

1. Misclassifying nonexempt employees

Employees classified as nonexempt must be paid overtime when working more than 40 hours in a workweek. When you incorrectly classify an employee as exempt, your organization may be subject to wage and hour audits, significant penalties, and lawsuits.

To protect yourself and your company:

Consult the guidelines, or undergo professional training, to make sure you understand and correctly apply the rules when classifying exempt employees.

2. Failing to apply the latest laws and regulations

In the past two years, a flurry of legislation has affected many aspects of payroll, including the *Emergency Economic Stabilization Act of 2008*, the *Heroes Earnings Assistance and Relief Act of 2008*, and the *American Recovery and Reinvestment Act of 2009*, to name just three. Failing to implement portions of these acts can cause you to overwithhold Federal income tax, underpay state unemployment taxes, erroneously cease child support withholding, or incorrectly calculate fringe benefits when reporting an employee's income.

To protect yourself and your company:

Stay up to date by reading professional journals and/or enrolling in continuing education courses.

3. Incorrect Social Security numbers on W-2 forms

Incorrect Social Security numbers are the most common cause of erroneous W-2 forms. Not only can this result in a \$50 penalty for each incorrect form, but the employee's benefit record at the SSA may be understated, reducing his or her benefits in the future.

To protect yourself and your company:

Go to www.ssa.gov/employer/ssnv.htm and register to use the Social Security Number Verification Service. Then make it a practice to check the Social Security number and name combination for each new employee.

For information on ADP's *Wage Garnishment and Income Withholding Processing Service* and ADP's *automated time and labor management solutions*, visit www.ADP.com.



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Preventable Mistakes Payroll Managers Often Make

Might you unknowingly be putting your company at risk of noncompliance? Use the information in this brochure to conduct a quick safety check.

4. Incorrectly processing wage garnishments

Garnishments, levies, and child support orders can be difficult to implement, especially when employees have multiple wage garnishment orders. You are responsible for tracking and prioritizing each employee's wage attachments to make sure you withhold and remit the deductions correctly.

To protect yourself and your company:

Make sure you are up to date on the requirements by reading professional publications or taking professional training.

5. Overreliance on payroll software

Today's payroll systems are incredibly powerful and functional. But the clean and official-looking printouts can give you a false sense of security. Even though your system is accurately performing millions of calculations, it is your responsibility to understand how these calculations are made, not only to help ensure accurate input and compliance, but also so you can explain to employees how their pay is calculated.

To protect yourself and your company:

Conduct regular audits of your payroll process to make sure you are correctly entering employee pay and deductions. Pursue professional payroll certification.

6. Time and attendance reporting errors

Logging worked hours and rekeying them into payroll creates multiple opportunities for error. Underpaying employees can cause morale problems, while overpaying them creates a financial loss to your organization.

To protect yourself and your company:

Assess the level of employee compliance with your organization's time-reporting policy. Also, studies have shown that switching to an automated time and attendance system (e.g., where employees swipe ID cards into an electronic reader) improves payroll accuracy significantly.

7. Improper tax reporting of fringe benefits

Holiday gift certificates, door prizes at company picnics ... the Internal Revenue Code defines all forms of compensation as taxable unless explicitly stated otherwise. If you fail to report these as income and under-withhold the taxes, your organization could be subject to significant penalties.

To protect yourself and your company:

Read professional journals and/or take professional education to keep yourself up-to-date on the rules for all taxable benefits.

8. Mistakenly treating employees as contract workers

In an attempt to keep head count low, many companies hire temporary, home-based, or freelance workers. But unless specific conditions are met, the employer will still be responsible for reporting and paying their employment taxes. Failure to do so could leave you liable for back taxes and penalties.

To protect yourself and your company:

Make sure you are well versed in the definitions and reporting requirements for employees vs. independent contractors.

9. Mishandling withholding for employees who receive third-party sick pay

In many companies, a third-party insurance company takes over salary payments to employees on long-term disability. But payroll managers often forget that they retain responsibility for paying and reporting the employer's share of Social Security, Medicare, and FUTA. They must also report Federal income tax withheld and deposited by the third party.

To protect yourself and your company:

Work closely with the third-party insurer to make sure that you are both reporting the correct information.

10. Missing a deposit deadline

Your deposit requirements are based on the total taxes reported on Form 941 from a four-quarter look-back period. Once your deposit calendar is determined, you must meet that schedule or be subject to tiered compliance penalties based on how late the past-due amount was deposited.

To protect yourself and your company:

Outsourcing your payroll tax filing to ADP protects you from this common mistake. ADP makes sure your deposits are reported and filed on time.

PROFESSIONAL TRAINING CAN BE AS CLOSE AS YOUR DESK

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The American Payroll Association offers live and self-paced training.

The American Payroll Association (APA) is the nation's leader in payroll publications, education, and training. Each year, this non-profit organization conducts more than 300 training conferences and seminars across the country. It also offers CD-based and Web-based payroll training programs.

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For a quick assessment of your professional knowledge, try the APA's Web-based Payroll Knowledge Assessment Calculator. Based on your responses to a series of 50 questions, the calculator will recommend training or publications to fill any gaps. The assessment takes an hour and costs \$19.95.

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