

## **Payroll**

Payroll is generally the largest expenditure of a local government. Therefore, it is important that controls over payroll are in place and working properly.

The size and complexity of the local government will determine the controls necessary to safeguard payroll. For example, for a village with only five employees, there is no need for complex procedures or forms. Good controls could consist of (1) including in the individual personnel files the approved salary or rate of pay amount; (2) requiring all employees to complete simple time reports to document hours worked; (3) requiring the time reports be approved by the appropriate supervisor; and (4) maintaining simple records to account for vacation and sick leave earned and taken by employees.

All procedures for processing, reviewing, and approving payroll, including leave taken and overtime worked should be in writing so that there is a clear understanding of what should be done, how it should be done, who should do it, and when it should be done. The following are some suggestions for a proper system of checks and balances over payroll:

### Employee Personnel Records

A personnel file should be maintained for each employee that contains, at a minimum, (1) the employment application form that includes background information (employee's name, address, date of birth, emergency contact) and work experience of the employee; (2) the approved starting salary or rate of pay amount; (3) the Federal Employee's Withholding Allowance Certificate Form W-4 and Louisiana Employee Withholding Exemption Certificate Form L-4; (4) approved salary or hourly pay rate increases/decreases; (5) employee authorized deductions (e.g., insurance, deferred compensation plan); (6) performance appraisals; (7) promotions; and (8) disciplinary actions.

The completed Form I-9 – United States Department of Justice, Immigration and Naturalization Service, *Employment Eligibility Verification Form* should be completed for all employees hired after November 6, 1986. These forms and related information should be filed separately from the employees' personnel files. If audited, the folder containing all employees' I-9s can be provided to the United States Department of Justice without having to provide each employee's personnel folder.

### Segregation of Duties

Are accounting responsibilities over the payroll process segregated so that no single individual controls all facets of the payroll function? For example, the same employee who prepares the payroll checks and also reconciles the bank account would not be a proper segregation of duties. Also, the same employee who (1) records the payroll data in the accounting system; (2) adds and deletes employees in the payroll system; (3) prepares and prints the payroll checks; (4) uses the check-signing machine to sign the checks; and (5) distributes the payroll checks would not be a proper segregation of duties.

Although it may not be practical to segregate payroll duties because of limited personnel, management should consider the costs of implementing controls compared to the benefits

the controls will provide. When there are limited personnel available to implement adequate segregation of duties, we suggest, at a minimum, that either the mayor or finance committee chairman obtain the payroll bank statement directly (unopened) from the bank and that the canceled checks be reviewed to determine that (a) checks are paid to valid employees and the amounts paid appear reasonable and (b) all checks include the authorized signatures.

#### Attendance Records

Do all personnel prepare and file time/attendance reports to document actual hours worked? Are all time/attendance reports reviewed and approved by a supervisor? If so, is the supervisor's review and approval documented on the time reports? Are standardized absentee forms completed and filed for all employee absences?

We have included examples of time reports and a leave request form on our Web site. These time reports and leave request form can be found at [www.lla.state.la.us/Government Assistance/Best Practices](http://www.lla.state.la.us/Government Assistance/Best Practices).

#### Accumulated Leave Earned and Taken

Are there adequate records maintained to account for vacation and sick leave earned and taken by all employees?

We have included an example of a schedule of leave earned and taken on our Web site. This Excel spreadsheet can be found at [www.lla.state.la.us/ Government Assistance/Best Practices](http://www.lla.state.la.us/Government Assistance/Best Practices).

#### Oversight of Payroll Changes

Is there a computer-generated report available that shows all changes made to payroll (employees added/deleted and pay rate changes)? If so, does someone independent of the payroll and human resources departments review this report each pay period for accuracy and ensure that all changes are authorized?

**Source:** Should you have any questions regarding this article or on payroll and attendance records, contact Joy Irwin at the Legislative Auditor's Office, (225) 339-3800.