

Summit County Children Services
Segregated Accounts
Performance Audit General Report

Prepared for:

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Audit Committee

Approved by Audit Committee
September 18, 2017



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EXECUTIVE SUMMARY

Total Issues – 4

Internal Controls

Strong Internal Controls:

Area	# Issues	Issue Description	Page Ref.
PEDACKN/OPERS	0	N/A	7

Weak Internal Controls:

Area	# Issues	Issue Description	Page Ref.
Children’s Savings Account	2	<ul style="list-style-type: none"> • Insufficient policies and procedures • No evidence of supervisory review of the monthly bank reconciliations 	5
Betterment Account	1	<ul style="list-style-type: none"> • Insufficient policies and procedures 	6
IRS Form 1099 Process	1	<ul style="list-style-type: none"> • Inadequate Form 1099 process 	7

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GENERAL BACKGROUND

Summit County Children Services (SCCS) administers two (2) segregated bank accounts. A description of the segregated accounts deposits and expenditures are represented in the table below:

Account Name (Account Number)	Regulating Authority	Deposits	Expenditures
Children’s Savings (...5761)	ORC	Banner transfers to fund the account.	Payment to adolescent upon completion of the Independent Living Program.
Betterment (...6076)	ORC	Banner transfers, donations, etc.	Summer camp attendance, holiday gifts, utility expenses, etc.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The primary focus of this review was to provide SCCS 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 SCCS.

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.

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.

Objectives:

- To review the segregated account internal control structure through employee interviews and observations.
- To ensure IRS Form 1099s are processed according to IRS regulations.

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the SCCS from January 1, 2016 through December 31, 2016.

The following were the major audit steps performed:

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OBJECTIVE 1 – REVIEW OF SEGREGATED ACCOUNT INTERNAL CONTROLS

1. Meet with the appropriate personnel to obtain an understanding of the control environment.
2. Document the existing control procedures in narratives and/or flowcharts.
3. Test procedures for compliance where applicable, noting all exceptions.
4. Investigate discrepancies and summarize results.
5. Make recommendations where appropriate.

OBJECTIVE 2 – IRS FORM 1099 PROCESSING

1. Meet with the appropriate personnel to obtain an understanding of the department’s process.
2. Document the existing control procedures in narratives and/or flowcharts.
3. Ensure the 1099 process is performed in accordance with IRS regulations.
4. Investigate discrepancies and summarize results.
5. Make recommendations where appropriate.

OBJECTIVE 3 – Vendor PEDACKN Forms

1. Meet with the appropriate personnel to obtain an understanding of the department’s process.
2. Ensure the process regarding vendors that are independent contractors is performed in accordance with OPERS guidelines and ORC §145.38 (B) (6).
3. Investigate discrepancies and summarize results.
4. Make recommendations where appropriate.

DETAILED COMMENTS

I. Internal Control Testing

Policies and procedures and applicable legislation were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the laws and regulations, deposit and expenditure processes, and internal controls in place for the following segregated accounts:

- Children’s Savings Account
- Betterment Account

Samples of deposits and expenditures were judgmentally selected for detail testing to ensure adequate support was maintained, activity was in compliance with rules and regulations and proper approval was obtained/documented. In addition, bank reconciliations were selected for detail testing to ensure a bank reconciliation was performed each month and a supervisor review was performed and documented.

The following issues were noted:

Children’s Savings Account

1. Issue:

Upon review of SCCS policies and procedures, IAD noted no formal written policies and procedures over the Children’s Saving Account receipt book and check approver processes.

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Recommendation:

IAD recommends that SCCS update their policies and procedures to include the receipt book and check approver processes. This will help to ensure that proper procedures are in place and consistently followed within the department.

Management Action Plan:

SCCS has written procedures over the receipt of funds and also their disbursement.

The fact that SCCS uses a receipt book to generate a document number for the entry to Quicken is not described in the procedure. SCCS will add such a description to the deposit procedure for the Children's Savings Account.

The fact that two signatures by authorized signers are required on Children's Savings Account checks is not written in the procedure. SCCS will add a description of that process to the written payment procedure.

2. Issue:

Upon detail testing of bank reconciliations, IAD noted two (2) out of twelve (12) instances, or 17%, where there was no evidence of supervisory review.

Recommendation:

IAD recommends the supervisor's signature be documented on the bank reconciliation. This will help to ensure that bank reconciliations are properly monitored and evidence of supervisory review is documented.

Management Action Plan:

SCCS reviews bank reconciliations on the both of the segregated cash accounts monthly. SCCS will review the folder of bank reconciliations periodically to ensure that the review of the reconciliations has been documented.

Betterment Account

3. Issue:

Upon review of SCCS policies and procedures, IAD noted no formal written policies and procedures over the Betterment Account receipt book and check approver processes.

Recommendation:

IAD recommends that SCCS update their policies and procedures to include the receipt book and check approver processes. This will help to ensure that proper procedures are in place and consistently followed within the department.

Management Action Plan:

The fact that SCCS uses a receipt book to generate a document number for the entry to QuickBooks is not described in the procedure. SCCS will add such a description to the deposit procedure for the Betterment Account.

The fact that two signatures by authorized signers are required on Betterment Account checks is not written in the procedure. SCCS will add a description of that process to the written payment procedure.

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II. IRS Form 1099 Process

Staff interviews were conducted to gain an understanding of the IRS Form 1099 (1099) process. The 1099 process was reviewed to ensure procedures are performed in accordance with IRS regulations.

Additionally, 2016 expenditures were obtained to ensure all independent contractors, exceeding \$600 in the calendar year, received a Form 1099. Lastly, All 1099s issued for calendar year 2016 were reviewed to ensure they were sent by the applicable IRS deadline.

The following issue was noted:

4. Issue:

Upon review of the Form 1099 policy, IAD noted SCCS sends a Form 1099 to all applicable vendors for payments exceeding six hundred dollars (\$600) cumulatively; however, the policy does not take into account that the IRS views all departments within Summit County as one tax ID. This could cause a vendor being paid by two separate County departments not to receive a Form 1099 when cumulative payments may exceed the six hundred dollar (\$600) threshold.

Recommendation:

IAD recommends that SCCS follow the Summit County Fiscal Office's Form 1099 policy and issue a Form 1099 for every applicable vendor receiving a payment over \$.01. This will help to ensure compliance with IRS Form 1099 guidelines.

Management Action Plan:

It is the practice of SCCS to direct payments through Banner as much as possible. There are times when time is of the essence and a check is needed immediately.

IAD recommends that SCCS issue a Form 1099 for every applicable vendor receiving a payment over \$.01 even though the IRS Form 1099 threshold is \$600. While this approach avoids the county having to aggregate disbursements from various agencies, it places a heavy workload on SCCS which is very likely unnecessary from an IRS perspective. SCCS will continue to evaluate the issue and work with the county to address the issue in the most efficient manner to ensure compliance with IRS regulations.

III. PEDACKN/OPERS

2016 and 2017 expenditures were obtained and detail testing was performed to ensure the following:

- The Independent Contractor has completed and signed a PEDACKN (Independent Contractor Acknowledgment) form in compliance with OPERS guidelines.
- The Independent Contractors status is terminated with the County if the Independent Contract is currently receiving an Ohio Public Employee Retirement System (OPERS) benefits in compliance with ORC §145.38 (B)(6).

No issues were noted.