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To: Human Resources Directors
Payroll Managers

From: Gail Brooks 
Associate Vice Chancellor
Human Resources

Subject: KPMG Recommendation Concerning Payroll-related Segregation of Duties

In the course of performing an audit on the financial statements of the California State University (CSU), audit firm KPMG included comments and recommendations on matters intended to improve internal controls and to enhance operating efficiencies. This technical letter discusses KPMG's payroll-related recommendation.

KPMG observed that in some instances, payroll employees who perform the payroll certification process (State to Campus) also have access to and are responsible for updating employee master files. KPMG recommended that the individual certifying the payroll not be the same individual who modifies employee master files. The recommendation was made to preclude the potential risk of fraudulent activity based upon what KPMG perceives as incompatible functions performed by the same employee.

The California State University (CSU) is subject to current state regulations pertinent to incompatible payroll-related duties.¹ While the regulations do not preclude an individual who certifies payroll from updating employee master files, they do preclude an individual who performs certain payroll processes from handling or distributing salary warrants. Additionally, acknowledging that campus practices may vary, it should be noted that common internal and external check and balance points, processes and practices exist (system generated and manual) that support the goal of KPMG's recommendation.

In response to the recommendation, campuses are requested to review current practices in this area to ensure that an adequate system of internal control is maintained. Mandating a change in payroll staff duties and functions to preclude this potential risk is best determined at the campus level.

Questions regarding this Technical Letter may be directed Human Resources Administration at (562) 951-4411. This Technical Letter is also available on the Human Resources Administration's Web site at: <http://www.calstate.edu/HRAdm/memos.shtml>.

GB/dth

¹ State Administration Manual (SAM) Section 8580.1 <http://sam.dgs.ca.gov/TOC/8500/8580.1.htm>

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