

WHITE PAPER: Payroll

Choosing the Right Payroll Solution

For most organizations, providing employees with their paychecks on time and error-free is mission-critical. An important contributor to employee satisfaction, payroll is one of the most visible business processes to employees. Payroll management plays a key role in a company's ability to keep financials in balance, meet regulatory requirements, strategically meet business goals, keep costs under control and contribute to employee satisfaction.

By choosing an appropriate payroll solution, businesses can boost efficiency, reduce costs and better manage the payroll process, ultimately contributing to the bottom line in a positive way. With so many payroll solutions available in the marketplace today, selecting that right payroll management system that supports unique needs of businesses can be a daunting task. That's why it is important to be equipped with good information and know the right questions to ask.

Business risk and cost

Apart from salary and wage expenses, organizations have additional administrative expenses invested in the time, effort and resources required to plan, process and deliver payroll. Payroll processing errors in overpayments and underpayments are considerably costly, and if accounting principles and standards are not strictly adhered to, may result in additional penalties. The U.S. Sarbanes-Oxley Act regulatory and reporting requirements mandate that business have compliant payroll solutions. Providing thorough, accurate records is essential in the event of an audit.

Workforce challenges

With prevailing business risk and costs, organizations also need the flexibility to accommodate workforce challenges ranging from last minute exceptions to corporate reorganizations, tax obligations, custom payroll calculations, and multiple jobs in multitude locations. Innovative software and advanced technology has simplified payroll processing and enabled organizations to share information company-wide. Effective payroll management allows businesses to handle changing demands, maintain accountability for tax obligations and other financial reporting requirements, and deploy resources more effectively.

Payroll Management Solutions

Payroll processing can be challenging for businesses today. Finding the best payroll process boils down to finding the right method that satisfies organizations' unique needs with the least amount of ongoing preparation time and cost. With several options ranging from external service bureaus, third party solutions or an integrated, in-house payroll solution, organizations should be armed with good information before making a final decision.

Outsourced Payroll

Outsourcing payroll to a service bureau can seem to be an attractive and convenient option for many organizations regardless of company size. Payroll service bureaus reduce the need for organizations to be the "payroll expert" by managing all payroll and tax obligations, handling direct deposit of checks and processing W-2's with other year-end forms. While working with a service bureau reduces a high degree of payroll competency, it may come with considerably higher costs and increased preparation time than what companies plan for and expect. With the requirement to pre-fund the salary and tax moneys ahead of time, it removes some flexibility for the company meeting payroll and adds the requirement to have the entire payroll deposited days in advance.

In-house preparation - Preparing payroll can be time-intensive even when it's outsourced to a service bureau. To comply with strict formatting requirement, businesses typically need to calculate and reconcile payroll information such as benefits, deductions and commissions before submitting the data to a service bureau for processing. Depending upon the size of an organization, this may take one or two full-time people to prepare for every payroll cycle.

Stringent timelines - In many cases, payroll data and payment must be submitted well in advance and any delays or changes can dramatically increase costs. For example, service bureaus can accommodate additional payroll requests such as a special payroll or trial run when preparation delays or tax changes occur. Other services such as reprinting reports like W-2 or Affordable Care Act (ACA) forms 1094-B/1095-B and 1094-C/1095-C also costs more.

Accountability - While service bureaus provide a hands-off solution for processing payroll, outsourcing payroll management separates the payroll function from the rest of business operations, planning and analysis. Organizations are ultimately responsible for filing tax obligations and are subject to penalties associated with non-compliance.

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Third Party Payroll

When considering in-house payroll options, many companies choose a third-party software solution that allows complete payroll management, including check printing, reporting, forms, direct deposits and payroll taxes. Typically, the investment for a third-party payroll system involves a one-time license purchase, rather than a monthly fee, and an annual support contract for software enhancements, tax table updates and technical support.

This type of payroll processing allows private information such as salary and wage detail to remain confidential from outside sources. Organizations have control to make last-minute changes prior to a payroll run or off-cycle checks.

Integration issues - Although organizations gain more control and flexibility with third party payroll solutions, integrating payroll information into a company's existing business management system can be complicated and subject to significant errors. Third-party solutions typically do not integrate well with existing business systems. Often organizations spend a considerable amount of time, resources and costs to successfully synchronize payroll data into their existing business management solution.

Error-prone process - Errors associated with payroll management are dramatically increased without a fully integrated, streamlined system. Many third-party payroll systems do not support complex or custom calculations such as special deductions, benefits, piece work, commissions or adjustments. Typically, employees must extract this data into a spreadsheet or other specialized application. While time consuming for employees, potential error opportunities dramatically increase when staff member's re-key time-related data back into the payroll system.

Integrated Payroll Module

Considering an integrated payroll and business management solution can help streamline business processes, reduce costs, gain insight to personnel costs and improve overall payroll accuracy, even with exceptions and complex workforce challenges. Designed to help connect information and processes, a sophisticated payroll solutions can seamlessly integrate with vendor payables and general ledger information in real-time. A fully integrated payroll helps businesses significantly gain control over payroll operations and transforms the payroll process into a strategic tool for monitoring personnel performance company-wide.

Data accuracy - Integrated payroll solutions significantly increase data accuracy by reducing errors associated with multiple data entry points associated with a third-party payroll system. Directly entering information such as salary, commission, retro pay, manual pay, piece-based pay, multiple state pay, unlimited garnishments, multiple 401(k) and cost of employer-sponsored health coverage eliminate the need to extract, manipulate and re-enter data. This reduces the risk for errors and saves valuable time and employee resources associated with payroll processing.

Employee information such as salary and wage detail to remain confidential from outside sources. This provides maximum control and flexibility over last-minute changes that need to be made prior to a payroll run or off-cycle checks without incurring additional fees.

Comprehensive audit trail - With a detailed record of transactions and operations, each payroll cycle has a solid audit trail. All calculations and adjustments are integrated within the system, rather than on a separate spreadsheet, helping to ensure complete accountability in the event of an audit.

Confidential payroll records - Integrated payroll allows for tight control and privacy of financial-sensitive data from outside sources. Inquiries by employees or managers can be handled quickly, and W-2 and ACA forms can be reprinted on demand. This also provides a complete historical view of all employee-related transactions from a single inquiry, including time, earnings, benefits, payments and current vacation balance.

Company Assessment

Businesses have a variety of reasons for evaluating and choosing a new payroll option. Whether an organization is dissatisfied or outgrown its existing payroll system, determining the right payroll system can be a challenging task. Here are some factors to consider.

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Management philosophy

Many CFO's and CEO's may have personal preferences about how they want to process payroll, which could ultimately play a large role in the final decision to outsource payroll or process payroll in-house. Generally executive managers who are comfortable maintaining a higher degree of payroll competency will often push for an in-house software solution, while those whose preferences dictate that payroll should not be an internal competency will often encourage outsourcing payroll management.

Tax compliance

It is imperative that organizations are tax compliant. Keeping up to date with changing tax regulations and filing taxes in a timely manner is a task that some companies are uncomfortable with, while to others would prefer to have complete control over this responsibility. Tax compliance requires that standard and supplemental tax tables are updated regularly, timely tax return filing and making tax payments, management of pre-tax deductions, and tracking liabilities and tax deposits for federal, state and local taxes. Errors or missed deadlines can result in stiff penalties.

Organizational stability

The stability of an organization is an important factor when considering a payroll solution. If an organization is relatively stable without major organization changes, in-house payroll may be a good choice. Outsourcing payroll can allow companies to move fixed costs to variable costs, increase their ability to handle heavy volume fluctuations and help facilitate mergers, acquisitions and divestitures. Companies may choose to look at outsourcing payroll as part of a changed management strategy if large organizational changes are anticipated in the future.

Customization

As a rule of thumb, outsourcing payroll tends to be less flexible than payroll software because they rely on processes that are standardized for volume. Organizations must adapt to these requirements in order to successfully use the service. If little or no customizations are required, then outsourcing payroll management may be a good option for consideration. However, companies that track a variety of pay rates, shift differentials, overtime, pay cycles, and other variation on a regular basis are good candidates for an in-house system.

Data Security

Some organizations are not comfortable sharing private salary and wage data, including social security numbers, relying on the data security of third party systems. Using an in-house payroll solution requires data security to be controlled by the IT department's network security.

Investment

The investment required and the total cost of outsourcing payroll versus an in-house payroll management solution is an important consideration. An in-house payroll solution often requires a significant capital requirement up front for hardware, software, training and yearly maintenance fees for technical support, upgrades and enhancements. On the other hand, outsourced payroll requires a perpetual recurring monthly fee for the life of the service in addition to fluctuating fees for off-cycle and special requests. Both options may appeal to businesses for different reasons.

Choosing the Right Company

Whether an organization chooses to process payroll in-house with a third party or integrated solution, or outsource payroll through a service bureau, deciding on a vendor is an important decision to consider. When choosing a payroll management solution, it is important to select an established and experienced vendor with a proven track record for offering excellent products and services to its customers. Here are some questions to ask when evaluating the reputation and service of a potential payroll software or service provider:

- How long has the company been in business and how many customers use the software/license?
- What industries and size businesses does the company serve?
- Does the company stay consistently up-to-date on all tax tables and governmental reporting changes?
- How, when and how often is user training offered?

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About AccountMate

Founded in 1984, AccountMate develops and markets fully modifiable business accounting software. Systems range from single user versions to those that support over hundreds of users simultaneously. AccountMate software is available for local or cloud installation. It is distributed exclusively through a worldwide channel of authorized solution providers. AccountMate can be reached at (800) 877-8896 or at accountmate.com.

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