

**Summit County Children Services**  
*Segregated Accounts*  
Performance Audit General Report

**Prepared for:**

**Cassandra Holtzmann**  
**Audit Committee**

**Approved by Audit Committee**  
**December 21, 2023**



**Summit County**  
**Internal Audit Department**  
**175 South Main Street**  
**Akron, Ohio 44308**

*Lisa L. Skapura, Director*  
*Jon, Keenan, Assistant Director*  
*Brittney Quinn, Senior Lead Auditor*  
*Amanda Winkelman, Senior Auditor*

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**EXECUTIVE SUMMARY**

**Total Issues – 5**

**Internal Controls**

*Strong Internal Controls:*

Area	# Issues	Issue Description	Page Ref.
Unclaimed Funds	0	N/A	8

*Weak Internal Controls:*

Area	# Issues	Issue Description	Page Ref.
Children’s Savings Account	1	<ul style="list-style-type: none"> <li>• Instances where funds were not timely deposited.</li> </ul>	6
Betterment Account	2	<ul style="list-style-type: none"> <li>• Instances where funds were not timely deposited.</li> <li>• Instance where a purchase over \$25,000 was not approved by the Board, in accordance with policies and procedures</li> </ul>	6
IRS Form 1099 Process	1	<ul style="list-style-type: none"> <li>• Instances where a Form 1099 was required; however, it was not sent. Additionally, instances where IAD could not determine if a vendor was an independent contractor.</li> </ul>	7
PEDAKN/OPERS	1	<ul style="list-style-type: none"> <li>• Instance where a PEDACKN was not completed for an independent contractor. Additionally, instances where the independent contractor information was not sent to OPERS.</li> </ul>	8

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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:

<b>Account Name (Account Number)</b>	<b>Regulating Authority</b>	<b>Deposits</b>	<b>Expenditures</b>
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.
- To ensure vendors that are independent contractors are processed in accordance with OPERS guidelines and ORC §145.38 (B) (6).
- To ensure unclaimed funds are paid to the Fiscal Office according to policies and procedures.

**Scope**

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the SCCS from January 1, 2022 through December 31, 2022.

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 INDEPENDENT CONTRACTR/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.

**OBJECTIVE 4 – UNCLAIMED FUNDS**

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 unclaimed funds process is performed in accordance with applicable guidelines.
4. Investigate discrepancies and summarize results.
5. 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 Children Savings and Betterment Accounts.

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:

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**Children Savings Account**

1. Issue:

Upon detail testing of Children’s Saving Account deposits, IAD noted five (5) of ten (10), or 50%, instances where funds were not timely deposited in accordance with ORC §9.38.

Recommendation:

IAD recommends that all funds received be deposited by the next business day or adopt a policy permitting a different time period, not to exceed three business days next following the day of receipt, as long as the total amount of funds received does not exceed \$1,000.00. This will help to ensure compliance with ORC §9.38.

Management Action Plan:

We have reviewed ORC §9.38 with all applicable staff and emphasized the importance of timely deposits. SCCS staff are working to update desk manuals with current policies and procedures. Having these in place will allow us flexibility for coverage when staff are out of the office. We have also identified staff who will be cross trained to process and deposit checks. This will help to eliminate the delay in timely deposits.

Target Date: 12/31/2023

**Betterment Account**

2. Issue:

Upon detail testing of Betterment Account deposits, IAD noted four (4) of ten (10), or 40%, instances where funds were not timely deposited in accordance with ORC §9.38.

Recommendation:

IAD recommends that all funds received be deposited by the next business day or adopt a policy permitting a different time period, not to exceed three business days next following the day of receipt, as long as the total amount of funds received does not exceed \$1,000.00. This will help to ensure compliance with ORC §9.38.

Management Action Plan:

We have reviewed ORC §9.38 with all applicable staff and emphasized the importance of timely deposits. SCCS staff are working to update desk manuals with current policies and procedures. Having these in place will allow us flexibility for coverage when staff are out of the office. We have also identified staff who will be cross trained to process and deposit checks. This will help to eliminate the delay in timely deposits.

Target Date: 12/31/2023

3. Issue:

Upon detail testing of Betterment Account expenditures, IAD noted one (1) out of one (1), or 100%, instances where a purchase over \$25,000 was not approved by the SCCS Board of Trustees, in accordance with SCCS policies and procedures.

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Recommendation:

IAD recommends all purchases be approved by the appropriate parties as outlined in the SCCS policies and procedures. This will help to ensure proper controls are in place and compliance with internal policies and procedures.

Management Action Plan:

The SCCS Executive Director requested Board of Trustee approval for resolution 09-2023-26/C which allows for the expending of funds from the Betterment Account in excess of \$25,000 when such expenditure is authorized by at least 2 members (multiple) of the Executive Team. Such expenditures will be reported to the Board of Trustees/Resources Committee in the board meeting following the expenditure.

Target Date: 9/27/2023

**II. 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, 2022 expenditures were obtained to ensure all independent contractors received a Form 1099. Lastly, All 1099s issued for calendar year 2022 were reviewed to ensure they were sent by the applicable IRS deadline.

The following issue was noted:

4. Issue:

Upon detail testing of Form 1099's, IAD noted the following:

- Two (2) vendors where IAD could not determine if the vendor was an independent contractor; therefore, IAD could not determine if a 1099 was required. SCCS could not provide IAD with a W-9 form and the vendor could not be located on the Ohio Secretary of State's Business Search website.
- Two (2) out of twenty-eight (28), or 7%, instances where a Form 1099 was required; however, a Form 1099 was never sent.

Recommendation:

IAD recommends all vendors have a W-9 completed prior to receiving payment, in accordance with policies and procedures. Additionally, IAD recommends SCCS complete a Form 1099 for all independent contractors by the established deadlines. This will help to ensure compliance with IRS regulations and rules.

Management Action Plan:

The SCCS 1099 policy has been reviewed with all Account Specialists, emphasizing the following:

- (1) All vendors are required to submit a W-9 prior to payment being issued
- (2) All payments over \$.01 are subject to review for a 1099

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A copy of this policy and related IRS 1099 information will be added to the Account Specialist desk manual. By doing this we are working to improve training methods and the ability to effectively communicate policies and procedures in accordance with IAD requirements.

Target Date: 12/31/23

**III. Vendor PEDACKN Forms**

2022 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.
- 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 the following:

- One (1) out of three (3), or 33%, instances 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 § 145.038.
- Three (3) out of three (3), or 100%, instances where the independent contractor was not sent to the Ohio Public Employees Retirement System (OPERS) to ensure the independent contractor was not currently receiving OPERS benefits, in accordance with Ohio Revised Code § 145.038.

Recommendation:

IAD recommends SCCS require a PEDACKN form to be completed by vendors who are independent contractors and are providing a service. Additionally, IAD recommends all independent contractors either be forwarded to the Fiscal Office Accounting Department annually or sent directly to OPERS. This will help to ensure compliance with Ohio Revised Code § 145.038.

Management Action Plan:

We will add the request for a completed PEDACKN form to our W-9 request procedure when the vendor is deemed to be an Independent Contractor. Please note that this change will not be made retroactively and as a result any payments made prior to this change will not have a PEDACKN form. Additionally, we will review and implement the process for submitting PEDACKN forms to OPERS.

Target Date: 8/31/23

**IV. Unclaimed Funds**

Policies and procedures and applicable legislation were reviewed to gain an understanding of laws and regulations and internal controls in place for the SCCS unclaimed funds process. Unclaimed funds checks sent to the Fiscal Office were reviewed to ensure all applicable outstanding checks were escheated.

No issues were noted.