

AVOID THE PITFALLS OF OUTSOURCING PAYROLL

by Lisa Ritter, CPA

Earlier this year, a payroll company serving clients in Pennsylvania* announced with little notice that it would be discontinuing operations. The company was no longer able to hide the fact that it had been collecting funds from clients and not remitting to the taxing authorities. Ultimately, the party responsible for the deposit and payment of federal tax liabilities is the employer. This means that clients of the payroll company will be held liable for any payments not made, as well as for the penalties and interest due that have accrued. In certain cases, the employer could be held personally liable for unpaid federal taxes.

Substantial penalties are charged for not filing timely payroll tax returns and making late payments in addition to the interest charged on late or unpaid taxes. These are cash outlays organizations can ill afford.

Employers need to protect themselves when outsourcing payroll by ensuring the address of record with the Internal Revenue Service (IRS) is the employer, not the payroll provider. The IRS will send a notice concerning any issues or problems with the account to the address of record.

If a notice is received, the employer should have procedures in place that instruct staff receiving the notice to inform management of the issue immediately. The employer should then contact the IRS as soon as possible by calling the number on the notice, writing to the IRS office that sent the notice, calling 1-800-829-4933, or visiting a local IRS office.

A record of all correspondence with the IRS should be maintained regarding all notices. The badge number of any IRS employee contacted by telephone should also be retained.

Not taking the appropriate actions or deciding to ignore IRS correspondence all together could not only result in penalties on top of payments due, but could also result in the IRS seizing the organization's assets in order to settle the debt.

To prevent problems, any organization that is using a payroll service provider should utilize the Electronic Federal Tax Payment System (EFTPS).

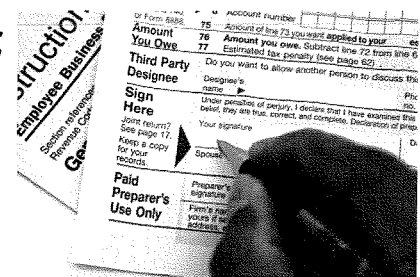


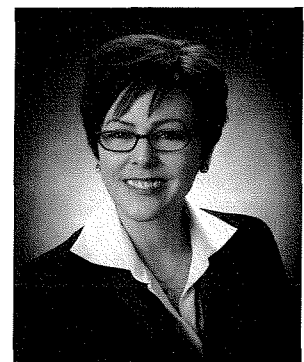
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This free service provides immediate confirmation of each transaction made on the employer's behalf and will allow the employer to see if their provider is missing or making late payments. This will alert the employer to any abnormal payroll provider activity as soon as possible. To enroll in EFTPS call 800-555-4477 or enroll online at <https://www.eftps.gov>.

When selecting a payroll service provider or making a decision about retaining one, consider obtaining a service auditor's report prepared in accordance with Statement on Auditing Standards No. 70. (SAS 70). The report name changes after June 15, 2011. Request a report in accordance with Statement on Standards for Attestation Engagements No.16 (SSAE 16) when requesting the report for periods ending on or after June 15, 2011. SAS 70 and SSAE 16 reports, which can be referred to as Service Organization Control (SOC) Reports, provide specific information about the safety and integrity of service provider systems and related controls and can assist employers in making a decision about the appropriate payroll provider to select or retain. The reports are generally issued and available each year from the payroll provider upon request. When utilizing a payroll provider that does not have an SOC Report available, consider obtaining written documentation about systems and controls from the provider.

Outsourcing payroll can be less expensive than completing the related tasks in-house, while allowing employees to focus on other more productive tasks. If appropriate policies and procedures are put in place, outsourcing payroll can be a good choice for many employers.

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*Net Pay Payroll Solutions is the company referenced by the author.