



EXECUTIVE SUMMARY

Payroll Efficiency for Employee Pay and Voluntary Deductions Report No. 10-01, April 2010

What We Did

As part of our efforts to periodically examine and report on the financial practices of government agencies, the Office of Public Accountability examined the government of Guam's overall efficiency and effectiveness when processing certain payroll-related payments.

What We Found

The methods of payment utilized to process employee pay and voluntary deductions vary significantly among the 54 agencies, departments, offices, and commissions within government of Guam (government entities). There are approximately 12,116 government employees within these entities of which over 39.8% or 4,822 employees receive their pay through direct deposit or Electronic Funds Transfer (EFT), over 60.1% or 7,277 employees who receive their pay through paper checks, and 0.1% or 17 employees who receive their pay utilizing both methods of payment.

Title 22 of Guam Code Annotated (GCA), § 3212(b) states that all payments made to an employee by an employer shall be in the form of cash or check. However, the law has not been amended since 1992 and does not reflect the capabilities and efficiencies present in today's technology. With the introduction of EFT and Automated Clearing House (ACH) deposits, the practice of issuing paper checks to process payroll payments has become less predominant. The ease and speed with which funds can be transferred electronically is of great cost-saving advantage and benefit to governments wanting to save money and operate more efficiently and effectively.

We found that only a few government entities require direct deposit for their employees' pay. The majority of agencies give employees the option of receiving their pay either electronically in checks, or a combination of both methods, and only two agencies continue to issue paper paychecks exclusively.

Direct deposit programs have been offered for over 40 years and are the most widely used type of electronic payment. Private companies and federal, state, and local governments realize the significant amount of savings it offers. A 2009 National Automated Clearing House Association (NACHA) study indicated businesses saved a total of \$6.7 billion over the last 10 years by switching employees to direct deposit. While we are convinced there exists significant cost savings in processing payroll payments through direct deposit rather than through use of paper checks, we were unable to effectively quantify or capture the amount of such savings because the data needed to project cost savings was not readily available or cost effective to obtain.

Entities Exclusively Using Direct Deposits

Six autonomous entities, the Guam Economic Development Authority (GEDA), the Government of Guam Retirement Fund (GGRF), the Guam Housing Corporation (GHC), the Guam Housing and Urban Renewal Authority (GHURA), the Guam Legislature (the Legislature), and the Guam Waterworks Authority (GWA) use direct deposits exclusively to pay their 685 employees' salaries.

Payroll personnel interviewed stated that utilizing this form of payment was simple, safe, secure, efficient, and less expensive than paper checks.

Entities Using a Combination of Direct Deposit and Paper Checks

Nine entities, the Department of Administration (DOA), the Guam Community College (GCC), the Guam International Airport Authority (GIAA), the Guam Memorial Hospital Authority (GMHA), the Guam Power Authority (GPA), the Guam Visitors' Bureau (GVB), the Judiciary of Guam (the Court), the Port Authority of Guam (PAG), and the University of Guam (UOG) allow their 7,628 employees the option to receive their pay either by (1) direct deposit, (2) paper check, or (3) a combination of direct deposit and paper check.

DOA represents the largest agency that processes employee pay for 3,924 Executive Branch employees. At the end of FY 2009, 39% or 1,512 employees opted to receive their pay through direct deposits and 61% or 2,412 employees opted to receive their pay by paper checks. Five agencies – the Office of the Chief Medical Examiner (CME), the Guam Commission for Educational Certification (GCEC), the Guam Election Commission (GEC), the Guam Veterans Affairs Office (GVAO), and the Office of Public Accountability (OPA) - pay their 26 employees exclusively through direct deposits.

Entities Exclusively Using Paper Checks

Only two government entities, the Department of Education (DOE) and the Public Defender Services Corporation (PDSC) exclusively issue paper checks to their 3,803 employees at the end of FY 2009. However, PDSC subsequently switched all but one of its 49 employees to direct deposit at the beginning of October 2009. In contrast, DOE continues to issue paper checks to its 3,755 employees. In March 2009, a management audit performed by an independent consultant recommended that DOE establish a direct deposit program. In that same month, DOE successfully piloted a direct deposit payroll run for 60 federally-funded employees, but was discontinued due to complaints from non-participating employees. In the opinion of the DOE payroll supervisor, the pilot program had gone smoothly and was positively received by the 60 participating employees. She also indicated her interest in re-implementing the direct deposit program citing its potential for improving staff efficiency and productivity.

Voluntary Deductions

Payroll deductions are amounts withheld by request from an employee's wages for such things as savings and debt payments. The number of allowable employee voluntary deductions among the 17 entities surveyed ranged from none to an unlimited number of deductions. These voluntary payroll deductions take considerable time to process in terms of payment and reconciliation. By reducing the number of voluntary deductions this would improve payroll efficiency and productivity. Presently, the number of allowable employee voluntary deductions is set separately by each government entity. We found:

- Two entities (GEDA and GHC, with a total of 49 employees) do not allow for any employee voluntary deductions. Both agencies believe it is the responsibility of the employees to take care of their own personal finances.
- Eight entities (DOA, GHURA, GIAA, GMHA, GWA, the Legislature, Court, and PAG, with a total of 6,417 employees) limit the number of allowable employee voluntary deductions.
- Seven entities (DOE, GGRF, GCC, GPA, GVB, PDSC, and UOG, with a total of 5,650 employees) have no limits to the allowable number of employee voluntary deductions. However, GVB and UOG determine what type of deductions an employee can have.

Overall Conclusion

Certain government of Guam agencies could improve the effectiveness and efficiency of payroll processing through use of electronic payment processing methods. By converting paper transactions to electronic transactions, the government of Guam and employees save time and money. In addition, electronic processing and account access provides an efficient and effective way to strengthen and improve government payroll services through enhancing employee productivity and allowing employees additional time to do other tasks. It also reduces the risk of lost or stolen checks, fraud, and identity theft; and has a positive environmental impact with less paper being used and fewer vehicular trips being made to the bank.

What We Recommend

We recommend the Governor of Guam direct all agency heads to initiate a direct deposit program to promote and educate government employees on the benefits of going on direct deposit, with a focus on those employees who currently receive their pay by paper check. We also recommend a government-wide policy be established limiting the number of allowable voluntary payroll deductions within each entity to no more than five voluntary deductions per employee.

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