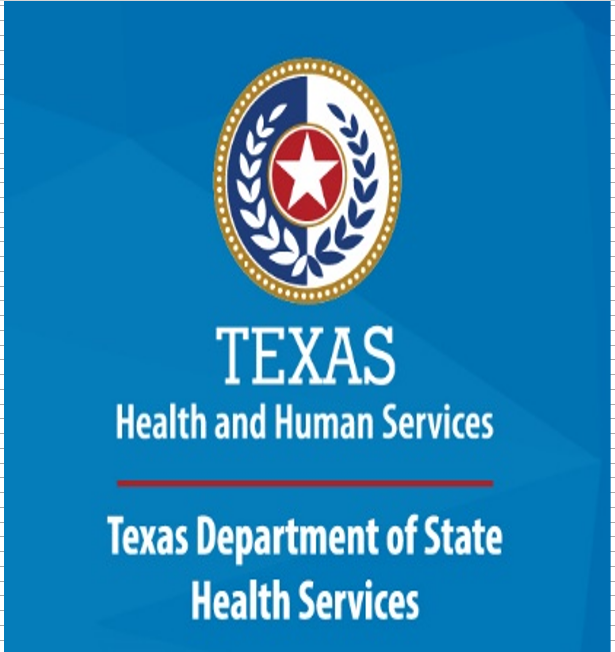
**A GUIDE ON PAYROLL FINDINGS**



**Synopsis**

**This document serves as a guide for Texas Department of State Health Services (DSHS) recipients/subrecipients to understand how the Office of Compliance and Accountability (OCA), Fiscal Support and Oversight (FSO) team evaluates DSHS grant funded payroll. The emphasis is on understanding what a payroll finding is, when it occurs, and its significance. In addition, this guide provides suggestions and tips for grantees to enhance internal controls over the payroll processes.**

Table of Contents

[ What is Payroll Finding? 3](#_Toc187324071)

[ Common Payroll Findings and Solutions: 3](#_Toc187324072)

[**1**. Pre-determined allocation/percentages 3](#_Toc187324073)

[**2.** Misclassification of Employees 3](#_Toc187324074)

[**3.** Incorrect Overtime Pay 3](#_Toc187324075)

[**4.** Failure to Withhold Taxes Correctly 3](#_Toc187324076)

[**5.** Inaccurate Payroll Records 3](#_Toc187324077)

[**6.** Unpaid or Miscalculated Leave (Sick, Vacation, PTO) 4](#_Toc187324078)

[ Recommended Procedures to Implement: 4](#_Toc187324079)

[1. Employee Onboarding and Classification 4](#_Toc187324080)

[2. Timekeeping and Attendance Monitoring 4](#_Toc187324081)

[3. Overtime and Wage Compliance 4](#_Toc187324082)

[4. Tax Withholding and Payroll Deductions 4](#_Toc187324083)

[5. Payroll Processing Procedure 5](#_Toc187324084)

[6. Tax Filing and Payment Procedures 5](#_Toc187324085)

# **What is Payroll Finding?**

**A payroll finding refers to an issue or discrepancy identified during a review of payroll processes and records, typically identifying areas of non-compliance, errors, or procedural failures. These findings can include:**

* **Incorrect wage payments: Overpayments or underpayments to employees.**
* **Pre-determined** **allocation/percentages: Fixed rates for distributing costs, often referred to as budgeted percentages.**
* **Improper tax withholding: Incorrect federal, state, or local deductions.**
* **Overtime Violations: Failure to comply with overtime pay rules or miscalculating overtime.**
* **Benefit or deduction errors: Incorrect calculation of benefits or deductions (e.g., health insurance, retirement contributions, or garnishments).**
* **Recordkeeping issues: Incomplete or inaccurate payroll records.**
* **Compliance issues: Failure to follow labor laws, such as minimum wage requirements or timely payment laws.**

# **Common Payroll Findings and Solutions:**

## **1**. Pre-determined allocation/percentages

**Finding: Outdated allocations can lead to incorrect calculations and errors in funding.**

**Solution: Regularly review and update allocations based on recent data, usage metrics, and organizational needs to ensure accurate and fair distribution of costs or resources. Allocations must be based on a reasonable methodology and applied consistently.**

## **2.** Misclassification of Employees

**Finding: Misclassifying employees as contractors or exempt/non-exempt status can lead to tax and overtime errors.**

**Solution: Review employee roles and job descriptions against labor laws and ensure correct classification in payroll systems.**

## **3.** Incorrect Overtime Pay

**Finding: Incorrect overtime rates (e.g., 1.5x regular pay for hours worked over 40 in a week).**

**Solution: Regularly review and periodically audit the time tracking and payroll systems and automate overtime calculations.**

## **4.** Failure to Withhold Taxes Correctly

**Finding: Incorrect tax withholdings can lead to compliance issues.**

**Solution: Use updated payroll software, review tax withholdings regularly, and adjust as needed.**

## **5.** Inaccurate Payroll Records

**Finding: Incomplete or incorrect records pose compliance risks.**

**Solution: Reconcile payroll records with timesheets and HR data; consider digitizing records.**

## **6.** Unpaid or Miscalculated Leave (Sick, Vacation, PTO)

**Finding: Payroll errors related to vacation or other paid time off (PTO) accruals and payments, resulting in inaccurate leave balances.**

**Solution: Use integrated HR/Payroll systems to track and audit leave accruals and balances.**

**Proactively addressing these issues helps reduce risks, avoid penalties, and ensure accurate, timely employee payments. Corrective actions may include adjusting payments, updating processes, and/or addressing compliance concerns.**

# **Recommended Procedures to Implement:**

**To ensure smooth and compliant payroll operations, it's essential to establish structured procedures. Here are key practices to minimize errors and maintain compliance:**

## **1.** Employee Onboarding and Classification

* **Procedure: Collect and verify personal information, classify employees (exempt/non-exempt, full-time/part-time), and set up payroll with correct wage rates, tax withholdings and benefits.**
* **Documentation: Ensure new hires complete necessary forms and verify correct classifications.**
* **Tools: Use onboarding software that integrates with payroll systems to minimize data entry errors.**

## **2.** Timekeeping and Attendance Monitoring

* **Procedure: Implement a time-tracking system (manual or digital) and have supervisors approve hours before payroll is processed.**
* **Documentation: Maintain records of time logs and approvals, ensuring these records are stored securely for compliance.**
* **Tools: Use digital time-tracking software integrated with payroll systems to ensure accuracy and timely updates.**

## **3.** Overtime and Wage Compliance

* **Procedure: Set clear rules for overtime and ensure the payroll system applies correct rates. Regularly audit payroll for compliance with wage laws.**
* **Documentation: Keep records of employee agreements, overtime requests, and related pay data.**
* **Tools: Payroll software with automatic overtime calculation features.**

## **4.** Tax Withholding and Payroll Deductions

* **Procedure: Automate tax calculations and ensure accurate benefit deductions each pay period. Review withholding regularly, especially after changes.**
* **Documentation: Retain tax forms (W-4, W-2, 1099s) and records of all deductions and payments for compliance purposes.**
* **Tools: Payroll software that updates tax tables automatically and manages deductions.**

## **5.** Payroll Processing Procedure

* **Procedure: Establish a fixed payroll schedule, review payroll for accuracy, and securely distribute pay stubs.**
* **Documentation: Ensure all payroll records, including pay stubs, are stored for at least 3-5 years for audit purposes. Follow internal record retention requirements.**
* **Tools: Use automated payroll systems that streamline review and processing, reducing the risk of human error.**

## **6.** Tax Filing and Payment Procedures

* **Procedure: Automate tax filings and set reminders for quarterly and annual submissions. Ensure timely tax deposits to avoid penalties.**
* **Documentation: Keep copies of all tax filings and payment receipts for compliance.**
* **Tools: Use payroll software that automates tax filings and payments to prevent missed deadlines.**

**By implementing these procedures, organizations can reduce payroll errors, improve compliance, and maintain efficient payroll operations.**

**Please contact the DSHS OCA-FSO Technical Assistance team for any questions:**

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