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**Internal Control Standards: Departmental
Payrolls**

<http://www.ucop.edu/ucophome/policies/bfb/ia101.pdf>

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Business and Finance Bulletins Home Page: <http://www.ucop.edu/ucophome/policies/bfb/>

I. References

- A. Accounting Manual [Chapter C-173-15](#), Cash: Check Stock Control
- B. Accounting Manual [Chapter P-196-13](#), Payroll: Attendance, Time Reporting and Leave Accrual Records
- C. Personnel Policies for Staff Members-Introduction, 2. Definition of Terms

II. Introduction

The following control standards apply to the payroll functions of departments and other administrative units. Payroll functions include records maintenance, approval, and reporting related to time worked, absences, and sick leave and vacation accrual using time reporting worksheets or equivalent documents and online entry/update screens. Payroll functions also may include preparing and approving personnel action forms or equivalent input documents, such as those used for employment, change, and separation actions.

The following payroll control standards are presented in terms of the most desirable operating conditions. There may be situations when optimum conditions are not attainable or when existing conditions may provide adequate control within the intent of the standards. In such situations, variance from these control standards must have the written approval of the Chancellor, or for the Office of the President, the Senior Vice President--Business and Finance and the Vice President--Agriculture and Natural Resources, in their respective jurisdictions.

This Bulletin does not apply to the UC-managed Department of Energy Laboratories.

III. Control Standards

A. Approval Authorizations

- 1. A campus-designated system administrator grants access and authorization to users of online security systems. For campuses that have not initiated online

security systems, signature authorization or cancellation forms specifying payroll approval authority shall be signed by department chairpersons or administrators at a similar level and filed with the campus Accounting Office. The Accounting Office should be notified promptly of any changes concerning individual authority to approve payroll actions.

2. Employee Data Base (EDB) Online Entry/Update and Payroll Time Reporting (PTR) Online Entry/Update transactions shall be approved only by a University employee to whom the authority has been delegated in writing.
3. An employee authorized to approve payroll documents may not also have responsibility for reviewing Distribution of Payroll Expense reports (PPP5302) or for distributing paychecks or earnings statements.
4. No employee may approve documents which affect the employee's own pay. Formal approval at a higher administrative level is always required.

B. Time and Absence Reporting and Recording

1. Time reporting for pay purposes must follow University policy. Time reported for pay purposes may include but is not limited to the following categories: regular hours worked, paid holidays, earned vacation, or sick leave taken. An employee also may be eligible to receive compensation that is not directly related to effort. Examples of such compensation include but are not limited to specialty pay, holiday premium pay, and incentive awards.
2. Time worked and absences normally will be reported after-the-fact. If reporting deadlines require an employee to estimate time worked to the end of the reporting period, adequate control shall be maintained to ensure that appropriate adjustments are made for differences between estimated and actual time worked.
3. Employees shall maintain records of any overtime worked each day. For employees in classes eligible for premium overtime, overtime worked must be designated either as overtime earned at the straight-time rate or as overtime earned at the premium rate. Similarly, compensatory time off records must distinguish between compensatory time off for overtime earned at the straight-time rate and compensatory time off for overtime earned at the premium rate.
4. Changes made in the EDB Online Entry/Update and PTR Online Entry/Update systems shall be formally approved by an authorized individual.
5. Daily attendance and job time records, including sick leave and vacation accrual records, shall be maintained on a formal and current basis. Individual attendance and job time records shall be approved by the

employee's supervisor and shall not be returned to the employee after supervisory approval.

6. Procedures and controls shall be established to prevent improper payments to employees who have been terminated, demoted, placed on leave without pay, or otherwise placed in any status under which full standard pay is not to be received.

C. Departmental Check and Direct Deposit Earnings Statement Distribution

1. Payroll checks and direct deposit earnings statements shall be distributed in accordance with earnings disposition forms signed by the employees, within the distribution options provided by campus policy.
2. Checks and earnings statements awaiting distribution to employees shall be kept in locked storage accessible only to a check custodian and an alternate who have been formally assigned responsibility for the checks and statements.
3. Custodians who release checks or earnings statements to employees not known to them shall require presentation of proper identification before checks or statements are released.
4. When a check or earnings statement is released to someone other than the payee, the custodian shall:
 - require proper identification,
 - require an authorization signed by the payee to release the check or statement, and
 - obtain a signed receipt which will be retained by the custodian.
5. Any employee who distributes payroll checks and earnings statements shall not be authorized to approve payroll documents or to review the Distribution of Payroll Expense reports.
6. Unclaimed payroll checks and earnings statements delivered to departments for distribution to employees shall be returned promptly to the campus Accounting Office with an explanation of the department's inability to distribute the checks or statements.

D. Review of Post Authorization Notifications (PAN) and Edit Messages

1. PAN notices shall be reviewed by an individual designated as the mandatory reviewer who provides a secondary check for data integrity, internal controls, and compliance with campus procedures governing online EDB changes and PTR entries submitted by a preparer. The mandatory reviewer also ensures against the possibility of entries that could result in fraudulent payments or loss of University funds.

2. All preparers and reviewers must have the necessary knowledge and sufficient authority to process transactions in the online Payroll/Personnel System. *Sufficient authority* means that a preparer may disallow a transaction and a reviewer may question a transaction without being countermanded or subject to disciplinary action.
3. All reviewers shall complete their review of transactions within two (2) business days of receipt.
4. Edit messages for online EDB Entry/Update and online PTR shall be timely reviewed by the preparer to ensure data integrity and compliance with local policies.

E. Review of Distribution of Payroll Expense Reports

1. As a normal administrative control procedure, departments are expected to review the validity of payroll payments charged or credited to their accounts. Departments shall perform a monthly reconciliation of total salaries paid, as shown on the Distribution of Payroll Expense Report, to total salaries approved pursuant to departmental payroll/personnel records.
2. To assure that all payroll charges are appropriately reviewed, departments are expected to establish necessary internal control procedures. A staff member shall be assigned the task of reconciling payroll expenditures and must document that the monthly review has been performed by signing and dating the Distribution of Payroll Expense Review Report or a reconciliation log (or similar record) maintained for this purpose. The log should record the month and year, full accounting unit, name (printed and signed) of the person preparing the reconciliation, and date. Departments shall maintain the log in accordance with the campus retention schedule and make it available for review upon request.
3. An employee who approves payroll time reporting documents and personnel action forms or who distributes payroll checks or earnings statements may not be assigned responsibility for reviewing Distribution of Payroll Expense Reports.

IV. Review of Control Standards

Campuses shall establish procedures to ensure that these control standards are implemented. Such procedures shall provide for systematic reviews to assure that adequate controls for payroll operations have been established and are implemented, including adequate separation of duties within departments. If a department cannot satisfy the control standards described above (e.g., if limited staffing in a small department makes it difficult to separate payroll duties among different individuals), the department shall make use of staff at the next higher administrative level (e.g., Dean's Office) to ensure the separation of payroll duties.