

**ENTITY NAME:** \_\_\_\_\_

## **PAYROLLS AND OTHER LIABILITIES**

We need to understand:

- How and by whom the transactions are initiated
- The accounting processing involved from initiation of a transaction to its inclusion in the general ledger or financial statements, including how the computer is used to process data
- The supporting documents involved, including accounting records and journals, source documents, and electronic means involved in the processing of the transactions
- The documents and reports generated by the accounting system

### **SECTION A**

#### **INTERNAL CONTROL OBJECTIVES**

##### **Payrolls**

- Salary, wage, and benefit expenses are incurred only for work authorized and performed.
- Salaries, wages, and benefits are calculated at the proper rate.
- Salaries, wages, benefits, and related liabilities are recorded correctly as to account, amount, and period.
- Employee payroll withholdings and special deductions are based on signed authorizations by employees.

##### **Other Liabilities**

- Accruals for liabilities are approved by a responsible official, and detail subsidiary records are maintained and reconciled periodically to the general ledger control accounts.

#### **POTENTIAL ERRORS AND FRAUD**

##### **Payrolls**

- Unauthorized work or work not performed is accrued.
- Accrual of employee benefits (e.g., vacation pay, sick leave) is recorded but not earned.
- There are fictitious employees on the payroll.
- Employees' earnings are over-accrued or under-accrued because of improper rates or computation errors.
- Payroll costs, expenses, or related liabilities are misclassified.
- Payroll is recorded in period paid rather than in period earned.
- Time cards or reports are padded.

##### **Other Liabilities**

- Unauthorized expenses are incurred.
- Expenses and accruals are misclassified, recorded at the wrong amounts, or not recorded in the period incurred.

## UNDERSTANDING OF ACCOUNTING SYSTEM

1. How and by whom are the transactions initiated?

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2. Describe the source documents that support the transactions.

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3. Describe the computer media that is used in the processing of accounting information.

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4. Describe the documents and reports generated by the accounting system.

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5. Describe the accounting processing, records, and files (including how frequently they are updated) that are used to process the transactions, including how transactions are reflected in journals of original entry and in the general ledger.

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**SECTION B**

**FURTHER UNDERSTANDING OF CONTROL ACTIVITIES**

**Payrolls**

	Yes	No	N/A
1. Are personnel records maintained independent of payroll and timekeeping functions?	_____	_____	_____
2. Is the payroll accounting function independent of the general ledger function?	_____	_____	_____
3. Are changes to payroll not made unless the personnel department sends approved notification directly to the payroll department?	_____	_____	_____
4. Are references and backgrounds checked for new hires?	_____	_____	_____
5. Are all wage rates:			
a. Authorized in writing by a designated official?	_____	_____	_____
b. Fixed by union contract?	_____	_____	_____
6. Are signed authorizations on file for employees whose wages are subject to special deductions?	_____	_____	_____
7. Is overtime:			
a. Approved in advance?	_____	_____	_____
b. Reviewed for compliance with entity's policy?	_____	_____	_____
8. Are sick leave, vacations, and holidays reviewed for compliance with entity policy?	_____	_____	_____
9. Are appropriate forms (e.g., W-4, INS) completed and signed by employees to show authorization for payroll deductions and withholding exemptions?	_____	_____	_____
10. Is the payroll periodically checked against the personnel records for terminated employees, fictitious employees, etc.?	_____	_____	_____
11. Does the client use a time clock for:			
a. General office workers?	_____	_____	_____
b. Other workers?	_____	_____	_____
12. If the client uses a time clock, are time cards:			
a. Punched by employees in the presence of a designated supervisor?	_____	_____	_____
b. Signed by a supervisor at the end of the payroll period?	_____	_____	_____
13. Are payroll registers reviewed and approved, before disbursements are made, for:			
a. Names of employees?	_____	_____	_____

	Yes	No	N/A
b. Hours worked?	_____	_____	_____
c. Wage rates?	_____	_____	_____
d. Deductions?	_____	_____	_____
e. Agreement with payroll checks?	_____	_____	_____
f. Unusual items?	_____	_____	_____
14. Are all employees paid by check out of a separate bank payroll account?	_____	_____	_____
15. Are payroll checks prenumbered and issued in numerical sequence?	_____	_____	_____
16. Is access restricted to:			
a. Unissued payroll checks?	_____	_____	_____
b. Signature plate?	_____	_____	_____
17. Are checks drawn and signed by designated officials who do not:			
a. Prepare the payroll?	_____	_____	_____
b. Have access to the accounting records?	_____	_____	_____
c. Have custody of cash funds?	_____	_____	_____
18. Are payroll checks distributed by someone other than the:			
a. Department head?	_____	_____	_____
b. Person who prepares the payroll?	_____	_____	_____
19. Is the distribution of the payroll rotated periodically to different employees without prior notice?	_____	_____	_____
20. Is the payroll bank account reconciled by a designated employee who:			
a. Is not involved in preparing the payroll?	_____	_____	_____
b. Does not sign the checks?	_____	_____	_____
c. Does not handle the check distributions?	_____	_____	_____
21. Do payroll bank account reconciliation procedures include:			
a. Comparing the paid checks to the payroll?	_____	_____	_____
b. Scrutinizing canceled check endorsements?	_____	_____	_____
22. Are the payroll registers reconciled to the general ledger control accounts?	_____	_____	_____
23. Is a liability account set up for all wages that have remained unclaimed for a certain period of time? (May also have to transmit to state for unclaimed property.) If yes:	_____	_____	_____

	Yes	No	N/A
a. Have these wages been redeposited in a special bank account?	_____	_____	_____
b. Is identification required to be presented at the time of their subsequent distribution?	_____	_____	_____
24. Are distributions of hours (direct and indirect) to activity or departments reviewed and approved by supervisory personnel?	_____	_____	_____
25. Are actual payroll amounts reviewed and compared to budgeted amounts, and are variances analyzed regularly?	_____	_____	_____
26. Do adequate procedures exist for timely and accurate preparation and filing of payroll tax returns and related taxes?	_____	_____	_____
27. Are employee benefit plan contributions reconciled to appropriate employee census data?	_____	_____	_____
28. Are adequate detailed records maintained of the entity's liability for vacation pay and sick pay? If yes:	_____	_____	_____
a. Are they reconciled to the general ledger control accounts periodically?	_____	_____	_____

**Other Liabilities**

	Yes	No	N/A
1. Are accruals for liabilities approved by a responsible official?	_____	_____	_____
2. Are detail subsidiary records maintained and reconciled periodically to the general ledger control accounts?	_____	_____	_____