

Hotel Business Review

Finance & Investment

Ten Best Practices to Prevent Payroll Headaches

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Mr. Carr

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Payroll is likely one of the biggest expenses your hotel incurs — and one that can cause the most headaches. It's one thing to have an unhappy guest ... but an unhappy employee — or worse yet, a suspect government office — can have a significant impact on your business.

Many of those headaches are avoidable by taking the appropriate steps from day one with the onboarding of a new hire... to making changes to an employee's status, position or compensation level... all the way through to retiring an employee from service.

The Best of the Best Practices

With everything from health care reform to closing the tax gap being headline news in recent years, it's no wonder payroll is on the mind of many business owners. And in the lodging industry — with its multitude of roles within each organization as well as varying schedules among employees — processing payroll can be a considerable effort.

This complex issue is certainly worthy of the attention, but it doesn't have to be a source of great stress for you and your staff. Knowing how to avoid problems and staying on top of changes to policy can make the task of processing payroll run smoothly — and make pay day the quiet success that it should be each period. The following 10 best practices for payroll processing can help you avoid some common mistakes — and know what to expect from your in-house or outsourced payroll processor.

1. Note important payroll deadlines

Timeliness is an ever-present aspect of payroll processing. Of course timely distribution of payroll is imperative to employee relations, but it's just as important to recognize the importance of on-time reporting and depositing of payroll taxes to federal, state and local agencies. Late deposits can result in penalties and interest charges.

2. Classify employees appropriately

Much like having a clear job description and a defined role for each employee helps you run your business effectively, assigning the appropriate job classification to each of them does the same. Classify your employees into the appropriate categories such as temporary employees, consultants and other independent contractors to ensure payroll reporting for tax purposes is accurate. This can help you avoid common pitfalls should you be subject to a payroll audit.

3. Report and calculate overtime pay

Here's where the proper classification of "exempt" and "non-exempt" employees is really important because it can be costly. According to the Department of Labor, litigation claiming non-exempt employees who were treated as "exempt" employees and, therefore, not entitled to overtime — but should have been — continues to increase. Take the time to review the status of your employees from time to time and to update the status of any employee who changes positions. It could save you time — and money — in the long run.

4. Distribute 1099 forms on time

You may have one, two or 10 independent contractors who work on your facility or with your staff in a given year. If they are earning more than \$600/year, they must be furnished with a completed 1099 form by January 31 of the year following their services. Then, the 1099 form A should be mailed to the appropriate tax revenue department by the filing deadline of February 28 to avoid late penalties — \$15 for every 1099 form that is 30 days late, \$30 for every form filed by August 1 and \$50 for all 1099 forms filed after August 1.

5. Double check data entries

We hear all the time that something has happened as a result of "human error." Perhaps the biggest error of all is not checking for errors. Data entry mistakes — including incorrect hourly wages and the wrong number of employee hours per pay period — cost companies millions of dollars annually. In addition to potentially increasing expenses if workers are paid for hours they didn't work or at a higher hourly rate than they should be, a data entry mistake can result in government penalties. One way to reduce your risk of human error is to talk to the humans responsible for the data entry. Ask your processor if a "double-check" is part of its process for payroll completion. If it's not, request that this step be added.

6. Send court-ordered payments to the proper recipient

It may be your employee who was instructed to make a court-ordered payment, but it is your responsibility to ensure the money gets to its rightful place. If you don't comply with court-ordered garnishments, such as levies or child support, or if your payroll processor fails to submit those payments accurately, you may be prosecuted and could be fined up to \$1000 — or even imprisoned.

7. Don't rely solely on the software program

Payroll software is only as good as the data entered for input. On your end, make certain you collect every piece of information you need from your employees upon hire and whenever the information needs to be updated. Once you have it, enter all of the necessary payroll data into your program, or furnish your payroll processor with all of the information you can to ensure accurate calculations.

8. Save payroll records

It is the responsibility of your business to maintain a comprehensive record for each employee. Keep time sheets, cancelled checks and W-4 forms — in a safe and accessible location — for four to six years. Failure to do so could lead to criminal penalties and/or civil actions. The Wage and Hour Division of the Department of Labor must be able to inspect your records within 72 hours of notifying you.

9. Maintain payroll confidentiality

There is a ton of personal information involved in processing payroll including everything from social security to bank account to dependent information. Make certain you are taking every precaution to maintain the privacy and security of your employees' information. Keep your payroll information within the payroll department and the senior management team. Failure to do so could lead to criminal penalties and/or civil actions by disgruntled employees.

10. Train more than one employee in payroll functions

Because payroll is so time-dependent, you should have more than one employee trained to manage the payroll processing in case the employee who is primarily responsible is out of the office. The IRS, the state and employees need to receive payments on time, so it is important to take steps to keep potential issues at a minimum. Also, have a manual backup system in case of computer failure. The last thing you want is to discover an issue with your payroll when your payroll person is on vacation or your system is down and feel helpless to address the problem.

When it comes down to it, there are two primary considerations when you are evaluating your mechanism for payroll processing: government compliance and employee satisfaction. By making sure your in-house or outsourced payroll processor is following the right path to efficient, accurate processing, you are helping foster and maintain employee satisfaction — as well as preventing headaches with federal, state and local agencies.



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