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## **F. PAYROLL**

This section outlines the basic policies and procedures of the payroll cycle for the Carnegie Institution of Washington and its Departments (hereafter CIW). These policies and procedures are designed to:

1. assure accurate and timely payment of salaries to employees and fellows;
2. generate accurate general ledger information in a timely fashion to assist Departments in grants management and operations decisions;
3. provide policies and procedures for the recording of effort distribution data; and
4. assure the accurate posting of payroll and indirect cost data to the general ledger, including the distribution of payroll costs to the proper accounts in accordance with established standards and based on accurate reporting of effort on a monthly basis.

### **I. General**

Employees are paid on a semi-monthly basis. Pay dates are the 15<sup>th</sup> and the last day of each month. Fellows are paid on the last day of each month. If a payday falls on a Saturday, Sunday or holiday, salary and stipend payments (hereafter payroll) will be paid on the preceding business day.

The Human Resources section (see Section D) establishes a system of communications between Departments and the P Street Human Resources Office that ensures that payroll (including deductions) is based solely on authorized standing payroll data. In addition, payroll review at the P Street Accounting Office is designed to ensure accurate calculation and timely payment of payroll and deductions.

Please refer to the Human Resources section (Section D) of this manual for detailed instructions on the preparation and submission of New Employee (or Fellow) and Personnel Change forms to add, delete or change standing payroll data. Business offices have responsibility for the submission of these and other payroll documents (including time sheets) to the Payroll Coordinator and/or the Human Resources Office in accordance with the payroll schedule published annually by the P Street Accounting Office.

CIW currently uses an outside contractor, Automated Data Processing (hereafter ADP), to:

1. process all payroll

2. prepare all federal, state and local payroll tax forms
3. make all required payroll tax deposits

Information submitted to ADP electronically comes from the time sheets and New Employee (or Fellow) and Personnel Change forms submitted by the Departments. The payroll reports generated by ADP are returned to CIW with semi-monthly and monthly checks, and provide the financial information for the multiple journal entries necessary to record payroll. Effective with the implementation of Navision, Carnegie's accounting and financial system, electronic versions of the ADP reports are uploaded periodically into NAV, thereby providing a detailed record of payroll transactions.

## **II. Effort Reporting**

CIW's effort reporting procedures are tailored to meet the requirements established by OMB Circular A-122. Specifically, Attachment B, Section 7(m), Compensation for personal services, Support of salaries and wages, states:

"(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.)

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by

the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

(3) Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2), must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Par 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee," under FLSA.

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.”

Carnegie meets the requirements under item (2) above by requiring effort reports for all employees. In addition, e-mail responses, or other electronic transmissions, from appropriate employees and supervisors satisfy the requirement for a signed report under item (2)(c) above.

At Carnegie, the standard used for effort reporting is "good faith estimate," the minimum level of effort reporting allowed. Carnegie's effort reporting process requires that effort be reported in monthly percentages, as opposed to daily time sheets, except for hourly employees. Both actual and charged effort is reported. Leave taken is reported as part of the process, and PIs/supervisors must be informed of leave reported during the process. (Note that leave approval is covered separately under the Human Resources policies.) With respect to charges to a particular grant, Carnegie estimates leave costs in the aggregate across a department and charges all grants within the department an appropriate amount.

Each Department determines the work flow such that the standard effort report will be completed monthly by the employee/fellow or PI/supervisor of employee/fellow to assure compliance with the above policies. In general, the Business Manager will manage this process. The departmental steps in this process, and the designation of responsible individuals, will be approved by, and kept by, the Director, Administration and Finance. Business Managers are responsible for informing the Director, Administration and Finance, of any changes.

The general monthly timetable for the submission of the effort distribution data and posting of payroll and indirect cost data to the general ledger is described below. The Institution and its Departments make all reasonable efforts to meet this schedule.

1. The Business Manager and/or a staff person in the business office collects effort reporting data from the PI, individual employee, and/or supervisor in accordance with the procedures established and through a form that meets the above requirements.
2. The Business Manager and/or a staff person in the business office enters the information in Navision, using the standardized effort reporting granule established for this purpose, and informs the Payroll Coordinator of this action. The Business Manager must attest to the accuracy of the data by a signed statement that is provided to the Payroll Coordinator. The target date for completion of this step is within five business days of the end of the preceding month.
3. The Payroll Coordinator, with the support of others in the Accounting Office, reviews the effort reporting data and seeks any necessary clarifications and/or changes from the departmental business office. Once this review is completed and necessary changes are made, including any revised certification, the Payroll Coordinator posts effort and payroll journal entries for the preceding month. The target date for completion of this step is within ten business days of the end of the preceding month.
4. The P Street Accounting Office will notify Business Managers when payroll has been posted. Each Department should then review all data for items such as missing budgets, unrecorded checks, etc. The Business Manager shall then e-mail the P Street Accounting Office providing the go-ahead for the calculation of indirect costs. All indirect costs will be posted by the P Street Accounting Office, who will then e-mail the Departments once posting is completed. Following that step, the Business Office should prepare and distribute monthly expenditure data, including a comparison with the budget, to responsible officials throughout the department. The target date for completion of this step is within 20 business days of the close of the preceding month.

Please see Reporting Monthly Annual and Sick Leave in this section for details on reporting use of annual and sick leave.

### **III. Payroll Withholdings**

#### Federal Income Tax

Federal Income Tax will be withheld from wages in amounts prescribed by the Internal Revenue Service. If a change in dependent status occurs or the employee wishes to change the amount of withholding for any other reason, he/she may do so by submitting a

new Form W-4. All employees who claim exemption from tax are required to submit a new Form W-4 each calendar year.

#### Social Security and Medicare Taxes (FICA)

FICA will be withheld from wages at the rate specified by law. CIW contributes an equal amount for FICA as required by law. In certain cases, an employee in the United States who is a non-resident alien may be exempt from FICA (for details, please see the Human Resources section of this manual).

#### State and Local Income Tax

State and local income tax will be withheld from wages in the amount prescribed by law for employees who are employed in states or other jurisdictions having taxing authority. Calculation of the amount withheld will be based on the laws of the state or jurisdiction of an employee's state of residence. If an employee wishes to change his/her withholding rate for any reason, he/she may do so by submitting the proper state or jurisdictional form.

#### Other Payroll Deductions

Authorization to deduct premiums for insurance and benefit programs is submitted to the Human Resources Office by the Business Manager or other authorized Department personnel. The Human Resources Office forwards the appropriate forms to the Payroll Coordinator (for details, please see the Human Resources section of this manual).

### **IV. Reporting Monthly Paid Leave**

The effort reporting process requires the reporting of any paid leave, including annual and sick leave used during the effort reporting period. Reporting occurs in conjunction with the effort reporting process. All departmental processes for leave reporting are approved by the Director, Administration and Finance, who shall keep a record of the responsible individuals (by category) across the Institution. The Business Manager, or a staff person in the departmental business office, shall enter the data within Navision according to the required formats. Use of paid leave shall be charged to accounts designated by the P Street Accounting Office to accumulate these costs so that they may be charged back to grants proportionally.

### **V. Payroll Direct Deposit**

CIW can electronically deposit an employee's or fellow's payroll disbursement, whether in part or in full, in any bank, savings and loan or credit union that is a member of the National Automated Clearing House Association (NACHA). CIW encourages electronic deposits as they benefit employees, fellows, and the Institution. Employees and fellows

wishing to avail themselves of this benefit should submit to their Department's Business Office (which will then forward to the Human Resources Office) a completed Direct Deposit Authorization Form.

Electronic transfer of payroll deposits through NACHA cannot occur prior to a prenote test with the depositing bank and verification of the bank account and ABA/routing numbers. Therefore, an employee's or fellow's first payroll check after submission of a completed Direct Deposit Authorization Form will not be automatically deposited.

## **VI. Distribution of Payroll Checks**

Paper payroll checks and earnings statements are forwarded to the Business Manager or designated individual at each Department by the Payroll Coordinator. Each Department determines how to proceed with the distribution of payroll checks and earnings statements at the Department. Questions regarding any aspect of payroll should be directed to the Business Manager, who may contact the Payroll Coordinator if necessary. The Institution may revise this process to permit the electronic distribution of earnings statements.

## **VII. Final Payroll Checks**

All final payroll checks will:

1. be processed for the payday immediately following an employee's or fellow's termination
2. include any unused annual leave (employees only)
3. not be released until all CIW property (as defined by the Department) has been returned and all advances to the employee or fellow have been extinguished