PAYROLL PROCESS GUIDE

Running payroll is more than just issuing checks — it requires compliance with state and federal labor laws, careful record-keeping, and clear internal procedures. For California business owners, asking the right questions can help avoid costly errors, ensure legal compliance, and build trust with employees. The following checklist highlights the key areas employers must address when setting up or reviewing payroll practices.

01 HOW WILL THE COMPANY HANDLE NEW HIRES?

Employers must establish a process for on-boarding new employees. This includes:

- Collecting a completed IRS Form W-4 (for federal tax withholding).
- Collecting California DE 4 (for state tax withholding).
- Verifying employment eligibility with Form I-9 within 3 business days of hire.
- Reporting new hires to the California New Employee Registry within 20 days.
- Setting the employee up in payroll software with correct pay rate, schedule, and deductions.

02 WHAT INFORMATION WILL BE MAINTAINED IN EMPLOYEE PERSONNEL FILES?

Under California and federal law, employers must maintain accurate records, including:

- Full legal name, employee number/ID, and Social Security Number or ITIN.
- Home address (including ZIP code).
- Date of birth (required if under 19).
- Gender and occupation.
- Employer's EIN (for payroll records).
- Regular hourly rate of pay, wages, additions, and deductions.
- Copies of Form W-4, DE 4, and I-9.
- Performance reviews, disciplinary notices, and employment agreements.

03 WHERE WILL FILES BE STORED, AND WHO IS RESPONSIBLE FOR FILE SECURITY?

Files should be stored in a secure location (locked filing cabinets for paper records or encrypted systems for digital records). Access should be limited to HR or payroll administrators. Example: If an employee transfers departments, their file should be updated to reflect the change but remain under HR's control — not transferred to the department manager.

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04 WHAT IS THE PROCEDURE TO FOLLOW UPON EMPLOYEE TERMINATION?

California requires final paychecks to be issued:

- Immediately if the employee is terminated.
- Within 72 hours if the employee resigns without notice.
- On their last day if the employee gives at least 72 hours' notice.
- Employers must also provide a Notice of Change in Relationship (EDD form DE 2320).

05 WHAT PROCESSES SHOULD THE COMPANY ESTABLISH TO ENSURE GOVERNMENT COMPLIANCE?

Employers should regularly review:

- Payroll tax filings (federal Form 941/940, California DE 9/DE 9C).
- Wage and hour compliance (minimum wage, overtime, meal/rest breaks).
- Workers' compensation coverage.
- Posting required workplace notices (state and federal).
- Example: Conduct an annual payroll audit to confirm records match filed reports.

06 HOW WILL EMPLOYEE TIME AND ATTENDANCE BE TRACKED, AND WHAT PAY CYCLE WILL BE USED?

Employers must select both a system for recording time and a regular pay cycle for issuing paychecks.

- For time and attendance, employers may use manual paper time-cards, electronic punch clocks, or online payroll/time-tracking software. California requires records to include daily start and stop times, meal periods, and total hours worked.
- For pay cycles, employers may choose daily (365 or 366 pay periods per year), weekly (52 pay periods), biweekly (26 pay periods), semimonthly (24 pay periods, such as the 1st and 15th or the 15th and last day), or monthly (12 pay periods). California law requires most employees to be paid at least twice per month unless exempt.

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07 HOW LONG DO EMPLOYEE FILES NEED TO BE RETAINED AFTER SEPARATION?

In California:

- Payroll records must be kept for at least 3 years.
- Personnel files must be kept for at least 4 years after termination.
- I-9 forms must be kept for 3 years after the date of hire or 1 year after termination, whichever is later.

08 DO EMPLOYEES HAVE THE LEGAL RIGHT TO INSPECT THEIR FILES?

Yes! Under California law, current and former employees have the right to inspect or receive copies of their personnel files within 30 days of a written request.

- Employers should create a written policy for requests, including a designated HR contact.
- Example: Employees complete a request form, HR arranges a secure review, and copies are provided if requested (at the employee's cost for duplication).

09 WHERE WILL THE MANDATORY FLSA POSTER BE DISPLAYED?

- The Fair Labor Standards Act (FLSA) poster explains employees' rights to minimum wage, overtime, and recordkeeping. Employers must post it in a conspicuous location (e.g., breakroom or near time clocks).
- Employers can download a free copy from the U.S. Department of Labor website or purchase laminated versions.
- It must be updated when laws change; checking annually is recommended.