

Time & Attendance
White Papers

Topic

Calculating the Return on Investment of
Implementing a Time & Attendance Solution

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This publication is not a do-it-yourself guide to resolving employment disputes or handling employment litigation, and is **NOT** a substitute for experienced legal counsel. This guide does not provide legal advice or attempt to address the numerous factual issues that may arise in any employment-related dispute.

If you are anticipating any employment-related disputes then we **STRONGLY** encourage you to seek legal counsel as soon as possible.

Being said, the TimeMD system can help you comply with various federal and state wage and hour laws. However, proper compliance with federal wage and hour laws requires that you understand the relevant laws, enter appropriate data into the software, properly configure the software, and test it for accuracy. You are responsible for these activities in order to achieve compliance with wage and hour laws.

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Timekeeping Software - An Overview

Timekeeping software systems have been around for many years. There are dozens perhaps even hundreds of systems in the market. These timekeeping software packages have a whole range of features. But before getting caught up in a chase for more features, make sure you understand why you are automating your timekeeping process.

Timekeeping Software - What is the Return on Investment (ROI)?

Timekeeping software, like all investments, should be analyzed based on the return it provides the organization.

Return = Benefits - Costs

Calculating the return on investment will require you to quantify the costs of implementing the timekeeping software vs. the benefits it provides.

Before you choose a system, make sure you know what return you expect to achieve from the solution. Don't assume that the benefits are the same for each system you analyze. Lower cost systems probably don't have as many features (and therefore fewer benefits) as a higher cost system.

Knowing this information up front will also allow you to monitor your actual progress. If the expected savings are not being achieved, you can analyze the cause and take any corrective action necessary.

Benefits of a Timekeeping Solution

In order to quantify the benefits of your timekeeping software, you first have to know what to look for. Timekeeping solutions can help you in different areas. Here

are some of the areas to look for benefits in implementing a timekeeping software solution:

Paper Reduction

Timekeeping software can reduce the cost associated with creating and distributing paper timesheets. Cost savings result from:

- Direct savings from reduced paper, printing, and distribution costs
- Indirect savings from time spent handling paper timesheets

Paperwork Transfer

A big expense with a manual timekeeping system is that of transferring timesheets from one person to another. For example, the employee needs to get blank timesheets from the HR department. They fill out the timesheet and walk it over to their manager. The manager signs the timesheets and walks them to the payroll department.

A very conservative estimate of the direct time spent on simply transferring the paper timesheet around would be 2-3 minutes per employee each pay period.

Improved Data Quality

Manual timesheets must be key punched into a computer in order to be processed for payroll. Whenever data is keyed into a computer from a hand-written document, errors will be made. These errors can cost you in many direct and indirect ways:

- Incorrect pay. How many employees complain if they get overpaid? If even a small number of employees keep their overpayments, it is costing plenty. And when employees get underpaid and complain, issuing a new pay check or adjustment is costly. According to the APA, the average cost of re-issuing a new check is around \$15/ check.

- Without accurate information, you lose the ability to perform useful decision support. Pay is the biggest controllable expense in most organizations. You should have accurate information about hours worked, departments worked in, etc. for your decision support.

Elimination of Time Theft

If your non-exempt (most cases hourly) employees are currently on the “honor” system, then you are most likely experiencing “time theft”. Time theft is the inaccurate reporting of time worked resulting in overpayment. Numerous studies have shown that by using an electronic data capture device such as a badge reader, you can save between 2-4% of your payroll costs by the elimination time theft.

Managing Leave Liability

Studies have shown that it is very common for employers to incorrectly track employee’s leave time balances. This is especially true for exempt (salaried) employees, who in most organizations, never have to report their time on timesheets. Employers who don’t manage and track leave balances will usually overpay their employees for unused leave time at separation of service. By properly accounting for all leave events when they happen using an automated system, you eliminate this unnecessary expense.

Controlling Overtime Expenses

With the use of an effective scheduling system, you can be notified when employees are working outside of scheduled work hours. For example, a common practice is to flag employees that are punching in more than 5 minutes before the start of their scheduled shift. By employing measures like this, you can tightly control overtime expenses.

Fewer Inquiries to the Human Resources Department

A good automated timekeeping software solution will provide useful information to employees online that employees traditionally request from the HR or payroll departments. By making this information available online, your HR and payroll departments will spend less time answering questions from employees and managers.

A good system will make the following information available:

- Balance of time off available
- History of dates when time off was taken

Fewer Pay Check Corrections

Issuing new pay checks or manually calculating adjustments to pay is a very time consuming (and frustrating) process. Good timekeeping software will minimize or eliminate this problem by:

- Ensuring accurate data reaches payroll by checking all pay policies at the point of entry and approval.
- Providing an online method for employees and managers to request corrections.
- Automatically calculating adjustments when errors were made in prior periods.

Eliminates Duplicate Data Entry

If your time and attendance data is being manually recorded and then keyed into more than one system, you have a cost that can be easily eliminated. Check the following systems to see if any time and attendance related data is being double entered:

- Timekeeping system
- Payroll system
- Human resource system
- Work order / maintenance system
- Project management / tracking system

Electronic Notification of Tasks

Payroll is performed on a regular basis. This means that employees and/or managers must review and approve timesheets on a regular basis. When they fail to do so by the payroll cut-off time, a series of events occurs in any organization:

- Payroll has to figure out which managers have not submitted timesheets.
- The payroll department contacts the manager(s) and/or employees and asks them to submit timesheets.
- If the manager is not available, they attempt to find an alternate who can approve the timesheets.
- The managers will contact the delinquent employees and ask that they provide their timesheets.

As you can see, all of this takes an extraordinary amount of time and effort on the part of the payroll department and/or managers. A good solution will eliminate most of this by leveraging electronic means of communication. For example, if managers are sent a reminder e-mail the day before and two hours before the timesheets are due, most of the problem will be eliminated.

Management Information

A key use of timekeeping systems is to collect accurate and timely information about the projects and activities that employees work on. With this real-time information, management can make intelligent decisions about how to allocate the resources of their workforce.

Others

Be sure to look at all aspects of your timekeeping process carefully. You are likely to find other areas where you can improve the efficiency of your time collection process.

Quantifying the Benefits

Although the benefits are usually easy to spot, figuring out the dollar value is not so easy. Usually you have to make some assumptions. For example, let's take the case of fewer pay check corrections. Suppose that you are working in an organization with the following information:

- 1,000 employees
- Paid bi-weekly (26 times/year)
- Average number of pay check corrections each period: 20 (2%)

You will have to find out or make an assumption about the following information to determine the cost savings from implementing a new system:

- Percent of the 20 pay check corrections eliminated by implementing the timekeeping software.
- Time required by employee and manager for each correction required.
- Time required by the payroll department to make a correction.

Suppose you have analyzed the causes for pay check errors and determined that 90% will be eliminated by the new software system. If the average time to make a correction is 10 minutes for the employee to report the problem, 10 minutes by the manager to confirm and request a correction, and 10 minutes for the payroll department to calculate the correction, you will save:

$20 \text{ checks} \times 90\% \times (10 + 10 + 10) = 540 \text{ minutes or } 9 \text{ hours each pay period.}$

If the average hourly rate (including benefits) is \$20/hour, this will save \$180/period or \$4,680/year. If you total the benefits over a 3 year period, implementing the system will save nearly \$15,000 in reduced pay check corrections alone!

Most other benefits can be quantified in a similar way.

Quantifying the Costs of Implementing a Timekeeping Software Solution

Quantifying the costs of implementing a system is usually not so difficult. Remember to consider the following items.

License Fee for the Software

Each system has a license fee for the software. Ask the vendor about:

- Costs for multiple users
- Costs for multiple sites
- Whether any modules involve extra fees

Additional Hardware Needed to Run the Software

Make sure you know what hardware will be required to run the software. Ask the following questions:

- Will any desktop computers need to be upgraded?
- Will you require any upgrades to the servers? New servers?

Larger installations will want to be sure that the system will scale to meet their performance and user requirements.

Costs to Analyze and Select a System

It takes time and money to analyze and select a system. Make sure you include the time that all participants spend in reviewing all the systems.

Training costs

Not only will the implementation team need to be trained on the software, you will need to train all employees on how to use the system. The more complex the user interface, the more time it will require.

Implementation Costs

System implementation is often the most expensive part of implementing timekeeping software. Here are some things to consider:

- Consulting fees. Include the fees of any 3rd party, such as the software vendor, that you may need services from.
- Requirements analysis. You will need to document all pay practices and other requirements in order to implement the system.
- Custom software programming. If the software solution selected requires customization, you will need to pay the vendor to make the necessary changes.
- Software configuration and testing. Prior to placing the system into production use, you will need to configure and test the software. Remember to include several parallel test cycles prior to rolling the system out.
- Software installation and deployment costs. Depending on the type of software selected, the IT department will need to install and/or deploy the system throughout the organization.

On-going Maintenance Costs

Most software vendors charge an annual fee for a maintenance and support agreement to keep you up to date with new releases of the software.

On-going Internal Support Costs

There will be ongoing internal costs. Here are some things to remember to include:

- Support desk. When users have questions or problems with the software, you will need to provide the “first line” of support.
- Hardware infrastructure. A certain portion of ongoing hardware costs that the organization spends money on should be allocated to the timekeeping software.
- Upgrades to new releases. When the vendor releases a new version of the software, you will need to install, test, and deploy the new release. If there are customizations to the software, the vendor may charge you extra to migrate these customizations to the new release.

Typical Savings

The benefits of implementing time and attendance are enormous. Typical savings from automating a manual process are shown below:

Area	Description	Savings (as % of payroll)
Paperwork Reduction	Elimination of paper timesheets, time spent to fill out paper timesheets, moving timesheets around	0.2%
Data Entry	Elimination of time spent by timekeepers or payroll departments to key in time	0.1%

Area	Description	Savings (as % of payroll)
Reduced Overpayments	Elimination of overpayments to employees caused by data entry or calculation errors	0.4%
Managing Leave Liability	By properly tracking leave time for all employees, including exempt employees, you reduce your payouts upon separation of service.	0.1%
HR and Payroll Staff Reductions	Fewer inquiries into HR and payroll due to information availability online. Ability for HR and payroll to support larger numbers of employee per staff member.	0.1%
Elimination of Time Theft	By using biometric or other automated data collection, you pay employees for what is worked and don't pay for any unapproved overtime.	2-4% of your non-exempt staff
Controlled Overtime		0.1-1% of your non-exempt staff
TOTAL SAVINGS		1.1% - 6.1%

The above savings are typical across a variety of industries. Your savings will depend on how manual your current process is and whether you choose to use automated data collection such as wall clocks. The American Payroll Association along with information from numerous studies has confirmed the substantial savings from using automated time and attendance systems.

The TimeMD Software Solution

TimeMD.com provides one of the most advanced web-based time and attendance solutions on the market. Our goal is to automate all the workflows and calculations associated with typical transactions and unusual transactions. By creating a higher

degree of automation than other systems, the customer gets the highest return on their investment.

Many unique features in TimeMD.com ensure that customers achieve a high level of savings and further improve the return on their investment. Here are some examples of additional savings beyond those already discussed above.

System Feature	Benefit
Online Time Off Requests	Employees can request time off electronically and managers can review and approve electronically. This eliminates another manual process related to managing leave time.
FMLA Compliance	The Family Medical Leave Act requires a whole separate set of paperwork, documentation, and tracking procedure. With TimeMD.com, FMLA eligibility can be determined immediately and the system can track all FMLA leave requests. This eliminates another set of paper processes.
FLSA Compliance	Compliance with the Fair Labor Standards Act, including their rules on average overtime rates is particularly complex. Non-compliance can result in hefty fines and back pay owed to employees. TimeMD.com will properly apply the FLSA rules to ensure compliance.
DCAA Time Keeping Compliance	TimeMD makes compliance with the DCAA time keeping requirements easy. Whether its reporting from data obtained through our various time collection devices, detailed audit reports or job authentication, TimeMD has all the bases covered.
Automated E-mail Notification	By leveraging the flexible rules and workflow engines, you can configure your own, business specific events to notify employees and managers to automate even more HR, payroll, and time and attendance processes.

With TimeMD.com, you will save as much as an additional 1-2% of your total payroll costs over time due to the additional improvement in your business processes.

Summary

Implementing an automated timekeeping solution can yield a very big payback. But before you dive into a system, make sure you know where you expect to achieve the benefits. When evaluating systems, make sure you compare what benefits each system will help you achieve and determine the total costs for implementing each system. Determine the return using your organization standard (e.g. payback time, net present value, return on investment, etc). Remember to monitor your progress against your expected savings so that the expected savings actually materialize.

For more information on the costs and benefits of implementing a timekeeping solution, contact TimeMD.com.