

**INTERNAL CONTROL MATRIX FOR
AUDIT OF COMPENSATION SYSTEM CONTROLS**

Version No. 4.2

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<u>Control Objectives</u>	<u>Example Control Activities</u>	<u>Audit Procedures</u>
<p>1. <u>MANAGEMENT REVIEWS</u> The contractor performs management reviews of the pay administration department to monitor the integrity of the Compensation System.</p>	<p>Compliance reviews are conducted to reasonably assure:</p> <ul style="list-style-type: none"> • qualified employees are working on the compensation system; • periodic training is conducted; • policies and procedures exist and are consistently followed; • pay actions are properly authorized and approved; • compensation paid to employees is reasonable. 	<p>a. Verify that periodic reviews of contractor's policies and procedures are conducted to ensure that:</p> <ul style="list-style-type: none"> • Policies and procedures are compliant with applicable Federal regulations and contract terms. • Policies and procedures have been implemented and are working effectively. • Follow-up actions are taken on recommendations resulting from management reviews. <p>b. Evaluate the contractor's record of completed internal audits and its current internal audit plan to determine if the compensation system is being subjected to periodic reviews in accordance with established policies and procedures.</p> <p>c. Identify and selectively evaluate documentary evidence and the frequency of the contractor's management reviews to determine whether the scope of such reviews are appropriate, the conclusions sound, and appropriate follow-up actions were taken.</p> <p>d. Identify any reviews which may have an impact on this examination, and evaluate the reports and supporting working papers to determine if any system deficiencies were noted, and the extent to which we can rely on the work performed (see CAM 4-1000).</p>
<p>2. <u>ORGANIZATION</u> The contractor's pay administration function is organized on the basis of a definitive flow of authority.</p>	<p>The contractor defines the lines of authority, duties and responsibilities for the administration of the pay administration system.</p>	<p>Obtain and evaluate organization charts and/or discuss the organization of the pay administration function with the contractor to determine if:</p> <ul style="list-style-type: none"> • There are clear lines of authority. • Duties and responsibilities are defined to include responsibility for establishing, reviewing, and approving pay-range structure changes, starting pay rates, and pay increases.
<p>3. <u>POLICIES AND PROCEDURES</u> The contractor has and complies with written policies and procedures to reasonably assure that compensation paid to employees and charged to Government contracts is reasonable.</p>	<p>The contractor's policies and procedures for compensation are current and include:</p> <ul style="list-style-type: none"> • An established wage and salary structure and administration thereof; • A system of internal equity which includes job analysis job descriptions, and job evaluations; • A system of external equity which includes pay policy, 	<p>a. Verify that the contractor has policies and procedures for:</p> <ul style="list-style-type: none"> • Wage and salary structure. • Internal equity (job analysis, job descriptions, and job evaluations). • External equity (pay policy, relevant market, external pay surveys, and market comparisons). • Fringe benefits provided to employees.

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	relevant market, external pay surveys, and market comparisons. <ul style="list-style-type: none"> • A description of the fringe benefits provided to employees. • A system for determining pay increases and promotions. • The operation of performance appraisal procedures. 	<ul style="list-style-type: none"> • Methods to determine pay increases and promotions. • The performance appraisal process. b. Selectively evaluate the contractor's current compensation structure to determine if established policies and procedures were followed.
4. <u>TRAINING</u> Pay administration employees receive training to perform pay administration tasks.	Pay administration employees receive training to perform pay administration tasks in accordance with the contractor's established policies and procedures.	a. Obtain a listing of training classes given to pay administration employees. b. Evaluate the training materials to determine that the training places emphasis on assuring that compensation is reasonable in accordance with acceptable management pay policies. c. Selectively evaluate evidence that pay administration employees have been trained (e.g., evaluate training records, evaluate attendance rosters, interview employees).