



# PAYROLL ACTIVITIES

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

Questions have been accumulated for all five internal control components. This document includes questions pertaining to various noncompliance issues regarding payroll activities. These questions can be used to aid in designing a proper system of internal control over payroll activities that will allow deficiencies in payroll activities to be prevented or detected and corrected. It is not necessary to address all questions in this document. These are only suggestions and ultimately it is up to the unit on how they implement it. The internal control system as a whole has to be designed and implemented appropriately in order to allow errors and deficiencies in payroll activities to be prevented or detected and corrected.

## Control Environment

The questions in this section are divided by questions that pertain to the governing board and management.

<b>Governing Board:</b>	YES	NO
1) Does the governing board oversee the unit's internal control system over payroll activities?		
2) Are there written policies documenting internal control procedures over payroll activities? If yes, do these written policies outline the authority and responsibility for payroll activities?		
3) Did the governing board establish policies that cross over to various offices and departments for payroll activities?		
4) Are all compensation and benefits paid to officials and employees, including salary changes and the creation of new positions that occur during the year, included in a salary ordinance, resolution, labor contract or salary schedule adopted by the governing board, unless otherwise authorized by law? Note: Compensation for elected officials may be not changed in the year for which it is fixed. County Council approves salaries for counties.		

<b>Management:</b>	YES	NO
1) What procedures did management put in place for payroll activities?		
a. Does management assign responsibility and delegate authority in order ensure proper procedures over payroll activities?		

## Risk Assessment

YES	NO
1) Does management identify, analyze and respond to risks regarding payroll activities?	
a. What areas have been identified regarding payroll activities that may be exposed to fraud risk?	
b. How has management analyzed and responded to identified risks? For example, management may accept the risk and take no action, choose to eliminate certain processes to avoid the risk and/or institute proper internal controls.	
2) How does management prevent fraud and errors in the accounting records, which are used to record payroll disbursements? For example, are important internal control procedures in place such as approvals, regular preparation or review of reconciliations, review of supporting schedules or reports, etc.	
3) What procedures are in place to ensure that payroll disbursements are correct and reflective of the accounting records?	

## Control Activities

YES	NO
1) Is there a system of checks and balances (segregation of duties) to ensure the proper reporting of payroll activities?	
a. Are salary and wage rates verified by someone outside the payroll process?	
b. Are responsibilities for preparing payroll segregated from other payroll and personnel duties? For example, approving time sheets, distribution of payroll checks, hiring and terminating employees, approving promotions, etc.	
c. Are responsibilities for payroll accounting segregated from those involved in the general ledger function?	
d. Are payroll adjustment reports reviewed by someone outside the payroll process?	
e. Are unclaimed payroll checks/stubs returned to an individual other than those involved in the payroll process?	
f. Are responsibilities for posting compensated absences (vacation, sick, personal, etc.) segregated from those who prepare and sign the payroll checks?	
g. Are changes to payroll disbursements approved by an individual other than those authorized to make the changes?	
h. Are responsibilities for reconciling the payroll bank account separate from those involved in the payroll process?	
i. Are responsibilities for payroll data entry segregated from those individuals who have payroll approval authority?	



	YES	NO
2) Are payroll disbursements approved by the governing board by signing the Payroll Schedule and Voucher (form 99) or the Accounts Payable Voucher Register (form 364)? If approval is documented through the use of the Accounts Payable Voucher Register, is the Payroll Schedule and Voucher included with other claims approved by the governing board?		
3) Are time cards maintained for hourly and salaried employees?		
4) Are employees' time and attendance records approved by their supervisors		
5) Is access to time clocks and time cards properly controlled?		
6) Are adequate records maintained showing which hours are worked each day for employees employed by more than one political subdivision or in more than one position by the same unit?		
7) Are corrections to recorded time and attendance records approved by the employee's supervisor and authorized by management?		
8) Are overtime payments monitored, properly supported, approved and reasonable?		
9) Are there adequate authorization and approval procedures regarding compensated absences (vacation, sick, personal, etc.)?		
10) Are leave accruals reviewed for reasonableness? For example employees who have taken leave, but reports don't show a decrease in the accrual balance.		
11) Are procedures in place to ensure that changes in employment status are promptly reported to the payroll processing department and recorded in the payroll data base?		
12) Is a separate payroll bank account maintained?		
13) Are payroll reports reviewed by a department head or designated individual to ensure that payroll costs are allocated to the appropriate accounts, funds, and programs?		
14) Are deposits to the payroll bank account compared with the payroll register?		
15) Are direct deposits properly reviewed, authorized, and approved?		
16) Does the appropriate level of management or another designated individual review reconciliations between payroll registers and general ledger accounts?		
17) Are payroll checks accounted for in numerical order and reconciled to the payroll check register, general ledger and bank statement?		
18) Are payroll check registers and the general ledger reconciled to gross and net pay amounts noted on payroll tax returns?		
19) Is there a year-end reconciliation of total W-2 wages (including taxable fringe benefits) to the wages paid per the payroll register and general ledger?		
20) Are procedures in place to ensure that employees who leave employment are deleted from the payroll system?		
21) Are there adequate procedures in place for changes in payroll deductions? (See Long Version for Payroll Activities Question #29)		
22) Are there procedures in place to ensure payroll taxes are paid in a timely manner and payroll tax returns are filed when due?		
23) Are procedures in place to ensure that other withholdings, such as health insurance premiums, retirement plan withholdings, etc. are remitted in a timely manner?		
24) Are benefit reports reviewed to ensure they are accurate and meet expectations? For example employee paid benefits being paid by the employer, deductions that do not make sense, etc.		
25) Did management design the entity's information system and related control activities to ensure the proper handling of payroll activities? (See Long Version for Payroll Activities Question #33 )		
26) Is access to signature stamps, mechanical check signers or signature plates used to sign payroll checks adequately controlled?		
27) Are payroll checks/stubs periodically distributed by someone outside the normal payroll distribution function?		
28) Are voided payroll checks and documents to support the voided payroll checks retained?		
29) Is the signing of payroll checks in advance prohibited?		
30) Are blank payroll check stock kept in a secure location?		
31) Does a responsible individual take monthly physical inventories of blank payroll checks?		
32) Are signed payroll checks promptly recorded?		
33) Are employee addresses and bank account numbers reviewed to determine if multiple payments are going to the same address or bank account?		



### Information and Communication

	YES	NO
1) Are procedures established to ensure that proper communication and documentation exists for internal communications between offices, departments, management and the governing board regarding payroll activities?		
a. How does the unit internally communicate information to employees regarding payroll activities, including responsibilities for internal control? Are records maintained to document this communication?		
b. Are procedures established to ensure that the communication requirements are being followed and necessary information is being communicated properly?		
2) What procedures are in place to collect the information needed to ensure proper procedures over payroll activities?		
a. Does management use the most current information available to ensure proper payroll activities?		

### Monitoring

	YES	NO
1) Are internal controls over payroll activities evaluated and adjusted on a regular basis? For example, personnel changes, newly elected officials, etc.		
a. What follow-up action is taken for identified problems or weaknesses in internal controls regarding payroll activities?		
2) Are monthly reports detailing payroll disbursements and appropriations for payroll provided to the appropriate department to review for accuracy and reasonableness?		
3) Are monthly reports detailing payroll disbursements and appropriations for payroll provided to management to review for accuracy and reasonableness?		
4) Are monthly reports of payroll disbursements and appropriations for payroll provided to the governing board for review?		
5) Does a confidential reporting system exist so that individuals may report suspected fraud and abuse of the unit's policies?		
6) Is there a comparison by the appropriate level of management or another designated individual of actual payroll disbursements to budgeted and prior payroll disbursements? If yes, are investigations performed for all variances noted?		