

# Payroll Discrepancy: The Case of Higher Education Institution Employee

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## ABSTRACT:

*This paper addresses a payroll error caused by the complacency of the personnel responsible for payroll preparation. The error resulted in a three-month discrepancy in one employee's compensation. The consequences of this oversight had direct financial implications for the employee, as he unknowingly received a lower salary than specified in his contract. The case highlights the significance of addressing procedural gaps in payroll preparation for improved accuracy and reliability. The significance of this study is that it underscores the importance of implementing measures to prevent such errors from recurring and fostering a workplace environment where employees feel empowered to voice concerns and seek resolution without fear of negative consequences. This study employs case analysis to contemplate appropriate solutions, decisions, or recommended courses of action.*

**KEYWORDS:** Payroll, Discrepancy, Employee, Compensation, Human Resources

## INTRODUCTION

One significant aspect of employment lies in its potential for economic independence and the stability it may offer. Through gainful employment, individuals access a steady income, allowing them to address their necessities, provide for their families, and contemplate future endeavours. The achieved financial stability offers assurance and holds promise in reducing anxiety and enhancing the overall standard of living. Additionally, on a broader scale, employment is acknowledged for its substantial impact on economic expansion and stability. As people earn and spend, they play a crucial role in driving demand, fuelling production, and fostering a cyclical momentum of economic advancement. By actively engaging in the workforce, individuals improve their welfare and play a part in shaping the economic landscape of their local communities and the nation as a whole.

Moreover, employees receive payment for their completed tasks, which acts as compensation and a driving force to exert more significant effort toward achieving organizational objectives. Employees represent an organization's most valuable asset since its operations depend on human resources. This compensation is demonstrated through payroll, serving as tangible proof of the employer-employee relationship. Therefore, ensuring that employees' names are accurately included in the payroll is crucial to compensate them for their diligent efforts.

Payroll is the primary source of income for employees of any organization. Managing payroll constitutes an intricate accounting procedure requiring accurate documentation of hours worked, products produced, tasks completed, services provided, and corresponding compensation (Mashevska, 2021). Processing payroll is vital to any organization due to its direct impact on employee satisfaction. In order to foster employee retention, loyalty, and commitment, companies must ensure timely and accurate disbursement of wages. Accurate payroll processing requires a company to maintain an updated list of all employees and details on their contracted wages, overtime pay, bonuses, and commissions (where applicable). Information regarding employee benefits, such as insurance and retirement benefits, is also essential. Most importantly, companies must promptly ensure that employees receive their rightful earnings (Sridharan, 2021).

In the public sector, emphasizing accountability in payroll is essential for promoting transparency and complying with legal standards. This commitment aims to facilitate fair and equitable compensation, minimizing the risk of favouritism and fostering a work environment grounded in principles of justice. Moreover, a payroll system



that upholds accountability plays a role in effective budgetary control, empowering administrators to oversee public funds responsibly. Consequently, accountability stands as a crucial principle for organizations, and public servants are encouraged to consistently apply this principle in fulfilling their duties. Ethical values such as honesty, trust, transparency, integrity, impartiality, neutrality, and reliability should be demonstrated and integrated into their daily professional conduct (Yusuf et al., 2020).

A well-functioning payroll management system is indispensable for the efficient operation of government functions globally. Though payroll may appear to be a straightforward process, it is, in fact, more complex than it seems. Even a minor error can lead to complications, emphasizing the need for careful and unhurried payroll processing to maintain accuracy (Murla et al., 2020). Conversely, payroll errors can lead to dissatisfaction and frustration, directly impacting employee productivity. The undeniable truth is that the productivity of employees within an organization is closely tied to the satisfaction of its workforce, with compensation playing a significant role in influencing this satisfaction. Fair and timely compensation inspires innovation and a positive work culture (Palladan et al., 2018). Organizations' efficient recording and processing of employee payroll data contribute significantly to the overall smooth operation of the entire organization, ultimately enhancing employee productivity. Errors in payroll processing, such as omitting names or underpaying employee benefits, may negatively impact employee productivity and effectiveness.

In various organizational contexts, the Human Resources (HR) department is the primary channel through which employees can express their grievances. Responsible for various tasks, HR ensures that employees feel secure, valued, and adequately supported (Imm, 2021). Furthermore, HR departments are crucial as intermediaries in addressing employee complaints. Issues related to poor performance, unethical behaviour, or misconduct require the intervention of HR managers. They must carefully handle these complaints and implement suitable actions, such as offering guidance or enforcing disciplinary measures, to address and resolve these concerns. Effective management of complaints is instrumental in fostering a positive work environment and enhancing employee satisfaction.

The issue highlighted herein is the complacency of the personnel responsible for payroll preparation, as there is a lack of double-checking procedures. This lack of double-checking procedures resulted in an oversight affecting an employee's compensation. This study emphasizes the significance of addressing procedural gaps in payroll preparation for improved accuracy and reliability. Hence, this case study aims to draw attention to the issue that may have implications for the claims of the employee concerned and that needs to be resolved.

In this study, the researcher adapted a scenario from a completed case study as a guide in developing research finding.

## METHODOLOGY

This study employs case analysis, a problem-based teaching and learning method. Complex scenarios within an organizational setting are critically analyzed, simulating real-world situations. Reflection and critical thinking skills are applied to contemplate appropriate solutions, decisions, or recommended courses of action. The purpose of a case analysis paper is to present a structured and logically organized format for analyzing the case situation (William, 2015).

Moreover, the method allows for a thorough investigation of the payroll discrepancy, capturing the nuanced experiences and perspectives of the involved parties. It facilitates a comprehensive understanding of the procedural gaps and systemic issues within the payroll management and HR processes.

This research uses data or information from a completed case study. The facts of the case and alternative solutions were integrated into this study to make more precise recommendations. By deeply understanding the case and its context, the study can offer practical, contextually grounded solutions to prevent future payroll discrepancies and enhance organizational accountability.

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## RESULTS AND DISCUSSION

To uphold confidentiality, the author has employed fictitious names to conceal and protect the identity of the individuals involved in this case.

Technological Institute (TI) is a public college in the Philippines with a workforce of approximately 500 individuals. Its primary mandate is to offer advanced vocational, professional, and technical education and training in trade and industrial sectors and other relevant vocational and professional programs. As an educational institution, TI employs both instructional and administrative staff essential to the college's operations and objectives. The teaching faculty, composed of experienced educators, enriches the academic atmosphere by delivering high-quality instruction and guidance, ensuring students receive a robust educational experience. Meanwhile, non-teaching staff members fulfil vital roles in maintaining the college's efficiency, handling administrative duties, and preserving campus infrastructure.

Mr. Jackson, the complainant, was hired as a non-teaching personnel under a contract of service at TI in October 2022 with a daily rate of PHP 509.00. In January 2023, he successfully passed the licensure examination for teachers. Consequently, he renewed his contract as a non-teaching personnel with an updated daily rate of PHP 541.55, reflecting his new qualifications.

Conversely, Mrs. Olive has been employed as an accounting staff member at TI for an extensive period. In her capacity, she is assigned particular tasks predominantly focused on managing payroll procedures. Her principal duty revolves around guaranteeing the precise and punctual computation of employee remuneration. Her meticulousness, expertise in payroll protocols and laws, and dedication to upholding confidentiality are imperative for efficiently operating the organization's payroll framework.

Moreover, the accounting department at TI oversees payroll preparation, ensuring that employee remuneration is computed accurately and adheres to established policies and regulations. Collaborating closely with the Human Resource Management Section, the accounting department maintains meticulous records of daily rates, work hours, leave, and tax information. This meticulous approach ensures the integrity of payroll data and contributes to the organization's overall financial health.

The main problem, in this case, is the payroll error stemming from the negligence of personnel responsible for payroll preparation, particularly Mrs. Olive. Failure to update Mr. Jackson's daily rate in line with his contract resulted in a three-month discrepancy in his compensation, which was only discovered when he applied for a loan and reviewed his payroll details. This oversight directly impacted Mr. Jackson financially, as he unknowingly received a lower salary than specified in his contract.

Mr. Jackson's financial struggles during this period exacerbated the consequences of the error, with every peso holding heightened significance. Moreover, being a contract of service employee, Mr. Jackson was already receiving a lower daily rate than other employment arrangements, further compounding the issue and resulting in significantly reduced compensation. Legal precedents in the Philippines emphasize the importance of upholding contractual agreements and ensuring fair compensation for employees, highlighting the significance of this case in ensuring employees receive their rightful wages and benefits as mandated by law.

Another significant aspect of this case is the reluctance of employees, particularly those on a contract of service, to speak up about such issues due to fear of repercussions or a sense of inferiority. This fear may lead employees to silently endure payroll errors or other workplace issues, undermining trust and confidence in the organization's commitment to their well-being.

The lack of double-checking procedures in the payroll management system and Mrs. Olive's dismissive attitude towards the error underscore the need for a more resilient and efficient payroll management system. A dismissive approach towards payroll discrepancies, regardless of the amount, may erode employee trust and satisfaction and set a precedent that errors may not be taken seriously. Additionally, the failure of the HR office to

address and resolve the matter exacerbates the problem. The HR office should act as the intermediary between Mr. Jackson and the accounting office to facilitate resolution. Accountability is crucial, and measures should be taken to ensure accountability within the respective offices. While the monetary amount involved may not be substantial, addressing the issue is essential for rectifying the immediate financial impact on Mr. Jackson and highlighting systemic issues within the payroll and HR management processes.

Furthermore, it is essential to consider the organizational hierarchy and decision-making structure. Mrs. Olive should not unilaterally decide that the payroll discrepancy is minor and requires no action. Decision-making authority in such matters should rest with the head of the accounting office or someone in a supervisory role. Mrs. Olive's dismissal of the error may indicate broader issues related to communication channels or a need for more clarity in roles and responsibilities within the accounting office.

Addressing these underlying concerns is crucial to fostering a workplace environment where employees feel empowered to voice concerns and seek resolution without fear of negative consequences.

### Alternative Solutions

In this case, three alternative solutions are presented.

First, immediate action must be taken by the HR office, as well as retroactive pay. Retro pay, an abbreviation for retroactive pay, denotes compensation owed to an individual or a collective of employees for services they have previously rendered. It is included in an employee's current paycheck or issued separately to address a deficiency in compensation from a prior pay period. Various factors can lead to retro pay, with payroll errors being the most prevalent cause (Benzaquen, 2023).

In addressing the payroll error concerning Mr. Jackson, a combined approach of immediate action from the HR office and retroactive pay aligns with the principles outlined in Republic Act 6713 Section 4 (c), emphasizing justness and sincerity in public service. Taking immediate action demonstrates a commitment to treating all individuals fairly and sincerely, especially in rectifying employee compensation errors. Simultaneously, implementing retroactive pay, per the contractual terms, upholds the principle of just compensation and ensures that Mr. Jackson receives the correct remuneration for the period in question. This approach not only aligns with legal and ethical standards but also reflects a sincere commitment to the well-being of employees, as mandated by Republic Act 6713. By adhering to these principles, the organization reinforces its dedication to just and sincere public service, fostering trust and equality in the workplace. Continuous monitoring and adherence to legal and ethical standards will be essential to ensure the sustained effectiveness of these actions.

The accounting office can recalculate Mr. Jackson's salary from January 2023 to March 2023, considering the updated daily rate, and provide him with the difference in pay. Furthermore, the contract terms and conditions (4) stipulate that the agreed-upon service fee for Mr. Jackson is Php. 541.55, plus a 2% premium for each day of service, for four days a week, based on eight total hours a day. If this provision was not implemented in the payroll as per the contract terms, there may be grounds for a breach of contract. Implementing retroactive pay for Mr. Jackson emerges as a fitting alternative solution in the case at hand. This approach, rooted in the principle of fair compensation, ensures that he receives the correct remuneration during which a payroll error occurred, as explicitly specified in his employment contract. By recalculating his salary based on the accurate daily rate, retroactive pay not only rectifies the immediate financial discrepancy but also aligns with legal and contractual obligations. Beyond financial considerations, this solution could rebuild employee trust and satisfaction, illustrating the organization's commitment to addressing errors transparently and ethically.

Second, review of the payroll process. Conducting a thorough review of the payroll process stands as a strategic alternative solution to address the payroll error encountered by Mr. Jackson. This solution involves a meticulous examination of the entire payroll workflow, from data input to salary disbursement. The primary objective is to identify any systemic issues, procedural gaps, or inefficiencies that may have contributed to the payroll error. Undertaking such a review enables the organization to pinpoint root causes and implement corrective

measures to prevent similar discrepancies in the future. Moreover, payroll audits serve beyond evaluating an organization's strengths and weaknesses. The outcomes of an audit can drive a more efficient payroll system and enhance the effectiveness of cost and resource management. Conducting a payroll assessment reveals standing in terms of payroll efficiency. The primary purpose of regular payroll audits is to minimize errors, ensure compliance, stay current, and enhance payroll processes, fostering good payroll practices. Identifying what works and what does not enables easy adjustments to existing processes and strategic planning. These ongoing efforts contribute to an error-free and efficient payroll system, ultimately enhancing organizational performance (Ali, 2020).

Lastly, the implementation of a computerized payroll system. Processing payroll is crucial for any organization, ensuring accurate and timely payment of salaries and benefits to employees. Managing the calculation of employee pay manually can be a challenging and time-consuming process, especially for large organizations. Automating this process would offer significant advantages, reducing the time and effort needed to compute employee salaries (Rusly et al., 2018). A computerized payroll system is a software package designed to electronically record, organize, and manage employee information, including names, addresses, and pay rates. In each pay period, the system computes payroll deductions, allowances, and taxes, generates pay slips, and ensures the continual accuracy and currency of all data. Organizations should embrace a dependable payroll system that minimizes errors and facilitates easy change adaptation. Consequently, this can indirectly boost employee motivation and productivity. (Rusly et al., 2019).

Adopting a computerized payroll system as a potential solution for addressing the payroll error involving Mr. Jackson. This system, designed to enhance efficiency and accuracy, offers potential advantages. Reducing reliance on manual data entry aims to minimize the risk of errors. Real-time updates based on employment contracts could contribute to promptly and accurately reflecting changes in employee terms, like salary rates. The anticipated gains in efficiency and time savings for HR and accounting staff could be noteworthy, allowing them to allocate more time to strategic tasks. The system's audit trail functionality contributes to transparency and accountability in payroll processes.

### Recommendation

Among the alternatives mentioned above, it is recommended that the first solution be adopted, wherein the HR office takes accountability and promptly implements action, including retroactive pay. This approach addresses Mr. Jackson's financial concerns, aligning with legal and contractual obligations while demonstrating the organization's commitment to equitable compensation and swiftly rectifying the payroll error.

The HR office showcases accountability and mitigates potential legal consequences by assuming responsibility and taking immediate action. This proactive stance also indicates responsiveness to employee grievances, fostering trust and fairness within the organization. Furthermore, implementing retroactive pay ensures that Mr. Jackson receives accurate compensation for the period affected by the payroll error in accordance with his employment agreement. This action resolves the immediate financial disparity and reinforces the organization's dedication to fairness and adherence to contractual obligations. Such proactive measures address Mr. Jackson's financial setback and cultivate a culture of accountability and honesty within the workplace, enhancing employee relations and organizational credibility.

The decision to promptly act on the part of the HR office and provide retroactive pay aligns with organizational values. It corresponds with legal standards outlined in Republic Act 6713, also known as the Code of Conduct and Ethical Standards for Public Officials and Employees. Section 4 (c) of this act emphasizes the importance of fairness and sincerity in public service, highlighting the need for a just and timely resolution to rectify payroll discrepancies and uphold employee rights. By adhering to these legal principles, organizations demonstrate their commitment to ethical conduct and equitable treatment of employees.

Moreover, insights from legal cases such as G.R. No. 225914





and G.R. No. 223314 underscore the legal ramifications of disregarding contractually agreed-upon wages and benefits, offering valuable lessons applicable to Mr. Jackson's situation. This case underscores the importance of honoring employee rights to fair compensation as mandated by labor laws, underscoring the repercussions of breaching contractual agreements. Organizations can reinforce their commitment to ethical practices, fair compensation, and transparent employment policies by incorporating these legal precedents into decision-making processes.

Additionally, supporting research, like that conducted by Benzaquen (2023) on retroactive pay, further emphasizes its significance in rectifying payroll errors and ensuring fairness in compensation practices. Such findings provide empirical evidence of retroactive pay's efficacy as a mechanism for addressing financial disparities and upholding equity in wage payments.

## CONCLUSION

The case of Mr. Jackson highlights the importance of meticulous payroll management, prompt grievance resolution, and continuous improvement of payroll processes. By addressing payroll errors proactively and implementing effective systems, organizations can uphold employee rights, foster a positive work environment, and ensure operational efficiency. The lessons learned from this case study serve as a valuable guide for organizations striving to enhance their payroll management practices and maintain a fair and supportive workplace for employees.

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