

Summit County Fiscal Office
Treasurer's Division
Performance Audit – General Report

Prepared for:

Kristen Scalise
Audit Committee

Approved by Audit Committee
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Summit County
Internal Audit Department
175 South Main Street
Akron, Ohio 44308

Lisa L. Skapura, Director
Meredith Merry, Assistant Director
Jon Keenan, Auditor-in-Charge
Brittney Quinn, Staff Auditor
Brandon Schmidt, Staff Auditor
Taylor Ladouceur, Staff Auditor
Mario Warren, Staff Auditor
Vince Ruegsegger, Staff Auditor

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EXECUTIVE SUMMARY

Total Number of Issues – 3

Policies and Procedures

Section	# Issues	Issue Descriptions	Page Ref.
Policies and Procedures Manual	1	<ul style="list-style-type: none"> • Policies conflicting with procedures 	7

Internal Controls

Strong Internal Controls:

Testing Section	# Issues	Issue Description	Page Ref.
Delinquent Tax	0	N/A	8
Expenditures			8
Cashiering			8
Investments			9
Payroll			9
Fringe Benefits			9
Personnel Files			10
Vehicle Log			10

Weaknesses in Internal Controls:

Testing Section	# Issues	Issue Descriptions	Page Ref.
Escrow	1	<ul style="list-style-type: none"> • Incorrect calculation for penalty assessment and/or interest forfeited 	10
CTIP Program	1	<ul style="list-style-type: none"> • Insufficient documentation maintained 	11

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GENERAL BACKGROUND

The Treasurer Division of the Fiscal Office is responsible for the collecting of Real Estate Taxes on all properties in Summit County. They mail real estate tax bills semiannually. There are seventy-four (74) tax districts with approximately two hundred seventy thousand (270,000) tax bills mailed each collection.

The two most noted and largest dollar amounts collected come from real estate and personal property taxes. Other taxes collected are mobile home taxes, inheritance, hotel-motel and special assessments.

The Treasurer is the chief investment officer of the county responsible for the management of more than \$1 billion in revenue annually. Safety, liquidity and earning a market rate of return on the county's money are primary responsibilities of the Treasurer.

The Treasurer is also the cash manager for the county, acting much like a banker. As cash manager, the Fiscal Officer's Treasurer Division collects all payments received by the county. They deposit all of this revenue into the county's account. County expenses are paid for by warrants issued by the Auditor Division Accounting Department—the Treasurer Division redeems the warrants when they are returned through the banking system. The Treasurer Division keeps track of the balances of transactions and balances daily with the Auditor Division.

Real Property tax is one of the oldest taxes in the State of Ohio. Tax rates vary between tax districts depending on all levies approved either by legislative authority or by the voters in the district. Ohio law limits local government authority to assess property taxes by creating the 10 mill limitation.

County treasurers serve as the county banker, safe keeper of all taxes and investor of local funds. Other responsibilities include:

- Safekeeping of taxes collected in taxing districts such as schools, cities, townships and villages.
- Investment of undisbursed funds to earn revenue for the general operating fund.
- Service on the County Investment Board to provide financial data, investment instruments financial forecasting, and current and future interest rate schedules.
- Oversight of complaints from property owners who feel their property taxes are too high.
- Approval of spending levies for schools, cities, townships and villages.

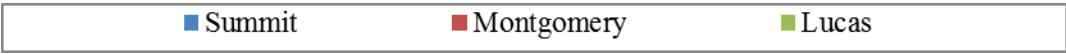
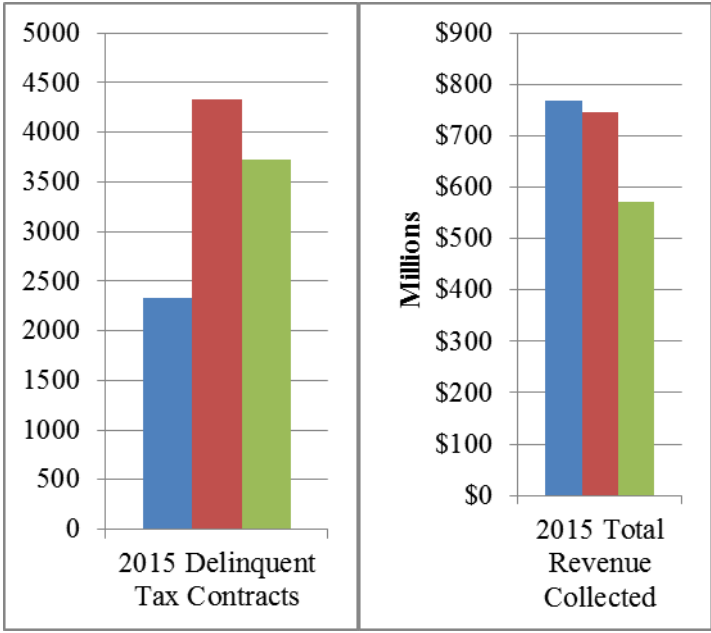
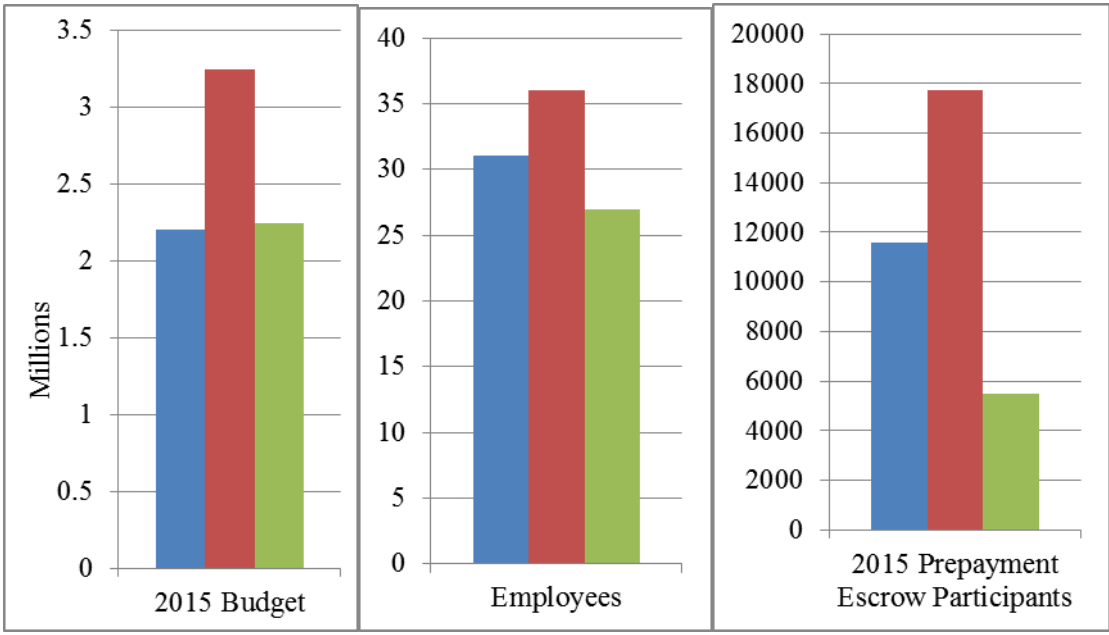
The Treasurer's Division consists of thirty-one (31) employees (1% of Summit County employment) comprising of Deputy Fiscal Officers, Administrators, Accountants and Clerks. The Treasurer's Division 2014 and 2015 budgeted expenditures¹ totalled \$2,226,576 and \$2,202,100, respectively (0.5% of the 2014 and 2015 County's total operating budget).²

IAD compared the Treasurer's Division 2015 budgeted expenditures, current staffing levels, 2015 Current Tax Installment Program (CTIP) and delinquent tax contract participants and 2015 revenue collection amounts to the Treasurer's Division from comparably populated counties – Montgomery and Lucas. The comparisons are represented in the graphs on the next page:

¹ Budgeted expenditures were used in lieu of actual expenditures because the Fiscal Office's budget is not separated by department on the CAFR.

² <https://co.summitoh.net/images/stories/Finance/pdf/OperatingBudget/2014OperatingBudget.pdf>
<https://co.summitoh.net/images/stories/Finance/pdf/OperatingBudget/2015OperatingBudget.pdf>

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AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The primary focus of this review was to provide the Treasurer's Division 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 Treasurer's Division.

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 obtain and review the current policies and procedures.
- To review the internal control structure through employee interviews and observations.
- 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 the Treasurer's Division from October 1, 2014 through September 30, 2015.

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

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. Compare existing processes to the policies and procedures manual for consistency.

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4. Test procedures for compliance where applicable, noting all exceptions.
5. Investigate discrepancies and summarize results.
6. Make recommendations where appropriate.

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

1. Perform a general overview of the physical environment and security of the department/agency being audited.
2. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
3. Test security issues where appropriate.
4. Analyze current policies and make recommendations.

DETAILED COMMENTS

Interviews:

To gain an understanding of the Treasurer's Division, IAD performed interviews with the following positions:

- Deputy Fiscal Officers (4)
- Chief Fiscal Officers (2)
- Support Services Administrator
- Assistant Director of Administration

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

I. Policy and Procedures:

Policies and procedures were reviewed for each of the following applicable testing sections within the audit for accuracy and completeness and compared to current processes for consistency. The Fiscal Office Records Retention Schedule was also reviewed for completeness and compared to processes throughout the audit to ensure that the schedule contained all relevant documents.

The following issue was noted:

1. Issue:

Upon review of the Escrow Policy and Procedure Manual, discussion with the Deputy Fiscal Officer, and detail testing, IAD noted the Escrow Policy does not reflect current procedures in the following areas:

- Payments to the discount program exceeding total of all five (5) coupons.
- Mailing of final delinquent bills.

Recommendation:

IAD recommends the Treasurer's Division update their policy and procedure manual to reflect current processes. This will help to ensure that policies and procedures are updated and procedures are consistently being followed.

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Corrective Action Taken Prior to the End of Fieldwork:

On 1/8/16, IAD obtained an updated policy regarding payments to the discount program and noted the policy now reflects current procedures.

Management Action Plan:

Policy and Procedure Manual will be updated to reflect current process for all items noted in this issue. Manual will be updated by July 2016.

II. Internal Control Testing:

Risk-based internal control testing and/or observations were performed in the following areas:

- Delinquent Tax
- Expenditures
- Cashiering
- Investments
- Payroll
- Fringe Benefits
- Personnel Files
- Vehicle Log
- Escrow Program
- Current Tax Installment Program (CTIP)

DELINQUENT TAX

Policies and procedures and applicable ORC sections were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the delinquent tax process, the laws and regulations that govern it, and internal controls in place. A sample of tax certificate sales were haphazardly selected and detail testing was performed to ensure the appropriate payment was posted to the correct account and the parcel's account code was changed to reflect the sale of the tax certificate. The 2015 tax certificate sale purchase agreement was obtained and reviewed to ensure the agreement was approved by the Fiscal Officer. Additionally, IAD obtained newspaper publications of delinquent tax parcels to ensure the parcels were published in accordance with ORC §5721.03.

No issues were noted.

EXPENDITURES

Policies and procedures and applicable ORC sections were reviewed, staff interviews were conducted, and a flowchart was created and approved to gain an understanding of the expenditure cycle, the laws and regulations that govern it, and internal controls in place. A sample of requisitions was haphazardly selected from SharePoint and detail testing was performed to ensure proper segregation of duties.

No issues were noted.

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CASHIERING

Policies and procedures were reviewed and staff interviews were conducted to gain an understanding of the cashiering process and internal controls in place. Safe Access Logs were obtained and reviewed to ensure only appropriate employees were accessing the safe. A sample of the Daily Verification of Cash Logs was haphazardly selected and detail testing was performed to ensure the daily coin and cash count was accurate and properly approved. A sample of Non-Sufficient Fund (NSF) transactions were haphazardly selected and detail testing was performed to ensure the NSF transaction was posted to the correct account. Surprise cash count forms were obtained and reviewed to ensure accuracy of the count and were performed twice per year in accordance with Treasurer Division policy.

No issues were noted.

INVESTMENTS

Policies and procedures and applicable ORC sections were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the investment process, the laws and regulations that govern it, and internal controls in place. A sample of securities purchased was haphazardly selected and detail testing was performed to ensure interest received was posted to the correct account on Banner. A sample of wire transfers (phone, ACH and account transfers) were haphazardly selected and detail testing was performed to ensure a transfer and warrant form were obtained prior to transfer and proper approval. A sample of bank reconciliation was haphazardly selected and detail testing was performed to ensure completeness and accuracy. A listing of investment Brokers and Dealers were obtained and detail testing was performed to ensure that they signed the Investment Policy. Training documents were obtained and the Ohio Center for Public Investment Management (CPIM) website was reviewed to ensure the correct amount of continuing education hours was obtained. Additionally, IAD obtained confirmation to ensure the Investment Manager is Series 6 certified.

No issues were noted.

PAYROLL

An interview was conducted to gain an understanding of the payroll process. A payroll approval report was generated and reviewed to determine appropriate authorizations and to confirm a proper segregation of duties. Additionally, a sample of leave forms were haphazardly selected and reconciled to Kronos to ensure accuracy and proper approval.

The following general recommendation was noted:

General Recommendation:

Upon discussion with Treasurer's Division staff and through detail testing, IAD noted paper leave forms are utilized when leave time is requested/approved. This data is then manually entered into Kronos. IAD recommends that the Treasurer's Division begin to utilize the electronic leave forms within Kronos when requesting/approving leave time. Once approved in Kronos, the respective employee's time card is automatically updated. This will help to improve efficiency and reduce the potential for human error.

No issues were noted.

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FRINGE BENEFITS

Detail testing of the following areas was performed, if applicable, to confirm that the Treasurer's Division is properly processing fringe benefits in accordance with IRS tax code:

- Travel and meals reimbursement
- Cash incentives, awards, gift awards and/or bonuses
- County paid life insurance policies over \$50,000
- Uniforms and clothing allowances
- Employment contracts
- Agency vehicle usage
- Allowances for firearms or tasers and/or any other non-lethal weapon
- Tuition assistance and reimbursement
- Subcontracted employees
- Domestic Partnership health insurance benefits

No issues were noted.

PERSONNEL FILES

Policies and procedures were reviewed and an interview was conducted to gain an understanding of the procedures in place over personnel files. A sample of employees was judgmentally selected and detail testing was performed to verify that the personnel files contained the required documentation, for which the Treasurer's Division is responsible for submitting to the Fiscal Office Personnel Division.

No issues were noted.

VEHICLE LOG

Vehicle logs were obtained and reviewed to determine employees operating a County vehicle, and compared to the SambaSafety report (showing employees authorized to operate a County vehicle) to ensure that employees had been properly authorized, in accordance with Codified Ordinance §169.25(i)(3).

No issues were noted.

ESCROW PROGRAM

Policies and procedures and applicable ORC sections were reviewed, staff interviews were conducted, and a flowchart was created and approved to gain an understanding of the escrow program, the laws and regulations that govern it, and internal controls in place. A sample of parcels enrolled in the escrow program were selected and detail testing was performed to ensure interest was calculated correctly and deducted from the final coupon only when taxes were paid in full and on time and the Escrow Agreement was signed and the parcel did not have delinquent taxes upon enrollment. A sample of delinquent parcels enrolled in the escrow program were haphazardly selected and detail testing was performed to ensure the correct penalty was assessed, interest earned was forfeited and parcels delinquent more than fifteen (15) days after the final delinquent bill was sent were removed from the program. The Tax Escrow Statement was reviewed to ensure it contains all information as required by ORC §321.45(F). The CAMA (Computer Assisted Mass Appraisal) system was reviewed to ensure that a separate record of each parcel is maintained showing the date and amount of each prepayment.

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The following issue was noted:

2. Issue:

Upon detail testing of Escrow delinquent parcels, IAD noted four (4) out of twenty-six (26) instances where the penalty assessed and/or interest forfeited was not calculated correctly (e.g., human error, program logic), in accordance with policy and procedure and ORC §323.12. Errors totaled one hundred thirty-three dollars and forty-nine cents (\$133.49).

Recommendation:

IAD recommends the Treasurer's Division review all late payments to ensure the penalty assessed and/or interest forfeited was correct. This will help to ensure compliance with policy and procedure and ORC § 323.121.

Management Action Plan:

Treasurer's Division will work with IT Department to ensure penalty is calculated accordingly by CLT software. Treasurer's Division anticipates this process will be completed for 2nd Half 2015 collection which will close in July 2016.

CURRENT TAX INSTALLMENT PROGRAM (CTIP)

Policies and procedures and applicable ORC sections were reviewed, staff interviews were conducted, and a flowchart was created and approved to gain an understanding of the CTIP, the laws and regulations that govern it, and internal controls in place. The CTIP Enrollment Agreement was obtained and reviewed to ensure it contains all information as required by Summit County Ordinance 174.

A sample of parcels enrolled in CTIP was haphazardly selected and detail testing was performed to ensure the:

- CTIP agreement was signed and dated
- 5% enrollment fee was calculated correctly
- Enrollment agreement was entered into by the established deadline
- Parcel was owner-occupied
- Applicant was up-to-date on their property taxes (no delinquencies)

Additionally, a sample of CTIP parcels that defaulted was haphazardly selected and detail testing was performed to ensure the correct penalty was assessed.

The following issue was noted:

3. Issue:

Upon detail testing of parcels that defaulted on the CTIP program, IAD noted nine (9) out of twenty-eight (28) instances where IAD could not determine if a penalty should have been assessed because the postmarked envelope that is used to document the date the payment occurred was not maintained.

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Recommendation:

IAD recommends the Treasurer's Division maintain copies of postmarked mail when the payment is posted in PAWS after the due date to document that the payment was received timely. This will help to ensure accountability over the CTIP process and a proper audit trail is maintained.

Management Action Plan:

Treasurer's Division will maintain postmarked envelopes when a current payment is posted in PAWS after the November 15th CTIP due date in order to confirm the payment was made timely.

II. Security:

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