As an employee, your favorite day of the week is probably 

_Payday_! However, your paycheck is the last step in a process that 

starts with the application, the 

interview, the hiring, the wage 

rates, the withholding taxes, and 

the payroll records.

As an employer, knowledge of tax compliance can save you 

time, can free you of levies for penalties and interest, and can 

help you avoid unnecessary lawsuits.

What kind of information can be asked of job applicants? Is it 

worthwhile to check references? Can credit reports be consid-

ered? The impact that various federal laws have on personnel and 

payroll operations will be explored in this chapter, 

and you will get a brief look at topics that 

are covered in detail in subse-

quent chapters.
AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Identify the various laws that affect employers in their payroll operations.
2. Examine the recordkeeping requirements of these laws.
3. Explain the importance of a thorough recordkeeping system.
4. Describe the employment procedures generally followed in a Human Resources Department.
5. Recognize the various personnel records used by businesses and know the type of information shown on each form.
6. Outline the procedures employed in a typical payroll accounting system.
7. Identify the payroll register and the employee’s earnings record.
Payroll professionals are responsible for processing over four billion pay statements each year to over a hundred million people in the workforce of the United States. The processing of payrolls allows no margin for error. Employees, employers, and government agencies monitor the work performed by payroll professionals. A payroll accounting system is the only operation in a business that is almost completely governed by various federal, state, and local laws and regulations. Rules establish who is an employee, what is time worked, when overtime is to be paid, what deductions are made, when to pay an employee, and when taxes are paid. Lack of compliance with these laws and regulations can result in both fines and back-pay awards.

With each new year, payroll administrators must keep abreast of the changes in legislation that affect their firms’ payroll recordkeeping. An understanding of the various laws affecting payroll operations helps you know the required payroll and personnel records and procedures. This chapter briefly examines the various laws that affect employers in their payroll operations and the payroll and personnel records that they use to meet the requirements of the laws. First, however, let’s take a brief look at payroll accounting as a profession.

**THE PAYROLL PROFESSION**

With the increased responsibilities of payroll specialists, the profession has seen a significant increase in salary compensation. A 2003 biennial survey conducted for the American Payroll Association revealed that the average salary of senior payroll managers was $71,898 while that of entry-level payroll clerks was $28,658.

Typically, an entry-level payroll clerk collects, reviews, approves, and records time records. The clerk also updates attendance records, including vacation, sick, and personal days. Once a payroll is processed, the clerk reviews the information to ensure the accuracy of each employee’s paycheck. Subsequent job responsibilities will include entering the following information into the payroll system:

1. Time-worked data.
2. Pay rate changes.
3. Tax rate changes.
4. Employee-authorized payroll deductions.
5. New employee information.
6. Marital and employee allowance changes.

Providing information to the Finance Department concerning the amounts to be paid for taxes, health insurance premiums, retirement plans, etc., may also be part of the evolving duties of the advancing payroll professional. One of the final stages involves the completion of payroll tax returns, employee information returns, federal and state census returns, and fringe benefit and welfare plan returns.

Payroll professionals must keep abreast of the changes in their field so that they can remain technically proficient. This need has spurred the development of an association of payroll practitioners—the American Payroll Association (APA). Membership in the association is open to anyone interested in or engaged in the support of payroll accounting. The APA offers professional training seminars and various publications to its members. Each year, the APA administers an examination for the payroll accountant and awards a certificate to those who pass the exam (Certified Payroll Professional). This testing and certification process has helped the payroll profession to gain recognition in the business community. The APA has also established guidelines for the conduct of the payroll professional. This “Code of Ethics,” shown in Figure 1–1, sets the direction for the profession.¹

One of a number of publications designed to provide current information to the practitioner is published by the Research Institute of America, Inc. This biweekly publication is entitled *Payroll Guide*, and it is a comprehensive review of changes in regulations affecting payroll reporting.²

---

¹ For more information on the organization, write to American Payroll Association, 660 North Main Avenue, Suite 100, San Antonio, TX 78205-1217; Tel: 210-224-6406.

² *Payroll Guide* is published by the Research Institute of America, Inc., 395 Hudson Street, New York, NY 10014; Tel: 1-800-431-9025.
FAIR LABOR STANDARDS ACT

In the processing of payrolls, the first step is to determine gross pay. The Fair Labor Standards Act (FLSA) of 1938 affects this calculation. Commonly referred to as the Federal Wage and Hour Law, this law sets up minimum wage (currently $5.15 per hour) and overtime pay requirements. Other provisions of this law concern equal pay for equal work regardless of sex, restrictions upon the employment of child labor, public service contracts, and wage garnishment. These basic provisions apply to employers engaged in interstate commerce or in the production of goods and services for interstate commerce and to employees in certain enterprises which are so engaged, unless specifically exempted. The FLSA also imposes recordkeeping requirements on employers but prescribes no specific form of record. Figure 1–2 shows the basic requirements imposed on the employer concerning payroll and personnel records.

All employers must keep records explaining the basis of wage differentials paid to employees of opposite sex for equal work performed in the same establishment. Such records include those relating to job evaluations, job descriptions, merit systems, seniority systems, and union contracts. The employer also must display a poster, available from the regional office of the Wage and Hour Division, that informs employees of their minimum wage, equal pay, overtime pay, and wage collection rights, as well as child labor restrictions. Chapter 2 presents a detailed discussion of this act and the standards established. The payroll records must be available for inspection by the Department of Labor's Wage-Hour Division within 72 hours of the notice of audit.

STATE MINIMUM WAGE AND MAXIMUM HOURS LAWS

Most states have established minimum wage rates for covered employees, either by legislation or by administrative order of the legislature whereby minimum wage rates are fixed for specific industries. As noted earlier, the Fair Labor Standards Act, a federal law, also applies minimum wage and maximum hour provisions to employers. Where both federal and state regulations cover the same employee, the higher of the two rates prevails. For example, the minimum hourly wage in Vermont is $7.00 (effective January 1, 2005). All workers covered by that state’s legislation would receive the higher state rate.

Payroll managers must be familiar with the administrative orders of their particular state, since the wage orders not only set minimum wages but also contain provisions affecting pay periods, pay for call-in time and waiting time, rest and meal periods, absences, meals and lodging, tips, uniforms, and other matters dealing with wages and hours. The state wage
**Figure 1-2**

Summary of Information Required by Major Federal Payroll Laws

<table>
<thead>
<tr>
<th>Item</th>
<th>Fair Labor Standards Act</th>
<th>Social Security</th>
<th>Income Tax Withholding</th>
<th>Unemployment Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Address</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Gender</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of birth</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security Number</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Withholding allowances claimed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Period employed</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>State where services rendered</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Day and time of day when workweek begins</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular hourly rate of pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basis of wage payments; e.g., $7.25 per hour; $58.00 per day</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hours worked each day</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hours worked each week</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daily or weekly straight-time pay, exclusive of overtime pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount and nature of exempt pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weekly overtime pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total additions to or deductions from wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total remuneration for payroll period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total remuneration for calendar year</td>
<td></td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of payment</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Payroll period</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Employee’s wages subject to tax for payroll period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee’s wages subject to tax for calendar year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable remuneration—if different from total remuneration, reason for difference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax deductions from employee’s wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date tax collected if other than date of payment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax paid by employer but not deducted from employee’s wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific form of records</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Number of years records must be kept</td>
<td>2–3</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
orders usually provide that the employer must keep records showing the wages paid, the hours worked, and such other information that will aid enforcement by state officials.

**FEDERAL INSURANCE CONTRIBUTIONS ACT**

The Federal Insurance Contributions Act (FICA) is part of the social security program planned by the federal government to provide economic security for workers and their families. The act levies a tax on employers and employees in certain industries to be paid to the federal government and credited to the Federal Old-Age and Survivors’ Trust Fund and the Federal Disability Insurance Trust Fund. The Old-Age, Survivors, and Disability Insurance (OASDI) tax levied on employees is a set percent of their gross wages, and it must be withheld from their pay. From these funds, the federal government makes payments to persons who are entitled to benefits under the Social Security Act.

FICA also provides a two-part health insurance program, commonly known as Medicare, for the aged and the disabled. The Hospital Insurance (HI) plan is financed by a separate tax on both employers and employees. A Supplementary Medical Insurance plan to cover medical services not covered under the basic program is voluntary and is financed by those who desire coverage, with a matching payment by the federal government. Social security benefits are also available to the self-employed person under the provisions of the Self-Employment Contributions Act (SECA). This act imposes a tax on the net earnings from self-employment derived by an individual from any trade or business carried on by that person.

Chapter 3 gives detailed information about FICA and exemptions from its coverage, and Appendix C briefly covers the benefits available. Although FICA does not recommend a specific form for records, Figure 1–2 shows the specific information needed and the period of time to be retained.

**INCOME TAX WITHHOLDING LAWS**

With the passage of the Sixteenth Amendment in 1913, taxation of income became constitutional. Today, an income tax is levied on the earnings of most employees and is deducted from their gross pay. In some cases, this may involve three separate deductions from the employee’s gross pay—federal income tax, state income tax, and local (city) income or wage tax. All of the acts that levy these various income taxes provide for the collection of taxes at the source of the wages paid (payroll withholding).

**Federal Income Tax Withholding Law**

The collection of federal income taxes at the source of wages paid came into being with the enactment of the Current Tax Payment Act of 1943, commonly referred to as a withholding tax law. A percentage formula is used in an attempt to collect the tax on wages or salaries by requiring the employer to withhold a specified amount from each wage or salary payment. These withholdings are then turned over to the federal government for the employee’s tax account. Over the years, many changes have been made in the tax rates, exemptions, and allowable deductions. Chapter 4 covers in detail the current requirements. Employers must keep records showing the information referred to in Figure 1–2. However, the law does not prescribe any specific forms to be used for such recordkeeping.

**State and Local Income Tax Withholding Laws**

Most states impose state income taxes on individuals. The laws vary from state to state as to the amount to be withheld, exemptions from withholding, and the time for withholding reports to be filed. Employers may also be required by local income tax laws to deduct and withhold local income taxes on salaries or wages paid. Chapter 4 presents further discussion of the withholding of state and local income taxes.

**UNEMPLOYMENT TAX ACTS**

Unemployment insurance taxes provide funds at the state level for compensating unemployed workers. Taxes levied by both the federal government (Federal Unemployment Tax Act) and the state government (State Unemployment Tax Acts) affect the employer.
Federal Unemployment Tax Act
Like the Federal Insurance Contributions Act, the Federal Unemployment Tax Act (FUTA) is incorporated in the Internal Revenue Code. If an employer employs one or more individuals in each of 20 or more weeks in occupations covered by FUTA or pays wages of $1,500 or more during any calendar quarter in the current or preceding calendar year, a federal unemployment insurance tax must be paid. The federal government uses the collected tax to pay state and federal administrative expenses of the unemployment program. Employers subject to FUTA receive credit against most of the FUTA tax when they contribute to their state unemployment compensation funds. Chapter 5 gives detailed information as to employers and employees who are subject to the requirements of the act. Employers subject to FUTA must keep permanent records that provide the information listed in Figure 1–2. FUTA prescribes no particular form for these records.

State Unemployment Tax Acts
All 50 states and the District of Columbia have enacted unemployment insurance laws. Each employer receives a credit against the FUTA tax because of the contribution (tax) to a state's unemployment compensation program. The taxes paid to the individual states by employers are used primarily for the payment of unemployment benefits.

The Social Security Act specifies certain standards that each state has to meet in passing an unemployment compensation law. These standards have resulted in a fairly high degree of uniformity in the requirements of state unemployment laws and in the records that must be kept by businesses. State laws do differ, however, making it necessary for employers to be familiar with the laws of the states in which they operate.

The state unemployment compensation laws require employers to keep payroll records similar to those required under the federal law. Penalties may be imposed for failure or delinquency in keeping the required records, making the required returns, or paying the contributions. Though the required period for retaining records varies by state, federal requirements dictate that records be kept for a minimum of four years. Chapter 5 covers state unemployment compensation and tax acts.

FAIR EMPLOYMENT LAWS
Federal and state legislations have been enacted to enforce fair employment practices. Many of these laws deal with discrimination on the basis of age, race, color, religion, gender, or national origin.

Civil Rights Act of 1964
Title VII of the Civil Rights Act of 1964, entitled “Equal Employment Opportunity,” provides for several fair employment practices. The act, as amended, forbids employers to discriminate in hiring, firing, promoting, compensating, or in any other condition of employment on the basis of race, color, religion, gender, or national origin. Guidelines, established by the Equal Employment Opportunity Commission (EEOC), also include physical characteristics in the definition of national origin discrimination. For example, unnecessary height or weight requirements could exclude some individuals on the basis of their national origin. The EEOC has also declared that sexual harassment violates the Civil Rights Act. Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature can constitute sexual harassment.

The EEOC prohibits unions from excluding or segregating their members on these bases, and employment agencies may not refer or refuse to refer applicants for employment on the basis of race, color, religion, gender, or national origin.

This act covers all employers who engage in an industry “affecting commerce” and who employ 15 or more workers for each working day in each of 20 or more weeks in the current or preceding calendar year. Employers specifically excluded from coverage of the fair employment practices include the U.S. government (state and local governments are
covered), a corporation wholly owned by the United States, Indian tribes, private membership clubs (other than labor unions) exempt from federal income tax, and religious societies in the employment of members of a particular religion to work on the societies’ religious activities. Although the U.S. government is classified as an exempt employer, the act states that the policy of the U.S. government provides equal employment opportunities without discrimination and that the President should use his existing authority to implement this policy.

Title VII does not protect an employee from arbitrary treatment or dismissal. As long as the employer applies these policies in a nondiscriminatory manner, Title VII requirements have not been violated.

To accomplish the purpose of eliminating discrimination, the EEOC tries to obtain voluntary compliance with the law before filing a court action for an injunction. It can institute court proceedings for an injunction if it believes that any person or group of persons is not complying with the law. Where a state or local law forbids discriminatory practices, relief must first be sought under the state or local law before a complaint is filed with the Commission. In most states, a special commission or the state Department of Labor administers the laws and may authorize cease-and-desist orders that are enforceable in the courts.

**Executive Orders**

Employers not subject to the Title VII coverage discussed above may come within the scope of the Civil Rights Act by reason of a contract or a subcontract involving federal funds. In a series of executive orders, the federal government has banned, in employment on government contracts, discrimination based on race, color, religion, gender, or national origin.

**Age Discrimination in Employment Act**

The Age Discrimination in Employment Act of 1967 (ADEA) prohibits employers, employment agencies, and labor unions from discriminating on the basis of age in their employment practices. The act covers only employers (who employ 20 or more workers), employment agencies, and labor unions engaged in an industry affecting interstate commerce. The act also covers federal, state, and local government employees, other than elected officials and certain aides not covered by civil service. The ADEA provides protection for virtually all workers over 40. A key exception is executives who are 65 or older and who have held high policy-making positions during the two-year period prior to retirement. If such an employee is entitled to an annual retirement benefit from the employer of at least $44,000, the employee can be forcibly retired.

In order to prove compliance with the various fair employment laws, employers must keep accurate personnel and payroll records. All employment applications, along with notations as to their disposition and the reasons for the disposition, should be retained. All records pertaining to promotions, discharges, seniority plans, merit programs, incentive payment plans, etc., should also be retained.

**Americans with Disabilities Act**

The Americans with Disabilities Act of 1990 (ADA) prohibits employers with 15 or more employees, employment agencies, labor organizations, or joint labor-management committees from discriminating against qualified persons with disabilities because of their disability.

The prohibition of disability-based discrimination applies to job application procedures, hiring, advancement, termination, compensation, job training, and other conditions of employment. In addition, reasonable accommodations, such as wheelchair-accessible restrooms and ramps for qualified disabled job applicants and workers, must be provided.
OTHER FEDERAL LAWS AFFECTING THE NEED FOR PAYROLL AND PERSONNEL RECORDS

Generally, the payroll and personnel records and reports that a business prepares and retains to meet the requirements of the laws already discussed provide sufficient information needed under the laws outlined in Figure 1–3 and discussed below.


The Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandates that all states must establish new-hire reporting programs. Every employer is required to report the name, address, and social security number on each new employee and

**FIGURE 1–3**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Davis-Bacon Act (1931)</td>
<td>Laborers for contractors or subcontractors on federal government contracts for construction, alteration, or repair of public buildings or works.</td>
<td>$2,000</td>
<td>Minimum wage set by Secretary of Labor (weight is given to union wage scale prevailing in the project area).</td>
</tr>
<tr>
<td>Walsh-Healey Public Contracts Act (1936)</td>
<td>Laborers for contractors who furnish materials, supplies, articles, and equipment to any agency of the United States.</td>
<td>$10,000</td>
<td>Single minimum wage determined by Secretary of Labor for all covered employees in a given industry.</td>
</tr>
<tr>
<td>McNamara-O’Hara Service Contract Act (1965)</td>
<td>Service employees on contracts with the United States or the District of Columbia for the furnishing of services.</td>
<td>$2,500</td>
<td>Minimum wage set by Secretary of Labor based on minimum wage found to be prevailing in that locality.</td>
</tr>
<tr>
<td>Occupational Safety and Health Act (OSHA) (1970)</td>
<td>Any business involved in interstate commerce.</td>
<td>-0-</td>
<td>Sets specific occupational and health standards for employers; requires that records be kept of work-related injuries, illnesses, and deaths.</td>
</tr>
<tr>
<td>Vocational Rehabilitation Act (1973)</td>
<td>Companies with federal agency contracts.</td>
<td>$2,500</td>
<td>Must include in the contract an affirmative action clause requiring that the handicapped applicant or employee will be given appropriate consideration.</td>
</tr>
<tr>
<td>Vietnam Era Veterans’ Readjustment Act (1974)</td>
<td>Government contractors with federal contracts or subcontracts.</td>
<td>$10,000</td>
<td>Requires contractors to take affirmative action to employ and advance in employment qualified veterans of the Vietnam era and disabled veterans.</td>
</tr>
</tbody>
</table>
the employer's name, address, and federal employer identification number within 20 days of hire to the appropriate state agency. In many states, submission of a copy of the employee's W-4 form (Employee's Withholding Allowance Certificate) will satisfy the reporting requirement. This information must then be forwarded by the state to the federal Office of Child Support Enforcement (OCSE) for entry into the National Directory of New Hires.

Employers with operations in more than one state may file one report with the state of their choice. That state is then to share the information with the other states. The main reason for this requirement is to help in the enforcement of child support obligations. In addition, it will reduce fraud in the unemployment, workers' compensation, and public assistance programs. Failure to report this information can result in fines of up to $25.00 per new hire. Even though under federal law employers do not have to report this same information on independent contractors, some states do require such reporting.

**Immigration Reform and Control Act of 1986**

The Immigration Reform and Control Act of 1986 (IRCA) bars employers from hiring and retaining aliens unauthorized to work in the United States. It also requires all employers to verify employment eligibility for all individuals by examining the employee's verification documents and having the employee complete Form I-9, Employment Eligibility Verification (not illustrated). Form I-9 lists the documents that an employee must furnish to the employer. These documents identify the employee and, if an alien, verify authorization to work in the United States. Photocopying new employees' I-9 documents is permitted but not required. If done, photocopying should apply to all new employees. Form I-9 must be completed within three business days of the date the employee starts work. The form must be retained for three years after the date of hiring or for one year after the date the employment is terminated, whichever is longer. The process of collecting, filing, and retaining I-9 forms should be a centralized function so that inconsistencies are eliminated. The forms (I-9) should be filed separately from other personnel records so that the information contained in the forms is kept private.

The Immigration and Naturalization Service (INS) can levy fines if an audit uncovers recordkeeping violations. Civil penalties range from $100 to $1,000 for each violation. Any person or entity found to have unlawfully employed an unauthorized alien is subject to civil fines ranging from $250 to $11,000. Criminal penalties are assessed where a pattern of discriminatory practice is found.

**Family and Medical Leave Act of 1993**

The Family and Medical Leave Act of 1993 (FMLA) requires employers that have 50 or more employees within a 75-mile radius to grant workers unpaid leave for a family or medical emergency. In cases of childbirth, adoption, or serious illness of the employee or the employee's child, spouse, or parent, the employer must offer the worker as many as 12 weeks of unpaid leave. During the leave, employers must continue health-care coverage, and they must also guarantee that the employee will return to the same job or to a comparable position. The employer can substitute an employee's earned paid leave for any part of the 12-week family leave.

Employers can exempt the following:

1. The highest-paid 10 percent of their workforce.
2. Those who have not worked at least one year and at least 1,250 hours in the previous 12 months for the company.

**Employee Retirement Income Security Act of 1974**

The Employee Retirement Income Security Act of 1974 (ERISA) covers employee pension and welfare plans established or maintained by any employer or employee organization representing employees engaged in commerce or in any industry or activity affecting commerce. The legislation safeguards pension funds by regulating how the funds are to be raised and disbursed, who controls them, and what is to be done when funds are insufficient to pay...
promised benefits. The law does not require every employer to establish a pension plan; however, if there is an employer’s pension plan, every employee is eligible after reaching age 21 or completing one year of service, whichever is later.

ERISA was designed primarily to ensure that workers covered by private pension plans receive benefits from those plans in accordance with their credited years of service with their employers. Vesting conveys to employees the right to share in a retirement fund if they are terminated before the normal retirement age. The vesting process is linked to the number of years needed for workers to earn an equity in their retirement plans and to become entitled to full or partial benefits at some future date if they leave the company before retirement. Once vested, a worker has the right to receive a pension at retirement age, based on years of covered service, even though the worker may not be working for the firm at that time. Currently, the law provides for full vesting of the employer’s contributions in three years or gradually over six years (20 percent after two years and 20 percent a year for the next four years). The plan administrator must file an annual report (Form 5500) with the federal government by the end of the seventh month following the close of the plan year.

To protect against potential benefit losses because of a plan’s termination, ERISA set up a government insurance program, the Pension Benefit Guaranty Corporation, to pay any benefits that could not be met with funds from the plan.

Disclosure Requirements. The reporting and disclosure requirements set forth by ERISA have tremendous implications on the recordkeeping requirements of employers. Informational reports must be filed with the U.S. Department of Labor, the IRS, and the government insurance program. In general, the reports consist of descriptions of the plans and the annual financial data. The plan descriptions include the eligibility requirements for participation and for benefits; provisions for nonforfeitable pension benefits; circumstances that may result in disqualification, loss, or denial of benefits; and procedures for presenting claims. The annual reports include financial statements and schedules showing the current value of plan assets and liabilities, receipts and disbursements, and employer contributions; the assets held for investment purposes; insurance data; and an opinion by an independent qualified public accountant. Upon written request from the participants, the administrator must also furnish a statement, not more than once in a 12-month period, of the total benefits accrued, accrued benefits that are vested, if any, or the earliest date on which accrued benefits will become vested.

OTHER STATE LAWS AFFECTING THE NEED FOR PAYROLL AND PERSONNEL RECORDS

States have enacted other laws that have a direct bearing on the payroll and personnel records that an employer must maintain and on the rights that must be extended to employees.

Workers’ Compensation Laws

Workers’ compensation insurance protects employees and their dependents against losses due to work-related injury, illness, or death. Most states have passed laws that require employers to provide workers’ compensation insurance through one of the following plans:

1. Contribution to a state compensation insurance fund administered by an insurance department of the state.
2. Purchase of workers’ compensation insurance from a private insurance company authorized by the state to issue this type of policy.
3. Establishment of a self-insurance plan, approved by the state, under which the company bears all risk itself.

Benefits are paid to cover medical bills and also to provide a percentage of the worker’s regular wages during the time that the employee is unable to work.

The employer bears the cost of the workers’ compensation insurance premiums, except in Montana, New Mexico, Oregon, and Washington, where both the employer and the employee contribute to the workers’ compensation fund.
The insurance premiums are often based upon the total gross payroll of the business and may be stated in terms of an amount for each $100 of weekly wages paid to employees. The premium rates vary among types of jobs, and they vary in amount with the pay rate involved.

The rate for the office workers of the Volpe Parts Company is $0.30 per $100 of payroll, while the rate for machine-shop workers is $1.90 per $100 of payroll.

Because the premium rates vary according to the different degrees of danger in various classes of jobs, payroll records must indicate job classifications for rate purposes. If the employer has low accident experience, the rates may be reduced to a certain minimum.

**State Disability Benefit Laws**

California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico have passed laws to provide disability benefits to employees absent from their jobs because of illness, accident, or disease not arising out of their employment. Chapter 5 presents further discussion of state disability benefit laws.

**HUMAN RESOURCES AND PAYROLL ACCOUNTING SYSTEMS**

Up to this point, we have seen that a business must keep human resources and payroll records to meet the requirements of the various laws under which it operates. In addition, these records form an integral part of an effective business system. In developing its human resources and payroll accounting systems, a business should design basic forms and records that satisfy the requirements of all the laws applicable to that organization. Properly designed forms and records, as described later in this chapter, not only supply the information required by the various laws but also provide management with information needed in its decision-making process. They also result in savings in both time and work because the necessary information is recorded, stored, retrieved, and distributed economically, efficiently, and quickly.

Before studying the employment process, it is important to examine the close relationship between the Payroll Department and the Human Resources Department. Some businesses consider payroll to be strictly an accounting function and, as such, place it under the direct control of the Chief Financial Officer. However, because of the need for quick interchange of information between the Payroll and the Human Resources Departments, the recent trend has been to place payroll under the control of the director of human resources. This movement toward centralization eliminates the duplication of many tasks. With the required information in one department, the process of completing these forms is shortened. Further, questions from employees concerning sick pay, vacation pay, and other benefits can be answered from one source.

Individual computer programs have been developed for the combined needs of payroll and human resources. Information concerning such diverse activities as attendance, retirement benefits, health insurance coverages, and bonus pay is now available to designated employees in the Human Resources Department through a computer terminal.

**HUMAN RESOURCES SYSTEM**

In many medium-size and large companies, the human resources system embodies all those procedures and methods related to recruiting, selecting, orienting, training, and terminating personnel. Extensive recordkeeping procedures are required in order to:

1. Provide data for considering promotions and changes in the status and earnings of workers.
2. Provide the information required by various federal, state, and local laws.
3. Justify company actions if investigated by national or state labor relations boards.
4. Justify company actions in discussions with local unions or plant committees.
Before the Payroll Department can pay newly hired employees, the Human Resources Department must process those employees. Figure 1–4 charts the procedure that the Human Resources Department follows in this hiring process.

A number of companies that manufacture business forms have available standard personnel forms and records that may be successfully used if a business does not care to design its own special forms. In small companies, an application form or an employee history record may be the only document needed. Throughout the remainder of this chapter, several illustrations augment the discussion of the various human resources and payroll records. In these examples, we shall follow Cheryl Crowson from her initial application for employment with the Palmero Maintenance Company to her entry onto the company’s payroll records.

**Requisition for Personnel**

The *requisition for personnel* form notifies the Human Resources Department of the need for additional or replacement employees. The requisition for new employees can be initiated in a number of ways. Some companies send a memo to the Human Resources Department stating the title of the position to be filled, a brief description of the duties of the job, and the salary range. Other companies may use preprinted forms. A preprinted form should indicate the type and number of persons needed, the position to be filled, the rate of pay for the job, the salary range, the date the employee is needed, a summary of any special qualifications, and whether the position is permanent or temporary.

**Application for Employment**

Every business, regardless of size, should have an application form (similar to that in Figure 1–5 on pages 1-16 and 1-17) to be filled out by a person seeking employment. The *application form* gives the applicant an opportunity to provide complete information as to:

1. Personal information including the name, address, telephone number, and social security number of the applicant.
2. Educational background including a summary of the schools attended, whether the applicant graduated, and degrees conferred.

---

**Figure 1–4**

*Human Resources Department Procedure in the Hiring Process*

- RECEIVE REQUEST FOR NEW EMPLOYEE
- EXAMINE APPLICATIONS
- INTERVIEW APPLICANTS
- SELECT AND NOTIFY SUCCESSFUL APPLICANT
- CHECK REFERENCES
- ADMINISTER TESTS
- SEND INFORMATION TO PAYROLL DEPARTMENT
- PREPARE PERSONNEL FILE
3. Employment and experience record.
4. Type of employment desired.
5. References.

The application form also provides information for the checking of references, serves as a guide to effective interviewing, and provides information for correlation with data obtained from employment tests. The form serves as a permanent record for the business.

Employers subject to fair employment laws must make certain that all aspects of the prehire inquiries are free of discrimination on the basis of race, color, religion, gender, national origin, or age. Prehire inquiries include questions asked in the employment interview and on application forms, résumés of experience or education required of an applicant, and any kind of written testing. None of the federal civil rights laws specifically outlaw questions concerning the race, color, religion, gender, national origin, or age of an applicant. However, if the employer can offer no logical explanation for asking such questions, the EEOC and the Wage and Hour Administrator view such questions as discriminatory. Of course, prehire questions pertaining to religion, gender, national origin, or age are allowed when these factors are bona fide occupational qualifications for a job.

Asking an applicant’s age or date of birth may tend to deter the older worker. Thus, if an application form calls for such information, a statement should appear on that form notifying the applicant that the ADEA prohibits discrimination on the basis of age with respect to individuals who are at least 40.

Reference Inquiry

Before employing an applicant, a company may check some of the references given on the application. Many businesses use a standard reference inquiry form, which is usually mailed to the person or company given as a reference. Other companies prefer a telephone reference check because they feel that a more frank opinion of the candidate is received over the telephone than in a letter. Some companies prefer not to check on personal references given by the job applicant, since these tend to be less objective than business references.

Today, any type of reference checking has taken on new meaning—expensive litigation. In most cases, respondents to these inquiries will verify dates of employment only, with no information on former employees’ work habits. Because of this, many human resources departments give references only a cursory glance.

Some companies have made an “Employment Reference Release” part of the employment application. By signing the form, the applicant authorizes prior employers to release all information regarding employment with them, and the applicant releases the former employer from any legal liability for any damages that may result from the disclosure of this information.

The Fair Credit Reporting Act of 1968 subjects employers to certain disclosure obligations when they seek an investigative consumer report from a consumer reporting agency on a job applicant or in certain instances on present employees. An investigative consumer report usually contains information about the individual’s character, general reputation, and mode of living. Generally, the employer must notify the applicant or the employee in writing that such a report is being sought. Also, the employer must notify the applicant or employee that he or she may request information from the employer about the nature and scope of the information sought. In the event employment is denied because of the consumer report information, the employer must inform the individual that this was the reason or part of the reason for denying employment. Also, the employer must furnish the applicant with the name and address of the consumer reporting agency that made the report.

Hiring Notice

After the successful applicant is notified of employment and the starting date, time, and to whom to report, a hiring notice is sent to the Payroll Department so that the new employee
APPLICATION FOR EMPLOYMENT
An Affirmative Action/Equal Opportunity Employer

POSITION APPLIED FOR  Payroll Accounting Clerk
This job application is valid only for the position you have listed above. If you wish to be considered for other positions, you will need to complete and/or submit a separate application for each position.

PERSONAL

Name  Cheryl Crowson
Address  1630 West End Ave.    Huntington, WV 25703
Telephone  (304) 555-2192           (304) 555-1618
Social Security Number  199-00-6357

Have you worked for Palmero Maintenance Company before? YES ☐  NO ☑
If Yes, when? __________________________

If hired, can you provide proof of identity and eligibility to work in the U.S.? YES ☑  NO ☐

Have you ever been convicted of a felony? YES ☐  NO ☑  If Yes, describe: __________________________

EDUCATION

<table>
<thead>
<tr>
<th>NAMES</th>
<th>ADDRESS</th>
<th>ACADEMIC MAJOR</th>
<th>NO. OF YEARS ATTENDED</th>
<th>DEGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH SCHOOL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centennial Senior</td>
<td>Stanford Road</td>
<td>Business</td>
<td>4</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Huntington, WV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COLLEGE, JUNIOR COLLEGE, OR UNIVERSITY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Huntington Community College</td>
<td>Swamp Road</td>
<td>Business—Occupational</td>
<td>2</td>
<td>Associate</td>
</tr>
<tr>
<td></td>
<td>Huntington, WV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TECHNICAL OR VOCATIONAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other details of training:</td>
<td>(Courses)</td>
<td></td>
<td></td>
<td>(Cert.)</td>
</tr>
</tbody>
</table>

EMPLOYMENT HISTORY
List in sequence all employers, beginning with present/most recent employer, including military experience and apprenticeship. Explain any gaps in employment in comments section below. If additional space is needed, please attach sheet(s).

<table>
<thead>
<tr>
<th>EMPLOYER</th>
<th>TELEPHONE</th>
<th>DATES EMPLOYED</th>
<th>Summarize the nature of the work performed and job responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brennan Shipping Co.</td>
<td>(304) 555-1119</td>
<td>5/00</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Input time worked</td>
</tr>
<tr>
<td>ADDRESs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>193 Mountain Blvd., Huntington, WV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JOB TITLE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Assistant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMMEDIATE SUPERVISOR AND TITLE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helen Young—Payroll Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REASON FOR LEAVING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Want to have more responsibility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAY WE CONTACT FOR REFERENCE?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EMPLOYER</th>
<th>TELEPHONE</th>
<th>DATES EMPLOYED</th>
<th>Summarize the nature of the work performed and job responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVS Drug</td>
<td>(304) 555-0101</td>
<td>9/98</td>
<td>5/00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Served as head cashier</td>
</tr>
<tr>
<td>ADDRESS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad &amp; Cherry Sts., Huntington, WV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JOB TITLE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerk/Cashier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMMEDIATE SUPERVISOR AND TITLE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>John Stumley—Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REASON FOR LEAVING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduated college—Full-time position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAY WE CONTACT FOR REFERENCE?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

REFERENCES
Give names of persons we may contact to verify your qualifications for the position:

<table>
<thead>
<tr>
<th>Name</th>
<th>(Title)</th>
<th>(Occupation)</th>
<th>(Organization)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edna White</td>
<td>Instructor</td>
<td>Teacher</td>
<td>Huntington Community College</td>
</tr>
<tr>
<td>Swamp Road, Huntington, WV</td>
<td>Bus. No.: (304) 555-8000</td>
<td>Home No.: (304) 555-2111</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>(Title)</th>
<th>(Occupation)</th>
<th>(Organization)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henry Stone</td>
<td>Controller</td>
<td>Finance</td>
<td>Brennan Shipping Co.</td>
</tr>
<tr>
<td>193 Mountain Blvd., Huntington, WV</td>
<td>Bus. No.: (304) 555-1119</td>
<td>Home No.: (304) 555-8710</td>
<td></td>
</tr>
</tbody>
</table>

I hereby certify that all statements made in this application (and accompanying résumé, if any) are true and complete. I understand that any false or misleading statement on this application constitutes sufficient grounds for dismissal, if hired. I further certify that I may lawfully be employed in this country and, if employed, will provide required documentation to verify identity and employment eligibility. In addition, in making this application for employment, I understand that the Company may investigate my employment and educational records. I hereby authorize my current and/or former employer(s) and school(s) to furnish the information requested by the Palmero Maintenance Company.

Signature of Applicant Cheryl Crowson Date June 10, 20-
can be added properly to the payroll. A hiring notice such as that shown in Figure 1–6 usually gives the name, address, and telephone number of the new employee, the department in which employed, the starting date, the rate of pay, the number of withholding allowances claimed, and any other information pertaining to deductions that are to be made from the employee’s wages.

**Employee History Record**

Although many businesses keep no personnel records other than the application, a more detailed record is needed to provide a continuous record of the relationship between the employer and the employee. The *employee history record* is such a record and, in addition to providing personal and other information usually found on an application, provides space to record the employee’s progress, attendance, promotions, performance appraisals, and salary increases.

**Change in Payroll Rate**

The *change in payroll rate form* notifies the proper departments of a change in the employee’s rate of remuneration. The change in rate may originate in the Human Resources Department or with the head of the department in which the employee works. In either event, the Payroll Department must be informed of the change for the employee so that the rate change is put into effect at the proper time and so that the records reflect the new rate. Figure 1–7 shows a form that may be used for this purpose.

---

**Hiring Notice**

**FIGURE 1–6**

**Hiring Notice**

<table>
<thead>
<tr>
<th>SOCIAL SECURITY NO.</th>
<th>199-00-6357</th>
<th>NAME</th>
<th>Cheryl Crowson</th>
<th>CLOCK NO.</th>
<th>418</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADDRESS</td>
<td>1630 West End Ave., Huntington, WV</td>
<td>ZIP</td>
<td>25703</td>
<td>PHONE NO.</td>
<td>555-1618</td>
</tr>
<tr>
<td>OCCUPATION</td>
<td>Payroll Clerk</td>
<td>DEPT.</td>
<td>Accounting</td>
<td>GROUP NO.</td>
<td>--</td>
</tr>
<tr>
<td>STARTING DATE</td>
<td>July 1, 20--</td>
<td>TIME</td>
<td>8:00 A.M.</td>
<td>RATE</td>
<td>$24,000 yr.</td>
</tr>
<tr>
<td>MARRIED</td>
<td>x</td>
<td>BIRTH DATE</td>
<td>8/1/--</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LAST EMPLOYMENT</td>
<td>Brennan Shipping Co.</td>
<td>LOCATION</td>
<td>Huntington, WV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DATE LEFT</td>
<td>June 30, 20--</td>
<td>REASON</td>
<td>Advancement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NO. OF WITHHOLDING ALLOWANCES</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IN EMERGENCY NOTIFY</td>
<td>Robert Crowson</td>
<td>PHONE NO.</td>
<td>555-5136</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMPLOYEE’S SIGNATURE</td>
<td>Cheryl Crowson</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUPERVISOR’S SIGNATURE</td>
<td>Margaret T. Johnson</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMPLOYMENT DEPARTMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORIGINAL TO PAYROLL DEPT.</td>
<td>D I M I T</td>
<td>D I M I T</td>
<td>D I M I T</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PAYROLL ACCOUNTING SYSTEM

A payroll accounting system embodies all those procedures and methods related to the disbursement of pay to employees. A typical payroll accounting system includes the procedures shown in Figure 1–8, on page 1–20. The nature of the payroll records depends to a great extent on the size of the workforce and the degree to which the recordkeeping is automated. This course describes and illustrates manual payroll accounting systems. Appendix A describes computerized payroll accounting systems, along with operating instructions for using the software available with this text. In most payroll systems—manual or automated—two basic records include the payroll register and the employee’s earnings record.

Payroll Register

The payroll register is a multicolumn form used to assemble and summarize the data needed at the end of each payroll period. It provides a detailed listing of a company’s complete payroll for that particular pay period. Thus, the payroll register lists all the employees who earned remuneration, the amount of remuneration, the deductions, and the net amount paid. The information provided in the payroll register is used primarily to meet the requirements of the Fair Labor Standards Act. However, the register also provides information for recording the payroll entries in the journal and for preparing reports required by other federal, state, and local laws. Figure 1–9, on page 1–21, shows one form of payroll register. Another form, used in the Continuing Payroll Problem at the end of Chapters 2 through 6, is shown in the fold-out at the back of this book. Chapter 6 presents further discussion of the payroll register.
Employee’s Earnings Record

In addition to the information contained in the payroll register, businesses must provide more complete information about the accumulated earnings of each employee. For that reason, it is necessary to keep a separate payroll record on each employee—the employee’s earnings record. Each payday, after the information has been recorded in the payroll register, the information for each employee is transferred, or posted, to the employee’s earnings record. The employee’s earnings record provides the information needed to prepare periodic reports required by the withholding tax laws, the FICA tax law, and state unemployment or disability laws. Employers also use the employee’s earnings record in preparing Form W-2, Wage and Tax Statement. This form shows the amount of wages paid each worker in the course of the trade or business of the employer. Figure 1–10 shows an example of the employee’s earnings record. Chapter 6 presents a more detailed discussion of the preparation and use of the earnings record.

Paycheck

When employees are paid by check, a check is written for each worker, using as the amount of net pay that figure appearing in the Net Paid column of the payroll register. Most paychecks, such as that depicted in Figure 1–11, on page 1-22, carry a stub, or voucher, that shows the earnings and deductions. Paying workers in cash, by check, or by means of electronic transfer is discussed in Chapter 6.

Many states have laws that affect the frequency of wage payments. In Connecticut, for example, employees must be paid on a weekly basis unless the labor commission has approved an exception.
OUTSOURCING PAYROLL

With the increased need for up-to-the-minute information concerning changes in payroll tax laws, the trend toward outsourcing payroll operations has grown stronger. This is especially true with small to midsize companies. Many businesses have found that processing payroll by using an outside payroll company is more cost effective than doing the processing in-house. Other benefits realized are increased quality, improved efficiency, and a quicker release time, all which enable the company to concentrate on its other operations.

Basically, the payroll operations at the company’s site need only deal with the entry of new employee information and the number of hours worked by each employee. This information is sent to the payroll processing company electronically. The input is then processed by the outside firm. Once the processing is completed, the output package (paychecks, payroll, and management reports) is returned to the company.

Leading companies in the industry, such as ADP,3 will custom-make a comprehensive and integrated program that will meet the needs of each individual business at a cost that many businesses find affordable.

3 The ADP Logo is a registered trademark of ADP (Automatic Data Processing) of North America, Inc.
KEY TERMS

Application form (p. 1-14)
Change in payroll rate form (p. 1-18)
Disability benefits (p. 1-13)
Employee history record (p. 1-18)
Employee's earnings record (p. 1-20)
Executive orders (p. 1-9)
Fair employment practices (p. 1-8)
Form W-2, Wage and Tax Statement (p. 1-20)
Hiring notice (p. 1-15)
Human resources system (p. 1-13)

Income tax (p. 1-7)
Investigative consumer report (p. 1-15)
Payroll accounting system (p. 1-19)
Payroll register (p. 1-19)
Prehire inquiries (p. 1-15)
Reference inquiry form (p. 1-15)
Requisition for personnel (p. 1-14)
Unemployment insurance taxes (p. 1-7)
Vesting (p. 1-12)
Workers' compensation insurance (p. 1-12)
MATCHING QUIZ

1. Employee’s earnings record
2. Payroll register
3. Executive orders
4. Fair Labor Standards Act
5. Immigration Reform and Control Act
6. Unemployment insurance taxes
7. Vesting
8. Disability benefits
9. Income tax
10. Hiring notice

A. Also known as the Federal Wage and Hour Law
B. Record used in preparing employee’s W-2
C. Protection against losses due to work-related injuries
D. Multicolumn form used to summarize data needed each paydate
E. Levy on earnings of most employees and deducted from their gross pay
F. Antidiscrimination orders for employers with contracts involving federal funds
G. Form sent to Payroll Department so that new employee is added to the payroll
H. Form I-9 to be completed by all new employees
I. Levied by both federal and state governments
J. Conveys to employees the right to share in a retirement fund

QUESTIONS FOR REVIEW

1. Under the FLSA, what information concerning employees’ wages earned must be maintained by the employer?
2. Which act sets the minimum wage, and what is the current wage rate?
3. Who pays the social security taxes that are levied by the Federal Insurance Contributions Act?
4. How are the funds used which are provided by FUTA and SUTA?
5. What types of unfair employment practices are prohibited by the Civil Rights Act of 1964 as amended?
6. What is the purpose of the Age Discrimination in Employment Act (ADEA)?
7. Who is covered by the Walsh-Healey Public Contracts Act?
8. What penalties are imposed for employing an unauthorized alien?
9. Under the Family and Medical Leave Act, what is the maximum number of weeks of unpaid leave that a covered employer is required to offer an employee whose spouse is seriously ill?
10. What are the major provisions of the Occupational Safety and Health Act (OSHA)?
11. What is the primary purpose of the Employee Retirement Income Security Act (ERISA)?
12. Explain the concept of vesting.
13. Under ERISA, if requested in writing, what information must the administrator of the pension fund supply to the participants?
14. Summarize the procedure that may be followed by the Human Resources Department in hiring new employees.
15. What information is commonly provided by a jobseeker on the application for employment form?
16. What is the significance of the Civil Rights Act of 1964 and the Age Discrimination in Employment Act in the employer’s use of prehire inquiries?
17. What obligations are imposed upon the employer by the Fair Credit Reporting Act of 1968?
18. What procedures are usually included in a typical payroll accounting system?
19. What two basic records are generated in most payroll accounting systems?
20. What uses are made of the information shown in the employee’s earnings record?
QUESTIONS FOR DISCUSSION

1. What personnel records would you suggest for a small retailer with three employees?
2. What kind of problem can be encountered when requesting references from previous employers of job applicants?
3. In staffing their offices, some firms encourage in-house referrals (recommendations of their present employees). What are some possible objections to this practice as a means of obtaining job applicants? What advantages may be realized by the firm that uses in-house referrals?
4. The main office of a large bank has an annual turnover of 500 office workers. As an employment officer of this bank, discuss the sources you would use in obtaining replacement employees.
5. Among the questions asked on the application for employment form of Horner Company are the following:
   a. What is the name of your church and what religious holidays do you observe?
   b. What is the name of your birthplace?
   c. Are you a citizen of the United States?
   d. What foreign languages can you read, write, or speak fluently?
In view of federal and state civil rights laws, do you believe that Horner Company is acting legally or illegally in asking each of the questions listed above?

CASE PROBLEM

C1. Paychecks Kept Coming.

Ken, a salaried employee, was terminated from his company in April of this year. Business had been slow since the beginning of the year, and each of the operating plants had laid off workers.

Ken's dismissal was processed through the Human Resources Department, but the information was not relayed to the corporate payroll office.

As had been the policy, checks for workers at remote sites were mailed to the employees. The mailing of Ken's checks continued for the next four weekly paydays. It wasn't until the monthly payroll reports were sent to Ken's supervisor that the error was detected.

Ken refused to return the four extra checks. What actions should the company take?

URLs are subject to change. Please visit the Bieg Payroll Accounting Web site at http://bieg.swlearning.com for updates.

1. The American Payroll Association uses the Computer Adaptive Technologies and Assessment Systems Inc. (CAT ASI) testing service for the Fundamental Payroll Certification (FPC) exam and the Certified Payroll Professional (CPP) exam.

   http://www.americanpayroll.org
   http://www.asisvcs.com

Go to http://www.asisvcs.com and find the following information:
   a. What are the eligibility requirements for sitting for the Fundamental Payroll Certification (FPC) exam?
   b. What additional requirements are needed to sit for the Certified Payroll Professional (CPP) exam?
   c. What should a student study before taking the FPC exam?
   d. Where is the closest exam center for the FPC exam in your area?
   e. When must you register for the exam?

   a. Under what conditions may an employer pay different wages to employees of opposite sex?
   b. Name two examples where a person’s gender may be a bona fide occupational requirement for the job.

3. Go to http://www.google.com and type “civil rights act of 1964” in the search engine. Find an appropriate link that assists you in answering the following questions:
   a. What does discrimination mean to you personally?
   b. What does discrimination mean according to the law?

4 Reprinted with permission from Payroll Guide Newsletter: Volume 60, No. 21, Copyright © 2001 by Research Institute of America, 395 Hudson Street, New York, NY 10014. All rights reserved.
c. Discuss a circumstance where you or someone you know was discriminated against.

4. Go to a search engine and type in “illegal employment questions.”
   
   http://www.google.com
   http://www.ask.com

   a. List five examples of illegal employment questions.
   b. Why do you think these questions are or are not legal to ask prospective employees?

   c. Have you ever been asked an illegal question when applying for employment?
   d. Did you answer the illegal question? Why or why not?

5. Why does a payroll system need security or controls?
   List three controls that you would want to have on your payroll system.
   
   http://www1.umn.edu/ohr/payroll/internac.pdf