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 and other agreements, together with current IRS worker-classification guidance, to determine whether a worker is properly classified as an employee or an independent contractor. Employment taxes generally apply to employee wages, while payments to properly classified independent contractors are not subject to employment-tax withholding by the payer.

The Internal Revenue Service publishes Publication 15, Employer's Tax Guide, which explains federal employment taxes, filing and deposit requirements, and the tax treatment of many fringe benefits. Governments should consult the current publication and related IRS instructions each year.

Payroll Process

In general, the payroll process is as follows:

- Payrolls are typically processed on a weekly, bi-weekly, 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, 457(b) contributions, etc.), is then performed.
- Following verification, auditing, and payroll posting to each departmental cost center, checks are issued and/or direct deposits are transmitted to authorized financial institutions. For direct deposits, net pay is deposited directly into employees' bank accounts or loaded onto pay cards. Employees receive a pay voucher detailing their 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 (i.e., Social Security and Medicare), applicable state re-employment tax liabilities or reimbursement obligations, and other employer payroll obligations.

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 retirement contributions and health insurance is important to ensure compliance and 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.

Examples of Payroll Reports

PAYROLL REPORTS	
Each Payroll	**Each Quarter**
• Employee Earnings Statements • Departmental Cost Summary • Payroll Checks • Payroll Journal • Payroll Tax Summary	• 941 Federal Tax Return • State Re-employment Tax Return
Each Month	**Each Year**
• Month-End Departmental Summary • Payroll Tax Summary	• W-2s for all Employees • ACA Reporting (1095s), if applicable

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.

GASB Statement No. 101 - Compensated Absences

GASB 101 statement, which is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter, changes the way governments will recognize and measure liabilities for leave time earned by employees, including recognition of liabilities for leave that is expected to be paid as salaries for periods during which employees use leave, as well as for leave that will be paid in cash or settled in some other manner during or at the end of an employee's active service, for reporting on an economic resources measurement focus.

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
- Adding or deleting employees from the payroll
- Changes to the rate of pay
- 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 prepares payrolls or distributes 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 prepares payrolls or distributes 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:
- Union agreements regarding wage rates, vacation pay, and similar items
- Federal and state regulations regarding wage and employment taxes (e.g., Social Security, Medicare, unemployment taxes, withholding taxes)
- State regulations regarding bargaining workforce (e.g. eligibility of union dues to be collected as a payroll deduction)
- Governing body policies on pay (classification and pay plan), leave, and benefits

References

- Internal Revenue Service - General information for federal state and local government. Official link
- Internal Revenue Service - Publication 15, Employer's Tax Guide. Official link
- Florida Department of Revenue - Reemployment tax. Official link
- U.S. Department of Labor – Wages and the Fair Labor Standards Act. Official link
- Governmental Accounting Standards Board (GASB) Statement No. 101 – Compensated Absences. Official link
- Government Finance Officers Association (GFOA) "GASB 101. Literally." Official Link
- Florida Retirement System - Employer resources. Official link