

Separation of Duties for Payroll

Effective payroll controls help ensure that employee compensation is accurate, authorized, and properly recorded. Clear segregation of duties in payroll processes minimizes the risk of errors, fraud, or unauthorized payments.

Roles and Responsibilities

Authorization of Payroll

- **Role:** Superintendent or Board Treasurer
- **Responsibilities:**
 - Approve payroll schedules, rates, and budgets.
 - Review and approve employee contracts, pay rates, and benefit changes.
 - Ensure all new hires and changes to employee status are authorized and documented.

Preparing Payroll

- **Role:** Payroll Clerk or Bookkeeper
- **Responsibilities:**
 - Collect timesheets, attendance records, and any other relevant data.
 - Verify hours worked and calculate gross pay, deductions, and net pay.
 - Prepare payroll registers and summaries for review.

Reviewing and Approving Payroll

- **Role:** Fiscal Officer, Superintendent, or Authorized Board Member
- **Responsibilities:**
 - Review payroll registers and summaries for accuracy.
 - Verify that employee pay rates, hours, and deductions align with approved contracts and policies.
 - Approve final payroll for processing.

Processing Payroll

- **Role:** Payroll Clerk or External Payroll Service
- **Responsibilities:**
 - Process direct deposits or print checks for employees.
 - Generate payroll reports and tax filings (e.g., for state and federal taxes).
 - Submit payroll taxes and other withholdings to the appropriate agencies.

Distributing Paychecks or Direct Deposits

- **Role:** Designated Administrative Staff or System Automation
- **Responsibilities:**
 - Ensure paychecks are distributed securely to employees.
 - Confirm direct deposit payments are completed on time.

Recording Payroll Transactions

- **Role:** Bookkeeper or Accountant
- **Responsibilities:**
 - Record payroll transactions in the accounting system (e.g., general ledger and expense accounts).
 - Allocate payroll expenses to appropriate budget categories.

Reconciling Payroll Accounts

- **Role:** Fiscal Officer or Independent Employee (e.g., Auditor)
- **Responsibilities:**
 - Reconcile payroll reports with accounting records and bank statements monthly.
 - Investigate and address discrepancies promptly.

Monitoring and Oversight

- **Role:** School Board or External Auditor
 - **Responsibilities:**
 - Review monthly payroll reports for compliance and accuracy.
 - Verify that payroll aligns with approved budgets and employee contracts.
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Illustrative Example of Segregation of Duties

Scenario: Monthly Payroll for Teachers and Staff

1. **Authorization:**
 - The superintendent approves salary rates and employment contracts.
 - Changes to pay rates or deductions (e.g., for benefits) are approved by the school board.
2. **Preparation:**
 - The payroll clerk collects attendance records and verifies hours worked.
 - The clerk calculates gross pay, deductions (e.g., taxes, retirement contributions), and net pay.
3. **Review:**
 - The fiscal officer reviews the payroll register and ensures calculations match approved rates and hours.
 - The superintendent approves the final payroll for processing.
4. **Processing:**
 - The payroll clerk submits the payroll file to the bank for direct deposit or prepares physical paychecks.
5. **Distribution:**
 - Direct deposits are processed by the bank, and the payroll clerk confirms completion.
 - Physical paychecks are distributed by an administrative assistant.
6. **Recording:**
 - The bookkeeper records the payroll expense in the accounting system and allocates costs to appropriate departments.

7. **Reconciliation:**

- The fiscal officer reconciles payroll bank transactions with the general ledger.
- Payroll tax filings are reviewed and submitted to the appropriate agencies.

8. **Oversight:**

- The school board reviews monthly payroll summaries to ensure compliance with the budget and policies.

Additional Safeguards for Payroll

1. **Access Control:**

- Limit access to payroll systems to authorized personnel only.
- Use unique login credentials to track changes and maintain an audit trail.

2. **Payroll Reports and Reviews:**

- Generate exception reports to identify unusual payments (e.g., overtime, bonus payments, or terminated employees).
- Require periodic independent reviews of payroll records and processes.

3. **Segregation of Payroll Changes:**

- Ensure that the individual responsible for entering payroll changes (e.g., new hires, terminations, salary adjustments) is not the same person processing or approving payroll.

4. **Regular Reconciliations:**

- Reconcile payroll expense accounts, withholdings, and tax liabilities monthly.

5. **Audit Trail Maintenance:**

- Retain documentation for all payroll transactions, including approvals, timesheets, and tax filings.

Addressing Limited Staff Scenarios

In small school districts with limited staff:

- Rotate responsibilities periodically to maintain segregation of duties.
- Engage external payroll services to handle preparation and processing.
- Use the school board or an independent auditor to review payroll processes and reports.

Example of Adjusted Roles for Limited Staff:

- The payroll clerk prepares payroll, but the fiscal officer reviews and approves it before submission.
- Payroll reconciliations are reviewed monthly by an external auditor or school board member.