to assign project management from the outset of the project.

Recommendation: A project manager should be identified before the project begins, this individual will track the progress of the project for the city and keep executives informed. Project tracking software or Gant Chart should be utilized to ensure tasks are properly assigned, and deliverables are being tracked to completion.

It was noted that Paycom kept a spreadsheet of its schedule, which worked backwards based on a live check date as the go-live target date (a method not deemed suitable to the city's environment); however, the city should track its own progress separate from the vendors goals to ensure that Management has a holistic view of the timeline and implementation status.

The Project Manager (PM) plays a key role in the success of a system implementation. They help the organization to set clear objectives, prepare a Request for Information (RFI), & assist the organization with documenting processes, if needed and defining their Return on Investment and / or benefits analysis (these are all steps that should be taken before beginning the implementation). Finally, they assist the organization by creating and maintaining the appropriate logs (i.e., decision, change, risk, and issues logs, & lessons learned log). The need for a PM was identified during this project, after the IT Department began to receive concerns, it led to the city subsequently hiring a PM Consultant. The PM will be key to determining the interfacing capabilities with the current system (i.e., whether an Application Programming Interface-API is possible or not). Note: During initial discussions with Paycom, they stated Munis will remain the city's system of record.

4. A Cost Benefit Analysis including all functional areas that could be affected by the implementation was not conducted, prior to signing a contract with a vendor.

Recommendation: Prior to beginning a project or signing a contract with a vendor, a Cost Benefit Analysis should be completed ensuring all functional areas that could be affected by the implementation are consulted and notified of the potential changes. The cost-benefit analysis is the process of comparing the projected or estimated costs and benefits (or opportunities) associated with a project decision to determine whether it makes sense from a business perspective for all stakeholders.

5. The Project had an initial limited scope, payroll processing, but now encompasses HR employee services which IA believes will require approval by the IT Governance Committee. This committee should consist of members in the city's Executive Management and are responsible for directing, reviewing, and approving IT strategic plans, overseeing major initiatives, and allocating resources. The initial request presented to the Change Advisory Board (CAB) has changed in terms of the proposed scope of work. These changes will have an impact on other functional areas that include OMB and Finance. Note: The initial Change Form submitted to CAB could not be verified because the formal document could not be retrieved from Payroll or IT.

Recommendation: The projects proposal should be revised and submitted to the CAB for preliminary review and based on the recommendation of CAB submitted to the IT Governance and Strategy Committee for approval. Changes to the project should also be documented in the change log for project management tracking.

6. Failure to follow a formal RFP process.

Recommendation: Application software purchases should follow the procurement process utilizing a Request for Proposal or Service Approach.

Additional Observation

During meetings between Paycom and the City there was a lot of discussion concerning the cleaning of data that would be exported from the city's current ERP system to Paycom's system. After data verification was completed with the initial export it was noted that a substantial number of changes had occurred with the employee data in Tyler's Enterprise ERP. These changes will have to be manually input into Paycom's System by the city. This is considered a substantial risk, due to there being potentially a much higher chance of errors occurring with so many manual changes being input versus the occasional one-off manual changes that may occur during normal processing.

Audit Team

Michael J. Maldonado, Senior Auditor
Tamara Thompson, Audit Manager