



10 Steps TO PROCESSING PAYROLL

It has been said that the three most important rules when processing payroll are: 1) Don't mess up the pay; 2) Don't mess up the pay; and 3) Don't mess up the pay! But all joking aside, personnel is the largest portion of government budgets, so we need to have a good understanding of our payroll processes. Your process may vary slightly, but these are the general steps your organization should be following.

1 Establish (and enforce) written organization-wide policies and procedures for time entry and payroll.

Review and update them regularly. The policies and procedures should establish appropriate internal controls and state which departments or divisions are responsible for their parts of the process. Procedures should also establish deadlines for when time entries and approvals need to be completed during the pay cycle.

2 Review recent personnel changes.

Changes—including new hires, separations from service, promotions, pay adjustments, direct deposit changes, or lateral transfers—may be processed by a different department or division than the one that is processing payroll, so have procedures that outline who must be notified of these types of changes and how and when those notifications will take place. Pay special attention to employees who receive prorated adjustments during a specific pay period.

3 Review and approve pending employee expense reimbursement requests.

Organizations reimburse employees through the payroll or the accounts payable process. Create clear policies and procedures for how they're handled. Be mindful that some reimbursements may be taxable and governments should have procedures for capturing this imputed income.

4 Review time entry data.

This is often the most time-consuming step in the payroll process. To promote an organizational culture of accountability, maintain and enforce policies making employees responsible for entering their time and making managers responsible for reviewing and approving their employees' time records.

5 Transfer time records to the payroll system or module.

Once the time records are brought into the payroll system or module, they shouldn't be edited.

6 Run the process in your system to calculate payroll and review the final amounts.

If the payroll includes any retroactive pay changes, make sure these calculations are correct. Look for paychecks that are significantly larger or smaller than usual (compared to the last few paychecks for that individual), which could be a sign that the time record did not transfer properly or that overtime was not calculated correctly. Review the pay file for new employees to ensure their employee record was created properly. Validate any mass payroll adjustments, like cost-of-living adjustments, by reviewing individual employee's pay files.

7 Process the ACH file and/or print any paper paychecks and issue pay advice to employees.

Send the required files, including the positive pay file (if applicable), to your banking institution. Be mindful of ACH cut-off times for your banking institution, especially around banking holidays, to ensure the bank files are prepared and processed well beforehand. When bank errors occasionally occur, ensure timely correction and payment to employees.

8 Process any garnishment payments, tax reports, pension reports, or other required payments or reports.

Once employees are paid, focus on the other disbursements for things like benefits, taxes, and garnishments. You may need to submit regular reports to the IRS, the state, or your pension administrator, so maintain a checklist indicating what is needed to process them and the deadlines for each report.

9 Run the processes required to update employees' leave balances.

Every pay period, employees are earning and using leave, which affects their overall leave accruals. If a system other than your payroll system is considered the system of record for leave balances or is the go-to source for employees to check their leave balances, make sure those other systems are updated in a timely manner.

10 Take a moment to reflect on what did and didn't work well this pay cycle.

Are there policies or procedures that need to be clarified or updated? Are there parts of the process that could be streamlined? Identify the "pain points" in your process and collaborate to develop a plan to address them. ■