CONSTRUCTION PAYROLL

Key Considerations When Choosing to Keep In-House or Outsource to a Third Party

Presented by:

SelectView
DATA SOLUTIONS

Welcome Notes

Making informed decisions about how to manage your company's payroll processes is crucial for maintaining efficiency, compliance, and profitability. In this comprehensive eBook from **SelectView Data Solutions**, we delve deep into the intricacies of handling payroll internally versus outsourcing it to third-party providers.

Whether you're grappling with complex labor agreements, navigating regulatory challenges, or seeking ways to optimize your payroll system, this guide offers invaluable insights and expert advice tailored specifically to the unique needs of construction businesses. Our hope is that within this ebook you will discover the path that best suits your company's payroll management goals.

Executive Summary

This eBook from SelectView is designed for executives in the construction and building services industries. It focuses on the critical decision of whether to manage payroll processes internally or to outsource them. The eBook emphasizes the significant impact of payroll management on a company's revenue, efficiency, cost management, and compliance with regulatory standards. It addresses the unique challenges and requirements of payroll in the construction sector, taking into account the diversity and complexity of labor resources and the intricate details involved in payroll calculations, including compliance with varying state and local laws.

The eBook thoroughly explores the pros and cons of both in-house payroll processing and outsourcing.

In-house processing, often performed with systems like Viewpoint Vista, offers greater control and customization. Such features are essential for accurate job costing and regulatory compliance. Conversely, outsourcing payroll to providers such as ADP and UKG can streamline complex processes, reduce audit risks, and handle intricate aspects of payroll like tax filing and labor law compliance.

The decision between these two methods depends on several factors:

- The size and complexity of the workforce
- Regulatory environment
- Budget constraints
- Customization needs
- Focus of the company
- Technological capabilities
- Employee access and experience
- Risk management

We underscore the importance of not rushing the decision, leveraging expert advice, and understanding that both in-house and outsourcing options have their benefits and drawbacks.

Who is this eBook for?

This eBook is for executives in the construction and building services industries who are weighing the advantages and risks of outsourcing their payroll processes. Companies that understand the impact of payroll on revenue, costs, operations, and regulatory compliance are more efficient and more competitive. This eBook explores how managing payroll internally or outsourcing impacts your business.

The principles apply to most accounting systems used in construction. We specifically address companies using Viewpoint Vista. For the outsourcing side, we provide examples of organizations using ADP and UKG.

This eBook seeks to provide an objective point of view to help construction and building services organizations navigate a complex decision. Payroll processing, done correctly, is a boon for efficiency, employee satisfaction, and compliance.

Why is the decision to process payroll in house or using a third-party important?

Successful, profitable projects require success with labor resources. A good payroll process helps ensure labor is available and responsive, and detailed employee pay statements help the employees feel assured they were paid properly.

Heather LaDuke, a longtime payroll and accounting consultant for the construction industry, states "If you don't pay your people on time and accurately, you will literally go out of business. Without laborers working, you can't generate revenue. Without revenue you don't have a business. Without paying laborers…they aren't going to work. It's dead-simple."

Anything that impacts labor and team affects the rest of the business. When labor isn't optimized, projects slow and risks begin to compound.

Thriving construction or building services require an optimized payroll approach. However, the correct approach for one company may be the worst choice for another.

Setting the Stage

What is payroll?

Payroll is the calculation and distribution of salaries, benefits, and taxes.

What is special about construction payroll?

In construction, payroll is usually weekly or bi-weekly.

From an employee perspective, payroll starts on clock in, and ends when net pay appears in the bank account. The employee checks the paystub for PTO and deductions.

From a company perspective, payroll is far more complicated. It includes money movement, compliance concerns, reporting, tax filing, and updating financial systems. Construction companies must adapt payroll processing to a wide variety of outside parties including regulatory agencies.

From landing new projects to employee satisfaction, the ability to adapt to payroll rules can make a difference. Small details of every worked hour, or partial hour, have to be tracked.

For time worked, a company will often need to know the:

- Employee
- Job
- Type of work performed (phase or cost code)
- Role of the employee (foreman, laborer)
- The employee's union affiliation and local
- Day of the week, time of day (nights or weekends can have different results)
- State working in
- State the employee is employed in
- State the company is in
- Local the employee lives in
- Local the company is in
- Local tax applied to the work location
- Workers compensation code number for the task being done

These attributes are used to calculate:

- Earn code (straight, overtime, double-time)
- Rate of pay
- Per diems, or travel allowances
- Gross wages
- Deductions (taxes, 401k, union dues)
- Liabilities of the employer (such as FICA, SUTA, PTO)
- Benefits (vacation, medical, other fringes)

The calculations are frequently intricate due to complex labor agreements and legislation.

After calculation, reporting is necessary:

- Employment tax reports
- Tax deposits
- Withholdings
- Compliance with prevailing wage laws
- Benefit files and payments to 3rd party providers

The Challenge

Payroll in the construction industry is complicated in even the best circumstances. Different workers in different locations working on different projects creates complexity by default. Withholdings, taxes, pay rates, and governing regulations further complicate the construction payroll process.

The first thing to know is that correctly servicing payroll is an industry wide challenge. Says Michael Kelley of Silvertrek Systems, a Viewpoint consultancy, "It's important to understand that payroll in the construction industry is legitimately hard. EVERY construction company has challenges with payroll. You are not alone."

How do companies meet these requirements?

Nearly every construction company relies on specialized software for tracking and calculating payroll.

Some companies run payroll software themselves, such as with Viewpoint Vista. Other companies choose to contract the process out to a vendor. Vendors include smaller providers such as private bookkeepers or accounting firms, or large national vendors like ADP and UKG.

Often, the choice to outsource is employee-centric but opens up audit risk. Conversely, the choice to keep payroll in-house serves administrative needs (like accurate job-costing) and reduces audit risk but can make things more challenging for employees. This audit risk can often be mitigated if the payroll provider can also manage the time collection process.

Says Kelley, "If an employee is paid incorrectly, say, because they filled out a timesheet incorrectly, some sort of in-house process is needed to remedy this error. It's important that the error is fixed so that the employee is paid correctly and the regulatory bodies are happy as well."

Kelley continued by saying, "Just because payroll is handled in-house doesn't mean the company doesn't care about employees. Far from it. But the decision to handle payroll in-house is often made because it provides the most accurate job costing and the most accurate reports. A little more audit risk or employee inconvenience is the price of having that clarity for financial operations of the business."

Why process payroll in-house on Viewpoint Vista?

Some companies choose to process payroll in-house. A team of employees, with occasional support from the accounting system vendor or outside consultants, configures and operates a repeatable process to meet payroll requirements.

Companies can tailor the payroll process to their own needs, deciding when to begin the payroll process, managing changes, and addressing unique situations. The company has direct control of the group performing the weekly work and can quickly remedy issues.

Job Costing

"Construction companies should reconsider outsourcing payroll," says Patty Cheney, Principle at VIP Cheney.

"With Vista and many ERP systems for construction, everything is tied together so that you can track the costs on your job properly. You can look and say, 'okay, it cost me this much labor to put in rebar and this is how much I estimated it cost per square foot and so on.' The only way you can do that is to do the payroll in your ERP. And if you outsource the actual payroll process you still have to enter it back into the ERP system so you're creating twice as much work overall."

There are other reasons to keep payroll processing in-house as well.

Taxes and Compliance

Compliance with labor regulations in a variety of locations is a priority for all construction companies. While a third party may be able to navigate these regulations on a company's behalf, any potential risk of error exposes the company to significant downside.[1]

Taxes and workers compensation are additional layers that must be considered. A slight error with a tax filing or workers compensation payment puts the business at risk. An advantage with out-sourcing to ADP or a third party is their handling of complex tax-filings. This is especially attractive for companies operating in multiple states with employees working in non-home states.

Workers compensation insurance covers employees injured on the job. Continued Cheney, "ADP and other payroll systems may handle taxes and compliance concerns, which is great. But they don't handle workers compensation. So, the burden of getting that information to your workers comp provider is still going to fall to your internal team. The idea of outsourcing is to move the task or activity to a trusted third party. For outsourcing payroll in the construction industry you're only moving PART of the task or activity. Your internal team is still going to have some responsibilities."

Accuracy and Responsiveness to Change

Every construction company encounters and must account for unique payroll circumstances. These details are part of the company's institutional knowledge. Transferring this knowledge to a third-party can be a challenge, particularly when changes happen on a regular basis. The customizations, often dynamic in nature depending on the job, can impact accuracy in the payroll process. One missed detail can derail an entire pay cycle… or worse.

Tina Helmsing, Vice President of Finance and Accounting at Guarantee Electrical Company, leads a team of two that processes payroll for more than 1100 employees each pay period. Guarantee handles all payroll internally using Viewpoint Vista for four wholly-owned companies. They operate in multiple states and work with a variety of unions. This complexity would pose a challenge for a third party in Tina's opinion.

"99.9 percent of our employees get paid accurately every single week. I'm proud of that. You can't have employees who aren't getting paid correctly. The accuracy of the internal processes and the fact that we can act quickly when something needs to be changed, updated, or fixed is a big part of what keeps us keeping it internal."

Mitch Maddox of UKG agrees and provides some additional context. "Tina is right. When there is a new change or a nuance that is unique to your business, you would have to call your third-party provider and advise them of that change. We aren't going to know your business as intimately as you are." Mitch continues, "It would be a mistake to think that a partner like ADP or UKG exists to do 100% of everything on your behalf. It's a partnership. We are streamlining the payroll process and handling some of the more complicated aspects for you and your team. Even without handling every last detail, our tools and systems free up tons of time and resources for your construction company."

Limitations and Customizations

Outsourced systems and platforms can also be limited. Says Carlin Lakey, Accounting Systems Administrator at Emery Sapp, "We use Viewpoint Vista for payroll processing due to UKGs inability to code employees to multiple jobs, equipment or expense accounts. UKG is also unable to track certified payroll rates along with fringe and overtime and holiday rules. We can't have a system that gets us 90 or 95% of the way to the solution we need. That doesn't work for our business."

While ADP offers clients the ability to manage Prevailing Wages and Fringes, and can generate Certified Payroll reports, no third-party system can handle every detail or nuance for every business without customization.

Out of the box, the Vista platform offers features to support the majority of payroll configuration requirements. Through customizations, the system is also flexible enough to perform special calculations that are highly specific to your company.

Cheney summarized her thoughts about outsourcing payroll like this: "I think outsourcing payroll is GREAT…just not for the construction industry. And while there are a number of reasons, the biggest one comes down to job costing. You simply cannot accurately estimate and track jobs without the payroll information being entered into the ERP system."

You Already Have the Software

Costs are incurred no matter where you process payroll. Many companies decide to handle payroll themselves because payroll functionality is bundled with their accounting system.

When to Outsource Payroll

External providers offer some unique advantages. External providers can have much larger teams with better coverage of payroll processing, requirements, legal issues and responses, upcoming changes to law, and automatic filings.

A Faster Path to Modernization

Choosing to outsource payroll isn't always about moving an existing internal process to an external party. Glen Ulrich of ADP notes "Some construction companies have been slow to adopt technology. I work with a few that are still using paper timesheets. For many companies, outsourcing payroll isn't a decision between in-house or outsource but a decision between archaic, inefficient processes from fifty years ago and leveraging modern tools, technology, and a partner with trained contractor payroll resources. At ADP we created the Construction Center of Excellence with a specialized team to help assure compliance."

Peace of Mind

Many construction companies choose to outsource payroll for the peace of mind it provides.

Ulrich continues "To start, an outsourced payroll partner can be the check and balance to make sure everything is done correctly. 'Correctly' means more than paying people accurately. It means time and labor compliance, accurate certified reports, handling prevailing wage logic, fringe management, and more. Mistakes with any of that can compound into huge problems for a construction company and may adversely impact financials."

"Consider overtime," continued Ulrich. "To be compliant you must accurately capture time and track overtime. This is especially complex in California and you may need to track overtime to control labor costs. Same with prevailing wage tracking. If you're a contractor working on government public funded work then prevailing wage has to be tracked accurately. If you're doing any fringe offset you'll need to offset that with a bonafide employer or benefit plan."

"You must ensure you're meeting those compliance requirements, and then getting the correct prevailing wage and fringe determination. ADP can help you handle all of that, saving time and giving peace of mind that it's being done correctly. Another concern is pay statement detail provided to employees which can help assure employees that they were paid properly and address union compliance."

Improved Data Awareness

The adoption of new technologies also opens the door to new efficiencies in the field. "When you implement a web-based electronic time system you can have people tracking time in the field on a mobile device or smartphone. The data isn't just visible to supervisors on the job but is also communicated in real time back to the home office. This means leadership has full visibility into what's happening at the job site from a payroll perspective," says UKG's Maddox.

"There's also the misconception in the industry that only the internal ERP can help with prevailing wage and fringe and union rates. That simply isn't true anymore. A lot of third-party systems can help with those things now."

Managing a Payroll Team

In addition to systems, an outsourced provider handles the personnel who process payroll. Offloading the recruitment, training, retaining and managing an internal team of payroll employees can be very attractive to a construction company. Smaller construction companies may not have the scale to maintain an effective internal payroll team. Even the aspect of coverage during team members' PTO can be challenging below a certain size.

Focus on Core Tasks

With a third party handling such a complicated process, internal resources can remain focused on higher level activities that drive company growth. A mid-level payroll employee stuck in a back office can be repurposed and trained to work on job costing and project estimates. A more senior team member can focus on negotiating pricing with vendors. Valuable human resources can be unleashed on more strategic initiatives when payroll is outsourced.

Complete Labor Workflow

Outsourced payroll providers do not limit themselves to payroll processing. Many offer processes related[UG5] to payroll and labor. Some construction companies find a provider's recruiting, candidate tracking or self-service HR workflows an appealing part of outsourcing payroll.

What About a Combination?

Some companies have found that calculating prevailing wage rates on Vista, and outsourcing other payroll processes, results in a more efficient outcome. In fact, hybrid payroll arrangements aren't just growing in popularity, they may in fact be the norm.

Says Mitch Maddox of UKG, "It's important to understand that there is no single definition of 'outsourcing' when it comes to payroll. In many cases outsourcing is simply pressing a button and everything is done. In other cases, there are more collaborative environments or places where in-house resources are still needed for key tasks. Anyone considering the use of a third-party should start by understanding that while there are some more common or more standard arrangements, there is no one-size-fits all."

Michael Kelley's firm, which supports hybrid engagements, sees this model as the best of all worlds. "We come in as the payroll department but the construction company still should have an HR to handle things like time cards." In such a case, the provider serves as a payroll liaison, addressing employee questions about payroll but leaving administrative tasks to the company itself. Even in this example, Kelley admits there are tradeoffs. "Everything is bespoke and there are choices in terms of what to sacrifice in terms of employees and the business needs." A strong payroll partner will help you understand where there are risks for employees and the business and where the maximum benefits exist if you enter into a hybrid model.

Factors that Affect the Insource or Outsource Decision

When considering what makes sense for your own business, a number of things should be taken into account. The right choice for a heavy construction company in Missouri may differ from a homebuilder in Pennsylvania.

1. Size and Complexity of Your Workforce

A homogenous workforce may simplify internal payroll. A large and diverse workforce can make managing payroll in-house very challenging. Construction workforce sizes and types vary significantly, with different types of workers all requiring different payroll approaches. Outsourcing can provide a scalable and flexible service to accommodate fluctuating workforce sizes and complexities. This allows internal teams to focus on core construction tasks.

2. Regulatory Environment

Construction companies operating across different regions or countries face a variety of wage laws and labor regulations. Each jurisdiction has unique tax obligations and compliance requirements. Outsourced payroll providers specialize in navigating this complex environment. Their services ensure their customers abide by all relevant laws.

Says Heather LaDuke, "The tax requirements alone can be reason enough to outsource payroll. Companies that don't understand and know how to navigate the tax landscape can solve a potentially massive problem by calling on a third party for help."

This mitigates the risk of legal repercussions, fines, or penalties. This compliance expertise is even more valuable for construction companies operating in a number of different counties, states, or even countries.

3. Budget Constraints

The budget is not just about the people in-house. Comparing the costs of in-house payroll staff with a third party is not a like-for-like comparison. Your in-house staff could be allocated to other, more strategic initiatives. They will need tools and technology to process payroll. Additional costs add up and must be taken into account.

In-house payroll processing might seem cost-effective initially. However, it's essential to factor in the cost implications of errors, non-compliance, and the required software and human resources. Budget considerations extend beyond the cost of payroll staff compared to the cost of an outsourced partner. A comprehensive analysis of both immediate and long-term costs goes a long way to determine the most financially viable payroll option.

LaDuke continued with a pointed assessment of the costs involved with payroll. "To do it right," she said, "you have to invest. Can you handle payroll in-house successfully? Absolutely. But thinking that in-house or outsource is going to lead to massive cost savings is not true. For payroll to be handled correctly and consistently, you're going to spend the money somewhere."

4. Need for Customization

Every construction company has unique payroll needs, influenced by factors like project timelines and employee classifications. Having in-house control offers a higher degree of customization and flexibility to adapt the payroll system to specific needs. And while many outsourced payroll services now provide a degree of customization, it is important to choose the option that fits your needs exactly. If not, your company may find itself wasting time and money as well as running afoul of compliance requirements. Viewpoint Vista in particular is very customizable to perform super specialized calculations.

5. Company Focus

Many successful construction firms want to keep a tight focus on core construction activities and project management. Managing payroll is extremely detail-oriented and diverts resources from the main business objectives. Outsourcing allows leadership to maintain focus on delivering high-quality construction projects. Outsourced payroll is managed accurately and efficiently by a team of specialists, backed by a reliable vendor. At the same time, a case can be made that an optimized payroll system is key to managing costs, delivering profitability to the business and ensuring customer satisfaction. Who better to optimize the system than your internal team?

6. Technological Capabilities

Construction companies should assess whether they have the necessary technology and expertise to manage payroll in-house. Outsourced providers typically employ advanced payroll technologies and software, ensuring accuracy and compliance. Security is built-in. For construction companies that have not yet invested in much technology, this can be a huge benefit.

Says UKG's Maddox, "The integration is critical. There are lots of benefits to outsourcing payroll but, if you are going to decouple payroll from your ERP system, you absolutely must get the integration right. We can help with that, and with a proper integration to the third party system you'll very quickly see that third-party technology and tools can advance your business in short order."

Michael Kelley agrees, "Even in a hybrid model like we support, clean integrations are critical. One hand has to know what the other is doing if payroll is to be processed correctly and without incurring any risk to the business or employees."

7. Employee Access and Experience

In-house payroll systems can offer employees better accessibility and personalized experiences, addressing questions and resolving issues promptly. On the other hand, a reputable outsourced payroll service can also provide streamlined employee experiences with professional customer support, online and mobile portals, and user-friendly interfaces.

Having seen many companies hire friends or family members to handle payroll, Heather LaDuke offers a word of caution. "Yes, you can hire someone and teach them a manual. You can teach them a step by step process and that will get you far. What you can't teach, however, is the level of expertise and comprehension necessary to make sure everyone is paid accurately and on time AND that all the backend requirements of taxes, wage laws, and regulatory requirements are spot on every time."

8. Risk Management

Payroll processing involves sensitive employee information and is susceptible to risks like fraud, errors, and data breaches. The potential negative impact of a Personally Identifiable Information (PII) data breach can be devastating. A company needs to evaluate its capability to manage and mitigate these risks in-house. Outsourced providers often have stringent security measures and protocols in place to protect data and ensure confidentiality, which can be a significant advantage.

Guiding Questions for Decision Making

After evaluating the factors above, ask these essential questions to guide your decision:

1. What is the total cost of each option? Include immediate and long-term costs like software, training, staff time, and potential penalties for mistakes or non-compliance.

2. How much control do I want over the payroll process? If maintaining control and quick access to data is crucial, in-house processing may be preferable.

3. What level of expertise does my team have? If your team lacks necessary knowledge or experience, experts can ensure accuracy and compliance.

4. What are my future plans for the company? If you're planning to expand or diversify your workforce, a scalable outsourced service could be a good investment.

These questions can help you understand the implications of each option for your company, now and in the future. The goal is to select a payroll process that meets your current needs and supports your company's future success.

Patience is a Virtue

Mitch Maddox of UKG laments the number of times he's seen outsourcing payroll take a turn for the worse. "It's almost always because of rush to a decision. Outsourcing or keeping it in house, every company needs to take their time and gather as much information as they can. Tap into subject matter experts. Companies like mine (UKG) and others like ADP are glad to provide resources and consultation as you decide what's best for you. After all, we may be a technology company but we are in the people business."

Other organizations in your space are a great resource as well. While every company is different, the experience of other construction companies will help you better understand what the right solution might be for your needs.

Closing Thoughts

As you reach the conclusion of this guide, we hope you've gained valuable insights into the critical decision of whether to manage your construction company's payroll processes internally or to entrust them to a third-party provider.

The importance of this decision cannot be overstated, as it directly impacts your company's revenue, efficiency, compliance, and overall success. Remember, there's no one-size-fits-all solution, and careful consideration is paramount. Reflect on your company's unique needs, resources, and long-term goals.

Whether you opt for in-house processing or outsourcing, you should be able to make your decision with confidence, knowing that you've thoroughly explored all the factors and possibilities outlined in this guide.

If you'd like to speak to a team that understands the challenges of construction payroll and has the insights and experience to help, the team at SelectView would be pleased to help.

About SelectView Data Solutions

SelectView Data Solutions is a St. Louis based provider of software and consulting solutions for construction companies around the country. With a focus on Viewpoint Vista, the SelectView team has years of experience crafting software solutions for construction companies and general contractors eager to leverage technology as an engine of growth for their businesses.

SelectView is expert at helping integrate different systems together for maximum efficiency, including Viewpoint Vista, ADP, UKG, and other platforms critical to the operation of your construction business.

To contact SelectView Data Solutions about your technology and software needs or to provide feedback about this eBook, visit www.selectviewdata.com