6 Common Payroll Errors (And How To Fix Them)
Are you frustrated by continuous payroll mix-ups and inefficiencies? You’re not alone. A 2022 survey on the “Future of Payroll” found that 85 percent of respondents had problems with payroll technologies, and 69% had payroll data issues. That’s a significant portion of the American workforce experiencing payroll issues.

The real tragedy? Most of these errors are completely avoidable.

With modern technology, payroll can be efficient, easy, and virtually error-free. But many companies still rely on clunky, manual methods that cause mistakes every pay period. What’s worse, these mistakes aren’t just annoying — they can cause huge fines, poor engagement, and much more.

Let’s look at some of the most common payroll errors and how you can fix them at a systematic level.
How Payroll Errors Can Affect Your Company

Whether it’s a simple miscalculation of hours or a more serious issue like misclassifying employees, mistakes can lead to legal complications, financial losses, and damage to a company’s reputation.

**Financial Losses**

Ernst and Young found that the average cost of fixing a single payroll mistake was $291. Multiply that by the number of payroll errors an average company makes, and you’ll get a staggering figure.

**Legal Complications**

Payroll errors can lead to much higher one-time costs that can add up quickly. Following a recent lawsuit, the John Lewis Partnership paid 36 million pounds to its employees after it failed to pay minimum wage properly to certain salaried employees. That’s more than most companies can afford.

**Morale Damage**

Many people live paycheck to paycheck (78% of Americans in 2017, and the percentage has only increased since). When you depend on your employer in real-time for your groceries and the ability to pay your utility bill, a mishap in the payment process can cut to the quick — even if it’s just a two-day delay.

A PriceWaterhouseCoopers survey on employee financial wellness found that financially stressed employees are far less engaged, and some 76% of respondents stressed about their finances said they would be attracted to another employer that cares more about their financial well-being. Companies need a dependable payroll to build a vibrant company culture and an engaged, productive workforce.

Let’s look at the six most common errors here, and how we can avoid them.
Error #1: Incorrect Employee Classification

Employees and independent contractors may do the same jobs in your company—but from a payroll standpoint, there’s a critical difference between them. The same goes for exempt and non-exempt workers, and when you aren’t clear what type of employees you’re paying, problems abound.

The Fair Labor Standards Act (FLSA) protects employee rights and offers some important provisions and benefits, such as minimum wage, overtime wages, and worker’s compensation. Independent contractors don’t get those benefits. But if you mistakenly categorize an employee as an independent contractor, you could end up paying fines of up to $100,000.

SOLUTION: It pays to check and double-check. Pay close attention to the laws and the differences between both exempt and nonexempt employees, as well as W2 employees and independent contractors. If any of your employees are misclassified, be sure to correct that as soon as possible, ensuring every employment situation is legitimate.
Error #2: Mistakes in Calculating Employee Wages and Hours

Calculating employee hours and wages may seem like simple math, but it can actually be quite complex, especially when union rules and prevailing wages come into play. Even more common is miscalculating things like overtime for salaried employees or employees that make primarily commission. If you have a mix of different pay structures within your workforce, this becomes exponentially complicated each payroll cycle. Mistakes can lead to disgruntled workers, legal complications, and significant financial setbacks.

Most of the time, calculation mistakes occur because of manual methods. If you’re running payroll in a spreadsheet, you’re not doing it as efficiently as you could be. Those errors are likely causing headaches for everyone in your company (payroll, accounting, your workers, etc.).

**SOLUTION:** Reduce mistakes and discrepancies by automating as much of the math as possible. The right payroll or HR software can make time-consuming calculations in just a few moments. Don’t trust spreadsheets and manual calculators for the complexity of overtime wages, employment taxes, and your entire payroll system.
Error #3: Failure To Comply With Labor Laws and Regulations

Labor laws and regulations are complicated, ever-changing, and anything but optional. From minimum wage requirements to workplace safety standards, non-compliance can result in legal disputes, financial penalties, and damaged reputations.

Take, for example, the 7i overtime exemption, a part of FLSA that ensures retail employees who make primarily commissions are paid enough for overtime. If you’re not up to date on the laws you may not even realize you need to make this complex calculation.

**SOLUTION:** There are two ways to avoid non-compliance errors. First, you can hire a team of labor law experts to audit every paycheck. The second (much easier) way is to tap into a knowledge base with comprehensive payroll software that runs the audit for you automatically. Payroll software that automates key calculations and offers features that ensure compliance can be a great help.
Error #4: Ignoring Collective Bargaining Agreements and Union Rules

Union rules and collective bargaining agreements make payroll incredibly complex for some employers — especially in industries like construction. Labor unions are good for worker’s rights, but they’re harder for the payroll departments which must deal with a whole new lot of complications.

Labor unions require specific deductions (mainly union dues) and varying wage rates for employees, which can change based on the employee’s location or the language they’re speaking during their shift.

For example, suppose you’re calculating payroll for Jim, a member of an electrician’s union. Jim works in Baltimore one day and Detroit the next day. He may need to be paid two different wage rates for the hours he worked in each location, and it’s up to you to get it all right.

As the employer, you are responsible for correctly tracking and calculating payroll according to all relevant rules, usually negotiated in contracts with specific unions. If you only employ union members, the weekly calculations might not be too complicated. However, with a multi-state, multi-union workforce composed of both union and non-union workers — payroll can quickly turn into a multi-day process.

If you’re doing it all manually, an error-free pay period will begin to seem the exception rather than the norm. But it doesn’t have to be that way.

*SOLUTION:* Payroll software that specializes in union rules can help you handle all possible contingencies, calculating payroll for union and non-union workers automatically. A comprehensive payroll solution can also include functionality that facilitates communication with unions and provides information they need to ensure their employees are being treated right.
Error # 5: Missing or Incorrect Employee Information

Accurate and up-to-date employee information is crucial for smooth operations, compliance, and efficient communication. A system suffering from missing or incorrect employee information can cause a myriad of problems, including delayed payroll processing, compliance violations, and compromised workplace safety.

Sometimes, the right questions don’t get asked on applications or during interviews. Sometimes, a poor onboarding process can leave key information out of the system. More often, the information was simply filed in the wrong place or not filed at all.

**SOLUTION:** When HCM software with robust data management and record-keeping capabilities is central to your recruiting and onboarding process, you can make sure that collecting employee data is a key part of your workflow. What’s more, you’ll have all the information on every employee right at your fingertips — with self-service options to help employees make changes on their own. The software can also flag profiles with missing info so that you can contact employees and get the data you need long before that first paycheck is processed.
Error #6 Calculating Payroll Manually

Calculating payroll manually is one of the biggest mistakes you can make. Decades ago, it might have made sense. But modern payroll is far too complicated to do by hand, and no one can be expected to keep track of every labor law, collective bargaining agreement, or union rate.

Using paper sheets or managing payroll in spreadsheets wastes an enormous amount of time each week just processing payroll and correcting the inevitable errors. Too much manual effort in payroll (especially with a large employee roster) only creates more errors.

**SOLUTION:** Automate your process with compliant, specialized payroll software to avoid these errors automatically and keep your books clean.
Experience Error-Free Payroll With Criterion

Payroll automation is the key to an efficient, error-free payroll process. There’s no reason to waste time, money, and other resources on a process that is only going to cause problems. Criterion HCM is built to handle the complexity of modern payroll and any other HR challenge you may face.

Completely Configurable

At Criterion, our payroll solution is completely configurable, so you can tailor it to even the most unique payroll processes. With our open API, you gain full access to the backend of the software, allowing you to integrate Criterion directly with any third-party platform. For instance, you can configure your system to automatically send your general ledger directly to your ERP for more accurate accounting. You can then pull financial data from your ERP into Criterion for more precise labor cost allocation and more complex reporting than ever before.
Zero Payment Delays

Leave human error and payroll delays behind. With Criterion, many complex payroll calculations are already built into the software. The system automatically calculates payroll according to any rules you set, making for a fully compliant payroll process with zero payment delays. Criterion can turn your payroll process into a well-oiled machine, saving you more time than you ever thought possible.

Multi-Location/Multi-Union Payroll

Criterion specializes in handling complex payroll processes for companies with both union and non-union workers on the same roster — across multiple states and countries. If you find it difficult to make sure your payroll process is compliant with the abundance of collective bargaining agreements, union dues, and other regulations, Criterion is the perfect solution for you. Many union-specific calculations and wage rates are built into Criterion already. When you classify an employee as belonging to a certain union, our system calculates payroll automatically according to prevailing wages for specific locals — without you lifting a finger.
Final Thoughts

Payroll errors are costly for any organization. When payroll is done incorrectly, employee efficiency, productivity, and morale all suffer. Luckily, you can reduce your errors with a fully-automated payroll process powered by software that's designed to handle the complexity on your behalf.

With an HCM like Criterion on your side, payroll compliance becomes much easier to handle. The software tracks all the rules and regulations that govern your company's unique payroll situation, leaving you with time to actually enjoy that cup of coffee.

Book a demo today to see how Criterion can tackle even your most difficult payroll challenges.