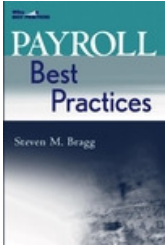


## Review Questions and Final Exam

Course name:	<b>Payroll Best Practices</b>
Course number:	1057N
Number of questions:	Review: 60 Final Exam: 60
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	12 CPE hours
Recommended study time:	12 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	 <p><i><b>Payroll Best Practices</b></i> by Steven M. Bragg Hardcover (224 pages) Publisher: Wiley ISBN: 0471702269 (July 2005)</p>
Subject classification:	Accounting
Course updated:	October 31, 2006
Learning objective:	<p>To understand the reason for and how to implement more than 120 best practices related to every phase of payroll activities.</p> <p>You will also learn the work plans needed to implement each best practice and understand pitfalls to be avoided along the way.</p>
Instructions:	<p>This copy of the exam can be used to answer questions while <b>offline</b>.</p> <p>Please note that you will still need to <b>enter your answers online</b> by logging into the course system with your User ID and Password.</p>

- 1) When implementing best practices, the author suggests that a cost-benefit analysis is usually not necessary.  
True  
False
- 2) Training provided to employees in how to run the new system should be one of the last steps in the best practices implementation.  
True  
False
- 3) A company that is experiencing poor financial results is a good environment for a successful implementation of best practices.  
True  
False
- 4) It is sometimes difficult to duplicate an existing best practice at a new company facility.  
True  
False
- 5) When another department's cooperation becomes necessary for a best practice installation, the chances of failure increase markedly.  
True  
False
- 6) The author recommends reducing the number of pay codes because the data resulting from having a broad range of pay codes does not usually yield much improvement in the company operations.  
True  
False
- 7) Government regulations prohibit the conversion of some hourly positions to salaried status.  
True  
False
- 8) A reasonable, and easily implemented, best practice is to convert personal leave days into vacation days.  
True  
False
- 9) The most labor-intensive task in the payroll area is usually monitoring and calculating vacation time.  
True  
False
- 10) The self-service improvements for the employee benefits and deductions best practices that are recommended by the author typically have a lower implementation cost than the other recommendations.  
True  
False

- 11) Allowing paycheck prepayments (advances) typically does not increase the workload of the payroll department.  
True  
False
- 12) One alternative the author suggests to minimize payroll deductions is to create a benefit package for all employees that require a single deduction of the same amount for everyone.  
True  
False
- 13) If a company provides group term life insurance above the \$50,000 that the IRS allows to be excluded, the premium related to the amount over \$50,000 must be included in employee income.  
True  
False
- 14) Including accrued vacation on the payroll remittance usually reduces inquiries to the payroll department about vacation time.  
True  
False
- 15) The practice of automatically enrolling employees in the 401(k) plan, unless they request not to, is a process known as a “positive election.”  
True  
False
- 16) According to the author, many companies make employees wait either 90 days or a year from the date of hire, before they are allowed to enroll employees into a company’s 401(k) plan.  
True  
False
- 17) Creating employee self-service access for benefit changes often requires a significant amount of software development.  
True  
False
- 18) The first best practice related to payroll and forms that should be implemented is to issue electronic W-2 forms to employees, as this will yield the greatest improvement in departmental efficiency.  
True  
False
- 19) The author suggests charging recipients for reports to help reduce or eliminate reports.  
True  
False
- 20) The IRS requires that employees must give their consent to the receipt of an electronic W-2 form.  
True  
False
- 21) The main downside to storing W-2 forms on compact disc is the high cost of compact discs.

True  
False

22) One of the benefits of automating the fax-back of payroll forms is that it eliminates the use of out of date forms.

True  
False

23) The manual distribution of employee paychecks is usually the fastest and most efficient way to pay employees.

True  
False

24) One of the problems with the implementation of direct deposit for payroll is that it can be difficult to get employees to voluntarily switch to the new system.

True  
False

25) One of the benefits of increased flexible spending account (FSA) deductions is that it reduces the level of matching social security payments that a company must incur.

True  
False

26) If you install a direct deposit system for paychecks, you should still distribute payroll remittances manually, to make certain that employees receive evidence of payment.

True  
False

27) The author suggests sending payroll remittances by email works best in industries where most employees have their own computers.

True  
False

28) Sales managers are usually enthusiastic about simplifying the commission structure because it makes the commission calculations easier for employees to understand.

True  
False

29) Constructing and distributing a standard commission terms table should ultimately reduce the number of inquiries and commission adjustments for the payroll staff.

True  
False

30) The best practice of calculating commissions automatically in the computer system is a simple and effective way to eliminate the manual labor and errors associated with the calculation of commissions.

True  
False

- 31) One of the benefits of paying commissions only from cash received is that the salespeople will be more concerned about the creditworthiness of their customers.  
True  
False
- 32) The author recommends performing an internal audit of commissions paid on a monthly basis due to the number of errors related to the commissions.  
True  
False
- 33) A Web-based system is the best payroll outsourcing alternative.  
True  
False
- 34) Payroll is the one of the least outsourced company functions.  
True  
False
- 35) The main downside to Web-based payroll processing is that it can be difficult to access or process if there is a poor Internet connection.  
True  
False
- 36) Acquiring software for benefit administration functions tends to be a better approach than outsourcing the functions.  
True  
False
- 37) The primary risk in the payroll department is of making an incorrect tax calculation or remittance.  
True  
False
- 38) Outsourcing unemployment claims management is most cost-effective for small businesses because the service is based on a per employee basis.  
True  
False
- 39) One of the best ways to create a disciplined payroll department is to create and maintain a policies and procedures manual.  
True  
False
- 40) Management training for a payroll department is not critical since payroll is just a clerical function.  
  
True  
False

41) The best practice of cross-training is usually welcomed by those who are currently in charge of mission-critical functions.

True  
False

42) The underlying principle of process centering is to cluster as many work tasks for a single process as possible with a single person.

True  
False

43) Linking the payroll and human resources databases is a simple, low cost best practice.

True  
False

44) When implementing the manager self-service best practice of allowing managers to update employee payroll events, it is generally best to roll out only one function at a time.

True  
False

45) Under the Common Paymaster rules, corporations can calculate payroll taxes for employees being paid by multiple subsidiaries as if they were being paid by a single organization for the entire year.

True  
False

46) All of the payroll systems best practices listed in the book involve significant investments of both time and money.

True  
False

47) A company with multiple payroll systems can end up paying more matching social security expenses for employees if they switch between payroll systems during the year.

True  
False

48) Since payroll transactions often require approvals of various kinds or interaction with employees, a work-flow management system (WMS) is recommended for payroll.

True  
False

49) Digital documents have the advantage of being readily available to anyone with the correct kind of access.

True  
False

50) A forms/rates data warehouse for automated tax filings is recommended when there is a legacy payroll system in place.

True  
False

51) Detective payroll controls are more effective than preventive controls.

True  
False

52) The author believes that using “positive pay” is useful in only a minority of situations.

True  
False

53) One approach to verify that the payroll database has been updated with all manual checks is to conduct a daily reconciliation for the payroll bank account.

True  
False

54) For companies that outsource their payroll processing function, the payroll transaction fee per employee can help identify the actual cost of the outsourcing service.

True  
False

55) A typical payroll register provides the total annualized rate of pay.

True  
False

56) Benefit costs are best measured on a per-person basis.

True  
False

57) Revenue per employee is a standard benchmark in many industries.

True  
False

58) With the best practices used to improve the timekeeping, the single most important factor is to install an automated time clock or Web-based timekeeping system.

True  
False

59) When implementing a best practices plan, the first action item is to construct a policies and procedures manual.

True  
False

60) With the implementation of multiple best practices, the work effort should be spread out over several areas to maximize the company-wide impact.

True  
False

Exam Name: Payroll Best Practices--Final Exam

1) A new best practice implementation is likely to succeed in which of the following environments?

- a) Management is opposed to change.
- b) Benchmarking has indicated the company is performing below peers.
- c) Management is satisfied with the status quo.
- d) The company has recently been awarded the Malcolm Baldrige National Quality Award

2) The study of the existing system, cost-benefit analysis, system testing, and employee training are each examples of key components used in implementing best practices.

True  
False

3) According to the author, which of the following is true when providing training for implementing a best practice?

- a) Employees retain the most information when training is conducted by video conference.
- b) Training should be done as soon as possible, even if the implementation is not scheduled for the immediate future.
- c) Procedures for implementing a best practice must be made available for employee use at the time of training and for review after training is completed.
- d) Procedure writing is a common skill that can be done by anyone on the staff.

4) To duplicate a successful business practice at a new company facility, the company should:

- a) Provide only a brief overview of the best practice, to avoid confusion.
  - b) Insist that the new facility duplicate a best practice in all respects before they are allowed to make any changes.
  - c) Allow managers at the new facility to create their own best practices as they see fit.
  - d) Avoid sending expert users to the new facility, so the new location can maintain their independence.
- 5) The odds of a successful implementation of a best practice increase if multiple departments are involved.

True  
False

6) Which of the following employee time tracing best practices has the lowest cost and install time?

- a) Use exception time reporting.
- b) Switch to "leased" employees.
- c) Install a Web-based timekeeping system.
- d) Reduce the number of pay codes.

7) Which of the following is TRUE when shifting as many employees as possible to salaried positions from hourly positions?

- a) Unions generally approve this best practice.
- b) Government regulations allow the conversion of hourly positions to salaried status, when more convenient.
- c) The main factor for success is that the business has few hourly workers to begin with.
- d) The payroll department usually has the flexibility to change an employee from hourly to salaried.

8) According to the author, having a broad range of pay codes is critical to monitoring and improving company operations.

True  
False

9) A recommended best practice to improve the efficiency and effectiveness of employee time tracking is:

- a) Perform job costing using payroll codes.
- b) Have employees wear pagers, so the payroll staff can contact them if they don't turn in their timesheets on time.
- c) Install a bar-coded computerized time clock.
- d) Implant microchips in each employee and have them pass through sensors when they enter or leave the premises.

10) Employee benefits and deductions could be handled more efficiently by:

- a) Allowing deductions for employee purchases
- b) Allowing payroll advances (prepayments) on a case by case basis
- c) Offering a large variety of benefits to employees that can be paid through payroll deductions
- d) Providing self-service employee access to benefit changes and "what if" scenarios

11) Payroll advances:

- a) Can cause the company to incur a loss if an employee quits work before earning back the amount of the advance.
- b) Usually are most requested by high wage earners.
- c) Do not create any additional work for the payroll staff.
- d) Are required by law, when requested to meet food and/or housing needs.

12) Prior to setting up a no-advance payroll rule, the author suggests that the business should arrange for alternative employee financing with a local lending institution that specializes in short-term loans.

True  
False

13) The author identifies a very good approach to minimizing staff time related to payroll deductions as:

- a) Allow unlimited changes to benefit deductions at any time.
- b) Have the company pay for all benefits 100%, to eliminate the payroll deductions for benefits.
- c) Eliminate all benefits.
- d) Create benefit packages that require a single deduction of the same amount for everyone or for a group.

14) The simple way that the author suggests to keep employees from bothering the payroll staff about accrued vacation time is:

- a) Eliminate vacation time.
- b) Include the vacation accrual information in employee paychecks.
- c) Have all employees take vacation during specific times of the year, such as the first two weeks of July.
- d) Require all employees to submit vacation schedules at the beginning of the year.

15) The author suggests the best way to minimize all vacation-related problems is to create a vacation tracking application that is directly tied to the company timekeeping system and available to employees via the company intranet.

True

False

16) The main problem with the best practice of granting employees immediate 401(k) eligibility is:

- a) The additional work for the payroll department at the time of employment.
- b) The new hire orientation becomes too lengthy when you have to include the 401(k) plan information.
- c) Turnover tends to be fairly high during the first few months of work and the payroll staff can be burdened with additional paperwork handling withheld funds of departed workers.
- d) Employees do not consider immediate access to a 401(k) plan a benefit.

17) The best practice of creating employee self-service for benefit changes:

- a) Is the cheapest of all of the other best practices for employee benefits and deductions.
- b) Has the lowest installation time of all of the other best practices for employee benefits and deductions.
- c) Is usually found at small companies, rather than large ones.
- d) Requires an interface to the payroll database.

18) The first priority when installing best practices related to payroll forms and reports is:

- a) Provide a toll-free number for employees to call to get forms mailed to them.
- b) Eliminate unnecessary reports.
- c) Combine most payroll forms into a single long form.
- d) Automate reports so they can be emailed to recipients.

19) Which of the following is NOT recommended in the five steps used to eliminate reports?

- a) Combine reports.
- b) Charge recipients for reports.
- c) Stop distributing reports and see who complains.

d) Post reports on the computer network.

20) Which of the following is a specific IRS regulation regarding the use of electronic W-2 forms?

a) The access must be maintained through October 15 of the year following the calendar year to which it relates.

b) Employees must pass a written test demonstrating ability to use the Internet.

c) Electronic W-2 forms must be posted with information in the employee's native language.

d) The company must also issue paper W-2s for the first two years of electronic W-2 availability.

21) The main problems with the best practice of storing W-2 forms on compact disc are the high costs and long installation time.

True

False

22) Automating fax-back of payroll forms:

a) Is usually done by small companies, because they have a small staff.

b) Is generally inexpensive to purchase and set up.

c) Can be set up quickly, usually within 24 hours.

d) Can reduce the use of outdated forms.

23) The chief focus on the recommendations for payments to employees is the switch to an electronic payment format.

True

False

24) Which of the following payments to employees best practice has the lowest cost?

a) Send payroll remittances by e-mail.

b) Install ATMs at company locations.

c) Use direct deposit.

d) Post payroll remittances on the company internet.

25) Paying employees through payroll cards (debit cards) completely eliminates escheatment.

True

False

26) Which is the recommended method of providing payroll remittances to employees who have direct deposit?

- a) Hand delivery.
- b) E-Mail.
- c) Federal Express.
- d) U. S Mail.

27) Emailed payroll remittances are most useful in which of the following industries?

- a) Production, where large groups of people may share a computer.
- b) Construction, where most people are on a job site.
- c) Retail, where most people do not have access to a computer at work.
- d) Service, where most people have their own computers.

28) To streamline commission calculations and payments:

- a) Use retroactive booster clauses.
- b) Simplify the commission structure to the extent possible.
- c) Change sales targets monthly to smooth commission payment amounts.
- d) Calculate commissions based on estimates initially, with subsequent adjustments to actual in a later month.

29) The main benefit of constructing a standard commission terms table is:

- a) Improving relationships between salespeople, once everyone's commission rates are "out in the open."
- b) Increasing sales.
- c) Reducing the number of complaints from salespeople about their commission calculation.
- d) Reducing the amount of commissions paid.

30) Automated commission calculations usually work well if there are complex commission structures, such as split commissions and variable commission rates.

True  
False

31) A recommended commission payment procedure best practice is to:

- a) Pay commissions after payment is received from customers.
- b) Pay commissions separately from payroll to easily identify commission payments.
- c) Pay departing salespeople immediately for the commissions they have not received, based on estimated sales.
- d) Pay commissions based on projected sales, on a quarterly basis, to reduce the number commission calculations.

32) The best way to review commissions for errors is to schedule a periodic internal audit of the commission calculations.

True  
False

33) The core of a potentially all-encompassing outsourcing strategy is:

- a) Outsourcing customer service and support to providers in third world countries.
- b) Getting a Six Sigma analysis by a major consulting firm.
- c) Reclassifying as many employees as possible to “contractors.”
- d) Using a Web-based system.

34) The author recommends implementing all outsourcing strategies simultaneously to get the job done faster.

True  
False

35) Payroll suppliers usually CANNOT:

- a) Answer payroll questions over the phone.
- b) Process payroll for multiple company locations.
- c) Link the payroll data to the company’s other computer systems.
- d) Pay tax remittances for the company.

36) One of the disadvantages in using Web-based payroll outsourcing is:

- a) Extremely high cost.
- b) New software must be installed.
- c) Access to the processed payroll is not available for at least 24 hours.
- d) Processing can be difficult to access or process if there is a poor Internet connection.

37) Due to the risk of incorrect calculations or remittances, many payroll managers are interested in outsourcing:

- a) Retirement benefits.
- b) Tax filings.
- c) Medical benefits.
- d) Payments to workers classified as “contractors.”

38) Outsourcing unemployment claims management is extremely cost-effective for small businesses, per the author.

True

False

39) The single most important factor in the success of a policies and procedures manual is:

- a) An active payroll manager.
  - b) A comprehensive number of procedures that cover every conceivable activity the department will ever encounter.
  - c) Management's ability to keep the content of the manual confidential.
  - d) Getting managers in each department to sign off on the completeness of the manual.
- 40) All payroll practices are typically the same and employees can be neatly swapped between jobs and organizations with no additional training of any kind.

True

False

41) Payroll management best practices for process improvement include:

- a) Assign an employee from outside the department to check each employee's work.
- b) Operate a payroll help desk.
- c) Determine an acceptable level of errors and try not to exceed that level.
- d) Review transaction errors continuously.

42) The main problem with process centering is:

- a) Cost.
- b) Installation time.
- c) Employee resistance.
- d) Making a large enough office space available.

43) The cost savings achieved by linking the payroll and human resources databases and consolidating the data usually far exceeds the actual cost.

True

False

44) The author suggests that a company should install an internet portal to the payroll system through which local managers can enter:

- a) Changes to 401(k) contributions for their employees.
- b) Child support garnishment payments.
- c) Setup and deletion of employees from the payroll database.
- d) Insurance change data.

45) Which of the following conditions must be met for the Common Paymaster rule to apply?

- a) If a company is a nonstock corporation, at least 25% of the board of directors of one corporation must also serve on the board of the other corporation.
- b) Employees must be given the option to be paid separately by multiple payroll departments within the same company.
- c) The company must be a corporation, LLC, or a partnership.
- d) The paying parties must be “related.”

46) The most important best practice related to the use of large-scale software systems to assist the payroll function is:

- a) Consolidate disparate payroll systems into a single system.
- b) Avoid using any Internet related technology, because it is unproven.
- c) Buy the least expensive software available, to reduce overall cost.
- d) Have the software custom designed to fit your company, rather than buying “off the shelf” software

47) Which of the following is TRUE about a company with multiple payroll systems?

- a) Data can easily be grouped for companywide payroll reporting purposes.
- b) When an employee is transferred to a new location, the employee is reentered as a new hire, making it impossible to track the dates and amounts of pay raises.
- c) The company does NOT have to pay matching social security and Medicare expenses for employees if they switch between payroll systems during the year.
- d) The cost of consolidating payroll systems is minimal.

48) A work-flow management system (WMS) is used to allocate work among large numbers of employees handling very large transaction volumes, with work being issued automatically to those employees most capable of handling it while ensuring that wait times are minimized.

True  
False

49) The best practice of converting from a traditional filing system to a document imaging system:

- a) Is commonly implemented by smaller companies because of the low cost.
- b) Entails a minimal workload to implement.
- c) Allows anyone with the correct kind of access to view the files electronically.
- d) Is typically implemented using digital cameras to take photos of documents.

50) Using an internal forms/rates data warehouse for automated tax filings is most useful:

- a) When a company has only a single location.
- b) When the payroll function has been outsourced.

- c) When a company located in a single state with multiple locations.
  - d) Where there is a legacy payroll system in place.
- 51) Which of the following does the author identify as a detective payroll control (as opposed to a preventative payroll control)?
- a) Create a backup system for payroll records.
  - b) Reconcile the payroll bank account every day with online Internet access.
  - c) Isolate access to the payroll check printing capability.
  - d) Scan fingerprints at payroll terminals.
- 52) In an effort to eliminate check fraud, the “positive pay” best practice works by having an organization send the bank a daily list of all checks issued.
- True
  - False
- 53) The least effective approach to verifying that the payroll database has been updated with all manual checks is to:
- a) Conduct a daily reconciliation of the payroll bank account.
  - b) Periodically run a report that is filtered to show only payments made to employees.
  - c) Manually review the employee and payables files to see if any manual checks have been filed but not posted to the database.
  - d) Filter the data to identify the check numbers that are drawn on the payables bank account.
- 54) When comparing competing payroll supplier fee schedules, it is important to segregate those charges that have nothing to do with the per-person fees associated with the payroll.
- True
  - False
- 55) The payroll transaction error rate is calculated as the number of payroll transaction errors divided by:
- a) Total number of employees.
  - b) Total number of hourly employees.
  - c) Total number of new employees this year.
  - d) Total number of payroll entries.
- 56) When calculating the net benefits cost per employee, you should include all employee insurance benefits, net of employee deductions, in the total benefit calculation.
- True
  - False
- 57) According to the author, which of the following is true about payroll measurements?
- a) Net benefit costs are based on the assumption that employees are at the core of a company’s profitability.
  - b) Revenue per employee is one of the most closely watched of all performance measures.
  - c) Average annualized wages per employee is a standard benchmark in many industries.
  - d) To calculate the annualized wages per employee, divide revenue for a full year by the total number of full-time equivalents (FTEs).
- 58) Which of the following best practices is considered to have a primary (as opposed to secondary) role in timekeeping procedure improvement?
- a) Reduce the number of pay codes.

- b) Use exception time reporting.
- c) Use bar-coded time clocks.
- d) Switch to salaried positions.

59) The first step to improve payroll management is to implement an employee training program.

- True
- False

60) It is better to make a number of small unrelated improvements across the company than to install a set of best practices in only one functional area.

- True
- False