

# Payroll Best Practices

Steven M. Bragg



John Wiley & Sons, Inc.



# **Payroll Best Practices**




# Payroll Best Practices

Steven M. Bragg



John Wiley & Sons, Inc.

This book is printed on acid-free paper. 

Copyright © 2005 by John Wiley & Sons, Inc. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the publisher or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400, fax 978-646-8600, or on the Web at [www.copyright.com](http://www.copyright.com). Requests to the publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, 201-748-6011, fax 201-748-6008, or online at <http://www.wiley.com/go/permissions>.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services, or technical support, please contact our Customer Care Department within the United States at 800-762-2974, outside the United States at 317-572-3993 or fax 317-572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

For more information about Wiley products, visit our Web site at [www.wiley.com](http://www.wiley.com).

***Library of Congress Cataloging-in-Publication Data:***

Bragg, Steven M.

Payroll best practices / Steven M. Bragg

p. cm.

Includes index.

ISBN-13 978-0-471-70226-9

ISBN-10 0-471-70226-9 (cloth)

1. Payrolls—Management. 2. Wages—Accounting. I. Title.

HG4028.P5B73 2005

658.3'21—dc22

2005000044

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

*To Clint, who tolerated his odd roommate all those years ago.  
Imagine living with an accounting major!  
Sort of like keeping a troll in the shoe closet?*





# About the Author

**S**teven Bragg, CPA, CMA, CIA, CPIM, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a bachelor's degree in Economics from the University of Maine. He has been the two-time president of the Colorado Mountain Club, is an avid alpine skier and mountain biker, and is a certified master diver. Mr. Bragg resides in Centennial, Colorado. He has published the following books through John Wiley & Sons:

*Accounting and Finance for Your Small Business*  
*Accounting Best Practices*  
*Accounting for Payroll*  
*Billing and Collections Best Practices*  
*Business Ratios and Formulas*  
*The Controller's First Years*  
*The Controller's Function*  
*Controller's Guide to Costing*  
*Controller's Guide to Planning and Controlling Operations*  
*Controllershship*  
*Cost Accounting*  
*Design and Maintenance of Accounting Manuals*  
*Essentials of Payroll*  
*Fast Close*  
*Financial Analysis*  
*GAAP Implementation Guide*  
*Inventory Accounting*  
*Inventory Best Practices*  
*Just-in-Time Accounting*

*Managing Explosive Corporate Growth*

*The New CFO Financial Leadership Manual*

*Outsourcing*

*Payroll Best Practices*

*Sales and Operations for Your Small Business*

*The Ultimate Accountants' Reference*

Also:

*Advanced Accounting Systems* (Institute of Internal Auditors)

*Run the Rockies* (CMC Press)

# Contents

<b>Preface</b>		<b>xi</b>
<b>Chapter 1</b>	<b>Success or Failure with Best Practices</b>	<b>1</b>
<b>Chapter 2</b>	<b>Employee Time Tracking</b>	<b>11</b>
<b>Chapter 3</b>	<b>Employee Benefits and Deductions</b>	<b>23</b>
<b>Chapter 4</b>	<b>Payroll Forms and Reports</b>	<b>39</b>
<b>Chapter 5</b>	<b>Payments to Employees</b>	<b>49</b>
<b>Chapter 6</b>	<b>Commission Calculations and Payments</b>	<b>69</b>
<b>Chapter 7</b>	<b>Payroll Outsourcing</b>	<b>83</b>
<b>Chapter 8</b>	<b>Payroll Management</b>	<b>93</b>
<b>Chapter 9</b>	<b>Payroll Systems</b>	<b>127</b>
<b>Chapter 10</b>	<b>Payroll Controls</b>	<b>139</b>
<b>Chapter 11</b>	<b>Payroll Measurements</b>	<b>153</b>
<b>Chapter 12</b>	<b>Payroll Policies and Procedures</b>	<b>165</b>
<b>Chapter 13</b>	<b>Best Practices Implementation Plan</b>	<b>185</b>
<b>Appendix</b>	<b>Summary of Payroll Best Practices</b>	<b>191</b>
<b>Glossary</b>		<b>197</b>
<b>Index</b>		<b>207</b>



# Preface

**T**his book contains more than 120 best practices related to every phase of a company's payroll activities: tracking employee time, recording deductions, paying employees, calculating commissions, outsourcing, control systems, and more. It also shows how to integrate these best practices into the existing payroll system, with an entire chapter devoted to detailed policies and procedures that incorporate best practices. There is even a recommended implementation plan for achieving the greatest efficiency improvement through the selective use of payroll best practices. An appendix summarizes the best practices presented. The glossary contains a dictionary of relevant terms. In short, this volume is the go-to source for payroll improvements.

Chapter 2 covers a number of ways to automate the timekeeping process or at least to simplify it, while Chapter 3 presents methods to reduce employee deductions and convert to automation through the use of employee and manager self-service. Chapter 4 describes a number of forms and reports, as well as advanced forms of data storage and electronic presentation. Chapter 5 shows how to convert to a variety of electronic employee payments as well as ways to encourage employees to accept the change. Chapter 6 contains a broad range of methods designed to simplify the calculation of commissions, while Chapter 7 addresses the increasingly popular approach of outsourcing multiple payroll functions. Chapter 8 describes many management-related payroll tasks, including training, process improvement, and customer service issues. Chapter 9 covers how to use major computer systems to improve payroll processing, while Chapter 10 addresses a number of key controls over the payroll area. Chapter 11 describes several payroll-specific measurements that are of use in designing a payroll metrics tracking system. Chapter 12 includes a broad array of policies and procedures designed to support the best practices noted earlier in the book, while Chapter 13 presents a simplified best practices implementation plan. The appendix contains a summary of all the best practices in the book, and the glossary contains key payroll-related terminology.

Finally, one does not install a best practice merely by ordering that it be done. The “Make it so!” approach of Captain Picard of the USS *Enterprise* does not always work. Instead, read Chapter 1, “Success or Failure with Best Practices,” to learn what factors will impact a best practices implementation and how to increase the odds of success.

The best practice description in each chapter is followed by graphics indicating the cost and implementation duration for each item. A single stack of dollar bills represents an inexpensive best practice; two or three stacks represent increasing levels of expense. Similarly, one clock represents a minimal implementation interval, while two or three clocks indicate increasingly lengthy periods before a best practice is likely to be completed.

Use this book to improve all aspects of the payroll department’s processes to increase efficiency, lower error rates, and increase service to employees. Doing this can result in a significant reduction in staffing needs within the payroll department, while also transitioning it from primarily data-entry tasks to a more analytical systems orientation.

The foundation for this book is the author’s *Accounting Best Practices*, which is now in its third edition. That book contains approximately 30 payroll best practices, all of which can be found in this book. However, this book provides more than 90 additional best practices, giving the reader a much more in-depth knowledge of how this critical functional area can be improved. For a general view of best practices covering the entire accounting function, read the author’s *Accounting Best Practices*; for a detailed view of inventory issues, try *Inventory Best Practices*, which includes almost 200 more best practices. Finally, *Billing and Collections Best Practices*, with yet another 200-plus best practices, is perfect for those trying to reduce bad debts or accelerate cash flow in the receivables area.

Steven M. Bragg  
Centennial, Colorado  
June 2005

# 1

---

## Success or Failure with Best Practices\*

**T**his chapter is about implementing best practices. It begins by describing those situations where best practices are most likely to be installed successfully. The key components of a successful best practice installation are also noted, as well as how to duplicate best practices throughout an organization. When planning to add a best practice, it is also useful to know the ways in which the implementation can fail, so the chapter provides a lengthy list of reasons for failure. Only by carefully considering all of these issues in advance can one hope to achieve a successful best practice implementation that will result in increased levels of efficiency.

### 1.1 The Most Fertile Ground for Best Practices

Before installing any best practice, it is useful to review the existing environment to see if there is a reasonable chance for the implementation to succeed. These points note the best environments in which best practices can be installed and have a fair chance of continuing to succeed:

- *If benchmarking shows a problem.* Some organizations regularly compare their performance levels against those of other companies, especially those with a reputation for having extremely high levels of performance. A significant difference in the performance levels of these other organizations and the company doing the benchmarking can serve

---

\*Adapted with permission from Chapter 2 of Steven M. Bragg, *Accounting Best Practices, Third Edition* (Hoboken, NJ: John Wiley & Sons, 2003).

as a reminder that continuous change is necessary in order to survive. If management sees and heeds this warning, the environment in which best practices will be accepted is greatly improved.

- *If management has a change orientation.* Some managers have a seemingly genetic disposition toward change. If a department has such a person in charge, there will certainly be a drive toward many changes. If anything, this type of person can go too far, implementing too many projects with not enough preparation, resulting in a confused operations group whose newly revised systems may take a considerable amount of time to untangle. The presence of a detail-oriented second-in-command is very helpful for preserving order and channeling the energies of such a manager into the most productive directions.
- *If the company is experiencing poor financial results.* A significant loss, or a trend in that direction, serves as a wake-up call to management, which in turn results in the creation of a multitude of best practices projects. In this case, the situation may even go too far, with so many improvement projects going on at once that there are not enough resources to go around. The result may be the ultimate completion of few, if any, of the best practices.
- *If there is new management.* Most people who are newly installed as managers want to make changes in order to leave their marks on the organization. Although this can involve less effective best practice items such as organizational changes or a new strategic direction, it is possible that there will be a renewed focus on efficiency that will result in the implementation of new best practices.

In short, as long as there is willingness by management to change and a good reason for doing so, then there is fertile ground for the implementation of a multitude of best practices.

## 1.2 Implementing Best Practices

The implementation of any best practice requires a great deal of careful planning. However, planning is not enough. The implementation process itself requires a number of key components to ensure a successful conclusion. This section discusses those components.



One of the first implementation steps for all but the simplest best practice improvements is to *study and flowchart the existing system* about to be improved. By doing so, one can ascertain any unusual requirements that are not readily apparent and that must be included in the planning for the upcoming implementation. Although some reengineering efforts do not spend much time on this task, on the grounds that the entire system is about to be replaced, the same issue still applies—there are usually special requirements, unique to any company, that must be addressed in a new system. Accordingly, nearly all implementation projects must include this critical step.

Another issue is the *cost-benefit analysis*. This is a compilation of all the costs required to both install and maintain a best practice, which is offset against the benefits of doing so. These costs must include project team payroll and related expenses, outside services, programming costs, training, travel, and capital expenditures. This step is worth a great deal of attention, for a wise manager will not undertake a new project, no matter how cutting edge and high profile it may be, if there is not a sound analysis in place that clearly shows the benefit of moving forward with it.

Yet another implementation issue is the *use of new technology*. Although there may be new devices or software on the market that can clearly improve the efficiency of a company's operations, and perhaps even make a demonstrative impact on a company's competitive situation, it still may be more prudent to wait until the technology has been tested in the marketplace for a short time before proceeding with an implementation. This is a particular problem if only one supplier offers the technology, especially if that supplier is a small one or has inadequate funding, with the attendant risk of going out of business. In most cases, the prudent manager will elect to use technology that has proven itself in the marketplace rather than using the most cutting-edge applications.

Of great importance to many best practice implementations is *system testing*. Any new application, unless it is astoundingly simple, carries with it the risk of failure. This risk must be tested repeatedly to ensure that it will not occur under actual use. The type of testing can take a variety of forms. One is volume testing, to ensure that a large number of employees using the system at the same time will not result in failure. Another is feature testing, in which sample transactions that test the boundaries of the possible information to be used are run through the system. Yet another possibility is recovery testing—bringing down a computer system suddenly to see how easy it is to restart. All of these approaches, or others, depending on the

type of best practice, should be completed before unleashing a new application on employees.

One of the last implementation steps before firing up a new best practice is to *provide training* to employees in how to run the new system. This must be done as late as possible, because employee retention of this information will dwindle rapidly if not reinforced by actual practice. In addition, this training should be hands-on whenever possible, because employees retain the most information when training is conducted in this manner. It is important to identify in advance all possible users of a new system for training, since a few untrained employees can result in the failure of a new best practice.

A key element of any training class is procedures. These must be completed, reviewed, and made available for employee use not only at the time of training, but also at all times thereafter. A good manager must oversee the procedure creation and distribution phases. Procedure writing is a special skill that may require the hiring of technical writers, interviewers, and systems analysts to ensure that procedures are properly crafted. The input of users into the accuracy of all procedures is also an integral step in this process.

Even after the new system has been installed, it is necessary to conduct a *postimplementation review*. This analysis determines if the cost savings or efficiency improvements are in the expected range, what problems arose during the implementation that should be avoided during future projects, and what issues are still unresolved from the current implementation. This last point is particularly important, for many managers do not follow through completely on all stray implementation issues that inevitably arise after a new system is put in place. Only by carefully listing these issues and working through them will the employees using the new system be completely satisfied with how a best practice has been installed.

An issue that arises during all phases of a project implementation is *communications*. There may be a wide range of activities going on, and many will be dependent on each other; it is important that the status of all project steps be communicated to the entire project team, as well as all affected employees, continually. By doing so, a project manager can avoid such gaffes as having one task proceed without knowing that, due to changes elsewhere in the project, the entire task has been rendered unnecessary. These communications should not just be limited to project plan updates, but should include all meeting minutes in which changes are decided

on, documented, and approved by team leaders. If this important item is paid attention to at every step of an implementation, the entire process will be completed much more smoothly.

As described in this section, a successful best practice implementation nearly always includes a review of the current system, a cost-benefit analysis, responsible use of new technology, system testing, training, and a postimplementation review, with a generous dash of communications at every step.

## **1.3 How to Use Best Practices: Best Practice Duplication**

Duplicating a successful best practice when opening a new company facility, especially if expansion is contemplated in many locations over a short time period, can be a particularly difficult challenge. The difficulty with best practice duplication is that employees in the new locations typically are given a brief overview of a best practice and told to “go do it.” Under this scenario, they only have a sketchy idea of what they are supposed to do, and so create a process that varies in some key details from the baseline situation. To make matters worse, managers at the new location may feel that they can create a better best practice from the start, and so create something that differs in key respects from the baseline. For both reasons, the incidence of best practice duplication failure is high.

To avoid these problems, a company should first be certain that it has accumulated all possible knowledge about a functioning best practice—the forms, policies, procedures, equipment, and special knowledge required to make it work properly—and then transfer this information into a concise document that can be shared with new locations. Second, a roving team of expert users must be commissioned to visit all new company locations and personally install the new systems, thereby ensuring that the proper level of experience with a best practice is brought to bear on a duplication activity. Finally, a company should transfer the practitioners of best practices to new locations on a semipermanent basis to ensure that the necessary knowledge required to make a best practice effective over the long term remains on site. By taking these steps, a company can increase its odds of spreading best practices throughout all of its locations.

A special issue is the tendency of a new company location to attempt to enhance a copied best practice at the earliest opportunity. This tendency

frequently arises from the belief that one can always improve upon something that was created elsewhere. However, these changes may negatively impact other parts of the company's systems, resulting in an overall reduction in performance. Consequently, it is better to insist that new locations duplicate a best practice in all respects and use it to match the performance levels of the baseline location before they are allowed to make any changes to it. By doing so, the new location must take the time to fully utilize the best practice and learn its intricacies before they can modify it.

## 1.4 Why Best Practices Fail

There is a lengthy list of reasons why a best practice installation may not succeed, as noted in the following points. The various reasons for failure can be grouped into a relatively small cluster of primary reasons. The first is the lack of planning, which can include inadequate budgeting for time, money, or personnel. Another is the lack of cooperation by other entities, such as the programming staff or other departments that will be impacted by any changes. The final, and most important, problem is that there is little or no effort made to prepare the organization for change. This last item tends to build up over time as a multitude of best practices are implemented, eventually resulting in the total resistance by the organization to any further change. At its root, this problem involves a fundamental lack of communication, especially to those people who are most impacted by change. The completion of a single implementation without informing all employees of the change may be tolerated, but a continuous stream of changes will encourage a revolt. In alphabetical order, the various causes of failure are:

- *Alterations to packaged software.* A very common cause of failure is that a best practice requires changes to a software package provided by a software supplier; after the changes are made, the company finds that the newest release of the software contains features that it must have and so it updates the software—wiping out the programming changes that were made to accommodate the best practice. This problem can arise even if there is only a custom interface between the packaged software and some other application needed for a best practice, because a software upgrade may alter the data accessed through the interface. Thus,

alterations to packaged software are doomed to failure unless there is absolutely no way that the company will ever update the software package.

- *Custom programming.* A major cause of implementation failure is that the programming required to make it a reality does not have the requested specifications, costs more than expected, arrives too late, is unreliable—or all of the above. Because many best practices are closely linked to the latest advances in technology, this is an increasingly common cause of failure. To keep from being a victim of programming problems, one should never attempt to implement the most “bleeding-edge” technology, because it is the most subject to failure. Instead, one should wait for some other company to work out all of the bugs and make it a reliable concept, and then proceed with the implementation. Also, it is useful to interview other people who have gone through a complete installation to see what tips they can give that will result in a smoother implementation. Finally, one always should interview any other employees who have had programming work done for them by the in-house staff. If the results of these previous efforts were not acceptable, it may be better to look outside the company for more competent programming assistance.
- *Inadequate preparation of the organization.* Communication is the key to a successful implementation. Lack of communication keeps an organization from understanding what is happening; this increases the rumors about a project, builds resistance to it, and reduces the level of cooperation that people are likely to give it. Avoiding this issue requires a considerable amount of up-front communication about the intents and likely impact of any project. That communication should target not just the impacted managers, but also all impacted employees, and to some extent even the corporation or department as a whole.
- *Intransigent personnel.* A major cause of failure is the employee who either refuses to use a best practice or actively tries to sabotage it. This type of person may have a vested interest in using the old system, does not like change in general, or has a personality clash with someone on the implementation team. In any of these cases, the person must be won over through good communication (especially if the employee is in a controlling position) or removed to a position that has no impact on the project. If neither of these actions is successful, the project will almost certainly fail.

- *Lack of control points.* One of the best ways to maintain control over any project is to set up regular review meetings, as well as additional meetings to review the situation when preset milestone targets are reached. These meetings are designed to see how a project is progressing, to discuss any problems that have occurred or are anticipated, and to determine how current or potential problems can best be avoided. Without the benefit of these regular meetings, it is much more likely that unexpected problems will arise or that existing ones will be exacerbated.
- *Lack of funding.* A project can be cancelled either because it has a significant cost overrun exceeding the original funding request or because it was initiated without any funding request in the first place. Either approach results in failure. Besides the obvious platitude of “Don’t go over budget,” the best way to avoid this problem is to build a cushion into the original funding request that should see the project through, barring any unusually large extra expenditures.
- *Lack of planning.* A critical aspect of any project is the planning that goes into it. If there is no plan, there is no way to determine the cost, number of employees, or time requirements, nor is there any formal review of the inherent project risks. Without this formal planning process, a project is very likely to hit a snag or be stopped cold at some point prior to its timely completion. Using proper planning results in a smooth implementation process that builds a good reputation for the project manager and thereby leads to more funding for additional projects.
- *Lack of postimplementation review.* Although a postimplementation review is not a criterion for the successful implementation of any single project, a missing review can cause the failure of later projects. For example, if such a review reveals that a project was completed despite the inadequate project planning skills of a specific manager, it might be best to use a different person in the future for new projects, thereby increasing the project’s chances of success.
- *Lack of success in earlier efforts.* If a manager builds a reputation for not completing best practices projects successfully, it becomes increasingly difficult to complete new ones. The problem is that no one believes a new effort will succeed and so there is little commitment to doing it. Also, upper management is much less willing to allocate funds to a manager who has not developed a proven track record for successful implementations. The best way out of this jam is to assign a different manager to an implementation project, one with a proven track record of success.