

**Summit County
Countywide Fringe Benefits
Audit
Preliminary Report**

08–Fringe Benefits-51

**Prepared For:
The Honorable John Donofrio
Audit Committee**

**APPROVED BY AUDIT COMMITTEE
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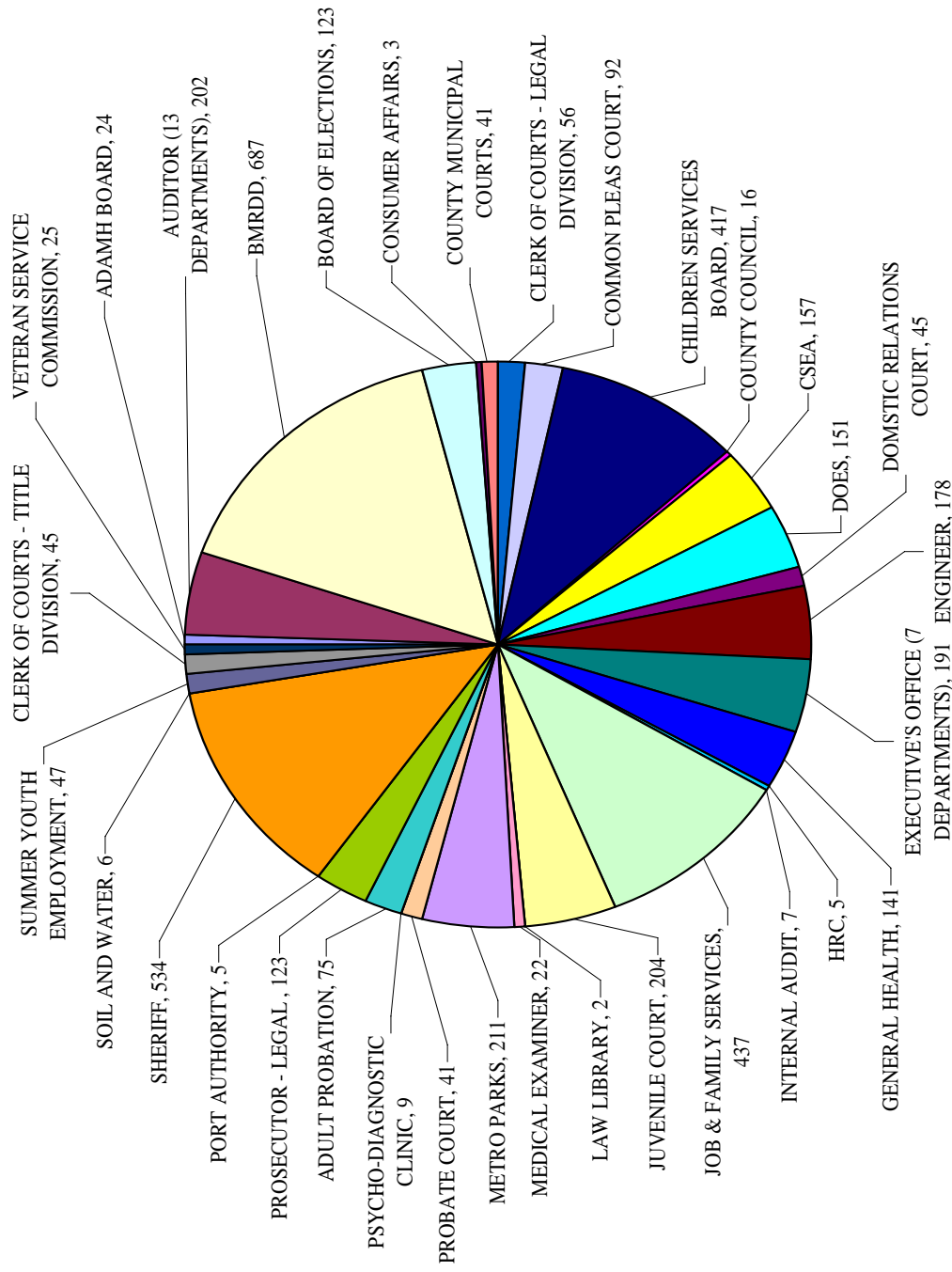
Background

“On November 6, 2001, Summit County voters approved a charter amendment that consolidated the elective office of County Auditor with that of County Treasurer. The consolidation was effective June 17, 2002. Effective upon the consolidation of the Office of County Auditor with the Office of County Treasurer, the County Auditor’s powers and duties, including the powers and duties of the previously consolidated Office of County Records, were transferred to the County Treasurer, which was renamed County Fiscal Officer” (*Chapter 134: Fiscal Officer, from the Summit County Codified Ordinances*). The Summit County Fiscal Payroll Office falls under the Fiscal Officer.

The overall County payroll process is decentralized; however, the Fiscal Payroll Office operates as the central processor of payroll information submitted by all County departments, Boards, Agencies, and Commissions. In 1997, Summit County implemented the Banner Human Resource System (Banner), for the inputting and processing of all payroll calculations, deductions, adjustments, history, and tax administration, etc. In 2002, Summit County purchased Kronos Workforce Central (Kronos), an automated time and attendance software package from CTR Systems, to automate and streamline the functions of time and leave entry management.

The fringe benefit audit is being conducted to ensure that all departments, boards, agencies, and commissions in the County of Summit employ the policies and procedures to ensure that compensation related activities are processed and accounted for in accordance with the Internal Revenue Code, specifically Section 125 Cafeteria Plan and Publication 15-B.

Yearly Average Number of Employees per Department, as of June 30, 2008



Objectives, Scope and Methodology

Scope

The purpose of the County of Summit countywide fringe benefit audit is to ensure that benefits provided to employees through the Deferred Compensation, Section 125 Cafeteria Plan, Health Care Plan, and other fringe benefits are processed and accounted for in accordance with Internal Revenue Code. The audit covers the period beginning January 1, 2008 to the last day of fieldwork respective to each department, agency, board, or commission.

Countywide Objectives

1. To ensure that employee contributions for deferred compensation are in compliance with IRS regulations.
2. To ensure discrimination testing for the Section 125 Cafeteria plan is in compliance.
3. To ensure that employee and employer portions of health care premiums are in compliance with IRS regulations.
4. To ensure that corrective measures are taken to address any countywide issue identified.

I. Deferred Compensation Contribution

The County Commissioners' Association of Ohio, Ohio Public Employees Deferred Compensation Program, and ING offer 457 deferred compensation plans to County employees. These programs give employees the opportunity to defer current income, tax free, as a means to supplement future retirement income. IRS gives specific guidelines and compensation deferral limitations. IAD obtained and reviewed plan documents and various other information and used this information to develop testing. IAD generated a Webfocus/Banner report listing all county employees with contributions to a Deferred Compensation plan, and verified that deferrals made by any one employee totaling over \$15,500 are in compliance with IRS regulations.

II. Cafeteria Plan

The County has established a Cafeteria Plan whereby eligible employees can choose among certain benefits made available by the County, and pay for these benefits with pretax compensation through salary redirection. As defined under IRS Code Section 125, the Plan has nondiscrimination requirements where qualified benefits provided to Key Employees do not exceed 25% of the total qualified benefits provided to all eligible employees under the Plan. IAD obtained and reviewed the nondiscrimination testing, prepared by the plan administrator, for plan year January 1, 2008 through December 31, 2008 to verify that the County of Summit Flexible Benefits Plan is in compliance with IRC Sections 125 and 129 and has a passing result.

III. Health Care Premiums

Summit County offers two health care plans to eligible County employees, and gives these employees the option to pay their portion of the premiums pretax. For various tax reasons some employees pay their portion post-tax. IAD generated reports utilizing the Banner application to confirm that the County is properly accounting for employee payroll deductions and the respective health plan premium payments.

IV. Other Fringe Benefits

Fringe benefits provided to employees of Summit County vary by agency, board department and commission. The fringe benefits that were encountered during the course of the audit include uniforms, tools, meals, weapons, incentives, additional life insurance, and equipment. Testing was performed within each individual operating entity to verify compliance with Internal Revenue Code.

Preliminary Work Performed

IAD reviewed the policies and procedures used to process fringe benefit activities to ascertain whether these policies and procedures were adequately designed to ensure compliance with Internal Revenue Code. In addition, bargaining agreements between the County of Summit and various bargaining associations were reviewed to obtain an understanding of any fringe benefits provisions. Audit procedures were designed to identify weaknesses in the policies and procedures governing the processing of fringe benefits and made recommendations on corrective measures that could be taken. The audit procedures developed by IAD also involved the testing of procedures used to process fringe benefits to ascertain whether adequately designed policies and procedures were implemented and operated effectively during the period under review.

Training

In order to gain an understanding of the systems utilized throughout the fringe benefit audit, IAD received training in the following areas:

Audit Command Language (ACL) is a global leader in data analytics technology or “Computer Aided Audit Tools and Techniques (CAATS)”. CAATS use computer technologies to assist auditors in performing comprehensive and efficient audits. IAD attended two training sessions conducted by an independent consultant, Dave Gordon, who has taught the course previously, for a total of eight hours of hands-on ACL training.

IAD attended “Banner Boot Camp” which was conducted by the Support Services Administrator from the Fiscal Office Accounting Department. Training in Banner consisted of navigating through the system and reviewing various financial screens. Banner is the County’s financial system.

Research

IAD obtained and reviewed IRS Publication 15-B, Internal Revenue Code Section 125, and various other IRS publications as needed to obtain an understanding of these areas of the Internal Revenue Code. In addition, research was performed to gain an understanding of the regulations surrounding Deferred Compensation Plans. The information provided through research formed the basis of which the audit procedures were developed and employed to ensure compliance with Internal Revenue Code.

Surveys

In order to gain a general understanding of the types of fringe benefits that are provided to employees, IAD utilized a survey which was sent to all the agencies, boards, departments, and commissions where the County of Summit either funds in whole or in part of employee remuneration. The surveys were sent to the managers and office holders of the following agencies, departments, boards, and commissions:

1. Akron Law Library
2. Alcohol, Drug, & Mental Health (ADAMH)
3. Board of Elections
4. Children Service Board (CSB)
5. Clerk of Courts - Akron
6. Clerk of Court - Barberton
7. Clerk of Court - Cuyahoga Falls
8. Clerk of Courts Legal Division
9. Clerk of Courts Title Division
10. Common Pleas (General, Adult Probation, Psycho Diagnostic Clinic)
11. Consumer Affairs
12. Summit County Council
13. Department of Job & Family Services (DJFS)
14. Department of Environmental Services (DOES)
15. Domestic Relations Court
16. Engineer Office
17. Executive Office (including the following departments)
 - I. Administrative Services
 - II. Communications
 - III. Community and Economic Development
 - IV. Law
 - V. Finance and Budget
 - VI. Human Resources
 - VII. Insurance and Risk Management
 - VIII. Medical Examiner
18. Fiscal
19. General Health District
20. Human Resource Commission
21. Internal Audit Department
22. Juvenile Court
23. Law Department - Akron
24. Law Department - Barberton
25. Law Department - Cuyahoga

26. County of Summit Board of Mental Retardation and Developmental Disabilities (MR/DD)
27. Metro Parks
28. Municipal Court-Akron
29. Municipal Court-Barberton
30. Municipal Court-Cuyahoga Falls
31. Probate Court
32. Prosecutor-Child Support Enforcement Agency (CSEA)
33. Prosecutor-Legal
34. Sheriff
35. Soil & Water Conservation District
36. Summit/Akron Solid and Waste Management Authority
37. Veterans Service Commission

The following are the questions that were asked in the survey:

- 1) Are uniforms or clothing allowances provided to anyone in your governmental entity?
- 2) Does your governmental entity provide any clothing to non-bargaining/non-uniformed employees (for any of your departments or any other County/Other departments?)
- 3) Does your governmental entity have a policy for reimbursement of meals and/or travel expenses?
- 4) Do you have any employees in a bargaining unit? Please identify each local union represented in your department.
- 5) Are any employees of your governmental unit provided laptops, PDA's, Blackberry's or other mobile handheld devices, or tablet computers?
- 6) Does your governmental unit have a policy regarding use of laptops, PDA's, Blackberry's or other mobile handheld devices, or tablet computers?
- 7) Does your governmental unit provide cell phones to any of your employees?
- 8) Are any employees in your governmental unit provided or receive an allowance for firearms, tasers, and/or any other non-lethal weapons?
- 9) Are any employees of your governmental unit given cash incentives, awards, gift awards, and/or bonuses? If so, please explain.
- 10) Has your governmental unit paid any litigation settlements for back-pay issues? Please explain.
- 11) Are any employees in your governmental unit provided County-paid life insurance policies/coverage of over \$50,000?
- 12) Are there any staff members of your governmental unit that have employment contracts?

Interviews

In order to obtain a further understanding of the fringe benefits that are provided and how they are processed, IAD conducted interviews with the payroll coordinators in each of the boards, agencies, and commissions. The survey responses of the managers and office holders were then compared with the actual processing of the taxable benefit by the payroll coordinators to confirm the policies set by the department were in compliance with IRS tax code.

Interviews were conducted with the following payroll coordinators:

1. Alcohol, Drug, & Mental Health (ADAMH)
2. Children Service Board (CSB)
3. Clerk of Courts Legal Division
4. Clerk of Courts Title Division
5. Common Pleas (General, Adult Probation, Psycho Diagnostic Clinic)
6. Consumer Affairs
7. Council
8. Department of Job & Family Services (DJFS)
9. Department of Environmental Services (DOES)
10. Domestic Relations Court
11. Engineer Office
12. Executive Office (including the following departments)
 - I. Administrative Services
 - II. Communications
 - III. Community and Economic Development
 - IV. Law
 - V. Finance and Budget
 - VI. Human Resources
 - VII. Insurance and Risk Management
 - VIII. Medical Examiner
13. Fiscal (including the following departments)
 - I. Finance
 - II. Services
 - III. MIS
 - IV. Real Estate
14. General Health District
15. Human Resource Commission
16. Internal Audit Department
17. Juvenile Court
18. Mental Retardation and Developmental Disabilities (MRDD)
19. Metro Parks
20. Probate Court
21. Prosecutor-Child Support Enforcement Agency
22. Prosecutor-Legal
23. Sheriff
24. Soil & Water Conservation District
25. Summit/Akron Solid and Waste Management Authority
26. Veterans Service Commission

Risk Assessment

A risk assessment of the various county provided taxable fringe benefits was conducted to determine the level of vulnerability that the County of Summit would be exposed to if compliance with the Internal Revenue Code is not achieved. There are numerous agencies, departments, boards, and commissions that are under the jurisdiction of County of Summit. The employee base of the county is very diverse involving various bargaining unit associations and categories of employees with various fringe benefits provisions.

IAD determined that to minimize the risk of sampling, initial audit work would be directed to all agencies, departments, boards, and commissions where the County of Summit funds in whole in or part their employees' remuneration. As such, IAD's preliminary survey was sent to forty-eight agencies and sub-departments, interviews were conducted with forty agencies and sub-departments, and onsite visits were made at thirty-four agencies and departments.

Summit County Internal Audit Department County-wide Objectives, Scope and Methodology

The following describes the scope and objectives performed by IAD during the Countywide fringe benefits audit:

Scope

The scope of the audit includes all departments, agencies, boards and commissions, whose payroll is paid in whole or in part, by the County of Summit. The purpose of the fringe benefits audit is to ensure that adequate operational policies and procedures exist to process employer provided fringe benefits in accordance with Internal Revenue Code. The period covered by the audit is from January 1, 2008 to the last day of field work for each department, agency, board and commission.

Departmental Objectives

1. To ensure that each department/agency accurately report fringe benefits as earnings, in accordance with IRS Publication 15-B, where applicable.
2. To ensure that each department employs formal policies and procedures in reporting fringe benefits so as to be consistent with IRS Publication 15-B.
3. To ensure that issues identified in each departmental audit are corrected for future payroll processing in the Kronos and/or Banner system.

On-site visits were conducted with the following County departments, Boards, Agencies, and Commissions to perform observations and testing:

- Alcohol, Drug, & Mental Health (ADAMH)
- Children Service Board (CSB)
- Clerk of Courts Legal Division
- Clerk of Courts Title Division
- Common Pleas (General, Adult Probation, Psycho Diagnostic Clinic)
- Consumer Affairs
- Council
- Department of Job & Family Services (DJFS)
- Department of Environmental Services (DOES)
- Domestic Relations Court
- Engineer Office
- Executive Office (including the following departments)
 - I. Administrative Services
 - II. Communications
 - III. Department of Development
 - IV. Department of Law
 - V. Finance and Budget
 - VI. Human Resource Department
- Fiscal Office (including the following departments)
 - I. Finance
 - II. Management Information System
 - III. Real Estate
- General Health District
- Human Resource Commission
- Internal Audit Department
- Juvenile Court
- Board of Mental Retardation and Developmental Disabilities (MR/DD)
- Metro Parks
- Prosecutor-Child Support Enforcement Agency
- Prosecutor-Legal
- Sheriff
- Veterans Service Commission

Not included in the population is the Board of Elections, who, after several attempts, did not respond to our entrance notifications.

Work Performed

The following is a summary of the general work performed to accomplish the objectives listed above. IAD performed tests and reviewed documents to verify that the accounting and processing of the respective fringe benefits are in compliance with Internal Revenue Code.

Policies and Procedures

IAD reviewed the policies and procedures of each Department, Board, Agency and Commission (herein "Department") to determine if there are provisions that address the use of county provided equipment, reimbursement of meals, treatment of tool and uniform allowances, tuition reimbursements, and incentive awards. IAD determined whether the policies prohibit personal use of County equipment and tested for employee acknowledgement.

Union Agreements

IAD obtained and reviewed all respective union agreements to obtain an understanding of the fringe benefits that are provided and how such fringe benefits are administered.

Employee Contracts

IAD obtained and reviewed any employment contracts to ascertain whether they contain any fringe benefit provisions, and to obtain an understanding of the terms and how such fringe benefits are administered.

Tools and Uniforms

IAD reviewed union agreements and employment contracts to obtain an understanding of the types of tools and uniforms that are provided to employees. Audit testing was performed to determine the process of purchasing tools and uniforms, and to verify that the administration of allowances is in compliance with Internal Revenue Code. Inquiries were made to determine whether the tools and uniforms are required for the performance of respective job duties, are returned upon separation, and are adaptable for ordinary use. IAD tested the procedures to ensure that the issuance and return of tools and uniforms exist and operate as intended.

Computer Equipment

IAD made inquiries and reviewed respective departmental policies and procedures regarding employee provided computer equipment to ensure that employees understand that county provided computers are to be used for county business only. In addition, IAD tested 100% of laptops and a random sample of employees who utilize county computers to confirm that a signed form limiting computer usage was on file at the respective department, agency, board, commission, or at the county MIS department.

IAD also reviewed policies and procedures to obtain an understanding of the treatment, issuance, and return of computer equipment. Testing was performed to verify that the procedures in place are operating as intended, to track county assets.

Mobile equipment

Inquires were made to determine the types of mobile equipment that are provided to employees. Mobile equipment includes cell phones, Blackberrys, PDA and pagers. IAD verified that the departments providing these items to employees have policies and procedures to govern the issuance, tracking, and return of the equipment. In addition, testing was performed to determine whether policies and procedures exist to prohibit personal use of any previously listed equipment, and policies were enforced for reimbursement of personal use.

Litigation Settlements

IAD made inquiries to gain an understanding of the procedures and practices employed in processing any employee related litigation settlements. Documentation surrounding litigation settlements was reviewed to confirm that proper payroll taxes were withheld if the settlement included back wages.

Meal Reimbursements

IAD inquired about the policies and procedures that govern the reimbursement of meals to obtain an understanding of how overnight stays and meals within and outside of the county are treated. IAD performed testing to verify that meal reimbursements were properly taxed to the employee, where applicable, in accordance with county policy as well as compliance with IRS regulations.

Education Reimbursements

IAD made inquiries regarding the treatment of education reimbursements and reviewed the supporting documentation relative to the respective transactions. Testing was performed to verify that participants of an education reimbursement benefit are not awarded tuition reimbursements in excess of \$2,500, as specified by Summit of County.

Weapons

IAD reviewed union agreements for allowances and provisions for weapons, and performed audit testing to verify the procedures followed to process the issuance and return of county provided weapons, including hand guns and tasers. IAD examined the treatment of activities involved to determine whether a taxable fringe benefit exists.

Incentives

IAD made inquires to determine whether any departmental award incentives were given to employees and whether they should be included as a taxable fringe benefit. The majority of incentives found throughout the county included de-minimis, non-cash items such as a pen, pin or t-shirt with the entity's logo.

On-site Visit Results

At the conclusion of each site visit, IAD provided management with a draft report specific to the department. IAD worked with each department to assist with correcting any issues that were identified during the audit.