Issues with Spread Pay

Crux of the Issue for the Task Force:

There are multiple other concerns from HR, but the primary one is the process of pre-paying employees prior to the start of the academic year. Under Idaho state law, UI should not be paying employees in advance (which happens between July 1 and Aug. 18; this is different from other state schools which are allowed spread pay without the advance component.) As Jack Miller explained after his conversation with Kent Nelson, “The other school’s payrolls are managed by the state controller’s office. Apparently UI’s constitutional status causes us to be independent of the controller’s office.”

The Task Force is considering eight options, ranging from no change to significant structural changes. The simplest action would be to move the pay start date to August rather than the current July 1 and provide an option within the UI HR system for employees to check if they want spread pay or not.

Currently, the Task Force is developing a series of Town Hall meetings for faculty and staff to gather comments/opinions. We are also still considering a brief survey as well as one-on-one in-depth interviews with faculty. The next meeting is Nov. 9. This is where we will take the time to discuss how to collect feedback and narrow some of the alternatives.

Background Information from UI Human Resources (Thanks to Brandi Terwilliger)

**History:** The University has historically allowed employees on less than 12-month contracts, for example academic-year faculty, to “spread” their pay over 12 months. At some point, a decision was made to pay faculty and some staff following the fiscal year calendar (7/1 through 6/30) rather than the performance period of their contract (approximately 8/15 through 5/15). This results in a pre-payment to the employee for approximately six (6) weeks prior to fall semester start and a post-payment for the weeks following the end of spring semester. Prior to 7/1/10, the salary expense was charged to budgets on a cash basis (the amount paid) rather than on the appropriate accrual basis (the amount earned). This practice not only caused significant issues with federal effort certification guidelines, but resulted in under-billing of external sponsors, causing the University to cover the difference in salary and fringe. This previous practice also did not follow generally accepted accounting principles.

Federal regulations for sponsored projects include the requirement that employees regularly certify that the effort they put forth on a project matches when the salaries were charged to the project. Prior to the Banner deferred pay being implementation, this effort certification was incorrect and confusing to faculty who were certifying to effort not expended during the period. The non-compliance occurs both when the sponsor is billed for salary when no effort is expended, and when the faculty member certifies to effort not expended during the reporting period.

**Changeover to Banner deferred pay:** During FY10 the University went through a reboot of its payroll system back to “vanilla” Banner. As part of this implementation, the University also
elected to add the functionality of Banner deferred pay. We had deferred pay in the legacy system before Banner. We went live with Banner Payroll using deferred pay. In 1999 we quit using it and moved to the spread pay method because of difficulties in using deferred pay.

The discussion around the elimination of deferred/spread pay has been ongoing for a number of years. This is the second time in recent history that the University has tried to eliminate it.

Specific HR Issues
There are multiple issues with Spread Pay following at the top concerns from HR –

- Used for Classified employees only.
  - Deferred pay will not work with hourly employees because wages paid must be paid for hours worked each pay period.
- Exempt employees working less than the full year have their pay spread over the full year.
  - Actual earned hourly rate is reduced to pay over the longer period of time**
    - This creates a couple of problems
      - Additional time worked is calculated at the spread pay rate by Banner; a manual adjustment needs to be processed to pay the difference in rates as Banner doesn’t know how to handle this situation that we have created
      - The reduced hourly rate could potentially be less than minimum wage in the system, manual intervention is needed as Banner is programmed to pay minimum wage or higher
  - While not working, they enter LWA (leave without accrual) on their timesheets. This is necessary in order to ensure that fringe benefits and workers compensation are properly charged. This is a manual monitoring process to ensure that leave is entered correctly.
  - Pay is not correctly charged out during the time that the employee is working and causes OSP problem with compliance (A-21)
  - This practice results in additional months of credited service by PERSI. We may have to discontinue due to the new PERSI reporting tool which captures payroll data.

Currently all employees working fewer than 12 months are defaulted into deferred/spread pay rather than given a choice. When changes occur to an appointment like an employee’s FTE or salary, it creates a need for manual and complex calculations to occur to assure the individual receives proper pay and accounts are properly billed. This is a very labor intensive collaborative effort and can involve personnel from multiple departments/areas such as budget, payroll, HR, benefits and others.