

GUIDE TO PAYROLL RULES USED BY AGENCIES



INTRODUCTION

Over the years, many agencies have sought to address the staffing needs of 24/7 locations and periodically tight labor markets by introducing incentives for employees to work overnight shifts, at difficult group homes, on holidays, and more. Often, employees at agencies are paid multiple rates, leading to more complex pay and overtime calculations. In addition, it is often important for agencies to be able to accurately allocate where the costs of payroll and overtime go. These rules have had two major impacts:

- a) Lengthy manual pre-payroll procedures requiring skilled staff.
- b) Difficulties in implementing generic time and attendance systems which may not be able to handle all of these rules. The rate of failed implementations is quite noticeable among agencies with complex payroll rules.

“Everything was on paper. Employees would fill out their timecard. Site supervisors (group home managers) would look them over and send them to payroll. Our payroll person is our financial director, so processing payroll would take at least three days between the payroll and financial processes.”

– Stephanie Hahn, HR Manager, New Leaf Residential, Ohio

“Paper timesheets were pre-printed with employees’ names and ID numbers. Employees were responsible for entering the date and their hours. Employees had to note exception time. They turned timesheets in to managers. The managers had to ID hours that were associated with a stipend. The process started Friday afternoon and frequently wasn’t completed until Tuesday afternoon. The residential program was the most complicated because the program ran through Sunday night. Once timesheets were sent to payroll, overtime was calculated and payroll was completed.”

–Carolynn Aklam, Assistant Executive Director, COARC New York

PAYROLL RULES AND REPORTING ENGINE

To be successfully implemented, any time and attendance system must be capable of automatically supporting all the agency's complex payroll rules.

These include, but are not limited to:

JOB, CLIENT, OR LOCATION DIFFERENTIALS

Pay rate is determined by the group home or client the employee is working at or with. This is common in group home programs. Typically the rates are not the same for each employee. Different employees will have a different rate for different locations depending upon seniority, for example. Alternatively the differential may be a simple uplift applied to all employees who work at that location. This method is typically used to reward staff working at a location that is deemed challenging or in an area where there is a tight labor market, such as the fracking regions of North Dakota.

POSITION DIFFERENTIALS

Pay rate is determined by the position the employee is fulfilling at that location. For example, an employee from administration transferred to the day program in the afternoon to cover an employee who went home sick might get paid at a different pay rate. Even if the pay rate does not change, the hours for the afternoon need to go to the day program, not administration.

SHIFT DIFFERENTIALS

Pay rate is determined by the time of day. This is typical at group homes with overnight shifts or union contracts. For instance, an employee clocks in at 18:00 and out at 7:00am the next day, but is paid a higher rate from 22:00 until 6:00.

- a) **Sleep Shifts:** Employee is typically paid a lower rate. If the employee is woken up, the higher rate prevails.
- b) **Awake Shifts:** Employee is typically paid a higher rate.
- c) **Multiday weekend shifts:** Employee works over 4 days at a weekend. Clocks in at 18:00 on Friday and out at 7:00 on Monday but is paid different rates during the 4 days.

SERVICE DIFFERENTIALS

Pay rate is determined by service being provided. Typically used in HCBS programs. For example an employee who normally works with a client to provide home maker services might receive a higher rate when providing respite care to the same client.

DAY OF WEEK DIFFERENTIALS

Pay is determined by day. Typically a higher rate is paid for working on Saturday or Sunday.

AUTOMATICALLY END PAY DAY AT MIDNIGHT, END OF WEEK, END OF PAY PERIOD

Agencies, especially those with group home programs where staff work over midnight, often require the day end at midnight without the employee having to clock out or payroll perform edits.

FLAT AMOUNTS

Employee is paid by the visit, not by the time worked. They are still subject to overtime and minimum pay regulations. Employees working 60 hours a week but paid by the visit are still entitled to overtime. Fluctuating overtime calculations may be used (see below).

EXPENSE

Reimbursement for mileage or travel expenses. These are non-taxable. Sometimes paid with payroll to minimize Accounts Payable processing. These expenses are common in HCBS programs.

REALLOCATION

Employee (salaried or hourly) pay is costed across multiple cost centers by percentage. For example, group home maintenance staff clock in to one job but are reallocated across all group homes by percentage.

HOLIDAY PAY UPLIFT

Extra pay for working on a holiday, usually 150% or 200%. May apply to all hours worked or limited to 8 hours. A 24-hour period may start and end on different days.

HOLIDAY PAY

Hours paid for not working. Often based on Employee Standard Hours. Part-time staff are usually not eligible in the USA. In Canada and the UK, it is paid based on average hours worked. In the UK, all workers get 20 days PTO and 7 general holidays by law, calculated by using their average hours worked and the average rate of pay. The Fair Labor Standards Act (FLSA) does not require payment for time not worked, such as vacations or holidays (federal or otherwise). These benefits are a matter of agreement between an employer and an employee or union. Time and attendance needs to support the selection of what pay types are included in overtime.

WEIGHTED OR BLENDED OVERTIME

Often used where employees are paid multiple pay rates. Blends multiple overtime rates based on hours worked at each rate to recalculate base rate before calculating overtime. All overtime is calculated on a workweek basis. An employee's work week is a fixed and regularly recurring period of 168 hours — seven consecutive 24-hour periods. It need not coincide with the calendar week, but may begin on any day and at any hour of the day. Different workweeks may be established for different employees or groups of employees. Averaging of hours over two or more weeks is not permitted.

Normally, overtime pay earned in a particular workweek must be paid on the regular pay day for the pay period in which the wages were earned. Where an employee in a single workweek works at two or more different types of work for which different straight-time rates have been established, the regular rate for that week is the weighted average of such rates. That is, the earnings from all such rates are added together and this total is then divided by the total number of hours worked at all jobs. Under specified conditions, the computation of overtime pay based on one and one-half times the hourly rate in effect when the overtime work is performed is approved by DOL as long as the employer can demonstrate there is no attempt to reduce overtime pay and any differences are merely a result of chance with some employees better off, others worse in any given pay period. Weighted overtime is hard for employees to understand, as the base rate changes all the time. Where there significant differentials, different methods of weighting can give different results, hence the multiple options supported in MITC.

FLUCTUATING OVERTIME FOR SALARIED OR FLAT AMOUNT STAFF

Since new DOL regulations were introduced, there has been renewed interest in this method of calculating overtime. Starting in December 2016, the salary threshold to avoid paying overtime will move to \$913 per week (an annual salary of \$47,476). Weekly salary is for all hours worked, including overtime hours, except that a worker receives an extra half-hour's worth of pay — rather than time-and-a-half — for each hour worked over 40. The more hours over 40 that the employee works, the lower the overtime rate is. This method of calculating overtime is DOL compliant as long as the employee never earns less than minimum wage plus time and half for hours over 40 per week.

1. Example: Weekly salary = \$750.00 or \$39,000 per annum
2. Employee works 50 hours. Hourly rate = \$15.00. Overtime rate = \$22.50
3. Employee works 60 hours. Hourly rate = \$12.50. Overtime rate = \$18.75

STATE OR PROVINCE OVERTIME RULES

California and Alberta have their own overtime rules.

CONSUMER DIRECTED PROGRAM OVERTIME

As the consumer is technically the employer, in some states overtime is calculated based on hours worked for each consumer per week. For example an attendant working for 50 hours for one consumer and 10 hours for another consumer might only receive 10 hours overtime.

OVERTIME COST ALLOCATION

Allocates overtime cost away from Employee Home Job (where the employee usually works) on the assumption that overtime most likely occurred when the employee picked up extra hours. Required in some states/programs where agencies are funded on a cost-plus basis and need to provide accurate Labor Cost Distribution reports to state auditors.

HEALTH AND WELFARE BENEFITS

Additional payment for employees working on Federal Government SourceAmerica service contracts.

PIECE WORK

Rate of pay by unit of production. Usually determined by calculating the prevailing wage for the job in the area and the number of pieces a non-disabled person could do in one hour period at an 80% work rate. When paying a worker, there are five methods that can be used: paid by the hour, an annual salary, under a contract for a basic number of hours (known as 'salaried hours'), paid by the piece (the number of things they make), or tasks they complete (known as 'output work'), or paid in other ways (known as 'unmeasured work'). Piece work remains a valid way of paying workers subject to certain restrictions. Piece workers must be paid at least the minimum wage for every hour worked or on the basis of a 'fair rate' for each task or piece of work they do. The fair rate is the amount that allows an average worker to be paid the minimum wage per hour if they work at an average rate. This must be calculated in a set way. A control trial is run to determine the average items produced by equivalent workers, this is divided by 1.2 to reach the agreed average figure, and the fair rate is set to ensure each worker achieves the minimum wage. These tests are called Time and Motion studies.

SUB MINIMUM PAY

Exemption that allows individuals to be paid sub minimum wages, usually by using the prevailing wage in the area for that work and the individual percent of productivity at that job. The percent may vary by job or task. The Fair Labor Standards Act (FLSA) provides for the employment of certain individuals at wage rates below the minimum wage. Included are individuals whose earning or productive capacity is impaired by a physical or mental disability, including those related to age or injury, for the work to be performed. Certificates issued by the Department of Labor's Wage & Hour Division are required for this type of employment.

RETRO PAY

Retroactive or back pay refers to income owed to an employee from a previous pay period. Retroactive pay may happen for a number of reasons, such as incorrect salary compensation or wages for hours worked, or a pay increase. The retroactive earnings can be added to the upcoming paycheck or paid on a separate paycheck to decrease tax-withholding liabilities. Taxes are generally based on the amount an employee earns; if retroactive pay is added in with regular earnings more in taxes may be paid.

- a) If employees fail to notice that they have a missing punch until they get their pay check or the period for submitting request changes has passed, the correction will be made in the next pay period unless the organization has a policy of running another payroll a few days after the main payroll. Having clear and effective retro-pay policies and procedures are an important part of ensuring higher levels of compliance with automated time and attendance.

PAY PERIOD FREQUENCY

Most agencies use biweekly pay periods. If hourly employees work the same hours, their pay check is the same, minimizing queries. Daily and weekly budgets can be established and variance reports generated to highlight missing hours and unauthorized hours by location. Employees and managers can have the same cut-off days for every pay period. Semi-monthly pay periods reduce the number of payrolls from 26 to 24, but with streamlined procedures this gain is not significant. Of more importance is the added complication introduced by DOL requirements to calculate overtime weekly. Either two or three weeks are used for overtime. This can make understanding a pay check harder for hourly paid employees, as the number of days varies per pay period and the number of weeks feeding into overtime also varies. Weekly and monthly pay periods are also rarely used.

MULTIPLE PAY CYCLES

Some agencies have multiple pay cycles. For example, a client payroll may be run on a different cycle to the staff payroll.

CONCLUSION

An effective agency time and attendance solution will automate all of these payroll rules. An effective system will do so without imposing undue burdens on employees to remember to do extra clock-ins or outs, known as "transfers", to deliver accurate payroll consistently every pay period. For example, asking employees who work at group homes to clock-out or in at 22:00pm and repeat the process again at 6:00am never works reliably. The payroll rules engine must be able to handle these differentials automatically and only require the employee to clock in on arrival and out on departure.

“Our savings were most noticeable in the time spent on payroll. In our old, generic time & attendance system, it was very time consuming to run payroll. With MITC we have saved a day per payroll period.

We have absolutely found benefits from automated procedures. Pay Differentials were previously done through excel spreadsheets, and we use blended rates. With over 350 people, a lot of people would slip through the cracks. Having pay rates automatically calculate has been a huge advantage. It’s a wonderful tool in the system. Additionally, updating and accruing fringe hours work beautifully.”

– Jesenia DeCastro, Accountant III/Payroll at Alternatives, New Jersey

“We import from MITC into Quick Books. We have saved time as opposed to manually entering time into Quick Books. Integration saved a lot of time because we’d have to key it in before. Now we just do a review to make sure pay rates are right, especially when people work multiple programs. We saved at least two hours per pay period although we now have 360 employees. We weren’t as big when we were on paper.”

– Cynthia Miles, Senior HR Manager. East End Disabilities, New York

“MITC speaks to and integrates with Solana payroll. There have definitely been time savings. Mistakes have gone down dramatically. We used to identify missed punches once or twice a week and provide follow up contact for the 100 or so missed punches. Now the report usually only has 15 missed punches.”

– Dave Laubenthal, CAO at Koinonia, Ohio

ABOUT AGENCY WORKFORCE MANAGEMENT

Designed specifically for providers serving I/DD and behavioral health communities, Agency Workforce Management supports all the needs of agencies — time & attendance, EVV, scheduling, HR, workforce analytics, payroll and billing integration, and more.

Visit www.mitcagencies.com or email info@mitcsoftware.com to learn more.