

**Summit County Executive Office
Department of Finance and Budget
Preliminary Audit Report**

PREPARED FOR:

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**Approved by Audit Committee
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Background, Objectives and Methodology**

GENERAL BACKGROUND

The Executive serves as the chief budgetary officer of the County. To fulfill this function, the Executive relies on the work performed by the Department of Finance and Budget (DFB). DFB staff assist the County Executive in the budget process and monitor the operations of County departments, independent boards, and agencies. Its responsibilities include financial analysis, revenue forecasting, budget development and review, capital budgeting, debt management, systems analysis, federal programs review, cost effectiveness studies, and financial consultation services. Additionally, the Purchasing Department (Purchasing), which is organized under the DFB, is responsible for purchasing all goods and services required by all offices, officers, agencies, departments, boards, commissions, or other public bodies of the County. All requisitions are sent to Purchasing and inspected for proper documentation. Also, Purchasing is responsible for assuring that three quotes are obtained for orders exceeding \$500 and reviews documents that go before the Board of Control.

Another division under the DFB is Office Services which handles outgoing and interoffice mail services and provides black and white and color digital photocopying as well as microfilming. The preliminary audit of this area was previously conducted therefore is not included in this audit

AUDIT OBJECTIVES AND METHODOLOGY

The primary focus of this audit was to provide the Summit County DFB with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods, and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the DFB.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We recognize that the Internal Audit Department (IAD) is included in the County Operating Budget and was therefore excluded from detail testing during the review of the budget process in order to maintain objectivity and independence.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

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Scope**

Objectives:

1. To obtain and review the current policies and procedures.
2. To review the internal control structure through employee interviews and observation.
3. To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

Scope

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by each department.

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
4. Test procedures for mandatory compliance where applicable.
5. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

6. Meet with the appropriate personnel to obtain an understanding of the control environment.
7. Document the existing control procedures in narratives and/or flowcharts.
8. Compare existing processes to the policies and procedures manual for consistency.
9. Test procedures for compliance where applicable, noting all exceptions.
10. Investigate discrepancies and summarize results.
11. Make recommendations where appropriate.

OBJECTIVE 3 – REVIEW OF SECURITY (covered in a separate report in compliance with O.R.C. §149.433).

12. Perform a general overview of the physical environment and security of the department being audited.
13. Perform a general overview of the IT security environment,
14. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
15. Test security issues where appropriate.
16. Analyze current policies and make recommendations.

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Interviews:

To gain an understanding of the DFB and Purchasing Department, IAD performed interviews with the following positions throughout the organization:

- a. Director,
- b. Senior Administrator,
- c. Fiscal Officer 3,
- d. Fiscal Officer 2,
- e. Accountant 2,
- f. Purchasing Specialist 2,
- g. Executive Assistant 2.

Any issues noted are addressed in the respective sections of this report.

I. Policies & Procedures Review:

IAD obtained and reviewed the County of Summit Executive-Department of Finance and Budget Operating Procedures manual and the Department of Purchasing Policies and Procedures manual to gain an understanding of departmental processes and to review the manuals for completeness. Additionally, obtained and reviewed were the following procedures that were not incorporated into the DFB manual:

- a. Budget Policy,
- b. Fixed Asset Tracking Policy,
- c. Inventory Procedure,
- d. Summit County AMPCO Parking Deck Revenue Collection Procedures,
- e. Policy Pertaining to the Filing of IRS Forms 8038-G and 8038-GC for Summit County Leases,
- f. Appropriation Adjustments by Executive Order Procedure,
- g. Procedural Policy of County Cellular Telephones.

IAD obtained and reviewed the DFB records retention schedule (RC-2), including the schedule for both the Department of Purchasing and Office Services, and reviewed it for completeness.

The following issues were noted during testing:

1. Issue:

Upon review of the County of Summit Executive-Department of Finance and Budget Operating Procedures Manual, IAD noted the following:

Finance & Budget

- There were no supervisory approvals or effective dates,
- There were miscellaneous documents maintained in the policy and procedures manual that were not reflected on the Table of Contents (e.g., departmental key listing, Directive from IAD, etc),
- There were outdated procedures/processes/forms contained within the manual (e.g., Capital Improvement Request Form, Grant Process, Accounts Payable/Expenditure, CDBG and HOME Draw Down Procedures, Telephone Chargebacks, Voucher

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Processing, Social Service Advisory Board Budget Procedures, Auto Reimbursement Policy, etc.),

- There were incomplete procedures (e.g., Debt Service, Review of Budget Process, etc.),
- Outdated information was referenced in the manual (e.g., Charter, Codified Ordinances),
- There were handwritten procedures noted on the table of contents that were not incorporated into the manual (e.g., Inventory, P-Card Chargeback procedure, Indirect Costs, etc.),
- All existing departmental procedures were not incorporated into the manual (e.g., Fixed Asset Tracking Policy, Inventory Procedure, AMPCO Parking Deck Revenue Collection Procedure, Appropriation Adjustments by Executive Order Procedure, etc.),
- The Auto Reimbursement policy is not in compliance with the 2011 IRS Publication 15-B,
- There were no grants management procedures,
- There were numerous hand written corrections throughout the manual,
- Employee names were noted throughout the manual.

Upon review of the Department of Purchasing Policies and Procedures Manual, IAD noted the following:

Department of Purchasing

- There were no supervisory approvals or effective dates,
- There were incomplete procedures (e.g., Purchase Order Change Orders),
- There were outdated procedures/processes/forms contained within the manual (e.g., Summit County Bidders list, On-line requisitions, Purchasing Procedure Change Order Form, Procedures for Purchases Not Exceeding \$1,000, etc.),
- Outdated information was referenced in the manual (e.g., Codified Ordinances).

Recommendation:

IAD recommends that the DFB and the Purchasing Department continue their efforts to update, approve, and disseminate formal written administrative and functional policies and procedures for all of the processes of the department and incorporate them into the policies and procedures manual. These policies and procedures should include effective and revisions dates as well as approvals. This will help to ensure that procedures are in place to achieve departmental goals and are performed consistently.

Partial Action Taken Prior to the End of Fieldwork:

IAD was provided with an updated Grant Process procedure as well as an updated Review of Budget procedure.

Management Action Plan:

The DFB will update, approve and disseminate formal written administrative and functional policies and procedures for all of the processes of the department and incorporate them into the policies and procedures manual to be finalized by the end of the first quarter 2012. This will require significant time to properly complete since a number of policies and procedures were either non-existent or require extensive updating.

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2. Issue:

Upon review of the DFB Records Retention Schedule (RC-2) IAD noted that the RC-2 needs updating to include all records maintained by the department.

Recommendation:

IAD recommends that the DFB update their RC-2 to include all records maintained by the department as well as perform an annual review of the same. This will help to ensure compliance with the DFB's records retention schedule as well as the Ohio Sunshine laws.

Management Action Plan:

The DFB will update the RC-2 to include all records maintained by the department as well as an annual review of the same. The Executive Assistant sent an e-mail on 3/2/2011 to all personnel of the DFB and Purchasing Department asking them to review what is on the RC-2 and to notify of any records that need added to the form. The DFB will finalize the update to the RC-2 by the end of the first quarter 2012.

II. Internal Control Testing:

Internal control testing and/or observations were performed in the following areas:

- Expenditures,
- Purchasing,
- Budgets,
- Pay-ins,
- Fixed asset inventory,
- Debt service,
- Fringe benefits,
- Grants management.

EXPENDITURES

IAD obtained and reviewed the following documentation to gain an understanding of the expenditure process:

- Section XXIV "Accounts Payable" of the DFB Operating Procedures manual,
- O.R.C. § 5705.41 Restriction upon appropriation and expenditure of money - certificate of fiscal officer,
- O.R.C. § 5705.44 Contracts running beyond fiscal year - certificate not required on contracts payable from utility earnings.

IAD conducted an expenditure interview with the Fiscal Officer 3, and met with the Accountant 2 to gain a further understanding of the expenditure process, including the use of the procurement card, and the controls in place. An expenditure process flowchart was created documenting IAD's understanding of the process.

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A Banner listing of DFB and the Purchasing Department expenditures, for the period of 8/19/10 to 12/31/10, was generated and utilized to judgmentally select a sample for testing. Testing was performed to verify that purchases were properly authorized, funds did not remain encumbered for prior year purchase orders (PO), funds were encumbered and certified prior to incurring an expense and that vendor payments were made to the appropriate vendor and for the correct amount.

IAD obtained and reviewed Banner user and Banner Class Form reports from MIS to gain an understanding of DFB and Purchasing employees Banner roles, and to test for a proper segregation of duties. It was verified that no DFB and Purchasing employees have the ability to enter vendors. A listing was generated of DFB and Purchasing employees who are able to create a requisition, create a PO, and enter an invoice.

IAD utilized WebFOCUS to generate approval routing reports for DFB/Purchasing requisitions and invoices as well as County POs, approval queue groups, and approval users. An approval queue group report was obtained and reviewed for reasonableness. A flowchart of the Banner document approval process was created. IAD tested for an appropriate segregation of duties between Banner document creation and Banner document approval.

The following issues were noted during testing:

3. Issue:

Upon review of the DFB expenditure process IAD noted that the same employee is responsible for both the ordering and receiving of supplies.

Recommendation:

IAD recommends that the DFB assign the ordering function and the receiving function to separate employees. This will provide for an appropriate segregation of duties and will help to ensure the proper control over and safeguarding of County assets.

Management Action Plan:

The DFB will assign the ordering function and the receiving function to separate employees. All employees were notified by e-mail on 5/12/2011 of this segregation. The policies and procedures manual will be updated by the end of the first quarter 2012 to incorporate this segregation.

4. Issue:

Upon review of DFB and Purchasing Department expenditures, IAD noted two out of twelve transactions where the invoice date is prior to the purchase order date which is a violation of O.R.C § 5705.41.

Recommendation:

IAD recommends that the DFB issue purchase orders prior to making purchases to help to ensure compliance with O.R.C § 5705.41.

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Management Action Plan:

The DFB will issue purchase orders prior to making purchases to help to ensure compliance with O.R.C Section 5705.41 (i.e. the invoice date shall not be prior to the purchase order date). One of the two transactions selected as errors was for travel, where often times the itinerary is unknown and therefore the purchase order cannot be completed initially. The other transaction was for printing purchase orders and the intent was to pay via procurement card. When it was determined the vendor would not accept procurement card, a purchase order was done. The amount was under \$1,000 and could have been paid direct-to-code. The DFB will continue efforts to notify employees and update the policies and procedures manual to be finalized by the end of the first quarter 2012 to ensure compliance.

5. Issue:

Upon testing of Banner permissions for the DFB and Purchasing Department personnel IAD noted two users assigned permissions to both create and approve requisitions and purchase orders causing an improper segregation of duties.

Recommendation:

IAD recommends that the DFB and the Purchasing Department segregate assigned permissions so that the same employee is not able to both create and approve a requisition/purchase order. This will help to ensure a proper segregation of duties and the safeguarding of County assets.

Management Action Plan:

The DFB and the Purchasing Department should segregate assigned permissions so that the same employee is not able to both create and approve a requisition/purchase order. Two employees were identified under this issue, the Director of the DFB and the Purchasing Agent 3. The Director has this ability only for emergency situations. The Purchasing Agent 3 has the ability to enter requisitions due to limited staffing in the department. It is also the position of the DFB that this issue is not a problem because any requisition/purchase order entered this way would still follow the normal approval queue process. No further action is planned.

6. Issue:

Upon review of Banner document approval privileges, IAD noted an employee outside of the DFB has the ability to approve DFB invoices which is deemed as an unreasonable privilege.

Recommendation:

IAD recommends that the DFB review Banner document approval privileges and remove unreasonable approval privileges. This will help to ensure that invoices are properly reviewed and approved prior to being paid.

Full Corrective Action Taken Prior to the End of Field Work:

On 3/28/11, the Senior Administrator informed IAD that privileges have been removed from the employee that is outside of the DFB and had the ability to create and approve an invoice. IAD generated an approval privileges report and verified that the user no longer has approval privileges.

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Management Action Plan:

An employee outside of the DFB had the ability to approve DFB invoices. Prior to the end of fieldwork the DFB notified IAD that privileges had been removed from the employee outside DFB, therefore no further action will be taken.

PURCHASING

The following documents were obtained and reviewed to gain an understanding of the purchasing processes and procedures:

- Department of Purchasing Policies and Procedures,
- Board of Control Purchasing Procedures,
- Purchasing Flowcharts,
- Community University Education (CUE) Purchasing Association,
- Codified Ordinance Chapter 177.07 Exceptions to competitive bidding,
- Codified Ordinance Chapter 177.13 Purchases exceeding aggregate \$25,000 annually,
- Codified Ordinance Chapter 177.14 Construction contracts,
- Codified Ordinance Chapter 177.21 Exempt contracts,
- Codified Ordinance Chapter 130.06 Utility service agreements for County buildings and operations.

An interview was conducted with the Purchasing Agent 3 and the Accountant 2 to gain an understanding of purchasing and Board of Control (BOC) processes. IAD confirmed that discussions regarding the purchasing process were in accordance with the policy and procedures. A Purchasing flowchart was obtained from the DFB network drive to gain a better understanding of processes for the purchasing approval thresholds.

A Banner transaction report was generated to provide a listing of all purchase orders (PO) for 2010 between \$5,000 and \$25,000. A sample of twenty-five purchase orders was selected for testing for proper approval by BOC.

A Banner transaction report was generated to provide a listing of all County POs for 2010 greater than \$25,000. IAD then selected a sample of twenty-five purchase orders and tested for proper approval by County Council.

A Banner transaction report was generated to provide a listing of all expenditures, less than \$5,000 each, paid out of one judgmentally selected fund and organizational account. IAD summarized on vendor ID and noted sixteen instances where expenditures exceeded \$25,000 in aggregate for 2010. IAD tested to confirm approval by County Council.

IAD met with the Purchasing Agent 3 to gain an understanding of PO and contract change orders. Flowcharts were created to document each process. A sample of twenty Purchase Order Balance Request forms was randomly selected to test for proper authorization by the requesting department as well as for proper approval by BOC and Council, if applicable. In addition, a Banner transaction report was generated of all 2011 County PO change orders. IAD randomly selected twenty-five change orders and tested for the presence of a properly approved request form.

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A report was obtained from MIS listing all employees who have update access to the PO change order entry screen in Banner. WebFocus was utilized to generate a listing of employees who are able to approve PO change orders in Banner. IAD compared the reports and tested for reasonableness.

The following issues were noted during testing:

7. Issue:

During testing and discussions, IAD noted that the same individual is responsible for placing and receiving orders for electronic equipment for the Executive's Office which is an improper segregation of duties.

Recommendation:

IAD recommends the separation of the ordering and receiving duties so that the individual responsible for purchasing is not also responsible for receiving the respective purchases. This will help to ensure a proper segregation of duties for the two functions.

Management Action Plan:

The Purchasing Department's ordering function and the receiving function will be performed by separate employees. All employees were notified by e-mail on 5/12/2011 of this segregation. The policies and procedures manual will be updated by the end of the first quarter 2012 to incorporate this segregation. This is the same as issue #3 for the DFB.

8. Issue:

PO change orders are to be entered by the Purchasing Department and approved by the Fiscal Office. Upon review of Banner access reports obtained from MIS, IAD deems the following access levels as unreasonable:

- a. Three Fiscal Office employees have the ability to enter and approve a PO change order in Banner,
- b. One Fiscal Office employee has the ability to enter a PO change order in Banner.

Recommendation:

IAD recommends that the DFB work with the Fiscal Office to segregate assigned permissions to ensure that any one employee is not able to both enter and approve a PO change order in Banner. Additionally, IAD recommends that only Purchasing Department personnel have the ability to enter a purchase order change in Banner. This will help to ensure that a proper segregation of duties is in place and that the department is following current policies.

Management Action Plan:

Purchase Order (PO) change orders are to be entered by the Purchasing Department and approved by the Fiscal Office. The Senior Administrator sent an e-mail to the Fiscal Office on 4/19/2011 to recommend removal of the ability for four Fiscal Office employees to enter purchase order changes since entering the changes are a function of the Purchasing Department. Subsequent to that e-mail and after discussion with the Fiscal Office, three Fiscal Office employees will retain the ability to enter purchase order changes. The DFB deems this appropriate for instances where certain

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corrections require entry by the Fiscal Office as administrators of the Banner system and where changes are needed for the Port Authority, Board of Elections and Soil and Water Conservation District. No further action will be taken.

9. Issue:

Upon discussion with DFB personnel, it was noted that WebFocus is used to generate a report to track purchases to vendors for aggregate spending, in accordance with BOC policies and procedures; however, the report only includes funds encumbered (i.e., purchase orders) and is not an accurate reflection of funds actually spent. Per Codified Ordinance, County Council approval is required when purchases, not encumbrances, exceed \$25,000 to a single vendor. In addition, IAD notes that direct-to-code and p-card purchases are not included on the report.

Recommendation:

IAD recommends that the DFB develop and generate a report that includes all payments to vendors for all types of purchases. This will help to ensure that the DFB is accurately monitoring aggregate spending in accordance with policies and procedures and Codified Ordinance § 177.13.

Management Action Plan:

The DFB will develop and generate reports and/or edit the existing report to include all payments to vendors for all types of purchases to ensure that the DFB is accurately monitoring aggregate spending (exceeding \$25,000 to a single vendor annually must be approved by County Council) in accordance with policies and procedures and Codified Ordinances Section 177.13. The DFB plans to complete this by the end of the first quarter 2012 due to the complexity of adding payments made on the procurement card and current year direct-to-code payments to the report. The aggregate calculations will be tracked by officeholder.

10. Issue:

During testing, IAD noted four out of sixteen instances where individual expenditures of less than \$5,000 each totaled more than \$25,000 in aggregate to a single vendor were not approved by County Council.

Per Codified § 177.03, purchases made under a County elected officeholder, to a single vendor that exceed \$25,000 in aggregate for any calendar year should only be made upon authorization of County Council. Additionally, per the BOC policy and procedure manual, the DFB is to monitor aggregate spending and notify the respective office or department when expenditures are getting close to threshold.

Recommendation:

IAD recommends that the DFB implement a process to more closely monitor aggregate spending under each elected officeholder. When expenditures to a single vendor are getting close to the threshold, notification should be sent to the respective office requesting that County Council approval is obtained. This will help to ensure that proper approvals are obtained for aggregate spending in accordance with Codified Ordinances.

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Management Action Plan:

The DFB recognizes and acknowledges three of the four out of sixteen instances at the Department of Environmental Services where individual expenditures of less than \$5,000 each totaled more than \$25,000 in aggregate to a single vendor and were not approved by County Council. Emergencies and utilities are not being included in the aggregate calculation. The instance of the vendor BP should not have been included because it included 2010 payments on 2009 encumbrances. At the time of the audit, the DFB had considered Section 177.07 Exceptions to Competitive Bidding as exceptions to the calculation of the aggregate. In the future the DFB will only exempt cooperative purchasing items as exempt from the aggregate calculation. The report mentioned in issue #9 will address this issue.

11. Issue:

During testing, IAD noted eighteen out of forty-five instances where the Purchase Order Balance Request form was not properly authorized by the requesting department. Of the eighteen instances, two did not contain any authorization, and sixteen were improperly authorized. Upon discussion with DFB personnel, authorization should only be made by the individual responsible for approving the purchase order requisitions in Banner.

Recommendation:

IAD recommends that the DFB reject any PO change requests that do not contain proper authorizations. This will help to ensure proper approvals are obtained for any changes made to purchase orders.

Management Action Plan:

The DFB will reject any PO change requests that do not contain proper authorizations. The Purchasing Agent 3 will update the Purchase Order Balance Change Request Form to require a signature and that the signature is from an individual responsible for approving that department's purchase order requisitions in Banner. Requests that do not contain the proper signature will be rejected. This will be implemented immediately and a corresponding update will be made to the policies and procedures manual to be updated by the end of the first quarter 2012.

BUDGETS

The following DFB policies and procedures were obtained and reviewed to gain an understanding of the budget process:

- County of Summit, Executive-Department of Finance & Budget, Budget Process,
- Appropriation Adjustments by Executive Order Procedure.

In addition, IAD conducted various meeting and interviews with the Director, Senior Administrator and Fiscal Officer 3 to gain a further understanding of the Operating Budget, Capital Improvement Program (CIP) and Alternative Tax Budget (ATB) processes. Process flowcharts were developed for the Operating Budget and CIP documenting the understanding. Through discussions regarding the preparation of the ATB, it was determined that the information is prepared as required by O.R.C., however, it is never used for additional analysis, therefore it was assessed as having low risk. IAD did confirm that the ATB was prepared for the fiscal year commencing 1/1/11 but passes on further testing.

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The 2011 Operating Budget, which includes revenues and expenditures, and the 2011 CIP Budget were reviewed and traced and agreed to respective Council Resolutions, and appropriate Summit County Charter and O.R.C. sections. The following documents were obtained and reviewed to gain an understanding of budget requirements and to perform testing:

- Summit County Charter § 2.03 Powers and Duties of the County Executive,
- Summit County Charter § 183.03 Annual Operating Budget,
- Summit County Charter § 187.01 Department of Finance and Budget to Annually Prepare Five-Year Projections,
- Summit County Charter §130.03 Amendment of Line Item Appropriations and Fund Balances,
- O.R.C. § 5705.36 Certification of available revenue - additional revenue - amended official certificate,
- O.R.C. § 5705.29 Contents of tax budget - contingency reserve balance - spending reserve,
- Various County Resolutions.

Banner detailed transaction reports were generated for all departments for the months of January and February 2011 for analysis. A sample of County Resolutions was judgmentally selected for detail testing. Each selected resolution was traced and agreed to the detailed transactions in Banner and to the amounts presented in the 2011 Operating Budget. In addition, the Banner report was reconciled to the 2011 Operating Budget to confirm that amounts approved by County Council were correctly entered into Banner. For the sample selected, all budget information in Banner matched the selected county resolutions and the 2011 Operating Budget.

IAD obtained and reviewed the “Appropriation Adjustments by Executive Order Procedure” and County Charter section 130.03 to gain an understanding of the guidelines that must be followed. Budget appropriation changes were extracted from Banner for the period of 1/1/10 through 12/31/10. A sample of Executive Orders (EO) was judgmentally selected to test for compliance with policies and procedures and Charter § 130.03.

The following issues were noted during testing:

12. Issue:

Upon review of the Summit County Charter § 2.03 titled “Powers and Duties of the County Executive” it was noted in paragraphs (8) and (8) (c) that the County Executive has the following duties:

- (8) To submit to the County Council a proposed operating budget for each fiscal year which shall contain at least the following
 - (c) A schedule of estimated revenues and proposed expenditures for each County department, office, agency, authority, board and commission, on a quarterly or more frequent basis.

In addition, it was noted that the DFB policy and procedure for the budget process states the same.

Upon review of the 2011 Operating Budget it was noted that a quarterly basis schedule of 2011 Cash Flow Projections was present for the General Fund. Quarterly schedules of estimated revenues and proposed expenditures were not present for any non-General Fund County departments, offices, agencies, authorities or boards and commissions.

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Recommendation:

IAD recommends that quarterly basis schedules of estimated revenues and proposed expenditures for all County departments, offices, agencies, authorities, boards and commissions be prepared and included in the operating budget as required by Summit County Charter § 2.03 (8)(c).

Management Action Plan:

IAD recommends that quarterly basis schedules of estimated revenues and proposed expenditures for all County departments, offices, agencies, authorities, boards and commissions be prepared and included in the operating budget as required by Summit County Charter Section 2.03 (8)(c). The DFB feels that the cost of implementing quarterly estimated revenue and expenditure schedules directly into the operating budget document far outweighs any benefits associated with it. The DFB will add language in the County's operating budget legislation to satisfy the requirement of 2.03 (8)(c) starting with the 2012 budget to be passed by December 15, 2011. The language will essentially state that the DFB shall report on monthly revenues and expenditures as they occur to meet the requirements of the Charter. This was discussed with the Council President and it was agreed that this proposal was acceptable.

13. Issue:

Upon review of the Summit County Charter § 2.03 titled "Powers and Duties of the County Executive" it was noted in paragraphs (9) and (9) (d) that the County Executive has the following duties:

(9) To submit annually to the County Council a capital improvements program which shall contain at least the following:

(d) A five year debt management projection for capital improvements.

In addition, it was noted that the DFB policy and procedure for the budget process states the same.

Upon review of the 2011-2016 Capital Improvement Program it was noted that it did not contain a five year debt management projection.

Recommendation:

IAD recommends that the DFB prepare a five year debt management projection and include it in the annual capital improvements program that is submitted to County Council as required by Summit County Charter § 2.03 (9)(d).

Management Action Plan:

The DFB will prepare a five year debt management projection and include it in the annual capital improvements program (CIP) that is submitted to County Council as required by Summit County Charter Section 2.03 (9)(d). The Director of the DFB has maintained the five year debt management projection and will present it to Council in the month of August, 2011 and will also add it to the annual CIP as required starting with the next CIP for years 2012-2017 which will be submitted by the end of the first quarter 2012.

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14. Issue:

The Summit County Charter § 187.01 "Department of Finance and Budget to Annually Prepare Five-Year Projections" states:

The County Executive's Department of Finance and Budget, as a budgetary officer of the County, shall annually prepare five-year projections for the County's General Fund, Federal Revenue Sharing Fund, County Sales and Use Tax Fund, Real Estate Assessment Fund, Debt Service Funds, Department of Job and Family Services Funds, and any other funds that may have an impact on the general operations of the County, in accordance with the guidelines of the American Institution of Certified Public Accountants (A.I.C.P.A.), the first of which shall cover the period 1986 through 1990, inclusive.

It is noted that a five-year projection for the General Fund is prepared and included in the Summit County 2011 Operating Budget. These projections are not prepared for the remaining funds noted above.

Recommendation:

IAD recommends that the required five-year projections be prepared for all applicable funds as noted in Summit County Charter § 187.01.

Management Action Plan:

The DFB will annually prepare five year projections for the General Fund, Real Estate Assessment Fund, Debt Service Funds, Department of Job and Family Services Funds, and any other funds that may have an impact on the general operations of the County (Section 187.01). Funds titled Federal Revenue Sharing Fund and County Sales and Use Tax Fund no longer exist in the County chart of accounts and therefore will not be reported on. The DFB has already been preparing five year projections for the General Fund. The Senior Administrator sent an e-mail out to the Fiscal Office, Department of Environmental Services, Department of Job and Family Services and the Engineer (for the Motor Vehicle Gas Tax Fund) on 4/15/2011 requesting updated five year forecasts for those funds. The DFB will add a section to the 2012 operating budget for Five Year Projections.

15. Issue:

Upon testing of Executive Orders (EO) for appropriation adjustments, it was noted that one out of ten EOs did not contain a statement of necessity as required by County Charter § 130.03.

Recommendation:

IAD recommends that the DFB obtain all required information as noted in County Charter § 130.03 before authorizing appropriation adjustments.

Management Action Plan:

The DFB will obtain all required information as noted in County Charter Section 130.03 for Executive Order appropriation adjustments. The one instance cited did not contain a statement of necessity but the DFB feels that the Subject of the adjustment (Benefits appropriations) created an implicit necessity statement. The DFB will make every effort to require a statement of necessity even if it is the same as the Subject of the adjustment itself. This will be implemented immediately.

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PAY-INS (Funds Depositing)

IAD obtained and reviewed the DFB pay-in procedures to gain an understanding of the process of depositing checks into the Fiscal Office Treasurer. An observation of the process of preparing the pay-in was performed with the Executive Assistant. IAD met with the Accountant 2 to gain an understanding of the procedure for logging incoming checks. A flowchart was created based upon the observations and discussions.

The receipting log utilized to track all incoming checks into the department was obtained and reviewed. A sample of fifty-six checks that were received and logged for the period of 1/1/10 to 2/25/11 was judgmentally selected. Detail testing was performed to ensure that the checks were deposited into the Treasurer's office timely and accurately. In addition, IAD randomly selected twenty pay-in logs and compared the entries to the receipting log to ensure that there was a proper segregation between receiving checks and preparing pay-ins.

The following issues and recommendations were noted during testing:

Recommendation:

In order to maintain a proper segregation of duties IAD recommends that the individual responsible for completing pay-in slips take extra precaution not to accept checks from anyone other than the individual responsible for logging the checks received.

16. Issue:

Upon review of the cash receipts log, utilized to track receipts into the DFB, and the pay-in log utilized to track deposits into the Treasurer's office, it was noted that there were twelve instances out of fifty-six where the deposits were not made on a timely basis which is a violation of O.R.C. §9.38. IAD notes that this error may be understated because cash receipts are not time stamped immediately upon receipt making it difficult to determine the exact date of receipt. In addition it was noted there is no apparent back-up for the check receiving function.

Recommendation:

IAD recommends that the DFB deposit funds in accordance with O.R.C. §9.38. Additionally, IAD recommends that the DFB immediately timestamp all cash receipts received into the department to accurately determine the received date, and obtain a time stamped receipt from the Cashier at the time the pay-in is deposited with the Treasurer. This will help to ensure that all funds are deposited in compliance with the O.R.C.

Management Action Plan:

The DFB had twelve instances out of fifty-six where deposits were not made on a timely basis which is a violation of O.R.C. Section 9.38. Receipts were not time stamped immediately upon receipt and there was no backup for the check receiving function. The DFB has added the time stamp function to the pay-in section of the policies and procedures manual. A backup has been identified for the check receiving function. The policies and procedures will also be updated to have any unknown deposits be made to General Fund-Other account within the time requirements of O.R.C. Section 9.38. A journal entry can be done at a later date if it is determined that the deposit should have been posted to a different account. These changes have already been implemented and the applicable changes will be made to the policies and procedures manual to be finalized by the end of the first quarter 2012.

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17. Issue:

Upon review of the receipting log utilized to track cash receipts as well as discussions with the Accountant 2, there is currently no reconciliation process in place to ensure that all checks received were deposited into Banner.

Recommendation:

IAD recommends that the DFB begin performing a reconciliation of the cash receipts log to Banner. This will help to ensure that any discrepancies are identified so that they can be corrected.

Management Action Plan:

The DFB will add a reconciliation process to the policies and procedures manual to ensure all checks received were deposited into Banner. The employee (and backup) that logs in checks was notified via e-mail on 5/12/2011 to begin this process immediately on at least a quarterly basis and the process will be added to the policies and procedures manual to be finalized by the end of the first quarter 2012.

18. Issue:

Upon observation and discussion with the Executive Assistant, the DFB accepts post-dated checks, some for time periods greater than one month, which is a violation of O.R.C. §9.38.

Recommendation:

IAD recommends that the DFB no longer accept post-date checks. If post-date checks are received, IAD recommends that the DFB return them immediately and advise the vendor that accepting such is a violation of the O.R.C. Furthermore, IAD recommends that this be included in the DFB policy and procedures manual. This will help to ensure compliance with the O.R.C. as well as help to ensure that best practices are followed.

Partial Corrective Action Taken Prior to the End of Fieldwork:

IAD obtained a letter sent by the DFB notifying a vendor that post-dated checks received in the future will be returned.

Management Action Plan:

The DFB will no longer accept post-dated checks. If they are received, the DFB will return them immediately. The DFB sent a letter to a vendor that was sending post-dated checks that they will be returned and this was done prior to the end of fieldwork. The DFB will add language regarding post-dated checks to the policies and procedures manual to be finalized by the end of the first quarter 2012.

FIXED ASSET INVENTORY

IAD obtained and reviewed the following policies and procedures to gain an understanding of the process of tracking fixed assets and updating the fixed assets database:

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- Fixed Asset Tracking Policy and Procedures,
- Inventory Procedures.

IAD met with the Executive Assistant to review the features and capabilities of the WASP Fixed Asset Tracking database (WASP) as well as to determine the amount of detail information that is maintained for each fixed asset. Additionally, IAD reviewed a listing of software features on the vendor's website to gain a further understanding of the system.

A detailed WASP asset report including asset tag number, asset type, purchase cost, assigned employee, and assigned department was obtained and reviewed. A sample of assets was selected from the report to test for existence. Additionally, a sample of assets located within select Executive Office departments was selected and confirmed that the asset was recorded in the WASP database.

Due to the high error rates noted through detail testing IAD met with the Director to gain an understanding of DFB expectations of the WASP system. It was noted that the process of tracking fixed assets will be changing and that the information is currently not relied upon. IAD passes on further testing of fixed assets inventory until a new procedure and process has been established and implemented.

The following recommendation was noted:

Recommendation:

IAD recommends that the DFB work with the Fiscal MIS department to implement a fixed asset tracking solution in SharePoint. This web-based document and sharing resource would allow both departmental and employee assigned assets to be tracked in an efficient and effective manner. Additionally, user access privileges could be granted on a departmental level to allow Executive Office Departments to take responsibility in tracking their own assets. Utilizing SharePoint would help to ensure that an accurate central listing of Executive Office assets is maintained as well as help to ensure that County assets are safeguarded.

Management Action Plan:

The DFB will work with the Fiscal Office-MIS department to implement a fixed asset tracking system in SharePoint. The DFB plans to utilize user access privileges on a departmental level to allow Executive departments to track their own assets. The DFB plans to have the system operational by June 30, 2012 but may require an extension of this timeframe.

DEBT SERVICE

IAD obtained and reviewed the following documentation to gain an understanding of debt service procedures and detail information maintained:

- Procedures for "Semi-Annual Bond Payment: Principle and Interest,"
- 2010 Annual Informational Statement,
- DFB spreadsheet 11 usb.xls,
- DFB spreadsheet AMORTIZATION ALL BONDS.xls,
- DFB spreadsheet 11111-debt-breakdown.xls.

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The Fiscal Office Director of Administration and the Manager from Rea and Associates assigned to the Summit County CAFR audit were contacted to gain an understanding of the testing or work performed for the annual CAFR audit regarding debt. It was determined that detail testing of this section is not necessary as it is tested and confirmed every year during the annual CAFR audit.

IAD passed on further detail testing of debt service.

FRINGE BENEFITS

The following documentation was obtained and reviewed to gain an understanding of employment tax treatment of fringe benefits:

- 2011 IRS Publication 15-B,
- Taxable Fringe Benefit Guide (Federal, State, and Local Governments-the Internal Revenue Service-January 2011).

In addition, the following sections of the County of Summit Executive-Department of Finance and Budget Operating Procedures manual was obtained and reviewed to gain an understanding of how departmental fringe benefits are processed for payment reimbursement:

- Auto Reimbursement Policies,
- Travel Policy,
- Tuition Reimbursement Policy.

IAD obtained and reviewed the bargaining union agreement pertaining to the Office Services Division (Agreement Between the County of Summit and Ohio Council 8 and Local 1229 of the AFSCME, AFL-CIO, effective 4/1/08 though 3/31/11) to gain an understanding of the fringe benefits provided and how such fringe benefits are administered.

IAD met with the Senior Administrator and the Fiscal Officer 3 that functions as the Executive Office Payroll Coordinator, to gain an understating of any departmental fringe benefits provided as well the treatment of fringe benefits. The following areas were addressed:

- Meals and travel reimbursements,
- Cash incentives, awards, gift awards and/or bonuses,
- Payments of litigation settlements and/or back-pay,
- County paid life insurance policies over \$50,000,
- Uniforms and clothing allowances,
- Employment contracts,
- Designated County vehicles,
- Allowances for firearms or tasers and any other non-lethal weapon,
- Tuition assistance and reimbursement,
- Subcontracted employees.

Testing was performed for the areas where a taxable fringe benefit may have been rewarded.

Banner reports of DFB travel expenses accounts were generated for the period of 1/1/10 to 3/25/11 to test the meals reimbursements. IAD traced and agreed the reimbursements to the respective supporting

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documentation to determine if employee meal reimbursements were properly included in earnings, if applicable.

Per discussion with Benefits Specialist 2 of the Insurance and Risk Management Department it was noted there are no County provided life insurance policies greater than \$20,000 for the DFB, Purchasing Department, or the Office Services Division.

County of Summit Executive Order 11-020 was obtained and reviewed to determine if any DFB employees were assigned a county vehicle.

Upon discussion with the Fiscal Officer 3, it was noted that one DFB employee received a tuition reimbursement. Testing was performed to confirm that the reimbursement amount was not more than the amount exempt per IRS Publication 15B.

No issues were noted during testing.

GRANTS MANAGEMENT

IAD met with the Fiscal Officer 3 to gain an understanding of the process for preparing grant appropriations. A narrative was created to document the discussion.

A sample of nine grant resolutions from 2011 was randomly selected for testing. Each was footed and the fund, org, account, and dollar amounts were traced and agreed to the grant agreement, Banner, and other supporting documentation.

No issues were noted during detail testing.

III. Security:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with O.R.C. §149.433.