## Employee Compensation – the Sacred Cow.

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**Preventing missteps in payroll, 401k, Bonuses, & reimbursements…**

**March 28, 2008**

One of the most important lessons that I have learned over the years at the various companies I have been employeed with is to never, under any circumstances, incorporate error in any way into Employee related compensation. I have had the opportunity to learn from others mistakes and have seen the effect that these types of errors invoke. From decreased morale levels, to lost productivity, to a reluctance to act appropriately on behalf of the company.

**Payroll**:

Obviously the most delicate area and with the highest level of expectations. I have worked with companies who perform the operation internally as well as others who have contracted out with companies such as ADP or Paychex. No one approach is better than the other and all are subject to the possibility of human error, typically from an internal perspective. That I am aware of, none of the companies I have been with had errors on the part of the 3rd party companies I mentioned. Every error that I have witnessed has been the direct result of internal errors.

With the prevalence of direct deposit activity among employees, many have scheduled recurring payments to correspond to their payroll periods. Any delay ultimately results in NSF fees, which the company will be expected to reimburse.

Another potential pitfall is the change in payroll periods. While some companies process on the 1st/15th, there are others that process every other week. I have been witness to one company who decided to switch and in the course of transition drastically messed up the entire payroll. Add to this that it was done in the week before Christmas and you can only imagine the impact to employees. Checks were not only delayed, but then, rather than made available for pick-up, were mailed out after hours on Friday, which meant that they weren't delivered until the following Monday. The delayed delivery of payroll is a huge Scarlett letter on the company.

**401k**:

This is another area where you can easily raise the ire of your employee base. Under standard circumstances, you'll run your payroll, process employee 401k deductions, accrue for the corporate matching, and then wire the necessary funds to your 401k administrator in the days proceeding your payroll. Although an employer has 15 business days under ERISA regulations to make the deposit, we have entered a period of employee education where they are observers of market conditions and subsequent effect on their mutual funds. If funds are further delayed beyond the 15th day, it could literally be a month from the time of payroll deduction to the time of deposit into their 401k account and distribution into the various specified funds. *We all know how much the market can change in a month. What do you tell an employee who has potentially missed a run-up of 5-10% in a fund because of a delayed 401k funding?* I've seen this happen and it's certainly not an enjoyable conversation to have.

**Bonuses**:

Obviously another area of high sensitivity. This is an area that will carry as much importance as any error in payroll processing. This area is obviously incredibly sensitive to the Sales groups who typically carry a large percentage of their compensation packages in either quarterly or annual bonuses.

Our bonus structure at MGE was almost entirely based on the financial performance of the company and based on key indicators that ranged from Sales to EBIT and all key elements in between. The majority of our staff was paid annually while the Sales group had nominal quarterly payouts, but the bulk was still awarded annually. I held monthly meetings with all participants in the plan and updated them on our financial results and how we were tracking in comparison to each indicator as well as forecasted areas of risk or strength.

***Most importantly on the bonus plan***:

1. Is the plan documented and clearly understood by all participants?

2. Are the goals quantifiable and specific?

3. Are the payouts for the plan specifically scheduled and understood by all?

4. Has the plan been signed off by all participants, copies placed in their employee files, and copies delivered to participants?

5. At the close of the specified period, are employees being communicated with concerning the results versus plan goals?

6. Has the plan payout been made according to the original delivery date specified?

While not intended to be an all-encompassing list, these are a few of the major consideration points for the bonus plan. When these elements are not defined there will be no shortage of questions by employees that will ultimately create distractions and pull efforts away from the real actions necessary to drive the business.

I can't place enough emphasis on point #4 regarding the documentation. Without the documentation in place, any change in corporate control can provide the opportunity for the acquirer to take the position that there is no defined plan in place and there is no documented agreement with employees. Talk about creating a bad morale situation!

**Reimbursements**:

Last, but not least, is the subject of expense reimbursements. While I have personally been subject to drastically delayed expense reimbursements, this has not been a significant point of concern with some of my more recent companies.

At MGE, we utilized Concur, which was a fantastic and reliable reimbursement software. It was an online tool that where payments were coordinated with the payroll periods and included on employee checks. The expenses were delineated throughout the major expense categories and gave us further drill-down capabilities to do searches by specific vendors or other information. This was a highly reliable platform and we encountered no major issues or errors in process. However, when the errors involve Sales or Marketing personnel, the amount of the reimbursements can be significant and any delay of payment has the potential to affect their ability to act on behalf of the company as well as even affect personal credit situations.

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With consideration to Employee Compensations, this area is truly the sacred cow. While the morale of employees can certainly be affected, there can be much more serious repercussions.

Issues in timely payroll processing or 401k funding have a strong likelihood that your company could run afoul of any number of Department of Labor regulations, ERISA rulings, and/or IRS regulations. Any company that has stepped out onto that slippery slope is then potentially subject to compliance audits, which can be very contentious.

Additional information can be obtained at:

www.dol.gov

This is clearly a serious area and any questions should be directed at your Plan administrators or legal representatives for these specific areas.

Thanks for reading…..

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