

1

Creating a Payroll System

Introduction

This chapter* provides an overview of how the payroll process typically functions, using a payroll supplier, an in-house payroll process assisted by computer systems, or an in-house system that is entirely processed by hand. These descriptions also include flowcharts of each process and coverage of the exact controls that are most useful for each situation. Additionally, the chapter covers the types of documents used to set up a new employee in the payroll system, how to organize this information into a personnel folder, and how to process changes to employee information through the payroll system. As noted in the summary, the information in this chapter is supplemented with more detailed descriptions of specific payroll issues in later chapters.

Overview of the General Payroll Process

The next three sections describe how the payroll process flows for specific types of systems—outsourced payroll, in-house computerized payroll, and in-house manual payroll. In this section, we cover the general beginning-to-end processing of payroll, step-by-step, irrespective of the specific payroll system, in order to show the general process flow. Though some of these steps will not apply to each of the processes noted in later sections, it gives a good feel for how a payroll is completed. The steps:

1. *Set up new employees.* New employees must fill out payroll-specific information as part of the hiring process, such as the W-4 form and medical insurance forms that may require payroll deductions. Copies of this information should be set aside in the payroll department in anticipation of its inclusion in the next payroll.
2. *Collect timecard information.* Salaried employees require no change in wages paid for each payroll, but an employer must collect and interpret information about hours worked for nonexempt employees. This may involve

* This chapter is derived with permission from Chapter 1 of Bragg, *Essentials of Payroll* (Hoboken, NJ: John Wiley & Sons, 2003).

having employees scan a badge through a computerized time clock, punch a card in a stamp clock, or manually fill out a time sheet (see Chapter 2, “Accumulating Time Worked”).

3. *Verify timecard information.* Whatever the type of data collection system used in the last step, the payroll staff must summarize this information and verify that employees have recorded the correct amount of time. This typically involves having supervisors review the information after it has been summarized, though more advanced computerized timekeeping systems can perform most of these tasks automatically.
4. *Summarize wages due.* This should be a straightforward process of multiplying the number of hours worked by an employee’s standard wage rate. However, it can be complicated by overtime wages, shift differentials, bonuses, or the presence of a wage change partway through the reporting period (see Chapter 6, “Compensation”).
5. *Enter employee changes.* Employees may ask to have changes made to their paychecks, typically in the form of alterations to the number of tax exemptions allowed, pension deductions, or medical deductions. Much of this information must be recorded for payroll processing purposes, since it may alter the amount of taxes or other types of deductions (see Chapter 7, “Payroll Deductions”).
6. *Calculate applicable taxes.* The payroll staff must either use IRS-supplied tax tables to manually calculate tax withholdings or have a computerized system or a supplier determine this information. Taxes will vary not only by wage levels and tax allowances taken but also by the amount of wages that have already been earned for the year-to-date (see Chapter 8, “Payroll Taxes and Remittances”).
7. *Calculate applicable wage deductions.* There are both voluntary and involuntary deductions. Voluntary deductions include payments into pension and medical plans, while involuntary ones include garnishments and union dues. These can be made in regular amounts for each paycheck, once a month, in arrears, or prospectively. The payroll staff must also track goal amounts for some deductions, such as loans or garnishments, in order to know when to stop making deductions when required totals have been reached (see Chapter 7, “Payroll Deductions”).
8. *Account for separate manual payments.* There will inevitably be cases where the payroll staff has issued manual paychecks to employees between payrolls. This may be caused by an incorrect prior paycheck, an advance, or perhaps a termination. Whatever the case, the amount of each manual check should be included in the regular payroll, at least so that it can be included in the formal payroll register for reporting purposes, and sometimes to ensure that the proper amount of employer-specific taxes are also withheld to accompany the amounts deducted for the employee.

9. *Create a payroll register.* Summarize the wage and deduction information for each employee on a payroll register, which can then be used to compile a journal entry for inclusion in the general ledger, prepare tax reports, and for general research purposes. This document is always prepared automatically by payroll suppliers or by in-house computerized systems.
10. *Verify wage and tax amounts.* Conduct a final cross-check of all wage calculations and deductions. This can involve a comparison to the same amounts for prior periods, or a general check for both missing information and numbers that are clearly out of line with expectations.
11. *Print paychecks.* Print paychecks, either manually on individual checks or, much more commonly, through a computer printer, with the printouts using a standard format that itemizes all wage calculations and deductions on the remittance advice. If direct deposits are made, a remittance advice should still be printed and issued.
12. *Enter payroll information in general ledger.* Use the information in the payroll register to compile a journal entry that transfers the payroll expense, all deductions, and the reduction in cash to the general ledger (see Chapter 13, “Payroll Journal Entries”).
13. *Send out direct deposit notifications.* If a company arranges with a local bank to issue payments directly to employee accounts, then a notification of the accounts to which payments are to be sent and the amounts to be paid must be assembled, stored on tape or other media, and sent to the bank (see Chapter 10, “Payments to Employees”).
14. *Deposit withheld taxes.* The employer must deposit all related payroll tax deductions and employer-matched taxes at a local bank that is authorized to handle these transactions. The IRS imposes a rigid deposit schedule and format for making deposits that must be followed in order to avoid penalties (see Chapter 8, “Payroll Taxes and Remittances”).
15. *Issue paychecks.* Paychecks should, at least occasionally, be handed out directly to employees, with proof of identification required; this is a useful control point in larger companies where the payroll staff may not know each employee by name, and where there is, therefore, some risk of paychecks being created for people who no longer work for the company (see Chapter 10, “Payments to Employees”).
16. *Issue government payroll reports.* The government requires several payroll-related reports at regular intervals, which require information on the payroll register to complete. These reports are discussed in Chapters 8 and 11.

Overview of the Outsourced Payroll Process

Outsourcing the payroll processing function shifts a number of key payroll processing tasks to a supplier, resulting in a significant drop in the payroll depart-

ment's workload, its required level of expertise in operating computer software, and in the risk that payroll taxes will not be remitted to the government in a timely manner. For these and other reasons, outsourcing payroll is an extremely popular option, especially for smaller businesses that do not have in-house payroll expertise on hand. This subject is covered in much more detail in Chapter 15, "Outsourcing Payroll."

The basic process flow for an outsourced payroll function is shown in Exhibit 1.1. The key items in the exhibit are the tasks that are *not* shown because they have been taken over by the payroll supplier. These tasks include processing the payroll transactions, printing payroll reports and paychecks, and making tax deposits and reports to the government on behalf of the company. By removing these activities, the payroll staff is reduced to compiling and verifying incoming data about hours worked, loading it into the supplier's payroll system, and verifying that the results are accurate.

The process tasks noted in Exhibit 1.1 can be streamlined by taking several additional steps. First, use a computerized timekeeping system that will prevent unauthorized overtime and automatically issue reports that highlight hours that were not logged in by employees, thereby eliminating two steps from the data collection part of the process. Second, some payroll suppliers sell computerized timekeeping systems that link directly into their systems, so there is no need to manually load this information into the supplier's system (or call it in to a data-entry person). Third, a company can pay the supplier to create customized summary-level reports that can be used as the foundation for journal entries, which eliminates additional work. Finally, some suppliers now issue payroll reports on compact disc, which nearly eliminates the filing chore. By taking advantage of these additional outsourcing features, the payroll process can become a very efficient system.

Controls over the outsourced payroll process are fewer than required for other systems because there is no need to control the check stock or signature plates, which are handled by the supplier. Consequently, the primary controls tend to be at the beginning and end of the process. As shown in Exhibit 1.2, there should be an approval process for overtime hours worked, as well as for negative deductions; a negative deduction is essentially a payment to an employee, and if used repeatedly, even incrementally small amounts could add up to a significant pay increase for an employee. For larger companies with many employees, one should also compare the addresses on the employee paychecks to see if a fake employee has been added to the system, with the check being mailed to a current employee's address to be cashed by that person. One can also issue a list of people receiving paychecks to the department supervisors to see if any fake names or the names of departed employees crop up. Finally, fake employees can also be spotted by handing out checks directly to employees and having them show some form of identification before they receive their checks. Though not all of these controls are necessary, one should select those that make the most sense for a company's specific circumstances.

Exhibit 1.1 Flowchart of the Outsourced Payroll Process

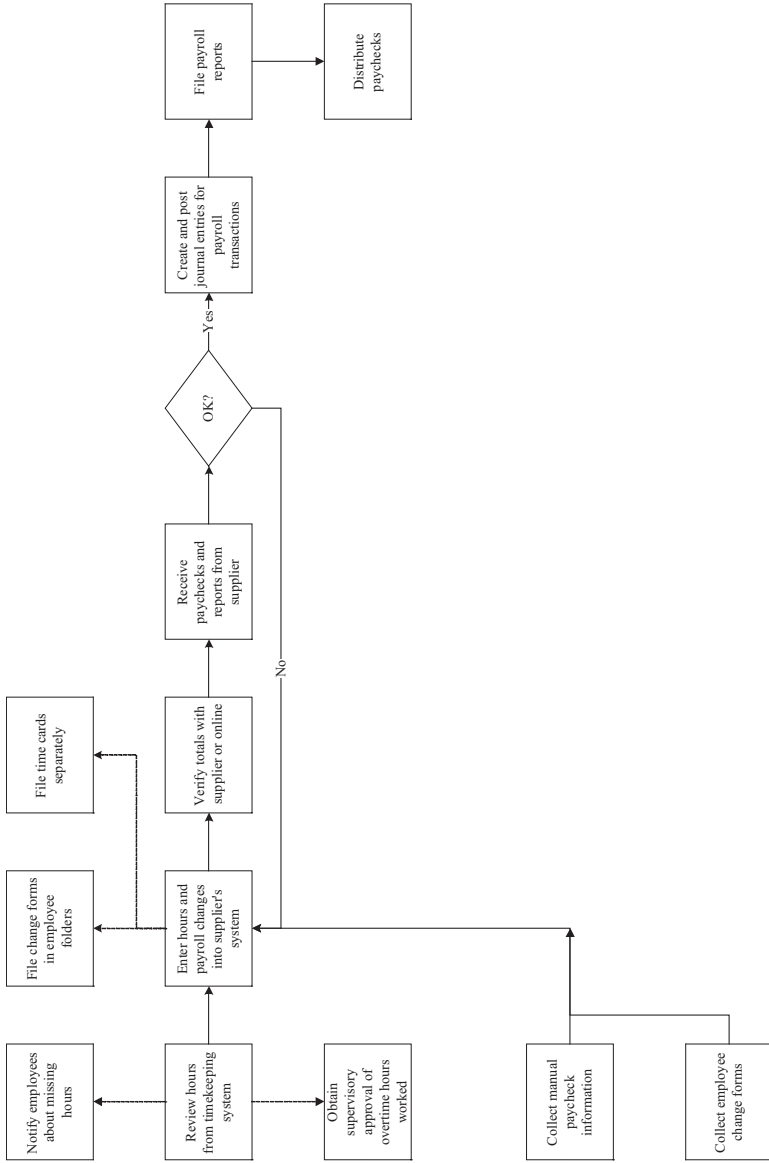
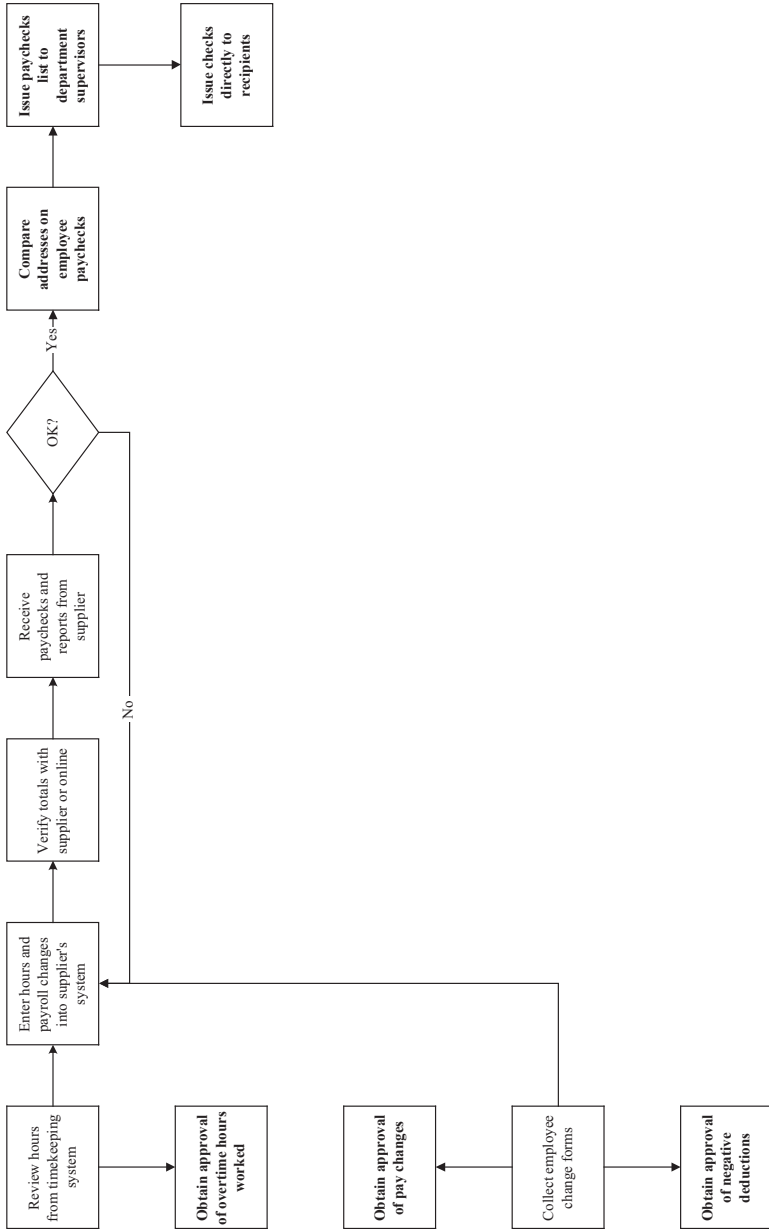


Exhibit 1.2 Controls for the Outsourced Payroll Process



Overview of the In-House Computerized Payroll Process

A payroll system that is just as popular as outsourcing is the in-house computerized system. Payroll software is very inexpensive, as it is now bundled with accounting software that costs just a few hundred dollars. More comprehensive systems that can be used for large numbers of employees are much more expensive, but are a cost-effective solution for large entities.

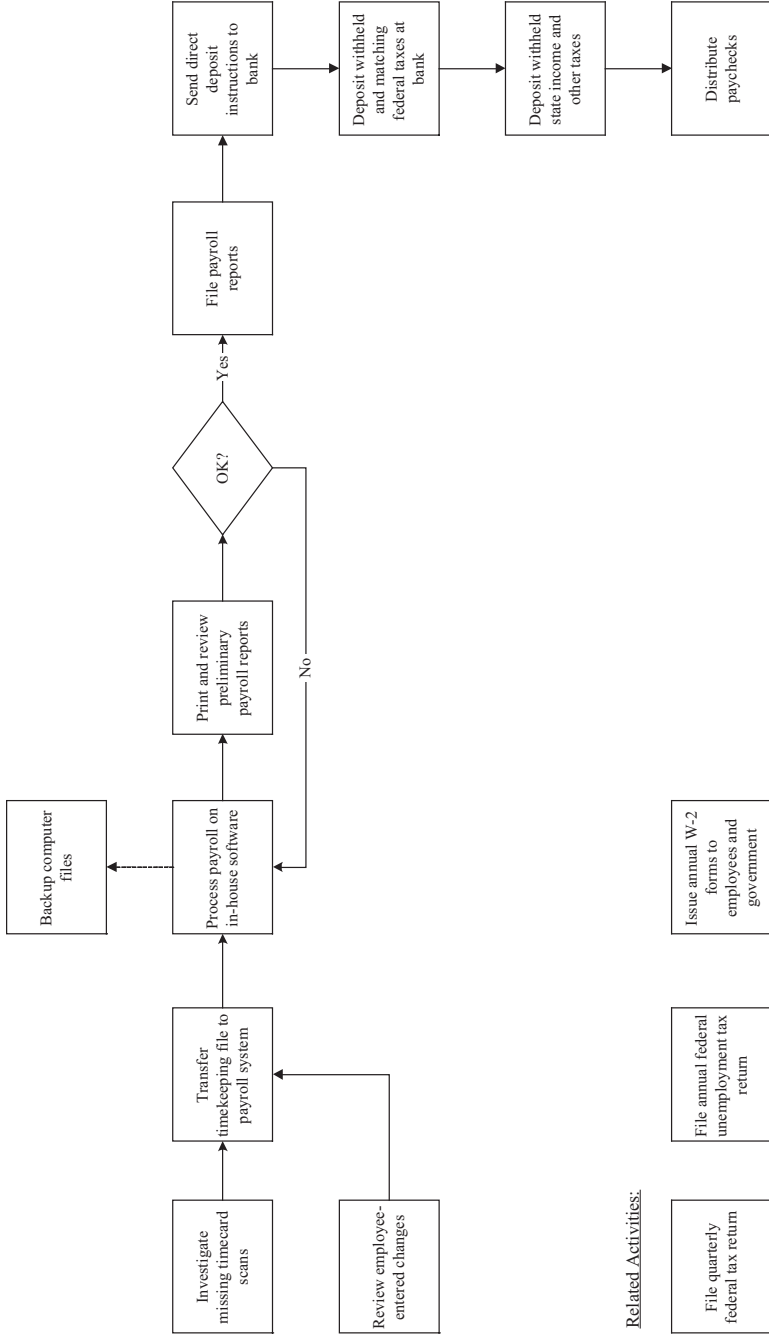
The basic process flow for an in-house computerized payroll process is shown in Exhibit 1.3. A fully automated process involves the review and verification of hours worked and other changes as entered by the employees, followed by the processing and printing of payroll reports, filing of direct deposit information and payroll taxes, and the distribution of paychecks.

The flowchart assumes a complete automation of all key payroll functions. For example, a computerized timekeeping system is assumed. This system, as described in Chapter 2, requires employees to run a badge through a time clock that can reject the scan if the employee is clocking in at the wrong time or attempting to work during an unauthorized overtime period. By using such a system, the payroll process is considerably reduced at the front end, with the payroll staff only having to investigate missing badge scans. Also, the process flow assumes that employees can make their own deduction and address changes through an interface to the payroll software, so that the payroll staff only has to review these changes. Further, the process flow assumes that the timekeeping database used by the time clock computer feeds directly into the in-house payroll software, which eliminates the keypunching of payroll data. If any of these automation elements are not present, then the process flowchart appears as a mix between in-house computerization and a manual system, which is shown later in Exhibit 1.5.

There are several key differences between the automated in-house system shown in Exhibit 1.3 and the outsourced solution shown earlier in Exhibit 1.1. One difference is that an in-house system requires the payroll department to file several tax returns, which would otherwise have been filed by the payroll supplier. These include the quarterly federal tax return, the annual federal unemployment tax return, and annual W-2 forms to employees. There may also be a variety of state reports to file. Further, an in-house system that uses direct deposit requires the payroll staff to create a database of direct deposit information and send it to the company's bank, which uses it to process direct deposits to employees; this would have been handled by a payroll supplier. Third, the in-house payroll database must be backed up and stored, which is normally handled by the payroll supplier. Finally, an in-house system requires the payroll staff to summarize all tax deposits, fill out remittance forms, and file payments with the federal and state governments at regular intervals. Consequently, no matter how much control a company may feel it has by using an in-house computerized system, the payroll staff will have a number of additional tasks to perform.

Controls for the in-house computerized payroll process are noted in Exhibit 1.4. Based on the assumption that a computerized timekeeping system is being used, we further assume that there are no controls required for timekeeping activ-

Exhibit 1.3 Flowchart of the In-House Computerized Payroll Process



Related Activities:

- File quarterly federal tax return
- File annual federal unemployment tax return
- Issue annual W-2 forms to employees and government

Exhibit 1.4 Controls for the In-House Computerized Payroll Process

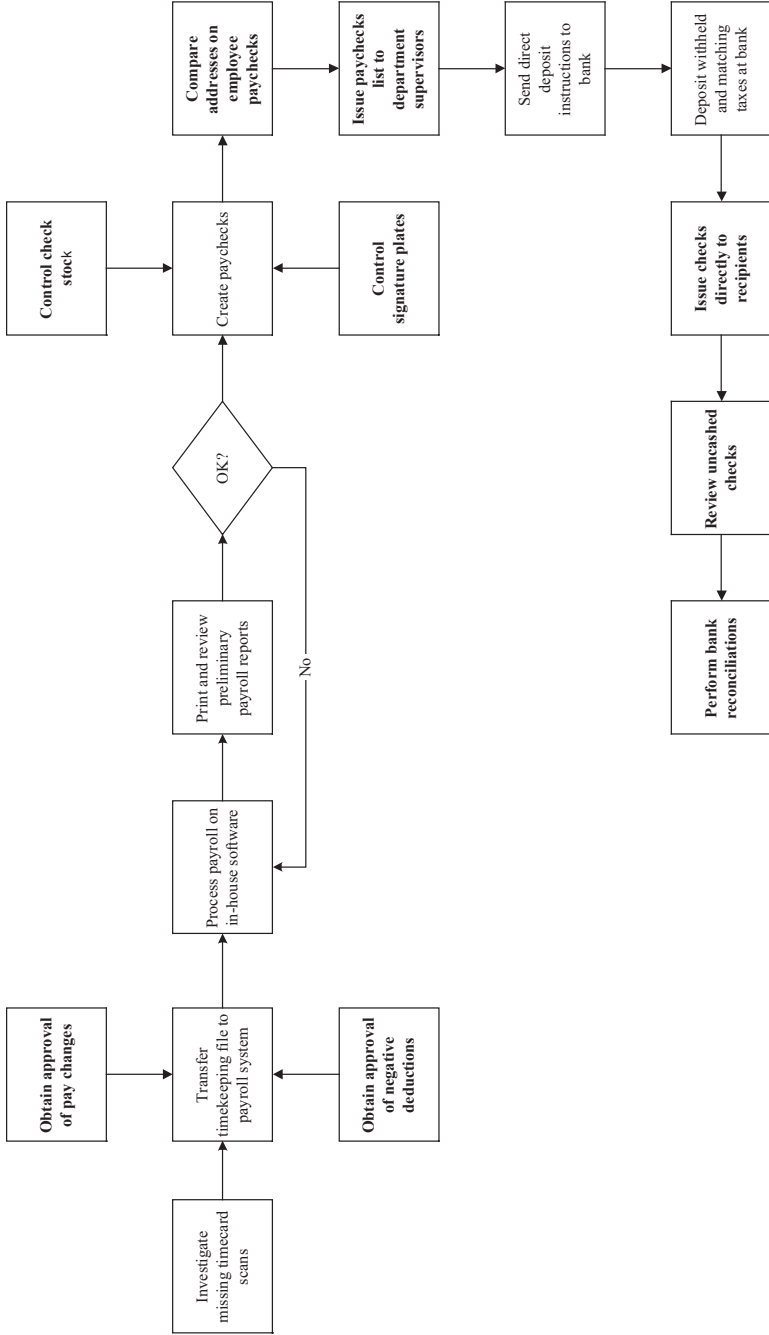
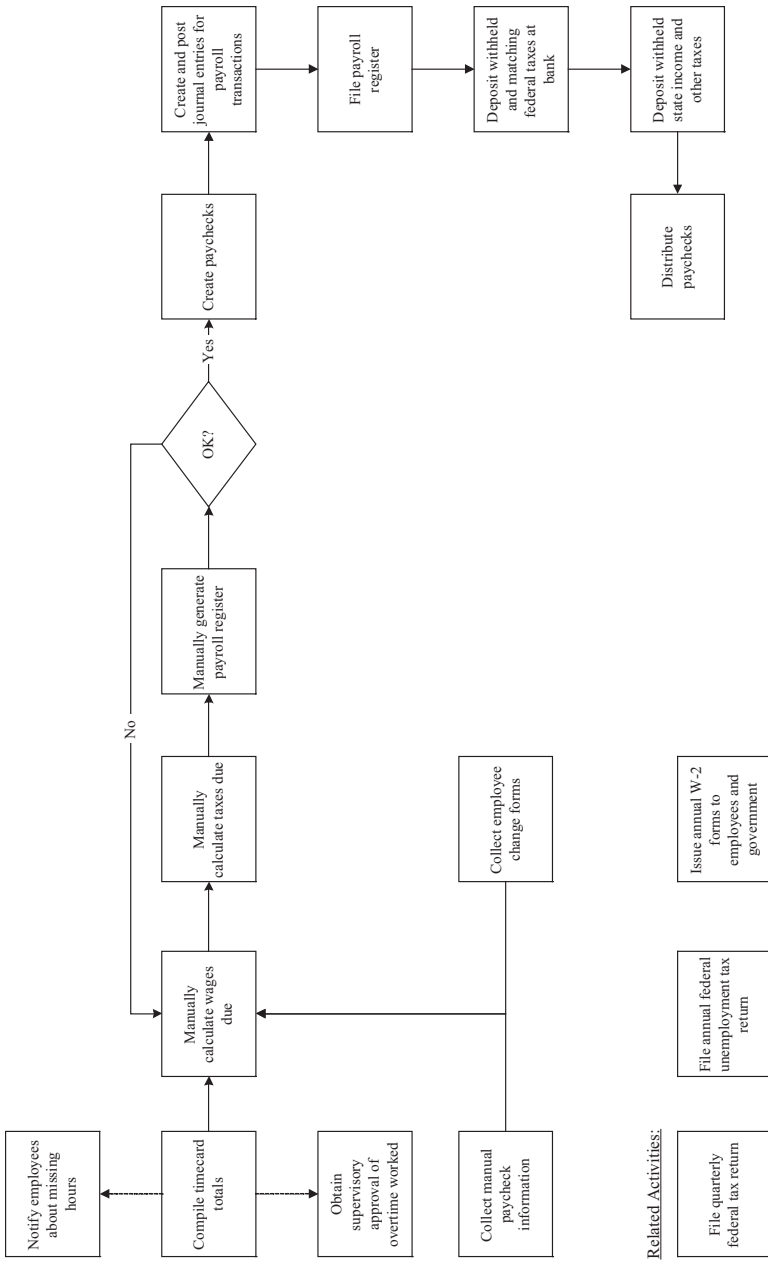


Exhibit 1.5 The In-House Manual Payroll Process



ities, since the computer can spot them. If your company does not have such a system, then please review either the outsourced or manual control systems in Exhibits 1.2 or 1.6 for the controls covering this area. Besides those controls shown earlier for the outsourced system, new controls are also needed for check stock and signature plates, both of which should be securely locked up at all times. Also, at the very end of the process flowchart are controls for reviewing uncashed checks and performing bank reconciliations. These controls are designed to spot payments made to employees who are no longer with the company and who, therefore, never received the checks (which were probably issued in error). These two controls can also be added to the earlier outsourced payroll system, though some suppliers will notify a company of any uncashed checks, depending on the outsourcing arrangement.

Overview of the In-House Manual Payroll Process

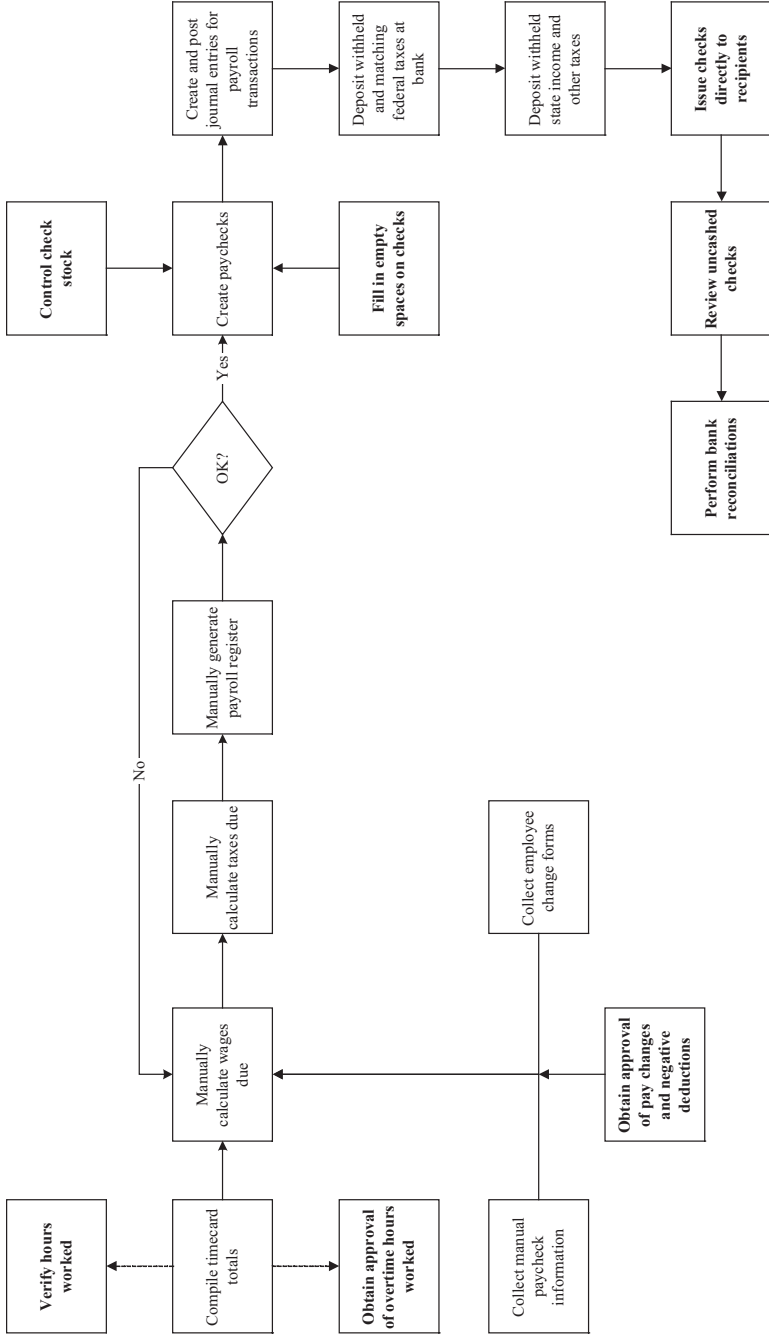
An increasingly rare payroll system is the completely manual approach that avoids all use of payroll suppliers or in-house computer systems. This system is most commonly found in very small organizations where the additional labor required to calculate wages and taxes is not too onerous for the small accounting staff.

The manual process requires extra labor in three key areas. First, employees are filling out timecards by hand or with a punch clock, so the payroll staff must use a calculator to add up the hours worked, verify the calculations (since this task is highly subject to errors), notify employees about missing time entries, and have supervisors approve any overtime hours worked. Second, the payroll staff must multiply hours worked by hourly pay rates to determine wages for the nonexempt employees and then use IRS-provided tax tables to determine the amount of taxes to withhold, plus the amount of matching taxes to be remitted by the company. This task is also subject to a high error rate and should be reviewed with care. Third, the payroll staff must create paychecks from the prior information and manually summarize the results into a payroll register. Since employees want to see all deductions broken out on their paychecks, the paycheck writing process is lengthy. In comparison to the outsourcing and in-house computer system solutions described previously, the manual payroll process is painfully slow and is at risk of so many errors that the payroll staff will find itself taking a disproportionate amount of its time to ensure that outputs from the process are correct. The manual payroll process is shown in the flowchart in Exhibit 1.5.

The flowchart does not mention the preparation of a direct deposit database that can be forwarded to a bank, since it is most unlikely that a company without means to calculate its payroll on a computer will be able to create the direct deposit database. Also, the three types of reports shown in the lower left corner of Exhibit 1.5 will require manual completion, which would not necessarily be the case if an in-house computerized system were used, since such systems can have the capability to produce these standard tax reports at the touch of a button.

The controls for an in-house manual payroll process are shown in Exhibit 1.6. Since there is an assumption of having no automated timekeeping system in place,

Exhibit 1.6 Controls for the In-House Manual Payroll Process



two key controls are verifying total hours worked and obtaining supervisory approval of overtime hours worked. Other controls later in the process are similar to those found in the computerized in-house system, since some watch over check stock and signature plates must be maintained. However, some of the reviews for fake employees at the end of the process, such as comparing addresses on checks, can probably be discarded, since this type of process is typically used for companies so small that the payroll staff knows exactly who works for the company.

Setting Up the New Employee

When a new employee is hired, the human resources staff will go over a variety of paperwork with the person and forward to the payroll department any items required by the payroll staff to calculate the person's wages, taxes, and other deductions. However, it is common in a smaller firm with no human resources staff for the payroll department to perform this function. If the latter situation is the case, the payroll staff should be aware of the variety of forms that are typically included in the new employee packet. Though some forms may be specific to an individual business, the following forms will be found in most cases:

- *Check-Off Sheet.* Each new employee packet should begin with a check-off list that itemizes all documents that should be contained within the packet. By using it to verify a complete package, there is minimal risk that employees will not be issued critical information. It is also useful to include the latest form release date on this sheet, so one can use it to verify the document dates contained within the packet.
- *Company Go-To List.* A new employee has no idea who to approach regarding basic daily issues, such as phone and network problems, pension plan enrollments, expense reports, and so on. This list should itemize which people to approach about each type of problem, as well as a backup person.
- *Company Phone List.* For a smaller company, this list should itemize not only the work number for each employee, but also the cell phone or other number at which they can be most easily reached. It is also increasingly customary to include e-mail addresses on this list. For larger companies with massive phone lists, the phone list for the department to which an employee belongs may be sufficient.
- *Company Seating Chart.* For a smaller company, it is quite useful to issue a seating chart that lists every person in the company. Once again, a larger company may be forced to issue a chart for smaller subsets of the company. This chart will require a reasonable amount of maintenance, given the number of moves typically experienced.
- *Insurance Enrollment Forms.* Enrollment forms for a variety of insurance types can be issued to a new employee at a later date if there is a waiting period before they go into effect. However, it is possible for some employees to

fall between the cracks and never be issued the forms. Consequently, a better approach is to issue them at the same time that an employee receives all other paperwork, so there is no chance of them being missed. Enrollment forms can cover medical, vision, dental, life, supplemental life, short-term disability, and long-term disability insurance. Some insurance carriers provide a wide range of coverages with a single application, but this is the exception—be prepared to issue a large number of documents.

- *Veterans Check-Off Form.* Companies are required to submit the VETS-100 form to the federal government once a year, which specifies the proportion of military veterans in the corporate workforce. It is easiest to track this information by having new employees fill out a simple check-off form that itemizes whether or not they have been engaged in military service in the past.
- *Employee Manual.* There should be a comprehensive employee manual in the new employee packet that includes a tear-out acknowledgement of receipt. The employee signs this receipt to indicate that he or she has received and read the employee manual; the receipt goes into the employee's personnel file. This is useful in case an issue regarding employee benefits or rights arises at a later date and an employee claims to have no knowledge of the issue, even when it is stated in the employee manual.
- *Pay Period Schedule.* The pay period schedule may be obvious for salaried personnel, since it should always fall on the same date. However, employees who are paid on an hourly basis must know when a pay period ends, which can vary in relation to the pay date. This is an especially common problem when the timekeeping system is on a weekly basis and the payroll system is on some other system, such as biweekly.
- *Form W-4.* All employees must fill out the IRS Form W-4, in which they claim a certain number of allowances and possibly additional tax withholdings. This information is needed in order to compute their income tax withholdings. Turn to Chapter 8, "Payroll Taxes and Remittances," for a more in-depth discussion of this form.
- *Form I-9.* The Immigration and Naturalization Service requires all new employees to fill out the Form I-9, the Employment Eligibility Verification form. A sample copy of the form and its instruction sheet are shown in Exhibit 1.7. This form serves two purposes. First, it requires the employer to establish the identity of a new employee, which can be done with a driver's license, a variety of government identification cards, a voter's registration card, or a Native American tribal document. Second, it requires the employer to establish that a new employee is eligible to work, which can be done with a Social Security card, birth certificate, Native American tribal document, or an unexpired employment authorization document. These two requirements can be satisfied with a single document, such as a U.S. passport, certificate of U.S. citizenship or naturalization, unexpired temporary resident card, or several other documents that are specified in Exhibit 1.7.

Exhibit 1.7 The Employment Eligibility Verification Form

U.S. Department of Justice
Immigration and Naturalization Service

OMB No. 1115-0136

Employment Eligibility Verification

Please read instructions carefully before completing this form. The instructions must be available during completion of this form. ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work eligible individuals. Employers CANNOT specify which document(s) they will accept from an employee. The refusal to hire an individual because of a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Verification. To be completed and signed by employee at the time employment begins.

Print Name: Last	First	Middle Initial	Maiden Name
Address (Street Name and Number)		Apt. #	Date of Birth (month/day/year)
City	State	Zip Code	Social Security #

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.	I attest, under penalty of perjury, that I am (check one of the following):
	<input type="checkbox"/> A citizen or national of the United States <input type="checkbox"/> A Lawful Permanent Resident (Alien # A _____) <input type="checkbox"/> An alien authorized to work until ___/___/___ (Alien # or Admission #) _____
Employee's Signature	Date (month/day/year)

Preparer and/or Translator Certification. (To be completed and signed if Section 1 is prepared by a person other than the employee.) I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.

Preparer's/Translator's Signature	Print Name
Address (Street Name and Number, City, State, Zip Code)	
Date (month/day/year)	

Section 2. Employer Review and Verification. To be completed and signed by employer. Examine one document from List A OR examine one document from List B and one from List C, as listed on the reverse of this form, and record the title, number and expiration date, if any, of the document(s)

List A	OR	List B	AND	List C
Document title: _____		_____		_____
Issuing authority: _____		_____		_____
Document #: _____		_____		_____
Expiration Date (if any): ___/___/___		___/___/___		___/___/___
Document #: _____		_____		_____
Expiration Date (if any): ___/___/___		_____		_____

CERTIFICATION - I attest, under penalty of perjury, that I have examined the document(s) presented by the above-named employee, that the above-listed document(s) appear to be genuine and to relate to the employee named, that the employee began employment on (month/day/year) ___/___/___ and that to the best of my knowledge the employee is eligible to work in the United States. (State employment agencies may omit the date the employee began employment.)

Signature of Employer or Authorized Representative	Print Name	Title
Business or Organization Name	Address (Street Name and Number, City, State, Zip Code)	Date (month/day/year)

Section 3. Updating and Reverification. To be completed and signed by employer.

A. New Name (if applicable)	B. Date of rehire (month/day/year) (if applicable)	
C. If employee's previous grant of work authorization has expired, provide the information below for the document that establishes current employment eligibility.		
Document Title: _____	Document #: _____	Expiration Date (if any): ___/___/___

I attest, under penalty of perjury, that to the best of my knowledge, this employee is eligible to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.

Signature of Employer or Authorized Representative	Date (month/day/year)
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To fill out the I-9 form, have the employee fill out the "Employee Information and Verification" information in Section 1. This section must be signed by the employee and may require a preparer's or translator's signature as well if such a person assisted with the document. The employer fills out Section 2, which requires

the examination of one or more original documents, as previously noted and as described in more detail on the second page of the exhibit. The reviewing person must then sign at the bottom of Section 2. Section 3 of the form is only used to update the information if an employee subsequently changes names, quit and was re-hired within three years of the original form being completed, or has obtained a new work authorization.

Creating the Personnel File

When a new employee starts work, either the human resources or payroll staffs should create a personnel folder in which all employee-related documents are stored. This folder should be capable of holding several hundred pages of documents and also have multiple dividers, so that information can be logically divided and easily accessed. Information can be grouped in a variety of ways within the folder; here are some common subsets of information to consider:

- *Deduction Information.* One block of information will be the deductions related to all types of benefits, such as medical, life, and dental insurance. This means that the sign-up or waiver sheets for each type of insurance should be included in the folder.
- *Employee Correspondence.* Employees may communicate with the payroll or human resources departments from time to time, perhaps to make complaints, notify the company of time off for various reasons (such as jury duty), or ask for special treatment in some manner. If these communications are in writing, they should be included in the folder. If they are verbal, the person receiving the information may include them in a memo if the matter appears sufficiently important, and store them in the folder.
- *Employee Reviews.* All employee reviews should be kept in the folder. They are particularly important if employees later file suit against the company in the event of a termination, since the company must be able to prove that an employee was terminated for cause. Also, one should note if both the reviewer and the employee have signed a review, and if possible obtain these signatures if either one is missing, so that additional proof of employee receipt is made.
- *Garnishment Information.* If there are court orders for garnishing an employee's pay for any reason (e.g., tax levies, creditor levies, child support, or alimony), then a copy of each one should be included in the folder.
- *Tax-Related Information.* Tax deductions can only be made from an employee's wages if prior written authorization has been made by the employee. The employer should retain proof of these requests (nearly always in the form of a W-4 form) in the folder.

It is absolutely essential that the entire set of personnel files for all employees be kept under the strictest security at all times. These files contain potentially damaging information about employees, such as job reviews, medical information, or

Exhibit 1.8 Company Name–Employee Change/New Form

Employee Name: _____ Social Security #: _____
Reason: _____

Categories **Changes/New** **Effective Date**

Name _____

Address _____

Phone _____

Gender _____

Birth Date _____

Hire Date _____

Term Date _____

Title _____

Salary _____

Status _____

Married/Single _____

Federal Exempt _____

State Lived in _____

State Worked in _____

Medical Deduction _____

Dental Deduction _____

LTD _____

STD _____

Supp Life _____

401K% or \$ _____

Dependent Flex Deduction _____

Dependent Flex Goal _____

Medical Flex Deduction _____

Medical Flex Goal _____

Direct Deposit _____

Routing #/Account # _____

Comments: _____

Completed by:

Date:

court orders that could be embarrassing or job-threatening if the information were to become public knowledge. Employees rely on the employer to keep this information secret, and the employer should fulfill this expectation.

The Payroll Change System

There will be changes in employees' lives that require them to constantly ask for changes to the information used to create their paychecks. For example, an employee may have a baby, which requires an alteration in that person's medical insurance from two adults (which is at one price) to a family plan (which is at another price); this change will probably require a different payroll deduction for the employee's portion of the insurance expense, which must be reflected in his or her paycheck. As another example, an employee is diagnosed with a long-term medical problem that will require a great deal of medication, so this person enrolls in a cafeteria plan in order to deduct the medication cost from his or her pretax wages. These and other scenarios will occur constantly, so the payroll staff must have a procedure in place for handling them. One approach is to create a separate form for each type of payroll change, but this can result in a blizzard of paperwork. A better approach is a single summary-level change document such as the one shown in Exhibit 1.8.

This employee change form can be used as the source document for new employees, as well as for each incremental change requested by existing employees. In the latter case, one enters just the information relating to a specific request (such as a change in short-term disability, supplemental life insurance, or a 401k deduction), has the employee sign it to confirm the transaction, and submits it to the payroll staff for processing. The completed form is then filed in the employee's personnel folder.

Summary

The information in this chapter only covers the general process flow of several types of payroll systems, setting up new employees, and changing their information in the system over time. Other chapters contain a great deal of supplementary information. For example, Chapter 2, "Accumulating Time Worked," describes systems for collecting and summarizing employee hours in a variety of ways. Chapter 3, "Payroll Procedures and Controls," describes a number of payroll processing procedures in detail, and also describes a number of key control points that will reduce the risk of payroll errors or fraud. Chapter 13, "Payroll Journal Entries," describes the exact entries that should be transferred from the payroll system to the general ledger. Finally, Chapter 15, "Outsourcing Payroll," describes the advantages, disadvantages, management issues, and implementation problems associated with shifting the payroll processing function to an outside entity. All of these chapters should be read in order to obtain a better understanding of the payroll process.