

THE HUMAN RESOURCES
MANAGEMENT/PAYROLL CYCLE

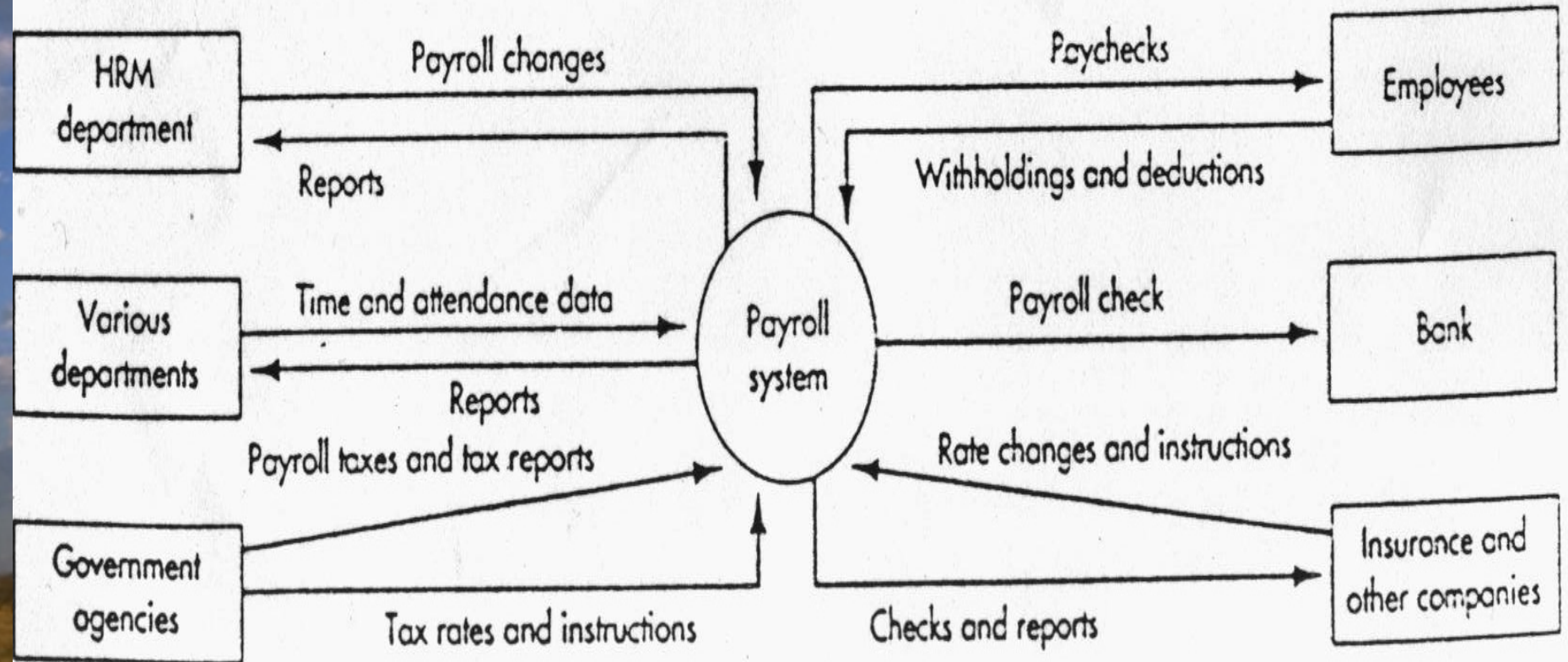
The human resources management (HRM)/payroll cycle is recurring set of business activities and related data processing operations associated with effectively managing the employee work force.

Some of the more important activities include the following tasks :

1. Recruitment and hiring
2. Training
3. Assignment of job responsibilities
4. Compensating for services provided
5. Evaluation of employee performance
6. Discharge

Context Diagram of Payroll Portion of HRM/Payroll Cycle

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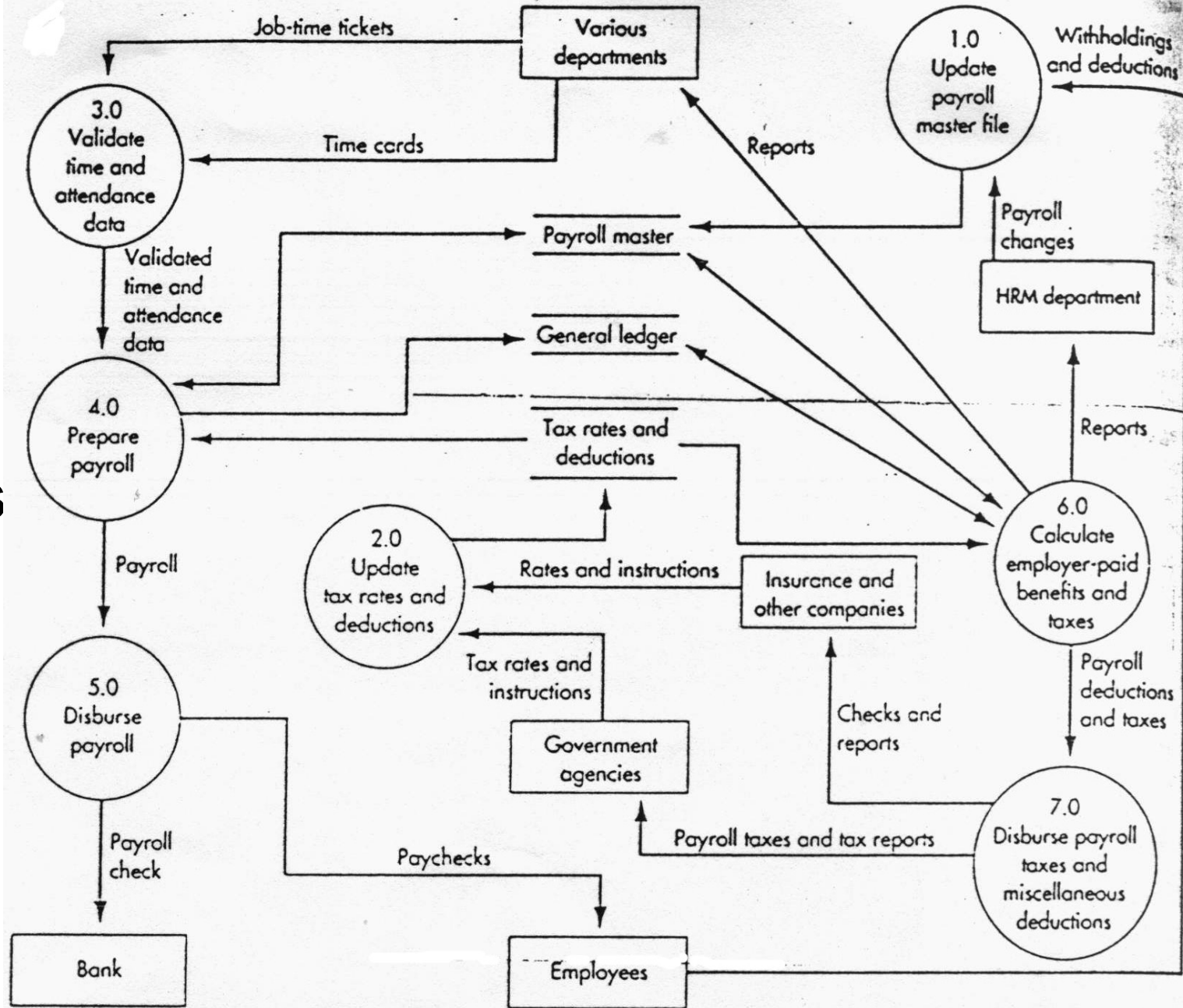


PAYROLL CYCLE ACTIVITIES

- Update Payroll Master File
- Update Tax Rates and Deductions
- Validate Time and Attendance Data
- Prepare Payroll
- Disburse Payroll
- Disburse Payroll Taxes and Miscellaneous Deductions

Payroll Cycle Activities

Payroll Cycle Activities



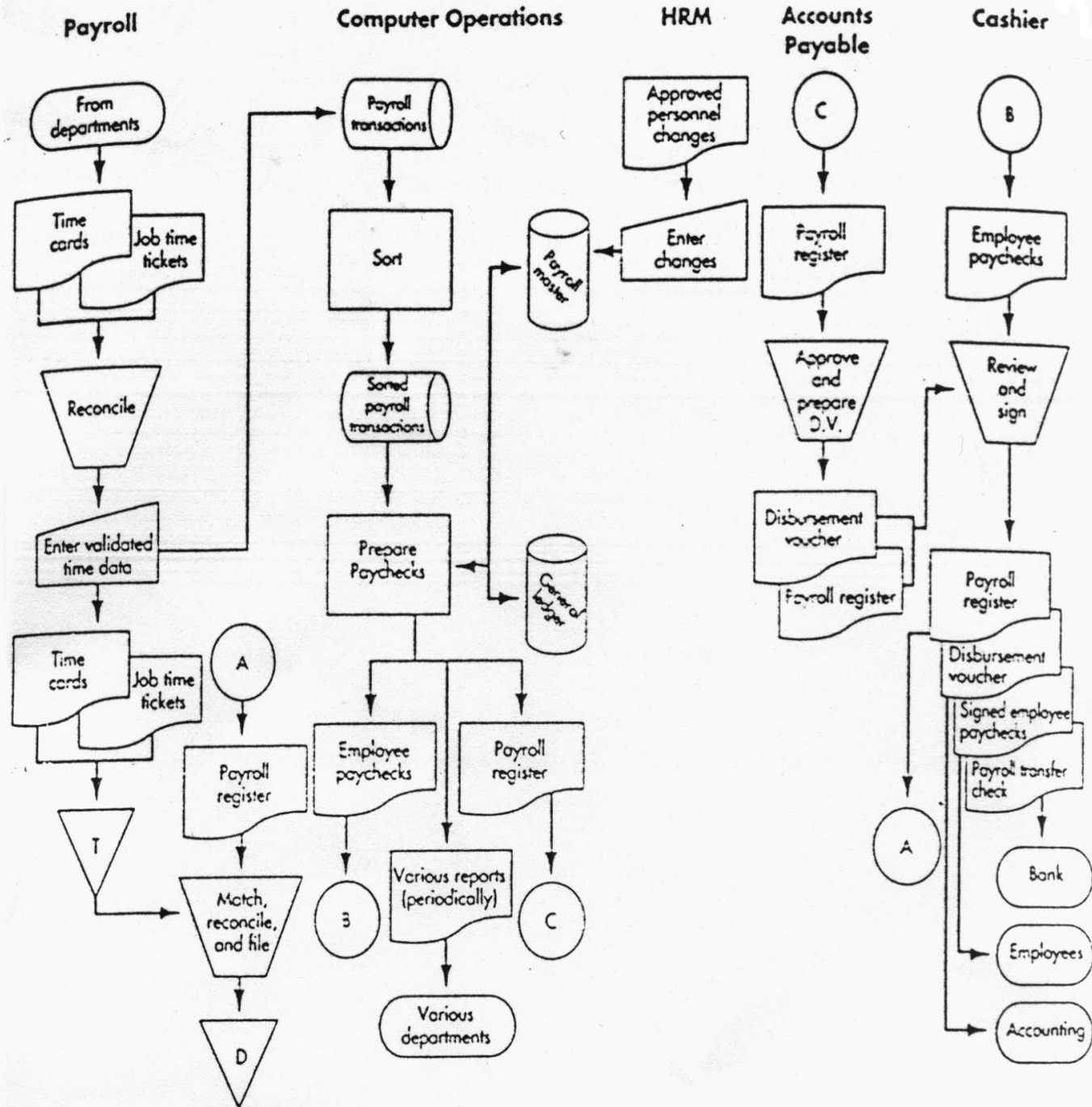
Update Payroll Master File

Updating the payroll master file to reflect various types of payroll changes : new hires, terminations, changes in pay rates, or changes in discretionary withholdings.

Update Tax Rates and Deductions

Updates information about tax rates and other withholdings.

Flowchart of Payroll System – Batch Processing at AOE



Validate Time and Attendance Data

- Pay Schemes : for those paid on an hourly basis, most companies use an employee time card, which records the employee's arrival and departure times for each work shift and totals the hours worked during a pay period.
- Procedure : The payroll department is responsible for validating employee time records.
- Opportunities for Using Information Technology : Payroll processing can be made more efficient by collecting employee time and attendance data electronically.

Designing Effective Bonus Pay Schemes

1. Attainable goals
2. Controllable goals
3. Goals congruent with corporate objectives
4. Measurable goals
5. Periodic review of goals

Prepare Payroll

Procedures

1. The payroll transaction file is sorted by employee number.
2. The sorted time data file is then used to prepare employee paychecks.
3. All payroll deductions are summed and the total is subtracted from gross pay to obtain net pay. Payroll deductions fall into two broad categories: payroll tax withholdings and voluntary deductions.
4. The payroll register and employee paychecks are printed.

Examples of Commonly Generated HRM/Payroll Cycle Reports

Report Name	Contents	Purpose
Cumulative earnings register	Cumulative year-to-date gross pay, net pay, and deductions for each employee	Used for employee information and annual payroll reports
Work force inventory	List of employees by department	Used in preparing labor-related reports for government agencies
Position control report	List of each authorized position, job qualifications, budgeted salary, and position status (filled or vacant)	Used in planning future work force needs
Skills inventory report	List of employees and current skills	Useful in planning future work force needs and training programs
Form 941	Employer's quarterly federal tax return (showing all wages subject to tax and amounts withheld for income tax and FICA)	Filed quarterly
Form W-2	Report of wages and withholdings for each employee	Sent to each employee for use in preparing their individual tax returns; due by January 31
Form W-3	Summary of all W-2 forms	Sent to federal government along with a copy of all W-2 forms; due by February 28
Form 1099-Misc.	Report of income paid to independent contractors	Sent to recipients of income for use in filing their income tax returns; due by January 31
Various other reports to government agencies	Data on compliance with various regulatory provisions, state and local tax reports, etc.	To document compliance with applicable regulations

Disburse Payroll

Procedures

- Once paychecks have been prepared, the payroll register is sent to the accounts payable department for review and approval.
- The payroll register is returned to the payroll department, where it is filed by date along with the time cards and job time tickets.

Disburse Payroll Taxes and Miscellaneous Deductions

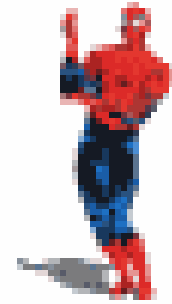
The final activity in the payroll process involves paying the payroll tax liabilities and the other voluntary deductions of each employee.

Control Objectives, Threats, and Procedure

1. All payroll transactions are properly authorized.
2. All recorded payroll transactions are valid.
3. All valid : authorized payroll transactions are recorded.
4. All payroll transactions are accurately recorded.
5. Applicable government regulations regarding remittance of taxes and filing of payroll and HRM reports are met.
6. Assets (both cash and data) are safeguarded from loss or theft.
7. HRM/Payroll cycle activities are performed efficiently and effectively.

The payroll system must be designed to collect and integrate cost data with other types of information in order to enable management to make the following kinds of decisions:

- Future work force staffing needs
- Employee performance
- Employee morale
- Payroll processing efficiency and effectiveness



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