



Payroll Year-End Tips & Tricks

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Meet Today's Speaker



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- Prior to current role, served as Vice President Total Absence Management, ADP; Sr. Vice President of Product Management, SHPS; Director, Product Development & Management, CIGNA
- 20+ years of experience in leadership, operations and product management; primarily in health and productivity management, employee benefits administration and wellness outsourcing
- Recognized authority in workforce trends, leaves management, and DOL compliance including FMLA, FLSA, and ADA
- Widely published in outlets including CFO Magazine, SHRM and Employee Benefits News. Frequent speaker at industry conferences and events
- MBA from Drexel University, Philadelphia, PA

Agenda

- **HR and Business Challenges**
- **Compliance Trends**
- **SLAs, Metrics, KPIs and Payroll Preventative Compliance**
- **Payroll and Operational Indicators**
- **Year End Life-Cycle – Validation and Reconciliation**
- **Key Considerations and Next Steps**



Please note that ADP does not provide legal advice. We recommend that you discuss how the requirements apply to your specific facts with your inside or outside legal counsel

Key HR and Business Challenges



- Right people, time, place, skill set
- Time and Benefits reflecting emerging work values: Flexibility, Fulfillment, Fairness and Family
 - Multi-generational workforce / diversity
- Keeping up with compliance
 - Tracking legislation – Federal, State and Local
 - Payroll – on-going and year end preparedness -- notices, timing, project plan, oversight / audit, Tax filing and reporting
- Transparency: total labor cost – direct and indirect
- 24X7 Access to information, including Mobile
- Data, Reporting, and actionable insights
- Communication, education and change management

Compliance Trends -- Considerations for Year-End Plan

- **Minimum Wage** changes and Overtime
- **Federal, State and Local leave laws**
 - Paid Sick Leave
 - Paid Family Leave
- **PTO** accrual and usage
- **New Form W-4** Compliance and W-2 distribution
 - Work with vendors on – data, timing, file feed, dates
 - Work ahead, build in time to review W-2 preview
- **RROP** – what's included?
 - Flat rate bonuses
 - Milestone bonuses
- **Multi State/jurisdiction** tracking
- Meals and Rest Breaks
- Types of Pay
 - Commissions
 - Piece Rate
- Wage Statement Requirements
- Employee vs. Independent Contractor
- ACA Benefits Eligibility based on hours worked, paid leave and unpaid FMLA, USERRA and Jury Duty
- Termination pay, etc.



Reminder for the New Year non-exempt employees and managers about -- **Timekeeping Policies and Prohibitions:**

- Policy acknowledgement
- Policies and practices around timekeeping / flexible hours
- Working off-the-clock
- Meal and rest breaks
- Exception time
- Pre- and post-shift work activities
- Meeting and training time
- Travel time
- Shift differentials
- Overtime pay on bonuses and commissions
- PTO tracking
- Remote working provisions and home-shore policies
- Payroll changes
- Controlling overtime hours and more...

Form Descriptions

Processing scope does not end with year-end, you have to remember the 4th quarter!

- The **Form W-2**: Wage and Tax Statement, is used to report wages paid to employees and the taxes withheld from them
- **Form W-3** is a summary page of all W-2 forms issued by the employer
- **Form W-4** is used by employers to determine the amount of tax withholding to deduct from employees' wages.
- A **1099-MISC** is a type of tax form. It is used to report miscellaneous income, such as income earned as a non-employee, as well as fees, commissions, rents, or royalties paid during the last tax year. Payments for prizes, awards, legal services, and other non-employee activities may be reported on this form as well.
- **Form 940**: Employer's Annual Federal Unemployment (FUTA) Tax Return
- **Form 941**: Employer's Quarterly Federal Tax Return
- **Form 944**: Employer's Annual Federal Tax Return
- **Form 945**: Annual Return of Withheld Federal Income Tax (For withholding reported on Forms 1099 and W-2G)
- **Form 1042-S** is used to report amounts paid to foreign persons (including persons presumed to be foreign) that are subject to income tax withholding, even if no amount is deducted and withheld from the payment because of a treaty or exception to taxation, or if any amount withheld was repaid to the payee.
- **1094-C and 1095-C** are filed by employers that are required to offer health insurance coverage to their employees under the Affordable Care Act, also known as Obamacare.
- **Form 8027** is the Employer's Annual Information Return of Tip Income and Allocated Tips
- **Form 5498** is sent if you made contributions to an IRA (Individual Retirement Account) in the preceding tax year. The "custodian" of your IRA, typically the bank or other institution that manages your account, will mail a copy of this form to both you and the Internal Revenue Service.
- **Form 1099**: Form 1099 series is used to report various types of income other than wages, salaries, and tips (for which Form W-2 is used instead). Examples of reportable transactions are amounts paid to a non-corporate independent contractor for services (in IRS terminology, such payments are nonemployee compensation).
- **Form 1096** is the Annual Summary and Transmittal of U.S. Information Returns. This form is used to transmit Forms 1097, 1098, 1099, 3921, 3922, 5498 and W-2G to the Internal Revenue Service.

SLAs, Metrics, KPIs and Payroll Preventative Compliance

Metrics, SLAs and KPIs

Metric:

A metric is a means of **quantifying** something so that it's **performance can be identified and measured**. Metrics are usually used in SLAs to determine if the required levels of service are being met

SLA:

An SLA is a Service Level Agreement, an agreement that **explicitly defines a level of service** that is required under the contract (quality of service)

- Represent a desired and mutually agreed state of a service
- Provide additional boundaries of a service scope (in addition to the agreement itself)
- Describe agreed and guaranteed minimal service performance

KPI:

A metric that **focuses on strategic objectives** and **used for benchmarking progress** in achieving goals (organization and efficiency goals)

- Efficiency and effectiveness of a service
- Service operation status

Metrics: Key Benefits

KEY PARAMETERS



Timeliness



Accuracy



Cost

Key Scorecard Indicators

CATEGORY:

Performance/ Provider Level Metrics

- Tie to Provider SLAs
- Tie to KPIs
- Measure overall “health” of payroll

EXAMPLES

- Cost Per Paycheck
- Cost Per Payee
- Payment Accuracy
- Reporting Timeliness
- Payroll Process Cost as % of Revenue

CATEGORY:

Payroll Operations Based Metrics

- Concentrate on case resolution
- Measure the performance of the execution steps

EXAMPLES

- Payroll Deadlines
- Input, Accuracy & Timeliness
- Timeliness of Payroll Inquiry Resolution

CATEGORY:

Processing Metrics

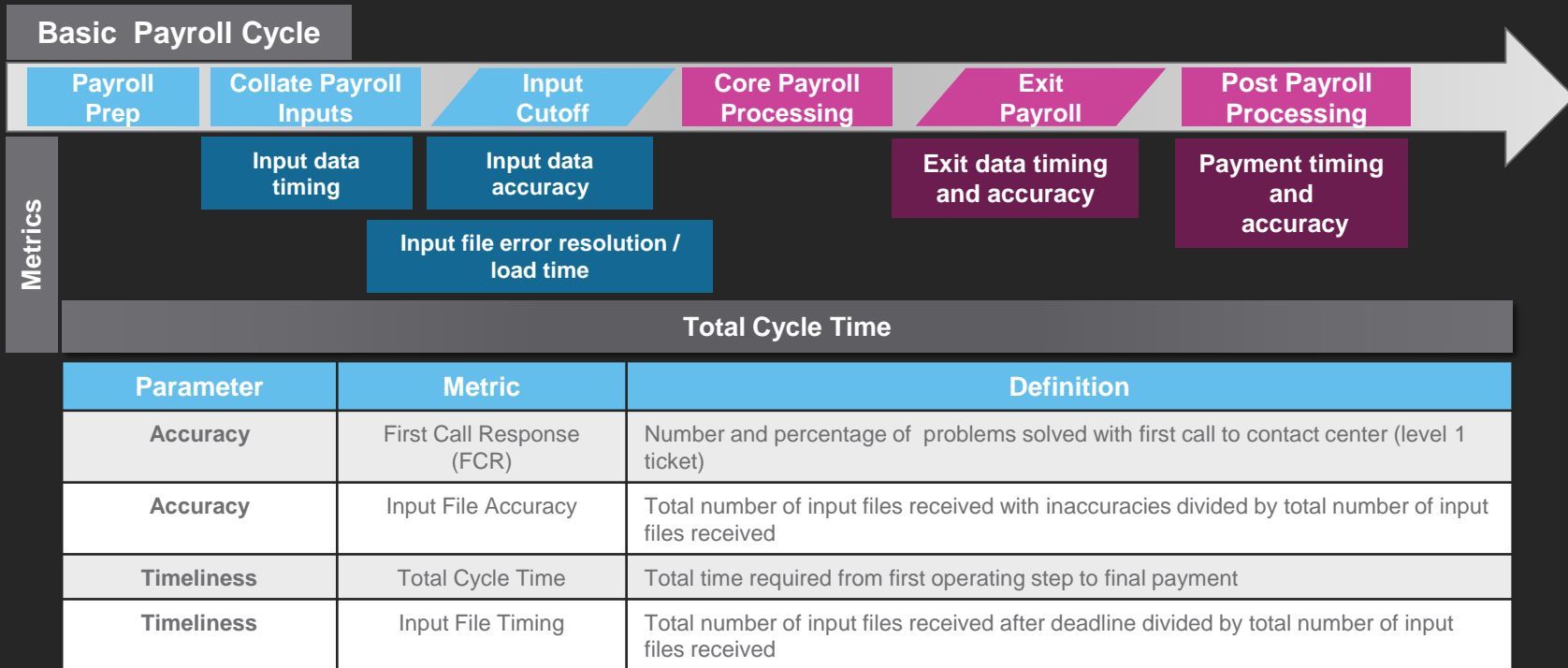
- Unit based measurements of payroll and service delivery productivity. Used for root cause analysis

EXAMPLES

- Number of errors and adjustments
- Payment Reissues
- Overpayments

Operational Metrics Examples

Each “Step” Of The Process

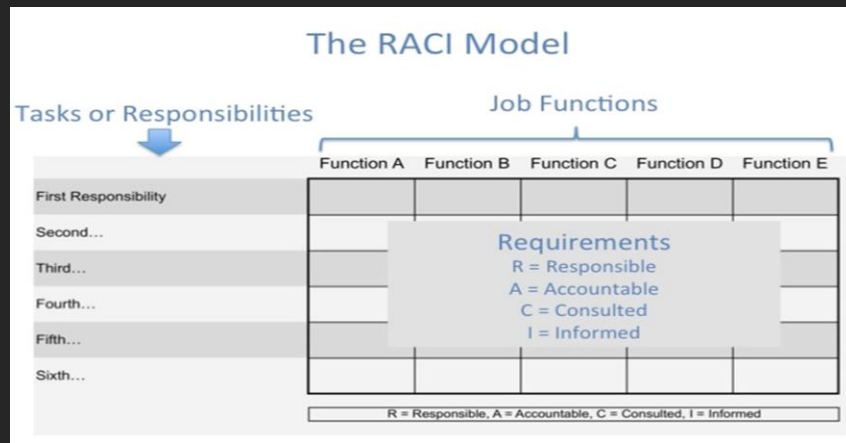


RACI Model

- **R – Responsible** – owner, person who performs the work
- **A – Accountable** – approver, person accountable for the end result
- **C – Consulted** – resource / SME / supportive role, anyone who needs to be contacted before a decision is made
- **I – Informed** – notified of results, may not need to be consulted but “kept in the loop” after a decision is made or a task is completed

Typical Steps:

- Identify the processes / activities
- Identify all the roles and list them
- Identify who has the RACI for each process
- Every process should generally have one “R” as a general principle
- Resolve overlaps
- Resolve gaps



Key Payroll and Operational Indicators

Focus	Indicator
Oversight	Who is in charge of the payroll department oversight? What area does payroll belong to?
Scope	What are the specific functions considered part of payroll and what are the geographies where there are payees (both national and international)?
Retained Services	What , if any, payroll functions are outsourced and based on what level of service (who does what)?
Operating Model	How are the delivery of payroll services handled- centralized or decentralized? Are processes, technology solutions and roles/responsibilities standardized across the organization?
Automation	How are transactions handled? Based on a scale of 1-10, how automated is your organization concentrating on the level of integration and self service? Is there a strong reliance on manual processes?

Key Payroll and Operational Indicators

Focus	Indicator
Source System Integrity	How are updates handled? Is there a clear definition of source systems (HR, Time, Payroll)? Are source systems updating secondary systems?
Staffing	What is your staffing this year versus 2 years ago?
Compliance	What are there clear governance and compliance parameters? Have there been any compliance challenges?
View / Measure Data	How can you view all payroll data systematically? Do you use metrics and/or KPIs (if so, at what level)
Employee Inquiry	How are employee contact functions handled?

Preventative Compliance versus Regulatory Compliance

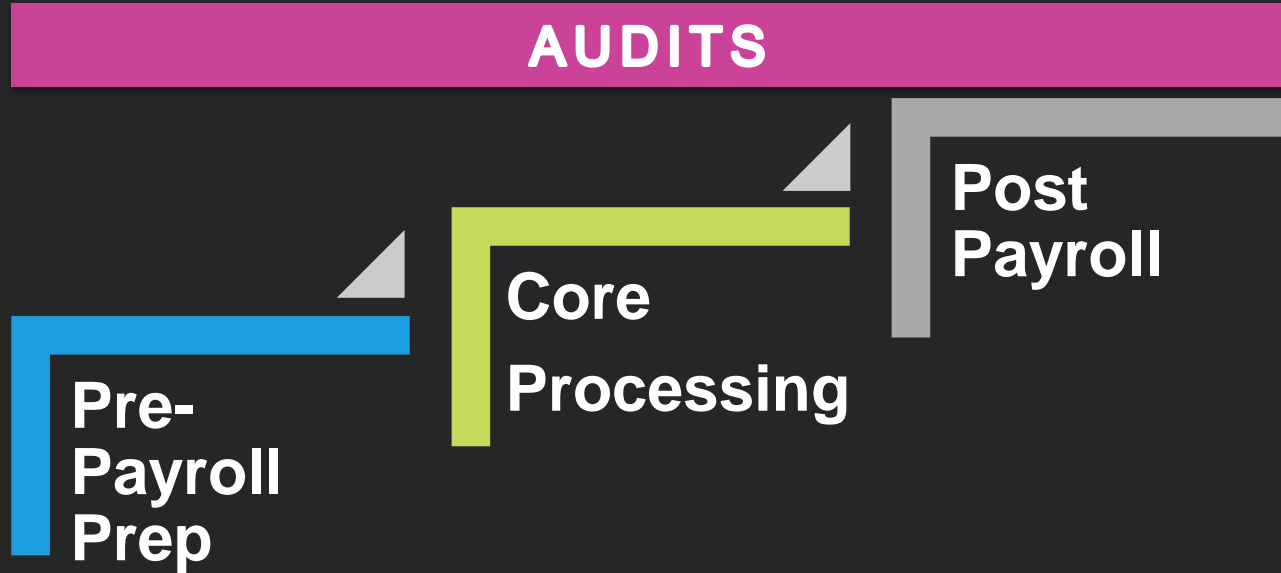
Preventative Compliance

- Reflects the act of identifying potential issues in advance of the payroll process based on metrics, precedent, business rules and leading practices
- For example, in the US, address changes, terminations etc. are checked as of the pay period begin date where resident state and work are not the same to validate correct setup

Regulatory Compliance

- Evaluates the results of the payroll process based on configuration and regulatory requirements
- For example, in the US, deduction pre-tax and post-tax calculations are checked to ensure an appropriate tax calculation and configuration

Payroll Audits and Validation



Pre Payroll Prep

Audit	Description	Control Area
Deceased Employee Master Data Review	Identify deceased employees and determine whether withholding and/or reporting must be adjusted based on date of death and to whom outstanding payments should be made (e.g., estate, personal representative, etc.)	Set up Validation
Wage Type Mapping Review	Download and conduct review of all wage types / pay codes to identify processing class errors or new wage types / pay codes that may require different tax classification	Set up Validation
Term Audit	Audit to confirm a termination process completed accurately	On Cycle Pre-Payroll Validation
Worked In/Lived In	Identify and resolve any needed tax setup changes including school districts etc.	Set up Validation
Retro Timing Report	Review any pending retroactive payments (including recalculated overtime on bonuses or other payments) and identify timing/tax year for those payments.	On Cycle Pre-Payroll Validation
Address Audits	Identify employees with incomplete or foreign addresses	Setup Validation

Pre Payroll Prep

Audit	Description	Control Area
Social Security	Starting August 2018, the Social Security Administration (SSA) began mailing “Educational Correspondence” to employers that submit Forms W-2 containing employee names and Social Security numbers (SSNs) that do not match SSA’s records.	Set up Validation
ACH Return	Validate correction on ACH returns through routing number verification and valid account number check.	Setup Validation
Fixed HR Data Error Report	Reports generated to identify master data issues that would prevent on-cycle payrolls from running on employee	On Cycle Pre-Payroll Validation
Inaccurate employer information	Inaccurate employer name, address, or Employer Identification Number (EIN)	Setup Validation

Core Processing Audit Examples

Audit	Description	Control Area
Unprocessed Adjustments	Identify unprocessed adjustments transactions to ensure that all expected manual check updates are being processed	Off Cycle Validation
Duplicate Earnings	Identified potential duplicate earnings/deductions	On Cycle Core Process Validation
Payroll Comparison Report	Report used to compare all earnings and deductions from current period processing to previous period processing	On Cycle Core Process Validation
Active Employee with High Gross Report	Report used to identify employees where gross pay is higher than a certain threshold (Thresholds to be determined on a client specific basis)	On Cycle Core Process Validation
Active Employee with Zero Gross Report	Identifies employees with \$0 gross in current payroll period	On Cycle Core Process Validation
Active Employee with Zero Net Report	Identifies employees with \$0 net in current payroll period	On Cycle Core Process Validation
Active Employee with High Net	Report used to identify employees where net pay is higher than a certain threshold (Thresholds to be determined on a client specific basis)	On Cycle Core Process Validation
Active Employee with High Retro	Identifies employees with retro greater than client specific threshold	On Cycle Core Process Validation
Active Employee with Severance Payments	Identifies employees with Severance/Separation listed as active at least 1 day within period range	On Cycle Core Process Validation

Core Processing Audit Examples

Audit	Description	Control Area
Salaried With Positive Pay	Identifies employees who are being paid earnings based on an hourly pay code	On Cycle Core Process Validation
Hourly With Salaried Pay	Identifies employees who are being paid based on a salary pay code	On Cycle Core Process Validation
Negative Gross Rpt	Identifies employees with negative gross for review	On Cycle Core Process Validation
Employees with High Hours	Identifies employees with High Hours for on-cycle payroll (Limits to be determined by client)	On Cycle Core Process Validation
Payments Inactive/Terms	Identifies employees with inactive/termination status throughout the pay period included in the payroll	On Cycle Core Process Validation
Negative Deductions	Identifies employees with negative deductions/refunds for review	On Cycle Core Process Validation
Deductions Not Taken	Identifies employees with Deductions Not Taken/Arrears	On Cycle Core Process Validation
Employees with No Earnings with ER Contributions	Identifies employees with zero earnings but still have ER contributions	On Cycle Core Process Validation
Pay Frequency	Identified employees being paid based on an incorrect pay frequency	On Cycle Core Process Validation

Post Payroll Processing Audit Examples

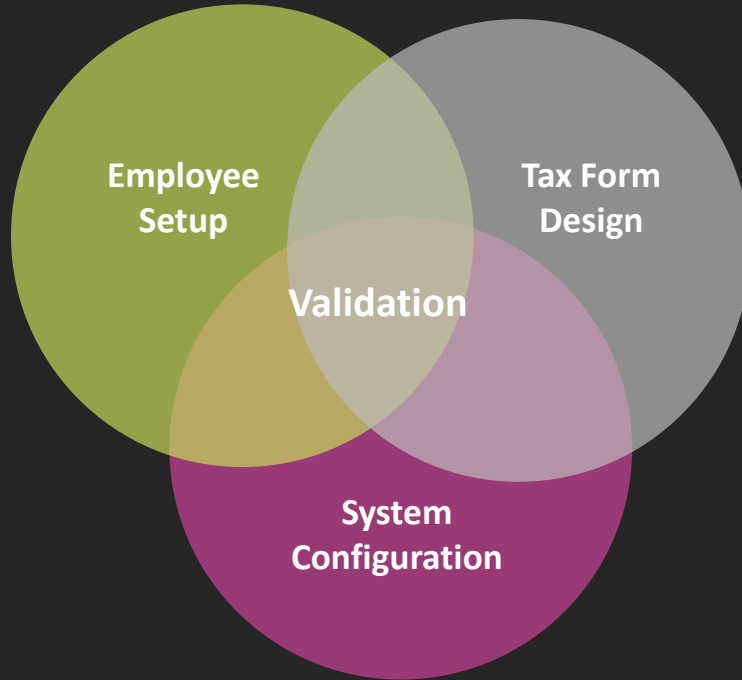
Audit	Description	Control Area
GL Check Completeness	Ensure that there are no GL entries that are not posted	Post Process Validation
Stock Option Reconciliation	Compare the stock options processed for previous month to listing of exercised stock options	Post Process Validation
Tax Balances	Identify and adjust any taxable wages issues e.g. over or under withholding adjustments	Post Process Validation
Recovery Offset Report	Report showing offsets used to bring employee up to minimum wage (e.g. tip credit, meal allowance)	Post Process Validation
Supplemental Payment Reconciliation Reporting	Reconciliation for Supplemental payment processing including data load, errors, payments processed (e.g. bonuses outside the payroll calendar)	Post Process Validation
FICA Out-of-Balance	Identify and resolve variances when comparing actual FICA tax withholding to calculated tax withholding for all four FICA tax balances (Social Security, Medicare – Regular and Supplemental, Limit on Social Security 6.2%)	Post Process Validation
Gross to Net Report	Report showing all pay codes contributing to the gross to net payroll calculation by employee	Post Process Validation
Headcount Report	Used to compare current headcount processed with prior payroll headcount	Post Process Validation



Year End Life-Cycle

Payroll Validation

Validation really occurs in three sections...



- ▶ The **system configuration** will be validated to program the appropriate tax behavior and accumulation of earnings, deductions and taxes.
- ▶ The **employee setup** will also be validated for accurate elections and settings.
- ▶ The **tax form** buckets will be validated for appropriate posting.

Audits Are Complex (Auditors Review)

Some of the key components evaluated in validating year end configuration and setup, as well as reconciling results, include:



- Accumulators
- Social Security Wage Base
- Mapping
- Balances (e.g. plan design -- FSA carryover amount)
- Employee Payroll Data (e.g. Exempt Status)
- Limits (e.g. 401(k), HSA, Group Term Life)
- Percent Contribution
- Adjustments (overpayments)
- Employee Status (e.g. Terminated)
- Resident and Work Location (reciprocity agreements)
- Exceptions

Validation: Configuration

Item	Description	Audit
Tax Treatment	Validate that all earnings and deductions are configured with the appropriate taxability	<ul style="list-style-type: none">• Pre-tax versus post-tax• Federal versus State
Accumulators	Validate the components of each wage, withholding, deduction and credit are assigned to the appropriate accumulator	<ul style="list-style-type: none">• Amounts assigned to right bucket e.g. Cost of Employee's Health Insurance coverage (EE and ER contributions) included on W-2 Box 12 Code DD
Tax Form	Validate that each box of the tax forms are mapped to the right earnings, deductions, taxes and accumulators	<ul style="list-style-type: none">• Box content listing• YTD totals verification
Rates and Limits	Verify the employer state unemployment insurance tax rate and taxable wage limit for each state	<ul style="list-style-type: none">• Unemployment rate and limit• Social Security rate and limit• Medicare rates• 401(k) limits
Adjustments	Validate an adjustment payroll has been scheduled	<ul style="list-style-type: none">• Validate all adjustments applied

Validation:

Employee Level Configuration and Data Accuracy

Item	Description	Audit
Name and Social Security Number	These elements must be in the correct format or penalties can be applied	<ul style="list-style-type: none">Employee verificationFormat check
Retirement Plan Indicator	The indicator in Box 13 indicates whether the employee has a retirement plan	<ul style="list-style-type: none">EnrollmentBalances
Deceased employees	Verify deceased employees are coded correctly	<ul style="list-style-type: none">Status Verification (e.g. Deceased)
Deferred Compensation	Validate deferred compensation	<ul style="list-style-type: none">Plan type – qualified or non-qualifiedContribution amounts
Group Term Life	Check Group-Term Life Insurance adjustments	<ul style="list-style-type: none">Updated and submitted
Special Tax Items	Verify that other special tax items such as Other Compensation, Third-Party Sick Pay, Employee Business Expense Reimbursements, Taxable Fringe Benefits, Tip Allocation information and Dependent Care Benefits are reported correctly	<ul style="list-style-type: none">Earnings Register versus box totals
Manual Checks	Confirm that all "manual" checks produced during the year have been accounted for and updated in the system	<ul style="list-style-type: none">AP Payments versus system earnings
Reversed Checks	Determine that all voided or reversed paychecks have been accounted for in the system	<ul style="list-style-type: none">Earnings reversals versus balances

Validation:

Employee Level Configuration and Data Accuracy

Item	Description	Audit
Fringe Benefits	Verify that withholding has been made properly, or withhold from the final paycheck for taxable fringe benefits. These may include:	<ul style="list-style-type: none">• Group-term life insurance in excess of \$50,000• Dependent group term life insurance in excess of \$2,000• Third-party sick pay (is the third party issuing a W-2?)• Personal use of company vehicle• Non-qualified moving expense reimbursements• Company-provided transportation or parking• Employer-paid education not related to the employee's job• Non-accountable business expense reimbursements or allowances• Bonuses• Non-cash payments
Terminated Employees	Validate terminated employees have zero balances for loans, garnishments, vacation, and sick time.	<ul style="list-style-type: none">• Employee status versus balances – e.g. notification for garnishment, loan repayment/distribution, settle vacation/sick time
W-4 Withholding Exemption	If an employee qualifies, he or she can also use Form W-4 (PDF) to tell you not to deduct any federal income tax from his or her wages.	<ul style="list-style-type: none">• Exempt employee listing to audit timely submission• Missing W-4 requirements <p><i>Reminder: Form W-4 claiming exemption must be submitted by the employee each year by published deadline.</i></p>

Validation:

Employee Level Configuration and Data Accuracy

Item	Description	Audit
Locality Assignment	Verify that the employees is living and/or working in locations subject to locality withholding are coded corrected	<ul style="list-style-type: none">• Work and resident location versus local withholding and wage balances
Location Changes	Validate employees who changed resident and/or work locations mid-year have the correct location taxability including relocations	<ul style="list-style-type: none">• Mid-year effective dated location changes versus balances
Balances	Validate any balance adjustment processed through the year	<ul style="list-style-type: none">• Balance adjustments versus box totals

Reconciliation:

Tax and Wages

(Wages, Tips, Other Compensation and Federal Withholding)

Tax	Description	Audit
Wages, tips, other compensation (Box 1)	Box 1 reports your total taxable wages or salary for federal income tax purposes. The number includes your wages, salary, tips you reported, bonuses and other taxable compensation. For example, taxable fringe benefits such as group term life insurance will be included here. But Box 1 does not include any pre-tax benefits , such as savings contributions to a 401(k) plan, 403(b) plan or health insurance.	<ul style="list-style-type: none">• Balance = Box / Employee Total• Accumulator• Equals 0
Federal income tax withheld (Box 2)	This is federal income tax withheld from your pay based on your W-4. If you didn't file a valid W-4, the default is "single and 0" regardless of your marital status. If an employee qualifies, he or she can also use Form W-4 (PDF copy) to tell you not to deduct any federal income tax from his or her wages.	<ul style="list-style-type: none">• Balance = Box / Employee Total• Accumulator• Equals 0 (Exempt)

Example Audit: To qualify for this exempt status, the employee must have had no tax liability for the previous year and must expect to have no tax liability for the current year. However, if the employee can be claimed as a dependent on a parent's or another person's tax return, additional limitations may apply.

Reconciliation:

Tax and Wages (Social Security and Medicare)

	Description	Audit
Social Security (Box 3 = amount of wages, and Box 4 = amount withheld)	The wage base increased to \$128,400 for Social Security (2018) . The tax rate is 6.20% for both employers and employees . (Maximum Social Security tax withheld from wages is \$7,960.80 in 2018).	Tax
Medicare (Box 5 and Box 6)	The wage base for Medicare is unlimited. For Medicare, the rate remains unchanged at 1.45% for both employers and employees . A 0.9% additional Medicare tax is withheld from wages paid in excess of \$200,000 in a calendar year (the additional Medicare tax is payable if -- \$125,000 if you're married but filing a separate return, \$200,000 if you're single or eligible to file as head of household, and \$250,000 if you're married and filing jointly). There is no employer match for the additional Medicare tax.	<ul style="list-style-type: none"> • Balance = Box / Employee Total • .0145 times Box 6 = Box 5 • Additional .009 Withholding • Equals 0 • Employee versus Employer • Accumulator
<p>Example Audit: An employee is paid \$140,000 in wages. Box 3 (Social Security wages) reflects the limit of \$128,400 but Box 5 (Medicare wages and tips) reflects \$140,000.00. There is no limit on the amount reported in Box 5. If the amount of wages paid was \$128,400 or less, the amounts entered in boxes 3 and 5 will be the same.</p> <p>Example Audit: Boxes 1 & 3 (and 5 too) will not necessarily have the same figures. Most commonly, you'll see Box 3 greater than Box 1 (a result of subtracting pre-tax items such as retirement plan deferrals). But Box 1 can also be greater than Box 3, since Box 3 (Social Security wages) is capped. After that, no additional Social Security tax is withheld. Box 5 (Medicare wages) is not capped.</p>		

Reconciliation: GL, Bank and AP

General Ledger: A general ledger reconciliation must be performed before issuing the annual information statements to verify that the employer's financial statements accurately reflect the payroll transactions of the business. This reconciliation can also be used to confirm that wages are reported correctly and tax liabilities and payments are stated accurately.

Bank Reconciliation: Bank reconciliations should be performed through December 31st of the tax year. Outstanding checks, voids and stop payments are identified and the posting is validated. Incorrect wages can be reported and/or withholding an incorrect tax amount are key risks of not performing this reconciliation.

Accounts Payable: This is reviewed to verify that any payments made outside the payroll system to employees are included in the tax update and unreported taxable items identified. According to E&Y, an accounts payable reconciliation of this type includes, for example, a review of expense reports and petty cash or impressed funds; the identification of non-accountable business expense reimbursements and taxable payments made to individual employees or former employees, relocation providers, stockbrokers, life insurance companies, and airlines and travel agents; and an accounting of business and personal use of company vehicles, including cars and airplanes.

Key Considerations

- ✓ Payroll calendar for new year
- ✓ Holiday schedule
- ✓ FLSA/ State and Local Wage and Hour changes
- ✓ Paid sick and paid family leave laws related updates
- ✓ Quarterly and year end audits and reconciliations
- ✓ W-2s preparedness and mailing
- ✓ Promote eW-2s
- ✓ New W-4s for employees exempt from withholding
- ✓ Encourage direct deposits/pay card*
- ✓ Understanding your paycheck -- Employee communication and education
- ✓ ACA reporting/filing
- ✓ Open enrollment
- ✓ Changes to Contribution Limits for 2019
- ✓ AND more...



Next Steps

- Evaluate your current policies, process, and compliance risks
- Is there a need for change? If yes, determine steps to start
- Create an execution plan
- Manage and communicate change
- Stay tuned for regulatory updates



THANK YOU

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