Audit Policies & Procedures

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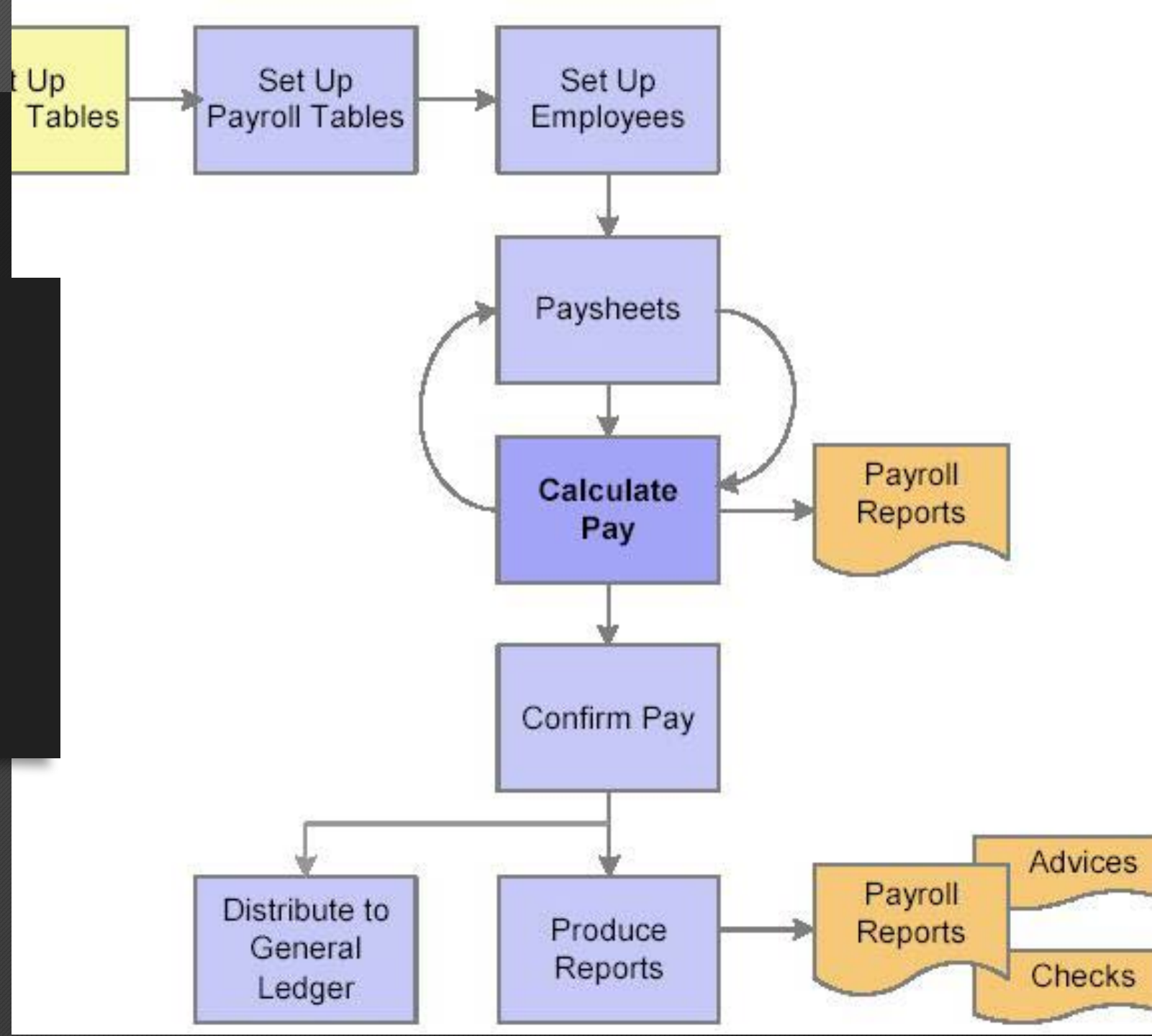
Why audit?

- Assure compliance with federal and state regulations
- Prevent "out of balance" conditions
- Review processes for gaps and inefficiencies
- Fraud
- Are appropriate and necessary controls in place?
- Bring credibility, trust and confidence to your payroll department

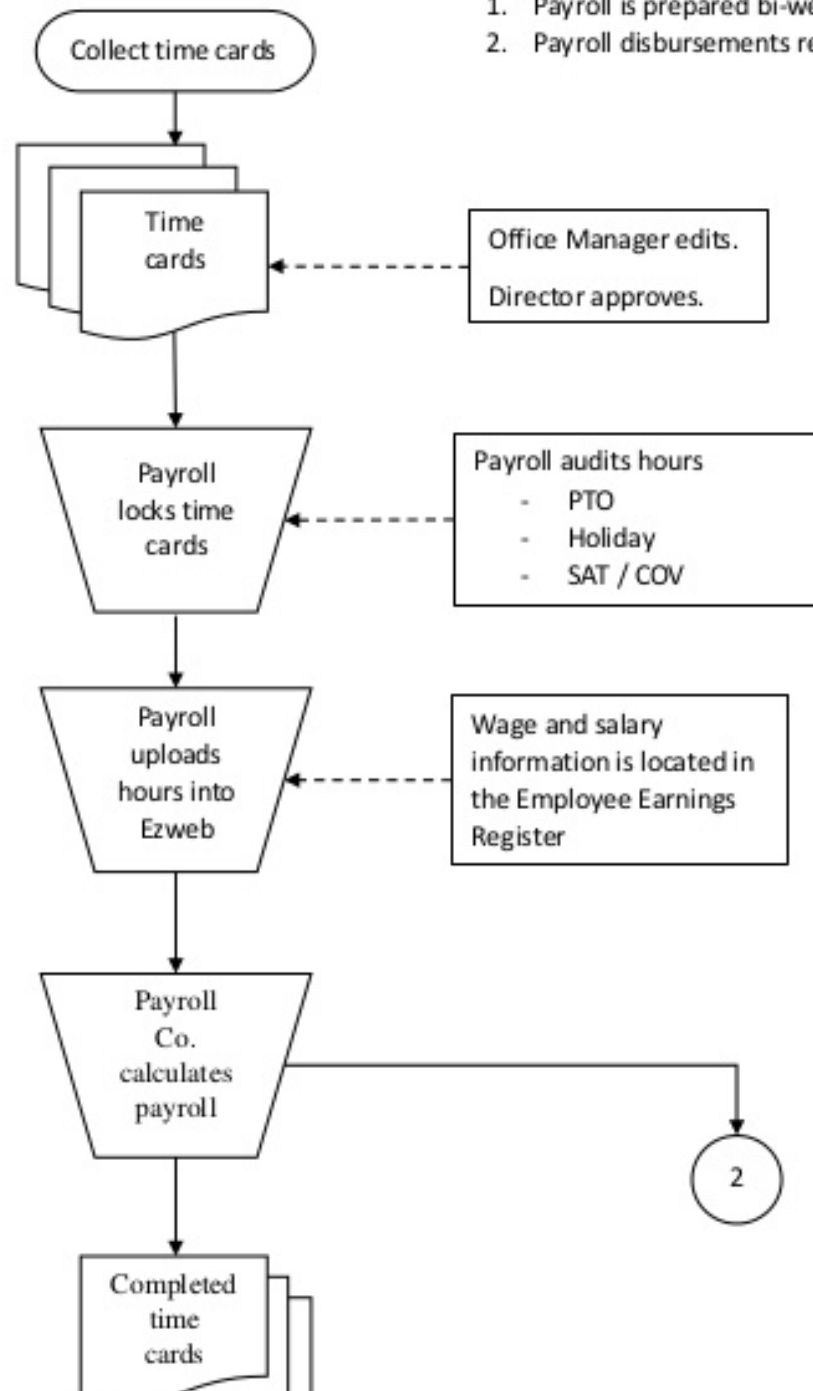# Process audit

Develop a process flow chart

Process flow charts

- Identify:
  - Duplication of steps or just to many steps
  - Appropriate audit/review points
  - Approvals:
    - Do they exist? Do we have to many? To few?
    - Are they appropriate?
  - Weaknesses
  - Where are the controls? - Audit √ Point

Process flow charts

Don't forget time and attendance

Notes

1. Payroll is prepared bi-weekly
2. Payroll disbursements records are kept by Payroll Co.

```
           Collect time cards
                  │
                  ▼
              Time cards  ◄------- Office Manager edits.
                  │                Director approves.
                  ▼
            Payroll          Payroll audits hours
            locks time  ◄-------   -  PTO
            cards                  -  Holiday
                  │                -  SAT / COV
                  ▼
            Payroll          Wage and salary
            uploads    ◄------ information is located in
            hours into         the Employee Earnings
            Ezweb              Register
                  │
                  ▼
            Payroll
            Co.
            calculates ──────────────┐
            payroll                  ▼
                  │                 (2)
                  ▼
            Completed
            time
            cards
```

Process flow charts

- Time and Attandance
  - 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

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

Example: 941-W2-internal spreadsheet reconciliation

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?

Why?

Internal controls are not just about fraud!

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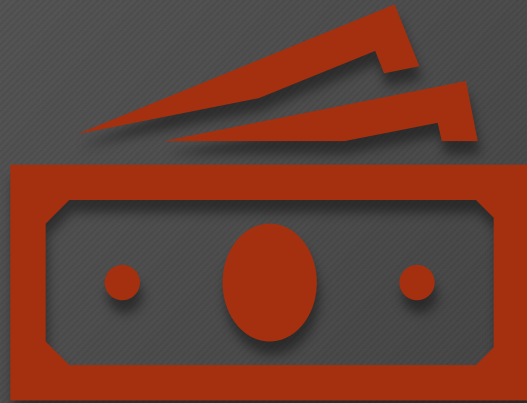
- Payroll employees should not process actions affecting their own pay or benefits. Audit trail needed if allowed (one person payroll office)
- Validation of paper checks before distribution (random check of paycheck distribution to individuals should be performed)

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
  - Todays system must have audit trail
- Audits need to be in place to ensure authorization and approval
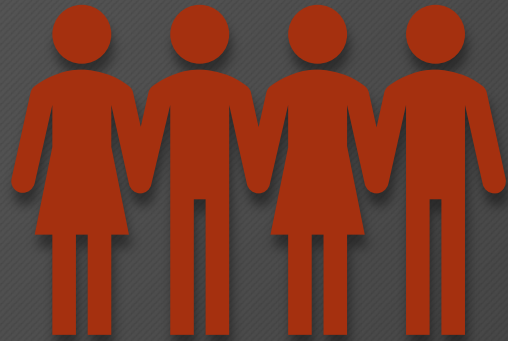- Are your approvers informed and trained on what the Risks and Controls?

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

Today's concerns

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 your done?

IRS Identity theft help sites

Phishing Scams such as the W2 scam

phishing@irs.gov

Employee data loss/stolen

dataloss@irs.gov

Alert States at:

StateAlert@taxadmin.org

Thank you for attending!