

REVIEW AND EVALUATION OF COMPENSATION CONTROLS

CONTROL OBJECTIVES

CONTROL ACTIVITIES

AUDIT PROCEDURES

1. MANAGEMENT REVIEWS

The contractor performs management reviews of the pay administration department to monitor the integrity of the Compensation System.

Compliance reviews are conducted to reasonably assure:

- 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.

- a. Determine whether management reviews of the Compensation System have been performed. Review the results and note any deficiencies.
- b. Determine if any required corrective action was taken or why no action was taken.
- c. Selectively review the nature and extent of management review efforts to determine the extent to which we can rely on their effort (See CAM 4-1000) and adjust the scope of this audit accordingly

2. ORGANIZATION

The contractor's pay administration function is organized on the basis of a definitive flow of authority.

The contractor defines the lines of authority, duties and responsibilities for the administration of the pay administration system.

Obtain and review organization charts and/or discuss the organization of the pay administration function with the contractor to determine if:

- 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.

3. POLICIES AND PROCEDURES

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.

The contractor's policies and procedures for compensation are current and include:

- 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, relevant market, external pay surveys, and market comparisons.
- A description of the fringe benefits provided to employees.
- A system for determining pay increases and promotions.
- The operation of performance appraisal procedures.

- a. Verify that the contractor has policies and procedures for:
 - 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 employees.
 - Methods to determine pay increases and promotions.
 - The performance appraisal process.
- b. Selectively review the contractor's current compensation structure to determine if established policies and procedures were followed.

4. TRAINING

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. Review the training materials to determine that the

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training places emphasis on assuring that compensation is reasonable in accordance with acceptably management pay policies.

- c. Selectively review evidence that pay administration employees have been trained (e.g., review training records, review attendance rosters, interview employees).