



Fiscal Officer Training 2008 Payroll

Presented By:
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Operations and Charge Card
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- Welcome to the Department of Accounts (DOA) Fiscal Officer Training for Payroll
- The objectives for this module are to convey
 - Importance of effective Payroll administration
 - Importance of internal Controls
 - DOA Initiatives
- DOA operates the centralized payroll system known as CIPPS. But this training can also be beneficial to those Payroll offices who are decentralized.

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Why should you care?

- Payroll services = \$5.6 billion in FY04
- Over 50% of many agencies' budgets
- High Risk
- High Exposure
- Employee Morale



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- Payroll (and fringe benefit) expenditures often consumes over 50% of budget of an agency's budget
- That's one reason why you should be concerned.
 - In FY08 payroll expenditures accounted for 2.2 billion dollars in the Commonwealth's expenditures.
- Payroll is considered a high risk function due to
 - Potential for unauthorized transactions
 - Errors
 - Fraud
- It is also a high exposure function
 - Employees scrutinize and question any discrepancy on their checks. No 95% compliance acceptance rate – payroll must be 100% error-free.
- Isn't this a major reason we come to work each day?
 - Once an employee becomes disgruntled, the word can spread throughout the agency like a computer virus.

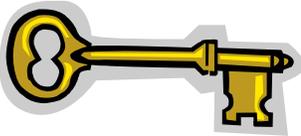
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Internal Controls are a Key Factor

- Objective: to ensure payroll disbursements made with proper authorization to bona fide employees
- Disbursements are properly recorded and meet legal requirements



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The best way to reduce risks associated with payroll is to have strong internal controls in place


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Internal Control Principles

- Separation of Duties
- Training and Supervision
- Authorization and Approval
- Review and Reconciliation
- Security of Confidential Records
- Documentation

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•The same internal control principles that you utilize in other areas, apply to payroll as well.

•See CAPP Topic 50105, Introduction, for additional information on CIPPS controls.


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Separation of Duties

- Different people performing key payroll functions
- Payroll employees should not process actions affecting their own pay
- Payroll personnel should not be responsible for distributing checks or earnings notices

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- Your organizational structure must provide sufficient checks and balances.
- The same individual who authorizes a payroll action should not be the one to enter that payroll transactions.
- Never permit payroll personnel to enter data which affects their own pay.
- Many years ago, an audit uncovered that a payroll officer changed their health care code to a LWOP value so that the full premium was charged to the agency. As the monthly health care reconciliation only compares total premiums, not premium source, this went undetected for a long period of time.**
- Similarly, payroll personnel should not distribute payments on pay day. If the same individual who enters new hires and pay transactions is responsible for receiving and distribution of pay checks, how will you know if a fictitious employee has been added to your payroll?

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Training and Supervision

- Payroll personnel should be sufficiently trained
- Periodic retraining is suggested
- Backup personnel is a necessity to ensure payroll processing goes undisrupted
- Semi-annual CIPPS training provided

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• Payroll is governed by a variety of external and internal entities that can impact your gross-to-net calculation:

- Dept of Labor and FLSA (contractor v emp status, work week records for overtime purposes, etc.)
 - IRS and Federal tax laws
 - Tax departments of various states that your employees reside in
 - Court systems processing child support and garnishments
 - DHRM and administration of benefits and compensation
- World of Payroll is not static.
- Well trained and supervised employees help ensure that the internal control processes you have in place function properly.
- Periodic retraining keeps payroll personnel knowledgeable
- functions not routinely performed
 - new or improved features.
- Encourage APA (American Payroll Association) membership and CPP (Certified Payroll Professional) certification which provide networking opportunities and sharing of best practices.
- Imperative to have sufficient backup personnel trained to ensure that payroll functions do not go disrupted due to turnover or absenteeism
- Cross training
 - job sharing
 - Buddy system

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Authorization and Approval

- Payroll entries must be consistent with policy
- Transactions must be authorized and documented



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- To ensure that entries are consistent with policy, those who authorize payroll transactions need to be trained as well.
- It is key to have effective communication and coordination between those who generate transactions and those who enter them. For those agencies who utilize PMIS, an automated interface has been developed to minimize duplicate keying. However, there are still a number of actions which require data entry into CIPPS.
- For many agencies, PMIS is the point of authorization for many changes affecting employees including salary changes
 - The authorization is not complete until PMIS is updated
 - Enforce to the Human Resource staff timely updating of PMIS has a direct impact on correct calculation of payroll. Payroll should not be updated until an official notice of authorization is obtained from PMIS or your agency HR system.
 - DOA performs a CIPPS/PMIS post-audit to
 - Compare ensure that pay does not exceed authorized amounts
 - Validate shift differential, overtime pay and various special pays like vsdp or leave payouts
 - Verify that pay period dates fall within position authorization dates
 - Validate hourly rates with role code maximums
 - In FY2008, we audited over 8,727 exceptions
 - resulting in the identification of 143 overpayments
 - a recovery of over \$78,215


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Review and Reconciliation

- Regular reconciliations are essential
- Pay Period: pre and post reviews for certification (CIPPS/FINDS and PAT)
- Monthly: Health Care; Retirement
- Quarterly: Validation of Form 941 reporting
- Yearly: Validation of Form W-2 amounts

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- On average, payroll costs represent the largest component of your budget so regular reconciliations are vital to safeguarding the assets of the Commonwealth.
- Whenever controls and management reviews are not applied carefully and consistently, the potential for fraud exists.
- Pre-certification review
 - CAPP Topic 50805, 50810
 - For CIPPS agencies, the use of CIPPS/FINDS and PAT (Payroll Auditing Tool) can facilitate such reviews. See CAPP 70735
 - Were all transactions entered, authorized?
 - Did all transactions process as intended?
 - Do the source documents support the transactions?
 - Is the total amount reasonable compared to the last payroll?
- Post-cert review to ensure changes are not made to the payroll after your certification
 - CAPP topic 50820
- Benefit expenditures account for 15 to 20 percent of your payroll costs and should be reconciled monthly.
 - Absence of regular reconciliations could cause hardships for employees in the form of denied or insufficient benefits.
- Quarterly and yearly validation of wage and tax totals is essential to ensure reporting to the IRS is accurate.

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Security

- Protect employee information
- Restrict access to personnel records
- Review security access periodically
- Remove security access immediately upon employee separation from position



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- From HIPPA to identity theft, security has become one of the hottest topics in the nation.
- Do you adequately provide safe and secure storage of personnel and payroll records, including payroll checks and earnings notices?
- Do you periodically review who has security to access HR and Payroll systems? Is the level of access necessary? Does that person still need it?
- Do you have a system in place to **PROMPTLY** remove security for employees who separate from a position requiring such access?
- As there are numerous systems and levels of security in the Commonwealth, you must think of all access authorizations – PMIS, CICS, Millennium (CIPPS), Payline, etc.
- **APA auditors have identified numerous examples of CICS access being removed; however, no notification was provided to DOA to remove Millennium security. Therefore, once the employee moved to another position or even another agency which still provided the CICS access, that employee could continue to access CIPPS data.**
- When DOA distributes verification listings of CIPPS access to the Fiscal Officer, we require your signature certifying the accuracy of the accesses granted. Non-compliance **WILL** result in removal of all employee access to the applicable system (CIPPS, Payline) until the certified report is returned to DOA.


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Documentation

- Policies and procedures should be well documented and updated timely
- CAPP manual on DOA's website – CIPPS
- Personnel/payroll changes supported by documentation
- Use attachments/footnotes for corrections or adjustments

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• Training and retraining is important. But clearly documented and continuously updated written policies and procedures are just as important.

• Information available

• Most information required for CIPPS agencies can be found in the CAPP manual on our website

• DOL-FLSA: http://www.dol.gov/dol/allcfr/ESA/Title_29/Chapter_V.htm

• Virginia DOL: <http://www.dli.state.va.us/infocenter/regulations.html>

• IRS-Circ E: <http://www.irs.gov/publications/p15/index.html>

• However, agency specific procedures for processes which occur prior to data entry into PMIS and/or CIPPS, must be defined and documented to supplement the CAPP manual.

• Documentation also extends to payroll and personnel changes performed to ensure the accuracy and completeness of transactions.

• Where necessary, use attachments or footnotes to identify the purpose of corrections or adjustments to original transactions.

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Direct Deposit

- 80,250 participate
- Increases security and control
- Saves time
- Ensure funds received on payday



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Have you had enough of internal control? Let's talk about some of our initiatives:

- E-Commerce – the direction of the present and the future. Direct Deposit is just one of the many forms of E-Commerce employed by the state
- Currently 80,250 wage and salaried employees participate in Electronic Funds Transfer or Direct Deposit. That is 94% of salaried employees and 77% of wage employees
- 100% is the goal.
- Remind your employees that DD increases security and control because the information and funds pass through fewer hands and with less chance to be compromised or lost.
- DD saves time that would otherwise be spent in bank teller lines or ATM lines.
- And DD ensure that funds are deposited even when employees are not in the office on payday, maximizing employee fund access and interest earnings.


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Direct Deposit Mandate

- Effective August 1, 2008
- All new hires and rehires required to receive pay electronically
- Financial institution of employee's choice or EPPICard
- Exceptions must be granted by DOA

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•§ 4-601.e.2 of the Appropriation Act (Chapter 879, 2008 Session) authorizes the Comptroller to mandate payment of wages or salaries to state employees via electronic payments.

•The first step toward implementing this mandate will be the requirement that all newly hired or rehired employees to the Commonwealth receive their net pay via an electronic deposit.

•This electronic deposit can be to a financial institution of the employee's choosing, to the Commonwealth's payroll debit card (EPPICard), or to any other personal debit/pay card that will accept electronic deposits.

•This applies to all employees with a hire date of August 1, 2008 or after, paid either centrally or by a decentralized higher education institution.

•Agencies can grant exceptions in limited circumstances after receiving approval from Lora George or Cathy McGill


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Direct Deposit Mandate

- DOA not mandating direct deposit statewide yet
- Effective August 1, 2008 individual agencies may implement a mandatory DD policy
- Such policies must be clearly documented and communicated

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- At this time DOA is not mandating Statewide direct deposit for existing employees.
- However, effective August 1, 2008 individual agencies will be allowed and are encouraged to invoke a mandatory direct deposit policy.
- Any policy developed by an agency that does not provide for a 100% mandate should be soundly documented to include rationale for excluding certain groups of employees (either by employment type or location, etc.).
- Similarly, any exception granted to a “mandated group” should be documented for reasonableness of employment practices


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Payline

- 39,500 employees participate
- Convenient, secure, accessible
- 24 months of data
- Early access to payroll information
- Leave data for current period vs prior period
- W-2 data before printed W-2s are available and more information

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Payline is one of our newest forms of E-Commerce.

- It is the Commonwealth's web-based payroll-stub that allows state employees paid through CIPPS secure access to detailed information about their individual earnings, deductions and leave balances and includes a printable electronic pay stub.
- Implemented in July, 2001 we currently have over 39,000 employees participating, which represents only 45% of eligible employees.
- Payline allows convenient, secure, and repeat access to printable personal payroll data from anywhere with Internet access.
- It provides access to earnings and deduction history for a rolling 24 months.
- The most favorable responses received by participants is that pay information is posted to Payline 3 to 4 days before payday.
- For those agencies utilizing CIPPS leave, current period balances are available unlike on the printed stub which reflects prior period balances.
- And there is so much more information available in Payline than a printed stub such as Taxable accumulations, benefit choices, employer contribution values to taxes and benefits and even W-2s which can be printed from the web.


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Earnings Notice Opt Out

- 19,200 employees opt out
- Central print and agency distribution savings
- Agency can make election to opt out from printed notices
- Global opt out can be for the entire agency, salaried only or wage only
- An enhancement is forthcoming to opt out by organizational code

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- The most recent enhancement made to E-Commerce in the payroll arena is the ability to opt out of a printed earnings notice if the employee is a direct deposit participant.
- Currently, 19,200 employees have chosen to contribute towards central print and agency distribution cost savings by eliminating their centrally printed earnings notice.
- Agencies do have the ability to make that election on behalf of their employees by asking DOA to stop print of all earnings notices for the agency, salaried employees only, or hourly employees only.
- Currently about a 85 agencies have made this election and several more have made inquiries.
- Soon an enhancement will be provided to opt out by organizational code.


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Payline/Opt Out mandate

- Effective January 1, 2009
- All employees with access to state-issued computers with internet access required to opt out of printed earnings notice

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Effective January 1, 2009 all employees who have access to state-issued computers and internet access will be required to use Payline and to opt out of earnings notice print.


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Contacts

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The email and mailing addresses are provided here.

Phone numbers can be found based on the topic in the CAPP manual on DOA's website.