

Building an Efficient Payroll Process for Small and Medium Size Businesses

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Your employees must be paid accurately and on time, every time. A dependable payroll system is vital to your business's success. Achieving this requires an efficient payroll process that ensures compliance with regulations while delivering reliable service every pay period.

For small and medium-sized businesses, payroll can be a complex challenge. As your business grows, your payroll processes must evolve to keep pace with your expanding needs. This



eBook is designed to help you streamline your payroll operations, saving time, minimizing errors, and ensuring compliance. Discover practical strategies to improve your payroll process and support your business's success.

Why Does Efficient Payroll Matter?

Payroll processes are often overlooked and viewed as a necessary but tedious task. While it's understood that payroll is essential, it's often seen as a time-consuming chore that must be completed to focus on the "real" work of serving clients and customers. As a result, payroll can become neglected, leading to inefficiencies, duplicate workflows, overpayments, and avoidable errors.

The reality is that payroll is one of the most critical processes in any organization. Employees expect it to be accurate and on time, every time. A single payroll error or delay can immediately impact employee satisfaction. In fact, after just two payroll errors, **49% of employees start to look for a new job.**

Accurate and timely payroll isn't just crucial for employee satisfaction—it also directly

impacts your business operations. With payroll accounting for up to 30% of total operating costs, errors or delays can disrupt your organization's budget and cash flow, leading to broader financial challenges.

Common Payroll Pitfalls

Mismanaged payroll processes often result in costly errors. Here are some of the most common pitfalls faced by small to medium-sized businesses:

- Miscalculating pay leading to over or under-paying
- Missing the first paycheck for new hires
- Not reporting all forms of taxable income
- Not accurately tracking employee hours and overtime
- Incorrect, inaccurate, or missing W-2s

- Incorrect payroll deductions
- Missing or misprocessing wage garnishments
- Misclassification of employees
- Missing deadlines
- Being non-compliant with federal, state, and/or local payroll regulations

Setting Up a Solid Foundation

In basketball, even at the professional level, coaches emphasize the importance of mastering the basics. Simple skills like dribbling and passing are drilled into players, even those earning millions each season because these fundamentals provide the solid foundation they need to succeed. Without a strong grasp of the basics, players can't effectively focus on more advanced strategies and techniques.

Start with Compliance

Just like in sports how they start with the fundamentals, your payroll has to start with the fundamentals. If you skip this step, your payroll processes won't have a solid foundation to grow from, and when you run into issues later, there's a chance that you won't have your fundamentals to fall back on.

The first payroll fundamental that serves as the foundation of all your practices going forward is compliance. The payroll industry is heavily regulated by federal, state, and local legislation. You are required to understand, follow, and remain in compliance with all relevant legislation.

Federal regulations you need to be aware of can include:

- [The Fair Labor Standards Act \(FLSA\)](#)
- [The Family Medical and Leave Act \(FMLA\)](#)
- [The Employee Retirement Income Security Act \(ERISA\)](#)
- [The Affordable Care Act \(ACA\)](#)
- [The Consumer Credit Protection Act \(CCPA\)](#)

In addition to federal regulations, each state has its own laws and regulations that you need to be aware of. When setting up your payroll processes, it's crucial to research state and local laws to ensure compliance with any additional requirements. It's also important to remember that if you have remote workers, especially those working in different cities or states, tax laws are generally applied based on where the work is performed. For example, if your company is based in Kansas but you have a remote employee working in Maine, you must comply with Maine's payroll, labor, and tax regulations.

By starting your processes based on compliance, you are starting in the right direction. Non-compliance can lead to fines, fees, and legal consequences. In some cases, you may even face prison time for refusing to comply with regulations. By making compliance your bare minimum foundation, you can rest assured moving forward that you won't have to deal with non-compliance issues.



Establish Payroll Policies

The second payroll fundamental is establishing all of your payroll policies. By taking the time to establish the processes, policies, rules, and guidelines early, you are setting yourself up for success in the future.

Some questions you can consider when establishing these policies can include:

- How long is a pay period? When do they start and end?
- When are timesheets submitted and when is the last date they can be modified?
- What is the process for fixing a payroll error before the employee is paid?
- What is the process for fixing a payroll error after the employee is paid?
- How is overtime approved and processed?
- How is PTO approved and processed?
- How are hours tracked and recorded?
- Do salaried employees need to track their hours worked?
- How do remote employees track and report their hours worked?
- When onboarding a new employee, which processes are automated, and which need manual input?

Setting aside the time to tackle these questions and concerns early, helps you establish a well-rounded payroll process that is prepared for the most common issues and questions. By having a bigger vision from day one, you can avoid being too rigid and being unable to provide key payroll functions.

Streamline and Automate Your Payroll Processes

After you establish a solid payroll foundation, you can then move on to making sure everything is working like a well-oiled machine. Optimizing your payroll processes starts with choosing the right payroll system, continues with leveraging automation where possible, and then finishes with creating a complete map of your payroll processes to better streamline your remaining processes.

Choose the Right Payroll System

Before you can try to optimize your payroll processes, you have to find the best payroll system for your needs. The first choice you need to make is deciding between an in-house or outsourced system. To find the best solution for you, consider the pros and cons of [both in-house payroll and outsourcing your payroll](#).



In-House Payroll

Pros

Full control and ownership of the payroll process: Managing payroll in-house allows you to oversee every step, ensuring it operates exactly as you want. This level of control gives you complete ownership and the ability to micromanage as needed.

Leverage your team's expertise: If you have a payroll expert on your team, tapping into their knowledge is a smart move. Utilizing existing resources can be more efficient and cost-effective than seeking external solutions.



Cons

High costs of building an in-house payroll team: Managing payroll in-house can be expensive, especially as the complexities of hybrid and remote work increase. Small and medium-sized businesses often need to navigate multi-state tax code compliance, which requires a team of specialized experts—an investment that can be prohibitively costly to establish and maintain.

The risks of non-compliance: Payroll compliance is non-negotiable, and errors can lead to severe consequences. Running payroll in-house makes your business accountable for adhering to all federal, state, and local regulations. Non-compliance can result in hefty fines, legal actions, damage to your reputation, and, in extreme cases, even imprisonment.

Significant time demands: In-house payroll can quickly become a time drain. As your company grows, your payroll needs often scale exponentially. Hybrid and remote work alone can double the time required for payroll per employee. Add to that end-of-year reporting, tax withholdings, and multi-state compliance, and the time and resources needed to manage payroll correctly can overwhelm your team.

Outsourced Payroll

Pros

Consistency and reliability: Outsourcing payroll ensures accuracy and timeliness. With the right payroll partner, you can trust that payroll will be completed correctly, every time.

Guaranteed compliance: An outsourced payroll provider takes full responsibility for regulatory compliance, ensuring your business adheres to all federal, state, and local laws. This eliminates the stress and risks associated with managing compliance in-house.

Access to a team of experts: Outsourced payroll providers are staffed with experienced professionals who specialize exclusively in payroll. Their deep expertise and industry knowledge become an invaluable resource for your business.

Cost-effectiveness: For small and medium-sized businesses on tight budgets, outsourcing payroll is a smart choice. It delivers the benefits of a fully staffed payroll team without the high costs of salaries, benefits, and training, making it a budget-friendly solution with maximum impact.

Cons

Payroll partner takes full ownership of the process: When you outsource payroll, your payroll partner takes full ownership of the process. While this means you're no longer responsible for correcting errors, it also means you relinquish direct control over the finer details of your payroll processes. This can be a benefit for businesses seeking to offload the administrative burden but may require trust in your provider's ability to manage the process efficiently.



Leverage Automation

Automation allows you to leverage digital resources to supplement your manual processes. It saves you time while ensuring that key tasks are done accurately and consistently.

Tasks that you can automate to help make your payroll processes more efficient include:

- Automated time tracking and reporting
- Payroll calculations
- Tax filing
- Direct deposits

Establish Efficient Workflow Processes

As a final step to building your payroll processes, consider the remaining processes and how you will streamline them.

Start by mapping the entire payroll cycle with a detailed payroll calendar. This will provide a comprehensive overview of the processes involved and outline the necessary steps to ensure payroll is completed accurately and on time.

Your payroll calendar should focus on the repetitive tasks that are necessary to ensure payroll is processed each pay period, but it should also include [the annual and quarterly deadlines for filing and reporting payroll taxes](#). Once those dates are on your calendar, determine who is responsible for filling out and submitting the quarterly federal tax return report ([Form 941](#)) and the work they need to do for each project.

By creating a comprehensive payroll map and calendar, you'll gain a clearer view of which processes can be streamlined and where potential bottlenecks may arise. This will also

help you maintain data accuracy throughout each step of the process.

Continue to Improve Your Payroll

With your payroll foundation and structure built, now you can finally start to focus on some of the additional details. These details can help optimize and improve employee satisfaction, but because they're not core processes, there is no need to worry about them until after you have a functioning payroll program.

Perform Random Audits

We all know that we should go to the doctor's for an annual physical because it can help us catch issues with our bodies early. It helps us get ahead of potential problems in our health before they become major problems in our health. However, those beneficial physicals often get a bad reputation because people think the doctor is going to insult, shame, or belittle them, so they choose to avoid the doctor's office.

In a similar way, many firms choose to avoid audits. They think audits are there to punish, point fingers, and blame people for their mistakes, rather than identifying issues and roadblocks before they become major issues.

Audits are a way to check theory against practice. In theory, you've established payroll processes and created a payroll calendar outlining important dates and tasks to meet each deadline. However, the reality is rarely as clean and organized. Auditing helps you identify gaps in coverage, unexpected errors, bottlenecks in service, and unforeseen work silos. Regular internal audits allow you to pinpoint and address issues in your payroll process before they escalate into major problems.

Implement Employee Self-Service Portals

An employee self-service payroll portal is a digital portal where employees can access and modify their payroll information when and where they want. If there is an error in their address, or personal information, or if direct deposit isn't being processed to the right account, employees can manually update that information.

The employee portal allows employees to get the payroll and HR services they want, without having to put an extra burden on their team. Rather than having to deal with a ticketing system where employees have to wait for their payroll team to update or access their information, employees are empowered to do it on their own. This improves workplace satisfaction for your employees, and it stops your team from being bogged down in simple repetitive tasks giving them more time to focus on payroll tasks that need their experience and attention.

Rely on Regular Reports

Making decisions based on gut feelings, intuition, and vibes will only lead to disaster. To make the best decisions for your organization, you need accurate and up-to-date reports. This will help you be well-informed about the status of your organization, allowing you to make decisions based on facts.

When establishing your reports make sure they are providing relevant details and are easy to read. While it can be tempting to include excessive information in reports, you don't want to be overwhelmed by nonsensical data. Instead of choosing to show everything all at once, consider what you're looking for in each report and focus on only showing the relevant information for that question.

Another common pitfall with reports is using outdated information. Imagine trying to get dressed based on weather data from a week ago—while the information might be accurate, it would be useless for your current needs. Similarly, your reports should always be updated to reflect the most recent data points, ensuring they provide actionable insights for your business.

Make Payroll Profitable with IRIS

Ready to streamline your payroll processes and ensure compliance with ease? [IRIS Payroll & HCM Services](#) offers a comprehensive solution that can help you manage payroll and HR efficiently, allowing you to focus on what matters most—growing your business. With features like automated payroll, compliance management, and real-time reporting, [IRIS](#)

[Payroll & HCM Services](#) simplifies complex tasks, reduces errors, and saves valuable time. By outsourcing your payroll and HR functions to IRIS, you can improve accuracy, enhance efficiency, and ensure full compliance, freeing you to concentrate on driving business success. Discover the difference IRIS can make today.

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