

Payroll and Human Resources	W/P Ref	Prepared by:
<p>Payroll and Human Resources Audit Objectives</p> <ul style="list-style-type: none"> ❑ To determine if the departments are complying with System policies and procedures when hiring and authorizing payment to employees. ❑ To determine if the departments are complying with provisions of the Federal grants and other agreements regarding payroll budgets, pay and fringe benefits. ❑ To determine that the payroll is accurately calculated and recorded in the accounting records and only administered to valid employees by the payroll department. ❑ To determine that employee files are being properly kept up to date, that performance and measurement processes are an accurate identification of employee and management needs and to organize training as appropriate by human resources. 		
<p>I. Planning the audit. Obtain an understanding of the procedures within each step of the process.</p> <ul style="list-style-type: none"> ➢ Discuss objectives with Audit Manager ➢ If applicable review most recent audit report and working papers <p>Response:</p>		
<p>II. Preliminary review process. Comment on efficiency (i.e., automated vs. manual) of procedures, missing or duplicate controls.</p> <ul style="list-style-type: none"> ➢ Obtain copy of organizational chart and job descriptions. ➢ Obtain copies of payroll manual and all payroll forms ➢ Interview payroll department personnel. Determine if any unwritten policies or procedures exist. ➢ Review System and Federal regulations ➢ Flowchart or manually document procedures for authorization and paying employees <p>Response:</p>		
<p>III. Preliminary review results documented and additional audit steps determined if necessary.</p> <ul style="list-style-type: none"> ➢ Compile list of all controls within process given the information provided by Step 2. ➢ Review control list to determine if there are missing controls or if duplicate controls exists. ➢ Evaluate internal control of the payroll function to determine any weaknesses and adjust or add testing for any areas which the internal control is indicated as being ineffective. <p>Response:</p>		
<p>IV. Testing to ensure audit objectives are being met. Using the list of controls identified in Step 3, perform the following tests on individual employees:</p> <ul style="list-style-type: none"> ➢ Select a random sample of employees depending on the intensity of audit being preformed, ensuring the sample covers all major business units and, if applicable, countries served. <ol style="list-style-type: none"> 1. Trace employees' name, social security number and wages or salaries from payroll register to personnel files/contracts maintained by human resources. 2. Determine that employee is properly approved for wages authorized, employee is a citizen or otherwise authorize to work in the United States or applicable nation, and that each employee has a W-2, and ensure these forms are maintained and updates as necessary in employee file. 3. Trace time shown on payroll to time sheets signed and dated by 		

<p>supervisors. Ensure all vacation and sick days were accounted for, approved, and properly paid out.</p> <ol style="list-style-type: none"> 4. Determine basis of deductions (medical, 401K, etc) and compare with records of deductions authorized by employees. 5. Test the calculated payroll earnings and tax deductions by tracing amounts to federal and state tax tables. 6. Confirm deductions are properly controlled and dispersed timely to the proper agencies. By reviewing monthly accounts payable records for such activities. 7. Review canceled checks for agreement of payee and amount. Determine that check is properly endorsed. 8. Trace net pay to paycheck and payroll register. 9. Ensure that checks have been authorized for payment before checks were transmitted. <p>Response:</p>		
<p>V. Financial Review of Payroll:</p> <ol style="list-style-type: none"> 1. Trace total payroll for the month to the posting of the general ledger. 2. Review bank statements to confirm that the payroll amount is consistent. 3. Ensure monthly bank reconciliations are being completed timely and that they are reviewed, signed and dated by management. <p>Response:</p>		
<p>VI. Review of other duties administered through payroll:</p> <ul style="list-style-type: none"> ➤ Using payroll and human resource databases and payroll account totals perform a general scan of other payments and duties administered through payroll. <ol style="list-style-type: none"> 1. Take selection of salary differences for employees during the year to ensure increases or decreases were properly authorized. Compare signatures needed for these changes in personnel files. 2. Review subsequent payment of unclaimed payroll checks, and/or cancellation of any payroll checks. Also determine procedures for handling long-outstanding or unclaimed payroll checks, and verify these procedures are in place by scanning outstanding checklists. 3. Obtain list of terminated employees and verify subsequent payroll checks and/or bonus payments were not processed after date of termination. Confirm that final checks were processed correctly and sent directly to employee. Verify that employees were properly authorized to be terminated, do this by reviewing files for reasonableness and authorized signatures. 4. Obtain list of newly hired employees to verify proper calculation of first pay and also verify requirements were met before employees were paid (all forms such as W-2 were dated, signed and on file, etc). Ensure new employees were authorized and adequately needed in department by reviewing files and request of additional personnel. 5. Identify employees being paid a pension and trace pension deductions to the paychecks and through the disbursements sent monthly. <p>Response:</p>		
<p>VII. Test the access to the payroll and human resources systems:</p> <ul style="list-style-type: none"> ➤ Test access to the payroll and personnel systems using payroll and human resource databases and operating systems to ensure that there is adequate segregation of duties over payroll process. <ol style="list-style-type: none"> 1. Ascertain who can access the systems to delete, change or add to standing data and review for reasonableness. 2. Ensure that payroll and human resource systems are password protected and that machines are 'logged off' when not in use. 3. Ensure passwords are unique and changed regularly and are in 		

<p>compliance with corporate policy.</p> <ol style="list-style-type: none"> 4. Examine the possibility of setting up ghost employees in the payroll system, to ensure that only human resource personnel has this privilege. 5. In return, modify payroll wages/salaries or deductions in the human resource database. (These instances should trigger an error or exception report so that the rights of these departments do not overlap.) 6. Ensure that exception reports are regularly maintained and reviewed by management. <p>Response:</p>		
<p>VIII. Additional audit steps determined by review of internal controls:</p>		
<p>IX. Additional comments and concerns:</p>		