Speaker 1:

Welcome to PayTalk the podcast for payroll professionals, with your host Nina Talley. In the podcast, we explore the human side of payroll by speaking with global industry leaders who provide their unique insights to help listeners better understand the issues important to them and their careers.

Nina Talley:

Hey everyone, thanks for joining us for PayTalk. The podcast that brings you payroll's human side. I'm your host Nina Talley and today we're joined by Jim Medlock, CPP, former director of education and training at the American Payroll Association and Mark Thornton, CPA, CPP and payroll tax supervisor at Southern Company. This episode is focused on one of my favorite topics, payroll data analytics. I truly can't think of better guests to join us for this discussion than Jim and Mark, as they've both been working absolutely tirelessly on creating incredible data analytics coursework for the APA. And I've definitely seen just about everything when it comes to payroll data and analysis. Before we get started I'd love if you could both introduce yourselves and tell our listeners a little bit about your background, Jim, let's start with you.

Jim Medlock:

My payroll career started almost 46 years ago and little did I know I was using analytics right from the start because we used reports frequently in our balancing and checking items as we process the payroll. So analytics has been something that I've done for many years, but now have really learned what analytics is in the last year and a half that Mark and I have been working on the course material.

Mark Thornton:

And I'm Mark Thornton, I'm payroll tax supervisor for Southern Company, like you said. I've worked in payroll for just about my entire professional career and I'm still just a baby compared to Jim in terms of experience. But I graduated with a degree in both accounting and finance and then started my career as an accounting intern payroll at that time. Wasn't really on my radar at all, but I was interning during the recession. And so I basically eagerly took the first full-time position I could find with the company that I was with and happened to be in payroll and I've been there ever since. I've been a CPP since 2011, I've also served on the APAs certification item development task force and certification board. Since that time, as you mentioned, I've been working on this data analytics coursework with Jim. Learned a lot in the process.

Nina Talley:

Well, thank you both so much for joining us and sharing your expertise. I'm really excited to dive into this topic. So let's take it back to the very beginning. How did the two of you get involved in payroll data analytics and how are you applying these practices to your lives now?

Jim Medlock:

I really started using analytics when I didn't know I was using analytics in balancing and at the time, if you can believe it before spreadsheets with 36 column paper and balancing each payroll and balancing our quarterly tax returns and our annual tax returns, but in the last, oh, I'd say about 10 years ago, I was working on developing a workshop for APAs Congress on accounts payable internal controls. And I came across a analytical tool called Benford's law.

And what Benford found was that there was a natural distribution of the first character, the most significant digit in all items. Whether it is phone numbers, it is payments. And when I read that the IRS agents used it in their analysis to look for tax fraud, I said, I've got to include this in my material. And that was really when I really started looking in detail at analytics, and it's developed, and as Mark said, we've been working a little over a year and a half on this project. And when Dan Maddox asked me if I would take a crack at this, I said, "Yeah, let me look at it because analytics is something that's always been of interest to me."

Nina Talley:

And Mark, what about you?

Mark Thornton:

Well, I've worked in payroll now for over 10 years, not quite 15. And I think throughout that time, just in search of tighter controls over my area and in search of some efficiencies, ways that we could do things better, I started using analytics, but like Jim said, I didn't even realize that's what it was or that's what they would be referred to as. We talk about there being several levels of analytics from standard reports to alerts all the way up to more complex analytics like predictive and optimization.

Some of these things I've been using for a long time, without even realizing that they were analytics like the reports and the query drill downs and things like that, not so much predictive modeling in my role, but some of the more basic analytics I've used for a long time. So most recently in my current role, my biggest use now has really just come from analyzing payroll data to identify what I would call out of tolerant situations or red flags, things that need to be brought to my attention. Things that would point out potential errors or other factors that would require correction, really just trying to use the data to ensure compliance and just clean up the controls in my area. And as I said before, also trying to find ways to become more efficient with the work that we do on a daily basis and trying to identify better ways to do the things that we do.

Nina Talley:

I think that's such an interesting point that you both made that so many payroll professionals, including yourselves are already using data analytics and they're just not really realizing it, but it comes naturally when you're trying to optimize and make yourself as efficient as possible, which I think most of us are trying to do in our jobs on a day to day basis.

Jim Medlock:

Absolutely. That's a key to being successful here in the 21st century is to use all the tools you have more effectively and efficiently to produce your product.

Nina Talley:

And I think that an almost obvious use case for data analytics and payroll is monitoring payroll operations. So how can a payroll professional implement payroll data analytics to help them keep track of their day to day payroll experience?

Mark Thornton:

Well, there are some analytics that are helpful, especially for payroll managers who really want to monitor the operations of the department as a whole. They're going to be more interested in those

types of analytics than the employees themselves possibly, but from a managerial standpoint, we're really going to be interested in keeping an eye on several different aspects of the department. Like for example, the efficiency of the department, the effectiveness, customer service, just to name a few. So we can start with efficiency for example, we want to really look at in this case, just the time it takes to process payroll. In this case, rather than querying our system, this may require some manual data gathering. We may need to log or track the times from beginning to end, how long it takes for our department to process payroll. But looking at that will give you a picture of your performance over time and it'll allow you to assess your personnel and or your systems' needs.

So this is a really simple metric to track. You're really just looking at the beginning of the process to the end, and then looking at that time it takes the process and trends in that time, over several months or even across several years, then based on what you find, you may determine that you need some additional resources. You may need to increase your head count, you need some additional personnel, or the team that you have may benefit from some additional training or some new tools or better software. So even though you may be manually tracking this data, you should be able to analyze those results anytime you make a change in an attempt to improve your performance. So for example, if you hire an additional employee, has your processing time decreased overall, since you've hired that person? You may not see a benefit right off the bat, but over time, has it helped? Or has moving on a new system improved your department's performance? Or has it hindered it?

Are things taking longer now? And has the time and dollar investment of training, for example, has that decreased your processing time? Has it proven to be worthwhile? Obviously over time as employees become more analytical and less clerical, as we see in payroll, and our systems become faster and smarter, we would expect to see the time to process payroll, that number to go down over time. If it's going up and there's no obvious explanation like the business expanding, for example, then we really need to look into the reasons why. But that's one simple way to really, to monitor the efficiency of the payroll department.

Jim Medlock:

And to add onto that. I think mark mentioned with new systems, I think with a new system, we should be able to track how their staff has learned to use that new system because our time to process should decrease as we've gotten more use out of it. Or when we add a piece to technology, new features that the systems have provided us or something that the system provided us, we didn't implement originally, but now we're implementing some of those features that are in the system. How can those reduce that time to process? It'll also help us be able to plan, especially when we're looking at holiday processing, when we may lose a day in our normal processing, how can we look to be able to see what are some of the things we can, well, I wouldn't want to use the word shortcut, but maybe make it a little more efficiently to handle those times when we're losing time in our processing cycle.

Nina Talley:

And I like shortcuts. So I don't think there's anything wrong with using that. I think that oftentimes a shortcut can be just about optimizing your own experience and then shortcuts can become just a standard part of your operating procedure. And then it's no longer a shortcut. It's just the path.

Want to learn more about payroll data analytics? Then take one of the American Payroll Associations, foundations of payroll analytics three day educational programs, either in person or virtually. While analytics have always been required in payroll, they were usually confined to a handful of people. Today, every payroll staff member is accountable for understanding and interpreting the data. So if you would like to demonstrate dynamic leadership, leverage the value of data analytics,

identify trends for process improvements and measure real success in your payroll operations, then choose from two in person classes at MEET Las Vegas, starting either August 1st or October 17th, or you can attend an interactive virtual class starting on September 26th. Unravel the complexities of payroll data analytics, visit APAs foundations of payroll analytics course@www.americanpayroll.org. Again, that website is www.americanpayroll.org.

Beyond just payroll operations, can you use payroll analytics to monitor business operations as a whole?

Jim Medlock:

There's a number of different ways that we can use our analytics to be able to provide information to executives, to managers, to HR on things that need to be identified. For example, in 2020, the department of labor's wage and hour division changed the threshold for salary exempt employees and the salary that they were required to receive. By providing that kind of information, we were able to identify, do we have employees? We may need to either change to non-exempt positions because we don't want to increase their salary or do we really need to reevaluate their position to increase their salary? In the interim when there aren't those types of changes happening, we can also use that to identify possible compliance issues with wage an hour. Do we have employees who are classified as exempt, but being paid on an hourly basis? Or the opposite? Do we have them classified in the system as being a non-exempt employee, but we're paying them on a salary basis? So those are some of the things we can take a look at on the compliance area.

But it's also important for our operations to be able to help, to provide them with information about how expenses may be changing, especially compared to budget, how their budget may apply against what their actual expenses are. It may help them be able to identify where they've had additional overtime to help identify what the reason for that overtime may be. Was it something that additional tasks were added? Maybe there were a special project complete in the production department that haven't been planned for required additional overtime.

Or maybe it was something that maybe the tools they're using, the equipment they're using is now breaking down more frequently and the result is additional overtime, but maybe we need to look at the root cause to what's causing that overtime and being able to point that information out as well as the trends that we have for the entire organization for budgeting and rejecting, where do we anticipate the total cost of payroll to be for the year so that we can then as an organization look to see, do we need to make changes in how we're handling things? Or maybe do we need to look to increase our hiring so that we can meet those goals of our organization?

Nina Talley:

Those are such really interesting examples because I think it shows the fact that it's about making payroll more than just payroll and showcasing to the entire company that payroll is not just about cutting checks. It can be about optimizing the entire business. And I think that's a wonderful way to show that payroll professionals should have a larger seat at the table because it isn't just about payroll operations. It truly is about business operations and analytics are an incredible way to showcase that. I think that we're all looking to show improvements to our operations and data analytics is like the best way to show your higher ups firm proof of that work. So can you discuss a bit about using payroll data analytics for benchmarking and how that can be leveraged to better your career in payroll?

Mark Thornton:

Sure. So benchmarking, if we just want to define it is basically the practice of comparing something in this case, yourself, your payroll department, to a standard. Whether it's yourself or others in your organization or others within the industry. But we want to take a look at our own KPIs or key performance indicators and see how those compare to others as a measure of our own performance. So for example, one area that we're going to be interested in monitoring anyway, going back to monitoring payroll operations as a whole is our customer service that we provide to our employees. So one way we can do that is we can look at our own inquiry response time. And so this is another one where you may have some built in tools like a case management system that will track the inquiries that you get, open up cases, and then log your response time to close those cases out.

If not, you may have to log those manually and then work with that data that you've come up with yourself. But what we're looking at here is the types of questions you get. We really want to track our responses to those and keep up with the date and time that we got it, who responded to it? How long did it take?So that we can then use that data to monitor trends and kind of figure out where we may have some issues. And we can actually get a lot out of this information. For example, if you're getting bombarded with W2 reprint requests, if that's the majority of your requests or inquiries that you get from your customers or your employees, you may decide that you want to offer a self-service option for employees to handle it themselves. You can find efficiencies within that customer service data right there.

And also you can see maybe there's a particular employee who's struggling to close these cases in an appropriate amount of time, but that would be one KPI that you could use to kind of measure your department's performance. So going back to benchmarking then, there's really three main types of benchmarking that we talk about. There's internal, where we're measuring ourself in our own performance against another similar group within our own company or organization. So in this case, if we've got the data for our customer service and we can reach out to say HR or IT who also get cases or get inquiries, we can compare ourselves with those groups to see how we stack up. We may not be perfectly comparable in the nature of our inquiries, but it could kind of give us an idea of where we stand. Then there's competitive benchmarking, where we're going to look at ourselves, compare ourselves to others within our own industry.

So in other words, the payroll departments within our industry to see how we stack up. And then finally we talk about universal benchmarking, which similar to competitive benchmarking. But in this case, we're comparing ourselves with payroll departments from any and all industries. And we're looking at it from a global perspective, really just to give ourselves an idea, are we behind? Are we struggling here or are we actually performing really well? Now, some of this data may be easy to come by and some may be harder to find, but one great resource that we talk about and we like to share is the APA GPMI, Deloitte global benchmarking survey. That's got a lot of great data in it that you can use, compare yourself to others in the areas of operations, outsourcing, processing, efficiency, the employee experience, and things like that. Just to see how you stack up with others.

Jim Medlock:

And one of the things that I found very valuable out of the study was the off cycle payments issue. They found in the study that about 40 percent of off cycle payments were caused by errors. And this is an area, again, going back to our operations so we can track what caused those off cycle payments. And we can identify what's the root cause of those. Do we need to do additional training? Do we have specific managers who may always be late with getting information and missing cutoffs?

And those are types of things that can help not only in identifying those operational issues, but because we're looking at them from a global perspective, we can say, well, this is what globally we see.

We're above that. We need to get down to closer to what our compatriots are across the world who've responded. This is what kind of issues they may have with late time entries or late HR entries and how we can deal with those. It's not just the benchmarking, it's how we can use it for looking at operational issues. And then being able to demonstrate to our management, how those issues can be able to be resolved and we can reduce costs because we're using the benchmarks and looking at what are the causes behind those benchmarks.

Nina Talley:

Exactly. And I think it's really smart that you recommend breaking benchmarking down into those three categories of internal, competitive and universal. And I think that it makes it a little bit more consumable for a payroll professional who's looking to implement benchmarking through data analytics because you can start with just your internal benchmarking. That's a lot easier to access that data. And then you grow it over time and you can continue to use your benchmarks to a point to where your improvements need to be across the board, but then also point to how your benchmarking is helping you improve your department on a global scale. I think that's a wonderful, wonderful way to break it down and it makes it a lot easier for payroll professionals who are looking to get started in this. And I think that one of the more interesting ways that I have heard of payroll data analytics being used for is fraud identification and prevention. Can you elaborate on that for us?

Mark Thornton:

Sure. Yeah. Payroll fraud is really a very widespread issue. And it's one of those things that you hear about. I don't think I realized just how big of an issue it was until I began doing some research for this project. One of the statistics that we found was that it affects a third of all businesses, particularly small businesses.

Nina Talley:

Wow.

Mark Thornton:

That's a really large number. It comes in different forms. It can be time clock abuse, expense reimbursement fraud, or phantom employee schemes. It's important to have tight controls in place in order to prevent these types of fraud from taking place. And that's where some analytics can really be helpful. So for example, phantom employees, anybody who's worked or studied payroll for some time is probably familiar with the concept of phantom or ghost employees. This is a scheme where a made up employee is created in the system, then that employee's paid, except this payment isn't going to this fictitious employee. It's going to the person who's set them up in the system, the fraudster, if we want to call them that. Usually the people who are able to do these schemes are people with access to the HR payroll system. So they may be payroll or HR personnel.

They'll either take terminated employees data, for example, like their name, their social and everything. This person's already in the system. They've already been set up, but they may no longer work with the company and they'll either turn them back on or they'll rehire them within the system. And they'll continue paying that person. What they'll really be doing is rerouting that payment to their own bank account and collecting the funds. Or they may just set up and hire a fake employee all together, still again, routing these payments to themselves. So we can use payroll analytics to help us kind of alert us to some instances where this may be taking place. One thing we may want to look at is

payment destinations. We have multiple employees within the company who are sharing the same bank account, address, et cetera. We can look at the payments themselves for some further insight.

And we want to look at instances in particular where net pay is being maximized. One of the things we found that's common in this type of scheme is that the checks that the fraudster is going to receive in this case, they want to maximize that net pay. They're not interested in paying taxes on this money. They're not interested in having dollars come out for insurance. So we want to look at instances where maybe net pay is a really large percentage of gross pay. Another thing that we can look at if we have access to this information is we can pull badge access data or biometric data that would prove that this is an actual employee, company network logins, for example. All that type of data can then be bumped up against our own payroll data to help us identify instances that we may find suspicious, particularly in remote locations where there's not as much oversight.

So, payroll may be at corporate headquarters, but you've got locations out in the field so to say, and we don't know who's showing up for work there. We don't have that information. So we've really got to just rely on the data to tell that story and alert us to anything that we may find suspicious. So sometimes we may be asked to look into suspicious circumstances in conjunction with say, internal audit or payroll can actually take the lead and try to prevent these things from occurring up front, by just regularly reviewing these analytics. So that would be phantom employees. One thing to look out because that's actually more common scheme than you would think.

Nina Talley:

Wow.

Mark Thornton:

Another one that's probably, I don't know, this may be the most common, but this would just be time clock abuse. Clocking in and out at times that don't actually reflect the time that you work or using buddy punching schemes, where you've got a coworker, a friend who's willing to clock in or out for you.

For these types of schemes obviously what we would like to recommend biometric time clocks that can identify that you are the person that's clocking in and you are the person that's clocking out, ensuring that their time card is reflective of the time that was actually worked. Those things are becoming more readily available. Clocks that would require fingerprint or a retina scan, but they may be a little expensive, especially for small businesses. So if that's not available to your company, that's where we would say, well, use the analytics that you have available to you to look further into the time data and look for inconsistencies or violations of the company policies around time. For example, if a company's policy says that employees can't clock in more than a half an hour before their scheduled time, well, if the time clock shows them consistently doing that, using something as simple as an Excel spreadsheet, we can analyze that data from the digital time clock and look for instances of time clock abuse.

And then another example would just be expense reimbursement fraud. This one's also very common too, because it's pretty easy to do.

Nina Talley:

Yeah.

Mark Thornton:

In this case, you're either claiming fake expenses that never took place or you're artificially inflating them. A lot of this relies on proper approvals and management oversight. And we know that doesn't always happen. We need good controls in place to prevent this type of thing from happening in the first place. But you can use analytics to again, identify instances where the controls were maybe violated or proper review was not conducted prior to approval. So within the data that you're getting the payroll data where you're reimbursing expenses, you'll want to look for patterns like employees consistently submitting expense reimbursement requests that don't have proper documentation or requests that seem to be really high or even over a predetermined amount.

So you may want to have some controls in place that say, we're going to manually verify every expense reimbursement request over X number of dollars. Alert us to anything that's set to be payout that's greater than this. Now this may be more of a function of AP than payroll, but payroll may be able to assist with this. So those are just some simple examples of payroll fraud though, and how payroll can kind of upfront catch instances and prevent them from ever occurring in the first place.

Jim Medlock:

And one of the things that we found in our work, in working on the course material was that there is an association of certified fraud examiners who produces a report every two years what call occupational fraud. They report to their nations. They just issued the 2022 report. And it showed that payroll occupational fraud lasts for 18 months generally before it's found.

Nina Talley:

Wow.

Jim Medlock:

And the general cost can be between 80 and $150,000.

Nina Talley:

Oh my gosh.

Jim Medlock:

So it can be very expensive to organizations. And as Mark mentioned, there's a number of analytical tools that we can use to help identify those types of payments. One that I'd like to add to what Mark talked about was payments after termination. So sometimes it is valid. We pay them individuals who have left the organization. They may be under a severance or we may be making final payments of commissions or bonuses that they've earned.

But sometimes those payments can continue and being able to track payments that are outside maybe of a standard. If we say we want to look to any payment, that's more than three weeks after the employee's termination date, then look into those in more detail. And this is where sometimes it may be difficult for us as payroll professionals to actually do the investigations. We may need to be working with our internal control or our compliance departments in our organizations, maybe if we're a smaller organization, we don't have those types of departments. We may need to find out, do we have a whistleblower policy in the organization? How can we be able to track into and look at what is happening and was this legitimate, what we're doing? Or maybe it was something out of the ordinary and we need to watch out more carefully. Another area that I think we need to watch for, especially for the payroll department, are those unusual systems entries.

Something that happens at a time we wouldn't expect it. Now most of the current payroll systems we have now date and time stamp any entries that are into the systems. It's part of the internal controls and the audit trails that are put into systems and being able to access that information may help us find where we may have someone in the payroll department who's not doing things quite on the up and up and we want to check to see what are they doing? Are they doing something that may lead to fraud or could be fraudulent and identifying things that are happening outside of normal business hours, on a Saturday or Sunday, late at night, we may be able to start examining those for more detail.

Nina Talley:

I always like to lean on the positive when it comes to using data analytics. But I really think that knowing that there's a third of businesses out there that are affected by payroll fraud and that it could be up to $150,000 over an 18 month period, this is an excellent way to prove your worth. If you catch something like this, nothing quite motivates like fear. And so bringing fraud to the forefront and showcasing that payroll data analytics is what caught this is just such a good way to elevate your place in the company and show that you are looking out for the business as well.

Hey folks, Jim and Mark have so much incredible information on payroll data analytics that we have decided to split this episode into two, rather than edit out any valuable information they have to share with us. So Jim, Mark, and myself will be back next month to continue our conversation. And I hope that you'll tune in for part two of this amazing episode, which will also include their payroll nightmares and best advice for payroll professionals. As always thank you for listening to PayTalk, make sure you rate, review, and subscribe on your preferred podcast streaming service. That is the best way to support this podcast and ensure that we can continue to bring you the human stories that make payroll so personal. Jim, Mark, and I will be back to talk with you all soon.

Speaker 1:

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