

PAYROLL MANUAL



Montana Association of
School Business Officials

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INTRODUCTION

We believe the content of this manual is obtained from reliable sources and we will endeavor to ensure that the content is complete, accurate and timely. Nonetheless, the content may contain errors or omissions. We do not, nor do any of our content providers, warrant or guarantee total accuracy or completeness.

PURPOSE

This Payroll Manual is intended to assist school district clerks or payroll personnel in the payroll process. It is a guide and is not meant to supersede federal or state law, board policy, union agreements, or employee contracts.

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CALENDAR

January

- Before processing any payrolls, update tax tables, EIC tables and Social Security limits.
- Software calendar year-end rollover (depending on vendor).
- By the 28th, electronically file **MONTANA W-2s**, 1099s and MW-3s using the [TransAction Portal \(TAP\)](#). Every employer shall, on or before February 28 of each year, file with the Montana Department of Revenue a wage and tax statement (W-2) for each employee to whom Montana wages were paid, with or without withholding and all forms 1099 with Montana withholding. An Annual Reconciliation Form (MW-3) must be submitted to support the withholding reported on the W-2 and 1099 forms. All forms 1099 without Montana withholding must be accompanied by Federal form 1096.
- By the 31st, W-2's to employee
- By the 31st, 1099's to vendor
- 4th quarter workers compensation and unemployment reports are due. Check your specific provider for exact dates, ie. Montana State Fund, WCRRP, MTSUIP, or private insurer.
- By the 31st, 941 federal 4th quarter report due.
- **File [Form W2](#)**: Mail or electronically file Copy A of Form(s) W-2 and Form W-3 with the Social Security Administration by January 31st.
- **File [Form 1099MISC](#) reporting nonemployee compensation are reported in box 7**. File with the IRS Copy A of all 2016 TIP paper and electronic Forms 1099-MISC that report nonemployee compensation, with Form 1096, Annual Summary and Transmittal of U.S.

Public Law 114-113, Division Q, section 201, requires you to file Form 1099-MISC if you are reporting nonemployee compensation payments in box 7 on or before January 31st, using either paper or electronic filing procedures. For all other reported payments, file Form 1099-MISC by February 28th, if you file on paper, or April 2, 2018, if you file electronically.

February

- **Request a new [Form W4](#) from exempt employees by Feb 15th**
- By February 28th if filing on paper, [1094/1095](#) Forms for large Employers.

March

- March 31—end of first quarter.
- 1094/1095 Forms are due to employees by March 2nd. Employers must file a transmittal (Form 1094) together with copies of all 1095 forms by February 28 (filing on paper) or March 31 (filing electronically).

April

- 1st quarter workers compensation and unemployment reports are due. Check your specific provider for exact dates, ie. Montana State Fund, WCRRP, MTSUIP, or private insurer.
- By the 30th, 941 federal 1st quarter report due.

May

- Prepare for end of school year payrolls, terminations, retirements

June

- Attend MASBO's annual Summer Conference!
- June 30—end of 2nd quarter.
- June 30—end of fiscal year.
- Depending on district procedures, all payroll liability may need to be paid by the end of the fiscal year.

July

- Fiscal year end software rollovers (i.e. leave balances, set up new position funding, set up payroll calendar(s) and pay dates.
- Update rates for MPERA, TRS, workers compensation, unemployment
- 2nd quarter workers compensation and unemployment reports are due. Check your specific provider for exact dates, ie. Montana State Fund, WCRRP, MTSUIP, or private insurer.
- By the 31st, 941 federal 2nd quarter report due.
- Set up for twelve month (year round) employees.

August

- Prepare employee packets for new school year.
- New employee orientation.
- Acquire all documentation necessary to complete payroll set up for school year employees.

September

- September 30—end of 3rd quarter.
- Initial payroll preparation. **(It is extremely important to check accuracy in data entry and to verify totals on your first payroll to avoid perpetuating errors in ensuing payrolls.)**
- Be sure you have CORRECTED any errors you may have found in your initial payroll before processing the next payroll!

October

- 3rd quarter workers compensation and unemployment reports are due. Check your specific provider for exact dates, i.e. Montana State Fund, WCRRP, MTSUIP, or private insurer.
- By the 31st, 941 federal 3rd quarter report due.

November

- This would be a good month to check payroll files, update addresses, etc in preparation for calendar year end.
- Enjoy Thanksgiving!

December

- December 31—end of 4th quarter
- **Request a new Form [MW4](#) from exempt employees before the beginning of the year.**
- End of calendar year. IMPORTANT--Software may require a calendar year backup.
- After final payroll, reconcile quarterly reports for the calendar year with W-2 totals.

* Be sure that you keep and maintain a permanent payroll record for each employee. This could be your calendar or fiscal year payroll journal, a printed copy of W-2's, or some other record which fits the criteria.

APPLICANT PACKET

When an individual applies for employment, an applicant packet is provided. This packet may consist of:

- a letter of interest
- district application form
- resume
- transcripts
- placement file or letters of reference
- certifications
- veteran’s preference form
- EEOC or affirmative action form
- fingerprint background check paperwork
- job description
- request of re-dissemination of background check information

Selected forms will be included in the district permanent files if the applicant is hired. **If the applicant is not hired, the application packet will remain on file for three years and may be destroyed thereafter.**

<p><u>Affirmative Action or EEOC (Equal Employment Opportunity Commission) form</u></p>	<p>Survey required by federal and state law to gather minority information (i.e. ethnicity, age, gender). Immediately upon receipt of the application packet, this survey must be removed and filed separately. This information must not be connected to any individual applicant.</p>
<p><u>Veteran’s Preference form</u></p>	<p>Provides information necessary to implement the Montana Veteran’s Employment Preference Act requirements. MCA 39-29-103</p>
<p>Job Description</p>	<p>A job description provides information on all the essential functions and responsibilities of a job. The purpose of a job description is to 1) identify the job, 2) define it within established parameters, and 3) describe its scope and content. Accurate, concise, and complete job descriptions provide a structure for evaluation and means for ADA compliance and accommodations. MTSBA provides detailed job descriptions for all positions.</p>

EMPLOYMENT PACKET

Business Manager or HR personnel should meet individually with each new employee to review forms and benefits. When an individual is hired, an employment packet is provided. This usually consists of required forms and other district information pertinent to the employee. The packet may include:

- W-4 / MW-4
- I-9
- New hire reporting form (may not need an individual form—software may generate a report)
- Drug Free/Tobacco Free Workplace (may be in Employee Handbook)
- Fingerprinting or background check information
- Employee Handbook
- MTRS or MPERS membership forms
- Insurance forms and plan information
- FLEX forms and plan information
- Master Agreement
- Contract
- Time sheet
- Direct deposit forms
- Code of Ethics
- Job description
- Other deduction forms (403b, Credit Union, Union dues, etc.)
- Electronic Delivery of Employment and Health Plan Notices Agreement

Selected forms will be included in the district employee personnel, payroll or medical permanent files.

Insurance Forms and Booklets	May include health, dental, vision, disability, life and other types of insurance provided by your district. May coincide with FLEX plan forms.
<u>I-9 (Employment Eligibility Verification)</u>	New employees must provide original, appropriate documents from list A and B or C from the I-9 form within 3 business days. Copies of the original documents will be made by the employer for retention.
<u>W-4 / MW4 (Employees Withholding Allowance Certificate)</u>	Employer’s basis for withholding federal and state income taxes. It is recommended that the employee present their original social security card to verify name and social security number. W-4’s are invalid if there are any cross-outs, corrections to, or whiteout areas. They must be un-edited to be considered valid.

<u>New Hire Reporting</u>	Required by law. Form available from the state. Some computer software programs may generate a report for this purpose. Or, you may submit a copy of the W-4, date of hire, employer's EIN, and employer's phone and fax. Forms may be faxed to 1-888-272-1990. This information must be submitted within 20 days of date of hire.
<u>MTRS</u> (New MTRS Member Questionnaire, Substitute Teacher or Part-time Teacher's Aide Membership Election, Record for Membership, Beneficiary Designation)	Instructional employees (teachers, substitute teachers, principals, superintendents, paraprofessionals, counselors, etc.) employed at least 210 hours during the school year must become members of MTRS. Membership eligibility is further defined in the MTRS Summary of Information Booklet. § 19-20-302, MCA. For further information, log on to the website at www.tr.s.mt.gov . Handbooks will be mailed directly to the employee by MTRS.
<u>MPERA</u> (Membership Card, Optional Membership Election, Informational Pamphlet)	Non-instructional employees (bus drivers, cooks, secretaries, business managers, custodians, aides, maintenance personnel, etc.). Employees must be given the opportunity to join at hire, but are required by law to join at 960 hours. If a position is anticipated to exceed 960 hours during the school year, the employee must join when hired. § 19-3-401, MCA. For further information, log on to the website at http://mpera.mt.gov/index.shtml
Flex Plan (Membership or Declination Form)	Many employers offer employees the opportunity to contribute pre-tax dollars to a Flex Plan. This money can be used to pay out-of-pocket expenses for medical, dental, vision, dependent care, and health insurance premiums. Forms and requirements vary with individual district plan documents.
Drug Free/Tobacco Free Workplace	Notification regarding these laws should be provided to the employee in the employee packet or employee handbook. It is recommended that signed acknowledgement of this notification be required by the employer.
<u>Fingerprinting and/or Background and Check Info</u>	May be part of the application packet or employment packet. Consists of an FBI fingerprint card and/or a Request for Re-dissemination of Background Check Information form.
Employee Handbook(s)	Copy of current employee handbook(s) should be provided. Recommended that employees sign-off verifying receipt of handbook(s).
Master Agreement	Any employee covered by a Master Agreement should receive a copy of their respective agreement.
Copy of Contract	Any new employee should receive a copy of their individual contract or whatever document is utilized to define the conditions of employment (may not be available when the employee packet is provided). If your district provides a probationary period, this may be acknowledged within the contract, or the contract may be issued AFTER the successful completion of a probationary period.

Time Sheets/Cards/Clock-In Information	Time sheets/cards and associated procedures (including pay periods, pay dates, due dates, etc.) should be provided to each employee.
Direct Deposit	The employer may provide the option of direct deposit. Employee must submit a voided check with the completed form to participate.
Job Description	A job description provides information on all the essential functions and responsibilities of a job. The purpose of a job description is to 1) identify the job, 2) define it within established parameters, and 3) describe its scope and content. Accurate, concise, and complete job descriptions provide a structure for evaluation and means for ADA compliance and accommodations.
<u>Electronic Delivery of Employment and Health Plan Notices</u>	A document that clearly states it is the employee's responsibility to check email or other electronic means of delivery the district uses as the standard means of notification for required employment information. This is signed and dated by the employee and initialed by the Business Official.

TYPES OF EMPLOYEES

Administrative Employees

Superintendents, Principals and Business Managers/Clerks.

Usually serve in a supervisory capacity and make decisions which affect the management of the District. These are contracted employees, who may have different benefits from other employees. Their work year extends past the regular school year. It is important to use State Wage and Hour law to appropriately categorize these employees for your District. Generally, administrative employees are exempt from overtime. In larger districts, there may be certain supervisory personnel (i.e. maintenance, food service, curriculum supervisors or technology coordinators) who meet criteria for exemption from overtime.

Certified Employees

Teachers, counselors, school nurses librarians, specialists (psychologists, speech therapists, physical therapists).

Certificated personnel are usually contracted for the school year, often under a Master Agreement. They are normally exempt from overtime provisions.

Classified Employees

Administrative assistants, secretaries, custodians, bus drivers, paraprofessionals, aides, food service personnel, crossing guards.

Hourly employees are subject to overtime and may be covered by a Master Agreement. Annual term of employment is determined by job responsibilities (i.e. paraprofessional=school year, custodian=full year).

Substitute Teachers

May or may not be certificated. (Montana law does not require certification for substitutes.) Rate of pay may be hourly or daily and different rates may apply for certified vs. non-certified subs. Licensed long term substitutes, who have substituted in the same position for more than 35 consecutive teaching days, shall be placed under contract.

(ARM 10.55.716)

Substitute, Classified, and Temporary Employees

Anyone employed on an as-needed basis to fill-in for an absent employee or to fill a temporary special need for the District. Temporary employees should be defined in policy to determine eligibility for benefits.

Student Employees

To insure compliance, refer to Montana Child Labor Law for any student employment situations.

A student who is employed by a school and is regularly enrolled and regularly attending classes is excepted from FICA (social Security and Medicare) taxes. See IRC Section 3121(b)(10) (Student FICA Exception).

Full-time students working at and attending the same public school are also excluded from Montana Public Employees Retirement System (MPERA).

Students are exempt from **unemployment** if they are regularly enrolled and regularly attending classes, but not exempt during the summer.

PAYROLL SET UP

Initiate New Employees

Input information from employee packets, contracts or work agreement, including W-4 information, position, salary or hourly wage, deductions/benefits, and leave plans as defined. For ACA reporting purposes make notation if name differs on Social Security Card than employee packet. Establish the payroll funding source (fund and line item) for each position. An individual employee **may** hold more than one position, or have multiple sources of funding for one position.

Update Existing Employees

At the beginning of each contract year, existing employee information, including new or revised funding sources must be updated. It is advisable to establish and maintain a “tickler” file system containing pertinent payroll adjustments for each pay period. Examples: (1) new W-4 to add a flat dollar amount to withholding, (2) an increase to a credit union deduction because of a new loan, (3) adding a new dependent to health insurance, (4) employee eliminating direct deposit of their paycheck or changing financial institution.

Assignment of leave plans, benefits, and deductions

A. Leave plans

Different types of employees are covered by leave plans that are specific to their employment category.

Superintendent	At a minimum, per state law 2-18-601, 2-18-612 MCA. Individual contract may provide additional benefits.
Administrative (certified)	Per individual contracts. Often receives the same benefits as teachers, plus an administrative package.
Administrative (other)	At a minimum, per state law 2-18-601, 2-18-612 MCA. Individual contracts may provide additional benefits.
Certified employees	Per master agreement or individual contracts.
Classified employees	At a minimum, per state law 2-18-601, 2-18-612 MCA and per master agreement, if applicable.

Please see MCA, §2-18-601 and §2-18-612

B. Deductions

Annuity, Tax-sheltered (IRC 403-b)	Contribution is pre-tax (federal and state only). It is a tax-deferred retirement plan available to educational employees, provided by a qualified vendor approved in the district's Plan Document per IRS 2007-71. Employees must provide a Salary Reduction Agreement.
Banks or Credit Unions	Loan payments or savings deposits, as your district allows.
Deferred Compensation Plan (IRC 457 -b)	Contribution is pre-tax (federal and state only). It is a tax-deferred retirement plan available to governmental employees, provided by a qualified vendor. Employees must provide a Salary Reduction Agreement.
FSA (Flexible Spending Arrangements—FLEX plans, IRC 125, Cafeteria Plan)	Contribution is pre-tax (federal, state, Social Security and Medicare). Contributions to medical savings accounts, dependent care accounts, administrative fee, or (possibly life, disability, or medical) insurance premiums as dictated in the plan document. Decisions regarding allowable changes are determined by the district's plan administrator.
Garnishments See DOL Website	Any legal or equitable procedure through which an employee's earnings are required to be withheld to pay off a debt incurred by the employee. Examples: child support, federal and state tax levies, creditor garnishments, and student loans. Each garnishment type has individual rules, regulations, and priority levels. MCA, 25-13-614, authorizes wage attachment. There is no continuous garnishment for employees provided by the Montana Law. The wage exemption statute is identical to the federal exemption statute and the execution writ is good for 120 days.
HSA (Health Savings Account, IRS Section 125)	Contribution is pre-tax (federal, state, Social Security and Medicare). To be eligible for a Health Savings Account, an individual must be covered by a HSA-qualified High Deductible Health Plan (HDHP) and must not be covered by other health insurance that is not an HDHP. Participation in FSA Medical spending plan may disqualify you from participating in an HSA. Qualified deductible limits may change from year to year.
Insurance Premiums (non-FLEX)	Taxable insurance premiums withheld by payroll deduction as allowed by the district, such as health, life, disability, etc.
Taxes, State & Federal	Mandated by law, per federal and state withholding guidelines. Determined by information provided on the W-4 form.
MTRS/MPERS Buybacks	Initiated by the employee to purchase service from their retirement system. Documentation is provided by the appropriate agency.

Union Dues	Union dues will be determined by the union.
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C. Benefits---contributions by the employer & (possibly) employee

FICA (Medicare)	Federal Insurance Contributions Act. Mandated by federal law, with few exceptions, per federal withholding guidelines (Circular E).
FICA (Social Security)	Federal Insurance Contributions Act. Mandated by federal law, with few exceptions, per federal withholding guidelines (Circular E). A maximum wage base is determined each calendar year.
FSA (Flexible Spending Arrangements—FLEX plans, IRC 125, Cafeteria Plan)	Contributions to medical savings accounts, dependent care accounts, administrative fee, or (possibly life, disability, or medical) insurance premiums as dictated in the plan document. Decisions regarding allowable changes are determined by the district’s plan administrator.
HSA (Health Savings Account, IRC 125)	To be eligible for a Health Savings Account, an individual must be covered by a HSA-qualified High Deductible Health Plan (HDHP) and must not be covered by other health insurance that is not an HDHP. Participation in FSA Medical spending plan may disqualify you from participating in an HSA. Qualified deductible limits may change from year to year.
Insurance Premiums (non-FLEX)	Taxable insurance premiums withheld by payroll deduction as allowed by the district, such as health, life, disability, etc.
MPERA (Montana Public Employee Retirement Administration) MTRS (Montana Teachers Retirement System)	Mandated by state law for employees meeting specific criteria as defined by MPERA or MTRS guidelines.

D. Benefits (employer only)

Montana VEBA (Voluntary Employees’ Beneficiary Account) HRA (Health Reimbursement Account)	State of Montana health reimbursement account provided through a qualified vendor. It is a portable pre-retirement and post-retirement health reimbursement plan to enable employers to make tax-free deposits on the employee’s behalf.
Unemployment	State mandated percentage-based employer tax. Schools can participate through the State of Montana or the Montana Schools Unemployment Insurance Program (MTSUIP).
Worker’s Compensation	State mandated percentage based employer tax. Schools can participate through the State of Montana, Workers Compensation Risk Retention Program (WCRRP), or a private insurer. There are two classifications for School district employees— 8868 (professional—clerical, certified, paraprofessionals) and 9101 (other—bus drivers, cooks, custodians, maintenance).

PAYROLL PROCESSING

- ✓ *Establish a tickler or reminder system for changes, additions, deletions pertinent to that pay period. This could be as simple as a pocket folder or file folder for all payroll information or as specific as a file for each month or pay period.*
- ✓ *Create a checklist of your procedures for every payroll. Delineating these items will help avoid omission of important steps. Your individual software vendor should provide step-by-step procedures.*
- ✓ *You may develop spreadsheets for balancing deduction and benefit information.*

Per Payroll Procedure

1. Establish a monthly payroll calendar.

Payrolls can be run at any time necessary to meet your district's needs. Such dates may be established by board policy, employee handbook and/or master agreements. Different employee types and/or job classifications (certified, classified, subs, students, administrative, stipends) may be paid in separate payrolls or grouped for convenience, depending on the size of your district. Included within the payroll calendar should be the pay periods (established starting and ending dates), due date for time cards or time sheets, and payday. For example, the starting and ending date for Sample A School classified employee is March 1-31, due date for time sheets is April 1st, and payday is April 10th. Sample B School starting date is be March 11-April 10, due date for time sheets is April 11th, and payday is April 20th.

2. After the due date, gather, review and tabulate time sheets and/or time cards.

Review and check time sheets for calculation errors, documented leave time, signatures (employee AND supervisor). Ensure hourly limits for ACA, TRS and MPERA enrollment are not exceeded.

3. Input payroll data into your software program.

Payroll processors are encouraged to give themselves an adequate amount of time for this process to allow for unforeseen problems or circumstances. By minimizing stress, you can optimize performance.

4. Overtime

Determine overtime payments for this payroll. Review time sheets or time cards for hours worked in excess of 40 in a work week (work week determined by district policy). Calculate excess hours at a rate of not less than 1.5 times the employees' hourly wage rate. This is the minimum standard. Master Agreements may exceed these standards. 39-3-405, MCA or Wage Hour Laws of the State of Montana from the Department of Labor and Industry Employment Relations Division.

5. Two positions/different wage rates

Employees may hold more than one position at different rates of pay. Special calculations are required to determine the proper overtime hourly rate for these employees.

Overtime Calculation for Different Rates of Pay (U.S. Department of Labor)

An employee paid by the hour must be paid at a rate of one and one-half that rate for all hours worked over 40 per week.

Employees who perform different types of work for which they receive varying rates of pay must be paid overtime at a weighted average hourly rate.

EXAMPLE: One week an employee works 36 hours entering data into the computer data base for which \$7.60 per hour is paid. The employee then spends 6 hours preparing payroll for which \$8 per hour is paid. This same worker performs janitorial services in the evenings for the employer and is paid \$6 per hour for those 4 hours worked per week. The wages are computed as follows:

*36 hours x \$7.60 per hour = \$273.60
6 hours x \$8.00 per hour = \$ 48.00
4 hours x \$6.00 per hour = \$ 24.00
46 hours worked = \$345.60 regular earnings*

*\$345.60 ÷ 46 hours = regular rate = \$7.51 per hour
\$7.51 ÷ 2 = ½ time rate = \$3.76 per hour
\$3.76 x 6 overtime hours = \$22.56 overtime earnings*

*\$345.60
\$ 22.56
\$368.16 total due*

The regular rate of an employee paid on a commission, piece rate or flat book rate basis is arrived at by dividing the total weekly earnings by the total number of hours actually worked in the week. The employee is entitled to payment of one-half this regular rate for each hour worked over 40 - in addition to the full commission or piecework earnings.

EXAMPLE: Ann works 45½ hours and earns \$325. Her regular rate is \$7.15 per hour (\$325 divided by 45½ hours). She is entitled to her regular earnings (\$325) plus an additional half of her regular rate of \$3.58 for each hour worked over 40. In this case, she is due an additional \$19.69 or a total of \$344.69 for that workweek.

An employee paid on a salary basis is entitled to overtime pay at a rate that is based in part on the terms of employment.

***Holiday pay, sick leave, and vacation hours do not count toward the 40 hours.*

6. Stipends

Stipends paid to classified personnel are treated differently than those paid to certified staff because certified staff is exempt from overtime and minimum wage provisions.

- You must make certain that a classified employee is paid at least minimum wage for the hours worked for the stipend. (Time sheet documentation is best.)
- You must make certain that a classified employee is paid overtime if the hours worked for the regular job and the stipend exceed 40 in one work week.
- If overtime is earned, an hourly rate must be determined for the stipend and overtime pay calculation must be done per the example cited above.

When stipends are paid to an employee in addition to regular wages, it is required by law that taxes be calculated on the TOTAL taxable income. (E.g., the employee's regular taxable wages = \$2,000 and the employee's stipend = \$1,000; therefore, the taxable income is \$3,000 and taxes must be withheld accordingly.) Refer to American Payroll Association Basic Payroll Guide.

7. Input leave data for types of leave requiring record keeping.

Such as sick, vacation, discretionary, personal, bereavement, professional or those specified by your district.

8. Print payroll reports for balancing.

Examples could be a payroll register, payroll deduction report, payroll journal totals, or something similar.

9. Balancing your payroll.

Suggestions or examples of ways to balance your payroll:

- a. Make sure your gross wages are in balance. You might run a tape totaling wages on time sheets and matching it to your gross wages on your payroll report.
- b. Compare payroll journal totals from pay period to pay period to determine and verify differences.
- c. Develop spreadsheets for deductions, benefits and wage basis calculations to compare to payroll deduction report. These are only suggestions. You may develop your own methods to verify your payroll. Your auditor may also provide suggestions or templates for your use.

10. Make any necessary corrections.

After making any necessary corrections, print a final, clean copy of payroll reports for final recordkeeping. These reports are kept forever.

11. Finalize payroll and print payroll checks and direct deposit receipts.

Finalizing payroll may involve an actual posting step or may be an automatic process in your payroll software. This step usually includes updating employee and employer year to date (YTD), fiscal year to date (FYTD) and quarterly (QTD) information. Make sure you complete writing your payroll checks, print a check register, print direct deposit receipts, and/or create an ACH file.

12. Transmit direct deposit file to bank and print the direct deposit report.

Transmittal of the direct deposit can be done via modem, internet, or hand delivery of a check to the financial institution(s). Some districts may not offer direct deposit. Notify the county treasurer of the amount and date of deposit.

After-Payroll Procedure

After-payroll payments consist of employee deductions withheld from wages and/or employer contributions for benefits. Payment may be made by check submitted with a payment coupon or electronic transfer using the Electronic Federal Tax Payment System (EFTPS) by phone or internet.

1. Federal taxes

The determination of an employers' tax liability classification (monthly or semi-weekly deposit schedules) is made by the IRS and mailed to you during the last quarter of the year for the ensuing year. An employer's classification is determined by its' employment tax liability during a prior "look back" period. This period is the previous year ending June 30th. It is very important for every payroll manager to be aware of your district's tax deposit schedule so taxes are paid in a timely manner as mandated by the IRS. Refer to IRS Publication 15, Circular E for information. Federal tax deposits must be made by electronic funds transfer (EFT). If applicable, notify the county treasurer of the amount and date of the payment.

- Federal tax withholding (including any additional dollar amount requested on a W-4 by the employee)
- Social Security(FICA)
- Medicare

2. State taxes

Your payment schedule for state taxes is determined by the State of Montana and mailed to you in the fall for the ensuing calendar year. It may be monthly, quarterly, accelerated, or annual. Accelerated payers follow the federal guidelines for deposits. Submit check with payment coupon or notify the county treasurer of the amount and date of payment when paying electronically.

3. Garnishment, tax levy, child support, student loan withholding order

Follow the guidelines provided with the individual garnishment you receive. All have specific requirements unique to them. Garnishments are processed first by order of precedence, and then by order received. In Montana, the order of precedence is: 1) IRS Tax Levy, 2) Student Loans, 3) State tax levies and other creditor garnishments. If the employee also has a Child Support Order to withhold, it has priority over garnishments (the Child Support obligation is also taken into consideration when calculating IRS levies). Be sure to appropriately identify the garnishment with a case number or other reference number.

4. FLEX

Submit payments with detailed report or bill to the FLEX plan administrator.

5. Credit Union or financial institution

Submit payment with a detailed report, including employees' name, ID number and amount paid.

6. Union Dues

Submit payment with a report including employees' name and amount paid.

Monthly Payroll Procedures

1. MTRS and buybacks

Refer to the Montana Teachers' Retirement System Employers' Manual for detailed information. Complete the MTRS report via MTRS On-Line. Print total contributions summary screen and submit the payment via ACH. Notify the county treasurer of the amount and date of payment.

2. MPERA and buybacks

Refer to the MPERA Reporting Handbook for Employers: <http://mpera.mt.gov> . Complete the PERIS report online. Submit the payment via ACH. Notify the county treasurer of the amount and date of payment. (MPERA reporting will be done per your payroll schedule set up with MPERA) See MPERA website for up to date announcements.

3. Health , life, dental, vision, or disability insurance

Reconcile the payment to the bill. Make necessary adjustments and notations to the bill. Submit payment.

4. Annuity/403(b), 457, Roth

Submit payment with bill or a detailed report including employees' name, identifying number and amount paid.

Quarterly Payroll Procedures

1st quarter—January, February, March

2nd quarter—April, May, June

3rd quarter—July, August, September

4th quarter—October, November, December

1. 941 Federal (Form 941)

Submit quarterly on paper. Follow instructions provided with the form. Pay particular attention to recording the correct liability dates on Schedule B, if applicable. Refer to IRS Publication 15, Circular E to determine your specific deposit schedule (semi-weekly, monthly, or quarterly depending on your total deposits for the look-back period). Note quarterly filing deadline.

2. Unemployment

These checks may be written each pay period or quarter through your payroll system, or processed as an accounts payable claim. Unemployment insurance may be purchased through the State of Montana or Montana Schools Unemployment Insurance Program (MTSUIP). Be sure to meet reporting deadlines in order to maintain coverage.

3. Worker's Compensation

These checks may be written each pay period or quarter through your payroll system, or processed as an accounts payable claim. Worker's compensation insurance may be purchased through a private provider, the State of Montana, or the Worker's Compensation Risk Retention Program (WCRRP). Be sure to meet reporting deadlines in order to maintain coverage.

Annual Payroll Procedures

1. W-2 Forms

This Wage and Tax Statement is required by the Social Security Administration, IRS, and the Montana Department of Revenue. You must furnish a form W-2 annually to **each** employee ([see IRS “Instructions for Forms W-2 and W-3](#), Cat. No. 25979S).

- Prior to printing W-2’s, print W-2 reconciliation report. Compare with quarterly reports or balancing spreadsheets to verify totals.
 - An exception to wage totals balancing with quarterly reports might be W-2(s) issued to an employee for a third party payer (insurance company or employee’s trust) when the liability has been transferred to the employer.
- Check to be sure that W-2 boxes 7-14 are identified properly, amounts reported correctly, and taxed appropriately. In particular, check to be sure that advanced EIC payments are identified correctly on the W-2.
- Do not print final W-2’s until you are confident that all totals are accurate and verified.

Generally the deadlines for filing are:

- Paper copy to employees—January 31st
- Magnetic media (required for 250 or more) or paper to SSA—Jan 31st
- Electronic filing (via internet) to SSA -- Jan 31st

2. Transmittal Forms

- [W-3](#) Required Federal transmittal form if you are filing paper W-2’s.
- [MW-3](#) Required State transmittal form for all W-2’s and 1099’s.

3. 1099 Form This is not technically a payroll form since it is derived from accounts payable or claims information. This form is issued to a non-incorporated individual, partnership, or business (independent contractor) for payment of services rendered for \$600 or more. Prior to paying for services rendered, determine eligibility using the “reasonable basis” test reference in Circular E. The transmittal on the State level is the MW-3 which is also used to transmit W-2’s to the Montana Department of Revenue. However, if no taxes are withheld, a copy does not have to be sent to the State of Montana.

4. 1094/1095 Forms: Large employers (with 50+ full-time equivalent employees) have a requirement to report information about their full-time employees, their offer of coverage, and coverage received during the calendar year using Forms 1094 and 1095. The forms are due to employees by March 2nd, and to the IRS by February 28th if filing on paper, or by March 31st if filing electronically (as required for groups with 250 or more forms). Additional information:

<https://www.irs.gov/affordable-care-act/questions-and-answers-about-health-care-information-forms-for-individuals>

Final Pay Procedures

1. Termination pay (severance of employment)

Administrative/Superintendent/Classified personnel—must have met minimums prescribed by state law.

- 100% of accrued vacation hours are paid out at the current hourly wage.
- 25% of accrued sick hours are paid out at the current hourly wage.
- The Master Agreement, individual contract, or board policy may grant additional severance benefit(s).
Administrative/Principals/Certified personnel
- Severance benefit(s) determined by the Master Agreement, individual contract, or board policy.

2. Employer Terminated

Montana Law requires that employer terminated employees must receive final pay immediately unless written policy states that employees terminated will be paid in the same manner as employees who quit (earlier of next regular pay day or 15 calendar days from separation).

3. Payment to Deceased

Contact the family to ascertain who the estate or beneficiary contact is and open lines of communication with this individual.

If an uncashed paycheck exists, a new check should be issued in the name of the estate or beneficiary in the same amount with the same amounts withheld for tax purposes.

If wages are still owed to the deceased employee at time of death, issue a check made to the beneficiary or to the estate of the employee. Final wages paid within the same calendar year in which the employee died are not subject to Federal Income Tax Withholding (FWH), but final wages are subject to Federal Insurance Contributions Act (FICA) taxes. If wages are paid in the year following the employee's death, they are not subject to either FWH or FICA taxes.

Treat accrued vacation, sick, and other leave in accordance with state law, collective bargaining, or negotiated agreement.

Terminate health insurance as of the date of death. If the employee had a spouse and/or dependents enrolled in the health insurance plan, notify them of their option to elect COBRA coverage. Determine the balance of the health care flexible spending account prior to date of death and notify the family about the process to access these funds

Notify beneficiaries of any life insurance policies that may available.

Follow the normal termination process to ensure the return of all equipment, keys, fobs, credit cards and other items are returned.

4. COBRA

Required of employers providing a group health insurance plan with some specific exceptions for very small employers. Carefully review COBRA information to determine if COBRA applies to your district. If you are a COBRA employer, separating employees need to be offered coverage for 18 or 36 months. **Contact your health insurance provider.**

COBRA may also apply to your medical spending account (FLEX). **Contact your flexible benefits provider regarding your plan and COBRA.**

5. Retirement

MTRS (Teachers Retirement System)

- Pay calculation will be based on which option (1,2 or 3) the employee has selected.
- Option 2 must be completed and filed 90 days in advance of their last day of work prior to retirement.
- Master Agreement, individual contract, board policy or individual incentive authorized by the Board of Trustees may determine retirement severance payment.

Types of Leaves (according to established pay period calendar)

1. Bereavement

Classified or certified employees may be granted this leave per the master agreement, individual contract, or board policy.

2. Discretionary (personal, paid time off [PTO])

Classified or certified employees may be granted this leave per the master agreement, individual contract, or board policy.

3. Extended Leave of Absence

This leave may fall under FMLA or be further defined in the master agreement, individual contract, or board policy.

4. [FMLA—Family Medical Leave Act \(Federal law\)](#)

Schools are covered under the special rules of 29 CFR 825.600, which states that all educational institutions are covered by FMLA, and the 50-employee coverage test does not apply. The usual requirements for employees to be “eligible” do apply, however, including employment at a worksite where at least 50 employees are employed within a 75 mile radius. **Essentially, all schools are covered under the law, but small schools would have no eligible employees because they employ less than 50 people.**

Three criteria must be met for the employee to be eligible to receive this leave:

- The employer must employ at least 50 employees within a 75 mile radius.
- Your employee must have been employed for at least 12 months. District policy should state what time frames constitute the 12 month period.
- Your employee must have worked at least 1,250 hours during the year preceding the start of the leave.

Depending on district policy, sick leave and/or worker’s compensation leave may run concurrently with FMLA.

5. Jury Duty

Classified or certified employees are granted this leave per Montana law (MCA, 2-18- 619). It may be further defined in the master agreement, an individual contract, or board policy.

6. Leave Without Pay

Absence during regularly scheduled work time not covered with paid leave, resulting in zero hourly wage or wage reduction. See your district policy.

7. Maternity/Paternity Leave

This leave may fall under FMLA or be further defined in the master agreement, individual contract, or board policy.

8. Military Leave

See Montana law 10-1-1009. This leave may be further defined in the master agreement, individual contract, or board policy.

9. Sick Leave

- Classified employees earn sick leave on the basis of time worked per MCA 2-18-618. This leave is earned from the first day of employment, but cannot be used until the employee has worked ninety (90) days.
- Certified employees acquire sick leave per the master agreement, individual contract, or board policy.

10. Vacation Leave

Classified employees, and District Superintendents, only are eligible for this leave. It is earned on the basis of time worked per MCA 2-18-611-612. This leave is earned from the first day of employment, but cannot be used until the employee has been continuously employed for a period of six calendar months.

Certified employees may be granted this leave per the master agreement, individual contract, or board policy.

RECORDS MAINTENANCE AND RETENTION

Records Maintenance

This is a suggested organizational model. Files should be kept locked with limited access. Districts should develop procedures for file access. Files could be maintained in a number of ways. Some examples might be: by type (W-4 file, I-9 file, health insurance enrollment form file, monthly time sheets), payroll date (alphabetized time cards/sheets, reconciliation sheets), or by individual employee.

1. Personnel file

Original application (with EEOC survey removed and placed in separate file), transcripts*, certification (licenses, CPR/first aid, teaching certificate, paraprofessional certificate), placement file, original contracts, evaluations, disciplinary or commendation letters, fingerprint/background check report, extended leave of absence requests (if no medical information is provided), change of job assignment, hours or pay, signed acknowledgement of Employee Handbook and other key policies. (*Birth date information is sensitive due to the possibility of age discrimination claims, so access by authorized personnel *only* is critical. Federal law for age discrimination pertains to age 40 and older, but Montana law has no limit on age discrimination.)

2. Payroll file

W-4 / MW-4, MPERS/MTRS membership forms, time cards/sheets, copy of the contract, New Hire Reporting Form, garnishments, child support agreement or garnishment, payroll deduction forms. FLEX, health insurance enrollment forms, family medical leave act requests, and leave request forms can be included if they contain **no** medical information.

3. Health file

Medical release to work, worker's compensation injury form and related information, ADA accommodation, veteran's preference form, and TB test results. FLEX, health insurance enrollment, Family Medical Leave Act (FMLA) request, and leave request forms must be included if they contain **any** medical information (HIPAA). These files should be kept in a separate filing cabinet with a separate key from all other payroll/personnel records.

4. I-9 File

A separate I-9 file is recommended to restrict information provided for a Federal audit. Limiting access may make the process more efficient and less problematic. Refer to www.uscis.gov/portal/site/uscis for the most current I-9.

5. Payroll journals

File chronologically by pay period for each fiscal or calendar year. These are a permanent record.

Records Retention

Refer to [Schedule No. 7, Montana Local Government Retention and Disposition Schedule](#), sections SDR VIII and IX located on the MASBO, OPI or Secretary of State Websites.

Adopted 1/30/2007 – Revised June 2017 – UPDATED JUNE 2019

AUDIT PREPARATION

Prior to on-site audit work, send the following to your auditor and/or other information as requested.

- Compensated absences liability report. An Excel spreadsheet template is available on the OPI website. Some auditors may provide their own template. This report is utilized to calculate the fiscal year-end liability for compensable leaves (sick, vacation, etc.). It may include severance payouts unique to your district. It includes calculation of applicable benefits for FICA, MTRS or MPERS, Unemployment, and Workers Compensation.
- State and Federal payroll reports including: monthly MPERS and MTRS; quarterly 941, unemployment and workers compensation; annual state tax, and W-2 summary information.
- Approved salary schedules for classified and certified employees (may include Master Agreements).
- Schedule of MTRS and MPERS wages and employer/employee contributions by month and annual reconciliation to the 1XX and 2XX expenditure object codes.

Available for auditor's on-site review.

- Payroll registers or journals.
- Time cards/sheets.
- Employee leave records.
- Individual employee payroll information (i.e. contracts, I-9, W-4, wage rate, deduction/benefit information). Employees paid from Federal programs may be subject to more detailed scrutiny.
- Support documentation which substantiates your payroll deduction expenditures.

The auditor may request specific payroll records for individual employees, programs and/or certain deductions, or certain pay periods. Be sure that your payroll records and files are in order prior to the arrival of the auditor!

RESOURCES AND REFERENCES

Booklets, manuals, references

American Payroll Association Basic Guide to Payroll, Aspen Publishers, published annually.

IRS Publications

Publication 15 (Circular E)

SSA/IRS Reporter (Quarterly Newsletter)

IRS Cat. No. 25979S, "Instructions for Forms W-2 and W-3"

Montana State Withholding Tax Guide, Montana Department of Revenue, Helena, MT.

Montana Teachers' Retirement System Employers Manual, Montana Teacher's Retirement System, State of Montana, Helena, MT

Public Employees' Retirement Division Reporting Handbook, Montana Public Employee Retirement Administration, State of Montana, Helena, MT.

School Laws of Montana, Montana Office of Public Instruction, Helena, MT, published bi-annually.

Wage Hour Laws of the State of Montana, Department of Labor & Industry, Employment Relations Division, State of Montana, Helena, MT, published bi-annually.

District documents--

Board Policy

Collective bargaining agreements (Master Agreements)

Health insurance plan document and summary plan description

Individual contracts

IRS 125 (FLEX) plan document

Salary schedules

WEBSITES

Association of School Business Officials International (ASBO)
<http://asbointl.org/>

American Payroll Association
<http://www.americanpayroll.org/>

Federal/FICA Tax Electronic Fund Transfer
<http://www.eftps.gov/>

Internal Revenue Service
<http://www.irs.gov/>

Montana Administrative Rules
<http://sos.mt.gov/arm>

Montana Association of School Business Officials (MASBO)
<https://masbo.com>

Montana Constitution and Laws
<http://leg.mt.gov/bills/mca/index.html>

Montana Department of Health and Human Services - Child Support
<http://www.dphhs.mt.gov/> and <http://dphhs.mt.gov/CSED>

Montana Department of Labor & Industry - Labor Standards and State Workers' Compensation
<http://erd.dli.mt.gov/>

Montana Department of Labor & Industry - State Unemployment
<http://uid.dli.mt.gov/>

Montana Department of Labor & Industry – Wage & Hour
www.mtwagehourbopa.com

Montana Department of Revenue
<http://revenue.mt.gov/>

Montana Office of Public Instruction
<http://www.opi.mt.gov/>

Montana Public Employees Retirement System
<http://mpera.mt.gov/>

Montana Secretary of State

<http://sos.mt.gov>

Montana Teacher's Retirement

<http://www.trs.mt.gov>

Montana Voluntary Employees' Beneficiary Association (VEBA)

<http://www.montanaveba.org/>

Montana Withholding Tax – Business Tax Express

<https://app.mt.gov/bustax>

Social Security BSO for electronically submitting W-2 forms

<https://www.ssa.gov/employer/>

U.S. Department of Labor - Family and Medical Leave Act

<http://www.dol.gov/whd/fmla/>

GLOSSARY

ACH—Automated Clearing House
ARM—Administrative Rules of Montana
COBRA—Consolidated Omnibus Budget Reconciliation Act
DOL—Department of Labor
EEOC—Equal Employment Opportunity Commission
EFTPS—Electronic Federal Tax Payment
EIC—Earned Income Credit
FICA—Federal Insurance Contributions Act
FMLA—Family Medical Leave Act
FSA—Flexible Spending Arrangement
FYTD—Fiscal Year to Date
HIPAA—Health Insurance Portability and Accountability Act
HR—Human Resources
HSA—Health Savings Account
I-9—Employment Eligibility Verification
INS—Immigration and Naturalization Service
MCA—Montana Code Annotated
MDR—Montana Department of Revenue
MPERS—Montana Public Employees’ Retirement System
MTSUIP—Montana Schools Unemployment Insurance Program
MTRS—Montana Teachers’ Retirement System
MW-4 - Montana Employee’s Withholding Allowance and Exemption Certificate
QTD—Quarterly
SSA—Social Security Administration
VEBA—Voluntary Employees’ Beneficiary Account
W-2—Employees Withholding Allowance Certificate
W-4 - Employee’s Withholding Allowance Certificate
W-5—Earned Income Credit
WCRRP—Workers Compensation Risk Retention Report
YTD—Year to Date

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