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Payroll Problems

By [Andrew Trotter](#)

Some of the nation's biggest school districts and many smaller ones are weighing the adoption of corporate-style software, called "enterprise resource planning" systems, to run their key business functions. But problems implementing ERP systems in the Los Angeles and Chicago schools have raised cautionary flags about going down this technological path too quickly and without careful planning.

Such suites of software programs run technology help desks, manage payroll systems, conduct purchasing and inventory analyses, and track financial-performance data. In other words, they manage some of the most important administrative functions in a school district.

Designed by well-known software companies—such as SAP AG, Oracle Corp., Microsoft Corp., and IBM Inc.—ERP systems at least theoretically can deliver management efficiencies to districts that are looking for faster, more cost-effective ways to do business.

The problem, some technology experts say, is that ERP systems are very complex, and making them work in a school district can be fraught with challenges. In most cases, districts would probably have to revise their administrative procedures and systems, retrain personnel, and educate users at all levels to make the resource-planning systems work.

The Los Angeles and Chicago school districts, for instance, both encountered large-scale payroll errors as a consequence of their adoptions of new systems during the 2006-07 school year.

In Chicago, more than 400 teachers have filed grievances that allege payroll errors were committed by the 415,000-student school district since it converted to a PeopleSoft payroll system in March. Chicago school officials have acknowledged the problems and said they were caused by not providing enough staff members and training for the implementation of the software. In August, district officials posted a list of 16 changes they planned to make to reduce errors and improve the operation of the payroll system.

But the problems in Chicago have been far less extensive than in Los Angeles.

In Los Angeles, errors in the paychecks of thousands of teachers have occurred sporadically since January, when a corporate-style payroll system was introduced as part of a sweeping, \$95 million ERP system.

The errors have frustrated and angered teachers, resulting in a lawsuit by United Teachers Los Angeles, whose president, A.J. Duffy, called the situation “a fiasco.”

Hundreds of hourly teachers in the 708,000-student district—such as itinerant staff members in the district’s adult education program—were paid the wrong amounts. At its worst point, in a massive failure of the system on June 5—a day the district now calls “Black Tuesday”—roughly 28,000 employees were overpaid and 4,500 received less than they were due.

‘Nobody Was Prepared’

The Los Angeles Unified School District acknowledges that the rollout of the payroll system, in the second phase of implementation of [its Business Tools for Schools system](#), was rushed and plagued by numerous programming glitches and insufficient training of school-based pay officials. The remedies the district put in place, such as a central problem-resolution center, were far from perfect.

“We could have done a better job in a whole variety of areas, including communications,” says David Holmquist, the district’s acting chief operating officer. “Nobody was prepared for the shotgun approach, going live on January 1, 2007, and what might happen and what we could expect.”

Superintendent David L. Brewer III—who put Holmquist in charge of cleaning up the mess—postponed the launch of the third phase of the technology project, which will replace the district’s purchasing system, from July 1 to Oct. 1.

Holmquist says now that the launch may be pushed back even later—until 2008.

The Los Angeles district’s inspector general is investigating the causes of the problems. The review includes the role played by New York City-based Deloitte Consulting LLP, which the district paid \$46 million to implement the system. The system itself is based on ERP software from the German company SAP AG.

Holmquist says the payroll errors have decreased markedly in the past two months—dropping below 1 percent of paychecks for classified employees and 8 percent for certified employees such as teachers—in the latest July and August payrolls. To restore confidence and verify accuracy, the district was distributing personal payroll histories to every employee. But the payroll probably won’t “reach stability” until the end of the calendar year, Holmquist says.

Some of the problems could be traced to the district’s choice of ERP software, he says. “We chose a system that was probably not as flexible as others out there,” Holmquist says, “because we thought we could modify our business rules.”

Indeed, because ERP systems are designed according to industry “best practices,” districts adopt them as part of a broader reorganization of their business functions, experts say.

In Los Angeles, that broader effort lagged behind the technology change, Holmquist says. "When we made the decision to go live, a lot of our business rules had not caught up to where we need to be," he says.

So-called best practices were implicated in some of the glitches, Holmquist says.

Before last January, hourly employees were paid 13 checks annually, or one every four weeks, with a lag time that allowed more time for the hourly wages to be verified.

But a payroll best practice for the ERP system required that the district pay its hourly employees on the last day of each month—a day calculated in the employees' pay for that paycheck. That requirement has demanded greater accuracy from the payroll clerks at each school. But they have had trouble meeting that demand, Holmquist says.

As a consequence, many hourly workers have been paid the wrong amounts.

Crafting a Plan

Andrew Beck, a consultant who advises school districts and other organizations about adopting and implementing ERP systems, says that a district should start by defining its requirements—the specific goals and parameters it wants the system to meet.

"There are certain requirements the organization is going to have that are set in stone, such as to meet certain legislation and the reporting they have to do," says Beck, the vice president of operations at McLean, Va.-based Metaformers Inc., which has worked with dozens of districts and specializes in implementation of ERP systems made by PeopleSoft and Oracle.

An expert in the ERP software can help a district's officials clarify those requirements, the district's current operations, and "their vision of where they want to be," says Beck.

Of course, using an outside consultant is not the only option. In-house expertise might be available, and the consulting arm of the software vendor can also be employed, as long as the district is aware of potential conflicts of interest.

Another expert on ERP systems, Ramon Barquin, the president of Barquin International, a Washington-based consulting company that works with government agencies, says adopting an ERP system requires both expertise and an organization that is willing to change.

"Not every enterprise has the discipline to make it happen," Barquin cautions.

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