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**Q. Our clerk is considering implementing the use of a third-party payroll processing service to help with some of the workload in the office. While the cost seems reasonable, will it really save that much effort?**

Many private sector businesses and larger governmental units have used third-party payroll for years. While staff time reduction is often the motivation for using such services, there are other benefits, such as:

- **Tax filing service.** Third-party payroll services will file all tax returns, 941, W-2/W-3 and unemployment forms, as well as make tax payments at the appropriate time.
- **Direct deposit.** These services offer direct deposit options for employee net pay.
- **Staff training.** It is generally easier to cross-train other employees in case of absence of the individual responsible for payroll processing.
- **Improvement opportunities for internal control.** A township can generally separate key functions involving payroll, such as adding/deleting employees, changing pay rates, entering time, etc. This can be more difficult to accomplish in a small township using “off-the-shelf” products such as QuickBooks. Third parties can also directly mail payroll reports to another township employee, such as the treasurer.

While townships with integrated software packages enjoy the ability of the payroll modules to post directly to the general ledger, many third-party payroll processors can also create electronic postings to the general ledger in some applications.

Interested townships should do a cost-benefit analysis of the incremental cost of third-party payroll, measured against time savings noted above and other additional potential benefits, and other services.

**Q. Our township has opted to have the third-party payroll service write our checks directly from its checking account. Some board members are concerned about using an electronic funds transfer (EFT) system for these transactions. What changes should we consider to ensure proper procedures?**

First, make sure the township has taken the necessary steps required by Public Act 738 of 2002 (MCL 124.301) in the adoption of an automated clearinghouse (ACH) policy, including:

- designation of an electronic transfer officer
- documentation of payments
- the establishment of an internal controls system (specifically that all payments must be approved by the township board, and the clerk and treasurer must be involved in any disbursement of funds)

MTA’s website, [www.michigantownships.org](http://www.michigantownships.org), contains sample resolutions and policies.

Other specific recommendations beyond the requirements of MCL 124.301 include:

- EFT transactions should only occur in “imprest” cash accounts—special accounts to handle disbursement of EFT transactions that are considered a firewall between third parties and township resources—in case of error or fraud. This helps assure that only debits authorized by the township account occur.
- The clerk should initiate the transaction by sending payroll transactions (usually hours worked) to the payroll company. After the payroll calculation, the clerk should review the results and create a draft request, similar to a check request, which is submitted to the treasurer.
- After board approval, the treasurer transfers the appropriate funds and reviews the documentation attached to the draft request.
- The board should approve drafts from operating accounts to imprest accounts, either prior to disbursement or ratifying in the next board meeting. The board may wish to preauthorize payroll transactions prior to the commencement of the fiscal year, with the stipulation that all preauthorized transactions be included on the approval list for the following board meeting.

*Information provided in Financial Forum should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situation.*

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