

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Building 1, Room E-132
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610
(304) 347-4800
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Aaron Allred

Legislative Manager
Legislative Auditor

September 13, 2015

The Honorable William P. Cole III
President, State Senate

The Honorable Timothy Armstead
Speaker, House of Delegates

Dear Mr. President and Mr. Speaker:

The State of West Virginia contracted with CGI to create and implement a new integrated enterprise resource planning system, at a cost of approximately \$123.8 million, which is currently administered by wvOasis. As part of the implementation, the ERP Board decided to switch state employee payroll from a semi-monthly to a bi-weekly basis. The transition to a bi-weekly pay was planned to be implemented in two "Waves." Agencies in Wave 1 included the Governor's Office; Auditor's Office; Treasurer's Office; Department of Agriculture; Enterprise Readiness Planning Board; Department of Transportation (except Parkways); Department of Natural Resources; and Department of Administration (all departments – except Children's Health Insurance Program.) wvOASIS started bi-weekly pay periods for Wave 1 agencies on May 16, 2015, with the first bi-weekly paycheck issued on June 12, 2015.

We received an inquiry from the Governor's office regarding payroll and the conversion process. Specifically, they were concerned with the effect the bi-weekly pay would have on the Governor's statutory set salary, and the effect on two retiring Governor's Office employees.

As a result of this inquiry, we contacted the State Auditor's Office, Department of Administration, Consolidated Public Retirement Board (CPRB), State Budget Office, and the Public Employees Insurance Agency (PEIA), and obtained information on the effect the bi-weekly pay conversion has had, or will have, on the state budget. This is not an audit, instead we are expressing some areas of concern we have with the bi-weekly pay conversion as well as the costs of this conversion, **which do not appear to have been considered when deciding to convert to a bi-weekly payroll period.**

The present mishandling of the bi-weekly pay conversion has resulted in:

- A \$22.5 million immediate unfunded liability for the CPRB.
- \$47.1 million¹ in increased salaries over a 10 year period, if the conversion continues at the current rate.
- Pay raises for 24,607 salaried employees, which are directly related to the amount of their salary.
- Conversely, no pay raise for the 23,571 hourly employees.

Most concerning, when we inquired regarding the costs of switching from semi-monthly to bi-weekly pay periods, Auditor Gainer stated “there was not a significant software cost differential between the two systems.”

W. Va. Code §6-7-1, governs the frequency of payroll for state employees and allows for the State to convert from a semi-monthly to a bi-weekly pay. It also states:

*Nothing contained in this section is **intended to increase** or diminish the salary or wages of any official, officer, or employee.* (Emphasis added)

AREAS OF CONCERN

1. The Governor's Office was concerned with the effect the conversion would have on the Governor's salary. W. Va. Code §6-7-2, as amended, sets the Governor's calendar year salary at \$150,000. With the conversion to a bi-weekly pay period the Governor earned \$150,206.04 during FY 2015, however he would have received less than \$150,000. The Governor's Office verbally informed me that they forced an increase to the Governor's final paycheck in FY 2015 for the difference between his annual salary and the actual amounts paid during FY 2015. **Conversely, other state employees did not receive the same consideration.**
2. Some higher paid state employees have their salaries set by statute. Since the salaries were converted using 26 pay periods or a 260 work day year, these employees will earn over their statutory set limit during a 12 month period.
3. Twenty-four grievances were filed by Department of Transportation (DOT) employees over a decrease in their pay due to switching to a bi-weekly period. We believe the employees were not shorted pay, and that it was a timing issue. In fact, if these are salaried employees, over time, they will receive a small pay raise.
4. The wvOASIS bi-weekly pay conversion was based on a 260 work day year. However, most years have over 260 work days. Therefore, instead of dividing an

¹ This is a conservative estimate based on information and figures provided by the State Auditor's Office.

employee's annual salary by 26 (52 weeks in a year divided by 2) to get each pay period salary; it should have been divided by 26 for years with 260 work days, 26.1 for years with 261 work days, and 26.2 for years with 262 work days. The easiest way to understand this issue is that there are not 364 calendar days in a year.

- a. Salaries in a bi-weekly pay period are based on a daily rate of pay. Division of Personnel Administration Rule states the daily rate is based on the number of work days in the pay period.
- b. Since most years have over 260 work days in a year, each year, salaried employees will accrue one or two extra days of pay. Employees won't see the effect of these accruals until the pay period leap year (27 pay periods in a year) or until they separate service with the State.
- c. According to the State Auditor's Office, as of May 29, 2015, there are 23,571 state employees paid on an hourly basis, and 24,607 state employees paid an annual salary. Also according to the State Auditor's Office, the average salary for salaried non higher education employees is \$55,376.82. (Exhibit A)
- d. Based on numbers provided by the State Auditor's Office, 24,607 state employees paid on an annual salary basis receive a pay raise, while the 23,571 hourly salaried employees do not. This pay raise results in no increases for years with 260 work days, an increase in pay of .3846% for years with 261 work days and .7692% for years with 262 work days.
 - i. Using the figures provided by the State Auditor's Office, simply dividing the employee's annual salary by 26 results in an increase in the average salary for salaried employees of approximately \$212.99 in years with 261 work days and \$425.98 in years with 262 work days. **Multiply this increase by the number of salaried employees per the State Auditor's Office and there is an increase of approximately \$5.2 million in years with 261 days and \$10.5 million in years with 262 days.**
 - ii. Because employees are paid on a 2 week delayed payroll, employees will not see the effect of the raise until they separate employment with the State or in a pay period leap year.
 - iii. Additionally, all employees, regardless of hourly or salary pay, will also accrue leave at an increased rate since the system accrues leave based on a daily rate using 26 pays.

- e. When using the correct decimal for calculating pay period salaries, an employee would accrue the correct annual salary within a 12 month period; however, any pay periods which begin in one calendar year and end in another would result in a slightly different take home pay. (See Exhibit B for tables showing the accrual and payment of salaries under a proper bi-weekly pay basis and how wvOASIS calculated).
 - f. Employees falling under civil service whose annual salary is at or close to the maximum rate for the salary grade, converting without using the additional factor will effectively increase their annual salaries to above the maximum rate.
5. Under a bi-weekly pay system, approximately every 11 years, there will be a year which has 27 pay periods rather than 26. This is because, as previously stated, a bi-weekly pay is based on a 260 work day year and does not account for the day or two extra in some years. The State Budget Office has determined the first fiscal year affected by the 27 pay periods would be 2023 and estimates the extra pay period would result in an additional need of \$33 million in General and Lottery Revenue if budgeted strictly on a cash basis.
- a. We were informed the State Budget Office requested that Wave 1 agencies be postponed until after January 1, 2015 in an effort to push the pay period leap year as far as possible into the future. If the bi-weekly pay periods had begun on either January 1, 2015 or January 1, 2016, the 27th pay period year would have fallen in Fiscal Year 2017. Because the bi-weekly pay periods were started in the middle of calendar year 2015, the 27th pay will not happen until Fiscal Year 2023.
6. Employees who retire under a bi-weekly basis may be able to increase their retirement benefits by approximately 1.28%, since some 36 month periods should include 79 pays.
- a. According to the CPRB: "The \$22.5 million represents an immediate unfunded liability to the State under the current definition of Final Average Salary for active members employed by the State of West Virginia. . . The \$22.5 million is not a nominal dollar amount. It is an Actuarial Present Value taking into account all future events, including inflation and discount for interest earnings."
 - b. According to the CPRB, the \$22.5 million is net of an estimated \$2.5 million reduction for active employees who retire during the initial years of bi-

weekly pay, who will receive a smaller benefit due to the 26 pay period reduction of their final pay.

- c. The CPRB also agrees there is a possibility of a discrepancy in the Final Average Salary between Wave 1 and Wave 2 employees, if the only differing factor between the two employees were if they were converted during Wave 1 or 2. During this period the Wave 1 employees could potentially increase their benefits by up to 1.39%.
7. According to PEIA: "PEIA does not define salary...PEIA utilizes the annual salary information compiled by the State Budget Office to determine the premium for State employees." We asked PEIA for any statutory or regulatory authority for the Agency's methods for determining an employee's annual salary. Representatives stated: "Per the authority of WV §5-16-5(c)(4), PEIA has adopted the annual salary of the employee as supplied by the employer through the State Budget Office or the county boards of education, as applicable, as the determining factor for ability to pay."
 - a. On a delayed bi-weekly payroll system an employee's annual salary is different from his or her annual gross pay. This means employees who earn overtime or who are near the lower end of a plan tier may be paying the incorrect PEIA premium.
 8. Board decisions may not comply with statutory requirements
 - a. The West Virginia Enterprise Resource Planning Board was created by statute to develop, implement and manage the Enterprise Resource Planning System. The Board consists of the Governor, Auditor and Treasurer. West Virginia Code §12-6D-3 explicitly states that "[d]ecisions of the board require **unanimous consent** of the members and that "[a]ll three voting members **must be present** to constitute a quorum of any meeting" (**emphasis added**). However, the June 2011 meeting minutes indicate that Auditor Gainer informed the board that: "according to statute Board members can appoint a designee to attend the meetings, however, at least one Board member must be present before a meeting can be held." The board voted to require at least two of the three official members be present for all meetings of the board.
 - b. All board members were present at the first two meetings; June 2011 and November 2011. In 8 out of the 21 meetings between June 2011 and May 2015 only two members were present. In March 2013, the board adopted a resolution noting that without the presence of one of the three Constitutional Officers, no meeting will take place. Since March 2013, all

but one meeting have been attended by only one Constitutional Officer. In 21 out of the 31 meetings only one member, the Auditor, was present.

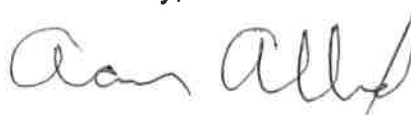
- c. We are concerned that the Board's policy of allowing members to vote by designee violates the specific requirements of West Virginia Code §12-6D-3. Furthermore, the Board's attendance records indicate that the Board does not comply with its own policy of requiring at least two official members to be present for meetings to take place. Actions taken without all three members present include a \$2.2 million change order and the decision to convert the state to a bi-weekly payroll.

All remaining agencies not included in Wave 1 are in Wave 2 with an anticipated switchover date of November 14, 2015 for the first bi-weekly pay check to be issued December 11, 2015. On August 31, 2015 the State Treasurer sent a letter to the Governor asking him to delay the Wave 2 conversion:

I am requesting the immediate reassessment of the wvOASIS payroll functions and the impact on all public employees. I am particularly requesting a full and independent assessment of the impact of changing from a semi-monthly payroll schedule to a biweekly schedule, including, without limitation, all potential impacts on pre-tax and post-tax withholdings, deductions, IRS reporting and benefits. In addition I would like to see a complete side-by-side analysis of the impact on employees with various salaries in connection with time of implementation, withholdings, deductions and benefits....I do not believe we should continue until any and all issues being raised are resolved. . . I strongly recommend we pause now, at this critical point, and make sure each problem is fully and properly addressed.

In conclusion, like the State Treasurer, my office recommends the further conversion of employees to bi-weekly pay be stopped until a reassessment of the impact on public employees and the state budget be conducted. Additionally, the Legislative Auditor recommends all necessary statutory and Legislative Rule changes be made before proceeding with Wave 2.

Sincerely,



Aaron Allred



State of West Virginia

JOHN D. PERDUE
STATE TREASURER

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JOSH STOWERS
ASSISTANT STATE TREASURER

August 31, 2015

The Honorable Earl Ray Tomblin
Governor
Office of the Governor
1900 Kanawha Boulevard, East
Charleston, WV 25305

Re: Payroll Functions of wvOASIS

Dear Governor:

As you are probably aware, I have recently been joined in a grievance involving employees who have already transitioned from semi-monthly to biweekly payroll. The allegations in the grievance and from others include issues affecting the payroll functions of wvOASIS. More specifically, the allegations are that the change from semi-monthly to biweekly payroll is affecting compensation, withholdings and benefits.

In light of these allegations, I am requesting an immediate reassessment of the wvOASIS payroll functions and the impact on all public employees. I am particularly requesting a full and independent assessment of the impact of changing from a semi-monthly payroll schedule to a biweekly schedule, including, without limitation, all potential impacts on pre-tax and post-tax withholdings, deductions, IRS reporting and benefits. In addition, I would like to see a complete side-by-side analysis of the impact on employees with various salaries in connection with timing of implementation, withholdings, deductions and benefits.

When the Board discussed this potential change from semi-monthly to biweekly payroll during the development of wvOASIS and again when seeking legislative authorization, we looked at some of these issues and were assured by staff that there would not be a problem.

The Honorable Earl Ray Tomblin
August 31, 2015
Page two

OFFICE OF THE STATE TREASURER

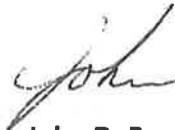
These assurances and the cost to alter the software to a semi-monthly payroll were the reasons I agreed to the change.

The Board members need accurate and detailed information to determine the exact status of these issues. If even a portion of the allegations are true, the Board needs to consider how best to take care of our most valuable resource, our employees.

I also request wvOASIS staff provide the Board with possible solutions to correct any problems determined to exist. I do not believe making employees file claims with the Court of Claims to be the proper relief.

While I realize this independent assessment may well delay further implementation of the payroll functions of wvOASIS, I do not believe we should continue until any and all issues being raised are resolved. I appreciate the enormous amount of time, planning, resources and funds that have gone into the preparation and rollout of this system. I believe a statewide, comprehensive business management system will greatly benefit our citizens in the long-run, which is why I have been a proponent of wvOASIS. However, I strongly recommend we pause now, at this critical point, and make sure each problem is fully and properly addressed.

Sincerely,



John D. Perdue
Treasurer of the State of West Virginia

JDP/mb

cc: State Auditor Glen Gainer
Secretary of Administration Jason Pizatella

APPENDIX A

Salary Earnings and Payments under Bi-weekly Pay Basis Delayed Payroll

Annual Salary 55,000.00
 Begins work 7/1/2015
 Separates Employment 6/30/2023

Fiscal Year	Liability from Prior Year	Amount Earned	Amount Paid	Liability Carried forward to next year
2016		55,000.00	52,061.07	2,938.93
2017	2,938.93	55,000.00	54,778.01	3,160.92
2018	3,160.92	55,000.00	\$54,987.84	3,173.08
2019	3,173.08	55,000.00	\$55,000.00	3,173.08
2020	3,173.08	55,000.00	\$54,604.37	3,568.71
2021	3,568.71	55,000.00	\$54,775.60	3,793.11
2022	3,793.11	55,000.00	\$54,789.27	4,003.84
2023	4,003.84	55,000.00	\$56,896.55	2,107.29
2024	2,107.29	-	\$2,107.29	-
		440,000.00	440,000.00	

Salary Earnings and Payments under Bi-weekly (wvOASIS method) Pay Basis Delayed Payroll

Annual Salary 55,000.00
 Begins work 7/1/2015
 Separates Employment 6/30/2023

Fiscal Year	Liability from Prior Year	Amount Earned	Amount Paid	Liability Carried forward to next year
2016		55,423.08	52,461.54	2,961.54
2017	2,961.54	55,211.54	55,000.00	3,173.08
2018	3,173.08	55,000.00	55,000.00	3,173.08
2019	3,173.08	55,000.00	55,000.00	3,173.08
2020	3,173.08	55,423.08	55,000.00	3,596.15
2021	3,596.15	55,211.54	55,000.00	3,807.69
2022	3,807.69	55,211.54	55,000.00	4,019.23
2023	4,019.23	55,211.54	57,115.38	2,115.38
2024	2,115.38	-	2,115.38	(0.00)
		441,692.31	441,692.31	



State of West Virginia

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Glen B. Gainer III
State Auditor

August 28, 2015

VIA HAND DELIVERY

Aaron Allred
Legislative Manager/Auditor
Building 1, Room E-132
1900 Kanawha Blvd., E.
Charleston, WV 25305-0610

LEGISLATIVE MANAGER

AUG 28 2015

RECEIVED

Re: Biweekly Pay

Dear Mr. Allred:

I am writing in response to your correspondence dated August 26, 2015, seeking information concerning the biweekly pay conversion occurring in conjunction with implementation of the State's ERP system. Since inception of the project, the Board, comprised of the Governor, the Treasurer and myself, as well as the wvOASIS project team, have extended invitations and welcomed input, questions and participation from all aspects of government. Consistent with that approach, we wish to extend thanks for your current interest in the project and will attempt to answer your questions with as much information as possible to assist you in understanding the biweekly system, its advantages, and the process by which the decision to implement was made.

Accordingly, I will attempt to answer your questions in sequence:

Question 1: During the consideration of switching from semi-monthly to biweekly pay periods, did you inquire with CGI as to what the increased software cost would be to have the wvOASIS system calculate payroll on a semi-monthly basis?

- a. If yes, how much was CGI's estimate?
- b. If no, why did your office not determine the software cost of continuing semi-monthly pay periods?

Answer 1: Yes. The West Virginia Enterprise Resource Planning Board (WV ERP Board), the ERP Steering Committee, and the State's consultants carefully

considered all options, benefits and associated costs when evaluating the semimonthly vs. biweekly pay systems, however there was not a significant software cost differential between the two systems. Therefore cost did not impact the strong business case, consistent with the trend across recent state implementations nationwide, to move to the more efficient, timely, consistent and predictable biweekly system.

The State's Business Case Analysis Report (Report) issued in February 2011, attached hereto, provided an in depth analysis of the State's processes. That Report, which included a study of twenty-three agencies comprising approximately 74% of the State's operational spend, found that standardization and integration were essential best practices that would result in a net ten year savings to the State of \$181.3 million dollars. Report, p.7. The majority of these savings are associated with the process improvements recommended by the Report.

One of the significant process improvement recommendations was to move to a biweekly pay system. The Report noted:

Currently, policies and rules associated with time, pay, and leave accrual and usage are inconsistent across the State of West Virginia workforce, and at times inconsistencies exist within agencies. Report p.51.

The Report suggested eight process improvements to correct this deficiency, one of which was biweekly payroll.

The majority of state governments that have implemented an ERP system or HR/Payroll system pay their employees on a biweekly basis. Having the same number of days and hours in each pay cycle produces multiple operational benefits for the State. The calculation of the hourly rate and daily rate is constant since the same number of days is in each pay period. The hourly and daily labor cost rate is utilized to determine separation payment for annual leave and pro rata payment for increment pay and other leave balances. The current practice of semi-monthly payroll results in unequal days in a pay cycle depending on the number of days of the month. This has resulted in variations in calculations of the hourly rate and daily rate, and creates the situation where the timing of separation from the State can have a direct financial impact depending on the number of days in the working month...Report p.53.

Thus, biweekly pay was a component of the initial decision to proceed with a new ERP project. The decision was further reviewed and analyzed by

numerous stakeholders during the design and implementation process. Biweekly pay was recommended to the ERP Board by the State's consultant Salvaggio, Teal & Associates (currently ISG) because of the numerous benefits associated with the system.

The Enterprise Resource Planning Board's sixteen member Steering Committee, which is comprised of the Secretaries of Administration, Revenue, Transportation, Health and Human Resources, representatives of Higher Education, the Legislature and other appointees made by the Governor, Auditor, Treasurer, and a state employee representative also recommended implementation of the biweekly pay system.

The Board's decision to approve the implementation was made at the April 25, 2013 Board meeting upon review of the benefits and the support of the consultants and Steering Committee noted above.

The benefits of a biweekly system include a consistent number of days between pay periods, no three week stretches without a paycheck, and a predictable payment every other Friday. Employees will receive the accurate hourly rate for every hour worked. Hourly rates will no longer fluctuate depending on the number of days in the month, earned overtime will always be paid timely in the correct pay cycle, and employee deductions are equal and consistent over every pay period. Biweekly pay eliminates variance in calculation of hourly and daily rates that occur in some agencies in the semi-monthly system, which is in full compliance with Federal FLSA requirements and is consistent with the trend of States that have implemented ERP and payroll systems in recent years. It also is consistent with payroll period requirements for private sector employers.

Additionally, we noted and heavily weighted the consistent and chronic errors related to these matters, which have been frequently set forth by your staff in Audit Reports issued by your office. Standardization should eliminate these numerous errors.

Question 2: What would be the current cost of reconfiguring the wvOASIS system to a semi-monthly payroll?

Answer 2: For all the reasons outlined in the response noted above, it would not be a good business practice to return to the old system. However, it is anticipated that a change of that magnitude in this timeframe would be extremely costly.

Question 3: What was the conversion process for Wave 1 employees in switching them from semi-monthly to biweekly payroll?

Answer 3: The conversion process consisted of dividing the employee's salary by 26 to convert to a biweekly salary. Hourly employees were converted at their current annualized hourly rate. The first biweekly pay period was from May 16th thru May 29th which was paid on June 12, 2015 and every other Friday thereafter. Employees are paid their full annualized hourly rate for every hour worked on a rolling 26 week payment cycle.

Question 4: Since Wave 1 conversions occurred in the midst of the fiscal year, was consideration given to the possible effects the conversion may have on agency budgets, since budgets were prepared for a full fiscal year? If so, what is the plan to deal with the effects?

Answer 4: Yes budget impacts were considered and the Budget Office consulted collaboratively with the project. Mid-year conversion for Wave 1 employees should not have caused any budget overruns for FY 2015 (fiscal year of conversion) because there is no difference in the personal services budgetary expenditures in the year of conversion. Additionally, FY 2016 will have 26 biweekly pays which will provide employees their annualized approved salary therefore causing no difference in an agency's personal services budget.

Question 5: The current legislative rule governing leave accruals provides for a set amount of days per month to be earned by each employee. Since the leave accrual rates were switched to account for bi-weekly pay periods in KRONOS, how do you plan on addressing leave shortages until the new proposed legislative rule (assuming it is approved by the Legislature) takes effect?

Answer 5: KRONOS has been configured to accrue leave on a quarter hour basis consistent with agency specific rates and tenure to accommodate 35, 37.5, and 40 hour work weeks. This calculation is carried out to 4 decimal points (tens of thousandths of an hour), applied on a daily basis and is designed to approximate the same amount of annualized leave as the prior manual system. Therefore, unlike the prior system, there should never be a leave shortfall.

Question 6: CPRB informed us there was an impact study performed by wvOASIS on the effect converting to bi-weekly pay would have on state employees' retirement benefits. Please provide us a copy of this study as well as any documentation showing any studies or analysis on the effects of converting to a bi-weekly pay in regards to salaries and benefits.

Aaron Allred
August 28, 2015
Page 5 of 5


Answer 6: There was no specific study performed by wvOASIS on the impact of pay frequency to state employee retirement benefits. Attached to this response is the Human Resource and Payroll Standardization Analysis that was drafted by the State's consultants relating to multiple standardization recommendations. Additionally, CPRB was consulted during the process and as the minutes of the April 25, 2013 ERP Board meeting reflect, they noted no significant impact on the system. (See Minutes attached hereto).

Question 7: Given CPRB's estimate that the conversion to bi-weekly pay periods will increase CPRB's pay out to state employees by \$22.5 million, do you believe the State should suspend its conversion to bi-weekly pay periods? Why or why not?

Answer 7: No. For all the reasons stated herein, the State's current and ongoing conversion to biweekly pay is in the best interest of the State and its employees. Simple changes to the CPRB definition of Final Average Salary (FAS) to a more accurate and determinable "36 months of earnings" could eliminate the issue detailed in your letter without jeopardizing all the benefits of the biweekly pay system.

I hope this information is of assistance to you. As always, you and your staff are welcome to attend any of the regularly scheduled and noticed meetings that relate to the new system. Thank you for your time and attention to this matter.

Sincerely,



Glen B. Gainer III
State Auditor

GBGIII:blw

Attachments

cc: The Honorable Tim Armstead, West Virginia Speaker of the House
The Honorable William P. Cole III, West Virginia Senate President
The Honorable Eric Nelson, WV House Finance Chair
The Honorable Mike Hall, WV Senate Finance Chair

