

DIOCESE OF SCRANTON

GUIDELINES AND PROCEDURES FOR PAYROLL

GENERAL GUIDELINES AND PROCEDURES FOR PAYROLL

Objective/ Overview :

To provide general guidelines and procedures for payroll which ensure proper reporting of wages and salaries as well providing the internal controls necessary for the payroll system.

Factors required for processing and reporting payroll are:

- 1) Administration of Salaries
- 2) Time Keeping
- 3) Payroll Schedules
- 4) Payment Schedules

Since payroll is usually one of the largest expenses of an organization, a clear payroll policy establishes checks and balances to control and protect the organization. A properly functioning payroll system enhances the accounting system by reducing the occurrence of errors as well as the possibility of fraud. Payroll policies help to ensure that wages are paid timely and that taxes which are withheld are paid and reported timely. Accurate payroll bookkeeping requires the bookkeeper/payroll clerk to maintain individual records by employee which include gross wages paid, withholding taxes (federal, Social Security, Medicare, state and local). These records are necessary for preparing quarterly tax returns and year end W-2(s).

The IRS describes an employee as an individual who the employer has control over regarding the hours worked, the method of compensation, when and where the work is performed and the employer supplies the materials used on the job. The independent contractor usually sets his own hours, is paid when the work is completed and supplies his own materials.

Internal Controls for Payroll:

Internal controls for payroll ensure that the system enables the organization to disburse payroll to its employees in a timely manner as well as comply with government requirements making timely deposit and filing the necessary tax reporting. Information contained in personnel files is a key element in the internal controls needed for processing payroll as well as an adequate system for timekeeping.

Payroll Duties

The person preparing the payroll is usually responsible for reviewing the payroll register for each pay period, reviewing the payroll withholdings, recording the payroll, making the deposits and issuing W-2's to the employees. **Signing of payroll checks should be separate from the payroll preparation.**

Required Documents for Payroll Processing :

- 1) **Circular E-** Department of the Treasury Internal Revenue Publication available to all Employers. It is an employer tax guide with tables to be utilized in calculating Federal withholding , Social Security and Medicare. The *Circular E* provides information on making timely tax deposits and maintaining accurate payroll records.
- 2) **Personnel File** – Information in an employee’s personnel file includes, at a minimum, the employee’s salary or hourly rate, benefits, job description and requirements and withholding documents (i.e.-employee Form W-4).The employee personnel file also documents paid time off such as vacation, personal and sick time. **The Personnel File should also include a signed waiver if health care is available as a benefit and the employee decides not to take the insurance. Any other employee remuneration such as bonuses or payments for additional duties should also be noted in the employee’s payroll file.**
- 3) **Timekeeping/time sheets** -Key to adequate processing and reporting payroll is a timekeeping system. Employees can be paid at an hourly or salary amount. An hourly employee should complete a weekly time sheet which should be approved by the employee’s supervisor before submitting for payroll processing.
- 4) **Payroll Registers-** A payroll register should be printed every pay period. The pay register includes detail for employee gross wages, taxes withheld, voluntary deductions and check numbers.
- 5) **Form W-4-**All employee are required to complete a Form W-4 and it is to be maintained in the employee’s personnel file. This form authorizes the employer to withhold taxes based on the information contained on the form. It is the responsibility of the employee to notify the employer whenever changes occur and a new Form W-4 needs to be completed.
- 6) **Form I-9-**The law requires every employer to complete an Employment Eligibility Verification Form (I-9) for each individual who is employed. The Immigration Act imposes penalties on anyone who employs an individual who does not have the legal right to work in this country as defined by Immigration and Naturalization. The Form I-9 should be kept in the employee’s personnel file.
- 7) **Form 1099 Misc-** A statement of earnings issued annually to independent contractors that provided goods or services to the organization during a calendar year. Forms 1099 are required to be issued to any individual or unincorporated organization who was paid \$600.00 or more for goods or services during the calendar year. Forms 1099 is required to be sent to any member of the clergy who receives \$600.00 or more in Mass stipends during the calendar. **Form 1096** is the annual summary and transmittal for all 1099’s and is reported to the IRS with copies of the 1099’s attached at year end.
- 8) **Form W-2 and Form W-3** -Is a form issued to employees by January 31 containing all relevant information regarding the employee’s earnings and withholdings. The Form W-3 is submitted to the Social Security Administration and contains amounts related to the employees’ earnings for the calendar year.

Other Bonuses paid for whatever reason are additional compensation and should be included on the employees’ forms W-2.

If employees are paid additional separate amounts for other duties performed over and above the employees' main job responsibilities, the additional amounts paid are to be included in W-2 wages when said forms are prepared at year end.