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| FEDERAL CREDIT UNION | COB: |
| **PAYROLL/HUMAN RESOURCES** | SECTION: A |
| **GENERAL LEDGER ACCOUNT RECONCILIATIONS** | |

**Objective**: To determine if controls are in place over financial statements by ensuring that general ledger accounts associated with the payroll function are properly stated and that they are reconciled on a regular basis.

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| 1. Re-perform the reconciliation of general ledger accounts as of the audit date. 2. Determine the sample size of general ledger account reconciliations to be used for compliance and substantive testing. Obtain copies of reconciliations for the samples. 3. Review the sample of reconciliations selected for compliance testing for:    * Timeliness of reconciliations    * Name and account number of account being reconciled    * Initials of individual performing reconciliation    * Evidence of a timely review by management    * Segregation of duties between individual performing reconciliation and individual(s) posting to the accounts 4. Test the sample of reconciliations selected for substantive testing:    * Trace GL figures on reconciliations to actual GL balances    * Trace subsidiary figures to actual subsidiary balances    * Ensure reconciliations foot    * Test for prompt clearing of reconciling items and trace to final disposition 5. Obtain a copy of the most recent Call Report submitted to the NCUA. Test for correct reporting of applicable information. 6. Ensure accuracy of payroll expenses reported to the board during the audit period. | **W/P REF.** | **AUDITOR** |

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| FEDERAL CREDIT UNION | COB: |
| **PAYROLL/HUMAN RESOURCES** | SECTION: B |
| **PAYROLL** | |

**Objective**: To determine if personnel policies and payroll procedures are established, implemented and documented; ensure controls are in place over processing payroll.

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| 1. Obtain the credit union’s personnel policy. Review for completeness and adequacy. 2. Recalculate payroll for the last pay-period and trace totals to the general ledger. 3. Choose a sample of employees on the credit union payroll as of the audit date. Review timesheets for the sample. Ensure accuracy of calculations and that timesheets contain management approval. Determine if alterations were made to timesheets. 4. Obtain the payroll registers for the audit period. Referring to the sample chosen in Step 2, trace wage/salary rates used in computing pay to authorizations in personnel files. Verify computation of gross and net pay for the sample. 5. Using the sample of employees, agree: payroll register hours worked to approved timesheets; exemptions to signed copies of W-4s; trace other deductions (excluding tax withholdings) to authorizations signed by the employee in personnel files; total gross pay to salary expense per the general ledger. 6. Review Personal Action Notices (PANs) for new hires, terminations and other changes effective during the audit period. Ensure authorization by the Director of HR and the President/CEO. 7. Select a sample of employees terminated during the audit period.  * Review termination documents for propriety of termination dates and final pay. * Review subsequent payrolls to ascertain that the employee is no longer being paid.  1. Determine that management has properly classified exempt and nonexempt employees for purposes of eligibility for overtime, and has monitored and updated classifications when job duties are modified. 2. Verify that includable compensation is not being excluded from base pay upon which overtime calculations are made, resulting in an underpayment of overtime (i.e. incentive bonuses); ensure that excludable items are not included in calculating overtime pay, resulting in overpayment (pay for time not worked; contributions to pensions).   *Section B continued*  *Section B, Page 2*   1. Ensure the following benefits not subject to payroll taxes are not included in taxable wages:  * Health plan payments * Long-term care insurance premiums * Sick pay or disability payments made greater than 6 months after last worked * Employer’s contribution to pension plans * Employees’ contributions to retirement plans (are subject to FICA/FUTA, NOT income tax withholdings) * Worker’s Compensation * Non-graduate school educational assistance  1. Review reports of payroll tax returns submitted by ADP. Ensure returns are filed properly. 2. Obtain Form 941s (quarterly federal tax return) filed during the audit period. Ensure filings agree with reported balances. 3. Compare current year accrued compensation balances with the prior year’s. Investigate significant variations. 4. Test computations of accrued compensation by tracing the last payment date of payroll journals to subsequent payroll. 5. Ensure payroll procedures are documented and adequate. | **W/P REF.** | **AUDITOR** |

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| FEDERAL CREDIT UNION | COB: |
| **PAYROLL/HUMAN RESOURCES** | SECTION: C |
| **EMPLOYEE BENEFITS** | |

**Objective**: To determine if controls are in place over employee benefits.

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| 1. Verify that employees are provided time off, as required by law, to vote, for jury duty, for military leave and family/medical leave. 2. Obtain written documentation on Incentive and/or Bonus Programs. Ensure the program(s) are Board approved, properly disclosed and communicated to all eligible employees. 3. Ensure program(s) are properly structured and monitored in compliance with NCUA Rules and Regulations. 4. Determine processes and controls involved in the tracking, computing, reporting and paying for incentives and/or bonuses. Ensure procedures are documented. 5. Perform analytical review of aggregative incentive and bonus totals (individually). Calculate % of payout to base wages. Compare individual incentives/bonuses as a % of base wages for a sample of employees. Compare to program goals. 6. Recalculate incentives/bonuses and compare to reported amounts. Trace reported amounts to actual payroll payment. 7. Obtain the credit union policy regarding 401(k) plans. Ensure the following:  * The plan is properly documented and communicated to all employees as of the hire date, date of eligibility, and at other appropriate or required periods. * Open enrollment periods are maintained in compliance with the Plan. * Periodic enrollment meetings are held to communicate the benefits of the plan to potential and current participants. * Adequate information is provided on investment options to allow employees to make informed choices, as required by regulation.  1. Test loan disbursements by tracing to receipt by of participant. Determine if loan terms conform to the program. 2. Re-calculate matching contributions by the credit union for the audit period. Compare calculations to the total contributions made by the credit union; ensure contributions were posted timely. Trace actual contributions to trustee statements.   *Section C continued*  *Section C, Page 2*   1. Trace administrative expenses to the financial statements. 2. Test to determine the following:  * Participants receive quarterly statements on a timely basis that reflect investment allocations, balances, activity and contributions. * Participant and credit union contributions are segregated and allocated. | **W/P REF.** | **AUDITOR** |

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| FEDERAL CREDIT UNION | COB: | |
| **PAYROLL/HUMAN RESOURCES** | SECTION: D | |
| **SECURITY/CONFIDENTIALITY** | |

**Objective**: To determine if controls are in place to ensure the security and privacy of personnel records.

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| 1. Verify that ADP payroll data is backed-up, and the disaster recovery plan is appropriate and adequate. 2. Determine if employee medical records are maintained separately from personnel files. 3. Ensure personnel and payroll records are maintained in a secure environment. 4. Test to determine if personnel and/or payroll records can be accessed via the internal network. | **W/P REF.** | **AUDITOR** |

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| FEDERAL CREDIT UNION | COB: |
| **PAYROLL/HUMAN RESOURCES** | SECTION: E |
| |  | | --- | | **COMPLIANCE** |   **Objective**: To ensure compliance with applicable rules and regulations. | |

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| 1. Test for compliance with the Fair Credit Reporting Act:  * Obtain disclosures provided to job applicants. * Determine if signed disclosures are obtained from applicants for pulling credit reports. * Ensure Adverse Action Notices are sent within required timeframes when declined to hire.  1. Verify the credit union is in compliance with FLMA requirements:  * Ensure written notices are provided to employees confirming absences covered by FMLA and will count towards the annual 12-week entitlement. * Employees are restored to same or equivalent position upon return from FMLA. * Health insurance benefits continue during leave. * Credit Union policy does not limit leave to less than 12 weeks. * Records pertaining to FMLA are retained at least 3 years.  1. Review credit union policies and procedures regarding sexual harassment. Ensure an immediate, thorough and impartial investigation is required for all complaints. Verify investigations are properly documented. 2. Test for compliance with NYS Clean Indoor Air Act Posting Requirement that the credit union’s smoking policy be posted. 3. Ensure compliance with NYS requirements for establishing, maintaining and preserving payroll records for 4 years, at a minimum. 4. Test for compliance with NYS New Hire Reporting laws:  * Newly hired or rehired employees are reported within 20 calendar days of hire. * Required information is provided for each employee – full name, address, SS #, employer name and address, employer identification number.   *Section E continued*  *Section E, Page 2*   1. Verify compliance with Fair Labor Standards Act (FLSA) record retention requirements for information on non-exempt employees:  * Hours worked and wages earned * Full name, social security number, full address * Birth date if younger than 19 * Sex * Occupation * Time and day work-week begins * Hours worked each day & total hours per week * Basis on which wages are paid (ex. $6 hr; $220 wk) * Regular hourly rate * Total daily and weekly straight time earnings * Total overtime per week * All additions and deductions from wages * Total paid wages each pay period * Date of payroll payment and pay period covered  1. Ensure adherence to timeframes for FLSA record retention requirements (at a minimum):  * Payroll records - 3 years * Records on which wage compensation is based - 2 years * Payroll federal tax records – 4 years after due date of return or date paid, whichever is later. Records should include:   + - Name, address, social security number for each employee     - Total amount and date of each payment     - Period of service for each payment     - Portion of each payment constituted taxable wages     - Copies of each employee’s W-4     - Dates and amounts of tax deposits | **W/P REF.** | **AUDITOR** |

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| FEDERAL CREDIT UNION | COB: |
| **PAYROLL/HUMAN RESOURCES** | SECTION: F |
| **CLOSURE** | |

**Objective**: To bring closure to this audit.

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| 1. Determine final disposition on all exceptions. 2. Issue audit report to management. 3. Issue Audit Survey to management. 4. Ensure all applicable workpapers are scanned, tagged & shred. 5. Complete time budget. 6. Update CAF. 7. Update Risk Assessment. 8. Schedule Follow-up. 9. Final report copy to annual audit report folder (for externals) | **W/P REF.** | **AUDITOR** |