



Mid Year Go Live in SAP Payroll Implementation



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This white paper describes the challenges faced due to a mid year go live in a SAP Payroll Implementation project. The paper also describes the SAP standard solution and the workaround approach with recommendations.

1. Going live mid-year

Conventional wisdom tells us that we don't plan a SAP payroll implementation in the middle of a financial year. Rather a viable go-live option is widely set off in the beginning. However, companies need to adapt their SAP payroll go-live strategies to current business circumstances and set the SAP operations rolling from the middle of the financial year.

1.1. Issues with going live mid-year

Not being able to begin the use of a new payroll tool at the start of a fiscal year can be an uphill task for many customers. This means that the payroll results for the employees are available from middle of the fiscal year in the new system and the new system can cumulate, average or perform any calculations on those pay results only from that point onwards. Unavailability of payroll data for the whole fiscal year will result in the following issues for the organization:

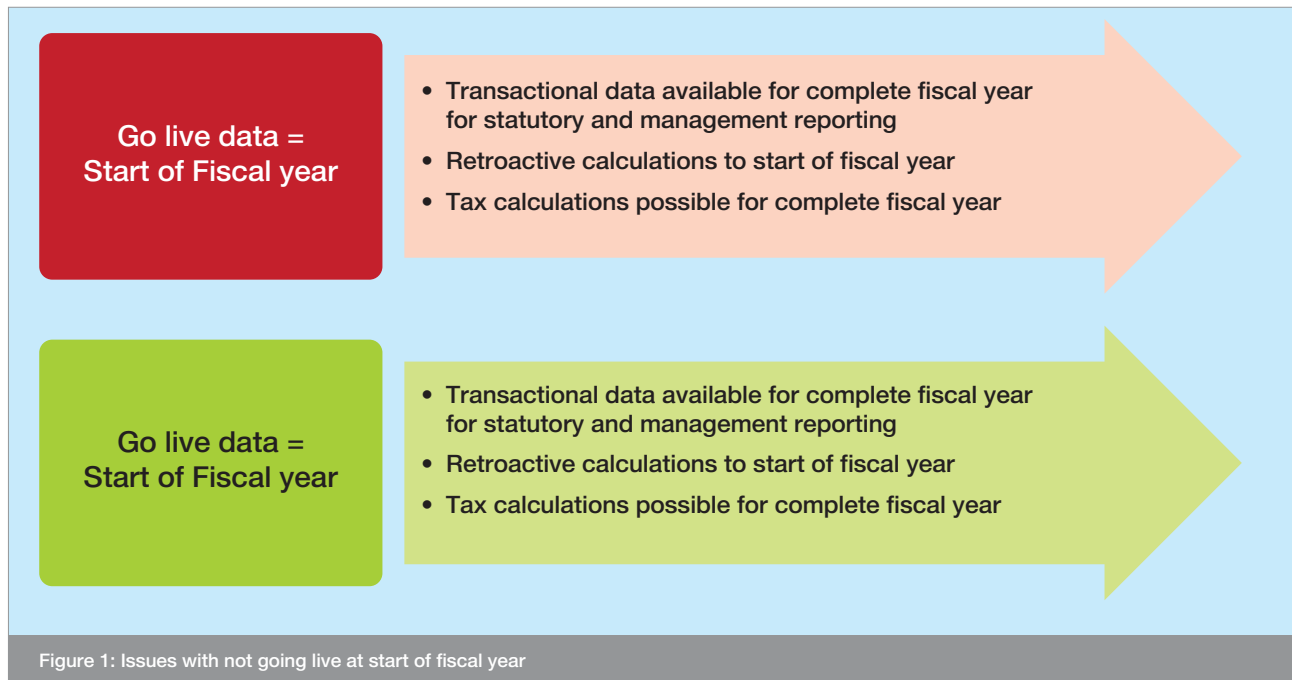


Figure 1: Issues with not going live at start of fiscal year

- **Regulatory Reporting:** Most regulatory reporting mandates payroll data to be reported for a full financial year, however with mid year go live, payroll results are not available for some part of the year and thus pose challenges to comply with the statutory reporting requirements.
- **Retroactive Accounting:** Retroactive accounting in SAP payroll is when the payments or deductions are calculated retrospectively with effect from a previous payroll period. SAP payroll engine has the capability to adjust the amounts retrospectively. This functionality of SAP will not work in the right way if pay results for previous periods are not available in the system.
- **Taxation:** For certain countries, all taxes are calculated based on the tax assessment year. Therefore, for accurate calculation of taxes, it is necessary to maintain pay results for the entire tax assessment year in the system. With mid year go live, payroll results are not available for partial period thus impacting tax calculations.

2. Mid Year go live SAP solution

Mid year go live with SAP payroll requires updating of legacy payroll results into the new SAP system in SAP recognisable formats called 'Clusters'.

SAP recognises all payroll components in terms of 'Wage Types'. Wage Types are elements against which an amount, number or rate can be stored. Every payroll component in SAP whether payment or deduction is represented in terms of a wage type. Identifying the legacy payroll components which require conversion and mapping them against already configured SAP wage types is the major in a mid year implementation project.

There are two possible ways to approach a 'Mid Year Go-Live' in any HR landscape. They are 'Standard SAP Solution' or the 'Workaround' approach.

2.1. Standard SAP solution

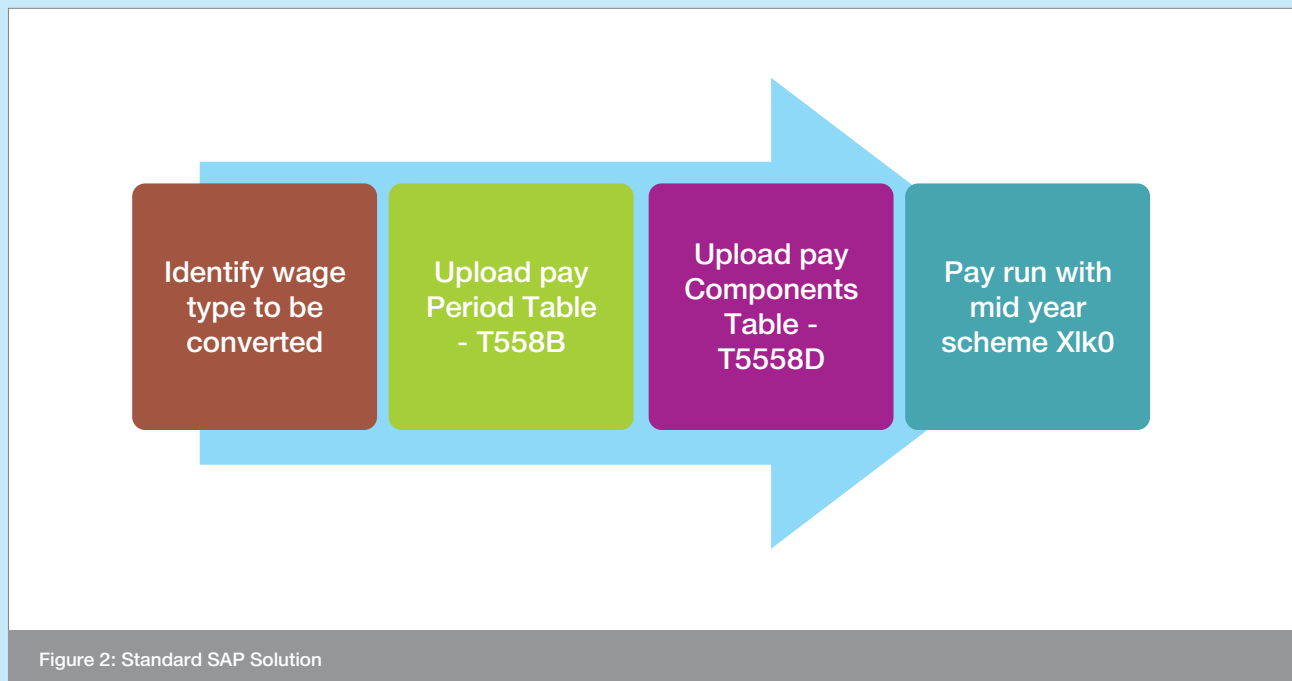
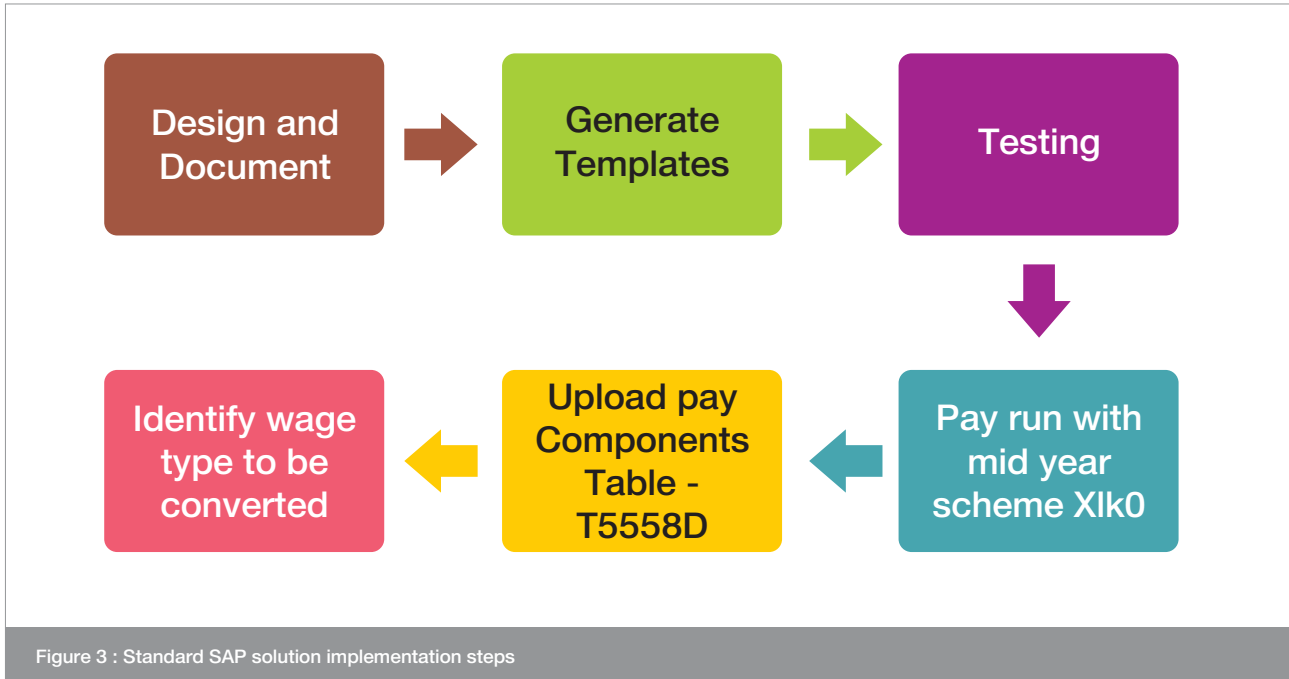


Figure 2: Standard SAP Solution

Using the standard SAP Mid Year go live functionality, the final payroll results can be uploaded from the legacy data systems into the SAP R/3 new system. The final payroll results are the actual payments and deductions of an employee salary. They must include statutory, non-statutory deductions (including third party deductions), arrears, and the contributions of the employer. For transferring legacy data and uploading the same into the SAP R/3 system, SAP has provided:

- HR Template - Payroll.xls (Microsoft Excel) file, containing templates that drive the data load programs, for converting the legacy data
- Data Load Program (also termed as data transfer workbench) facilitates the transfer of data into the SAP R/3 system. It loads the data saved in the spreadsheet into the Payroll Account Transfer: Payroll Periods table (T558B), and Payroll Account Transfer: Old Wage Types table (T558D) in the SAP R/3 system. These are the data conversion tables for the mid year go live functionality.
- Standard Executable Schema (country specific) formats the uploaded legacy data in to SAP payroll period results, and stores the results in relevant payroll cluster tables.

2.1.1. Mid Year Go-Live 'Standard SAP Solution' Steps



The above figure describes the steps involved in implementing the standard SAP Mid year go live solution.

- **Design and Documentation:** It is important that the design is discussed and finalised early in the project lifecycle particularly with respect to payroll components which needs to be converted to the new system.
- **Generate Templates:** SAP provides a data transfer workbench which can be used or a user written custom program can be used to populate the tables for data transfer. The Mid year data conversion consultant is required to generate the templates depending upon how the data transfer is going to be done.
- **Testing:** As this is a business critical activity and is done during the cutover phase before the first payroll run from the new system, it is important to get it right the first time. To ensure this, it is important that thorough testing has been done before the execution is done in production.
- **Data Loading:** SAP requires the payroll periods for which the legacy data needs to be transferred and the payroll components that needs to be transferred, accordingly data is loaded in tables T558B and T558D in the new SAP system. Data can be loaded using the SAP provided tool or a custom program for batch data transfer.
- **Payroll Processing:** SAP provides specific schemas (Xlk0, where X is country dependent) for Mid year processing. Once the data is loaded in the T558B and T558D tables, payroll is run using the standard mid year schema. This, then generates the payroll results for the employees for the required periods and updates the payroll cluster accordingly.
- **Data Validation:** Once the pay results are generated, it is important to validate the results against the legacy system and find out if there are any deviations. In case of deviations, payroll needs to be re-run for specific employees.

2.1.1.1. Prerequisites

- Entire configuration with respect to payroll has been completed. The payroll periods are set up from the earliest hire date to the present.
- Valid employee records exist for applicable Infotypes (master data). The Payroll Control Records are set for retro-calculation only from the go-live date.
- Payroll periods are generated for all payroll areas, and payroll control records exist for these areas.

2.1.1.2. Limitation

For retrospective calculation of payments and deductions, the earliest date that can be set is the start date of the period in which the first productive SAP R/3 payroll run is being processed. However, any adjustments can be manually captured for the past periods in specific wage types.

2.1.1.3. Challenges

- Data Conversion: Mid year go live can pose challenges for data conversion especially if the legacy system is non-SAP. SAP determines all payments and deductions in terms of wage types; therefore, mapping the legacy values to different wage types needs extra attention to detail.
- Testing: Mid year go live increases the complexity of SAP payroll implementation thereby demanding rigorous testing to ensure accurate payroll results.

2.2. Workaround Approach

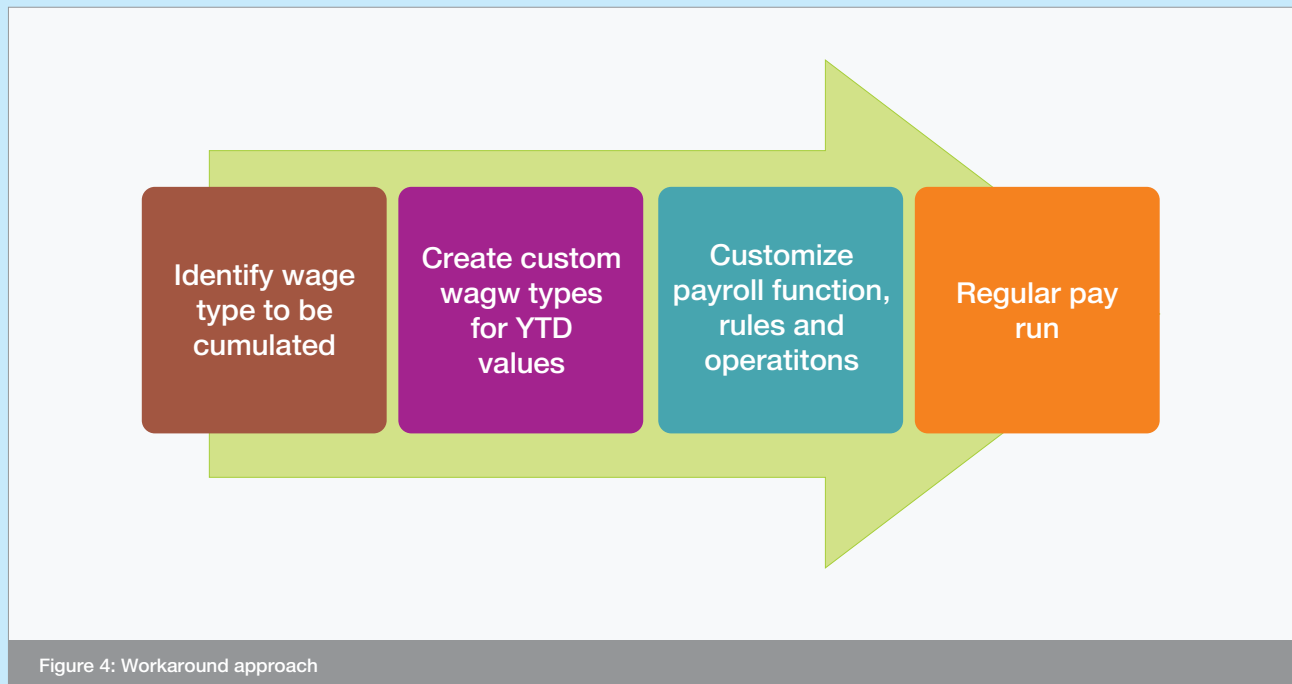


Figure 4: Workaround approach

Implementing the standard SAP solution may not be suitable in some customer scenarios when the legacy-to-SAP mapping is not well defined or if the time required to carry out the mapping is limited. In these cases, organisations prefer to adopt the workaround approach.

The workaround is generally achieved by cumulating the 'year-to-date' values for specific pay components and storing them against custom wage types. These wage types are then maintained for relevant employees in the additional payments / deductions Infotype (0015) or the one time payment / deduction Infotype (2010). When the first payroll is run, these year to date values are then stored for these employees in the payroll cluster.

The key advantage of adopting the workaround approach is reduced time and efforts in data conversion as this skips the task of mapping and loading all pay components from legacy system into SAP for the required pay periods.

The workaround involves heavy customisation, and leads to SAP having to consider the custom wage types instead of the SAP standard wage types to process 'Year-to-Date' calculations. To achieve this YTD calculation, customization is required in the payroll schemas, PCR's and operations.

This requires additional development efforts, does induce additional complexity in payroll processing and ongoing maintenance of the system.

2.3. Common Risks and Mitigation Options

Sr. No	Risk	Impact	Mitigation
1	Mid year data conversion has to be done in a very short period of time during pre payroll cutover	Incorrect data can result in inaccurate pay results	Through and extensive testing in QA environment during realization phase
2	Unavailability of appropriate business resources	Incorrect design	Involve core team members from Payroll in design phase
3	Country and company specific considerations	Incorrect design	Holistic approach during design phase

3. Recommendations

An organization should consider various factors before finalizing a particular approach for Mid year go live. These factors include:

- Ease of use and maintenance going forward
- Future plans with regards to version upgrades, new functionalities
- Statutory and legal obligations
- Tax calculations
- Time and efforts

Other than the above, there can be many country specific and organization specific factors that would have to be taken into consideration before making the decision.

For most organizations, the recommended approach would be to go with the standard SAP solution as that would ensure forward compatibility with any notes, patches and versions that SAP may release in the future. It would also ensure ease of maintenance due to reduced customization.

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