



## ATTACHMENT A Supplemental

The following are answers to supplemental questions asked at the last meeting of the Joint Technology Committee

- How do different departments and agencies handle pay?
- How does DPA plan to create payroll alignment across agencies?
- Why does it take two weeks to run payroll?

### 1. How do different departments and agencies handle pay?

The State of Colorado pays employees either on a biweekly lag pay or monthly current pay cycle.

#### **BACKGROUND**

There are two different concepts in play:

- 1) Pay frequency
- 2) Lag vs. Current pay

#### **Pay Frequency**

Biweekly pay (26 or 27 pay periods per year) and monthly pay (12 pay periods per year) refer to the frequency of pay. Twice monthly or semi-monthly pay (24 pay periods per year) is another pay frequency required under [CRS 24-50-104 \(8\)](#). However, no state employees can be paid on this cycle unless a new payroll system is implemented.



**Lag Pay**

Lag pay is a standard payroll practice. The employee receives a paycheck for actual work performed, including premium pay, overtime, and shift differential. Lag pay typically occurs 1 to 2 weeks after the end of the pay period. An example of this is the biweekly schedule below:

**Table 1: Lag Pay - Biweekly Example**

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
5/15	5/16	5/17	5/18	5/19	5/20	5/21 Pay Period Start
5/22	5/23	5/24	5/25	5/26	5/27	5/28
5/29	5/30	5/31	6/1	6/2	6/3 Pay Period End	6/4
6/5	6/6	6/7	6/8	6/9	6/10	6/11
6/12	6/13 Payroll Processes	6/14	6/15	6/16	6/17 Employees Paid	



**Current Pay**

Current Pay is not a standard payroll practice. The employee receives a paycheck on the last day of the pay period (see example below).

**Table 2: Current Pay - Monthly Example**

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
<b>5/1</b> <b>Pay Period</b> <b>Start</b>	<b>5/2</b>	<b>5/3</b>	<b>5/4</b>	<b>5/5</b>	<b>5/6</b>	<b>5/7</b>
<b>5/8</b>	<b>5/9</b>	<b>5/10</b>	<b>5/11</b>	<b>5/12</b>	<b>5/13</b>	<b>5/14</b>
<b>5/15</b>	<b>5/16</b>	<b>5/17</b>	<b>5/18</b>	<b>5/19</b>	<b>5/20</b>	<b>5/21</b> <b>Input</b> <b>Deadline</b>
<b>5/22</b>	<b>5/23</b>  <b>Payroll</b> <b>Processes</b>  <b>Expected</b> <b>Pay</b>	<b>5/24</b>  <b>Expected</b> <b>Pay</b>	<b>5/25</b>  <b>Expected</b> <b>Pay</b>	<b>5/26</b>  <b>Expected</b> <b>Pay</b>	<b>5/27</b>  <b>Expected</b> <b>Pay</b>	<b>5/28</b>  <b>Expected</b> <b>Pay</b>
<b>5/29</b>  <b>Expected</b> <b>Pay</b>	<b>5/30</b>  <b>Expected</b> <b>Pay</b>	<b>5/31</b> <b>Pay Period</b> <b>End</b>  <b>Expected</b> <b>Pay</b>  <b>Employees</b> <b>Paid</b>				

To accommodate the processing of a current pay payroll schedule, an agency estimates the employee’s *expected* work using the employee’s regular hours. If the employee works additional hours or shifts then the employee’s pay needs to be adjusted to add any additional premium pay (overtime) to the following month’s paycheck. This practice regularly requires fixes in the following payroll to reflect the actual work performed during the prior payroll cycle. Fixes include the actual hours worked, pay premiums such as overtime and differentials, or pay reductions if the employee took leave without pay. If the employee left employment during the expected pay days, the state has overpaid the employee and needs to pursue repayment by the former employee.



## STATE OF COLORADO PAYROLL

About 28,000 state employees are on a monthly current pay cycle and 5,000 are paid on a biweekly lag basis. This includes employees from the executive, legislative, and judicial branches.

### *State Monthly Current Payroll Cycle*

- 28,200 employees
- Employees are paid on the last working day of the month and if that day is on a Saturday or Sunday, employees are paid on Friday. If the last working day of the month is a State holiday, employees are paid on the preceding business day. There are 12 monthly payroll cycles in a calendar year. ([Fiscal Rule 9-3 \(p. 113\)](#))
- For employees who have leave without pay (LWOP), the amount of LWOP varies depending on the month making it difficult to calculate and verify for both the employer and employee.
- The State's Monthly Current Payroll is subject to the annual "pay date shift" where the final payroll of the fiscal year is "shifted" to the next fiscal year. The pay date shift results in employees being paid on July 1st instead of June 30th each year. The pay date shift is the result of a one time budget savings measure in 2003 and undoing it will cost state agencies over \$100 million to cover the increased costs of unshifting the payroll.

### *State Biweekly Lag Payroll Cycle*

- 5,424 employees
- Employees are paid every other Friday. ([Fiscal Rule 9-3 \(p. 113\)](#))
- Employees receive 26 paychecks in a calendar year. Some years may have 27 paychecks depending on how many Fridays fall in a calendar year
- There are months when employees receive three paychecks. For example, in 2022 there are three checks in July (July 1, 15, 29) and December (December 2, 16, and 30). Benefits are not deducted from the third check. Benefits are only deducted from 24 checks per year
- The paychecks are typically a consistent amount, because the number of work days in the pay period does not change
- Biweekly pay is not subject to the pay date shift. Applying the pay date shift to biweekly pay would be administratively burdensome

## **2. How does DPA plan to create alignment across departments? Can this be done?**

DPA's goal is to implement a payroll cycle or cycles that have limited impact on employees, but mitigates the need for manual processing and/or heavy customization of the new payroll system. In 2018, DPA sought to put all state employees on one payroll cycle - biweekly lag pay. Despite attempts to minimize the impact with a benefits deduction holiday and low or no interest loans, the attempt was unsuccessful.

DPA will evaluate alternatives to one payroll cycle as well as different approaches to minimize the change to employees. We expect to propose several approaches to stakeholders prior to adoption. Critical to this effort will be change management activities including a longer lead time for employees prior to implementation. In 2018, state employees were notified less than six months before the change would have been implemented.



### 3. Why does it take two weeks to run payroll?

There are a number of activities required to run payroll. It is best practice to conduct these after the close of the pay period when time and leave entries are known and finalized.

#### **PAYROLL ACTIVITIES - BIWEEKLY LAG**

##### **Week 1 and 2 - Employees work**

- Staff record time worked in the agency time and leave system.

##### **Week 3 - Agencies record time and leave information and performing activities**

- Collection of time entries that were missed
- Recording any adjustments for leave without pay
- Employee approves time card
- Supervisory review and approve employee time sheets
- Make labor allocations to distribute costs to projects, grants, etc

##### **Week 4 - Central Payroll Unit in DPA processes payroll and performs activities**

- Process liabilities such as garnishments, taxes, and next day tax filers in 33 states.
- Reconcile statewide payroll (net pay, garnishments, benefits, parking, HSA, PERA, etc.)
- Making any adjustments from the prior monthly payroll to correct errors such as leave without pay and time sheet adjustments.
- Process payroll in CPPS.
- Send an ACH file for direct deposit to the bank.
- 48-hour bank posting (e.g. a file received Wednesday will post Friday).
- Send retirement contribution files to PERA.
- Address issues including any direct deposit deletions and direct deposit reversals.
- Issue CHOP checks, which are manually issued checks for reasons that include underpayment, overpayment, and payments to a beneficiary of a deceased employee.

These activities occur four times every month: two-three biweekly payroll cycles, one monthly lag cycle, and an adjustment payroll run.