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Enclosed is an audit review report of the Corporation's payroll function. Please contact me with any questions you might have. Thank you.

## Executive Summary

### Audit Review of the Payroll (Compensation) Function

<b>Business Function Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
This is a joint responsibility of Finance (Payroll) and Human Resource departments.	April 29, 2010	October 1, 2009 to February 28, 2010
<b>Assessment of Internal Control Structure</b>		
Effectiveness and efficiency of operations		<b>Generally effective.<sup>1</sup></b>
Reliability of financial reporting		<b>Generally effective.</b>
Compliance with applicable laws and regulations		<b>Generally effective.</b>

The review indicated that there was a high level of compliance with established procedures in both the Payroll and Human Resources Departments.

There were no exceptions noted during this review.

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<sup>1</sup> **Legend for Assessment of Internal control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

## **Audit Review of the Corporation's Payroll (Compensation) Process**

### **INTRODUCTION**

The Office of Internal Audit performed a payroll audit involving the Payroll Department and Human Resources for Fiscal Year 2010. The periods reviewed were for October 2009 through February 2010. A review of internal controls was undertaken to determine the adequacy of operations and to obtain assurance that payroll regulations and procedures are being properly administered.

NeighborWorks® America Payroll Department currently has the following staff members: an Accounting Manager, Payroll and two Staff Accountants who are responsible for the payroll process in the Finance department.

### **SCOPE**

The audit scope was limited to the following areas:

- To ensure that calculation of earnings, and special payments are accurate, complete and performed in a timely manner.
- Ensure that employment taxes and non-tax reporting requirements are in compliance with applicable federal/state laws.
- To ensure that accounting and payroll transactions are properly classified reconciled and posted to the general ledger.
- To ensure that payroll and personnel processes and operations are in place and functioning adequately. This included the :
  - Review of Payroll and Human Resource duties and responsibilities
  - Review of the New Hire Process
  - Review of the Termination Process of Employees
  - Review any reports utilized to help monitor Payroll transactions
  - Verify authorized access to Payroll programs and Human Resource files
  - Review employee changes
- To ensure that calculation of earnings and special payments are accurate, complete and performed in a timely manner, which also included the review of
  - Earnings calculations and
  - Special payments calculations.

## **HUMAN RESOURCES:**

The NeighborWorks America Human Resources Department currently has established written policies and procedures for its payroll related duties. During this review, Internal Audit reviewed the following processes related to payroll:

- New Hires
- Terminated Employees
- Staff Awards
- Moving Reimbursements

A random sample of new hires, tenure employees, terminated employees, staff awards and moving reimbursements were selected for review to ensure compliance with policies and procedures. Based on the testwork performed, there were no reportable observations noted.

## **PAYROLL:**

NeighborWorks America pays employees by check or direct deposit on a bi-weekly basis.

The **CORT Payroll system** is the payroll system in use and all aspects of the function is conducted in-house including payroll tax return preparation. The payroll tax reporting function is outsourced to **Payroll Tax People (PTP), LLC**. **PTP** is responsible for handling all tax reporting payments and filings for all states.

The December 31, 2009 IRS Form 941 was reviewed for accurate and timely filings this year. This *Employer's Quarterly Federal Tax Form* filed during the period under review was found to have been filed accurately and timely.

The following information was reviewed for the completion of the Finance/payroll aspect of the audit; calculation of earnings and special payments (i.e. Staff Awards, Moving Reimbursement, Severance Pay, Paid Time Off Payout). Complex computations could be sometimes more prone to error and the absence of such accounts for the high level of accuracy exhibited by the payroll function. The payroll function has no complex deductions, as most of the deductible benefit computations were found to be simple and straight forward deductions from salary. Other deduction types were for instances in which employees have elected to make additional voluntary deductions such as 401(k) and Flexible Spending, again which do not require any complex computations.

As a result of the testwork performed from our sample of 48 employees, there were no significant errors in calculations to report. All transactions reviewed were accurate, complete and performed in a timely manner.

## **SYSTEM UPGRADE:**

The **CORT** Payroll/HRIS system is currently being phased out due to the Corporation's implementation of a new **PeopleSoft Enterprise Resource Planning (ERP)** system. The Payroll and Human Resource modules will undergo transition during Phase 2 and Phase 3 of the implementation, respectively. These implementations are estimated for June 2010. Below is a list of required system capabilities and enhancements planned to be derived from the **ERP** system by Human Resources and Payroll:

- Electronic direct deposit notification informing employees of their bi-weekly direct deposit payroll.
- Self Service feature allowing employees to access certain data related to payroll (ie. providing electronic copies of pay stubs and Form W-2's and W-4's).
- Benefits data exchange allowing employees to make changes to benefits and demographic information.
- Federal reporting requirements allowing HR to download reports to comply with federal regulations to further enhance efficiency.
- Baseline Manager Self-Service capability, allowing managers to access certain read only information on their staff (i.e. annual salary, bonus awards, etc.).

Internal Audit has a planned review of the new Enterprise Resource Planning system's implementation for Fiscal Year 2010. The Payroll and Human Resource modules will be part of the scope of that review.

## **CONCLUSION:**

The payroll function of NeighborWorks® America has current adequate controls which sufficiently meets the objective of making accurate and timely compensation payments. In addition, the function has adequate controls in place that allows the function to meet all regulatory and reporting requirements deemed necessary for the period under review.