

Summit County Children Services
Segregated Accounts
Performance Audit General Report

Prepared for:

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Approved by Audit Committee
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Performance Audit – General Report

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EXECUTIVE SUMMARY

Total Issues – 5

Internal Controls

Weak Internal Controls:

Area	# Issues	Issue Description	Page Ref.
Children’s Savings Account & Betterment Account	3	<ul style="list-style-type: none"> • Instances where supervisor review date was not documented on the reconciliation (both accounts) • A signed executed agreement could not be located between the SCCS and PNC (both accounts) • Ongoing monthly discrepancy between the QuickBooks month end balance in the system and the register month end balance (ranging from \$3.00 to - \$1,047.35) (Betterment Account) 	5
IRS Form 1099 Process	1	<ul style="list-style-type: none"> • Instances where a Form 1099 was required; however, was not completed and sent by the established deadline. 	6
PEDACKN/OPERS	1	<ul style="list-style-type: none"> • Instances where a vendor PEDACKN form was not completed. 	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, 2018 through December 31, 2018.

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/documentated. 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:

1. Issue:

Upon detail testing of the Children’s Savings and Betterment accounts monthly bank reconciliations, IAD noted five (5) out of twelve (12) instances, or 42%, where a supervisor review of the bank reconciliation occurred; however, a date was not documented. Therefore, IAD could not determine if the bank reconciliation was reviewed timely.

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Recommendation:

IAD recommends the supervisor document the date they reviewed the monthly bank reconciliations. This will help to ensure monthly reconciliations are performed timely.

Management Action Plan:

The individual completing the supervisory review portion of the reconciliation will initial/date the review in order to verify the timeliness of subordinate work.

2. Issue:

Upon discussion with SCCS personnel, IAD noted a signed executed agreement could not be located between PNC and SCCS for banking services for the Children's Savings and Betterment accounts.

Recommendation:

IAD recommends that all agreements be reviewed and signed off by the appropriate parties with approval by the SCCS Board. This will help to ensure a legally binding agreement is in place in order to protect the agency.

Management Action Plan:

We have contacted PNC Bank and requested a copy of the original banking agreement. PNC Bank stated that the Betterment account has passed through several bank mergers and acquisitions during its multidecade existence. As such, PNC cannot provide the original agreement.

We will pursue an updated agreement with PNC.

Betterment Account

3. Issue:

Upon detail testing of the 2018 monthly bank reconciliations for the Betterment account, IAD noted an ongoing monthly discrepancy between the QuickBooks month end balance and the register month end balance noted on the reconciliation (ranging from \$3.00 to -\$1,047.35).

Recommendation:

IAD recommends bank reconciliation discrepancies be reviewed and corrected in the month that they occur and the book balance be added to the monthly reconciliation so a variance can be easily identified. Additionally, IAD recommends that a copy of the QuickBooks month end balance be retained when the reconciliation is performed. This will help to ensure accountability & accuracy over the bank reconciliation process.

Management Action Plan:

As per the draft audit report, IAD states:

"Upon detail testing of the 2018 monthly bank reconciliations for the Betterment account, IAD noted an ongoing monthly discrepancy between the QuickBooks month end balance and the register month end balance noted on the reconciliation (ranging from \$3.00 to -\$1,047.35)."

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The underlying connotation of this statement is that the Betterment account is not reconciled on a monthly basis. This statement is incorrect and misleading. There are no discrepancies nor are there corrections to be made. The Betterment account is reconciled on a monthly basis to the penny.

What IAD observed was due to checks that were voided. Admittedly, QuickBooks does a poor job of dealing with voided checks. QuickBooks handles outstanding checks/void checks differently, which is the root of the issue. Outstanding checks are deducted from our book balance but have not cleared the bank, so they are listed out to explain the difference between bank and book balances. That's reconciling. When a check is voided after the end of the month in which it was written, the check still shows as a deduction from our check register until it is put back in our balance on the date of the void. So we need an outstanding check listed on the bank reconciliation. QuickBooks does not treat voided checks that way, and does not list them as an outstanding item. The reconciliation displays additional information beyond the month end date to include the date of the void.

We explained this situation to IAD (Jon Keenan via a phone conversation with Bob King) and IAD agreed, QuickBooks is awkward but reconciles.

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IAD continues..."Additionally, IAD recommends that a copy of the QuickBooks month end balance be retained when the reconciliation is performed. This will help to ensure accountability & accuracy over the bank reconciliation process."

We will complete a "print screen" of the QuickBooks month end balance and retain the same in the reconciliation packet

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

The following issue was noted:

4. Issue:

Upon detail testing of IRS Form 1099s, IAD noted three (3) out of twenty-one (21) instances, or 14%, where a Form 1099 was required but was not completed and sent by the established deadline.

Recommendation:

IAD recommends SCCS issue Form 1099's to all vendors by the established deadlines, when applicable. This will help to ensure compliance with IRS regulations.

Management Action Plan:

Our 1099 Issuance policy states in part:

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"...the Internal Audit Department recommends that payments greater or equal to \$.01 are subject to 1099, rather than the \$600 IRS threshold...The IAD threshold of greater or equal to \$.01 is adhered to..."

We strive for compliance with our policy and will continue to do so. This was our first year of following the more restrictive policy (which was not enacted until September of 2018). We are confident that moving forward will not overlook payments which warrant the issuance of a 1099 as per IAD's established threshold.

III. PEDACKN/OPERS

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).

The following issue was noted:

5. Issue:

Upon detail testing of expenditures, IAD noted five (5) out of five (5) instances, or 100%, where a vendor was determined to be an independent contractor and provided a service; however, a PEDACKN form was not completed by the vendor in accordance with Ohio Revised Code (ORC) §145.038.

Recommendation:

IAD recommends SCCS require a PEDACKN form to be completed by vendors who are independent contractors and are providing a service. This will help to ensure compliance with ORC §145.038.

Management Action Plan:

As per the draft audit report, IAD states in part:

"Upon detail testing of expenditures, IAD noted five (5) out of five (5) instances, or 100%, where a vendor was determined to be an independent contractor and provided a service; however, a PEDACKN form was not completed by the vendor in accordance with Ohio Revised Code (ORC) §145.038.

Recommendation:

IAD recommends SCCS require a PEDACKN form to be completed by vendors who are independent contractors and are providing a service. This will help to ensure compliance with ORC §145.038."

We will add the request for a completed PEDACKN form to our W-9 request procedure. Please note that this change will not be made retroactively and as a result any payments made prior to the change will not have a PEDACKN form.