

PAYROLL: 7 Timesheet Traps to Avoid



However you manage your payroll, monitoring the actual hours employees work is a critical task. While methods differ, e.g., punch clocks vs. having employees record their own time electronically, the monitoring process typically generates records referred to as timesheets or time cards (“timesheets”). Here are 7 common timesheet pitfalls that HR directors need to ensure don’t happen at their organization.

1. Tracking Weekly but Not Daily Hours

PITFALL: One of the most common mistakes is to use timesheets that track only hours worked *per week*. That’s a problem in AB, BC, NB, NL, NT, NU, NS, PEI and YT, where you’re required to record actual hours employees work per day. That’s also largely true under Fed, MB, ON, PEI and QC law subject to 2 exceptions for whom you don’t have to track hours on a daily basis: i. employees not entitled to overtime under the law; and ii. employees who work only regular hours.

SOLUTION: Make sure timesheets record daily hours employees work so payroll can ensure that each employee is paid the wages they’re legally entitled to.

2. Not Tracking Overtime on Daily Basis

PITFALL: Timesheets often track overtime hours employees work on a weekly but not daily basis. This isn’t a problem in jurisdictions like ON or QC that don’t require overtime on a daily basis. But it’s a major problem in AB, BC and SK that have both a daily *and* weekly threshold for overtime.

SOLUTION: If you’re from a jurisdiction where overtime can be accrued by exceeding either a daily or weekly threshold, ensure that your timesheets keep track of overtime hours worked on both a weekly and daily basis so you can determine if employees hit their overtime thresholds.

3. Not Tracking Changes in Rate of Pay

PITFALL: Most jurisdictions require employers to keep the history of each rate change for hourly employees and show the date on which each new hourly wage rate becomes effective. When a rate change falls within a single pay period, the hours at each rate must also be recorded separately; otherwise, you’ll probably end up paying employees the wrong amount.

Example: *Lou Sittania is an hourly employee who gets paid bi-weekly. His pay period starts on a Monday and ends on the following Sunday. Under his collective agreement, he’s entitled to a 2% increase in his regular rate of pay on June 1, 2011, a*

Wednesday. The increase falls in the pay period starting on Monday, May 30, and ends on Sunday, June 12, 2011. Mark worked 15 hours in the period before the increase and another 60 hours after. But the employer's timesheet records only 75 hours for the period, all at the new rate. **Result:** An overpayment: $\text{New rate} - \text{Old rate} \times 15 \text{ hours}$. **SOLUTION:** Make sure your timesheets enable you to track employee hours at more than one rate at a time within a single pay period.

4. Not Recording the Correct EI Insurable Hours for a Statutory Holiday

PITFALL: Normally, the hours an employee works are fully insurable for Employment Insurance (EI) purposes. The same goes for any hours the employee takes as paid leave. But what happens if an employee actually works and gets paid time off for the same hours? This can happen when an employee works on a statutory holiday and gets paid his entitlement under the ESA for that day.

The pitfall here is that it's easy to record *all* of these hours as insurable. In fact, though, only the hours worked or normal hours of work are insurable, whichever is greater. If you record too few hours as insurable, the employee may miss out on EI benefits for which he qualifies. If you record too many hours as insurable, you're overstating the employee's EI entitlement, exposing the employer to penalties for making false statements to Service Canada.

SOLUTION: There needs to be at least 2 separate entries on a timesheet: 1. the insurable hours and earnings for the statutory holiday entitlement; and 2. the *non-insurable* hours and *insurable* earnings for the time actually worked. Usually this means having 3 separate payroll codes for stat holiday entitlement, insurable hours worked on stat holidays and non-insurable hours worked on stat holidays.

5. Not Allocating Time to Right Week for EI Purposes

PITFALL: EI complications can arise when hours earned in an earlier period are only recorded in another. In some cases, such hours must be allocated to the period in which they're earned; in others, they get allocated to the period in which they're paid. Which is correct? The answer depends on the type these hours represent. Without processing these correctly off a timesheet, employers could be exposed to heavy penalties for wrongly stating an employee's entitlement to EI on ROEs filed with Service Canada.

Example: Because of a clerical error, a Saskatchewan employer fails to pay an employee for the Victoria Day statu holiday, May 23, 2011. In August, the company discovers the error and corrects it. When entering these timesheet hours into payroll, the hours are recorded against May 23, 2011. The company's payroll system allocates total insurable hours and earnings processed for each period against that period as whole for ROE reporting purposes, whatever the type of insurable earnings. However, the employee's Victoria Day earnings and hours are supposed to be allocated back to the pay period the May holiday fell in.

SOLUTION: The employer in this case must have some way to indicate the correct week or pay period for insurable hours and earnings reported to Service Canada. In some cases, payroll systems have two fields for such data entry—day and EI reporting week. The correct reporting week must be entered where this can't be determined just from the date itself. Other systems allow employers to define whether earnings are reportable when earned or when paid. This allows such systems to determine the correct EI reporting period from this setup. In some cases, employers may have to manually edit the ROEs prepared by their payroll system to ensure that such exceptions are correctly reported in the right period.

6. Not Hanging Onto Timesheets Long Enough

PITFALL: Employment standards laws require employers to retain employee pay records for a minimum period. You also need your old records in case you get hit with an unpaid wage or other ESA complaint, or if government inspectors request access to them.

SOLUTION: Make sure you know the retention requirements in your jurisdiction. (If you're not sure, check the chart on page x below.) If you have employees in more than one province and are subject to different ESA requirements, either follow the longer deadline for all your timesheets or find a way to segregate the timesheets by jurisdiction so you can dispose of them in accordance with the deadline of whichever ESA applies.

7. Hanging Onto Timesheets Too Long

PITFALL: Payroll records contain personal information about the employee that might be subject to federal or provincial privacy legislation. And under such privacy laws, companies holding personal information that they're legally required to maintain must dispose of those materials once the legal obligation to hang onto them ends.

SOLUTION: At a minimum, your records management system must enable you to determine how long you've been holding timesheets and when you can dispose of them. Mark the date of disposal on each box before shipping it to the storage facility. Such facilities usually have systems that allow them to identify records by date that require disposal. If such records are stored by the employer in its own facilities, it must have an equivalent system to manage the disposal process. Similarly, if your timesheets are electronic records kept in a time and attendance or payroll system, you might need processes to cull this data once the ESA retention period has expired.

Conclusion

Most of the timesheet pitfalls we've documented in this story are the result of not designing the timesheet to collect all the information you need to get payments right and avoid violations under employment standards law; sometimes the mistakes happen because the company doesn't or can't translate the data recorded accurately enough; and still other mistakes are the product of not knowing what to do with old records once they've been processed. This little survey should enable you to spot the things you're most likely to be doing wrong and fix the problem before it leads to payment inaccuracies and liability.

Also see: [KNOW THE LAWS OF YOUR PROVINCE: Hours Worked Rules by Province](#)