

Analysis

Department of Administrative Service

Payroll Replacement Project and Paid Family Leave

Analyst: Paul Siebert

Request: Acknowledge receipt of reports on the Payroll Replacement Project and Paid Family and Medical Leave implementation.

Analysis: The Department of Administrative Services (DAS) is required by budget note to report on the Oregon State Payroll System replacement project. In 2016 the state began a project to replace the legacy enterprise Human Resources and Recruitment systems. This project was completed in February 2019 with the implementation of IBM's Workday software-as-a-service, human resource and recruiting modules. This new Workday system had to interface with the legacy Oregon State Payroll System (OSPS) before becoming operational. The development of this required interface proved highly complex and delayed the launch of the Workday solution until completed. DAS received \$3,891,234 in the 2019-21 legislatively adopted budget to begin implementation of the Workday Payroll and Time Tracking modules. In addition, DAS 2019-21 agency assessments included an additional \$7.6 million to fund the remainder of the 2019-21 biennium project costs.

DAS reports that project staff are working closely with the ongoing Workday staff to ensure configuration decisions align with the current system. Project staff have solicited feedback from agency payroll specialists as well as from other public sector organizations that have already implemented Workday Payroll. The project has begun the process of procuring an independent Quality Assurance contractor. Project staff are also engaged with OSCIO who are working on a Workday Security Enhancement project designed to update existing security protocols to ensure any changes are considered when implementing the Workday Payroll module.

DAS was also directed by a budget note accompanying HB 2005 (2019), which implemented Paid Family and Medical Leave requirements, to report on required changes to the existing legacy payroll system (OSPS) to ensure compliance with the new law and to ensure the Workday payroll replacement project also considered these requirements. DAS reports the law becomes operative January 1, 2022, which is before the estimated completion date for the OSPS replacement project, meaning the current legacy payroll system will need to be modified to comply with the new law's requirements. HB 2005 requires that a combined employer and employee rate of 1% of employee wages up to \$132,900 be deposited in the Paid Family and Medical Leave Insurance Fund. The employer rate is 40% of the total rate and the employee rate comprises the other 60%.

DAS reports the current OSPS has limited fields available and one option is to have the state pay all 1%, which is allowed in the law. If the state chose to implement a dual employer/employee rate as outlined in HB 2005, DAS could repurpose old tax code fields to accommodate a split rate. DAS estimates changes to the existing payroll system will total around \$37,000. DAS notes the new system will have no problem meeting the requirements of HB 2005.

Legislative Fiscal Office Recommendation: Acknowledge receipt of the reports.



Oregon

Kate Brown, Governor

January 17, 2020

Department of Administrative Services
Chief Operating Office
155 Cottage St NE
Salem, OR 97301-3963
Phone: 503-378-3104
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The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
The Honorable Representative Dan Rayfield, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

Submission of Budget Note Reports on Legislative HB 2005 Paid Family and Medical Leave Insurance Fund and the Oregon State Payroll System Replacement Project.

Agency Action

The attached reports address the following Budget Notes:

- The 2019 Legislature requested information regarding the scope, duration and cost associated with making the required HB 2005 changes to the current, legacy Oregon State Payroll System and also how HB 2005 will be incorporated into the future replacement Oregon State Payroll System.
- In response to a funding request from DAS for the initiation of the project to replace and modernize the Oregon State Payroll System, a portion of the expenditure limitation request was released to DAS to begin the planning phase of the project. The report provides a status of the project and outlines what has been done to date.

Action Requested

DAS respectfully requests acknowledgment of receipt of the attached reports.

Legislation Affected

None.

Sincerely,

Katy Coba

DAS Director | Chief Operating Officer

Brian DeForest
Chief Administrative Officer

Attachments

CC: Dustin Ball, Department of Administrative Services
Paul Siebert, Legislative Fiscal Office

Oregon State Payroll System Replacement Project Budget Note Report

December 2019

Executive Summary

In February 2019, DAS implemented Workday for Human Resources and Recruiting state-wide. The new Workday system interfaces with the State's legacy Payroll system. The interface is highly complex and very time consuming to test. A modern payroll system will reduce overall business risk to the state. It will also provide the state with the opportunity to improve the overall efficiency and effectiveness of the payroll business processes by providing a modern technical platform that will support the application of best practices and reduce the number of manual processes that are required to support business activity.

In summer 2019, DAS embarked on the second phase of a legacy systems modernization effort to replace the enterprise legacy payroll system (OSPS) with a modern software-as-a-service system. In the second half of this biennium, DAS intends to contract with IBM to implement the Workday solution for Payroll and Time Tracking which will seamlessly integrate with the Workday HR system that was recently implemented.

A funding request for a Payroll and Time Tracking replacement project was put forward during the 2019 session. The LFO requested that we postpone our whole project funding request until the 2020 session but did grant us expenditure limitation of \$3,891,234 to cover project planning activities and expenses. LFO allowed DAS to collect additional \$7,637,863 in agency assessments to fund the remainder of the 19/21 project budget. The full project will cross biennia as the estimated implementation date is summer/fall 2022. DAS will bring forward another funding request in 2021 to fund the final phase of the project.

Since the 2019 legislative session:

- DAS began the planning phase of the project with 5 state staff. The project team is intentionally housed in the same office as the Workday Support team/program who will be heavily involved with this project to ensure configuration decisions align with the existing functionality and to take advantage of their knowledge and experience.
- The Planning team has been working on completing tasks required for a Stage Gate 2 endorsement. Required foundational documents have been created and shared with EIS and LFO via the PPM tool.
- The project's Business Manager has met with agency payroll departments to review the requirements and ensure agency needs are met.
- Legacy payroll technical staff have ensured all interface documentation is up to date in preparation for sharing with the implementation vendor and the Workday Support Team.
- The Project Team has met with several other public sector entities that have implemented Workday Payroll to discuss their experience and hear their lessons learned.

- The project began the process of procuring an Independent Quality Assurance vendor, in collaboration with EIS and DAS Procurement Services. The Independent QA vendor will perform an initial risk assessment as one of their first deliverables.
- The Project Manager is working with Enterprise Information Systems and Cyber Security Services on a Workday Security Enhancement project which will involve an independent security assessment of the Oregon Workday tenant configuration and interfaces. The independent assessment will include recommendations for enhancement to security elements of Oregon's Workday tenant. The Workday Security Enhancement project will also ensure that all security related processes are adequately documented and meet security best practices, as they will be extended to the payroll and time tracking support model after implementation.
- The Project's Steering Committee, including an ELT co-sponsor, has been formed and the first meeting held.
- DAS contracted with IBM to perform a Requirements Fit Gap Analysis to the Workday Payroll and Time Tracking modules to ensure the software would meet the state's needs.
- The Project Sponsor will be providing an update to the Joint Legislative Committee on Information Management and Technology and the Joint Committee on Ways and Means during the 2020 session. A limitation funding request will be made for project costs for the remainder of the biennium to perform detailed planning with IBM, hire and train the project team and begin the execution phase of the project after all Stage Gate 3 requirements have been met and an endorsement has been acquired.

This summary was prepared by the Department of Administrative Services, Enterprise Goods and Services, Workday Project. Additional information may be obtained by contacting the Workday Project Manager at (971) 600-8585 or Joyce.k.martinez@oregon.gov.

Legislative HB 2005 Budget Note Report

December 2019

Executive Summary

During the 2019 Legislative Session, the Legislature attached a budget note to HB 2005 relating to the scope, duration and cost estimates associated with making HB 2005 required changes to the current, legacy Oregon State Payroll System. The Budget note directs the Department of Administrative Services to report to the legislature on the comparison of the operational, financial, and schedule impacts associated with making HB 2005 required changes to the current system and how these changes will be addressed within the new Oregon State Payroll System as it is deployed.

Through research and meetings with state subject matter experts and Information Technology staff, DAS proposes the following plan for the legacy payroll system:

» **Scope/Overview:** Contributions to the Paid Family and Medical Leave Insurance Fund are required effective January 1, 2022. The combined employer and employee rate are not to exceed 1% of employee wages (defined by ORS 657.105) up to wages of \$132,900. The employer rate is 40% of the total rate and the employee rate is 60% of the total rate. Section 16(5) allows the employer the option of paying both the employer and the employee rate. Based on the limited available fields remaining in the current system, the state could consider paying the entire 1%. If the state chooses to implement with an employer/employee rate, then the team will repurpose unused tax codes to accommodate two fields for the split rate. Quarterly reports and payments are required by the Department of Revenue to reconcile the employee wages with the tax payments submitted.

A new payroll system will have the capacity, capability and flexibility to either: 1) add an employer and employee shared tax, or 2) make the tax all employer paid depending on the State's decision. The new system will not have the space and field limitations of the current system. Both the current and new system will need to address how the money will be transmitted and reported to Department of Revenue. The new system will benefit in that regard as DAS will have already developed those delivery methods to DOR with the current payroll system. The implementer of the new system will have the experience of other employers who have similar tax requirements, including the Oregon transportation tax, as a basis to setup this requirement.

» **Duration/Timeline:** Contributions to the Paid Family and Medical Leave Insurance Fund are required effective January 1, 2022. Based on previous experience with implementing similar required changes, documentation and programming will begin approximately six months prior to the effective date. This includes testing conducted by the subject matter experts and quality assurance review to ensure the programming changes function as desired and don't cause unintended consequences to current programming. The business team estimates 100 hours of IT documentation and programming time, 150 hours of subject matter expert testing time and 20 hours of quality assurance review time.

» **Cost Estimate:** The cost estimate to implement the change is approximately: IT = \$20,600, subject matter expert = \$13,800, and quality assurance = \$2,300 for a total of \$36,700. State employees will complete all of the work.

» **Coordination with Other Required Work:** During the six month time preparing for the implementation of the changes for HB2005, PEBB changes for the upcoming calendar year will be documented, programmed, tested and QA'd. Collective Bargaining changes will occur during this same timeframe. Unforeseen changes will be prioritized according to due date.

Financial Business Systems will work towards timely implementation through our formal, audited change management procedures.

This summary was prepared by the Department of Administrative Services, Enterprise Goods and Services, Financial Business Systems. Additional information may be obtained by contacting Financial Business Systems at (503) 373-0170 or Trudy.Vidal@oregon.gov.