

State of Vermont  
Department of Finance and Management

<b>Financial Process:</b>	<b>Payroll</b>	<b>Issue Date:</b>	<b>April 2008</b>
		<b>Number:</b>	<b>BP-09</b>
<b>Topic:</b>	<b>Internal Control - Best Practices</b>	<b>Revision Date:</b>	<b>N/A</b>
<b>Applicable To:</b>	<b>All State Agencies, Departments, And Offices</b>	<b>Page:</b>	<b>1 of 4</b>

Objective

Departments shall devise and implement procedures to effectively and efficiently manage the de-centralized components of the payroll function. Proper internal controls support compliance with administrative requirements, reduce the risk of fraud, minimize costly processing errors, and protect the assets of the state.

Risks

- Payments made to non-existent employees
- Unauthorized payroll transactions processed
- Improper or fraudulent payments to employees
- Lost or stolen paychecks
- Unnecessary costs incurred in correcting processing errors
- Improper or inaccurate charges to departmental budgets or awards
- Inability to provide employees with accurate and timely paychecks

Definition

- Paycheck:** As used in this document, refers to employee paychecks and/or direct deposit earnings statements.
- Timesheet:** The State of Vermont's standard *Time Report* form submitted bi-weekly by employees to report hours worked, absences, and other paid benefits.
- Expense Form:** The State of Vermont's standard *Reimbursement of Travel Expense* form submitted by employees to request reimbursement for travel-related expenses.

Best Practices Include

[Refers to category of [Control Activity](#) as described in [Internal Control Standards: A Guide for Managers](#)]

- ❖ Timesheets and expense forms are submitted with original signatures of the employee and approving supervisor; signature stamps are not acceptable. [Compliance & Approval]
  
- ❖ Time worked and absences taken are reported after-the-fact on the timesheet; if reporting deadlines require an estimate, then adequate controls shall be maintained to ensure appropriate adjustments are made for differences between estimates and actual time worked or absences taken. [Compliance & Monitoring]

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- ❖ Employees ensure the timesheet and expense form headers accurately reflect their name, employee ID #, paygroup, and other required information.  
[Compliance & Verification]
- ❖ Employees ensure that entries for time worked, absences, and/or expenses are made on the appropriate day using the proper codes.  
[Compliance & Verification]
- ❖ Ensure reporting of time and expenses is captured at a sufficient detail to meet any federal or state requirements for charging payroll costs to grants, programs, or projects; maintain supplemental personal activity reports as necessary to meet these requirements.  
[Compliance & Reporting]
- ❖ Overtime hours are approved in advance by the employee's supervisor or a responsible manager in accordance with the applicable labor contract and/or departmental policies and practices.  
[Authorization]
- ❖ Timesheets and expense forms are reviewed for accuracy and approved by the employee's supervisor, and shall not be returned to the employee after supervisory approval.  
[Approval]
- ❖ Timesheets, expense forms, and personnel actions are submitted timely in accordance with the deadlines set forth in the annual payroll calendar issued by the Payroll Division.  
[Compliance]
- ❖ Remedial action is taken by department management to address individual employees (or organizational units) that routinely miss submission deadlines and/or routinely submit inaccurate/ incomplete timesheets or expense forms.  
[Compliance & Monitoring]
- ❖ Cross-training is provided to appropriate staff members to ensure critical payroll functions can be performed and deadlines met during absences.  
[Compliance & Separation of Duties]
- ❖ Direct deposit is promoted as a safer and more cost effective payment method.  
[Safeguarding of Assets]
- ❖ Salary advances are approved and administered in accordance with Dept of Human Resources' [Policy #12.10: Employees Request for Salary Advance](#).  
[Compliance & Approval]

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- ❖ Expense forms and requests for cash advances (re: travel expenses) are submitted and approved in accordance with the Agency of Administration's [Bulletin #3.4: Travel-Related Expenses](#) and the Dept. of Finance & Management's [Travel Expense Field Audit Guide](#).  
[Compliance & Approval]
- ❖ Ensure employees submit expense forms on a timely basis throughout the year in an effort to match the expense & activity in the same fiscal period and to minimize unanticipated expenses at fiscal yearend.  
[Monitoring]
- ❖ Expense forms are reviewed for accuracy and completeness by departmental expense processing staff prior to submission to the Payroll Division (*refer to the Dept of Finance & Management's [Travel Expense Field Audit Guide](#)*).  
[Documentation & Verification]
- ❖ Out of-state travel requiring an overnight stay must be approved in advance by an authorized employee using *Form AAF-10: Authorization for Travel and Advance of Funds*, in accordance with the Agency of Administration's [Bulletin #3.4: Travel-Related Expenses](#).  
*Note: Out-of-country travel requires approval of the Secretary of Administration.*  
[Compliance & Authorization]
- ❖ Ensure that no single employee controls all facets of the payroll function; divide among different employees the responsibilities for (1) approving personnel actions, (2) approving payroll and expense certifications, (3) recording/reviewing payroll financial data, and (4) distribution of paychecks. *In smaller units where an adequate separation of duties is not feasible, it may be necessary to involve executive management; at a minimum, organizations should seek to verify that paychecks are paid only to valid employees and the amounts paid appear reasonable.*  
[Separation of Duties]
- ❖ Alterations to the timesheet (*e.g. insufficient leave time, miscoding*) made by the timekeeper during data entry of the payroll are documented and communicated to the employee and their supervisor.  
[Documentation & Verification]
- ❖ Payroll and expense form certifications are approved only by employees acting within the scope of their authority as delegated annually by the department head in accordance with the Agency of Administration's [Bulletin #3.3: Delegation of Authority](#). Notification of changes in delegation of this authority will be submitted promptly to the Payroll Division using the [Delegation of Authority](#) form.  
[Authorization & Documentation]

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- ❖ Designate a specific employee(s) and a back-up employee to be responsible for the distribution of paychecks. Employees who distribute paychecks shall not be authorized to approve payroll documents or be responsible for reviewing payroll financial reports.  
[\[Separation of Duties\]](#)
- ❖ Paychecks are distributed in a timely manner and only to the employee (or supervisor) unless other arrangements have been made by the employee. Paychecks awaiting distribution to employees are maintained in a secure location.  
[\[Safeguarding of Assets\]](#)
- ❖ Undeliverable or unclaimed paychecks are promptly returned to the State Treasurer's Office with an explanation of the department's inability to distribute the paycheck.  
[\[Safeguarding of Assets & Documentation\]](#)
- ❖ Prior to an employee separating from State service, check for any outstanding salary or travel advances and obtain the employee's final timesheet and expense form (if applicable).  
[\[Safeguarding of Assets\]](#)
- ❖ Maintain data confidentiality and protect against fraudulent activities by granting access to payroll systems and records only to authorized employees.  
[\[Safeguarding of Assets\]](#)
- ❖ An employee shall not approve documents which affect the employee's own pay; formal approval at a higher administrative level is necessary.  
[\[Separation of Duties\]](#)
- ❖ Payroll time & attendance and financial reports are routinely reviewed and reconciled to validate the appropriateness of the data and charges.  
[\[Verification & Reconciliation\]](#)
- ❖ Periodically compare actual payroll costs to estimated/budgeted amounts and investigate unusual variances.  
[\[Monitoring & Reconciliation\]](#)

### Notices

- These best practices are intended to support the internal control framework as presented in the ***Internal Control Standards: A Guide for Managers***.
- In consideration of these best practices, the objective should be on adherence and not on rationalizing ways and means for circumvention.
- Nothing in this document shall limit or supersede any applicable Federal or State laws, statutes, bulletins, or regulations.