Payroll 101

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Payroll 101

- Summary of Payroll Audit
- Payroll Details
  - Definitions
  - Examples
  - Other Issues
2012 Payroll Audit
Testing Reliability of Information

- Periodic examination of city payroll and contribution records is necessary to ensure cities are compliant with the statutory requirements related to employee and city contributions.
Reliability of Information, cont.

- The Risk-based Audit Plan adopted by the Board of Trustees in 2011 called for an internal audit of the processing of payrolls and city contributions
  - The authority to examine these records was delegated to the TMRS Director of Internal Audit
  - 10 cities were randomly selected to participate
Key Audit Findings

- Controls over the receipt and processing of city payroll reports and contribution payments are strong.
- No evidence of inappropriate contributions and no evidence of non-payment of contributions was noted.
- The timely submission of the payroll report and contributions could be improved.
- Reported earnings and contributions were found to be reliable.
Key Audit Findings, cont.

- A formal program for the periodic testing of payroll information being reported by the cities is recommended
- Key provisions of the TMRS Act related to compensation and membership eligibility haven’t always been well understood by cities
  - Treatment of probationary employees
  - Enrollment of part-time employees
  - Definition of compensation as it relates to TMRS
  - Treatment of worker’s compensation
Responding to the Findings

- Future periodic testing of payroll information
- Increased communication and educational efforts
- Increased effort to transition to electronic payroll submission
- Increased effort to streamline the payroll reporting process and potentially increase the fees associated with late payroll submission
Reporting Payroll Electronically

- TMRS encourages all cities to file their monthly payroll electronically instead of by mail. See the TMRS Electronic Payroll Guide in the payroll packet for details:
  - Electronic data submitted to TMRS via a secure FTP website or the City Portal
  - Payments submitted to TMRS via ACH payments

For help filling out forms, view the Payroll Forms tutorial on the TMRS website under Training
Payroll Details
Statutory Requirements

- The **TMRS statute** requires cities to deduct member contributions from the gross compensation of each TMRS-eligible employee.

- Your city must:
  - Determine each employee’s eligibility for TMRS membership
  - Make deductions from each member’s compensation
  - Transmit a certified copy of the payroll report and pay the deductions on a monthly basis by the 15th day of the month following the period for which the deductions were made
The TMRS Act defines “employee” as:

“...a person, including a person serving a period of probationary employment, who receives compensation from and is certified by a municipality as being regularly engaged in the performance of duties of: ...an appointive office or position that normally requires services from the person for not less than 1,000 hours a year, or [certain elective offices]” emphasis added

This is often referred to as “The 1,000 Hour Rule”
Determining Member Eligibility

- The TMRS statute states that a person who is not a member becomes a member of TMRS if “…after August 31, 1987, the person becomes an employee of a participating department”
- Accordingly, people who meet the TMRS definition of “employee” become members of TMRS on the date they are employed
- Section 852.101 of the TMRS Act describes other general membership requirements
Are Part-time Employees Eligible?

- There are no statutory definitions for “full-time” or “part-time” employees
- Eligibility for membership is solely based on the number of hours a person is expected to work over the course of one year
- Cities should evaluate all paid positions to determine if they meet the “1,000 hour rule”
- The determination should be made based on the position and not the person
Applying the “1,000 Hour Rule”

- If the *position* meets the 1,000 hour rule, any person hired to fill that position MUST be enrolled in TMRS
- Employees hired to fill these positions do not have the option to decline participation
- Cities should monitor or re-evaluate these positions periodically to determine if the 1,000 hour rule is being met
- It is the city’s responsibility to keep current, accurate records of TMRS-eligible employees
Eligibility Example

Q. The city budgets 1,600 hours for two part-time employees. Are they TMRS eligible?

A. If the work is normally and regularly spread equally between the two positions, they would not be eligible because their total hours would be 800 each. However, if the work normally is spread unevenly, and one of the positions regularly receives more than 1,000 hours annually, then that employee needs to be enrolled in TMRS and the other would not be enrolled.
Determining TMRS Deductions

- Every city in TMRS elects the rate of member contributions for the employees at 5, 6, or 7%*
- The employee contribution rate for your city is the same for every employee
- Once your city has determined that an employee is eligible for TMRS membership, your city is *required* to deduct the employee contribution from the employee’s gross compensation for each payroll period

* A few cities were grandfathered at a 3% employee deposit rate, but that rate is no longer an option.
The TMRS Act defines “compensation” as:
- the sum of payments made to an employee for performance of personal services ...

The types of payments considered to be “compensation” include:
- “... base pay, overtime, vacation, and sick leave (including payments for unused vacation and sick leave), longevity pay, certification pay, severance pay, employer pickup of employee contributions to TMRS, “cafeteria plan” benefits, and almost any other form of payment made to an employee, other than direct expense reimbursement”
“Compensation,” cont.

- Remember, it is important to analyze all kinds of compensation your employees receive. Sometimes lesser-used forms of compensation can get missed:
  - Longevity pay
  - Certification pay
  - Severance pay
  - “Cafeteria plan” benefits
  - Bonuses
TMRS Deduction Example

If an employee is paid the following:

- $1,600.00  Gross wages at $20/hr for 80 hours
- $112.00   TMRS deduction *
- $80.00    FICA/taxes
- $50.00    457 plan voluntary deduction
- $20.00    Life insurance deduction
- $200.00  Health insurance deduction

$1,138.00  Net payment issued to employee

* Using a 7% employee deposit rate, the TMRS deduction is based on the gross wages of $1,600, before all other deductions are made ($1,600 x .07 = $112)
Compensation Question

Q: Are clothing allowances, car allowances, drag-down pay (unused vacation and sick leave) considered compensation for TMRS purposes?

A: Yes. All payments to the employee are considered compensation except “direct expense reimbursements”

RULE OF THUMB: If it’s taxable, it is “compensation”
What about Worker’s Compensation?

Who is paying the employee?

- City only
  - TMRS contribution should be withheld

- Worker's Comp Only
  - TMRS contribution is mandatory; however, City has no control and cannot force mbr to contribute

- City and Worker’s Comp
  - TMRS contribution should be withheld based on total

- Employee not getting paid
  - No TMRS contribution allowed – no months of credit

Who is paying the employee?
Correction of Errors

- Errors relating to payroll, enrollment, and compensation can be corrected.
- Corrections can be made as far as four years back.
- Notify our Member Services Department at 800-924-8677.
Other Payroll Issues

- Keeping TMRS informed when key payroll reporting personnel leave the city or change jobs
- City Portal Administrator keeping Authorized User information up-to-date
- Calculating correctly (double-checking the math before sending)
Remember….

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Questions?