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# PAYROLL DIVISION PROCEDURE

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<b>PROCEDURE PR-1:</b>	Biweekly Payroll Tax Deposit Procedures
<b>APPROVED:</b>	Auditor-Controller-Treasurer-Tax Collector (ACTTC)
<b>AUTHORITY:</b>	Auditor-Controller-Treasurer-Tax Collector (ACTTC)
<b>ISSUED/REVISED:</b>	April 2017

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## I. PURPOSE

Biweekly the Payroll Division of the County Auditor-Controller-Treasurer-Tax Collectors (ACTTC) office processes payroll for all County employees and certain special districts. This document describes the procedures and controls in place for calculating, remitting and verifying payroll tax deposits are completed timely and accurately.

If you have any questions regarding how to interpret these guidelines, please call the Payroll Division Manager, at 565-6162 or the Assistant Auditor-Controller-Treasurer-Tax Collector at 565-6124.

## II. PROCEDURE

### A. Bi-Weekly Payroll Division Tax Payment Preparation

#### 1. Methodology

In an effort to improve the accuracy of the County's Payroll tax filings both biweekly and quarterly, the biweekly tax remittance procedure has recently been changed to pay taxes based on taxable wages each pay period rather than the amount collected by the system. This is due to the fact that the system calculates taxes due on a cumulative basis and adjustments in the current period may be the result of retroactive or previous pay period adjustments. To ensure taxes are remitted in such a way as to not create an underpayment or balance due, this conservative approach has been adopted.

#### 2. Calculation of Payroll Tax Liabilities

Each pay period after payroll has been balanced internally and with Information Systems Department (ISD), a report is run by the Assistant Payroll Manager in the Discoverer reporting system to generate the pay periods cumulative pay code totals. This data is imported into the biweekly Payroll Recap, a document which shows the total salary and benefit expenditures collected from County departments and special districts to cover all related payments.

Currently, the Payroll Division remits Federal Tax deposits under one Employer Identification Number (EIN), for the County, Community Development Commission (CDC) and all other special district entities. The County remits all California Tax Withholdings (Personal Income Tax) to one EDD Account. The CDC has a separate EDD Account for their California State Disability Tax and Unemployment Reimbursable charges remitting and reporting.

The following categories are identified, and applicable taxes are remitted biweekly:

- Social Security Taxable Wages (aka FICA EE/ER Taxable Wages)
- Medicare Taxable Wages (aka Medi EE/ER Taxable Wages)
- Additional Medicare Taxable Wages (aka Addt'l Medi EE Taxable Wages)
- California State Disability Taxable Wages (aka SDI Taxable Wages)
- California Tax Withholding
- Additional California Tax Withholding
- Supplement California Tax Withholding
- Federal Income Tax Withholding
- Additional Federal Income Tax Withholding
- Supplement Federal Tax Withholding

#### Federal Taxes

- FICA ER Taxable Wages are multiplied by the total rate of 12.4% (6.2% for both employee and employer).
- Medi ER Taxable Wages are multiplied by the total rate of 2.9% (1.45% for both employee and employer).
- Addt'l Medi EE Taxable Wages are multiplied by the total rate of 0.9% (employee only).
- Federal Income Tax Withholding, Additional and Supplement Federal Income Tax withholding are summed together.

#### California State Taxes

- The CDC is the only agency currently paying into the California State Disability insurance. The total SDI Taxable Wages are compared to the CDC SDI Taxable Wages to ensure County of Sonoma employees are not being erroneously charged SDI. Once confirmed the total SDI Taxable Wages amount is multiplied by the 2017 rate of 0.9%.
- California State Tax Withholding, Additional and Supplement California Tax Withholding are summed together and remitted under the County's EDD Account.

Once all tax liabilities have been calculated the total tax due is compared to the pay codes, respectively. Any material variances (payroll adjustments, etc.) which would have influenced the variance are researched and the appropriate liability is determined.

### 3. Preparation of ACH Tax Payment Document

Payroll Division opens Federal, State ACH and CDC State ACH templates and populates them with the current periods information including:

- Amount(s)
- Tax Period
- Settlement Date

The three documents are then converted to PDF files and saved in the Pay Period folder. The documents are then reviewed by the Payroll Manager. Once approved, these forms

are e-mailed to the Sonoma County Treasury Division (“Treasury Division”) of the ACTTC for input into the Bank of America Express Tax payment system.

## **B. County Treasury ACH Tax Payment**

Tax payments are made via Automated Clearing House (ACH) and use the Bank of America Express Tax payment system. The Treasury Division does not have the ability to change the payment instructions, i.e. bank routing number or bank account number, as they are hard coded within the system by Bank of America to make payments to the IRS and California EDD bank accounts. ACH payments are not released immediately and therefore the Treasury Division inputs the information on Monday for payment release on Wednesday, payday. If the Payroll Division identifies an incorrect entry while performing the below described review or if there is a need on Monday, Tuesday or even early Wednesday morning, the Treasury Division can submit a request to Bank of America to cancel the payment. The delayed distribution of the ACH method reduces the potential risk of making payments for the incorrect amount.

If an error is found or a change in amount is needed past the point in which the payment can be cancelled, the Treasury Division can work with Bank of America to pull back the ACH transaction or the Payroll Division can process a supplemental payment if necessary or have any excess payment applied to the following payroll cycle.

This internal control provides for adequate time to cancel and repost the payment for the correct amount if necessary.

## **C. Payroll Division Review**

### **1. Review of Treasury Input – Newly Implemented Internal Control**

Once the tax information has been inputted and submitted for processing in the Bank of American Express Tax payment system, the Treasury Division sends PDF copies of the ACH payment advices to the Payroll Division for review and confirmation that the information is correct. The Payroll Division Auditor Payroll Technician who prepares the biweekly recap and reconciliation file reviews both sets of documents for accuracy and e-mails confirmation back to the Treasury Division that payment advice totals are accurate. If a change is necessary, new ACH tax forms are submitted or incorrectly keyed amounts are identified and reconfirmed.

Payroll saves a copy of the Treasury Division ACH documents in the Pay Period folder as well as prints them out to be filed in the year’s tax payment folder.

Given this new established internal control where Payroll Division reviews the payment advices submitted by Treasury on Monday, there is plenty of time to cancel and repost the payment for the correct amount.

### **2. Review of Bank Statement Activity**

On Thursday, the day after payday, the Treasury Division provides the Payroll Division with a copy of the Bank of America transactions from the day before showing the payments identified as Preauthorized ACH Debit with USATXPYMN or STTXPYMN in

the transaction text area. The totals for these are compared by either the Auditor Payroll Technician or Assistant Payroll Manager to supporting documents and amounts agree without exception.

The Treasury Division also performs daily reconciliations between the bank statement and daily bank register to confirm amounts received and disbursed are as expected.

### **III. SUMMARY**

The timely and accurate submission of payroll tax payments to the Federal and State taxing agencies is an essential part of the duties of the Payroll Division.

The procedure above contains several controls including separation of duties. One of the most significant controls is the separation where Payroll Division provides the payment amounts and the Treasury Division enters the payment. Confirmation is then sent back to Payroll Division for review and approval of the amount submitted.