

# Payroll: A Headache You Can Cure!

The logistics of payroll preparation require a specific skill set.

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**P**ayroll is not only an expense for your practice; it can be a headache for you or your practice manager. The Census Bureau reported in 2007 that payroll costs for physician offices were 46.19% of gross income. Costs that high deserve extra scrutiny when reviewing practice metrics. This is one headache you can cure!

Payroll expenses are unique in the fact that they are heavily dependent on government oversight. Tax remittances must follow government schedules, with few or no exceptions. Reporting is validated in a number of ways at federal and state levels, so accuracy is essential. Tax rates change periodically, even in a calendar year, so updates are crucial. Finally, the logistics of payroll preparation require a specific skill set. It is important to screen for that skill set at the time of employment.

Payroll is also a major scope of audit procedures. CPAs in public accounting see numerous clients undergo audits. State agencies look for employees who are incorrectly classified as 1099 subcontractors. They

will question you as to job duties, supervision, autonomy, and other items to determine the correct status of the employee. If they determine that the subcontractor was truly an employee, back taxes, interest, and

responsible for tax filings as the business owner. Don't rely on the word of anyone else that your taxes were processed and remitted. Demand to see proof.

Payroll can be managed in one

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penalty are calculated and assessed. Federal agencies look for discrepancies in annual unemployment filings and state remittance advices. A state unemployment deposit made to the incorrect state or incorrect account can lead to multiple headaches on a federal level, and may at times require recertification by the state. This process can be time-consuming and cost you money in penalties and interest.

One client experienced a nightmare with her payroll. She relied on her CPA to process and submit the payment. Unfortunately, the CPA did not make remittances to the government for over a year. By the time the IRS was involved, the taxpayer was forced to consider dissolution of the business to pay back taxes. Interest and penalties were enormous. Bottom line: you are re-

of four ways: in-house processing; assisted processing; outsourcing; or staffing services. Physicians or practice managers would be prudent to review each method and determine the best solution for their situation.

In general, payroll consists of the following:

- Maintenance of employee listing, including all employees currently working and all terminated staff;
- Complete record of employee name, address (including changes), Social Security number, background check, drug screen results, I9 form (Homeland Security) and W4 (tax withholdings);
- Actual processing of payroll, including input of hours and distribution of checks;
- Record of gross pay, deduc-

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tions, taxes withheld, and net pay;

- Updated schedule of tax rates and other payroll items such as Affordable Care Act (ACA) requirements;
- Remittance and filing of taxes and returns;
- Reconciliation of all payroll accounts;
- Preparation of W2 and 1099 forms annually; and
- Analysis and response to tax notices generated by federal or state offices.

## **In-House Payroll Processing**

In-house payroll processing is often chosen by small offices where the number of staff is limited. Often, the office manager is well versed in payroll procedures and can keep abreast of tax changes in order to pay the staff. The office manager prepares the payroll on a scheduled basis, issues the checks or direct deposits, files the taxes, and reconciles the accounts. The manager also may deal with related human resources functions such as maintenance of 401(k) deductions and remittances. The manager may be required to provide information annually to the outside accountant or bank for filing of form 5500 in relation to those functions.

The benefit of in-house processing is its low cost to physicians. The drawback is the need for the processor to be well trained in payroll and human resources functions, something that may be difficult in a small office. Remember to review the accounts with the manager, ensuring that remittances were made on time and accounts were reconciled monthly. In addition, the physician should review the payroll to ensure no phantom employees are entered. Small offices can easily be a target of fraud. It can happen with family members employed by a physician! Vigilance is key.

## **Assisted Processing**

Assisted processing is often practiced in medium-sized offices. QuickBooks offers an assisted payroll. QuickBooks provides its software, in conjunction with its

accounting software. QuickBooks keeps the software updated with the latest tax rates. The office manager enters the payroll hours into the software, and payroll is calculated and processed. The manager is still required to file and remit the taxes, as well as issue the checks and direct deposits. The benefit of assisted processing is that reliance

The office manager does not need to be a payroll expert. This allows the manager to concentrate on other areas of the practice that require attention. Granted, a service such as this does come at a price, so shop around and compare before you reach a decision. The best advice for outsourcing the payroll function itself is to find someone

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on outside software to keep the tax tables updated will remove the burden from the manager to maintain correct tables. Often it is time-consuming to research and maintain tax rate tables. QuickBooks will do the work for you. The drawback is the cost associated with outside software. Fees for QuickBooks software and services vary, depending on the level of assistance needed. This solution works best for offices where the person responsible for input of payroll is fairly familiar with all aspects of payroll processing and can interact independently with the assisted processor to ensure payroll is processed on time and correctly.

## **Outsourcing Payroll**

Outsourcing payroll is the third option. Payroll companies such as ADP and IOI will process payroll for your office. They maintain all the employee files, keep the tax tables updated, file and remit the taxes, and handle all the reconciliations. They provide the journal entry needed for the general ledger, either electronically for import or hard copy for entry. They file the W2s and 1099s at year end. Inquiries from federal or state tax departments are answered by the outsourcing staff. The office manager is required to ensure that the bank account is properly funded for remittances. The benefit of outsourcing is that the work is done by experts.

who answers the phone and provides excellent customer service.

## **Staffing Agencies**

Staffing agencies provide a fourth option. A professional staffing company gives you a unique human resources element that the other three do not. Staffing firms provide both contingent and permanent staff for their client companies. They start by working with their clients to find out what skills and personality requirements are needed for each type of position. They then take that information, along with job descriptions and position requirements, and conduct a thorough and exhaustive search for the ideal person. The typical customer provides the staffing firm with all of the job-related information, and then, once found, screened, and hired, the individual goes to work for the customer as if he or she were actually an employee.

The difference is, however, as a contingent employee, the person remains a legal employee of the staffing company. After a pre-arranged period of time (normally between three and six months), the staffing customer can hire the person directly and convert him or her to its own employee if desired. If the office does not want to have the added responsibility of employing the person, he or she can remain as an ongoing employee of the staffing firm. These employees can integrate

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well with permanent office staff and provide a level of expertise that may be exactly what you need.

By utilizing a professional staffing firm, you not only solve the problem of having to track work hours, process payrolls, and remit payroll taxes at the required time and to the appropriate federal, state, or local au-

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## Which choice is best for you? Consider your needs first.

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thority, but you get the added benefit of comprehensive human resources support. The staffing firm will screen and recruit for all of your open positions, and then select and place them in their roles within your practice. Not only that, but the staffing firm will provide ongoing job performance feedback, conduct any necessary disciplinary reviews, and coordinate job schedules as directed by the client.

By outsourcing human resources and payroll functions to one source, you free up valuable time to concentrate on your area of expertise, leaving the admin-

istrative hassles to the staffing firm. With constantly changing governmental requirements and privacy laws, this option can be a real help to you. The key to this arrangement is to work with a company you are completely comfortable with, one with plenty of hands-on customer service and a wide range of resources. The staffing firm will invoice you for its services, detailing hours and rates for easy review.

Often, the firm will integrate time clocks in the use of its services so that your employee time can be easily tracked. Doctors' offices require punctuality so that patients are seen on a timely basis and so that schedules are adhered to. No one wants to wait to be checked in and seen by the provider!

Which choice is best for you? Consider your needs first. Are you a solo practitioner with a small practice? Are you part of a bigger office? Do you have the time to devote to proper hiring and payroll procedures? Can your office manager handle the task independently, and is he or she properly trained in human resource functions? Will payrolls be processed monthly or bi-weekly? With the new ACA requirements, emphasis on time is even more important. These and other needs must be considered. A complete assessment of your needs and resources should be conducted, with thought given to what makes most sense for your practice. One thing to remember is that employees must be paid correctly and on time, and the government must get its deposits on time, so it is wise to consider the impact of this when choosing a process.

Clearly, significant thought should be given to the processing of payroll and other human resources roles. There are multiple options, and it is important for the physician, along with the practice manager, to decide on the best process for their situation. Once that process is decided, monitoring procedures should be put into place so that all regulations and best practices are followed. Your CPA can assist you in these important steps. This is one headache you can cure! **PM**



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