DOCUMENT CONTROL INFORMATION

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| Document Name | Global Payroll Process Narrative |
| Applies To | Payroll and other employee benefits |
| Date Last Updated | 14 July, 20X6 |
| Approved By | Alexis Cooper (Global Accounting Manager)  ACooper |
| Sub-Process Owner(s) | Seth Jeffrey, Controller |
| Location | Zurich, Switzerland |

Note: Major changes to the process narrative documentation must be approved by the Global Accounting Manager.

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# **Abbreviations & Definitions**

|  |  |
| --- | --- |
| CFO | Chief Financial Officer |
| CR | Credit |
| DR | Debit |
| GL | General Ledger |
| P&L | Profit & Loss Statement |
| SAP | General Ledger Software |
| ADP | 3rd Party Payroll Processor |
| SE | Summit Equipment |

# **Policies, Procedures & Related Documents**

|  |  |
| --- | --- |
| **Procedures** | **Description** |
| SE-003 | **Managing Journal Entries Policy**  To provide guidance on the requirements for journal entries, including the need for appropriate documentation and support and what constitutes properly prepared, reviewed, approved and posted journal entries. |
| SE-005 | **Account Reconciliation and Analysis Policy**  To define standards and procedures for balance sheet account reconciliations and analysis. |

# **Payroll Accounts & GL Coding**

| **GL Account #** | **GL Account Name** |
| --- | --- |
| |  | | --- | | 7300007 | | 7310007 | | 7310025 | | |  | | --- | | Wages and salaries | | Social security contributions on wages and salaries | | Social security contributions on wages | |  | |  | |

# **Key People**

| **Unit/Department** | **Function** |
| --- | --- |
| Accounting Department | Business Unit Financial Controller  Finance Manager  Intermediate Accountant(s)  Senior Accountant  Payroll manager  AP Manager  Accounting Manager |
| Controlling | Chief Financial Officer |
| IT Department | IT Administrator |
| Accounting | Controller |
| HR Department | HR Partner  HR Coordinator |

# **IT Overview**

The company uses SAP as the GL system. In addition, the Company outsources its payroll processing to ADP, a third party vendor. SE obtains the SOC 1 Report from ADP on an annual basis to validate that the controls over the process of transactions have been tested and deemed effective. We review the suggested controls to put into place and/or ensure our controls are in line with the SOC 1 recommendations.

# **Payroll**

## ***Overview***

Summit Equipment utilizes ADP to process its bi-weekly payroll. SE then reconciles the payroll expense account to the ADP Batch Reports and the Bank Statement Direct Deposit Amounts.

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## ***ADP Access***

Access to the ADP system is restricted to authorized individuals.

Users wanting access to ADP need to request approval from the Payroll Department. Access requests (Access Request Forms) are first reviewed and approved by the relevant Business Unit Financial Controller to ensure the user has a business need for requesting access.

The Payroll Department reviews users with access to ADP to ensure only authorized personnel have access to the system.

Access additions and terminations are effected in the ADP system by the Payroll Manager (Payroll Department) within 5 days of hire / termination. The Payroll Department adds/removes the user from the system via a letter of instruction to ADP.

# **Payroll Process Narrative**

## ***New Hires***

The new hire process is initiated by HR Coordinator. The HR coordinator and the HR Partner are the only people that can initiate new hires in the ADP system. New hires fill out paperwork with the HR team. This paperwork is reviewed by the HR team and is used to populate the employee’s personal information in ADP. ADP which is built off of a configurable system containing different embedded links for each step of the hire process. Each step that is applicable to the employee must be completed by the appropriate employee for the Overall Status of the employee to be “Successfully Completed” in ADP.

If the salary entered in ADP exceeds the stated range for that employee’s job title, an automatic “Review Compensation” flag would appear, sending a notification to the HR Partner, Steve Kim, to review the salary. The new hire process is halted until the discrepancy is resolved. If there was no “Review Compensation” flag, the HR Coordinator can continue entering information for the new hire. The next step in ADP is to complete the “Personal Information Change” step which allows the HR Coordinator to add personal information for the employee including ethnicity, and marital status. Afterwards, in the “Edit Government ID’s” step, the HR Coordinator enters the employee’s identification using government issued identification information.

Next, the employee’s information previously entered into ADP (discussed above) proceeds to the HR Partner who reviews this information entered into the system by the HR Coordinator in the “Approval by HR Partner” step. In step “Review New Hire/Transfer”, the Finance/Budget team must provide final approval of the information, as they make sure that the salary entered into ADP for the new hire is the same salary that was approved by the Finance team. If an error is noted during Partner’s review, he will reach out to the HR Coordinator to resolve the matter.

## ***Payroll Changes***

Salary changes are processed during the annual salary increase and are approved and reviewed by the CFO. The salary increase data is reviewed by the CFO for reasonableness against the approved budget, in consultation with the FP&A team. This data is stored on the Company’s shared drive. Only department and HR heads have access to the shared drive files. This was tested by the FAIT team at (NOT INCLUDED FOR TRAINING PURPOSES). Other changes, such as a change to an employee’s title/status, location, change in salary, are processed by the HR coordinator based on changes approved by the Finance Department. Similar to the new hire process, the employee status/job change process is processed in ADP. Access to make changes to employee files in ADP is limited to the HR Coordinator and HP Partner.

When there is a change to an employee’s title/status (e.g. change in title, change in location, change in salary, change in manager etc.), which causes a change in payroll, the HR Coordinator enters this information into ADP.

After the HR Coordinator updates the information that has changed in ADP, the receiving manager (i.e. the employee’s new manager) is sent a notification of this change and is required to review and approve the changes. Steps “Change Organization Assignments for Worker” and “Propose Compensation Change” are automatically populated using the information entered into ADP by the HR Coordinator in the first step, “Change Job”.

As in the new hire process, the Finance department must review and approve this change in payroll information before it becomes final. In addition, the employee “as self” reviews the changes in ADP for approval.

## ***Terminations***

Employee terminations are initiated by the resignation of the employee or a termination notice completed by the employee’s manager. The employee termination process is completed in ADP, which contains various steps which need to be completed in order for the termination to be binding. Voluntary terminations can only be processed by the HR Coordinator, HR Partner or the employee’s manager.

All steps of this process begin with the “Termination” step in ADP, which defines the reason for the termination, the employee’s last day of work, and the “Pay Through Date”. In addition, the letter of resignation is uploaded into the system by the HR coordinator. A second HR Coordinator must review the information in ADP to ensure it matches the resignation later. Once the second approval is included, the information is then automatically updated into the “Details” tab of the employee’s profile in ADP. If the employee’s manager entered the termination information into ADP, it is triggered for review by the HR Coordinator or HR Partner, requiring the next step “Review Employee Termination” to be completed.

The next three steps of the termination process only apply if the employee is retiring or if the employee being terminated was assigned security access. Step “Assign Roles to Workers” Workstep is triggered if the employee has roles that will require another employee to takeover. For example, if a manager is terminated, and they had the role of approving timesheets for certain employees, this workstep would be triggered to assign that role to another employee. Step “Assign Roles” is reviewed by the HR Partner or HR Coordinator if it was completed by the employee’s manager. If not, Step “Review Change Role Assignments” is not required. Step “Change Benefits for Life Event” is automatically completed upon completion of step “Assign Roles”. Steps “To Do: Termination Procedure – Retirement” and “To Do: Termination Procedure – Involuntary” are only required if the employee was involuntarily terminated or if going into retirement. Step “Perform Recalculation” is a reminder to the HR Partner to validate if there is a repayment owed back to the firm based on offer letter terms. The Partner would notify Payroll directly if there is an outstanding repayment obligation for the terminating employee. The “Change Benefits for Life Event” is automatically configured from the information entered in Step “Termination”. The “Review COBRA Eligibility Event” Step is completed by the Benefits Coordinator which gives employees who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time.

The “Non-Compete” step is approved by the HR Coordinator when terminating employees agree not to enter into or start a similar profession or trade in competition against the employer. For employees who receive severance as part of the termination package, the “Request One-Time payment” workstep is completed by the HR Coordinator when the AP Manager or Accounting Manager have prepared the severance calculation for the employee. Finally, the “Terminate User Account” workstep terminates the employee‘s rights to the ADP Payroll System.

# **Payroll Processing**

***Biweekly Processing***

Based on the information that has been updated and approved as described above, ADP automatically calculates payroll expenses, deductions and accruals for the period end**.** The Accounting Manager, Corey Smith, runs a report in the ADP system called a listing, which captures all employees who enrolled into direct deposit. This listing verifies payment information for all employees with direct deposit and is automatically sent to Capstone Bank via an interface. Corey then receives an email back from the bank, either confirming that all employees’ accounts are valid in the listing or identifying accounts that need to be investigated. The Accounting Manager would then reach out to the HR Coordinator to investigate the discrepancies and make changes to an employee’s information in ADP. Changes are processed via the payroll changes process described above, the batch report is rerun, and is resent to the bank for approval. Once all accounts have been confirmed, the Accounting Manager runs Pay Calculation function in ADP which pulls everything to be paid for the period into a batch report for payment. The Accounting Manager performs any audits for reassurance of the correct payment amounts. These audits include canned filters within ADP, such as identifying payments with a $0 amount, or amounts that vary greater than 20% from the prior pay period. It is up to the preparer’s discretion whether or not to utilize this functionality. If the functionality is used, the Accounting Manager would review the batch report to determine if adjustments need to be made prior to payment.. Any changes are then manually adjusted in the system via the payroll change process described above. When the payroll is complete, an ADP Settlement Run is performed which creates a list of payments to be made via check or direct deposit.

1. **Payroll Reporting**

***Monthly Reporting***

Corey Smith, Accounting Manager, prepares the payroll expense reconciliation using the ADP batch reports run during the month, as well as the bank statements showing the amounts paid to employees. Any reconciling items in excess of CHF 100,000 are investigated and resolved within 30 days of month close. The reconciliation is then used to prepare the journal entry in SAP. The reconciliation is attached to the JE in SAP for the Controller’s review.

The J/E is assigned to controller, Seth Jeffrey, for review within SAP. The payroll J/E is reviewed for consistency with the supporting documentation, unusual items and to ensure that the correct G/L accounts are used.

The FP&A team prepares a budget to actual review on all payroll related expenses during the monthly reporting process. The results of the review are provided to the Controller for his review. The Controller and Accounting Manager will investigate & document variances in excess of CHF100,000 . The resolution of the variances identified are then reviewed with the Senior Vice President and Executive Director.

***Financial Statement Reporting***

The Business Unit Financial Controller will prepare the significant disclosures of the financial statements. Once prepared the financial statements are sent by the Business Unit Financial Controller to the CFO who performs a review.