SPG U-M Standard Practice Guide

M UNIVERSITY OF MICHIGAN

Payroll Controls

I. Purpose

This Standard Practice Guide outlines the proper procedures and internal controls that must be exercised by University departments for paying faculty and staff.

II. Overview of Payroll Controls

A department's responsibility includes maintaining an effective system of monitoring and oversight to ensure the accuracy and validity of its payroll.

A. Control Steps

There are a series of high-level steps for controlling payroll payments. Each step must be evaluated for proper controls based on the type of time/attendance data collection system that is used in the department and for payroll transactions for individuals who are not required to report time data. In Sections III. and IV., controls are discussed for two basic types of time collection systems – time data collected using hardcopy time reports and time data entered electronically by staff members. Different controls are necessary depending on the time collection system.

The steps are:

Collecting time worked and exception time for non-exempt staff and exception time for exempt staff

- Approving collected time data

  Regardless of the method used to collect time data, time data must be approved prior to the hours being used in the payroll process. Individuals approving the time data must have direct knowledge that hours reported by the staff member are true and accurate or receive some form of assurance from the person who can verify or attest that the hours reported are true and accurate.

- Submitting time data

- Verifying payroll transactions

  The department is responsible for verifying that payroll transactions are accurate.

  Regardless of the method of time data collection, the department must verify the accuracy of payroll amounts and General Ledger transactions by comparing the payroll transaction to the appointment and funding information in the HRMS M-Pathways data base. Departments using hardcopy time reports must also verify the accuracy of the time reported on the Gross Pay Register.

- Monitoring payroll

  In Section V., guidance is provided regarding the monitoring of payroll activity at a management level rather than at a transaction level review. This monitoring includes review of annual compensation across all forms of pay, use and level of overtime, use of leave (vacation, sick and PTO), and volume of hours worked by temporary staff.

B. Key Department Payroll Roles and Separation of Duties

Regardless of the type of time collection system, departments are responsible for maintaining adequate internal controls for processing payroll. This includes establishing an appropriate separation of duties to ensure that one individual is not responsible for recording, approving, and reviewing payroll transactions. Important roles in a department for which there should be separation of duties include:

- Approver – responsible for ensuring that collected time is accurate and complete and approved in a timely manner. Also, responsible for notifying staff member that changes were made to the time data that was entered.

- Departmental Timekeeper – responsible for ensuring that time is submitted in a timely manner.

- Reconciler/Reviewer – responsible for verifying the accuracy of the payroll transactions, including payments to faculty and staff, General Ledger transactions and time reporting data. It is important to reconcile all payroll transactions, including those for individuals who are not required to report time data (e.g. instructional staff).

C. Time Data Differences for Non-exempt and Exempt Staff

Non-exempt staff members are full-time or part-time regular staff members and temporary staff members who do not meet the exemption standards of the federal Fair Labor Standards Act. A record of daily time worked must be generated in the department for each non-exempt staff member. Time data is reported to the tenth of the hour and all hours of the staff member's schedule must be reported with the appropriate Time Reporting Code.

Non-exempt staff members report overtime hours in the same manner as they report hours worked. Overtime hours must go through the signature and approval process prior to being submitted for payment.

Exempt staff members are those professional and administrative staff members, primary archivists, primary curators, primary librarians and primary researchers who meet the exemption standards of the federal Fair Labor Standards Act. Exempt staff members, who participate in leave accrual plans must report their exception time but do not need to report hours worked. Only absences from normal work schedules must be reported. Exception hours should be reported as described in the Standard Practice Guides referenced in Section VII.

III. Departments Using Hardcopy Time Reports

A. Collecting Time Data

Staff members in departments using hardcopy time reports may use either the preprinted, hardcopy time reports distributed by the University Payroll Office or on an internal time report of the department's own design.

For non-exempt staff (biweekly-paid), the hardcopy time report should be used to record the daily hours worked and exception time during the course of the pay period and serves as a cumulative record for departmental reference.

For exempt staff (monthly-paid), the hardcopy time report should be used to record exception time and serves as a cumulative record for departmental reference.

B. Approving Time Data

The preferred practice is to have the hardcopy Time Report signed by BOTH the staff member and supervisor (or authorized designee). While the supervisor's signature is mandatory, departments are encouraged to secure the staff member's signature. Imprinting approval signatures on time reports and internal time documents with hand stamps is not an acceptable practice.

If the hardcopy Time Report will be sent to the University Payroll Office, time data must be transcribed from the internal time report (if one was used) before the supervisor signs the Time Report. The staff member may sign the internal time report if that copy will be retained in addition to the Time Report that is sent to the University Payroll Office.

After the Time Report is approved, the supervisor delivers the Time Report to the departmental timekeeper. Under no circumstances should the approved Time Report be returned to the staff member for delivery to the timekeeper.

C. Submitting Time Data

For departments that have staff report their time on hardcopy time reports, the departmental timekeeper submits the time data after it has been approved either by delivering the hardcopies to University Payroll for data entry or by entering it directly into the Time/Labor module in the HRMS M-Pathways data base.

1. The approved, hardcopy Time Reports are submitted to the University Payroll Office for processing.

   The departmental timekeeper is responsible for ensuring that all time reports are received from staff members in a timely manner. Copies of approved Time Reports must be retained to ensure the accuracy of data entry by reconciling Gross Pay Registers. Under no circumstances should the approved Time Report be returned to the staff member for delivery to the University Payroll Office.

2. The approved hardcopy time reports are electronically data-entered by Departmental Timekeeper (either into a Departmental Timekeeping System or directly into Time/Labor Module in the HRMS M-Pathways data base)

   After time data is collected on a hardcopy Time Report and the supervisor has approved and signed the document, a Departmental Timekeeper must enter the data.

   Departmental Timekeepers should not enter their own time data unless there is no other alternative in their departments. If a timekeeper enters his/her own time data, then a review of the entered time must be done by the individual's supervisor. The computer data should be printed and signed by the supervisor and filed as a retention document.

   If a departmental timekeeping system is used, an electronic interface file is created to transmit to the Time/Labor Module in the HRMS M-Pathways data base. Departments which utilize a departmental timekeeping system must establish a procedure to assure that the data that was sent from the departmental timekeeping system ties to the data that is received by the HRMS M-Pathways data base.

D. Verifying Payroll Transactions

The Gross Pay Register is a report issued prior to each payday listing the salary amounts scheduled for payment to faculty and staff. The department manager or designee must review the Gross Pay Register entries and reconcile the entries to the source document.

1. Accuracy of appointments

   Gross Pay Registers for exempt staff members and faculty must be compared to appointment and funding data for accuracy. Additional pay, summer salary, and appointment overload payments should be verified to department records to ensure that the appropriate Human Resource office has accurately entered appointment information. Any unauthorized or inaccurate transactions must be investigated and resolved immediately by appropriate supervisory staff.

2. Accuracy of time

   Gross Pay Registers for staff members who are required to report hours worked must be compared to internal time records, copies of time reports, and overtime payment forms. Any unauthorized transactions or difference between hours reported and hours paid must be investigated and resolved immediately. If the timekeeper performs this comparison, a designee of higher administrative authority must review the Gross Pay Register and internal time records for reasonableness.

3. Documentation used for reconciliation

   The reconciliation document must be initialed, dated and retained for 2 fiscal years plus the current fiscal year, even if the reconciliation is done using an electronic document.

NOTE: Departments may assume that payroll transactions reported on the Gross Pay Register and the Statement of Activity (SOA) are equal. In the rare instances when the totals on the GPR and SOA are different, the erroneous transactions will be identified and resolved by staff in the University Payroll Office. Departmental staff will be contacted to assist in the resolution.

IV. Departments Using Electronic Transactions Initiated by the Staff Members

A. Collecting Time Data

Departments using self-service to collect time data may have staff members enter time directly into the Time/Labor Module in the HRMS M-Pathways data base or into an electronic, departmental timekeeping system. Departmental timekeeping systems may include time clocks and punch time devices.

When staff members use self-service to enter time data, signatures must be stored electronically when data is entered. The "signature" must uniquely identify the staff member.

B. Approving Time Data

Supervisors must approve time data before it is used in to the payroll process. The supervisor's (approver's) signature must be stored electronically and uniquely identify the supervisor.

Controls for the electronic transaction processing:

- The system must have adequate security to ensure that an appropriate individual is authorizing the transaction.

- A staff member must not be able to approve his/her time data.

- If there is no other alternative than having a staff member approve his/her supervisors' time data, then the information should be printed and signed by the appropriate individual prior to approval in the system. The signed document must be retained for seven fiscal years plus the current fiscal year.

C. Submitting Time Data

If an electronic, departmental timekeeping system is used, then an electronic interface file must be created and transmitted to the Time/Labor Module in the HRMS M-Pathways data base. Departments which utilize a departmental timekeeping system must establish a procedure to assure that the data that was sent from the departmental timekeeping system ties to the data that is received by the HRMS M-Pathways data base.

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V. Monitoring Payroll Using M-Pathways Reports

Monitoring is an important payroll control that aids in identifying losses, errors, or irregularities. M-Pathways financial reports provide a key-monitoring tool. Below are predefined reports that department managers should generate on a periodic basis to monitor payroll.

A. Overtime Analysis Report

This report enables managers to analyze the reasonableness of overtime payments for departments by fiscal year and employee. Input parameters for overtime hours may be determined and set so the report will only display data for employees that were paid total hours that exceed annual department standards.

B. Gross Pay and Benefits Report

These reports enable managers to analyze the reasonableness of salaries, wages and benefits by department, fund, program, project grant, and employee. Department managers or designees should periodically review individual employee compensation levels for accuracy and appropriateness.

C. Temporary Payroll Analysis Report

This report enables managers to analyze the reasonableness of payments for temporary staff by fiscal year and over five fiscal years. Input parameters limit the time period selected for department IDs(s).

Other predefined financial reports and ad hoc reporting techniques may be used to provide transaction analysis, comparisons between budget and actual payroll, comparisons between payroll data from year to year, and are essential in discovering financial trends that may be used for decision-making and for detecting errors and irregularities. Training information, system access, and a complete list of predefined reports are available at the following Information and Technology Services (ITS) Web site http://www.mais.umich.edu/reporting/.

VI. Record Retention

General guidelines for retaining University financial records are provided in Standard Practice Guide Section 604.01 Record Retention. Retention periods for specific department time documents that are not retained centrally by the University Payroll Office are provided below.

A. Departments that submit the hardcopy Time Reports to the University Payroll Office must retain photocopies of these reports for the current fiscal year. Copies of the Time Reports are typically used to reconcile Gross Pay Registers and provide support for payroll transactions. The University Payroll Office retains the hardcopy time reports for seven fiscal years plus the current fiscal year.

B. Departments using internal time documents signed by staff members must retain these documents for seven fiscal years plus the current fiscal year.

C. Departments that transcribe hours into HRMS M-Pathways or into departmental electronic timekeeping systems that interface into HRMS M-Pathways must retain the hardcopy documents for seven fiscal years plus the current fiscal year.

VII. Related Topics

Standard Practice Guides

201.03 Funeral Time

201.04 Summer Appointments UM-Ann Arbor

201.11-0 Sick Time Pay

201.26-0 Holidays

201.26-1 Season Days

201.29 Jury and Witness Pay

201.33 Military Reserve Duty Pay

201.38 Overtime

201.64-0 Vacation

201.68 Moving and Relocation Expenses

201.69 Tuition Support Program

201.85 Non-appointment Related University Compensation

HRMS self-study guides can be accessed using the MY LINC option in "University Business" on "Wolverine Access" http://wolverineaccess.umich.edu/. In MY LINC, choose the "Human Resources Management System" in MAIS LINC.

SPG number:	Applies to:	Related policies:
518.01	All Regular Faculty and Staff	Holidays
		Jury and Witness Pay
Date issued:	Owner:	Military Reserve Duty Pay
July 1, 2005	Office of the Executive Vice President and Chief Financial Officer	Moving and Relocation Expenses
		Non-Appointment Related University
Next review date:		Compensation
July 1, 2009	Primary Contact:	Overtime
	Office of the Executive Vice President and Chief Financial Officer	Sick Time Pay
		Summer Appointments -- UM Ann Arbor
		Tuition Support Program
		Vacation

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