Section 14 – Payroll

Overview

Processing payroll is an important function in any governmental organization. Payroll processing consists of: (1) calculating the earnings of employees and the related withholding for taxes and other deductions, (2) calculating employer contributions for taxes, pensions and other benefits, (3) recording the results of payroll activities, and (4) preparing required tax returns and other forms.

The payroll department should review contracts or other agreements between the entity and the individual to determine if the arrangement qualifies under Internal Revenue Service guidelines as an independent contractor or is an employer-employee relationship(see http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Independent-Contractor-Self-Employed-or-Employee). Employment taxes must be paid on employee wages whereas no employment taxes are payable on payments to vendors/independent contractors.

The Internal Revenue Service publishes an Employer's Tax Guide (Publication 15) that, among other things, describes the various employment taxes, due dates, and information on whether fringe benefits are taxable or not. (see http://www.irs.gov/publications/p15/index.html).

The Process

In general, the payroll process is as follows:

➢ Payrolls are typically processed on a weekly, biweekly, semi-monthly, or monthly basis.

➢ Each pay period, the payroll department determines the hours worked by employees, including any changes to payroll, such as deductions, pay increases, new hires, and terminations.

➢ A calculation of gross wages or salaries, federal and state taxes, and pension contributions, as well as other types of deductions (e.g., insurance premiums, garnishments, union dues, etc.), is then performed.

➢ After verification, audit, and payroll posting to each departmental cost center, checks are issued and/or direct deposits are transmitted to authorized depositories (where net pay is directly deposited in employee bank accounts). Employees receive a pay voucher showing gross earnings, withholdings, and net pay.

Payroll journal entries detail the check number issued and the employee's wages, taxes, deductions, and net pay. The payroll journal also provides totals of wages, taxes, deductions, and net pay, as well as the employer's liabilities, such as FICA (Social Security and Medicare), Federal Unemployment Tax, and State Re-employment Tax.

Reporting and depositing payroll taxes to the appropriate agency in an accurate and timely manner is important as late or inaccurate deposits may result in penalties and interest charges. Additionally, timely remittance of amounts to providers of benefits such as health insurance is important to ensure continued coverage. One report that can provide assistance in the timely remittance of payroll taxes with the appropriate agencies is a Payroll Tax Summary that details by pay period, all wages, employee taxes, employer liabilities, and deposits. The Payroll Tax Summary is a cumulative report providing quarter-to-date and year-to-date balances and should be generated each time a payroll is processed.

The following is a sample of payroll-related reports:

Payroll Reports:	
Each Payroll	Each Quarter
➢ Employee Earnings Statements ➢ Departmental Cost Summary ➢ Payroll Checks ➢ Payroll Journal ➢ Payroll Tax Summary	➢ 940 Federal Unemployment Deposit ➢ 941 Federal Tax Return ➢ State Unemployment Tax Return
Each Month	Each Year
➢ Month-End Departmental Summary ➢ Payroll Tax Summary	➢ Federal Unemployment Tax ➢ Federal Withholding Recap 940 ➢ W-2's for all Employees

The payroll department should ensure that vacation, sick, compensatory, and other leave balances are properly recorded and reconciled on a periodic basis. Leave balance reports can also be used to calculate amounts due to employees for accumulated leave upon termination and to calculate compensated absences balances reported on the local government's annual financial statements.

Helpful Hints

➢ There should be a clear separation of duties between: (a) persons involved in preparing payrolls, (b) timekeepers, and (c) persons distributing pay to employees.

➢ Action should not be performed for the following without written approval from the appropriate authority:
  o Adding or deleting employees from the payroll
  o Changes to the rate of pay
  o Changes to payroll deductions

➤ Direct deposits for salaries should only be made pursuant to written authorizations from the employee and depository.

➤ Changes to direct deposit instructions should be verified with the requesting employee by telephone or in person.

➤ Payrolls should be rechecked as part of routine payroll preparation.

➤ Payrolls should be subject to final approval by responsible person(s) outside the payroll department.

➤ Duties of payroll employees should be periodically rotated and payroll employees should be required to take leave.

➤ Custody of unclaimed payroll checks should be vested in someone other than person(s) who prepare payrolls or distribute payroll checks.

➤ Sufficient control should be maintained over blank payroll checks.

➤ Payroll revolving funds should be reconciled by someone other than the person(s) who prepare payrolls or distribute payroll checks. Additionally, reconciliation procedures should include verifying names on payroll checks to payroll records and examining some of the endorsements on payroll checks.

➤ Procedures should be in place to ensure compliance with:
  o Union agreements regarding wage rates, vacation pay, and similar items
  o Federal and state regulations regarding wage and employment taxes (e.g., Social Security, Medicare, unemployment taxes, withholding taxes)
  o State regulations regarding bargaining workforce (e.g. eligibility of union dues to be collected as a payroll deduction)
  o Governing body policies on pay (classification and pay plan), leave, and benefits

References

Internal Revenue Service, Federal Employment Taxes:
https://www.irs.gov/government-entities/federal-state-local-governments/employment-taxes

Florida Reemployment Taxes:
https://floridarevenue.com/taxes/taxesfees/Pages/reemployment.aspx