

STREAMLINE

Microsoft Dynamics AX

Improve Control and Reduce Business Risk with a Fully Integrated Payroll Solution

White Paper

Date: June 2006

For the latest information, visit www.microsoft.com/dynamics/ax



Table of Contents

- Introduction 3**
 - Cost and business risk.....3
 - Complex work challenges.....3
 - Options for payroll management.....3

- Payroll Management Solutions..... 4**
 - The issue of data integrity.....4
 - Outsourcing to payroll service bureaus.....5
 - In-house preparation5
 - Strict timelines5
 - Lack of accountability5
 - Limited visibility into the organization.....6
 - In-house third-party solutions.....6
 - Lack of integration6
 - Error-prone processes.....6
 - Compliance risks7

- Payroll for Microsoft Dynamics AX 7**
 - Key benefits and functionality7
 - Automated, streamlined processes8
 - Accurate data and reduced risk of error.....9
 - Efficient management of complex payroll requirements.....9
 - Faster, easier regulatory compliance9
 - Effective management of confidential payroll data9
 - Comprehensive employee payroll records.....10
 - Complete audit records of transactions10
 - Flexible budgeting and reporting10
 - Effective resource deployment with a business-wide view of information10

- Technology Overview..... 10**

- Conclusion 11**

- Appendix: Features Descriptions 12**

Introduction

In an increasingly complex and connected global marketplace, payroll management can have a significant impact on business success. Payroll represents a critical component of business systems and a major expense for most organizations. Payroll management plays a key role in a company's ability to keep financials in balance, meet regulatory requirements, plan strategically to meet business goals, and keep costs under control.

Cost and business risk

Apart from the expense of salaries and wages, businesses must invest a considerable amount of time, effort, and resources to manage the planning, processing, and delivery for payroll. In addition to these planned administrative expenses, payroll processing errors are particularly costly and approximately evenly split between overpayments and underpayments. Not surprisingly, overpayments are often not reported. According to the American Payroll Association, the errors that are reported can account for up to 2 percent of the total payroll for U.S. businesses.

Dedicated resources and incorrect payments represent some of the obvious costs of inefficient payroll management. A hidden and even greater cost may be the business risk associated with payroll errors, especially in the current regulatory environment. Businesses need payroll systems that enable strict compliance with the U.S. Sarbanes-Oxley Act and Canadian Bill 198 regulatory and reporting requirements. Accuracy is essential, as is the ability to document everything thoroughly in the event of an audit.

Complex work challenges

At the same time, businesses need the flexibility to accommodate complex workforce challenges—ranging from last-minute exceptions to corporate reorganizations, tax obligations, custom payroll calculations, multiple jobs, and international operations in multiple locations. Effective payroll management requires technology that can connect information across the entire company and automate best practices. The business can then smoothly and efficiently handle changing demands, forecast the business impact of planned changes, maintain accountability for tax obligations and other financial reporting requirements, and deploy resources more effectively.

Options for payroll management

Options for enterprise payroll processing include reliance on either external service bureaus or third-party solutions. Both options make it difficult to integrate payroll data with an overall business management solution and neither may be able to accommodate complex calculations—which can add to manual work processes, increase errors, and put businesses at risk for non-compliance.

This white paper briefly explores how businesses can get the most from a payroll system that integrates fully with a company's overall business management solution. It describes many of the challenges that come with outsourcing payroll to a service bureau or deploying a third-party payroll solution, including a discussion of hidden costs and associated business risks. In particular, this paper addresses how Payroll for Microsoft Dynamics™ AX can help reduce costs, improve accuracy, and manage complex workplace requirements. A flexible in-house payroll system, Payroll works smoothly as part of the Microsoft

Dynamics AX business management solution. Payroll offers businesses a rapid return on investment (ROI) over outsourcing and independent third-party systems. It provides critical functionality that can help transform payroll into a strategic tool for monitoring performance and more effectively deploying personnel across the enterprise.

Payroll Management Solutions

The issue of data integrity

Payroll management does not stand isolated from other processes within the business. As seen in the following diagram, a payroll process consumes data from and supplies data to a wide range of business processes.

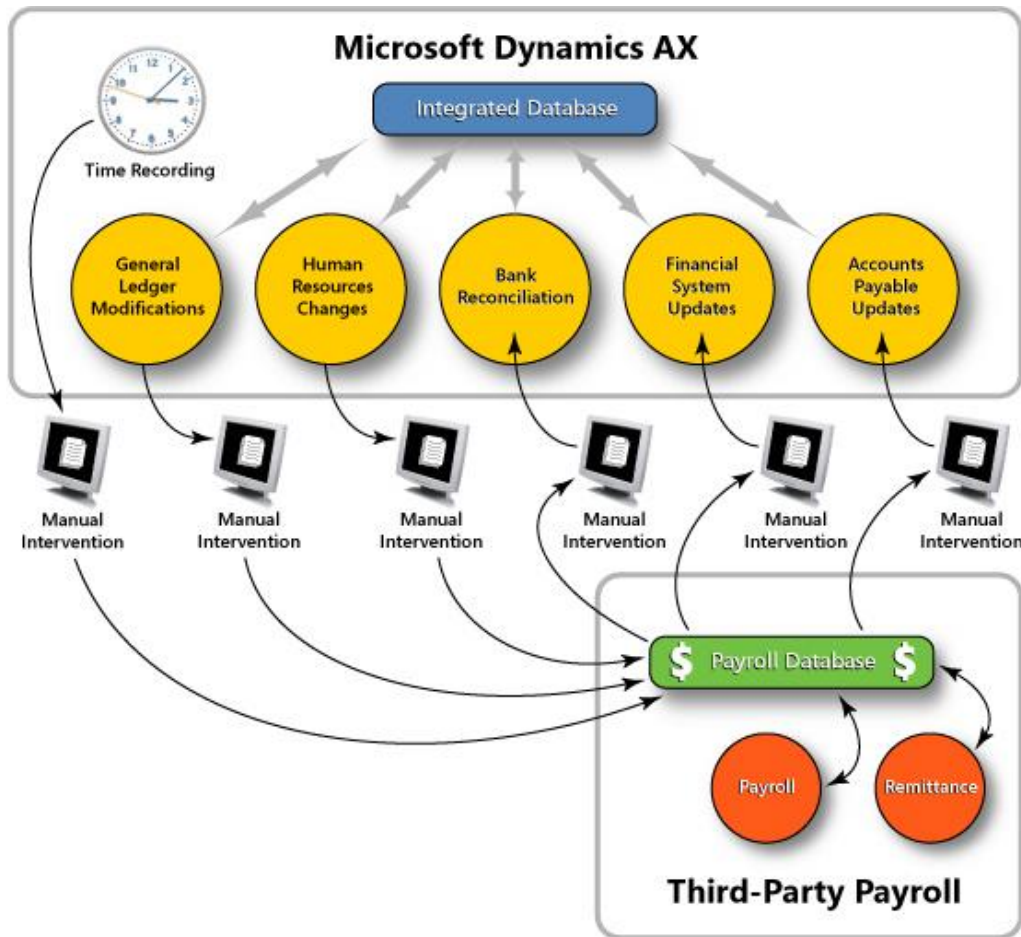


Figure 1. Data flow with third-party service bureau payroll

When payroll is implemented as an independent system, whether outsourced to a service bureau or as a third-party, in-house system, businesses must develop and maintain a variety of interfaces so that the overall business management solution functions properly. These interfaces gather and prepare the

appropriate data and then feed it back to the relevant financial systems. They usually require manual entry to multiple subsystems and offer relatively simplistic unidirectional file exports.

Independent payroll systems rarely integrate with the highly complex, bi-directional interfaces that help ensure data integrity within a comprehensive business management solution. As a result, they can introduce increased risk for errors at every turn—errors that may be difficult to spot but are replicated as data is manually pushed from one system to another. Because both the business management solution and the payroll system hold key records for financial reporting, businesses need accurate data that reflects a single version of the truth. But working with limited, error-prone interfaces requires a great deal of effort to reconcile the information in the business management solution with the information in the payroll system.

When payroll staff members edit data in the destination module of an interface without correcting the data in the source module, they often introduce discrepancies. As illustrated in Figure 1, this problem might occur if changes in the general ledger (GL) are not properly propagated back to the payroll system, which results in the financial system failing to update. One quick fix is to correct the GL codes in the export file, but leave the incorrect data in payroll. But the best solution would be to correct the codes in the payroll system and then rerun the payroll. With an independent payroll system, this is expensive, time-consuming, and in some cases, not technically feasible.

Outsourcing to payroll service bureaus

Outsourcing may seem like a convenient option, but in addition to data integrity issues, service bureaus often do not accommodate the need for flexible, agile processes—and if they do, it is at additional expense. Working with a service bureau may come with considerably higher costs than what companies plan for and expect.

In-house preparation

Most service bureaus have strict requirements for clients' payroll information, which results in corporate payroll staff spending a considerable amount of time preparing data in the required format. All benefits, deductions, and commissions are typically calculated and factored in by the client before submitting the data for processing. Preparing and reconciling data may take one or more full-time people, depending on the size of the business.

Strict timelines

Service bureau timelines are strict. In many cases, data and payment must be submitted well in advance, and because timelines are so rigid, delays and changes can add to costs. For example, if a payroll runs behind schedule, service bureaus may provide a special payroll run, but only at additional cost. If wage or tax rates change, most companies want the assurance of a trial run to help ensure the changes are implemented correctly and effectively—but trial runs typically are also an extra expense. And, if available, services such as reprinting documentation such as a W-2 or T4 form will also cost more.

Lack of accountability

Outsourcing also separates payroll from the rest of business operations, planning, and analysis, which can have severe consequences, as companies are responsible for the accuracy of their financial reporting. Although service bureaus may offer electronic filing of tax obligations and updates of the most recent filing rules and changes, ultimately the client company—not the service bureau—is responsible for the

filing. With a service bureau, companies abdicate that control but are still subject to penalties associated with non-compliance.

Limited visibility into the organization

Separating payroll from the rest of a company's business management solution can also limit visibility into the company-wide pool of human resources. This affects multinational companies in particular, since they must often use different suppliers for different locations or submit payroll information in different data formats, even with the same service provider. Without visibility into the global employee base, companies might spend unnecessary funds recruiting for an opening in one location when staff may be available in another.

In-house third-party solutions

Although businesses can gain more flexibility and more control over their data by using third-party solutions instead of outsourcing, this method of bringing payroll in house often increases workload, compromises accuracy, and increases risk for non-compliance with tax rules and other government regulations.

Lack of integration

As shown in Figure 1, third-party solutions still maintain payroll data in a discrete silo. Sharing that data with an overall business management solution requires multiple interfaces, the same as with a service bureau. Companies have the option to develop automated interfaces, but third-party solutions typically do not integrate well with the technologies and functionality in a company's business management solution, which can complicate deployment efforts. Even after deployment, there may still be gaps between the payroll solution and related business management applications that could require additional customization work or manual workarounds. Just as important, employees can face significant learning curves when using a separate solution.

The cost of integration is often hidden or difficult to estimate. Connecting the payroll system to the company financial system so that data can be available for planning and analysis may require complex development work. The data must be extracted from the source database, transformed (cleaned up or reformatted), and then loaded into the database for the business management solution. This is not a straightforward process. The level of work (and associated costs) will vary according to the platform technology upon which the applications are built and the connection points for the payroll and the business management solutions. Data security also must be considered. And, once the integration has been done, there are often ongoing operational issues with the interface.

Businesses that want to streamline their financial processes need the ability to synchronize payroll data with their business management solution; for example, they need to quickly and accurately post benefits, wage garnishments, and tax withholdings directly to accounts payable. The ability to access current, integrated data enables companies to generate accurate business intelligence about how employee costs impact the business.

Error-prone processes

Without the benefits of smooth integration, third-party solutions usually do not help businesses streamline or simplify payroll processes. Most payroll applications are not built for complex or custom calculations, such as special deductions, benefits, piece work, commissions, or adjustments. Instead,

employees must perform these calculations by extracting data to a spreadsheet or other specialized application. Not only does this work consume payroll staff time, but opportunities for error increase as each staff member manipulates or re-enters time-related data.

Compliance risks

Every time employees extract data to an unsecured spreadsheet or desktop application, they put the business at risk for non-compliance with Sarbanes-Oxley and Bill 198 regulations. As recent corporate accounting scandals have shown, there is too much at stake for large enterprises to risk error and non-compliance.

A cost-effective, accurate payroll solution that can handle changes and meet regulatory demands efficiently is critical to business success. Historically, neither service bureaus nor third-party solutions have accommodated those challenges. With Payroll for Microsoft Dynamics AX, businesses already deploying a Microsoft Dynamics AX business management solution can now take advantage of a fully integrated solution that helps improve accuracy, timeliness, flexibility, and compliance for payroll.

Payroll for Microsoft Dynamics AX

As part of a fully integrated business management solution, Payroll for Microsoft Dynamics AX can help businesses streamline their processes, reduce costs, gain insight into personnel costs, and improve payroll accuracy—even when dealing with exceptions and complex workforce challenges.

Payroll can manage everything from time entry through check printing and direct deposit, including complex calculations for earnings, benefits, deductions, and last-minute adjustments for U.S. and Canadian businesses. The solution offers effective-date capabilities, supports multiple jobs for a single employee, and handles payroll tax obligations and electronic submissions to regulatory agencies. With flexible user-defined rules, businesses can adapt corporate processes to changing workforce needs and demanding requirements.

Designed to help connect information and processes across the enterprise, Payroll for Microsoft Dynamics AX delivers business-wide visibility into employee status and history. An integral component of Microsoft Dynamics AX, Payroll works with an intuitive, Microsoft® Office–like interface, empowering employees with a solution that’s easy to learn and use and reducing the need to juggle separate applications. It also integrates tightly with the Microsoft Dynamics AX database structure and operates smoothly with Microsoft Dynamics AX vendor, payables, and general ledger functionality as well as Microsoft SQL Server™ Reporting Services.

With Payroll, businesses can gain better control over their payroll operations and transform payroll into a strategic tool for monitoring performance and deploying personnel more effectively across the enterprise. Payroll functionality currently supports the U.S. and Canada. Support for multiple languages is planned for future versions.

Key benefits and functionality

Along with ease of use and rich integration capabilities, Payroll for Microsoft Dynamics AX offers numerous features that streamline the payroll process, help ensure accuracy and compliance, and enable effective planning and resource deployment.

Figure 2 illustrates how Microsoft Dynamics AX centralizes company data within an integrated database, enabling the bidirectional flow of data to and from a single source. As a result, data needs to be entered only once and then can be used as required for payroll calculation, processing, and reporting. Payroll processing and financial reconciliation are simplified and streamlined, helping improve accuracy and compliance with financial reporting requirements.

Microsoft Dynamics AX System

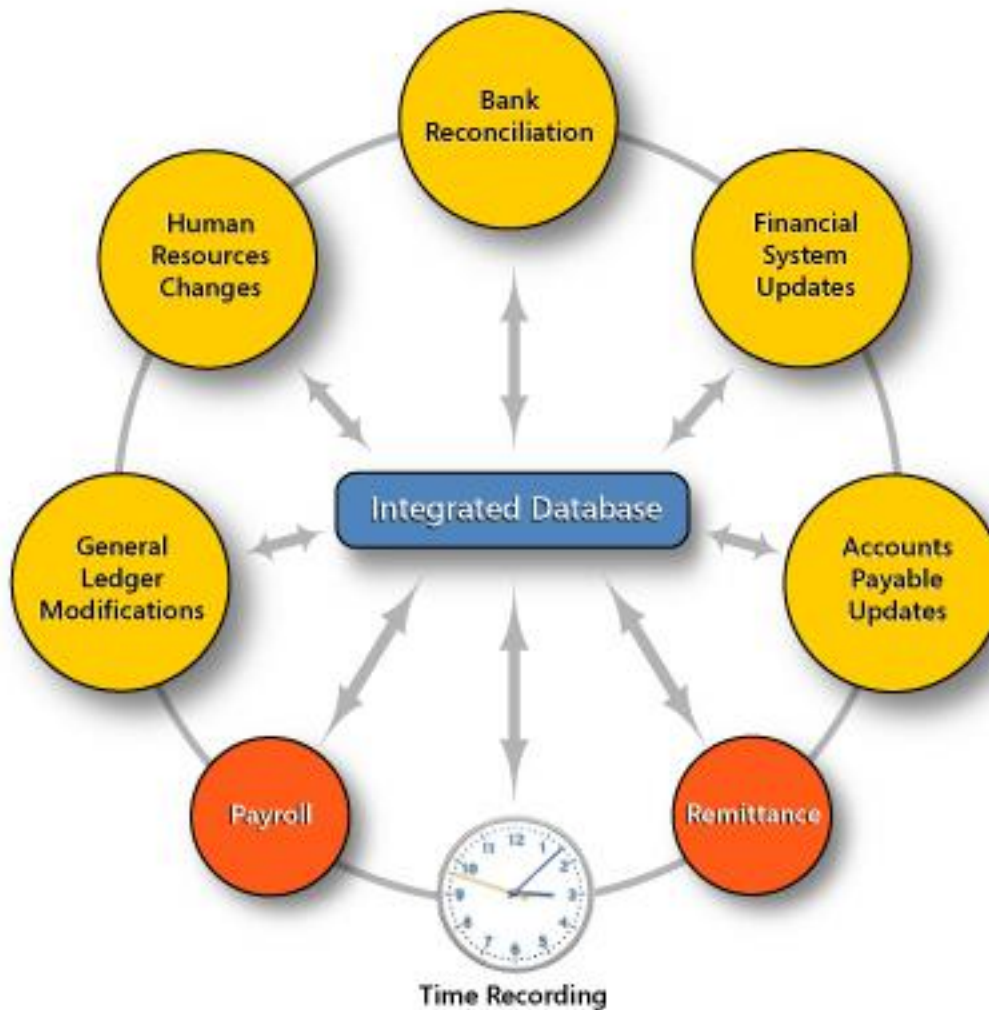


Figure 2. Data flow with Payroll for Microsoft Dynamics AX

Automated, streamlined processes

A sophisticated calculation engine handles the computation of earnings, benefits, deductions, commissions, retro pay, piece-based pay, and more. In payroll solutions without calculation capability, these functions require data to be manually extracted from the system, manipulated in spreadsheets or calculation applications, and then re-entered into the payroll system. This process—or any additional data manipulation step—takes significant time and effort, results in a longer turnaround time for the payroll

cycle, and increases the risk of error. The calculation engine in Payroll for Microsoft Dynamics AX automates these calculations and keeps them in the system, simplifying and speeding the payroll process.

Time entry can be automated as well. Employee work hours can be imported directly into Payroll from Shop Floor for Microsoft Dynamics AX or from a third-party time application. The entire payroll process can go from time punch/card swipe through paycheck with minimal manual touches. Clerical work is significantly reduced, so that companies can meet deadlines more easily and return processed payroll information to the back office more quickly.

Accurate data and reduced risk of error

The calculation engine in Payroll for Microsoft Dynamics AX helps improve accuracy by reducing the number of sources for payroll error, primarily the multiple data entry points endemic to other payroll systems. These include salary grids, commission calculations, retro pay, manual pay, piece-based pay, unlimited garnishments, and multiple 401(k) and Registered Retirement Savings Plans (RRSP) options—all custom calculations that require manual extraction to spreadsheets or specialized applications in other systems. By reducing the need to extract and re-enter data, businesses can improve data integrity, reduce the risk of error, and save valuable time.

Efficient management of complex payroll requirements

Users can streamline payroll processes by establishing rules according to particular business needs. Even with complex, customized rules that change over time, Payroll for Microsoft Dynamics AX handles the calculations accurately and smoothly by retaining all data separated by effective dates throughout the system. Effective-dated records enable payroll managers to view an employee's complete employment history, including planned future changes, or to make adjustments to pay into a previous year when tax rates or benefit enrollment were different. Without effective-date capability, the corporate payroll department would have to search for historical information in backup data and make adjustments manually, which wastes time and increases risk of error. Effective dates also enable smooth adjustments for large groups of employees; for example, a union might settle with a business for retro pay going back one year or even longer, changing salary, benefits, deductions, and more for hundreds of employees. The effective dated capability in Payroll performs these calculations automatically with minimal user intervention.

Users also can preload future changes. For example, a promoted employee's new pay rules can be set to begin at the new position's effective date. In many systems, corporate payroll staff would have to update this record after the last pay run and immediately before the new job date. They would have to run a payroll for the prior earnings and then activate the new job. Rather than inputting new calculations and rules the night before they take effect, users can input rule changes at any point; Payroll implements the changes automatically at the effective date specified.

Faster, easier regulatory compliance

Payroll for Microsoft Dynamics AX also handles tax and regulatory processes that ordinarily would be handled separately or externally, freeing businesses from tax compliance burdens. Payroll supports all U.S. and Canadian regulatory compliance requirements, including electronic formats, regulatory withholdings filings, printing W-2s and T4s, wage garnishments, and more. Further, it can calculate federal, state/provincial, and local tax liabilities for over 10,000 regulatory withholding agencies in the U.S. and Canada. Payroll for Microsoft Dynamics AX can make all monthly, quarterly, and annual filings for all regulatory agencies in the U.S. and Canada via paper, e-file, or magnetic media.

Effective management of confidential payroll data

Businesses can maintain tight control over role-based access and editing rights to payroll information. For example, users with appropriate rights can set data security to the record and function level and allocate tasks to control who can view and change data within the payroll tables. And because Payroll for Microsoft Dynamics AX also helps reduce the need to extract data to spreadsheets for calculation, businesses can more easily comply with the Sarbanes-Oxley requirement that sensitive financial data must not reach unsecured spreadsheets or desktops.

Comprehensive employee payroll records

Payroll for Microsoft Dynamics AX also provides a complete historical view of all employee-related transactions from a single online inquiry, including time, earnings, benefits, payments, and current vacation balance. Individual employee and management queries can be answered quickly and efficiently, and W-2 and T4 forms can be reprinted on demand.

Complete audit records of transactions

Payroll for Microsoft Dynamics AX maintains a detailed record of transactions and operations throughout the system. This solid audit trail documents each step of each payroll cycle. All calculations and adjustments take place within the system, rather than on separate spreadsheets, helping ensure complete accountability in the event of an audit.

Flexible budgeting and reporting

Employees and decision makers work with complete historical information to analyze trends and patterns, forecast the impact of changes, and plan budgets. Payroll for Microsoft Dynamics AX can also be configured to handle project-based work and track futures.

Using standard reports and Microsoft SQL Server Reporting Services, managers and employees can gain fast insight into performance, quickly generate compliance reports, and perform sophisticated planning analyses. For near-term planning purposes, robust prior period adjustment functionality enables users to see "before" and "after" effects of adjustments online, prior to posting and adjusting pay.

Effective resource deployment with a business-wide view of information

Payroll for Microsoft Dynamics AX consolidates employee information for businesses into a single integrated view—without compromising local payroll requirements. Having online access to a complete listing of employees helps ensure the best deployment of personnel, particularly for businesses with international operations or multiple legal entities in multiple countries. Payroll tracks employee history, certifications, training, and other information, enabling HR to look in all companies within the enterprise for a candidate before embarking on an expensive external search.

The payroll table can be configured to be country- and company-independent. Payroll for Microsoft Dynamics AX breaks the employee set into two pieces: employee (global) and job (local). Payroll for Microsoft Dynamics AX has a global view of all employees, and local processing for the jobs filled by that global employee pool. Payroll also enables local handling of all standard federal and state or provincial requirements, as well as the series of rules, rate tables, accumulators, and reports.

Technology Overview

Payroll for Microsoft Dynamics AX is built on a single, three-tiered, object-oriented architecture and developed using the X++ programming language and the Microsoft MorphX® development environment. The solution takes advantage of the Microsoft .NET Framework and uses .NET dynamic link library (DLL) files. It supports both Oracle and Microsoft SQL Server databases, using Microsoft SQL Server Reporting Services for report development and analysis.

Organizations can quickly tailor Payroll for Microsoft Dynamics AX to accommodate their specific business requirements and circumstances with the help of a Microsoft partner or the company's IT department. It has no hard-coded rules, lists, or values, so it's easier to make the necessary adaptations. All elements in the system—including salary grid, benefits, and withholding tables—are table-driven and configurable. The solution's layered architecture permits organizations to customize one layer without affecting functionality on others. As a result, companies can adapt to business changes and upgrade over time with less risk and expense.

Conclusion

Payroll for Microsoft Dynamics AX puts businesses in control of their payroll, bringing it in house with a system designed to interoperate smoothly with Microsoft Dynamics AX. By integrating payroll processes with the Microsoft Dynamics AX business management solution, businesses can achieve a rapid return on investment (ROI) over outsourcing and independent third-party systems. Payroll increases business efficiency by:

- Reducing staff time and effort by automating and streamlining processes.
- Gaining control over data for increased accountability and reduced business risk.
- Improving data integrity for greater accuracy and reduced error.
- Managing complex workforce requirements with flexibility.
- Complying faster and more easily with government regulations.
- Increasing visibility into the organization for better planning and budgeting.

For more information, visit www.microsoft.com/dynamics/ax.

Appendix: Features Descriptions

Global view of resources	Improve resource deployment and internal recruiting for open positions with a single view of employees across your business. A single employee data table provides complete history and status of all employees across all legal entities and all countries.
Effective dates	Automatically assign records with a start and end date for a complete and accurate history of your employees. Facilitate budgeting and reporting with retroactive processing and assign future dates to automatically implement changes in status or benefits—even mid-pay period.
Multiple jobs	Handle payroll for employees who work in multiple jobs, multiple locations, and at multiple rates. An employee may have an unlimited number of active jobs, each with different pay rates, benefits, seniority, certifications, union memberships, and other details.
Comprehensive calculations	Define even the most complex rules for payroll, including pay periods, deductions, job classifications, and work rules. Rules-based calculations also support multiple labor contracts simultaneously. You no longer need to extract data to a spreadsheet or use a third-party solution to calculate pay, deductions, and benefits.
Benefit administration	Streamline benefits administration with rules-based benefit enrollments and complex benefit calculations, including employee and employer portions, and directly interface with benefit providers through accounts payable.
Multiple pay bases	Support salary, hourly, piece work, and commission programs and comply with the U.S. Fair Labor Standards Act (FLSA) using a sophisticated calculation engine.
Unlimited trial runs	Make unlimited trial runs to see the results of changes to your payroll. Avoid the additional expense of trial runs with external payroll services.
Check printing and direct deposit	Preview checks prior to printing, use optional laser signatures, and enable magnetic ink character recognition (MICR). Deposit checks directly into banks and vendor institutions, and split deposits into multiple accounts. Generate on-demand and retroactive checks.
Electronic reporting	File reports and tax forms electronically to meet U.S. and Canadian requirements with support for the U.S. Electronic Federal Tax Payment System (EFTPS) and all state electronic reporting systems.
Field-level security	Control access to payroll data according to job role as well as at the record level to restrict who can view and edit data within payroll tables to help protect sensitive data and simplify audit trails.

Business intelligence and reporting	Analyze information from across your business to monitor performance and generate reports for compliance with government regulations for the U.S. and Canada at the state or province level. Payroll for Microsoft Dynamics AX includes standard reports as well as custom reporting with Microsoft SQL Server Reporting Services.
Financial systems integration	Integrate payroll functionality tightly with Microsoft Dynamics AX vendor, payables, and general ledger functionality.
Prior period adjustments	View the effects of adjustments online—both “before” and “after”—prior to adjusting and posting. This helps cut down re-working of adjustments, which can be a major drain on payroll departments’ time.

Microsoft Dynamics AX is an integrated, adaptable business management solution that enables you and your people to make business decisions with greater confidence. Microsoft Dynamics AX works like and with familiar Microsoft software, automating and streamlining financial, customer relationship, and supply chain processes in a way that helps you drive business success.

U.S. and Canada Toll Free 1-888-477-7989

Worldwide +1-701-281-6500

www.microsoft.com/dynamics

The information contained in this document represents the current view of Microsoft Corporation on the issues discussed as of the date of publication. Because Microsoft must respond to changing market conditions, this document should not be interpreted to be a commitment on the part of Microsoft, and Microsoft cannot guarantee the accuracy of any information presented after the date of publication.

This white paper is for informational purposes only. MICROSOFT MAKES NO WARRANTIES, EXPRESS, IMPLIED, OR STATUTORY, AS TO THE INFORMATION IN THIS DOCUMENT.

Complying with all applicable copyright laws is the responsibility of the user. Without limiting the rights under copyright, no part of this document may be reproduced, stored in or introduced into a retrieval system, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise), or for any purpose, without the express written permission of Microsoft Corporation.

Microsoft may have patents, patent applications, trademarks, copyrights, or other intellectual property rights covering subject matter in this document. Except as expressly provided in any written license agreement from Microsoft, the furnishing of this document does not give you any license to these patents, trademarks, copyrights, or other intellectual property.

© 2006 Microsoft Corporation. All rights reserved. Microsoft, Microsoft Dynamics, the Microsoft Dynamics logo, and MorphX are either registered trademarks or trademarks of Microsoft Corporation, Microsoft Development Center Copenhagen ApS, or their affiliates in the United States and/or other countries. Microsoft Development Center Copenhagen ApS is a wholly owned subsidiary of Microsoft Corporation.