



Item: AF: I-4A

AUDIT AND FINANCE COMMITTEE

Wednesday, October 24, 2007

**SUBJECT: REVIEW OF AUDITS: REPORT NO. FAU 06/07-4, AUDIT OF PAYROLL,
OCTOBER 1 THROUGH DECEMBER 31, 2006.**

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

Objective of this audit were to evaluate payroll processing accuracy and propriety of accounting for a sample of faculty, administrative, and non-student temporary employees; accuracy and timeliness of federal payroll tax payments and filing of related information returns, and proper handling of 2006 year-end tax reporting; and adequacy of management controls used to monitor the payroll function.

No reportable recommendations were made as a result of this audit.

IMPLEMENTATION PLAN/DATE

Not Applicable.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Report No. FAU 06/07-4.

Presented by: Mr. Morley Barnett, Inspector General

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Office of Inspector General

Audit of Payroll

October 1 through December 31, 2006

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2006-07, we have conducted an audit of select functions and processes within the Payroll Office at Florida Atlantic University. This audit did not include, among other things, employee leave use and accrual, employee benefit deductions and related issues, and tax compliance issues other than those specifically mentioned in the objectives described herein. The excluded areas have been, or will be covered in other audits or special reviews by the Office of Inspector General (OIG), and/or the Auditor General's Office.

Our audit objectives were to determine whether:

- Employees' gross/net pay was properly supported, accurately calculated, and timely recorded in the university's accounting records;
- Federal income withholding and social security/Medicare payroll taxes, as well as State unemployment taxes, were accurately calculated and timely filed and remitted to the appropriate governmental agency;
- IRS Forms W-2 (*Wage and Tax Statement*) for calendar year 2006 were accurately prepared, distributed timely to all applicable employees, and filed timely with the Social Security Administration; and,
- Management was receiving and reviewing appropriate biweekly payroll exception reports in order to identify anomalies, and correct errors, where applicable.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of employee payroll records in order to determine whether control procedures were operating effectively.

We obtained an understanding of the selected payroll operations by reviewing written policies and procedures, interviewing key departmental personnel, performing analytical reviews of select payroll data, observing actual practices, and evaluating key internal controls. Our assessment of compliance with applicable laws, rules and regulations, and established policies and procedures was based on reviews of pertinent supporting documentation for judgementally selected samples of employees. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls, our assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

BACKGROUND

The Payroll unit of the Controller's Office is responsible for preparing the employee wage payments for all departments within the university as well as the direct support organizations. Other duties of the unit include, but are not limited to:

- Remittance of payroll tax payments;
- Preparation and filing of payroll tax returns;

- Submission of third party payments and reports for employee payroll deductions;
- Processing of employee IRS Forms W-4 and W-5, and direct deposit authorization forms;
- Ensuring compliance with nonresident alien (NRA) taxation rules and treaties;
- Calculation and processing of retroactive employee wage payments;
- Recording employee fringe benefits for taxation; and,
- Analyzing the taxability of student employees.

The Payroll Office is under the direction of an Assistant Controller, and is staffed by a manager and five payroll specialists/accountants. For the quarter ended December 31, 2006, the university had an average of approximately 5,000 employees with total biweekly gross pay of approximately \$7.3 million.

OBSERVATIONS and COMMENTS

Corrective Action Already Taken

The Payroll Office uses the Electronic Federal Tax Payment System (EFTPS) to electronically remit Federal payroll taxes to the Internal Revenue Service (IRS). During the course of our fieldwork, we determined that two managerial/supervisory employees - the Assistant Controller and the Payroll Manager - had common knowledge of the single Internet userID and password needed to access the EFTPS, and, as such, there was a lack of proper accountability for the EFTPS payment transactions processed by the Payroll Office.

After we brought the aforementioned issue to management's attention, a separate userID and password was requested for the Payroll Manager, and the Assistant Controller changed the original shared password so that she was the only user with knowledge of the changed password. To the extent that we were able to verify that this corrective action had been taken prior to the completion of our fieldwork, no further action or response from management is deemed necessary.

Prior Audit Recommendations

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit.

All recommendations from the previous payroll audit were found to be effectively implemented either prior, or subsequent to the issuance of the audit report (Report No. FAU 03/04-5).

CONCLUSION

Based on our observations and tests performed, we believe that the established policies, procedures, and practices in place are adequate to ensure proper operational and administrative control of the audited payroll functions.

We wish to thank the staff of the Payroll Office for their cooperation and assistance, which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE
Inspector General

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