Accounting for Payroll

A Comprehensive Guide

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Preface

When I wrote *Essentials of Payroll*, I realized that the limitations of Wiley's shorter "Essentials" softcover series did not provide enough room for the wide range of topics required to present a really thorough treatment of the payroll topic. Even though the *Essentials of Payroll* manuscript became the longest Essentials book ever issued, I still wanted to jam in more information. This book alleviates my need to "go long" by adding to the original Essentials book an additional eight chapters and two appendices. Extra topics now include payroll measurements and reports, record keeping, journal entries, payroll-related laws, outsourcing, and international payroll issues, plus coverage of how to create a payroll department from scratch, government payroll-related publications and tax forms, Internet payroll sources, and a dictionary of payroll terms.

This book is designed for accountants who are setting up a payroll system, improving the efficiency of an existing system, or who need answers to the inevitable variety of compensation, tax, deduction, benefits, international, and record keeping issues associated with payroll.

The book covers three main areas. The first is the overall set of policies and procedures, controls, best practices, and measurements that comprise a payroll system. The second part addresses the processing of specific transactions, encompassing compensation benefits, taxes, deductions, and other related issues. The third area is reference-oriented, with discussions of laws, government publications and forms, Internet sources, and a dictionary of payroll terms. The chapters are:

Chapter 1: Creating a Payroll System. This chapter covers outsourced and in-house payroll systems, emphasizing both manual and computerized systems. Flowcharts are given for each type of system and for the control points used with each one.

Chapter 2: Accumulating Time Worked. This chapter describes a variety of manual and automated methods for collecting time worked and notes the situations in which each solution is most viable.

Chapter 3: Payroll Procedures and Controls. This chapter contains detailed policies and procedures for the primary payroll functions, which can be easily adapted to suit one's individual circumstances.

Chapter 4: Payroll Best Practices. This chapter describes a number of payroll *best practices*, which are highly efficient methods for operating the payroll function. They are especially useful for any business that is striving to reduce its administrative costs in this area.

Chapter 5: Payroll Measurements and Internal Reports. This chapter addresses a number of measurements useful for determining the efficiency of the payroll function, as well as a number of payroll reports not normally found in the standard report package that accompanies most payroll systems.

Chapter 6: Compensation. This chapter covers such key topics as the status of contractors, wage exemption and payment guidelines, temporary workers, the minimum wage, compensation computations, tips, back pay, and a variety of business expense reimbursements.

Chapter 7: Payroll Deductions. This chapter covers the calculation and related regulations for a number of payroll deductions related to asset purchases, charitable

contributions, child support, pay advances, tax levies, and other items.

[Chapter 8](): Payroll Taxes and Remittances. This chapter discusses the calculation of federal, Social Security, Medicare, and state income taxes, as well as taxation issues for resident aliens and citizens working abroad. It also covers the timing, reporting format, and related penalties for tax remittances.

[Chapter 9](): Benefits. This chapter covers a number of payroll issues related to employee benefits, such as cafeteria plans, insurance, pension plans, sick pay, stock options, and workers' compensation.

[Chapter 10](): Payments to Employees. This chapter addresses the specific procedures for paying employees, using either cash, check, or direct deposit payments, as well as state regulations related to the frequency and timing of both regular and termination payments to employees.

[Chapter 11](): Unemployment Insurance. This chapter addresses the structure of the federal unemployment tax system, as well as the calculation of unemployment taxes at the state level. It also covers the completion and proper depositing of related tax forms.

[Chapter 12](): Payroll Recordkeeping. This chapter describes the record keeping standards in such areas as unemployment taxes, new employees, garnishments, leaves of absence, and unclaimed wages.

[Chapter 13](): Payroll Journal Entries. This chapter covers every payroll-related journal entry a payroll staff is likely to need, including accruals for benefits, bonuses, vacations, and wages, as well as cafeteria plan transactions and manual payroll checks. The chapter also

addresses how to ensure journal entry accuracy and ways to reduce the number of account codes used.

Chapter 14: Payroll-Related Laws. This chapter summarizes 21 key laws impacting the payroll department, sorted into the following categories: employment eligibility, garnishments, health insurance, pensions, taxes, and wages.

Chapter 15: Outsourcing Payroll. This chapter covers the advantages and disadvantages of outsourcing the payroll function, as well as conversion, transition, control, measurement, management, and service issues.

Chapter 16: International Payroll Issues. This chapter addresses a variety of payroll issues related to the employment of U.S. citizens in foreign countries.

Chapter 17: Setting Up the Payroll Department. This chapter gives a clear itemization of all steps required to both set up and fine tune the payroll department.

Chapter 18: Government Payroll Publications and Forms. This chapter notes the primary IRS publications and forms that a payroll department is most likely to use, as well as the lesser requirements imposed by several other government agencies.

Appendix A: Sources of Payroll Information. This appendix contains several dozen information sources on the Internet for payroll processing, general payroll information, payroll-related trade organizations, and the complete or summarized texts of numerous payroll-related laws.

Appendix B: Dictionary of Payroll Terms. This appendix contains definitions for almost 100 payroll terms.

For those new to the payroll function, this book is best read in sequential order from cover to cover. For those who are

implementing a new payroll system, Chapters 1–4, 12, 13, and 17 will be the most useful, while for those who want to improve their current systems, Chapters 4, 5, and 15 are highly recommended. For those who are searching for answers to daily payroll-related questions about compensation or benefits, Chapters 6–9, 14, 16, and 18 are the most useful. In general, this book can also be used as a refresher class for those who have been involved in payroll issues for a long time, but who have not updated their skills recently.

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About the Author

Steven Bragg, CPA, CMA, CIA, CPIM, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a bachelor's degree in Economics from the University of Maine. He has been the two-time president of the 10,000-member Colorado Mountain Club and is an avid alpine skier, mountain biker, and rescue diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books:

Accounting and Finance for Your Small Business (Wiley)

Accounting Best Practices (Wiley)

Accounting Reference Desktop (Wiley)

Advanced Accounting Systems

Business Ratios and Formulas (Wiley)

Controller's Guide to Planning and Controlling Operations (Wiley)

Controllership (Wiley)

Cost Accounting (Wiley)

Design and Maintenance of Accounting Manuals (Wiley)

Essentials of Payroll (Wiley)

Financial Analysis (Wiley)

Just-in-Time Accounting (Wiley)

Managing Explosive Corporate Growth (Wiley)

Outsourcing (Wiley)

Sales and Operations for Your Small Business (Wiley)

The Controller's Function (Wiley)

The New CFO Financial Leadership Manual (Wiley)

1
Creating a Payroll System

Introduction

This chapter[1] provides an overview of how the payroll process typically functions, using a payroll supplier, an in-house payroll process assisted by computer systems, or an in-house system that is entirely processed by hand. These descriptions also include flowcharts of each process and coverage of the exact controls that are most useful for each situation. Additionally, the chapter covers the types of documents used to set up a new employee in the payroll system, how to organize this information into a personnel folder, and how to process changes to employee information through the payroll system. As noted in the summary, the information in this chapter is supplemented with more detailed descriptions of specific payroll issues in later chapters.

Overview of the General Payroll Process

The next three sections describe how the payroll process flows for specific types of systems—outsourced payroll, in-house computerized payroll, and in-house manual payroll. In this section, we cover the general beginning-to-end processing of payroll, step-by-step, irrespective of the specific payroll system, in order to show the general process flow. Though some of these steps will not apply to each of the processes noted in later sections, it gives a good feel for how a payroll is completed. The steps:

1. *Set up new employees.* New employees must fill out payroll-specific information as part of the hiring process, such as the W-4 form and medical insurance forms that may require payroll deductions. Copies of this information should be set aside in the payroll department in anticipation of its inclusion in the next payroll.

2. *Collect timecard information.* Salaried employees require no change in wages paid for each payroll, but an employer must collect and interpret information about hours worked for nonexempt employees. This may involve having employees scan a badge through a computerized time clock, punch a card in a stamp clock, or manually fill out a time sheet (see Chapter 2, "Accumulating Time Worked").

3. *Verify timecard information.* Whatever the type of data collection system used in the last step, the payroll staff must summarize this information and verify that employees have recorded the correct amount of time. This typically involves having supervisors review the information after it has been summarized, though more advanced computerized timekeeping systems can perform most of these tasks automatically.

4. *Summarize wages due.* This should be a straightforward process of multiplying the number of hours worked by an employee's standard wage rate. However, it can be complicated by overtime wages, shift differentials, bonuses, or the presence of a wage change partway through the reporting period (see Chapter 6, "Compensation").

5. *Enter employee changes.* Employees may ask to have changes made to their paychecks, typically in the form of alterations to the number of tax exemptions allowed, pension deductions, or medical deductions. Much of this

information must be recorded for payroll processing purposes, since it may alter the amount of taxes or other types of deductions (see Chapter 7, "Payroll Deductions").

6. *Calculate applicable taxes*. The payroll staff must either use IRS-supplied tax tables to manually calculate tax withholdings or have a computerized system or a supplier determine this information. Taxes will vary not only by wage levels and tax allowances taken but also by the amount of wages that have already been earned for the year-to-date (see Chapter 8, "Payroll Taxes and Remittances").

7. *Calculate applicable wage deductions*. There are both voluntary and involuntary deductions. Voluntary deductions include payments into pension and medical plans, while involuntary ones include garnishments and union dues. These can be made in regular amounts for each paycheck, once a month, in arrears, or prospectively. The payroll staff must also track goal amounts for some deductions, such as loans or garnishments, in order to know when to stop making deductions when required totals have been reached (see Chapter 7, "Payroll Deductions").

8. *Account for separate manual payments*. There will inevitably be cases where the payroll staff has issued manual paychecks to employees between payrolls. This may be caused by an incorrect prior paycheck, an advance, or perhaps a termination. Whatever the case, the amount of each manual check should be included in the regular payroll, at least so that it can be included in the formal payroll register for reporting purposes, and sometimes to ensure that the proper amount of employer-specific taxes are also withheld to accompany the amounts deducted for the employee.

9. *Create a payroll register*. Summarize the wage and deduction information for each employee on a payroll register, which can then be used to compile a journal entry for inclusion in the general ledger, prepare tax reports, and for general research purposes. This document is always prepared automatically by payroll suppliers or by in-house computerized systems.

10. *Verify wage and tax amounts*. Conduct a final cross-check of all wage calculations and deductions. This can involve a comparison to the same amounts for prior periods, or a general check for both missing information and numbers that are clearly out of line with expectations.

11. *Print paychecks*. Print paychecks, either manually on individual checks or, much more commonly, through a computer printer, with the printouts using a standard format that itemizes all wage calculations and deductions on the remittance advice. If direct deposits are made, a remittance advice should still be printed and issued.

12. *Enter payroll information in general ledger*. Use the information in the payroll register to compile a journal entry that transfers the payroll expense, all deductions, and the reduction in cash to the general ledger (see Chapter 13, "Payroll Journal Entries").

13. *Send out direct deposit notifications*. If a company arranges with a local bank to issue payments directly to employee accounts, then a notification of the accounts to which payments are to be sent and the amounts to be paid must be assembled, stored on tape or other media, and sent to the bank (see Chapter 10, "Payments to Employees").

14. *Deposit withheld taxes.* The employer must deposit all related payroll tax deductions and employer-matched taxes at a local bank that is authorized to handle these transactions. The IRS imposes a rigid deposit schedule and format for making deposits that must be followed in order to avoid penalties (see Chapter 8, "Payroll Taxes and Remittances").

15. *Issue paychecks.* Paychecks should, at least occasionally, be handed out directly to employees, with proof of identification required; this is a useful control point in larger companies where the payroll staff may not know each employee by name, and where there is, therefore, some risk of paychecks being created for people who no longer work for the company (see Chapter 10, "Payments to Employees").

16. *Issue government payroll report*s. The government requires several payrollrelated reports at regular intervals, which require information on the payroll register to complete. These reports are discussed in Chapters 8 and 11.

Overview of the Outsourced Payroll Process

Outsourcing the payroll processing function shifts a number of key payroll processing tasks to a supplier, resulting in a significant drop in the payroll department's workload, its required level of expertise in operating computer software, and in the risk that payroll taxes will not be remitted to the government in a timely manner. For these and other reasons, outsourcing payroll is an extremely popular option, especially for smaller businesses that do not have in-house payroll expertise on hand. This

subject is covered in much more detail in [Chapter 15](#), "Outsourcing Payroll."

The basic process flow for an outsourced payroll function is shown in [Exhibit 1.1](#). The key items in the exhibit are the tasks that are *not* shown because they have been taken over by the payroll supplier. These tasks include processing the payroll transactions, printing payroll reports and paychecks, and making tax deposits and reports to the government on behalf of the company. By removing these activities, the payroll staff is reduced to compiling and verifying incoming data about hours worked, loading it into the supplier's payroll system, and verifying that the results are accurate.

The process tasks noted in [Exhibit 1.1](#) can be streamlined by taking several additional steps. First, use a computerized timekeeping system that will prevent unauthorized overtime and automatically issue reports that highlight hours that were not logged in by employees, thereby eliminating two steps from the data collection part of the process. Second, some payroll suppliers sell computerized timekeeping systems that link directly into their systems, so there is no need to manually load this information into the supplier's system (or call it in to a dataentry person). Third, a company can pay the supplier to create customized summary-level reports that can be used as the foundation for journal entries, which eliminates additional work. Finally, some suppliers now issue payroll reports on compact disc, which nearly eliminates the filing chore. By taking advantage of these additional outsourcing features, the payroll process can become a very efficient system.

Controls over the outsourced payroll process are fewer than required for other systems because there is no need to control the check stock or signature plates, which are

handled by the supplier. Consequently, the primary controls tend to be at the beginning and end of the process. As shown in [Exhibit 1.2](#), there should be an approval process for overtime hours worked, as well as for negative deductions; a negative deduction is essentially a payment to an employee, and if used repeatedly, even incrementally small amounts could add up to a significant pay increase for an employee. For larger companies with many employees, one should also compare the addresses on the employee paychecks to see if a fake employee has been added to the system, with the check being mailed to a current employee's address to be cashed by that person. One can also issue a list of people receiving paychecks to the department supervisors to see if any fake names or the names of departed employees crop up. Finally, fake employees can also be spotted by handing out checks directly to employees and having them show some form of identification before they receive their checks. Though not all of these controls are necessary, one should select those that make the most sense for a company's specific circumstances.
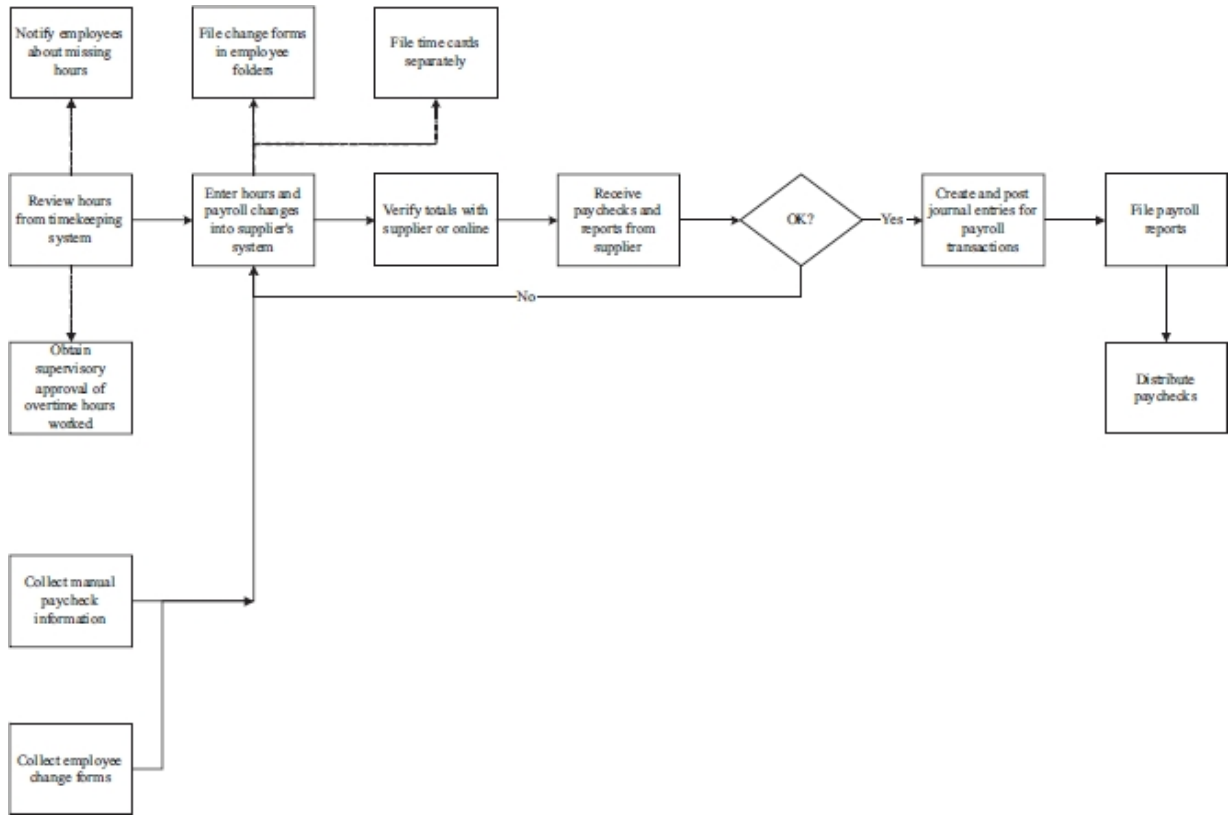
Exhibit 1.1 *Flow chart of the Out sourced Payroll Process*
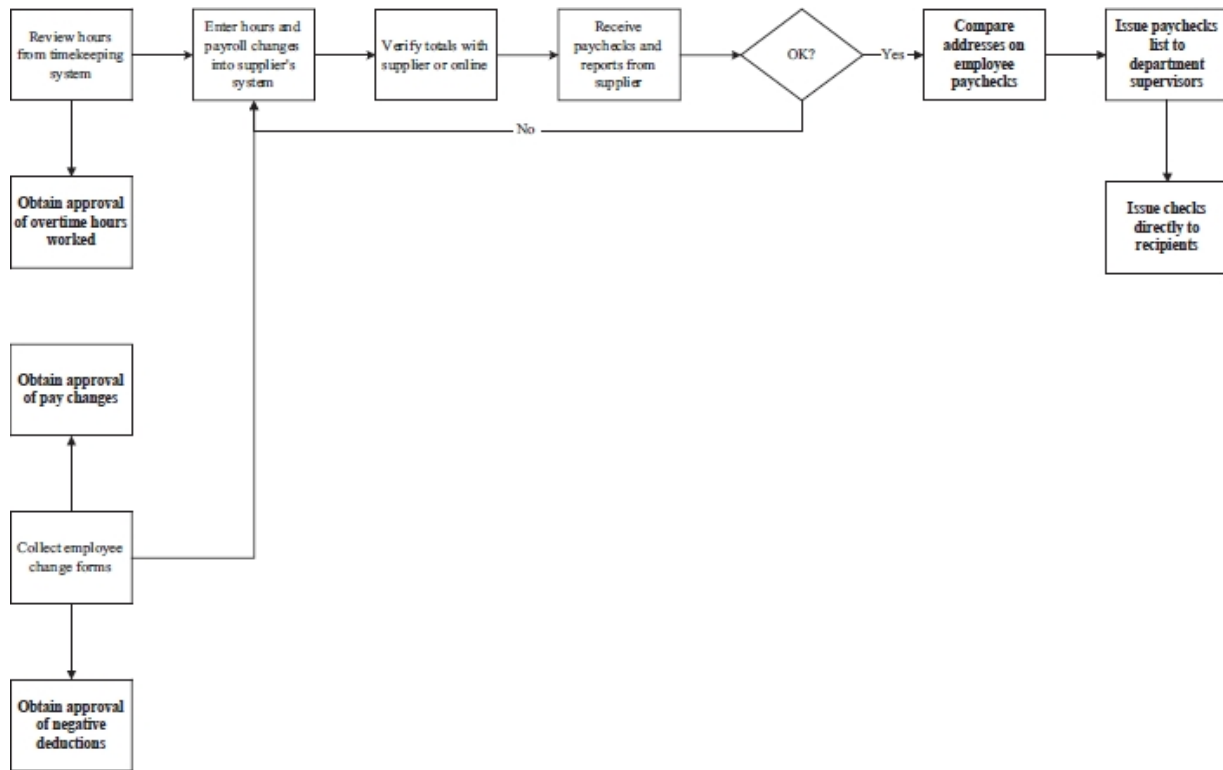
Exhibit 1.2 *Controls for the Out sourced Payroll Process*

Overview of the In-House Computerized Payroll Process

A payroll system that is just as popular as outsourcing is the in-house computerized system. Payroll software is very inexpensive, as it is now bundled with accounting software that costs just a few hundred dollars. More comprehensive systems that can be used for large numbers of employees are much more expensive, but are a cost-effective solution for large entities.

The basic process flow for an in-house computerized payroll process is shown in Exhibit 1.3. A fully automated process involves the review and verification of hours worked and other changes as entered by the employees, followed by the processing and printing of payroll reports,

filing of direct deposit information and payroll taxes, and the distribution of paychecks.

The flowchart assumes a complete automation of all key payroll functions. For example, a computerized timekeeping system is assumed. This system, as described in Chapter 2, requires employees to run a badge through a time clock that can reject the scan if the employee is clocking in at the wrong time or attempting to work during an unauthorized overtime period. By using such a system, the payroll process is considerably reduced at the front end, with the payroll staff only having to investigate missing badge scans. Also, the process flow assumes that employees can make their own deduction and address changes through an interface to the payroll software, so that the payroll staff only has to review these changes. Further, the process flow assumes that the timekeeping database used by the time clock computer feeds directly into the in-house payroll software, which eliminates the keypunching of payroll data. If any of these automation elements are not present, then the process flowchart appears as a mix between in-house computerization and a manual system, which is shown later in Exhibit 1.5.

There are several key differences between the automated in-house system shown in Exhibit 1.3 and the outsourced solution shown earlier in Exhibit 1.1. One difference is that an in-house system requires the payroll department to file several tax returns, which would otherwise have been filed by the payroll supplier. These include the quarterly federal tax return, the annual federal unemployment tax return, and annual W-2 forms to employees. There may also be a variety of state reports to file. Further, an in-house system that uses direct deposit requires the payroll staff to create a database of direct deposit information and send it to the company's bank, which uses it to process direct deposits to employees; this would have been handled by a payroll

supplier. Third, the in-house payroll database must be backed up and stored, which is normally handled by the payroll supplier. Finally, an in-house system requires the payroll staff to summarize all tax deposits, fill out remittance forms, and file payments with the federal and state governments at regular intervals. Consequently, no matter how much control a company may feel it has by using an in-house computerized system, the payroll staff will have a number of additional tasks to perform.

Controls for the in-house computerized payroll process are noted in Exhibit 1.4. Based on the assumption that a computerized timekeeping system is being used, we further assume that there are no controls required for timekeeping activities, since the computer can spot them. If your company does not have such a system, then please review either the outsourced or manual control systems in Exhibits 1.2 or 1.6 for the controls covering this area. Besides those controls shown earlier for the outsourced system, new controls are also needed for check stock and signature plates, both of which should be securely locked up at all times. Also, at the very end of the process flowchart are controls for reviewing uncashed checks and performing bank reconciliations. These controls are designed to spot payments made to employees who are no longer with the company and who, therefore, never received the checks (which were probably issued in error). These two controls can also be added to the earlier outsourced payroll system, though some suppliers will notify a company of any uncashed checks, depending on the outsourcing arrangement.
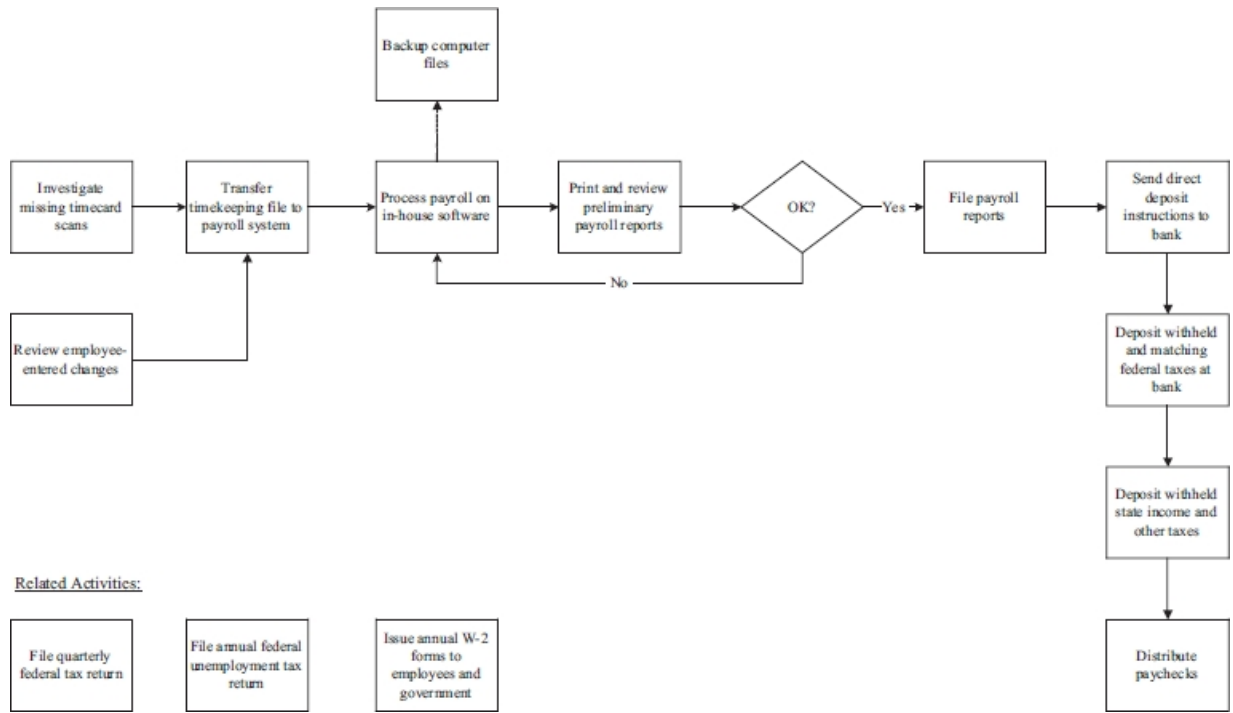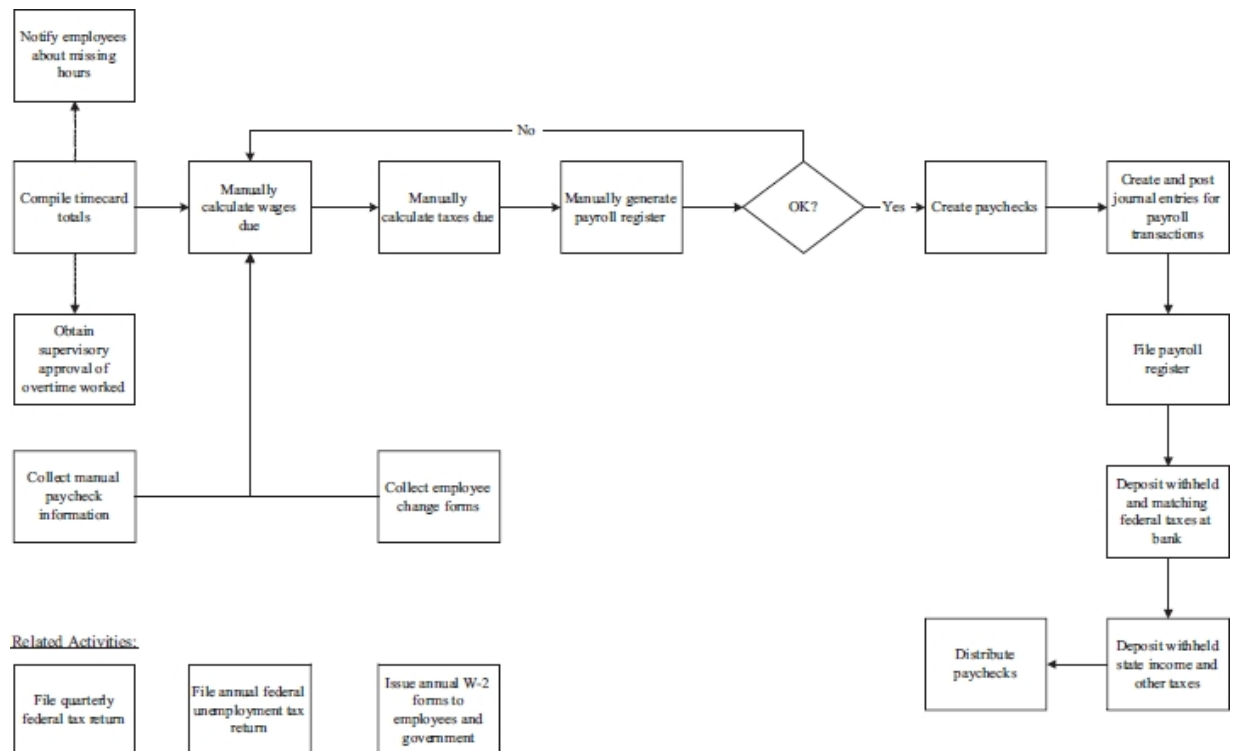
Exhibit 1.3 *Flowchart of the In-House Computerized Payroll process*
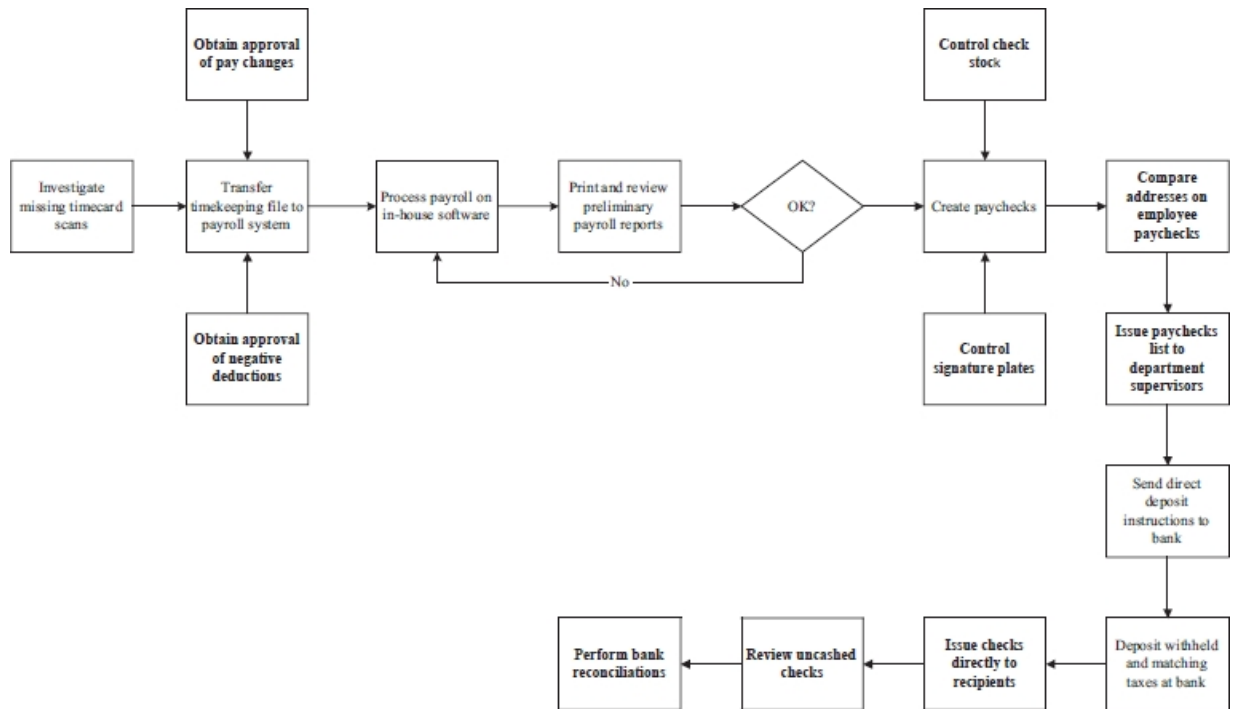
Exhibit 1.4 *Controls for the In-House Computerized Payroll process*

Exhibit 1.5 *The In-House Manual Payroll process*

Overview of the In-House Manual Payroll Process

An increasingly rare payroll system is the completely manual approach that avoids all use of payroll suppliers or in-house computer systems. This system is most commonly found in very small organizations where the additional labor required to calculate wages and taxes is not too onerous for the small accounting staff.

The manual process requires extra labor in three key areas. First, employees are filling out timecards by hand or with a punch clock, so the payroll staff must use a calculator to add up the hours worked, verify the calculations (since this task is highly subject to errors), notify employees about missing time entries, and have supervisors approve any overtime hours worked. Second, the payroll staff must

multiply hours worked by hourly pay rates to determine wages for the nonexempt employees and then use IRS-provided tax tables to determine the amount of taxes to withhold, plus the amount of matching taxes to be remitted by the company. This task is also subject to a high error rate and should be reviewed with care. Third, the payroll staff must create paychecks from the prior information and manually summarize the results into a payroll register. Since employees want to see all deductions broken out on their paychecks, the paycheck writing process is lengthy. In comparison to the outsourcing and in-house computer system solutions described previously, the manual payroll process is painfully slow and is at risk of so many errors that the payroll staff will find itself taking a disproportionate amount of its time to ensure that outputs from the process are correct. The manual payroll process is shown in the flowchart in Exhibit 1.5.

The flowchart does not mention the preparation of a direct deposit database that can be forwarded to a bank, since it is most unlikely that a company without means to calculate its payroll on a computer will be able to create the direct deposit database. Also, the three types of reports shown in the lower left corner of Exhibit 1.5 will require manual completion, which would not necessarily be the case if an in-house computerized system were used, since such systems can have the capability to produce these standard tax reports at the touch of a button.

The controls for an in-house manual payroll process are shown in Exhibit 1.6. Since there is an assumption of having no automated timekeeping system in place, two key controls are verifying total hours worked and obtaining supervisory approval of overtime hours worked. Other controls later in the process are similar to those found in the computerized in-house system, since some watch over check stock and signature plates must be maintained.

However, some of the reviews for fake employees at the end of the process, such as comparing addresses on checks, can probably be discarded, since this type of process is typically used for companies so small that the payroll staff knows exactly who works for the company.
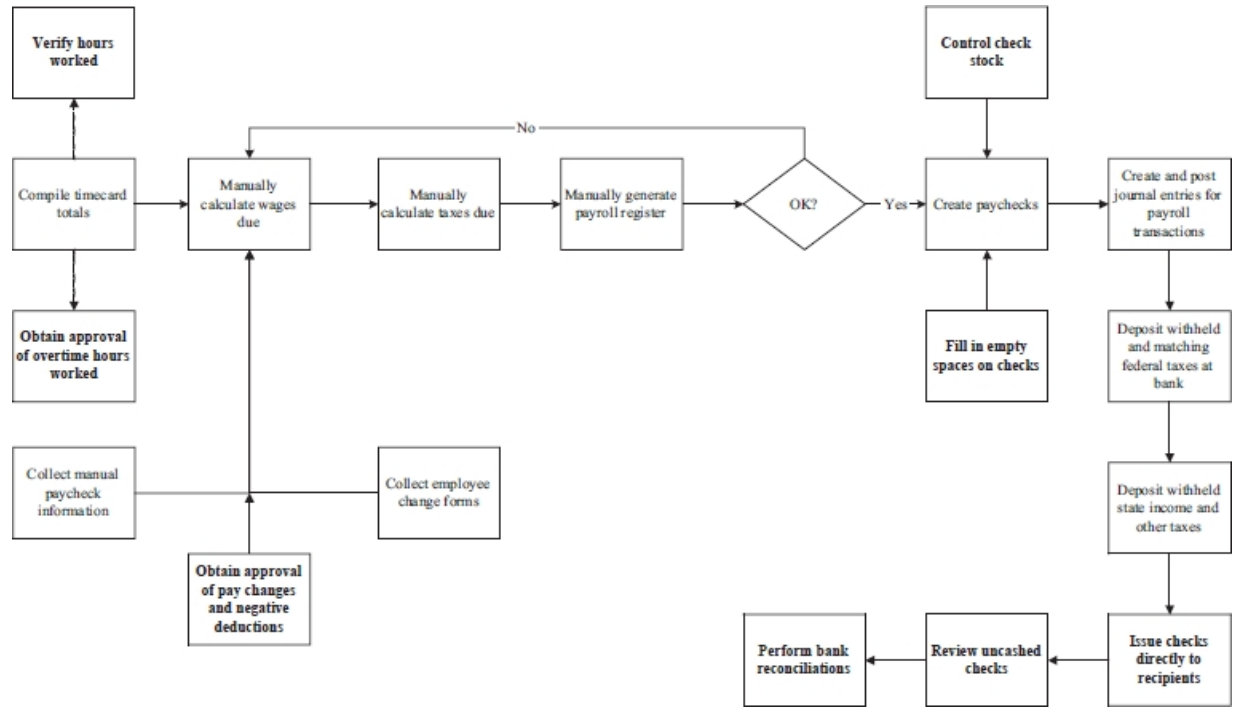
Exhibit 1.6 *Controls for the In-House Manual Payroll Process*

Setting Up the New Employee

When a new employee is hired, the human resources staff will go over a variety of paperwork with the person and forward to the payroll department any items required by the payroll staff to calculate the person's wages, taxes, and other deductions. However, it is common in a smaller firm with no human resources staff for the payroll department to perform this function. If the latter situation is the case, the payroll staff should be aware of the variety of forms that are typically included in the new employee packet.

Though some forms may be specific to an individual business, the following forms will be found in most cases:

- *Check-Off Sheet.* Each new employee packet should begin with a check-off list that itemizes all documents that should be contained within the packet. By using it to verify a complete package, there is minimal risk that employees will not be issued critical information. It is also useful to include the latest form release date on this sheet, so one can use it to verify the document dates contained within the packet.

- *Company Go-To List.* A new employee has no idea who to approach regarding basic daily issues, such as phone and network problems, pension plan enrollments, expense reports, and so on. This list should itemize which people to approach about each type of problem, as well as a backup person.

- *Company Phone List.* For a smaller company, this list should itemize not only the work number for each employee, but also the cell phone or other number at which they can be most easily reached. It is also increasingly customary to include e-mail addresses on this list. For larger companies with massive phone lists, the phone list for the department to which an employee belongs may be sufficient.

- *Company Seating Chart.* For a smaller company, it is quite useful to issue a seating chart that lists every person in the company. Once again, a larger company may be forced to issue a chart for smaller subsets of the company. This chart will require a reasonable amount of maintenance, given the number of moves typically experienced.

- *Insurance Enrollment Forms.* Enrollment forms for a variety of insurance types can be issued to a new

employee at a later date if there is a waiting period before they go into effect. However, it is possible for some employees to fall between the cracks and never be issued the forms. Consequently, a better approach is to issue them at the same time that an employee receives all other paperwork, so there is no chance of them being missed. Enrollment forms can cover medical, vision, dental, life, supplemental life, short-term disability, and long-term disability insurance. Some insurance carriers provide a wide range of coverages with a single application, but this is the exception—be prepared to issue a large number of documents.

- *Veterans Check-Off Form*. Companies are required to submit the VETS-100 form to the federal government once a year, which specifies the proportion of military veterans in the corporate workforce. It is easiest to track this information by having new employees fill out a simple check-off form that itemizes whether or not they have been engaged in military service in the past.

- *Employee Manual*. There should be a comprehensive employee manual in the new employee packet that includes a tear-out acknowledgement of receipt. The employee signs this receipt to indicate that he or she has received and read the employee manual; the receipt goes into the employee's personnel file. This is useful in case an issue regarding employee benefits or rights arises at a later date and an employee claims to have no knowledge of the issue, even when it is stated in the employee manual.

- *Pay Period Schedule*. The pay period schedule may be obvious for salaried personnel, since it should always fall on the same date. However, employees who are paid on an hourly basis must know when a pay period ends, which can vary in relation to the pay date. This is an

especially common problem when the timekeeping system is on a weekly basis and the payroll system is on some other system, such as biweekly.

- *Form W-4.* All employees must fill out the IRS Form W-4, in which they claim a certain number of allowances and possibly additional tax withholdings. This information is needed in order to compute their income tax withholdings. Turn to Chapter 8, "Payroll Taxes and Remittances," for a more in-depth discussion of this form.

- *Form I-9.* The Immigration and Naturalization Service requires all new employees to fill out the Form I-9, the Employment Eligibility Verification form. A sample copy of the form and its instruction sheet are shown in Exhibit 1.7. This form serves two purposes. First, it requires the employer to establish the identity of a new employee, which can be done with a driver's license, a variety of government identification cards, a voter's registration card, or a Native American tribal document. Second, it requires the employer to establish that a new employee is eligible to work, which can be done with a Social Security card, birth certificate, Native American tribal document, or an unexpired employment authorization document. These two requirements can be satisfied with a single document, such as a U.S. passport, certificate of U.S. citizenship or naturalization, unexpired temporary resident card, or several other documents that are specified in Exhibit 1.7.

Employment Eligibility Verification

Please read instructions carefully before completing this form. The instructions must be available during completion of this form. ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work eligible individuals. Employers CANNOT specify which document(s) they will accept from an employee. The refusal to hire an individual because of a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Verification. To be completed and signed by employee at the time employment begins.

Print Name: Last	First	Middle Initial	Maiden Name

Address (Street Name and Number)	Apt. #	Date of Birth (month/day/year)

City	State	Zip Code	Social Security #

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.

I attest, under penalty of perjury, that I am (check one of the following):
- ☐ A citizen or national of the United States
- ☐ A Lawful Permanent Resident (Alien # A_____)
- ☐ An alien authorized to work until __/__/__ (Alien # or Admission #)_____

Employee's Signature

Date (month/day/year)

Preparer and/or Translator Certification. (To be completed and signed if Section 1 is prepared by a person other than the employee.) I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.

Preparer's/Translator's Signature	Print Name

Address (Street Name and Number, City, State, Zip Code)	Date (month/day/year)

Section 2. Employer Review and Verification. To be completed and signed by employer. Examine one document from List A OR examine one document from List B and one from List C, as listed on the reverse of this form, and record the title, number and expiration date, if any, of the document(s).

List A	OR	List B	AND	List C
Document title:_____		_____		_____
Issuing authority:_____		_____		_____
Document #: _____		_____		_____
Expiration Date (if any): __/__/__		__/__/__		__/__/__
Document #: _____				
Expiration Date (if any): __/__/__				

CERTIFICATION - I attest, under penalty of perjury, that I have examined the document(s) presented by the above-named employee, that the above-listed document(s) appear to be genuine and to relate to the employee named, that the employee began employment on (month/day/year)__/__/__ and that to the best of my knowledge the employee is eligible to work in the United States. (State employment agencies may omit the date the employee began employment.)

Signature of Employer or Authorized Representative	Print Name	Title

Business or Organization Name	Address (Street Name and Number, City, State, Zip Code)	Date (month/day/year)

Section 3. Updating and Reverification. To be completed and signed by employer.

A. New Name (if applicable)	B. Date of rehire (month/day/year) (if applicable)

C. If employee's previous grant of work authorization has expired, provide the information below for the document that establishes current employment eligibility.

Document Title:_____	Document #: _____	Expiration Date (if any):__/__/__

I attest, under penalty of perjury, that to the best of my knowledge, this employee is eligible to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.

Signature of Employer or Authorized Representative	Date (month/day/year)

Exhibit 1.7 *The Employment Eligibility Verification Form*

To fill out the I-9 form, have the employee fill out the "Employee Information and Verification" information in Section 1. This section must be signed by the employee and may require a preparer's or translator's signature as well if such a person assisted with the document. The employer fills out Section 2, which requires the examination of one or

more original documents, as previously noted and as described in more detail on the second page of the exhibit. The reviewing person must then sign at the bottom of [Section 2](#). [Section 3](#) of the form is only used to update the information if an employee subsequently changes names, quit and was rehired within three years of the original form being completed, or has obtained a new work authorization.

Creating the Personnel File

When a new employee starts work, either the human resources or payroll staffs should create a personnel folder in which all employee-related documents are stored. This folder should be capable of holding several hundred pages of documents and also have multiple dividers, so that information can be logically divided and easily accessed. Information can be grouped in a variety of ways within the folder; here are some common subsets of information to consider:

- *Deduction Information*. One block of information will be the deductions related to all types of benefits, such as medical, life, and dental insurance. This means that the sign-up or waiver sheets for each type of insurance should be included in the folder.

- *Employee Correspondence*. Employees may communicate with the payroll or human resources departments from time to time, perhaps to make complaints, notify the company of time off for various reasons (such as jury duty), or ask for special treatment in some manner. If these communications are in writing, they should be included in the folder. If they are verbal, the person receiving the information may include them

in a memo if the matter appears sufficiently important, and store them in the folder.

- *Employee Reviews*. All employee reviews should be kept in the folder. They are particularly important if employees later file suit against the company in the event of a termination, since the company must be able to prove that an employee was terminated for cause. Also, one should note if both the reviewer and the employee have signed a review, and if possible obtain these signatures if either one is missing, so that additional proof of employee receipt is made.

- *Garnishment Information*. If there are court orders for garnishing an employee's pay for any reason (e.g., tax levies, creditor levies, child support, or alimony), then a copy of each one should be included in the folder.

- *Tax-Related Information*. Tax deductions can only be made from an employee's wages if prior written authorization has been made by the employee. The employer should retain proof of these requests (nearly always in the form of a W-4 form) in the folder.

It is absolutely essential that the entire set of personnel files for all employees be kept under the strictest security at all times. These files contain potentially damaging information about employees, such as job reviews, medical information, or court orders that could be embarrassing or job-threatening if the information were to become public knowledge. Employees rely on the employer to keep this information secret, and the employer should fulfill this expectation.

Employee Name: _____   Social Security #: _____

Reason: _____

Categories	Changes/New	Effective Date
Name		
Address		
Phone		
Gender		
Birth Date		
Hire Date		
Term Date		
Title		
Salary		
Status		
Married/Single		
Federal Exempt		
State Lived in		
State Worked in		
Medical Deduction		
Dental Deduction		
LTD		
STD		
Supp Life		
401K% or $		
Dependent Flex Deduction		
Dependent Flex Goal		
Medical Flex Deduction		
Medical Flex Goal		
Direct Deposit Routing #/Account #		

Comments: _____

_____

_____

_____

Completed by: _____   Date: _____

Exhibit 1.8 *Company Name—Employee Change/New Form*