

A vibrant neon sign in the background reads "I ❤️ BOB'S" in glowing yellow and red letters. The sign is set against a dark background with a colorful, rainbow-hued grid pattern that recedes into the distance, creating a sense of depth. The colors transition from red on the left, through orange, yellow, green, blue, to purple on the right.

I ❤️ BOB'S

# Payroll Audit and Internal Controls

**Presented by:**

**Tim Cochran, CPP**

**Payroll Technical Analyst**

**CMS**

**[carolinaspayroll@gmail.com](mailto:carolinaspayroll@gmail.com)**



# Controls To Run

- A change report every pay period.
- Review Payroll Register before and after information is submitted.
- Automate as much as possible.
- Implement access controls.
- Perform variance analyses regularly.
- Establish segregation of duties.



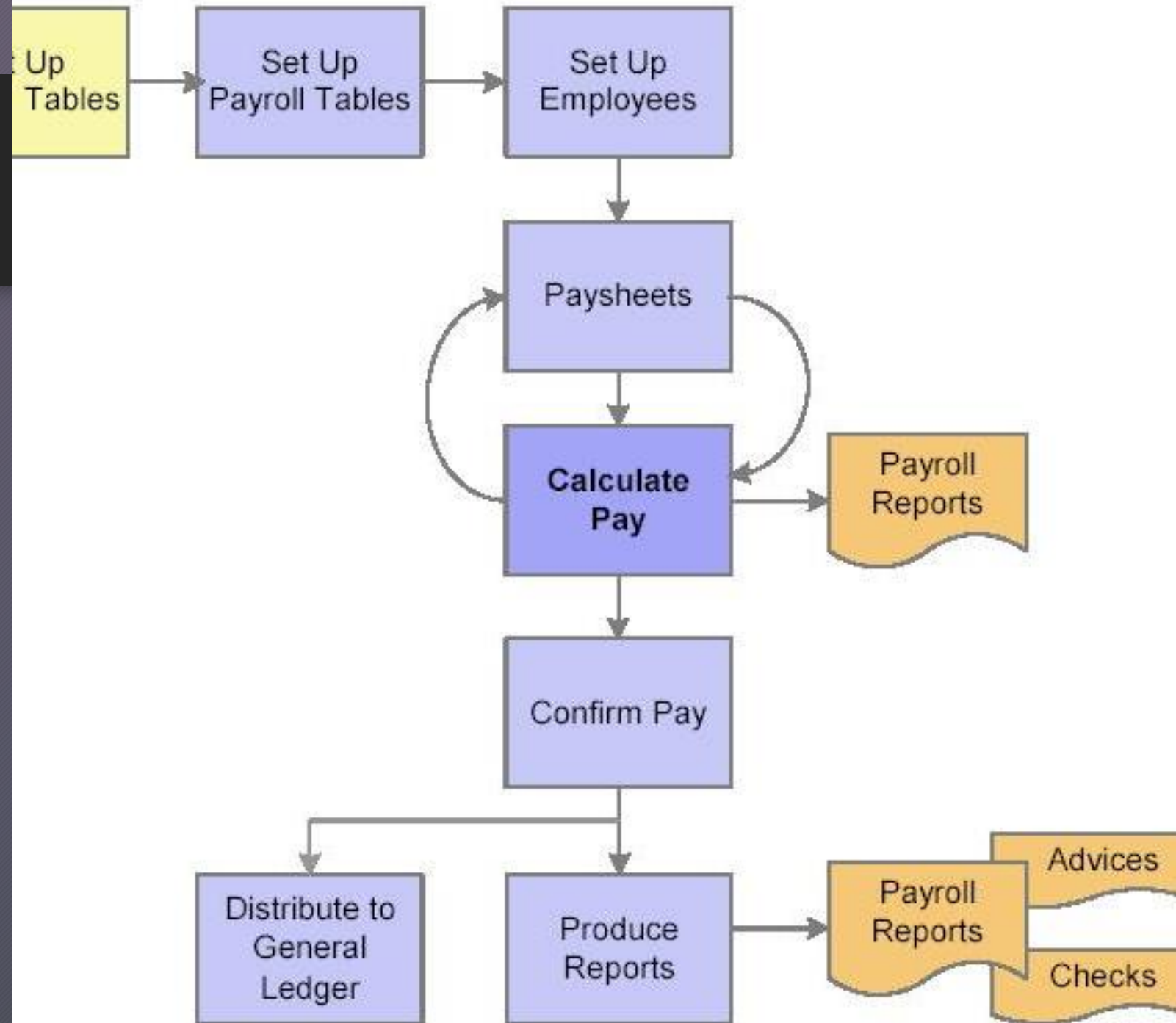
# Controls To Run

- Direct Deposit Audit
- Ghost Employees
- Terminations
- Duplicate payments
- Manual checks
- Salary changes
- Deduction changes



# Process audit

Develop a process flow chart



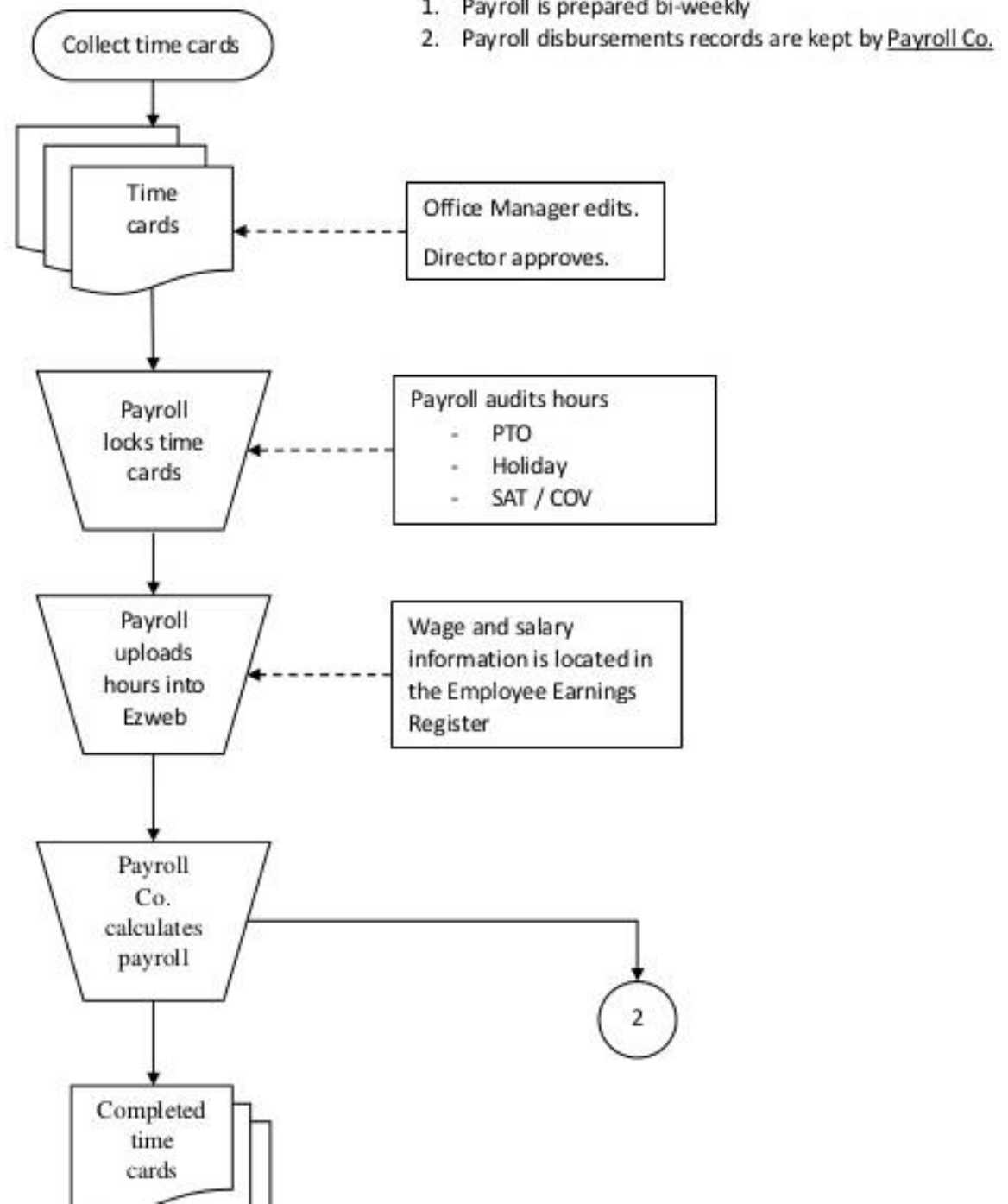


# Process flow charts

- Identify:
  - Duplication of steps or just too many steps
  - Appropriate audit/review points
  - Approvals:
    - Do they exist? Do we have too many? Too few?
    - Are they appropriate?
    - Is the appropriate person performing the approval?
  - Weaknesses
  - Where are the controls? - Audit ✓ Point

# Process flow charts

Don't forget time and attendance



# Process flow charts

- Time and Attendance
  - Look for processing inefficiencies
  - We want and need consistency. Where are the controls?
  - Reporting of inconsistencies should be flagged early in the process and procedures to correct need to be built into the process
  - Are approvals being performed and by appropriate manager?



## Department self audit

- Flow chart review
- Develop list of department functions
- Policy review
- Documents review
- Internal controls review



# Department self audit

- Items to consider
  - What audit procedures have you developed to obtain evidence that payroll data is accurately totaled and free from error?





# Department self audit

- What reviews are done by whom during processing?
- What items should you sample?
- What factors should be considered in setting the size of your sample?

## Internal controls are not just about fraud!

Why?

- They help prevent errors
- Assist in eliminating duplicate processes
- Find flaws in the process flow and help maintain effective & efficient process operations
- Compliance with applicable laws & regulations
- Reliability of Financial Reporting
- Builds department creditability

# Payroll Internal Controls

- Separation of Duties
- Reconciliation
- Authorization and Approval
- Management Policy
- Procedure Documentation

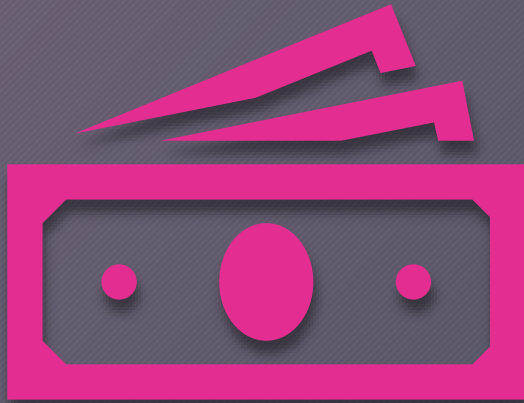


# Separation of duties

## Different people performing key payroll functions

- The same individual who authorizes a payroll action should not be the person to enter payroll transactions
- Cross training should be continuous
- Rotation of job duties

# Separation of duties



- Payroll employees should not process actions affecting their own pay or benefits. Audit trail needed if allowed (one-person payroll office)
- Validation of paper checks before distribution (random check of paycheck distribution to individuals should be performed)

# Reconciliation

- Should be performed on a regular basis and retained to backup your payroll
- Do a pre and post payroll reconciliation
- Monthly perform Payroll GL and Bank Account reconciliations (bank reconciliations should not be done by payroll, but payroll can assist)
- Quarterly and monthly reconciliations should be done for General Ledger accounts, budget and taxes
- Gross to net every pay cycle



# Authorization and approval

- Rules and guidelines must be followed and management supported
- Payroll entries must be consistent with company policy
- Transactions must be authorized and documented
  - Today's system must have audit trail
- Audits need to be in place to ensure authorization and approval
- Are your approvers informed and trained on the Risks and Controls?

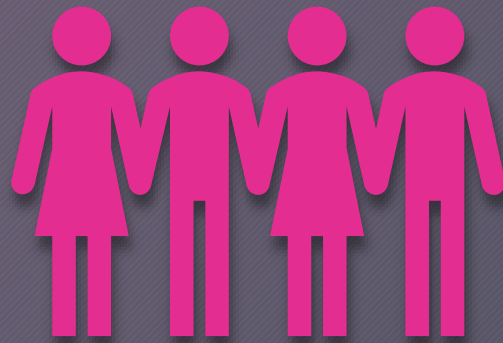
Timing is  
everything!

Look for  
patterns



Develop  
accountability

# Audit sampling



- Sampling is more efficient than testing 100% of a population
- Tests that controls are effective and supporting documentation represents control objective
- Sampling risk - the chance that the sample selected is not representative of the population
  - Risk that there are errors (inherent risk)
  - Risk that procedures will not find errors (audit risk)



# Define test sample

- Define the objectives of the test
  - Example: accurate input of W-4 information



# Define test sample



- Sample result should be objective and defensible
- Define a population
  - Example: by department/division/location, job title, etc.
- What period of time will be covered

# Define test sample

## Define

- Define the sampling unit

## Consider

- Consider the completeness of the population

## Consider

- Consider how the error rate will be measured - variance reporting



# What do we Audit? - Payroll process

- Social Security Numbers - SSNVS
- Forms I-9
- Garnishments
- Tax Deposits
- Benefit Plan Items
- Payroll Register
- General Ledger Balances
- Employee Data Changes
- Tax Rates
- Employee tax set up - reciprocity rules
- Reconciliations
- Interface Data Transfers
- Payments to inactive employees

# What do we Audit? - Time and attendance

- FLSA issues
- Potential fraud issues
- Process
- Union contract compliance
- Record accuracy
- Audit trails
- Federal and state record keeping requirements
- PROOF! Good use of reports to identify what you already know
- Reliable approvals
- Exceptions
- Manual inputs

## Identity theft

- Employer and employee responsibility
- Who has access to social security number, date of birth? Should they?

Do you have internal and external controls for your employee self-service -  
The Cloud is a Risk! Be prepared and secure!

Phishing Scams - what have you done?

# Today's concerns



# IRS Identity theft help sites

Phishing Scams such  
as the W2 scam

- [phishing@irs.gov](mailto:phishing@irs.gov)

Employee data  
loss/stolen

- [dataloss@irs.gov](mailto:dataloss@irs.gov)

Alert States at:

- [\*\*StateAlert@taxadmin.org\*\*](mailto:StateAlert@taxadmin.org)



Thank you for your time!



**PAYROLL  
THE TOEBOYS**

Payroll Rock Stars: Everybody's  
Workin' for the Weekend!