# Policy and Procedures for Payroll Processing

## BACKGROUND INFORMATION

Payroll processing is one of the most important payment processes in any organization, including PHAs. First, salary information is sensitive and employees need to feel assured that they will be paid accurately on a consistent and timely basis. In addition to the financial obligations, the PHA has to ensure that its payroll activities, including deductions, comply with changes in federal and state tax requirements and employment laws. PHAs are also required to be familiar with the tax implications for employer-provided benefits. For this reason, many PHAs and organizations opt to use the services of a third-party payroll provider.

This payroll processing policy assumes that the PHA does not use a third-party payroll service. This document provides two (2) samples of a PHA payroll processing policy and procedures.

* **Sample 1 – Small PHAs Using Checks**. This sample provides an example payroll processing policy and procedures for PHAs who write checks for payroll.
* **Sample 2 – PHAs Using Direct (Automatic) Deposits**. This sample provides an example payroll processing policy and procedures for PHAs who use direct (automatic) deposit for payroll.

PHAs can simply cut and paste either or both samples into their policy and procedures document and modify as needed.

## ITEMS FOR CONSIDERATION

The following provides items that the PHA needs to consider when developing the policy and procedures for payroll processing and the major assumptions that were used to develop the sample policy and procedures. The assumptions are applicable to all PHAs.

1. Assumption – The PHA’s payroll system interfaces with the general ledger.
2. Assumption – Pay rates are in accordance with approved budgets and personnel policy.
3. Assumption – The PHA processes payroll every two weeks.
4. Assumption – The PHA does not use a third-party payroll service.

SAMPLE 1 – SMALL PHAs USING CHECKS

## PAYROLL PROCESSING POLICY

Management is responsible for the accuracy and timeliness of the payroll data processed by the finance staff. Since employee wages, benefits, and employment taxes are major costs, the accuracy of this data is crucial to the overall accuracy of the PHA’s accounting records and financial statements.

Payroll will be processed according to the PHA’s personnel policy. Other policies that will be used in conjunction with the payroll processing policy includes: 1) disbursement policy; 2) expenditure cycle policy; 3) cost allocation policy; and 4) check writing policy.

Payroll advances are not permitted. In addition, extra withholding amounts for savings, Christmas funds, etc., are not permitted.

## PAYROLL PROCESSING PROCEDURES

The following payroll procedures are to be followed: 1) Timesheets; 2) payroll processing; 3) payroll deductions; 4) payroll taxes; and 5) distribution of checks.

### Timesheets

The following requirements apply to employee timesheets.

* All employees will complete a timesheet, regardless of whether the employee is paid hourly or by salary.
* All timesheets must be completed, if not captured electronically, must be typed or printed in pen only.
* The timesheet includes all necessary information to fully document the hours worked for the pay period for each employee. At a minimum, the timesheet should include the following information: the name of employee, pay period dates, and hours worked.
* The employee must sign the completed timesheet, as well as the Executive Director or other certifying individual, at the end of the pay period.
* The Executive Director (or other certifying official) is responsible for verifying that the timesheet is complete and accurate, including hours worked and any leave taken. If done manually, the ED or Certifying Official must sign and date the timesheet. If done electronically, systems access will capture approving official’s confirmation accordingly.
* Note: Timesheets should ONLY be completed by the employee.

### Payroll Processing

Payroll will be processed every other Friday for the two-week period ending the previous **[day of the** week**]**. In the case of a holiday, payroll will be processed the working day immediately preceding that Friday.

The PHA utilizes XX software to process payroll activities including the processing of payroll, printing of checks, maintenance of accrued leave and payment of related payroll liabilities.

The following requirements apply to the accounting for payroll processing and the physical security of the checks and signature plate.

***Accounting***

The payroll process depends on two categories of data: constant data and current period data. **Constant data** is defined as those items contained in the employee’s record, such as rate of pay, eligibility for benefits and associated and normally change only a few times a year month. **Current period data** is data that changes from period to period, such as regular hours worked, leave used and overtime hours worked. Current period data interacts with constant data to determine the payroll amount for that pay period.

As a final safeguard against errors and fraud, all information relating to changes in personnel and related compensation are to be provided to the Executive Director or senior management for review prior to the change in the employee’s personnel record and related system. Note – This step should be part of personnel and human resource policy and procedures.

* The Executive Director will review constant data (normally in the form a change report) to ensure that any changes are appropriate and authorized.
* The Executive Director will review the current payroll run against the previous payroll looking for material differences, multiple checks to employees, etc.
* The payroll module and general ledger system are interfaced. When the payroll module generates a payroll cycle, the amounts are automatically distributed to various accounts in the general ledger.
* As part of the payroll distribution to the ledger accounts, expense accounts must agree with the total gross payroll. The deductions from gross are credited to various liability withholding accounts, and net pay is a credit against cash. These accounts should be reviewed for each payroll by finance and the Executive Director to ensure proper posting.

***Physical Security***

* Blank checks are stored in a secured area, with limited access by authorized PHA staff.
* The signature plate is secured in a separate location not open to other PHA employees or the public.

### Payroll Deductions Procedures

Payroll deductions should be processed as follows:

* The employee requests payroll deduction from their pay and signs an authorization for such deductions (except for wage attachments allowed under federal and state law).
* The finance department ensures employee eligibility of benefits or personal deductions as requested.
* The payroll deduction notice is filed in the employee’s payroll/personnel files.
* Copies of signed documents are provided to other areas, if required.

If an employee requests a payroll deduction related to benefits received such as health or retirement, the Finance Director will research the correct tax treatment for payroll purposes.

All employee benefit deductions will be reviewed for accuracy during the payroll process.

### Payroll Taxes

Payroll taxes should be processed as follows:

* Payroll taxes will be paid in a timely manner and quarterly/annual reports will be filed in a timely manner but no later than the required due dates.
* Payroll taxes reports shall be reviewed and signed by the Executive Director/Finance Director.

### Distribution of Checks

Checks will be distributed as follows:

* Checks will not be released earlier than the scheduled payment date.
* Payroll checks are delivered to each department and distributed by the designated personnel staff or manager.
* Unless the employee has provided written authorization to release the check to another individual, checks are released only to the respective employee.
* If an employee or their representative is not available, the undistributed check(s) must be secured in a locked drawer or safe.

SAMPLE 2 – PHAs USING DIRECT (AUTOMATIC) DEPOSITS

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* The payroll module and general ledger system are interfaced. When the payroll module generates a payroll cycle, the amounts are automatically distributed to various accounts in the general ledger.
* As part of the payroll distribution into the ledger accounts, expense accounts must agree with the total gross payroll. The deductions from gross are credited to various liability withholding accounts, and net pay is a credit against cash. These accounts should be reviewed for each payroll by finance and the Executive Director to ensure proper posting.
* A pre-payment payroll report will be printed after all payroll data has been entered into the software system. This report will be reviewed and approved by the Finance Director. For ACH transactions, the submitter may not be the same person as the person approving the ACH.
* Once the ACH transaction is processed, the actual payments will be reconciled back to the pre-payment processing report to verify that there were no alterations incurred after the approval of the payments.

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