

Summit County Prosecutor's Office
Segregated Accounts
Performance Audit General Report

Prepared for:

**Prosecutor Sherri Bevan Walsh
Audit Committee**

**Approved by Audit Committee
September 16, 2019**



**Summit County
Internal Audit Department
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EXECUTIVE SUMMARY

Total Number of Issues – 5

Internal Controls

Strong Internal Controls:

Account/Section	# Issues	Issue Description	Page Ref.
CSEA Deposits Held and Due to Others	0	N/A	8
1099 Process	0	N/A	9

Weaknesses in Internal Controls:

Account	# Issues	Issue Description	Page Ref.
Law Enforcement Trust Fund Account (LETf) Education Account Federal Law Enforcement Trust Fund Account (FLETf) Furtherance of Justice Account (FOJ)	4	<ul style="list-style-type: none"> • Instance where Board of Control and/or Office of Information Technology approval was not obtained for purchases. (LETf, Education) • Bank reconciliation not reviewed by Supervisor timely (LETf, Education, FLETf, FOJ). Stale dated outstanding checks not forwarded to unclaimed funds and no written policy and procedure. (LETf, FOJ) • Improper segregation of duties over the cash receipt process. (LETf, Education, FLETf, FOJ) • Executed agreement for banking services could not be located. (LETf, Education, FLETf, FOJ) 	6 & 7
Vendor PEDACKN Forms	1	<ul style="list-style-type: none"> • Forms not completed and the list of independent contractors not forwarded to the Fiscal Office. 	9

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GENERAL BACKGROUND

The Summit County Prosecutor's Office (Prosecutor's Office) administers five (5) segregated bank accounts. The Prosecutor's Office participates in Federal and State Law Enforcement Fund programs which disburse funds generated from seized and forfeited assets.

A description of the segregated accounts deposits and expenditures are represented in the table below:

Account Name (Account Number)	Regulating Authority	Deposits	Expenditures
Law Enforcement Trust Fund (...8595)	State of Ohio	Share of state and local seized assets	Education account, training, Prosecutor's education credits, etc.
Education Account (...8587)	State of Ohio	10% transfer of LETF funds on first \$100,000 received; 20% transfer on funds over \$100,000	Public education purposes (e.g., safety calendars, public awareness events, etc.)
Federal Law Enforcement Trust Fund (...1215)	Federal	Share of federal seized and forfeited assets	Training, Prosecutor's education credits, etc.
Furtherance of Justice (...3721)	State of Ohio	General fund (based on the Prosecutor's salary)	General purchases (e.g., attorney dues, law handbooks, etc.)
CSEA Deposits Held & Due to Others (...3455)	State of Ohio	Child support payments	Daily state Child Support Payment Central (CSPC) disbursements

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AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The primary focus of this review was to provide the Prosecutor's Office 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 Prosecutor's Office.

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.
- To ensure vendors that are independent contractors are processed in accordance with OPERS guidelines and ORC §145.38 (B) (6).

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the Prosecutor's Office from January 1, 2018 through December 31, 2018.

The following were the major audit steps performed:

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 (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.

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OBJECTIVE 3 – Vendor Independent Contractor/Work Acknowledgement (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. Ensure the list of independent contractors paid by the Office is sent to the Fiscal Office Accounting Department annually.
4. Investigate discrepancies and summarize results.
5. Make recommendations where appropriate.

DETAILED COMMENTS

I. Segregated Account 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:

- Law Enforcement Trust Fund
- Education Account
- Federal Law Enforcement Trust Fund
- Furtherance of Justice
- CSEA Deposits Held and Due to Others

All deposits and expenditures were selected from the Federal Law Enforcement Trust Fund account and samples of deposits and expenditures were selected from the remaining accounts. Detail testing was performed 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:

Law Enforcement Trust Fund, Education, Federal Law Enforcement Trust Fund and Furtherance of Justice Accounts

1. Issue:

Upon discussion with personnel, IAD noted an improper segregation of duties over the cash receipt process (e.g., same employee prepares the deposit, takes deposit to bank and prepares the monthly bank reconciliation).

Recommendation:

IAD recommends that an employee independent of the employee who collected the receipts deposit the funds at the bank. This will help to ensure a proper segregation of duties exist over the cash receipts process.

Management Action Plan:

The Prosecutor's Office has added a third employee to the segregated accounts cash receipt process. The Fiscal Officer will receipt the checks, her supervisor or their designee will prepare and reconcile the deposit, and a third employee will take the deposit to the bank. The Prosecutor's cash receipt process has not changed in several years and workflows completed as part of the audit process were reviewed. Prior audits did not indicate an issue with

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segregation of duties, however, at the recommendation of IAD, the changes indicated here have been made and incorporated in our Segregated Accounts Policy.

Target Date:

Immediately with policy finalized by 10/1/2019.

2. Issue:

Upon discussion with Prosecutor's Office personnel, IAD noted a signed executed agreement with PNC Bank for banking services could not be located.

Recommendation:

IAD recommends that all agreements be reviewed, executed by the appropriate parties and maintained (e.g., Prosecutor's Office, Executive, etc.). This will help to ensure compliance with the Summit County Charter Section 2.03.

Management Action Plan:

The Prosecutor's Office obtained PNC terms and conditions for both bank account types for our four segregated accounts. Two originals were sent to the Prosecutor and County Executive on 8/12/2019 for signature acknowledgment. Our Segregated Accounts Policy has been updated to include the requirement of bank agreements to be executed by the County Executive.

Target Date:

Immediately with policy finalized by 10/1/2019.

3. Issue:

Upon detail testing of monthly bank reconciliations, IAD noted the following:

- Three (3) out of twelve (12) instances, or 25%, were the bank reconciliation was not approved timely (i.e., the following month) (LETF, Education, FLETF & FOJ).
- Eight (8) outstanding checks that were written during the period 2013 through 2017 that remained on the monthly bank reconciliation for all of 2018. In addition, no policy in place regarding stale dated outstanding checks (LETF).
- One (1) outstanding checks that was written during the period 2015 that remained on the monthly bank reconciliation for all of 2018. In addition, no policy in place regarding stale dated outstanding checks (FOJ).

Recommendation:

IAD recommends that bank reconciliations be approved each month by the appropriate personnel and a policy and procedure be created to handle stale dated outstanding checks. This will help to ensure bank reconciliations are performed timely & stale dated checks are forwarded to unclaimed funds.

Management Action Plan:

During high volume federal, state, and calendar year end fiscal processes, the Fiscal Officer reconciled three months of segregated accounts at one time. The three instances all occurred at the same time. No issues were

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found with the reconciliation and they were properly approved. While this was only one occurrence during the entire year, the Prosecutor's Office understands the importance of timely reconciliation and will continue to work to ensure it is done monthly.

The Prosecutor's Office has incorporated a process to address stale dated checks annually into our Segregated Accounts Policy. Draft policy was completed on 8/15/2019. Outstanding checks from 2013 through 2017 will be forwarded to the Summit County Fiscal Office as unclaimed funds no later than 9/30/2019.

Target Date:

Immediately with policy finalized by 10/1/2019.

Law Enforcement Trust Fund & Education Accounts

4. Issue:

Upon detail testing of expenditures, IAD noted the following:

- Two (2) of two (2) instances, or 100%, where an expenditure between \$5,000 and \$50,000 was not approved by Board of Control prior to making the purchase, in accordance with Codified Ordinance 177.10 (LETF).
- One (1) out of one (1) instance, or 100%, where an IT related purchase was not approved by the Chief Information Officer (CIO), in accordance with Codified Ordinance 177.11 (LETF).
- One (1) of one (1) instance, or 100%, where an expenditure between \$5,000 and \$50,000 was not approved by Board of Control prior to making the purchase, in accordance with Codified Ordinance 177.10 (Education).

Recommendation:

IAD recommends that expenditures between \$5,000 and \$50,000 be approved by Board of Control and IT related purchases be approved by the CIO prior to making the purchase. This will help to ensure compliance with Codified Ordinances.

Management Action Plan:

The Prosecutor's Office has incorporated procedures from Codified Ordinances 177.10 and 177.11 into our Segregated Accounts Policy for expenditures/purchasing. Purchases over \$5,000 will follow this procedure and approval by the Chief Information Officer will be requested for all IT related purchases. Draft policy was completed on 8/15/2019.

Target Date:

Immediately with policy finalized by 10/1/2019.

CSEA Deposits Held and Due to Others

No issues were noted.

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II. 1099 Process:

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

Additionally, 2018 expenditures were obtained to ensure all independent contractors received a 1099. Lastly, All 1099s issued for calendar year 2018 were reviewed to ensure they were sent by the applicable IRS deadline.

No issues were noted.

III. Vendor PEDACKN Forms

2018 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).
- List of all independent contractors was provided to the Fiscal Office Accounting Department annually.

The following issue was noted:

5. Issue:

Upon detail testing of expenditures, IAD noted two (2) out of five (5) instances, or 40%, where a vendor was determined to be an independent contractor and provided a service; however, a PEDACKN form was not completed by the vendor within thirty (30) days of providing the service, in accordance with Ohio Revised Code § 145.038.

In addition, IAD noted a list of independent contractors paid by the Prosecutor's Office is not being forwarded to the Fiscal Office Accounting Department on an annual basis.

Recommendation:

IAD recommends the Prosecutor's Office require a PEDACKN form to be completed by vendors who are independent contractors that are providing a service within thirty (30) days. In addition, IAD recommends all independent contractors paid by the Prosecutor's Office be sent to the Fiscal Office Accounting Department office annually. This will help to ensure compliance with Ohio Revised Code §145.038 and the Ohio Public Employees Retirement System (OPERS) is notified of all independent contractors paid by the County.

Management Action Plan:

In the two instances identified during the audit, the Prosecutor's Office did have the PEDACKN forms completed by the vendors, however they were completed outside 30 days of the services provided. The Prosecutor's Office has incorporated a check request form in our Segregated Accounts Policy that requires any employee requesting payment to a vendor to attach the PEDACKN and W-9 to the check request form prior to the check being issued in order to be in compliance with time frames.

Our policy has also been updated to include a requirement that PEDACKN forms for independent contractors be sent to the Fiscal Office as they are received. This policy was implemented following a phone conversation with

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Diane Dekovich on 08/15/2019. Diane instructed us to send them as they are received, instead of annually, as the Fiscal Office faxes PEDACKN forms to OPERS weekly. Please note that we have never been instructed to send PEDACKN forms to the Fiscal Office in the past, only to obtain them. We understand the importance and have implemented the policy. Draft policy completed on 8/15/2019.

Target Date:

Immediately with policy finalized by 10/1/2019.