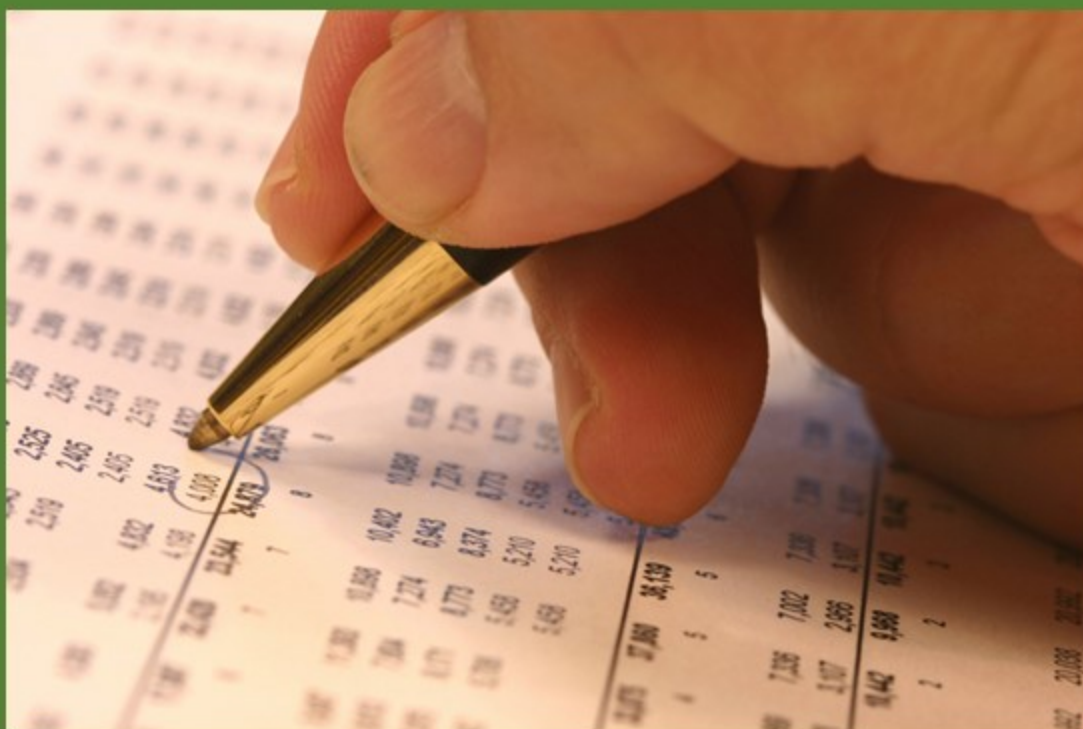


Controlling Payroll Cost

Critical Disciplines for Club Profitability



Ed Rehkopf



Controlling Payroll Cost - Critical Disciplines for Club Profitability

Labor Costs in Private Clubs

Clubs operate from early morning to late at night. For the convenience, safety, and security of members, clubs are staffed day and night throughout the week. Success in the club business has always been dependent upon attention to details – the thousands of details that contribute to high levels of service, well-maintained facilities, appetizing food and beverage, and high levels of cleanliness, comfort, and convenience. One detail that should always be on every manager's mind is controlling the club's labor cost.

Labor Intensive

Most of the tasks involved in providing remarkable service are labor intensive. While the banking industry has had great success in the development and public acceptance of automatic teller machines, the club industry is unable to mechanize the many complex tasks of cleaning and maintaining a clubhouse or meeting the quality and service expectations of members. Production and service of food and beverage, because of its complexity and infinite variables, is not likely to be taken over by machines any time soon, no matter how sophisticated robotics becomes.

Because of the service expectations of our members and the complexity of tasks we undertake, a club is labor intensive. It takes a lot of people to do what clubs do.

Labor Cost Percentage

The standard industry measure of labor cost is expressed as the club's labor cost percentage. It can be computed for each profit center individually or for the club. Simply expressed:

$$\text{Labor Cost Percentage} = \text{Labor Cost (\$)} \div \text{Sales (\$)} \times 100 \text{ expressed as a \%}$$

By tracking the club and departmental labor cost percentage month to month and year to year, managers can easily spot adverse trends and take corrective action.

Business Cycles

Clubs are subject to wide fluctuations in business levels depending on day, week and season. On a daily basis, a club can be slow in the morning, busy at lunch, and slow again at dinner. Weekends tend to be busier than weekdays, and weather can have a big impact on golf play and club use. Seasonally, clubs in the mid-Atlantic and Southeast, for instance, usually show a peak period from March through May and again from September through Thanksgiving. Other areas of the country experience their own seasonal cycles.

Clearly, clubs require a great deal of flexibility and responsiveness in scheduling.

Fixed Labor Cost

Fixed labor cost is that portion of labor cost that does not fluctuate with business. A good example would be the payroll costs of staffing the golf pro shop. Whether one member or fifty are playing the course, if it is open for play, the pro shop needs to be staffed. Likewise, the minimum staff in all operating departments can be considered fixed, as is some level of supervisory and management staffing.



Because of the service levels high-end clubs attempt to achieve, they can have a high fixed labor cost.

Variable Labor Cost

Variable labor cost, on the other hand, is staffing that changes with levels of business. While one cook and one server may be the minimum staffing for the kitchen and dining room, when business reaches a certain threshold – say twenty-five meals per hour – staffing will need to be added to adequately handle the business. This additional staffing, which is dependent upon additional business, is considered variable and contributes a variable labor cost to the operation.

Profitability Depends on Responsive Staff Scheduling

Successful clubs are those that efficiently manage their labor costs for expected levels of business. Most, if not all, clubs experience volatile business cycles. This coupled with the labor intensity of the business, means that success in the club business depends upon highly flexible and responsive staff scheduling.

Supervisors' Responsibility to Control Costs

Departmental heads and supervisors have an absolute responsibility to control costs. Of all the costs a department will incur, labor is by far the largest. Putting effort where it gives the greatest return, supervisors should focus their efforts on controlling their labor costs.

Elements of Labor Costs

Departmental labor costs are made up of several major elements:

Compensation Costs

Compensation costs include salaries, wages, employment taxes, and staff benefits. In any department there are typically one or two supervisors who are salaried and exempt from overtime while the rest of the staff are hourly employees who are non-exempt, i.e., subject to payment of overtime.

Supervisors have some control over rates of pay for hourly employees, though there are some constraints as well.

- Federal Wage and Hour Laws require that staff be paid at least the federal minimum wage.
- Prevailing industry or local pay scales will also dictate what a supervisor must offer an individual to do a job. In a strong economy with low unemployment, clubs and other hospitality businesses find themselves paying more per hour for entry-level unskilled or semi-skilled employees.
- In the free market system, a supervisor may have to pay a higher rate of pay to employ someone with certain skills or experience. Ultimately, the offer and acceptance to work hinge on a meeting of the minds between an employer who needs certain skills and experience and a qualified applicant who has certain compensation requirements.



- Supervisor must also keep in mind what they are paying current employees when making an offer to an applicant who will be doing essentially the same work. In other words, supervisors must consider issues of pay parity when hiring.
- Finally, supervisors will be constrained by the requirements of their operating budget when making offers to applicants and offering raises to existing staff.

Hours Worked

Another major factor in labor cost is the number of hours scheduled and worked by departmental staff. Scheduled hours are dependent upon the amount of time required to properly complete the work or the hours of coverage in an operation. For instance, housekeeping needs to schedule housekeeper hours to complete the cleaning of all club facilities, while the concierge desk may need to be covered for twelve hours a day on certain days of the week.

Supervisors exercise control over hours worked by setting the schedule in accordance with the demands of the business and monitoring the productivity of their staff. Keeping in mind that work will expand to fill the time allotted to complete it, supervisors must be vigilant to ensure that employees are productively occupied while on the clock.

Overtime

The federal Fair Labor Standards Act established overtime pay at time and one half for all time worked over forty hours in one workweek. Supervisors must be careful when scheduling and directing staff to avoid overtime when possible.

Productivity

High levels of productivity ensure that all employees are gainfully employed while on the clock. Staffing should be kept purposefully lean, consistent with good judgment and expected levels of business, to avoid work expanding to fill the time allotted.

Time standards can be developed for repetitive work such as cleaning club facilities. As an example, hotels establish a cleaning time standard for guestrooms, usually between 30 and 45 minutes, depending upon the size of the room, the specified cleaning standards, and the complexity of cleaning tasks. Once an appropriate room cleaning time standard is determined, it becomes easy to project staffing needs for expected levels of room occupancy.

Payroll Taxes and Benefits

Payroll taxes include FICA (Social Security Tax), FUTA (Federal Unemployment and Medicare Taxes), and SUTA (State Unemployment Tax) and are set by law. Workmen's Compensation Insurance is also set by law. In addition, most clubs offer benefit packages for staff. All together these taxes and benefits add approximately 12-20% in cost to salaries and wages. In other words, if a club has salaries and wages of \$100,000 for a period, it will have another \$12,000 to \$20,000 on top of that in taxes and benefits.

While supervisors have no control over the tax rates and benefit costs, most of these costs are directly dependent on the amount of wages paid. Since total wages paid is dependent upon number of hours worked, supervisors can help control employment and benefit costs by keeping hours worked to a minimum consistent with quality expectations and standards.



Departmental Staffing Guides

Club operations will typically create well-defined employment categories for employees to make benefit determinations based on the number of hours worked. As an example, one operation created the following definitions:

- Full time – employees who work not less than 35 hours per week on a continuous basis and employment is anticipated to last 11 months or more.
- Part time – employees who work less than 35 hours per week on a continuous basis and employment is anticipated to last 11 months or more.
- Seasonal – employees whose employment is expected to last less than 11 months regardless of the number of hours worked per week.

In this instance, full time positions were eligible for full benefits, the part time staff received more limited benefits, and the seasonal positions received no benefits.

Given the seasonality of most club operations, they have a need to expand and shrink their labor force to meet the needs of each seasonal business levels. The ability to do this in a timely manner will save significant amounts of unnecessary cost. Further, most managers recognize the benefits to member service and organizational continuity of having a stable work force. Lastly, club operations should avoid full time staff layoffs as much as possible for both the cost and morale impact they create. The challenge then is to balance the need for a stable staff with the cost-saving ability to shed excess positions when business levels warrant.

The solution to these competing needs is to establish staffing guides for each department made up “core” and seasonal positions. The core positions represent those staffing needs for year-round minimum function and service needs and can be either full or part time depending upon the needs of both the enterprise and employees. Seasonal positions are just that – those that are added and reduced as business demand warrants.

Each department head, by creating a staffing guide of core and seasonal positions, determines optimal year-round staffing. These core positions, then, are “protected” from seasonal adjustments in all but extreme situations. Once the staffing guides are determined for each department, no new hires should be made for core positions without an existing vacancy or the express approval of the general manager.

Labor Cost Control Strategies

While there is no single answer to controlling labor costs, there are a variety of things that can be done to ease the task.

Forecast Scheduling. Using various tools at their disposal such as benchmarked levels of business, the schedule of club-sponsored events, and the catering forecast, supervisors should attempt to forecast their staffing needs at least one month out. The one-month horizon is important in that it allows time to contact, hire, and train seasonal help.

Seasonal Hires. When business conditions dictate (i.e., when the forecast shows business levels surpassing predetermined thresholds), supervisors should begin bringing in seasonal hires. They can be people who have already been interviewed, hired, and trained such as former employees or employees hired specifically for seasonal work. In either case, these new



hires should be given some indication of how many hours they can expect to work each week and how long the season will last.

Conversely, supervisors should also plan for the sudden deceleration as the busy season comes to an end. Intelligently managing both the expansion and reduction of staff results in satisfied members and significant payroll cost savings.

Budget Time Off. Budget Time Off can be used when employees work established shifts, such as the concierge desk, maintenance, or in administration. The concept works like this – if, because of circumstances, an employee works more than eight hours in one day, the supervisor should send him home early on another day in the same workweek to avoid surpassing 40 hours worked in that week.

Cross Training and Departmental Shares. In a small organization like a club, it does not do well to have a large staff of specialists. Rather, the club should have a smaller staff of people who are cross trained to work other positions. Often while one area of the club is slow, another is busy. Most cross training takes place within departments and allows a supervisor to deal with sickness and emergencies.

Another form of cross training is inter-departmental and results in departmental shares – employees who can work in two or more areas as the level of business requires. Departmental sharing requires close cooperation and communication between department heads to ensure that the needs of both staffs are met, and cumulative overtime is avoided. Supervisors who are interested in exploring the possibility of departmental shares should pick another department where the timing of workload is dissimilar to their own.

Project Work. When fluctuations in business create short-term lulls, supervisors who are concerned about keeping staff productively employed should assign project work. In any club operation, particularly one that has been busy, there are many things that get deferred in the crush of business. These deferred items, such as intensive cleaning, polishing the details, straightening out back-of-house areas, etc., make excellent project work.

Because supervisors never know when business will suddenly be slow, they should have a ready list of necessary project work. With this list at hand, it's a simple thing to assign the work whenever staff have excess time on their hands in lieu of sending them home.

Sending Home Early. Sending home early is self-explanatory and easy to do. It requires the will to do it, vigilance on the part of the supervisor, and a feel for the business. While there is always some risk that business levels will unexpectedly pick up requiring more staff, supervisors should take the risk and depend on the dedication and professionalism of remaining staff to rise to the occasion. Experienced supervisors know that most people in our profession have an overdrive that they can kick into for short periods of time to get the job done.

Layoffs. As long-term busy periods wind down, supervisors are often faced with the difficult task of reducing staff. While no one enjoys laying off employees, it is much easier to do if the employee(s) involved were hired seasonally and already know that their hours will be reduced, or they will be laid off when the busy season is over.

Voluntary Leaves of Absence. Before supervisors consider layoffs, they should inquire if anyone on staff – core or temporary – wants to leave voluntarily. There may be a temporary employee who for some reason wants to leave or a core staff member may want to take an



unpaid leave of absence. While no one may be interested, it’s always worth asking before another staff member is involuntarily laid off.

Scheduling Vacations. Full time employees often earn vacation time. Some employees, by virtue of their longevity, have substantial amounts of vacation to use each year. Supervisors should schedule their employees’ vacations during slow times when they will not be forced to replace them on the schedule.

Summary. Regardless which combination of strategies ultimately proves most helpful to a supervisor, continuing success depends upon daily vigilance and attention to business levels and scheduling daily. The easiest way to achieve this is to make this vigilance and attention part of the daily routine. By checking daily hours and schedules frequently supervisors ensure compliance. Checking employee hours daily will also help avoid overtime. Close attention to levels of business and knowing who is on the clock, what their schedule and rate of pay is, enables supervisors to act decisively to control cost. They should do it as if their job depends upon it, because ultimately it may.

Nailing Your Pay Cost Budget!

“Measurement is the first step that leads to control and eventually to improvement. If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.”

H. James Harrington

We have said repeatedly that controlling payroll cost is one of the most important things supervisors can do to meet their budgets. But as Mr. Harrington says, they must understand something in order to control it.

There is a relatively easy way for any manager to measure and understand his or her payroll cost by using the Departmental Payroll Summary Analysis form, *PCPM, Operational Resources, Club Form 230*, available to on the PCPM Marketplace store.

The beauty of this spreadsheet form, which is designed for bi-weekly pay periods, is that it has long-term structural benefits for both controlling overtime and ongoing payroll benchmarking (see *PCPM, Insights and Ideas, Why Our Workweek and Pay Cycle* for more information), is its simplicity.

By entering key data into the white cells of the spreadsheet each pay period, supervisors can monitor:

Payroll cost compared to budget each pay period throughout the year and the cumulative year-to-date over or under budget for payroll.

Pay Period:	1	2	3	4	5	6	7	8	9	10	11	12	13
Ending Date:	1/14	1/28	2/11	2/25	3/10	3/24	4/7	4/21	5/5	5/19	6/2	6/16	6/30
Payroll Total (\$)	7,245	8,124	7,823	7,954	8,278	8,510							
Budgeted Payroll	7,359	8,028	7,872	7,821	8,300	8,539							
Over/(Under) Budget	(114)	96	(49)	133	(22)	(29)	0	0	0	0	0	0	0
Cum Over/(Under)	(114)	(17)	(66)	67	45	16	16	16	16	16	16	16	16



Payroll hours by category (regular, overtime, holiday, vacation, sick, and other).

HOURS													
Regular	559.0	634.0	600.3	610.0	618.0	638.4							
Overtime	0.0	0.0	0.0	0.0	0.0	0.0							
Impact of OT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vacation	0.0	0.0	0.0	0.0	0.0	0.0							
Sick	0.0	0.0	0.0	0.0	0.0	0.0							
Other	0.0	0.0	0.0	0.0	0.0	0.0							
Holiday	24.0	0.0	0.0	0.0	0.0	0.0							
Total Hours	583.0	634.0	600.3	610.0	618.0	638.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Pay period and cumulative year-to-date variance between scheduled hours and hours worked.

Budgeted Hours	568.0	619.0	607.0	602.4	622.3	734.2							
Variance	15.0	15.0	(6.7)	7.6	(4.3)	(95.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Variance	15.0	30.0	23.3	30.9	26.6	(69.2)	(69.2)	(69.2)	(69.2)	(69.2)	(69.2)	(69.2)	(69.2)

The **average hourly wage** computed automatically for each pay period and year-to-date and automatically compared to the budgeted amount.

AVERAGE HOURLY WAGE													
Actual	12.43	12.81	13.03	13.04	13.39	13.33	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Budgeted	12.96	12.96	12.98	12.98	13.08	13.11							
Variance	(0.53)	(0.15)	0.05	0.06	0.31	0.22	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cumulative Variance	(0.53)	(0.68)	(0.63)	(0.57)	(0.25)	(0.03)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

The data to complete the Departmental Payroll Summary Analysis form can be easily obtained from the accounting office or payroll processing service.

Progressing through the year, supervisors can monitor trends in payroll, pinpoint the reason for overages (e.g., OT, too many hours, higher than expected average hourly wage) and use this information to develop strategies to bring pay cost back in line with the budget. If supervisors want greater detail, they can use a separate form for each type of position in their department, for instance a la carte servers versus catering servers or main dining room servers versus grill servers – they’ll just have to get payroll processing to separately report this detail.

Another major benefit of tracking this information is that it permits supervisors to easily budget payroll cost for the following year since they have a pay period by pay period record of pay cost, hours, average hourly wage, and summary of annual cost, hours, and average hourly wage, all in one convenient location.

Example: Nine Steps to Control Payroll Cost in Food and Beverage

Payroll is the largest operating expense in food and beverage operations. Coincidentally food and beverage is typically the department with the largest amount of overtime and employee turnover – both of which add significant cost to the operation.

So how do conscientious F&B managers go about controlling that which eats up so much of their departmental income? Here are nine steps that will create a significant improvement in any F&B department’s payroll expense and bottom line:



1. **Organization.** A well-organized operation is more efficient in both front-of-house and back-of-house. If the executive chef and dining room manager ensure workspaces are well-designed and organized with clear cut procedures for accomplishing all tasks; if storage areas are organized and properly stocked; if the kitchen staff has production sheets assigning daily tasks; if everyone knows what to do, how to do it, and when to do it – it doesn't take as much time to complete daily set up, food preparation, service, breakdown, and closing duties. A few hours saved daily amounts to a lot less payroll cost on a monthly and annual basis.

A key element in organization is written standards, policies, and procedures (SPPs) spelling out in detail how and why things are done. Not only does this put everybody on the same page when it comes to expectations and standards, but it also becomes the basis for consistent training material (see *PCPM, Insights and Ideas, Beyond Oral History – The Importance of a Club Operations Plan* for more information).

Private Club Performance Management has created many F&B SPPs that are available on the PCPM Marketplace store.

2. **Training.** The logical extension of good organization is the thorough training of all employees, both front- and back-of-house. Better trained employees are more efficient, require less direction, and complete tasks in less time.

While training can be costly because each hour of training is an hour of payroll, PCPM strongly advocates the use of Training on the Go – a concept that uses spare moments during each shift to train and reinforce expectations to staff. Two PCPM Training on the Go programs, *Food Service Management on the Go* and *Service on the Go*, provide the framework for much of what managers and service employees need to know.

3. **Staffing Guides.** Departmental staffing guides establish core staffing levels – that staffing necessary for year-round functioning. Beyond the core staff are the seasonal employees brought onboard to handle business levels during busy periods. Since seasonal staff are not usually provided with benefits, there is a cost savings when core and seasonal staff needs are identified and utilized.
4. **Benchmarking.** Unless managers measure their payroll cost every pay period, they cannot understand it. If they can't understand it, they can't improve it. Detailed benchmarking of payroll hours by employee position and type of hour (regular, overtime, vacation, holiday, sick/emergency) allows managers to see exactly where hours and payroll cost originate. *Club Benchmarking Resources* on the PCPM Marketplace store covers this topic in detail.

By benchmarking cover counts (meals served) by meal period and day of week, week by week throughout the year, managers will have a much better understanding of weekly and seasonal business variations. This knowledge will help with the following step.

5. **Formal Forecasting.** By using historical benchmarks, as well as a knowledge of current trends and upcoming events, managers can schedule staff more accurately to handle expected levels of business. This coupled with a willingness of managers to jump in when unexpected rushes take place will minimize payroll costs while maintaining service levels.



Weekly Sales Forecast		Main Dining Room							Willow Creek Club	
Week	24	Dates:		Jun 8-14		Meal Pd: Lunch				
	Historic Average	Last Year	Proj. this Yr.	Actual this Yr.	Var.	Servers Sched.	Pay His	Svc Quality 1-10	Comments / Service Issues / Problems	
Covers										
Fri	64.3	59	60	64	4	3	12.25	7	Mostly smooth. Rush at 12:45 with a party of 12 w/o reservation. Sold the limited price fix w/ dessert and bev incl.	
Sat	104.7	110	108	102	-6	4	14.74	9	Very smooth, orderly flow. Sent one server home at 1:15	
Sun	215.1	198	210	219	9	6	24.75	10	Excellent Sunday brunch. Adequate servers, good flow of food to buffet.	
Mon	CLOSED									
Tue	42.4	45	45	40	-5	2	4.50	4	Kelly called in sick at last moment. Hostess filled in as best she could. Mrs. Jones unhappy with slow service.	
Wed	59.8	63	65	67	2	3	13.25	7	Kitchen short staffed in pantry. Salads slow in coming out. Private party in alcove kept DR Manager busy.	
Thu	63.5	60	65	48	-17	3	11.00	9	Slow lunch due to rainy weather. Sent 1 server home at 12:40.	

6. **Daily Review of Dining Flow and Service.** By keeping daily notes by meal period of forecasted and actual cover counts, staffing levels, smoothness of dining flow, and an estimation of service quality provided, managers are better able to adjust staffing levels during future meal periods for optimum service while identifying any issues that need to be addressed or improved.
7. **Daily Review of Hours Worked.** By taking a few moments at the end of the shift or day to record and compare hours worked with scheduled hours, as well as to tally any overages and overtime hours, managers keep track of actual to budgeted cost daily and can intervene as necessary in real time to control costs.
8. **Pinpoint and Understand Overtime Hours.** By closely monitoring overtime hours, managers can better understand why it was necessary and adjust scheduling to minimize it in the future. Without an understanding of what's causing overtime, there is no hope of coming up with plans to address it.
9. **Workweek and Pay Cycle.** By paying employees on a bi-weekly basis and establishing a workweek that runs from Friday to Thursday, a club will have its usually busiest days (Friday and Saturday) early in the workweek, allowing managers to modify the work schedule of any employee who might be in danger of going over 40 hours because of extra hours worked on the weekend. If the workweek ends on Saturday or Sunday and business levels required employees to work longer shifts on those days, there is no opportunity to make adjustment before the end of the pay period, thereby increasing the chances of overtime payments.

Bi-weekly pay periods also allow the optimum benchmarking framework of comparability because each pay period always contains two weekends (Fridays and Saturdays) instead of semi-monthly or monthly pay periods where there are odd numbers of these depending on the calendar.



There is some effort involved in implementing steps 1 through 3 above. But these are usually one-time efforts requiring only ongoing tweaking to maintain.

Steps 4 through 8 require organization to set up the tracking and evaluation mechanisms. Using a spreadsheet program is the best way to do this, as all the calculations are incorporated in the spreadsheet. Once set up, all a manager must do is establish and maintain the discipline of entering each day's numbers and assessments – which shouldn't take more than 10 to 15 minutes. Periodic analysis and evaluation of what the numbers are showing will allow managers to formulate ideas and take steps to reduce staffing and payroll.

Should these extra tasks add too much to the workload of busy F&B managers, consider creating a Food & Beverage analyst position (see *PCPM, Insights and Ideas, The Case for an F&B Analyst* for more information).

If not already doing it, step 9 is a one-time change that will yield returns for the life of the operation.

The ultimate requirement to implement all nine steps is the “will to make it happen” and discipline to do it. The payoff is in improved financial performance.

Payroll Internal Control

In addition to labor scheduling, timekeeping and verification procedures, and benchmarking analysis, properly controlling payroll costs includes a sound system of internal control to safeguard the integrity, accuracy and reliability of its payroll processing.

Payroll risks into several categories:

- Paying an incorrect wage rate.
- Paying for hours not worked.
- Paying employees who do not exist or continuing to pay terminated employees after they have ceased working.

The two variables in payroll cost are rate of pay and hours worked.

1. An employee's rate of pay is determined by the employee's department head and must be documented upon hiring and subsequent change. Personnel Data Sheets (PDS), *PCPM, Operational Resources, Club Form 104*, must be initiated and signed by the department head and forwarded to the personnel administrator for review and filing.

After reviewing the PDS, the personnel administrator forwards a copy of the PDS to the accounting office to make any necessary additions, changes, or deletions to the payroll register (prepared and distributed by the club's accounting office or payroll service provider). In some clubs the controller also serves as the personnel administrator. In this case, care must be taken to ensure separation of duties. In other words, the controller must not process Personnel Data Sheets and process the payroll.

2. Hours worked must be controlled by adequate timekeeping and verification of hours procedures. The department head has the responsibility to verify all hours worked before submitting time reports to the accounting office for processing.



Internal Control Principles

Pay by Check or Automatic Deposit Only

- This requirement applies to all employee categories – full time, part time, seasonal, as well as casual, temporary or contract labor.
- The absence of tipping in most private clubs precludes the possibility of tips being paid out to employees in cash.
- The club policy on golf and tennis lessons and clinic income requires them to be rung into the point-of-sale system allowing such income to be paid to employee(s) by check and ensure proper payroll tax withholding.

Maintain a Separate Payroll Account

- The club's accounting office or payroll service maintains a payroll account for the club. Once the total net amount of a club's payroll disbursement is determined, the accounting office transfers the net amount to the club's payroll account or prepares a check or a bank draft to the payroll service for the net amount of the payroll. Payroll checks and direct deposits are drawn on the club or the payroll service's payroll account.
- The payroll account is maintained on an imprest basis – that is when all direct deposits are made and payroll checks are cashed for a pay period, the balance of the account should be zero.
- Uncashed payroll checks (unclaimed wages) will be readily evident when the club's or the payroll service's payroll account is reconciled. The controller must be notified of any uncashed checks. These unclaimed wages can be symptomatic of fraud or payroll control weaknesses and should be investigated promptly and thoroughly by the controller.

Pay Attention to Timekeeping

- All club departments will use a mechanical or digital time punch device to record start and end times of work for each non-exempt employee.
- Department heads are required to verify all hours worked by employees under their supervision, paying attention to the following issues: Verifying hours worked agree with scheduled hours for each employee, employees punching in early before scheduled starting times, and employees punching another employee's timecard.
- Once hours are verified by the department head, the corrected time reports are sent to the accounting office or payroll service for payroll processing.

Paycheck Distribution

- Usually, about half of a club's employees will use the direct deposit option to deposit their paycheck directly into their checking accounts. These individuals will still receive a paycheck stub distributed by the club.
- The best solution to distribute paychecks and stubs is to have all employees report to a central location, pick up their checks from the administrative assistant or someone other



than the department head or personnel administrator (see Division of Duties below), and sign the Paycheck Receipt Log, *PCPM, Operational Resources, Club Form 232*.

- Recognizing the hardship this may present to some clubs, department heads may distribute checks, but must use a Paycheck Receipt Log, PCPM Form 232, for employee signatures indicating receipt of paycheck. When paychecks are distributed this way, a central distribution (or distribution by someone other than the department head or personnel administrator not involved in payroll processing), must be done as a double check on at least a quarterly basis.
- Any paychecks or stubs not picked up by employees within three days (72 hours) should be returned by the designated paycheck distributor or department head to the accounting office for later pickup. General managers may authorize a longer window of opportunity to pick up paychecks if necessary but should keep in mind the risk of paychecks being left unsecured in various areas of the club.
- All completed Paycheck Receipt Logs must be sent to the personnel administrator who will verify that all paychecks and stubs have been signed for. Completed Paycheck Receipt Logs will be filed for a period of one year.
- It is strongly recommended that on a periodic basis the general manager distribute paychecks and stubs to employees. In addition to the Internal Control value of such a distribution, it is an excellent employee relations exercise for the manager.

Employee Census

- An employee census is a complete alphabetic list of all employees currently employed by the club. The employee census is maintained in a MS-Word file. The information listed includes last name, alphabetically; first name; department; and employment status, e.g., FT, PT, or seasonal.
- The employee census is divided into two lists – those who are paid by check and those who are paid by direct deposit.
- Personnel administrators are responsible for preparing the club's employee census, and then keeping it updated by making necessary additions and deletions when PDS's are received from department heads.
- Each pay period the personnel administrator will receive a copy of the payroll register from the controller and compare the names of all paid employees from the payroll register with the names of employees on the employee census. Any discrepancies between the two lists will be highlighted or noted on the census by the personnel administrator and then sent electronically to the general manager for review.

Division of Duties

- Verification of hours, make changes, and correction of mis-punches – department heads.
- Payroll preparation – accountant or payroll service.
- Employee census preparation, maintenance, and review – personnel administrator.



- Paycheck distribution – designated individual such as the administrative assistant or other employee not involved in payroll processing (the personnel administrator or accounting office employees should be precluded from paycheck distribution). Department heads may distribute paychecks with the approval of the general manager, but a Paycheck Receipt Log, PCPM Form 232, must be used to ensure individual acknowledgment of receipt.
- Payroll bank account reconciliation – controller

While every club will need to establish its own payroll controls depending on organizational size and staffing, a well-designed and conscientiously applied system of internal control for payroll processing will ensure that the club only pays the legitimate cost of its labor.

About the Author

Ed Rehkopf is a graduate of the U.S. Military Academy and received a Master of Professional Studies degree in Hospitality Management from Cornell's School of Hotel Administration. During his long and varied career, he has managed two historic hotels, managed at a four-star desert resort, directed operations for a regional hotel chain, opened two golf and country clubs, worked in golf course development, and launched a portal web site for the club industry.