

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
PROCESS PAYROLL**

B. Payroll is processed in a cost-effective manner.

Business risks

- The University will incur excessive processing costs.

Control practices

- 1.

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Reliability of financial reporting

A. Employee record changes are properly authorized and accurately recorded.

Business risks

- Unauthorized payments will occur and/or funds will be misappropriated (for example, fictitious employees will be placed on the payroll and terminated employees will not be removed from the payroll).

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B. Payroll costs are accurately calculated from authorized sources and recorded on a timely basis.

Business risks

- Gross payroll will be calculated incorrectly. Improper disbursements will not be detected or corrected.
- Accruals for pensions, vacations, and bonuses will be incorrect and/or unrecorded.
- The payroll tax liability will be incorrect and/or unrecorded.
- Period-end cutoffs for labor distribution and payroll accruals will be incorrect, resulting in inaccurate information recorded in the general ledger.
- Withholdings will be inaccurate.
- Capitalization and expense codes will be inaccurate.
- Applicable deductions will be incomplete.
- Payrolls will not be summarized and posted on a timely basis.
- Inputs for preparation of journal entries will be inaccurate.
- The University will fail to comply with union contracts and other relevant laws and regulations.
- Discrepancy will exist between hours worked, hours reported, and hours paid.
- Incorrect amounts will be disbursed to employees.
- Inaccurate management reports and employee earnings records will be prepared.
- Bonus, vacation and sick pay, overtime and other nonstandard items will not be properly reported and recorded.
- Information or documents will be lacking or lost.

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C. Recorded payroll balances are substantiated.

Business risks

- Unauthorized transactions will remain undetected.
- Errors in the processing, summarization and recording of payroll transactions will remain undetected.
- Labor services provided will not be recorded.

Control practices

1. Require the payroll department to analytically compare recorded amounts with budgeted amounts and prior period amounts.
2. Perform a one-to-one check at period end to ensure payroll expenses through the reporting period are properly recorded and any accruals, if appropriate, are accurate.
3. Ensure an appropriate official reviews sufficient supporting documents before approving and making input changes and adjustments to standing data.
4. Reconcile gross earnings records periodically with the general ledger.
5. Reconcile payroll disbursements and deductions with the payroll register, which is reconciled to the general ledger, and actual disbursements.
6. Reconcile cash payments to the general ledger.
7. Reconcile sub-ledgers (such as accrued payroll and withholding accounts) to the general ledger on a regular basis.
8. Confirm payroll register information periodically with employees.
9. Compare reports of payroll payments to the approved list of active employees who performed work or services.
10. Ensure reports of missing, duplicate, and outstanding checks are periodically produced by the payroll system and reviewed by management.

D. Recorded payroll balances are evaluated.

Business risks

- Recorded balances will not reflect realistic evaluations under conditions existing at a particular date.

Control practices

1. Review and approve periodically the formulas used for accruals.

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E. Payroll disbursements are accurately processed and recorded on a timely basis.

Business risks

- Fraudulent and unauthorized payments will be made.
- Payments will be made to the wrong people.
- Disbursements will be recorded for the wrong amount because of clerical or mechanical errors.
- Cash disbursements will not be summarized correctly and posted on a timely basis.
- Significant payroll errors or unauthorized transactions will not be detected prior to

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Compliance with applicable laws and regulations

A. The University complies with payroll laws and regulations.

Business risks

- The University will incur fines or other penalties for noncompliance.
- The University will have labor relations problems if it fails to comply with union rules.

Control practices

1. Require that the legal and human resources departments develop payroll procedures that comply with relevant laws and regulations (or have at least reviewed procedures for compliance).
2. Maintain an up-to-date policy and procedures manual that addresses legal and regulatory compliance and distribute copies to those who administer payroll.
3. Designate a legal officer to oversee legal and regulatory compliance as it relates to payroll.

B. The University complies with taxation withholding requirements.

Business risks

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