

Payroll Risks and prevention strategies

PSFOA March 2026 Meeting

Paul Griswold, Program Manager

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Office of the Washington State Auditor



Agenda

01

02

03

04

Audit results

What can go
wrong

Best Practices –
Develop
Expectations

Best Practices –
Prevention



Common recommendations

- Employees approving own pay increases, timesheets and leave usage
- Lack of documentation to support salary or wage information
- Inaccurate wage information in payroll system
- Inaccurate leave accruals or leave usage



Audit results



We want to avoid...

- Falsified wages: employees paid for hours they didn't work
- Unearned benefits: employees paid for benefits they didn't earn
- Ghost employees: you pay someone who isn't an employee



**What can go
wrong?**

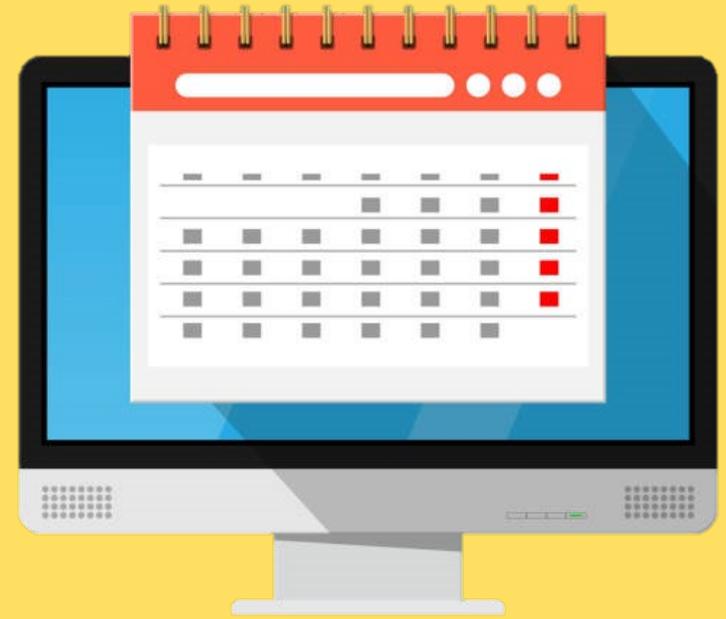


Limit access

- Assign proper system user rights
- Segregate duties
- Require unique logins (no “admin” logins)

Look at data over time

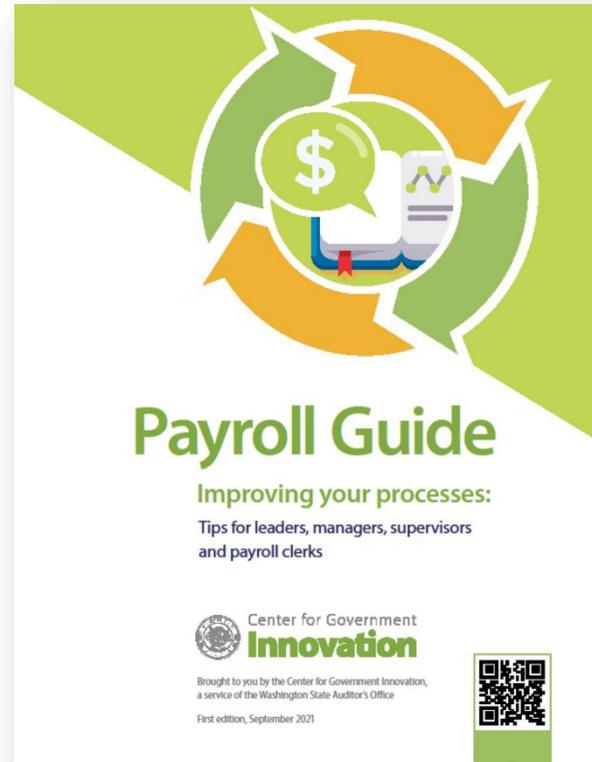
Do current payroll patterns align with typical payroll patterns for both leave and payroll?



Best practices - expectations



Best practices – prevention strategies




 Center for Government
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Internal Control Checklist for Payroll

Date of Review:			
Completed by:			
Key recommendations:			

Instructions: Answer questions below as they relate to the payroll function. Further evaluate any "no" answers to determine if there are compensating controls in place, or if recommendations should be made to improve internal controls. Some questions include additional clarification in cell comments.

Question	Yes	No	N/A	Comments
Personnel records				
1 Are personnel files maintained for all employees, independently of payroll and timekeeping functions?				
2 Are personnel files secured and safeguarded (i.e., locked, encrypted, password protected) and accessible only by authorized personnel?				
3 Do personnel files include records of approved salary and wages, promotions, raises, withholdings and deduction authorizations? Note any documentation that is not available.				
4 Does the governing body approve salary schedules, or salary ranges and make policy that provides a structure for how positions are paid?				
5 Are all wage rates authorized by a designated official and the documentation retained? For example, often personnel action forms are used for this purpose. Note any exceptions.				
Timekeeping				
6 Are all employees required to record hours worked? If not, has management approved this in policy and does this make sense given the risks that could arise? See cell comment for more information.				
7 For any employee groups not preparing timesheets, do they report their leave taken regularly (at least monthly)? Is the leave reviewed and monitored by those employees' supervising managers? Note any exceptions.				
8 Are the time and attendance records approved by each employee's supervisor or manager? Note any exceptions.				
9 Do managers ensure policy is followed with respect to overtime, review actual overtime hours for reasonableness, and compare to pre-approvals of overtime (if policy requires)?				
10 Are time cards or timesheets routed from the employee to their supervisor and then directly to payroll (so the employee does not have the opportunity to modify time worked after supervisory approval)?				
11 Are procedures in place to ensure any corrections to time worked are approved by the employee's supervisor or manager?				



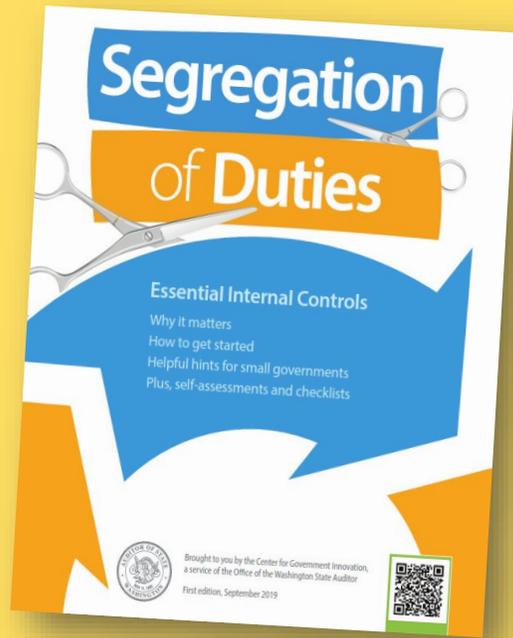


Prevention strategies

Know the red flags

- Employees same address as a vendor
- Employees same bank account as a vendor
- Multiple employees same address/bank account
- Payroll system changes outside of normal working hours





Segregate duties

No one person should be able to:

- Authorization: approve time worked and schedule changes, leave used and buyouts
- Custody: adds/deletes/edits employee information in the personnel system
- Recording: Completes time records and leave records leave used
- Reconciliation: Reviews pay support, generates pay and reconciles to bank



Information

Paul Griswold, Program Manager

Paul.Griswold@sao.wa.gov

Center for Government Innovation

Center@sao.wa.gov

Website: www.sao.wa.gov

Facebook: www.facebook.com/WaStateAuditorsOffice

X: [@WaStateAuditor](https://twitter.com/WaStateAuditor)



Questions?



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