Personnel/Payroll Checklist
Internal Controls

As public servants, it is our responsibility to safeguard taxpayer's dollars in the most effective and efficient way possible while adhering to laws and regulations governing those processes. Internal controls are placed at various points in these processes to ensure that guidelines are followed and that there is accountability to the taxpayers.

This document does not address all possible circumstances that need to be considered when establishing internal controls or assessing risk. Each entity is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate them. Examples of the results of those controls are to support that:

- The agency's policies and procedures for recruiting, training, evaluation, discipline and payroll are in accordance with applicable state and federal laws, rules and collective bargaining agreements.
- Appropriate standards of conduct are communicated and enforced throughout the agency.
- Time worked is accurately recorded and approved.
- Overtime is authorized.
- Payroll is processed timely and accurately.
- The payroll system is updated with changes in federal/state/local laws and taxes.
- Employees are paid on time.
- Disbursements are adequately funded.
- 941s, W-2s and 1099s are produced timely and accurately – and are reconciled to the system/s.
- Segregation of duties is properly maintained.

Control Objectives:
1. Establish accountability as early as possible at all points along the accountability chain.
2. Segregation of duties exists between those responsible for the preparation and processing of payroll, and those responsible for the recruiting, disciplining and removal of personnel.
3. Segregation of duties exists within the payroll approval, data entry, and disbursement functions.
4. Transactions and events are properly recorded.
5. Staff understands their duties, responsibilities, and accountabilities.
6. Payroll practices are documented and in compliance with federal and state laws and regulations.
7. Transaction activities are properly authorized.
8. Payroll amounts are properly verified before disbursement.
9. Accountability for refunds and credits is maintained.
10. Payroll records are protected from unauthorized access, theft, obsolescence, or destruction.
11. Personnel records are safeguarded to prevent unauthorized access and/or the preparation of fictitious records.
12. Payroll records are maintained in accordance with established requirements.

Segregation of Duties:
Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and record keeping for the same activity.
- Managing custodial activities and record keeping for the same assets.
- Authorizing transactions and managing the custody or disposal of the related assets or records.

Stated differently, there are four kinds of functional responsibilities that should be performed by different work units, or at a minimum, by different persons within the same unit:
1. Custody of assets involved: This duty refers to the actual physical possession or effective physical control/safekeeping of property.
2. Recording transactions: This duty refers to the accounting or record keeping function, which in most organizations, is accomplished by entering data into a computer system.

3. Authorization to execute transactions: This duty belongs to persons with authority and responsibility to initiate and execute transactions.
4. Periodic reviews and reconciliation of existing assets to recorded amounts: This duty refers to making comparisons at regular intervals and taking action to resolve differences.

The advantage derived from proper segregation of duties is twofold:
- Fraud is more difficult to commit because it would require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

At a minimum, the following activities should be segregated:
- Responsibility for time-keeping and supervision functions should be segregated from personnel, payroll processing, disbursement and general ledger functions.
- Individuals responsible for hiring, terminating and approving promotions should not be directly involved in preparing payroll transactions or inputting data.
- Individuals approving time sheets should not be involved in preparing payroll transactions or inputting data.
- Individuals involved in payroll data entry should not have payroll approval authority.
- Payroll data entry staff should not enter changes to their own records.

Example Segregation of Duties Controls Questions:

A.	Segregation of Duties:	Yes	No	N/A	Comments
1.	Are salaries and wage rates verified by someone outside of the payroll process?				
2.	Is update access to both payroll and personnel records allowed only with senior level approval?				
3.	Are responsibilities for hiring, terminating and approving promotions segregated from those for preparing payroll transactions or inputting data?				
4.	Are responsibilities for approving time sheets segregated from those for preparing payroll transactions or inputting data?				
5.	Are responsibilities for payroll processing segregated from those of pay distribution and general ledger functions?				
6.	Does payroll data entry staff have payroll approval authority?				
7.	Is payroll data entry staff prohibited from entering changes to their own records?				
8.	Are pay adjustment reports reviewed by someone outside of the payroll process?				
9.	Is reconciliation of payroll funds/accounts performed by someone independent of the payroll function?				
10.	Is payroll distribution handled by employees who are not involved in the hiring or firing of employees; the approval of time and attendance; or payroll preparation and data entry?				

B.	Time and Attendance Records:	Yes	No	N/A	Comments
1.	Are all employees required to sign/log in and record daily hours worked and leave time taken?				

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2.	Are employees' time and attendance records approved by their supervisors?				
3.	Are time sheets/attendance records checked for computations of the reported pay period hours?				
4.	Is overtime pre-approved and within budgeted amounts?				
5.	If a time clock is used, is it placed where a supervisor can observe it?				
6.	Are time cards used only by the employees to whom they are issued?				
7.	Is leave time pre-approved where appropriate (vacation, compensatory, medical, family, etc,)?				
8.	Are attendance records reviewed by management for excessive absences or tardiness?				
9.	Are appropriate "management of effort" records maintained for payroll charged to federal grants (per OMB Circular A-87)?				
10.	Are procedures established for inputting time and attendance into the payroll system?				
11.	Do procedures exist to review time records for completeness, accuracy and supervisor approval?				
12.	Are corrections to recorded time approved by the employee's supervisor and authorized by management?				

C.	Payroll Records:	Yes	No	N/A	Comments
1.	Is access to payroll records secure, and limited to authorized persons only?				
2.	Are appropriate payroll records maintained for accumulated employee benefits (vacation, sick, compensatory time, pension, etc.)?				
3.	Have employee attendance records been established and properly maintained?				
4.	Are changes in employment status promptly reported to the payroll processing unit?				
5.	Are termination settlements (resulting from interviews with employees separating from service) communicated to payroll staff in a timely fashion?				
6.	Are employee authorizations and changes for payroll deductions, tax withholding, etc. kept on file per retention schedules?				

Example Batch Processing Questions:

D.	Do Procedures Provide for the Following:	Yes	No	N/A	Comments
1.	Are payroll expenditures reviewed and approved by an authorized signatory prior to the payroll cycle?				
2.	Is logical access to payroll applications controlled by user logins and passwords?				
3.	Are user roles for application processing assigned so that segregation of duties is maintained?				
4.	Is access to the master payroll file and/or payroll				

		Yes	No	N/A	Comments
	production database limited to employees authorized to make changes?				
5.	Are changes to the payroll file or database approved by someone other than the person making the change?				
6.	Are complete records kept for authorization and documentation of data requiring modification or deletion in order to continue with payroll processing?				
7.	Are reports run prior to batch production to identify exception records (e.g., gross pay > $5k; net pay < $5)?				
8.	Are payroll checks/warrants pre-numbered, blank stock-controlled and used in numerical sequence?				
9.	Are payroll checks/warrants accounted for in numerical sequence and reconciled to the payroll check register?				
10.	Do advices contain detail of gross pay and deductions?				
11.	Are voided/spoiled checks/warrants properly destroyed and maintained?				
12.	If checks/warrants are machine-signed, are controls in place to secure the signature plates and the check-signing machines?				
13.	Is a log maintained to reconcile the counter on the check-signing machine with the number of checks/warrants issued?				

Example General Ledger Questions:

E.	Do procedures provide for the following:	Yes	No	N/A	Comments
1.	Is system assurance/reconciliation conducted on files for pay calculation, pay distribution, register/warrant, check/EFT and general ledger amounts?				
2.	Is the reconciliation performed by someone/unit outside of the payroll function?				
3.	Are material differences promptly investigated?				
4.	Do general ledger controls include adequate account coding procedures for classification of employee compensation and benefit costs so such costs are recorded in the proper general ledger account?				
5.	Is there proper recording of accrued liabilities for unpaid employee compensation and benefit costs?				
6.	Are adjusting payroll journal vouchers approved by an authorized person who does not input payroll?				

Example Payroll Disbursement/Advances Questions:

F.	Do procedures include the following:	Yes	No	N/A	Comments
1.	Are warrants/registers approved before disbursements are made?				
2.	Is a payroll advance account maintained to handle cases of emergency pay?				
3.	Is the advance account regularly reconciled?				
4.	Is a separate payroll fund/bank account maintained?				
5.	Is the payroll fund/bank account regularly reconciled?				
6.	Are employees prohibited from accepting another				

	employee's pay?				
7.	Are unclaimed wages resulting from pay distribution immediately reported to the accounting department?				
8.	Is payroll distributed periodically by someone (e.g. internal auditor) outside the normal distribution function?				

Example Employee Refunds/Overpayments Questions:

G.	Do procedures include the following:	Yes	No	N/A	Comments
1.	Are overpayments to employees requiring refund processing documented and approved prior to processing?				
2.	Are underpayments requiring additional pay properly verified, and time and attendance records adjusted accordingly, prior to processing?				
3.	Are unclaimed employee checks/warrants returned to a business unit other than payroll?				

Example Training Questions:

H.	Do procedures include the following:	Yes	No	N/A	Comments
1.	Does appropriate documentation of procedures exist so that the payroll function could be maintained and operated if key personnel leave or are absent at critical times?				
2.	Is training maintained and updated to ensure personnel and payroll staffs perform their functions effectively?				
3.	Are other employees cross-trained to ensure the uninterrupted performance of personnel and payroll functions?				

Example Tax Reporting/Reconciliation Questions:

I.	Do procedures include the following:	Yes	No	N/A	Comments
1.	Are all payroll taxes deposited timely?				
2.	Are all quarterly and year end reports filed with the appropriate entities timely and accurately so as to avoid penalties?				
3.	Are federal and state withholding certificates on file?				
4.	Are all income taxes and other deductions calculated properly?				
5.	Is there a checklist for tax and other deductions deposit and reporting requirements available for staff to follow?				
6.	Is the payroll application continuously updated with vendor software tax updates, or				
7.	Are there procedures to ensure the entity is notified of all tax updates required to keep the payroll system up to date?				
8.	Are W-2s distributed by personnel not connected with the preparation of payroll?				

Example Personnel Questions:

J.	Do procedures include the following:	Yes	No	N/A	Comments
1.	Have personnel files been established for all employees?				
2.	Do physical controls exist over personnel records to prevent their loss or use by unauthorized personnel?				
3.	Do personnel files include: applications, resumes, withholdings and deduction authorizations and appraisals?				
4.	Do personnel files include documentation of all promotions, raises, transfers, dismissals, disciplinary actions, etc.?				
5.	Have job descriptions been written and updated as needed for every position?				
6.	Are personnel rules and policies published and distributed to all employees?				
7.	Do employees receive performance appraisals on a regular basis, with results fully documented?				
8.	Are changes in employment (additions, transfers and terminations), salary and wage rates, and payroll deductions properly authorized, approved and documented?				
9.	Is the payroll processing function promptly notified of changes in employment, salaries/wages and deductions?				
10.	Are employees separating from service interviewed by personnel department prior to departure, for review of benefits, return of assets (e.g., cell phones, laptops, pagers, etc.), and as a final review of any termination settlement?				
11.	Are procedures in place to remove payroll application, network, and physical office access when employees separate from service whether voluntarily or involuntarily?				