

**SUMMIT COUNTY
COUNTY-WIDE PAYROLL
AUDIT**

06-Payroll.Countywide-40

**APPROVED BY THE
SUMMIT COUNTY AUDIT COMMITTEE
SEPTEMBER 20, 2007**

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September 6, 2007

John A. Donofrio
Summit County Fiscal Officer
175 S. Main Street
Akron, OH 44308

Dear Mr. Donofrio:

Attached are the results of the County-wide Payroll Audit regarding the issues that were identified in the County of Summit Fiscal Office payroll audit.

The primary focus of this review was to provide the Fiscal Payroll Office with reasonable assurance, based on the testing performed, on the adequacy of the system of management control in effect for the audit areas tested. 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 Fiscal Payroll Office.

Our review was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and accordingly included such tests of records and other auditing procedures as we considered necessary under the circumstances. Our procedures include interviewing staff, reviewing procedures and other information and testing internal controls as needed to assess compliance with policies and procedures.

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 a section for management's response, can be found in the following sections of this report.

We appreciate the cooperation and assistance received during the course of this payroll audit. If you have any questions about the audit or this report, please feel free to contact me at (330) 643-2655.

Bernard F. Zaucha
Director, Internal Audit

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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.

Because Summit County is primarily a service oriented organization, the work force is a considerable resource requiring management and support. In 2005, total gross wages for the entire County (including offices where the Fiscal Office operates as the Treasurer only) amounted to approximately \$158,000,000 and paid an average of 4,230 employees. In 2006, this total increased to \$163,000,000 with an average of 4,316 total employees. It is with this in mind that we included this review in our audit schedule. A breakdown of the number of employees by department can be found in Figures 1-2 (pages 5-6). In addition, County departments have entered into agreements with 12 bargaining units (not including Boards, Agencies, and Commissions).

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.

A Fiduciary Audit of the 457(B) Retirement Plans was conducted by Benefits Resource Group in August, 2007. The final report was issued by Benefits Resource Group at the end of IAD’s fieldwork, but prior to the issuance of the payroll report. IAD obtained and reviewed a copy of the report provided by the Director of Insurance Risk Management and will maintain the same for IAD’s permanent file and for future auditing purposes.

The payroll process is generally a high risk audit area in which potential fraud issues such as fictitious employees or unauthorized misappropriation of assets may be detected. The following audit testing was designed to provide reasonable assurance that no such instances exist in the Summit County payroll function. In most instances, the audit did not test 100% of the payroll transactions in a certain area and was based primarily on audit samples. The following report identifies areas where there was a lack of strong internal controls or lack of segregation of duties; however, audit testing did not identify any fraudulent activity.

2005 Yearly Average Number of Employees by Department

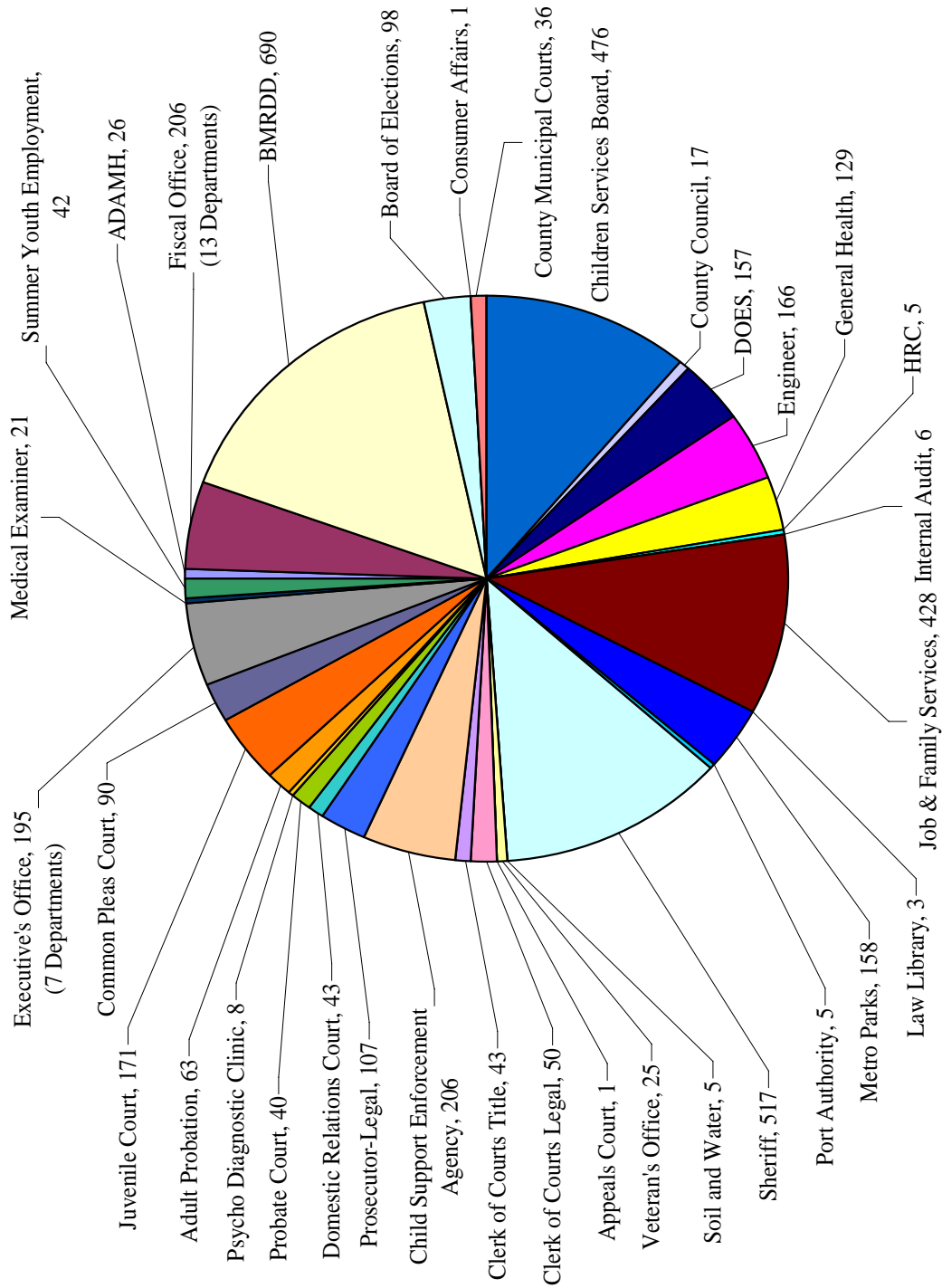


Figure 1

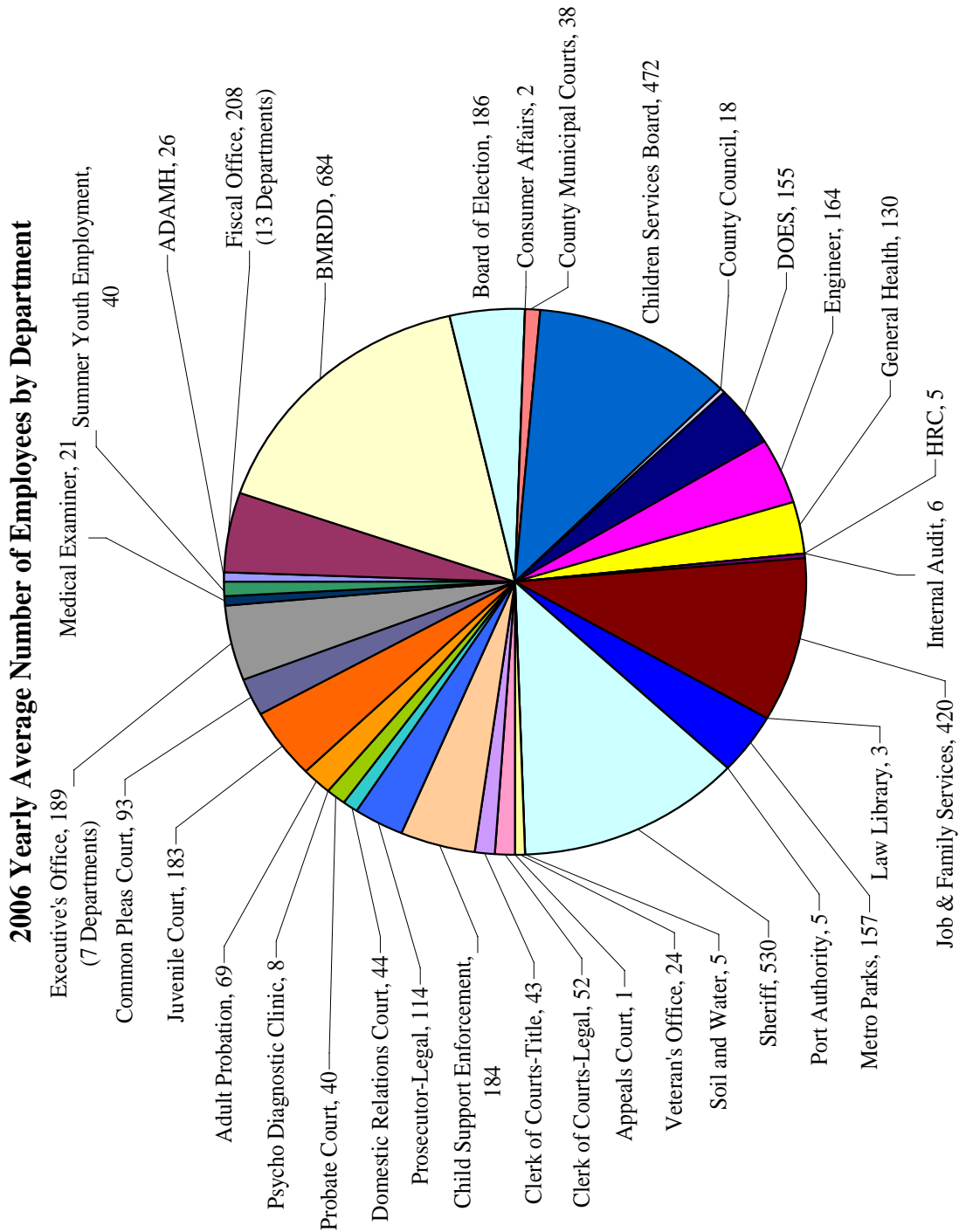


Figure 2

Objectives, Scope and Methodology of Banner Payroll and Kronos Timekeeper Applications

The Internal Audit Department (herein "IAD") hired an independent consultant, Dave Gordon, MBA, CISA, CBA, to conduct a review of the Banner Payroll Application and the Kronos Timekeeper application. The following includes the objectives and scope of the review.

Scope

The data associated with this review exists on the SunGard Banner Payroll application and the Kronos Timekeeper application. The SunGard Banner applications use UNIX as an operating system and Oracle as a middleware database. During the assessment of the scope of this work, it was determined that the following items would be reviewed:

- Kronos Timekeeper application security profiles
 - Access to the "Reset" function within Kronos
- Access to UNIX files associated with the Banner applications
- Control procedures for data transfers
- Oracle database security profiles
- Oracle database password hashes
- Banner application security profiles for payroll functions

This review did not include a detailed check of every day-to-day activity and transaction. Such testing is impractical in such a large environment. Testing associated with this review was based upon sample selection and did not include the testing of the entire population. Review results provide reasonable, but not absolute assurance as to the accuracy of timekeeping and payroll data.

Objectives

1. To provide reasonable assurance that timekeeping transactions are entered by properly authorized personnel and that the transactions are accurately summarized.
2. To provide reasonable assurance that access to the timekeeping and payroll operating system (UNIX) is properly secured from unauthorized changes.
3. To provide reasonable assurance that data transfers between the payroll and timekeeping systems were adequately controlled to ensure proper processing.
4. To provide reasonable assurance the Oracle database is adequately secured.
5. To provide reasonable assurance that the Banner application is adequately secured.

I. Banner and Kronos Applications Review

Kronos Timekeeper application security profiles

The Kronos Timekeeper application is the timekeeping entry point for hours worked by most of the employees of Summit County. The application has data entered from both automated time clocks that track hours worked and from payroll administrators who have the ability to enter and modify data depending on the level of access assigned to them.

Testing of the Kronos Timekeeper application security profiles consisted of comparing the user profiles against the current access levels. This testing was the result of an inquiry regarding the resetting of accrual balances for all paid-time-off. The inquiry revealed that an unnecessarily large number of timekeepers had the ability to modify accumulated paid-time-off values. That access allows those timekeepers to grant themselves (and others) unearned paid-time-off hours.

The use of the "Reset" function was tested to determine the number of times the function was used. Computer Assisted Audit Technique (CAAT) results revealed that over 4,600 individual manual adjustments were made to amounts accumulated by the Kronos Timekeeper application between January 1, 2006 and March 31, 2007. See IAD's specific issue, recommendation, and management action plan on p. 30.

Security of the UNIX operating system

Access files for the UNIX operating system were reviewed for reasonableness as both the timekeeping and payroll applications are housed on the UNIX operating system servers. Additionally, the Banner technical security manual identified the security of the payroll application files as a high risk and that the payroll upgrade files should be removed after upgrades are installed.

The UNIX operating system user lists were reviewed for unauthorized users. The review and discussions with the operating system administrators identified no unauthorized users within the UNIX operating system.

Additionally, the payroll application file directory was reviewed to ensure the upgrade files were removed as recommended by the Banner technical security manual. Upon review of the upgrade files, it was noted that the upgrade passwords were appropriately changed within the files in the upgrade directories as an alternative to removing the passwords. This was deemed as an acceptable change.

Control procedures for data transfers

Controls for data interfaces include the input and output records interfaced between the Kronos Timekeeper and Banner Payroll applications. An inquiry of such controls was conducted to ensure the proper transfer of data between the two applications. The inquiry showed adequate design of interface controls and evidence for the running of reports related to data input and output record counts. However, IAD's testing of the lack of controls over data adjustments identified the ability to potentially override these controls.

Oracle database security profiles

The Oracle database security profiles associated with the Banner payroll application were reviewed to determine whether there were any access profiles without reasonable security settings related to password configurations. Adequate password configurations consist of the following items: 1) a limited number of times users are able to attempt to logon to the system with invalid passwords before being locked out of the system, 2) a requirement that users are required to change their passwords on a periodic basis, and 3) whether passwords are required to contain values other than alpha characters.

The test consisted of obtaining the Oracle database profiles and reviewing the file to determine whether the system defaults were reset to an adequate level of security for the Oracle user IDs.

This file is identified as the DBA_PROFILES file and lists the password parameters and associated values.

There were no notable exceptions to data profile configurations associated with the Banner payroll application. This testing was conducted at the Oracle database level and carried through to the Banner application security. Other profiles outside of the scope of the Banner payroll application were not tested.

Oracle database password hashes

The Oracle password hashes for all users were reviewed to ensure that password values supplied by the vendor (Oracle) associated with Oracle default user identifiers were changed from their default values. These password values should be changed from their default values in order to ensure that anyone with knowledge of these default password values cannot gain unauthorized access to the Oracle database. In order to ensure adequate security, Oracle provides all password values in an encrypted format (aka password hashes) within the database's configuration profiles. However, the default password hashes still may be compared against expected values to determine whether the default password values have been changed. Unchanged values may be used to gain unauthorized access to the Oracle database and the database may then be compromised.

The testing performed consisted of reviewing the values of Oracle password hash values against expected default values. The results showed that all password hash values were adequately modified with no exceptions.

Banner Application Security Profiles for Payroll Functions

The Banner application security profiles associated with payroll functions are used to determine the level of access of the Banner payroll data. The ability to directly update and/or directly enter this data should be limited to payroll administrators. The data entry commands are secured by Banner through the configuration of specific payroll security profiles. These profiles are set by management and cross reference the use of specific Banner commands, user profiles, and user identifiers associated with those user profiles.

The Banner payroll application profiles were tested by comparing Banner user profiles for the payroll coordinators against appropriate Banner commands for updating Payroll data. Subsequently, those user profiles were compared against users who were identified as appropriate for the Payroll Coordinator duties.

There were no exceptions noted within the testing of Banner Application Security Profiles.

Preliminary Work Performed

Training

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

WebFocus is a software package utilized by County employees to perform data analysis and generate reports of County payroll and finance data. WebFocus extracts data from Banner, which is the County-wide system for the inputting and processing of all payroll information for Summit County, including the Municipal Courts, General Health District, the Port Authority, Courts, Boards, Agencies, and Commissions. The Human Resource module of Banner is basically a payroll software package that processes in a UNIX operating environment utilizing an SQL compliant relational database. Banner automatically calculates gross pay, overtime, deductions, benefits, taxes, and net pay and it supports an unlimited number of deductions. IAD received preliminary training in WebFocus from the Fiscal Officer 3, in the Department of Finance & Budget. IAD learned how to determine WebFocus table names via Banner screens, how to download the payroll tables, and how to create procedures and queries.

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 an Institute of Internal Auditors (IIA) seminar at Cleveland State University. The training involved approximately four hours of hands-on ACL training from an employee from Ernst and Young.

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 also the County’s financial system.

IAD hired an independent consultant, Dave Gordon, MBA, CISA, CBA, to perform testing of both the Banner and Kronos applications. Mr. Gordon also assisted in generating payroll reports from WebFocus and exporting them into ACL for use throughout the payroll audit. Mr. Gordon provided IAD with additional training in ACL as well.

Interviews

In order to gain an understanding of the structure of the payroll function throughout the County, IAD interviewed payroll coordinators in several Departments, Boards, Agencies, and Commissions utilizing an internal control questionnaire. In instances where the payroll coordinator was not familiar with the entire payroll functions for his or her department, IAD interviewed the payroll coordinator’s supervisor as well.

Interviews were conducted with the following:

1. Alcohol, Drug, & Mental Health (ADAMH) Board-Associate Director and two Accountants
2. Children Service Board (CSB)-Personnel Assistant 2 and Employment Manager-HR
3. Clerk of Courts Legal Division-Chief Deputy Clerk
4. Clerk of Courts Title Division-Chief Deputy Clerk

5. Common Pleas (General, Adult Probation, Psycho Diagnostic Clinic)-HR Specialist
6. Consumer Affairs-Director
7. Council-Chief of Staff
8. Department of Job & Family Services (DJFS)-Assistant Director of Administration & Personnel Officer 2
9. Domestic Relations Court-Deputy Court Administrator and Court Administrator
10. Department of Environmental Services (DOES)-HR Manager and Payroll Supervisor
11. Engineer-Office Manager/HR and Administrative Assistant/Payroll
12. Executive-Fiscal Officer 3
13. Fiscal-Director of Administration and Support Services Administrator
14. Human Resource Commission-Director and HR Administrative Specialist 2
15. Internal Audit Department-Executive Assistant 2
16. Juvenile Court-Administrative Assistant and Court Executive
17. Metro Parks-Administrative/Office Manager
18. Mental Retardation and Developmental Disabilities (MRDD)-Payroll Supervisor
19. Municipal Court-Akron-Court Administrator
20. Municipal Court-Barberton-Account Clerk
21. Municipal Court-Cuyahoga Falls-Payroll Administrator
22. Prosecutor-Child Support Enforcement Agency-Fiscal Officer 2
23. Prosecutor-Legal-Fiscal Officer 3
24. Sheriff-Fiscal Officer 3 and Fiscal Officer 2
25. Soil & Water Conservation District-Administrative Assistant
26. Veterans Service Commission-Administrative Supervisor

Risk Assessment

Based on the interviews above, IAD determined that the payroll function was very decentralized. A risk assessment was conducted to narrow the scope of the payroll audit and to determine what departments to include and exclude from the population for further detailed testing. Because of time limitations, the risk assessment assisted IAD in determining which departments had the greatest payroll risk. In addition, departments that had 10 employees or less were not included in the site visits. The risk assessment included the following areas: actual salaries and overtime (2005), number of employees (2005), the internal control structure of the department based on the internal control questionnaire, the existence of a segregation of duties, and the extent of the payroll responsibilities performed by the individual payroll coordinators.

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

The following describes the scope and objectives performed by IAD during the County-wide payroll audit:

Scope

The County payroll policies, processes, and procedures followed as of January 1, 2005.

Countywide Objectives

1. To obtain and review the current Auditor Division Payroll Department Departmental Procedures manual.
2. To obtain the data and information necessary to perform testing of various payroll functions. Additionally, to evaluate the effectiveness and efficiency of departmental payroll processing operations which include new hires, ghost employees, terminations, salary adjustments, overtime/comp time, leave time, segregation of duties, monitoring of payroll entries/transactions, etc.
3. To gain an understanding of the garnishment process and to determine that garnishments are being accurately and properly deducted from employee's biweekly pay.
4. To ensure that the Department of Insurance & Risk Management maintains a listing of all employees who drive a County-owned vehicle home in accordance with Codified Ordinance 169.25.
5. To verify that one of the three Internal Revenue Service (IRS) Fringe Benefit valuation rules were being appropriately applied to Summit County employees who drove a County-owned vehicle home in 2007.
6. To ensure that all Summit County employee Social Security numbers are valid with the Social Security Administration.
7. To confirm that duplicate employee bank account numbers (if any) appear reasonable.
8. To ensure that Summit County is following the Fair Labor Standards Act (FLSA) for exempt and non-exempt employees.
9. To ensure that the federal and state withholding allowances claimed by County employees agreed to the withholding allowances entered in the payroll system as of 2/2/07.
10. To verify that Summit County is in compliance with the Ohio Public Employees Retirement System (OPERS) regarding employee/employer payments and reporting.
11. To verify that Summit County is in compliance with the State Teachers Retirement System of Ohio (STRS) regarding employee/employer contributions and reporting.
12. To gain an understanding of the unemployment compensation process and to ensure that Summit County is in compliance with the payment and reporting process for the State Office of Unemployment Compensation and the Federal Unemployment Taxing Authority (FUTA).
13. To analyze the current worker's compensation program for the County of Summit to determine the impact, if any, on the payroll function. In addition, to review applicable activity and documentation for the 2005 worker's compensation premiums applicable to the 2004 claim year and 1995 through 2004 retroactive years.

Audit Issues and Recommendations

The following findings, conclusions, and recommendations represent the results of this audit. The recommendations noted throughout this audit are only suggestions by IAD on how to resolve the issues identified. The recommendations should not be construed as the only possible corrective action for management to implement. Management responses to each finding have been incorporated into this report.

I. Policies and Procedures

IAD obtained and reviewed the Auditor Division Payroll Department Departmental Procedures Manual (herein "Payroll Policies & Procedures"), effective March 2006. The manual was reviewed for reasonableness and the following issues were noted:

1. Issue

Upon review of several payroll functions performed by the Fiscal Payroll Office and departmental payroll coordinators, the following listing includes (but is not limited to) areas where there were no formal written policies and procedures:

- a. Garnishments (p. 14)
- b. Fringe Benefits (p. 21)
- c. Federal and State withholding procedures (p. 27)
- d. Social Security verifications (p. 30)
- e. Resets (Section p. 32)
- f. Retroactive adjustments (p. 34)
- g. Unemployment Compensation (p.35)

Specific issues and recommendations regarding each of the above noted areas are located in their referenced sections of the report (noted in parenthesis after each area).

From an overall review of the Fiscal Payroll Policies & Procedures some of the functions of the Fiscal Payroll Department are discussed; however, they do not indicate the position(s) responsible for performing the functions. General areas that were not covered in the manual included the setup of employees on Kronos and terminating employees in Banner and Kronos. Additionally, it appears as though they are focused more towards policies and not the procedures that need to be completed to comply with the policies. Several sections listed on the Table of Contents were missing as well (e.g. Chapter 3 Section B: Kronos Employee Data Entry Form and Chapter 4: Time and Leave Entry). Furthermore, it was noted that employee private information was contained on sample documentation and in the appendices.

Awareness and understanding of the Payroll Policies & Procedures was inconsistent throughout the County. Based on the responses of 24 County departmental payroll coordinators during the Preliminary Internal Control Questionnaires, 12 were not aware of the Payroll Policies & Procedures, 7 stated that Payroll Policies and Procedures were communicated verbally, and the remaining 5 stated they were aware of the Payroll Policies and Procedures. Additionally, per discussion with the Director of Administration and the Support Services Administrator who perform the day-to-day functions for the Fiscal Payroll Office, they were not sure exactly what was contained in the Payroll Policies & Procedures

because they did not get a chance to read it. During on-site testing, the lack of dissemination of the Fiscal Payroll Policies and Procedures and the lack of departmental policies and procedures revealed there were numerous discrepancies in the payroll processing throughout the County.

Several housekeeping items were noted throughout the Payroll Policies & Procedures, which made it difficult to follow and to ensure completeness. There were no page numbers on the Table of Contents for the 138-page document and the appendices were not labeled. Employee names are used throughout the manual as opposed to positions. This makes it difficult to determine who is responsible for the function when employees change jobs or terminate. Finally, the security code for State Income Tax Payments was noted on a worksheet in the appendix.

Recommendation

IAD recommends that the Fiscal Office complete the policies and procedures for all of the functions of the payroll department. Additionally, these procedures should be communicated to the departmental payroll coordinators. This will ensure that policies are being enforced and procedures are being consistently applied.

Prior to the issuance of this report, the Fiscal Office prepared policies and procedures for all outside agency payroll coordinators and held a training session on August 28, 2007, in which IAD attended. The items covered at the training session included guidelines for centralization of the payroll function, specifically the new policies and procedures, updated Banner and Kronos forms, payroll processing deadlines, and changes to the taxing of vehicle fringe benefits based on Executive Order 07-203 and the IRS guidelines. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. In addition, all payroll clerks received a Kronos Handbook for Managers. The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedure manual. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

II. Garnishments

IAD met with the Deputy Fiscal Officer of Finance in order to gain an understanding of the garnishment process utilized by the Fiscal Office. The Support Services Administrator also created a narrative because IAD was unable to locate procedures in the Payroll Policies & Procedures regarding the garnishment process, except for creating the garnishment voucher. The following documentation regarding garnishments was also obtained and reviewed: U.S. Dept. of Education Employers Handbook revised October 2003, Akron municipal Court "Employers Guide to Processing Continuous Orders of Garnishment", Principles of Payroll Administration, Department of Labor Field Operations Handbook, U.S. Dept. of Labor Fact Sheet #30, and Ohio

Revised Code (O.R.C.) Chapter 2716 Garnishments. IAD reviewed O.R.C. §3121 regarding child support orders to determine if the Fiscal Office was complying with state law.

The 26th pay period of 2005, 12/12/05 to 12/25/05, was chosen as a sample for testing. IAD generated a report from Banner which identified all garnishments that had a code number greater than 904 for this pay period. The top three deductions were chosen for testing: Ohio Child Support Enforcement Orders, Garnishments from Municipal Courts, and Chapter 13 Bankruptcy Orders. The top three totaled 91% of the garnishments for this pay period. The Municipal Court Orders were tested and Bankruptcy and Child Support Orders were agreed to their respective order and were recalculated to determine if the amount withheld agreed to the order.

IAD generated another report from Banner which identified all deductions that were excluded from garnishments to arrive at disposable income. IAD then reviewed the excluded deductions for the top three categories of garnishments chosen for testing to determine that the Fiscal Office was properly excluding/including these items from disposable income in accordance with the Consumer Credit Protection Act (CCPA). Only the codes for the Akron, Cuyahoga Falls and Canton Municipal garnishments were identified, which was reasonable because they are based on a percent of disposable income. Due to the large number of errors noted in the review of the sample garnishments, IAD scanned deductions excluded from the U.S. Dept. of Education garnishment.

A Banner report was generated by IAD which identified all deductions and their priority code. This report was reviewed to determine if the priority codes appeared reasonable in relation to the CCPA, O.R.C. §2716, and the U.S. Dept. of Education Employer's Handbook.

IAD provided the Deputy Director of Finance with the Department of Labor Field Operations Handbook, U.S. Dept. of Labor Fact Sheet #30, U.S. Dept. of Education Employers Handbook revised October 2003, O.R.C. citation regarding garnishments, and a link to a wage garnishment sheet for student loans. This was provided because of issues identified with how the Fiscal Office is excluding items from gross income to derive disposable income.

General

2. Issue

Upon review of a listing of all deduction codes and their priority code, it was noted that priority codes for student loans in the Banner software application do not have the correct priority order. Seventeen deduction codes for student loans had a priority before child support orders. Per the U.S. Dept. of Education Employer's Handbook, "garnishments for family support take precedence over orders for student aid debts, regardless of when the latter are issued". IAD also noted that the Internal Revenue Service Levy code was also prioritized before child support orders. Internal Revenue Code Title 26, Subtitle F, Chapter 64, Subchapter D, Part II, §6334(a)(8) states that the amount set aside for the support of a dependent child is exempt from a federal tax levy if the child support withholding order was in effect prior to the date of the levy.

Recommendation

IAD recommends that the Fiscal Office review and correct the priority codes for these deductions to ensure that they comply with the CCPA and any other applicable federal and state laws. IAD also recommends that the Fiscal Office create a formal policy and procedure

on how to address situations that might exist when a federal tax levy and a child support order exist. This will ensure that multiple garnishments are being appropriately withdrawn from wages relative to their priority as well as ensuring compliance with federal and state laws.

Prior to the issuance of this report, all priority codes were corrected in the Banner Software Application in accordance with CCPA and all other applicable federal and state laws as of April 6, 2007. IAD obtained and reviewed an updated WebFocus deduction code report and verified that the priority codes for student loans and tax levies were after the priority code for child support. Furthermore, IAD met with the Deputy Fiscal Officer of Finance who provided a list of all wage assignment deduction codes and their priorities, which agreed to the WebFocus deduction code report. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedure manual. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

3. Issue

IAD was unable to locate garnishment procedures in the Payroll Policies & Procedures, except for how to create a garnishment voucher. Therefore, the Fiscal Office is unable to ensure that garnishments are being processed in accordance with federal and state laws, as well as the objectives of the Fiscal Office. On 3/22/07, IAD Obtained and reviewed a narrative created by the Support Service Administrator. Upon review of the narrative, IAD noted that it indicates the Fiscal Office uses the state minimum wage to calculate the minimum amount that is to remain in an employees pay set by the CCPA. However, the CCPA, O.R.C. §2716, and the U.S. Dept. of Education Employer's Handbook indicate that the federal minimum wage is to be used. IAD confirmed this with the U.S. Dept. of Labor and the U.S. Dept. of Education. Furthermore, the narrative does not indicate that the lesser of 25% of disposable income or 30 times the federal minimum wage is to be used.

Recommendation

IAD recommends that the Fiscal Office create policies and procedures that comply with federal and state laws. In addition, this information should be communicated to payroll staff, and updated on a regular basis. This will ensure that the staff is aware of how to properly process garnishments as well as ensure compliance with applicable federal and state laws. IAD provided the Deputy Fiscal Officer of Finance with the Department of Labor Field Operations Handbook, U.S. Dept. of Labor Fact Sheet #30, and the U.S. Dept. of Education Employers Handbook revised October 2003 as well as electronic links to other reference material.

Prior to the issuance of this report, the Fiscal Office changed the amount used to calculate the minimum amount that is to remain in an employees pay to the federal minimum wage on April 6, 2007. IAD met with the Deputy Fiscal Officer of Finance who provided Banner screen prints of an employee who was receiving a garnishment. IAD performed a recalculation to ensure that the federal minimum wage was being utilized. IAD also noted that the Fiscal Office updated Banner on July 23, 2007, to reflect the most recent federal

minimum wage which was effective July 24, 2007. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures for garnishments. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

4. Issue

It does not appear that the Fiscal Office is utilizing the Banner software application to perform functions that could potentially be automated. There do not appear to be controls in place within Banner to ensure that withholding amounts for child support orders do not exceed 60% of disposable earnings for a person not supporting another family and 50% for a person supporting another spouse or child plus an additional 5% on each limit if there are arrearages over 12 weeks old. Per the Deputy Fiscal Officer of Finance, the amount withheld for child support is entered into the Banner accounting application and the minimums are calculated manually per pay.

Recommendation

IAD recommends that the Fiscal Office review the current payroll process and determine any opportunities to automate the process and then contact ACS, the Banner technical support contractor, and determine if it is possible to have the Banner software application automatically perform these functions. This will ensure that the Fiscal Office does not exceed the limitations set forth by the CCPA or any other federal and state laws. This would also increase efficiencies in the processing of payroll by eliminating the need to manually perform these functions.

Prior to the issuance of this report, the Fiscal Office contacted the ACS Action line and the calculation of all wage assignments was automated. This included the percentage calculations relating to child support orders. Furthermore, the calculations for employees with multiple orders had been automated. IAD met with the Deputy Fiscal Officer of Finance who provided a listing of all wage assignment deduction codes, including eight new codes that were created on April 6, 2007. The new code for child support included the option of selecting four different "plans" to ensure that withholding amounts for child support orders do not exceed the designated percentages of disposable earnings. Per the Deputy Fiscal Officer of Finance, the Fiscal Office assumes that that the employee is not supporting another family. The Fiscal Office checked with the Child Support Enforcement Agency (CSEA) on the requirements of the employer for deciding whether or not the employee supports another family. CSEA responded that there was no requirement besides taking the employee's word. Therefore, in conjunction with the Fiscal Office Legal counsel, it was decided to assume all employees did not support another family. If and when the employee contacts the Fiscal Office, they will at that time require a copy of the employee's most recent tax return to determine if they support another family. Of the eight new codes on the listing of wage assignment deduction codes, four codes were for use when the employee also has a child support order, defaulted student loan, and/or creditor garnishment. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures for creditor garnishments. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

Creditor Garnishments

5. Issue

The Fiscal Office is not withholding the correct amount of funds from wages that have creditor garnishments (municipal court garnishments) because they are not calculating disposable income accurately. Therefore, creditors are not receiving the correct amount of funds owed per pay period in accordance with the garnishment order. Per the Consumer Credit Protection Act (CCPA) the amount of pay subject to garnishment is based on the employees disposable earnings, which is the net amount remaining after legally required deductions are made (e.g., federal, state, and local taxes, the employees share of social security or withholdings for employee retirement systems required by law). Examples of deductions not required by law are medical insurance premiums and union dues. The Fiscal Office is excluding union dues, health insurance premiums, and other garnishments (e.g., child support orders, municipal court garnishments) from gross income to arrive at disposable income. Of the 167 possible deductions that could be excluded for each Municipal Court garnishment tested, the Fiscal Office is improperly excluding 95 potential deductions from each of the garnishments.

Due to the number of errors, IAD expanded the testing and reviewed the exclusions for the U.S. Department of Education (ED) garnishment. Of the 161 possible deductions that could be excluded for this garnishment, the Fiscal Office is improperly excluding 57 potential deductions from each of the garnishments. IAD noted that the deductions that are being excluded are generally the same as the deductions noted above; however, the office was properly excluding health insurance premiums. This is because health insurance premiums are permitted by law to be excluded for student loan garnishments. Per the ED Employer's Handbook dated October 2003, "an employer who fails to comply with the Wage Garnishment Order shall be liable for any amounts that the employer fails to withhold under the Wage Garnishment Order".

Additionally, IAD noted upon review of a report showing all deductions excluded from gross income, that deductions were also being excluded from gross income for two of three bankruptcy garnishments not chosen for testing. Disposable income is not a factor for a bankruptcy order; therefore, these excluded deductions should not be present. It appeared this occurred because the profile was copied from another deduction that had items to be excluded from gross income.

Finally, for the garnishments reviewed above, IAD noted that the deduction codes, for items to be excluded, were entered into the Banner accounting system from 1998 through 2006; however the majority of the exclusions were entered in 1998.

Recommendation

IAD recommends that the Fiscal Office obtain and review reference material explaining what items are allowed to be excluded from gross income to arrive at disposable income. IAD

provided the Deputy Fiscal Officer of Finance with the Department of Labor Field Operations Handbook, U.S. Dept. of Labor Fact Sheet #30, and the U.S. Dept. of Education Employers Handbook revised October 2003. Furthermore, IAD recommends that the Fiscal Office review, on a regular basis, all deductions within Banner that are being excluded from gross income to arrive at disposable income and remove those that are not required to comply with the CCPA or other applicable laws. This will ensure that the appropriate amount is being withheld from employee wages and creditors are receiving the appropriate amount of funds. Per an email from the Deputy Fiscal Officer of Finance, on 3/28/07, the Fiscal Office will clean up all of these issues in time for processing the April 6, 2007 pay.

Prior to the issuance of this report, the calculation for disposable income for garnishments and student loans were corrected in the Banner software as of April 6, 2007. IAD obtained and reviewed a report from the Deputy Fiscal Officer of Finance showing the deduction codes for garnishments and student loans and the corresponding excluded deduction codes. IAD compared this listing to the testing performed by IAD during fieldwork to verify that the codes were properly excluded. Additionally, IAD obtained and reviewed a report from the Deputy Fiscal Officer of Finance showing zero excluded deductions for the bankruptcy codes. Furthermore, IAD ran a WebFocus report showing the garnishment, student loan, and bankruptcy deduction codes to verify that the excluded deductions (if applicable) were accurate. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedure manual. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

6. Issue

IAD was unable to determine if the Fiscal Office is sending the Order and Notice of Garnishment and Answer of Employer within five business days, Interim Report and Answer of Garnishee and the Final Report and Answer of Garnishee to the issuing court in accordance with the O.R.C. §2716. All 13 of the garnishments tested from the 26th pay period did not have the above-mentioned documents. Per the Support Services Administrator, the forms are completed and the Fiscal Office does not retain a copy. Per O.R.C. §2716.041, the garnishee shall prepare these reports and shall retain one complete and signed copy of the documents for the garnishee's records. The Interim Report and Answer of Garnishee are to be completed for every pay period when funds are withheld from the employees pay.

Recommendation

IAD recommends that the Fiscal Office retain copies of the above-mentioned documents. This will ensure that there is documented evidence that these documents were sent to the issuing courts and that the Fiscal Office is complying with O.R.C. §2716. IAD also recommends that the Fiscal Office contact the courts issuing the creditor garnishments and setup a method to pay the courts and file the Interim Report and Answer of Garnishee or the Final Report and Answer electronically as permitted by O.R.C. §2716.041 (C)(4)(c). This will ensure that the Fiscal Office is submitting the payments and documentation in the most efficient manner as well as allow for an electronic backup of these documents.

Prior to the issuance of this report, IAD observed a file of “Interim Reports & Answer of Garnishee” maintained by the Support Services Administrator. Per the Support Services Administrator, she had been keeping copies since April 6, 2007. Furthermore, IAD observed the “Order and Notice of Garnishment & Answer of Employer” for one employee indicating the date it was received on the front side and the date it was mailed on the back side. Finally, IAD observed a “Final Report & Answer of Garnishee” for an employee, which was being maintained with the garnishment files. IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedure manual. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

Child Support Orders

7. Issue

The Fiscal Office is not notifying the Child Support Enforcement Agency when a lump sum payment is made to an employee or holding the funds as required by O.R.C. §3121. A process for notification was not identified in the Payroll Policies and Procedures Manual or in the narrative on the garnishment process that was provided by the Deputy Fiscal Officer of Finance. O.R.C. §3121.037 requires that the Order/Notice to Withhold Income for Child and Spousal Support contain specific requirements. The code states “that no later than the earlier of forty-five days before a lump sum payment is to be made or, if the obligor's right to the lump sum payment is determined less than forty-five days before it is to be made, the date on which that determination is made, the payor notify the child support enforcement agency administering the support order of any lump sum payment of any kind of one hundred fifty dollars or more that is to be paid to the obligor, hold each lump sum payment of one hundred fifty dollars or more for thirty days after the date on which it would otherwise be paid to the obligor and, on order of the court or agency that issued the support order, pay all or a specified amount of the lump sum payment to the office of child support”. This notification requirement is essential for the Child Support Enforcement Agency to comply with O.R.C. §3121.12, which allows the agency to determine if the individual is in arrears or default and to make a claim on the lump sum payment.

Recommendation

IAD recommends that the Fiscal Office develop a formal policy and procedure that identifies instances where a lump sum payment is going to be made and provides notification to the Child Support Enforcement Agency, as well as holding the funds in accordance with O.R.C. §3121. This will ensure that the Fiscal Office complies with the O.R.C. as well as increases the potential collection of child support that is in arrears or default. IAD also recommends that the Fiscal Office determine if it is possible to automate as much of this process as possible within the Banner software application (e.g., Banner flagging a lump sum payment to an employee who pays child support). Furthermore, IAD recommends that the Fiscal Office communicate these procedures to the various payroll coordinators to ensure that lump sum payments are identified as soon as possible. On 4/26/07, IAD obtained an interoffice memo from the Deputy Fiscal Officer of Finance informing Payroll Clerks how to handle

lump sum payments. This could also be accomplished by the creation of an internal website where payroll related memos and procedures would be centrally located. This would eliminate the need to repeatedly communicate payroll procedures in the event of a change of payroll clerks at the various agencies that utilize the Fiscal Office payroll department.

Prior to the issuance of this report, IAD obtained and reviewed a memo dated April 26, 2007, to all payroll coordinators which outlined a formal procedure to notify the Fiscal Payroll Office when a lump sum payment is going to be made and notification to the Child Support Enforcement Agency of that payment. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for lump sum payments. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding lump some payments. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

Bankruptcy Orders

No issues noted.

III. Fringe Benefits

General

IAD obtained and reviewed the Fleet Management Audit Section performed in 2006. IAD reviewed the section regarding deductions and earnings to gain an understanding of the procedures for this area and to follow up on issues noted during testing. IAD also obtained and reviewed the following to gain an understanding of the taxation of fringe benefits regarding vehicles: Internal Revenue Code §1.61-21 "Taxation of fringe benefits" §1.274-5T paragraph (k) (3) through (7), FAQ's for government entities regarding Fringe benefits from the IRS website, Internal Revenue Bulletin 2007-2, Report to Summit County relating to Auto Reimbursement Policies from the public accounting firm of Bober, Markey, Fedorovich, & Company, County of Summit Executive order 05-195 regarding "Mileage Reimbursement for Travel To and From Employee's Home When Driving a County of Summit Vehicle", Internal Revenue Service (IRS) Publication 15b: Employer's Tax Guide to Fringe Benefits for 2007 from the Department of the Treasury, and emails from IAD to the Federal, State, and Local Government Specialist for the IRS regarding vehicle fringe benefits. These were obtained during the County Wide Fleet Audit performed in 2006.

IAD obtained and reviewed Codified Ordinance 169.25 in regards to Operation of a Vehicle for work purposes to gain an understanding of the County laws regarding designated personnel who drive County-owned vehicles home. This Chapter does not apply to judicial offices or where a collective bargaining agreement takes precedence." A County of Summit Executive Order 07-014-James B. McCarthy, Executive Vehicle Designation "Exhibit A" for 2007 was obtained and reviewed from the Executive Assistant in the Law Department. This was obtained to determine

which employees drive a County-owned vehicle home as reported in accordance with Codified Ordinance 169.25(e).

IAD confirmed with the Deputy Fiscal Officer of Finance that the County follows the Cents-per-Mile method and the Commuting method. The Banner deduction code for the Cents-per-Mile method is 997 and the Banner code for the Commuting method is CAR. Additionally, only two employees receive deduction code Car Allowance (CRA) as part of their employee contracts.

A WebFocus report was generated by IAD listing all employees in 2007, with the 997, CAR, and CRA deductions by pay period. IAD traced and agreed the employees located on the 997 and the CAR WebFocus reports to the County of Summit James B. McCarthy, Executive Vehicle Designation "Exhibit A" listing and vice versa to verify that all employees receiving payroll deductions/additions were located on the Insurance listing. IAD did not perform this on the report for the code CRA because all of these employees were from the County of Summit Board of Mental retardation and Developmental Disabilities (CSBMRDD) or the Port Authority. These organizations are not required to follow the codified ordinance because they are organized by the Ohio Revised Code (O.R.C.) and report to a board. IAD also did not perform this for the 997 report for 2006 because this report was outside of the scope of testing and was created to determine the extent of an issue.

Cents per Mile Testing

IAD verified and reviewed the calculation used by the County to determine the per-pay deduction amount for employees who follow the Cents-Per-Mile method with the Director of the Office of Finance and Budget (OBM). The OBM submits to the Fiscal Office Payroll department a spreadsheet of mileage for all employees who use the cents per mile method, except for the Engineer, which is created by the Deputy Fiscal Officer of Finance.

IAD obtained and reviewed Executive Order # 05-195 in regards to mileage reimbursement for travel to and from employees' homes when driving a County owned vehicle. The Executive Order was signed by James McCarthy, County Executive, on 8/24/05. The order required applicable employees to reimburse the County for the benefit of driving a County-owned vehicle home.

IAD recalculated the amounts being paid by employees on the 997 report for the use of a County vehicle to ensure that the amount was accurate. IAD utilized the MapQuest website to determine the round trip mileage and multiplied that amount by the number of days noted above and the federal mileage rate. Due to the number of errors identified for the 2007 report, IAD recalculated the amounts paid for 2006. This was performed to determine if the County was accurately following the method chosen and not necessarily correct with the Internal Revenue Code

Obtained and reviewed the value and time of issuance of all vehicles driven by the employees located on the 997 report to determine if the value is greater than the maximum vehicle value allowed for following the cents per mile method. IAD was unable to perform this test on the majority of the employees because the date the vehicle was provided to the employee was not tracked in some departments. Therefore, IAD scanned the report for reasonableness.

Car Allowance

IAD traced and agreed the employee agreements for all employees listed on the report that identified all employees who received a car allowance, which was deduction code CRA. This was

performed to determine that the amount paid to the employee was properly approved and accurate.

Commuting Method

IAD recalculated the amount being added into the employees' wages for one pay period in 2007 (period ending 3/16/07). This was performed to determine that the amount being added into the employees' income was accurate. For every time that the vehicle is used, there should be \$1.50 added into the employees' income. IAD assumed, for the pay period tested, that \$30 should be added into the employees income assuming that no other time off was taken, extra days were worked, or additional trips were taken.

General

8. Issue

IAD was unable to locate internal procedures regarding the calculation and taxation of a vehicle as a fringe benefit in the Payroll Policies & Procedures. Furthermore, the Fiscal Office Payroll Department does not provide payroll coordinators policies and procedures regarding this issue. Per the Deputy Fiscal Officer of Finance, the responsibility for handling the treatment of the use of a vehicle as a fringe benefit is the responsibility of the Executive's Office of Budget & Finance because this is the office responsible for the County travel policy. Furthermore, the Fiscal Office Payroll department did not provide IAD with any documentation to support the contention that vehicle fringe benefits are not under their jurisdiction when requested. Per Title 26, Subtitle F, Chapter 68, Subchapter B, Part I, Section 6672 (a) of the Internal Revenue Code, "Any person required to collect, truthfully account for, and pay over any tax imposed by this title who willfully fails to collect such tax, or truthfully account for and pay over such tax or payment thereof, shall in addition to other penalties provided by law, be liable to a penalty equal to the total amount of the tax evaded, or not collected, or not accounted for and paid over." Furthermore, Amy Myers, IRS Federal, State, Local Governments-Division, indicated in an email to IAD that the person that signs the Form 941, submitting withholdings to the Federal government, is responsible for the accuracy of the return. The Fiscal Office withholds and submits all Federal, State and Local taxes. These amounts are affected by the taxation of a vehicle as a fringe benefit.

Recommendation

IAD recommends that the Fiscal Office create policies and procedures that address the taxation of the value of a vehicle as a fringe benefit. IAD further recommends that this procedure be coordinated with the Executive Department of Finance and Budget, who is responsible for overseeing the purchasing process to identify when a vehicle is purchased. These policies and procedures should include, but not be limited to, a worksheet to determine the appropriate method that should be used based on the value of the vehicle, mileage logs to determine number of miles driven, identification of when a vehicle is transferred to an employee, identification of when a vehicle is purchased that will be used by an employee to identify if there is a fringe benefit, and the status of the individual as a control employee. These policies and procedures should be communicated to the payroll coordinators of the various elected officials to instruct them how to determine the appropriate method for taxing the value of the use of a vehicle as a fringe benefit. Furthermore, it would be efficient to provide these procedures via an internal website, which is currently setup for the Banner accounting system, so that it would not be necessary to provide the procedures every time

there is a change in payroll coordinators or administration. This would ensure that the County is in compliance with the Internal Revenue Code and is communicating these procedures in an effective and efficient manner.

Prior to the issuance of this report, IAD obtained and reviewed an Executive Order (07-203) signed by James B. McCarthy on June 28, 2007, outlining the policy for reporting and taxation of County provided vehicles as a fringe benefit in accordance with IRS guidelines. In addition, IAD attended a training session for the payroll coordinators with regard to the Executive Order on August 28, 2007. Procedures for compliance with the Executive Order were provided to all payroll coordinators.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for vehicle fringe benefits. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding vehicle fringe benefits. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

9. Issue

There is currently no procedure in place for the Fiscal Office to obtain important information regarding the taxation of vehicle fringe benefits i.e., the date of vehicle purchase, date of assignment/transfer to an employee, and vehicle purchase price. Without this information, the Fiscal Office cannot ensure that the appropriate vehicle fringe benefit method is being utilized.

Recommendation

IAD recommends that the Fiscal Office create a formal policy and procedure to obtain all relevant information for vehicle fringe benefits. This will help ensure that the appropriate vehicle fringe benefit method is selected.

Prior to the issuance of this report, IAD obtained and reviewed an Executive Order (07-203) signed by James B. McCarthy on June 28, 2007, outlining the policy for reporting and taxation of County provided vehicles as a fringe benefit in accordance with IRS guidelines. In addition, IAD attended a training session for the payroll coordinators with regard to the Executive Order on August 28, 2007. Procedures for compliance with the Executive Order were provided to all payroll coordinators.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for vehicle fringe benefits. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding vehicle fringe benefits. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

10. Issue

Based on review of the Vehicle Designation listing and the 2007 WebFocus report, the following issues were identified:

- a. IAD identified five Engineer employees who were noted as having a vehicle on the Vehicle designation listing but were not being taxed on the value of the fringe benefit. Per the Director of Administration, none of these vehicles would qualify as a non-personal use vehicle as defined by IRS Publication 15-B. Therefore, these employees should have the use of a vehicle added into their income.
- b. A Building Standard's Clerk was noted on a report showing all employees who have the use of a vehicle added into their income as a fringe benefit, yet this employee does not have the use of a vehicle. Per the Building Standards Executive Assistant, this employee has never driven a County vehicle. This issue was also identified in testing that was performed during the Countywide Fleet Audit. Therefore, the Fiscal Office Payroll department is withholding more taxes from this employee than necessary.
- c. IAD noted that the Executive Department of Environmental Services (DOES) is not adding the appropriate amount of funds into the employees' wages. IAD tested one pay period from six pay periods in 2007. IAD noted five of the fifty-seven employees tested should have had more monies added into their income as a taxable fringe benefit because it appeared they worked on non-scheduled workdays. Per the Human Resource Administrator, the DOES does not account for days worked outside of the scheduled workweek. Therefore, if an employee works overtime, on a non-scheduled day, then he/she is not charged for the use of a vehicle. IAD requested a copy of this policy and was informed by the Human Resource Administrator that there is no policy and that the DOES was informed by the Fiscal Office Payroll department to account for the vehicle usage in this manner. Employees should be charged for the actual number of days the vehicle was used regardless of the normal work schedule.

Recommendation

See issue # 8 Recommendation.

Prior to the issuance of this report, IAD obtained and reviewed an Executive Order (07-203) signed by James B. McCarthy on June 28, 2007, outlining the policy for reporting and taxation of County provided vehicles as a fringe benefit in accordance with IRS guidelines. In addition, IAD attended a training session for the payroll coordinators with regard to the Executive Order on August 28, 2007. Procedures for compliance with the Executive Order were provided to all payroll coordinators.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for vehicle fringe benefits. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding vehicle fringe benefits. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

Commuting Method

11. Issue

The Fiscal Office Payroll department is permitting payroll clerks to only account for the use of a vehicle by assuming one round trip. However, per IRS Publication 15-B, the commuting method requires that “you determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute (that is, from home to work or from work to home) by \$1.50”. Therefore, the County is not properly including amounts that should be added into the employees’ income for taxation.

Recommendation

See issue # 8 Recommendation.

Prior to the issuance of this report, IAD obtained and reviewed an Executive Order (07-203) signed by James B. McCarthy on June 28, 2007, outlining the policy for reporting and taxation of County provided vehicles as a fringe benefit in accordance with IRS guidelines. In addition, IAD attended a training session for the payroll coordinators with regard to the Executive Order on August 28, 2007. Procedures for compliance with the Executive Order were provided to all payroll coordinators.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for vehicle fringe benefits. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding vehicle fringe benefits. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

Cents per Mile

12. Issue

The Fiscal Office Payroll Department is not accurately deducting funds for employees who use the cents per mile method because of the following reasons:

- a. The Fiscal Office Payroll Department is not calculating the number of *actual* days a vehicle is used, except for the Engineer. Rather, they are using 200 days, which was created by the Executive Office of Budget and Finance. This number includes an arbitrarily set number of days for sick, holidays, vacation, and professional out of state travel. This is not true with the Engineer because his office reports the actual number of days his vehicle is used. The number of total days worked should be 260 days (2080 hours divided by 8 hours) less any *actual* vacation, sick, and holidays. IAD created a report for 2006 showing the number of days employees actually worked in a full year and who use the cents per mile method. This report showed the number of days actually worked ranged from 183 to 232.
- b. No employees, except for the Fiscal Office Services division, are submitting vehicle usage logs to the Executive Department of Insurance and Risk Management. Therefore, IAD is unable to determine the actual number of days a vehicle is used or the amount of miles a vehicle is used for personal use. Without this tracking of

mileage, IAD is unable to determine if the vehicles meet the mileage test for the utilization of the cents per mile method. A mileage log is required by Codified Ordinance 169.25(f) (3) and Internal Revenue Code 274(d).

- c. IAD noted that the value of a vehicle that was purchased and provided to a control employee in 2006 exceeded the maximum automobile value for 2006 that can be used for this method, which was \$15,000. This employee should be using the Annual Lease Value Method. Furthermore, the cost of fuel should be added because it is not calculated in the Annual Lease Value Method.

IAD recalculated the amounts that were paid using the estimate of 200 days created by the Executive Office of Budget and Finance and noted the following:

- a. The Fiscal Office Payroll Department under collected \$430.60 in total, for the first 6 pay periods of 2007.
- b. In 2006, it was noted that \$2,098.48 was under collected in total.
- c. One employee had reimbursed the County more than what should have been reimbursed.
- d. IAD was unable to calculate the difference for the County Engineer on a per pay basis because the Fiscal Office Payroll Department made adjustments and miscoding for almost every pay period. Because of the miscoding, IAD was unable to identify, on a Banner report using the appropriate deduction code, two pay periods where the Engineer reimbursed the County.

Recommendation

See issue # 8 Recommendation.

Prior to the issuance of this report, IAD obtained and reviewed an Executive Order (07-203) signed by James B. McCarthy on June 28, 2007, outlining the policy for reporting and taxation of County provided vehicles as a fringe benefit in accordance with IRS guidelines. In addition, IAD attended a training session for the payroll coordinators with regard to the Executive Order on August 28, 2007. Procedures for compliance with the Executive Order were provided to all payroll coordinators.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for vehicle fringe benefits. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding vehicle fringe benefits. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

IV. Federal and State Withholdings

In order to gain an understanding of federal and state withholding requirements, IAD obtained and reviewed the following:

- a. The Payroll Policies & Procedures. IAD noted that there were no policies and procedures in regards to Form W-4 and Form IT-4.

- b. The 2007 Forms W-4 and IT-4 to gain an understanding of the appropriate way to complete the forms.
- c. Code of Federal Regulations (CFR), section §31.3402(f) (1)-1, to gain an understanding of the requirements of withholding exemptions.
- d. CFR, section §31.3402(f) (2)-1, to gain an understanding of the requirements of withholding exemption certificates.
- e. CFR, section §31.3402(m)-1, to gain an understanding of the requirements of withholding allowances.
- f. Publication 919 to gain an understanding of adjusting tax withholding and to review a 2006 Form W-4.

IAD met with the Director of Administration to gain an understanding of the Fiscal Payroll Office's procedures for handling W-4 and IT-4 forms. Furthermore, IAD emailed the Deputy Fiscal Officer of Finance to gain an understanding of the Fiscal Payroll Office's procedures for W-4's and IT-4's.

IAD generated a report in WebFocus to obtain a listing of all County employees' federal and state withholding allowances. IAD noted that employees were in the report multiple times due to changes in their withholding status. IAD sorted the report to obtain each employee's most current withholding status.

A sample of 63 employees was selected for testing of forms W-4 and IT-4. At least one employee was randomly selected per department, and others were selected proportionately depending on department size.

13. Issue

Upon review of the Payroll Policies & Procedures and discussion with the Deputy Fiscal Officer of Finance, there were no policies or procedures regarding the process and responsibility for collecting and maintaining W-4 and IT-4 information. It was not clear whether the Fiscal Payroll Office is the central repository for all tax withholding documentation or the individual payroll coordinators in each County department because there is no formal policy establishing this process. It appeared through testing that the Fiscal Office maintained the majority of the W-4 and IT-4 forms; however, per an email from the Deputy Fiscal Officer of Finance, the Fiscal Office is in the discussion stages of determining whether the Fiscal Office or individual departments will maintain these tax documents. Additionally, there were no formal policies and procedures establishing whose responsibility it is to enter the tax withholding information into Banner. IAD noted that there were 19 different payroll coordinators who inputted tax-withholding information in the sample of 63 employees selected for testing. This made it difficult to ensure that all employees withholding information had been properly collected and accurately entered into Banner.

Recommendation

IAD recommends that the Fiscal Office develop and implement formal policies and procedures for the collection and maintenance of tax withholding documentation. IAD recommends that this procedure remain the responsibility of the Fiscal Payroll Office. This will ensure that all support for tax withholding purposes is maintained in a central location. Furthermore, IAD recommends the Fiscal Office establish formal policies and procedures outlining the responsibility for entering withholding information into Banner. Because the Fiscal Office is the County's taxing authority, this should be the responsibility of the Fiscal

Office. This will help ensure that one central department receives and inputs all withholding information in Banner, both for new employees and for current employee changes.

Prior to the issuance of this report, IAD obtained and reviewed a memo from the Fiscal Payroll Office sent to all payroll coordinators notifying them that the Fiscal Payroll Department is the central repository for all tax withholding documentation and that all employee taxing information will be processed by their department. In addition, IAD reviewed a memo from the Fiscal Office, effective September 3, 2007, stating that access to the Banner and Kronos system will be inquiry only by the payroll coordinators, with the exception of time entry of employee hours. IAD notes that the appropriate forms for completion by the payroll coordinators are available on the Fiscal Office Netpay website. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures regarding the process and responsibility for collecting and maintaining W-4 and IT-4 information. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding the process and responsibility for collecting and maintaining W-4 and IT-4 information. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

14. Issue

IAD noted the following during detailed testing of a sample of 63 employee's Form W-4's and Form IT-4's in the Fiscal Payroll Office:

- a. There were 12 instances where IAD was originally unable to locate a W-4.
- b. There were 4 instances where IAD located a W-4; however, it was not the current W-4.
- c. There were 7 instances where IAD was originally unable to locate an IT-4.
- d. There were 4 instances where IAD located an IT-4; however, it was not the current IT-4.
- e. The W-4 and IT-4 form for one employee did not agree to Banner. IAD was unable to confirm if the employee's tax withholding status in Banner accurately reflected what the employee designated on their Form W-4 and Form IT-4. This was due to the fact that the employee completed Form W-4 on 1/2/01 while Banner reflected an activity date (the date the tax withholding was inputted into Banner) of 1/3/01. Additionally, the employee completed the Form IT-4 on 1/4/00 while Banner reflected an activity date on 1/3/01. IAD advised the employee's payroll coordinator about the discrepancy.

After the list of exceptions were provided to the Deputy Fiscal Officer of Finance, IAD was provided with the current Form W-4 and Form IT-4 for issues a-d above, which agreed to the exemptions in Banner.

IAD noted that the testing revealed Forms W-4 and Forms IT-4 were miss-filed, not provided to the Fiscal Payroll Office by the employee's department, or they were misplaced. This indicated a lack of formal policies and procedures for collecting and maintaining these forms.

Recommendation

See Issue # 13 Recommendation

Prior to the issuance of this report, IAD obtained and reviewed a memo from the Fiscal Payroll Office sent to all payroll coordinators notifying them that the Fiscal Payroll Department is the central repository for all tax withholding documentation and that all employee taxing information will be processed by their department. In addition, IAD reviewed a memo from the Fiscal Office, effective September 3, 2007, stating that access to the Banner and Kronos system will be inquiry only by the payroll coordinators, with the exception of time entry of employee hours. IAD notes that the appropriate forms for completion by the payroll coordinators are available on the Fiscal Office Netpay website. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures stating that the Fiscal Payroll Department is the central repository for all tax withholding documentation and that all employee taxing information will be processed by the Fiscal Payroll Department. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures stating that the Fiscal Payroll Department is the central repository for all tax withholding documentation and that all employee taxing information will be processed by the Fiscal Payroll Department. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

V. Social Security Verifications

IAD obtained and reviewed the Payroll Policies & Procedures in order to gain an understanding of the Fiscal Payroll Office's internal procedures regarding the processing of social security. IAD verified upon reviewing the manual that currently no written policies or procedures existed in regards to social security. The Employer Reporting Instructions & Information manual were obtained and reviewed from the Social Security Administrations (SSA) Online website http://www.ssa.gov/employer/ssnvs_handbk.htm, to gain an understanding of the Social Security Number Verification Service (SSNVS) offered by Social Security's Business Services Online (BSO). IAD registered with BSO by following the instructions in the Employer Reporting Instructions & Information manual.

IAD generated a report from WebFocus showing a listing of active and terminated employees and their social security numbers. IAD and Dave Gordon, CISA, who is an independent contractor for IAD, created the final file for submission in accordance with the BSO file format. IAD retrieved the submitted file and there were 208 records that "failed verification or deceased". It was noted that a majority of the 208 mismatches were for deceased or terminated employees. IAD followed up in Banner and WebFocus with the remaining discrepancies returned by the SSA. This included re-verifying the employee's social security number in Banner and documenting their hire date,

department name, and termination date, if they were terminated. According to the SSA, if the submitted record matched their record, nothing was returned.

IAD contacted the payroll coordinator in each employee's department where there was a discrepancy with current employees. After receiving instruction from the Deputy Fiscal Officer of Finance to go through the Fiscal Payroll Office for discrepancies, IAD followed up with the Director of Administration in the Fiscal Payroll Office.

15. Issue

Upon review of the Payroll Policies & Procedures, there were no formal policies and procedures documenting the Fiscal Office's process of submitting and verifying employee social security numbers (SSN) with the Social Security Administration (SSA). Furthermore, there were no procedures documenting the follow up process if and/or when the SSA returns discrepancies with employee social security numbers and whose responsibility it is to make the applicable corrections. Per an e-mail from the Deputy Fiscal Officer of Finance, the Fiscal Office verifies mismatch social security numbers monthly with the SSA (new employees only, which began in January, 2007). Additionally, per the Chief Deputy Fiscal Officer in the Treasurer's Division, the Fiscal Office submitted the entire payroll file to the SSA in February 2007. Because this is an important control in ensuring that the SSA can post employee wages correctly and that valid SSNs are in Banner, a formal policy and procedure should be in place documenting the Fiscal Office's process and designated personnel responsible for following up.

Recommendation

IAD recommends that the Fiscal Payroll Department develop and implement formal policies and procedures that address the entire process followed when submitting SSNs to the SSA. This includes, but is not limited to: what information is sent, how often it is sent, who is responsible for submitting the information, and what steps are taken once the results are returned, especially when there are discrepancies. If there are discrepancies, they should be followed up on by the Fiscal Office. Because the SSA requires a Personal Identification Number and Activation code in order to submit the information, IAD recommends that the Fiscal Office establish a policy and procedure to indicate when and how often this information needs updated and who has access to this information. The Fiscal Office should ensure that this information is secured and that only authorized personnel have access as well.

Prior to the issuance of this report, IAD noted that the Fiscal Office had developed a procedure for submitting SSNs to the SSA. As of February, 2007, all new employees will be sent to the SSA at the end of each month. In addition, the entire employee file for the County will be submitted in October of each year. The Computer System Software Analyst III of the Fiscal Office will be the primary person responsible for submitting and reviewing the files sent to the SSA and the Deputy Fiscal Office of Finance for the Fiscal Office will be the secondary person in charge of that process. If social security mismatches are identified, the employee's W4 will be reviewed and contact made with the employee if applicable. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding submitting SSNs to the SSA. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

16. Issue

One of two hundred and eight employees whose social security number (SSN) failed verification with the Social Security Administration (SSA) in a file submitted by IAD was entered incorrectly into Banner. IAD noted that this employee was hired on 6/12/06. Therefore, this employee was incorrect in Banner for approximately six months after the social security verification report was received.

Recommendation

See Issue # 15 Recommendation.

Prior to the issuance of IAD confirmed that the social security information for the employee noted above had been corrected.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures regarding submitting SSNs to the SSA. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

VI. Kronos Resets

Upon discussion with a payroll coordinator during a departmental payroll audit, it was noted that employee accrual balances could be “reset” by users with certain Kronos access levels. According to the Workforce Timekeeper Help in Kronos, a Kronos reset allows users to edit employee accrual balances and the date on which the reset should occur. IAD noted that this was an adjustment that was not visible on employee Kronos timecards. Therefore, IAD generated an “Accrual Detail Report” by department, which showed, among other information, any resets of employee accrual balances. The data was given to Dave Gordon for further analysis in CAATs, which revealed over 4,600 manual adjustments.

IAD obtained and reviewed the Payroll Policies & Procedures in order to gain an understanding of Fiscal Payroll’s procedures for Kronos Resets. IAD did not locate any procedures in regards to resets. IAD also met with the Deputy Fiscal Officer of Finance to inquire about the terminology of manual versus system-generated adjustments. Additionally, IAD e-mailed several departmental payroll coordinators to gain an understanding of when they reset employee accrual balances and whether or not they were ever informed of when to reset accrual balances by the Fiscal Payroll Office.

17. Issue

IAD noted that there was a lack of internal controls over the Kronos “reset” feature, which allows a user with access to make adjustments to employee accrual balances. In addition, resets do not currently require management approval. A report generated through Kronos revealed that there were 4,648 “resets” made by County Payroll Coordinators from 1/1/06 through 4/3/07. The resets affected accrual balances in the following Kronos pay codes: Birthday, Comp Time, Exchange Time, Holiday Comp, Incentive, Personal Leave, Personal Sick Leave, Sick Leave, and Vacation. Per emails from payroll coordinators Countywide, there were inconsistencies as to when a reset should be used. Furthermore, there were never any formal policies and procedures established or disseminated from the Fiscal Payroll Office regarding the proper usage of resets.

According to the Kronos Workforce Timekeeper help section “Typically, this feature (reset) is only available to managers.” Additionally, resets should occur in limited circumstances e.g., an employee transfers time from another agency, retirement sick and vacation payoffs, etc.

Per the Deputy Fiscal Officer of Finance, the following access profiles had the ability to utilize the reset feature: Payroll Clerk, Payroll Manager, and Payroll Administrator. Additionally, the Deputy Fiscal Officer of Finance was responsible for setting up and determining Kronos Access Profiles.

The following scenarios illustrate the potential effect(s) of payroll coordinators having the ability to “reset” accrual balances:

- a. The payroll coordinator manually calculates the amount of the reset which could potentially lead to inaccurate accrual balances.
- b. There may be a lack of supporting documentation which would make it difficult in determining legitimate adjustments.
- c. There is the potential for unauthorized resets of accrual balances when the payroll coordinator both approves and signs off on payroll without supervisory review i.e., a payroll coordinator could increase or decrease theirs or any other employee’s vacation balance, sick balance, etc. by any number of hours they desired. Additionally, IAD noted that resets are only evident by running an Accrual Detail Report in Kronos. They are not visible by reviewing employee timecards, which is typically the responsibility of management.
- d. Departments are utilizing a reset in instances where a “historical edit” would be more appropriate and provide an audit trail i.e., if a payroll coordinator made a mistake on a Kronos timecard (pay code sick instead of vacation), a historical edit would reflect what actually took place. A reset would reflect an incorrect Kronos timecard (pay code sick would remain) while modifying the accrual balances (the accrual sick balance would be increased and the accrual for vacation would be reduced).
- e. Adjusting accrual balances can ultimately affect sick and vacation payouts, which could potentially increase the financial liability to the County.

Recommendation

IAD recommends that the Fiscal Payroll Office create and disseminate a formal policy and procedure that states all resets are to be supported with appropriate authorized documentation. This will help ensure that resets are utilized in a consistent manner Countywide. This will also enhance the integrity of data being entered into Kronos.

On 4/16/07, the Deputy Fiscal Officer of Finance sent a memo to all departments Countywide stating that all resets of employee accrual balances in Kronos were to be processed by the Fiscal Office Payroll Department. On 5/11/07, IAD verified in Kronos that the reset function was removed from all payroll coordinators' access profiles. In addition, IAD obtained and reviewed a memo dated 8/6/07, stating that effective 9/3/07, all payroll coordinators countywide will have inquiry access to Banner and Kronos, with the exception of entering employee time. IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for resets. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures for resets. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

VII. Retroactive Adjustments

During review of the "Accrual Detail" report for Kronos resets, IAD also generated an "Employee Transactions & Totals" report in Kronos showing "retroactive" adjustments from 1/1/06 through 4/3/07. Additionally, IAD e-mailed several departmental payroll coordinators to gain an understanding of when retroactive adjustments are made and whether or not the Fiscal Payroll Office provided policies and procedures for these adjustments. Retroactive adjustments are made by payroll coordinators in Kronos and are typically made for retroactive salary adjustments that are necessitated by a bargaining agreement and to correct items that were miscalculated.

The Employee Transactions & Totals" report was reviewed by IAD and a summary of the total amount of retroactive adjustments for each department was created in an Excel Spreadsheet. IAD also obtained and reviewed the Payroll Policies & Procedures in order to gain an understanding of Fiscal Payroll's procedures for retroactive adjustments. IAD did not locate any procedures in regards to retroactive adjustments.

18. Issue

There were no policies and procedures for retroactive adjustments located in the Payroll Policies & Procedures. IAD noted that retroactive adjustments totaled \$397,423 from 1/1/06 through 4/3/07. It was noted by IAD that the communication of procedures on how and when to properly make retroactive adjustments varied from department to department e.g., verbal instructions, Kronos training, Kronos Manual, etc.

Recommendation

IAD recommends that formal policies and procedures for retroactive adjustments be created and disseminated to all payroll coordinators. This will help ensure that retroactive adjustments are made in a consistent manner.

Prior to the issuance of this report, the Fiscal Office prepared policies and procedures for all outside agency payroll coordinators and held a training session on August 28, 2007, in which IAD attended. The items covered at the training session included guidelines for centralization of the payroll function, specifically the new policies and procedures, updated Banner and Kronos forms, payroll processing deadlines, and changes to the taxing of vehicle fringe benefits based on Executive Order 07-203 and the IRS guidelines. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for retroactive adjustments. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures for retroactive adjustments. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

VIII. Unemployment

IAD obtained and reviewed the Payroll Policies & Procedures in order to gain an understanding of the Fiscal Payroll Departments internal procedures for unemployment compensation. IAD verified upon reviewing the manual that currently no written policies or procedures exist in regards to processing unemployment compensation.

IAD obtained and reviewed the Ohio Bureau Employment Services Reimbursing Employers Monthly Billing Invoices and Vouchers for 2005 from the Deputy Fiscal Officer of Finance. Upon receiving the billing invoices and vouchers, the Deputy Fiscal Officer of Finance stated that Summit County is a reimbursing employer. Therefore, IAD obtained and reviewed the Ohio Department of Job and Family Services (ODJFS)-Office of Unemployment Compensation, Quarterly Reporting Requirements to gain an understanding of unemployment compensation requirements for reimbursing employers. A reimbursing employer is an employer which pays to the Fund, in lieu of taxes, an amount equal to the amount of benefits which were paid to his former employees and were attributable to service in the employment of such employer. A governmental employer must pay 100% of extended benefits based on wages earned from the governmental employer.

To ensure that Summit County is in compliance with the FUTA, IAD obtained and reviewed the Department of Treasury-Internal Revenue Service (IRS) 2006 Instructions for Form 940. Per the Instructions for Form 940, employers of state and local government employees are not subject to FUTA tax and do not have to file Form 940.

IAD obtained and reviewed the Reimbursing Employer's Quarterly Payroll Reports for 2005 from the Deputy Fiscal Officer of Finance. Per the Office of Unemployment Compensation regarding due dates, quarterly reports must be filed no later than the last day of the first month following the close of the calendar quarter being reported. IAD verified that each quarter was filed timely as indicated by the certification date on the Transmitter Report of Magnetic Media. IAD deemed the certification date reasonable for timeliness as the form is required by Section 4141.20 of the Ohio Revised Code.

19. Issue:

IAD noted that the policies and procedures for the Fiscal Payroll Department did not include procedures for unemployment compensation.

Recommendation:

IAD recommends that the Fiscal Payroll Department develop and implement applicable policies and procedures to reflect the most current process being followed in regards to unemployment compensation. This will ensure that procedures are in place for processing unemployment compensation as well as ensure that the process is being performed consistently.

IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

Management Action Plan

The Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures for unemployment compensation. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

IX. Ohio Public Employee Retirement System (OPERS)

IAD obtained and reviewed the Payroll Policies & Procedures Section F: Deduction Authorization and Detail/Ohio Public Employees Retirement System and the OPERS Employer Manual online in order to gain an understanding of the OPERS process and requirements. IAD also met with the Deputy Fiscal Officer of Finance utilizing an internal control questionnaire to gain an understanding of the Fiscal Payroll Office's process for OPERS. Furthermore, IAD performed an observation of the electronic OPERS submittal process with the Computer Systems Software Analyst.

IAD obtained and reviewed all four quarters of the 2005 PERS Recap Sheets and Submitted Reports, from the Deputy Fiscal Officer of Finance. IAD used these sheets to agree the check amounts to the employee contribution amounts and the calculated employer share contributions from the submitted reports from OPERS and the Recap Sheets created by the Fiscal Department.

A WebFocus report was generated showing employee OPERS deductions in 2005. IAD selected a sample of six pay period end dates in 2005 (at least one pay period from each quarter in 2005) in order to perform detailed testing of the Submitted Reports. IAD compared the deductions noted in the WebFocus report to the employee and employer contribution amounts from the OPERS Recap sheets.

Per OPERS Manual (Contribution Reporting-Section 3 pg. 12), pay period begin date will be the date of the first day an employee earned pay from which retirement contributions will be withheld. Therefore, IAD generated a WebFocus report listing all employees hired in 2005 and their OPERS contributions as well as the employer contributions to test for discrepancies in OPERS deductions with new employees. A recalculation was done by multiplying the employee's applicable gross income by the appropriate 2005 percentage rates which were as follows:

- Employee Contribution Rates- Local: 8.50% Law Enforcement: 10.10%
- Employer Contribution Rates- Local: 13.55% Law Enforcement: 16.70%

The amounts were then subtracted from the actual employee/employer paid amounts to arrive at the difference, which if correct, should have been zero.

No issues were noted.

X. State Teachers Retirement System (STRS)

IAD obtained and reviewed the Payroll Policies & Procedures Section F: Deduction Authorization and Detail – State Teachers Retirement System of Ohio from the Deputy Fiscal Officer of Finance. Additionally, IAD emailed the County of Summit Board of Mental Retardation and Developmental Disabilities (CSBMR/DD) Payroll Supervisor, to determine if she had Policies and procedures specific to STRS. The Payroll Supervisor indicated that she did not and that she follows the rules set forth by STRS. Furthermore, IAD met with the Deputy Fiscal Officer of Finance, to gain an understanding of the STRS Correction code and the STRS reporting requirements utilizing an internal control questionnaire.

The STRS Board Rules were obtained and reviewed from the STRS website to gain an understanding of STRS, employee/employer contributions, and reporting requirements. Specifically, IAD reviewed Employer FAQ's regarding Corrections, Payroll Deductions, Annual Reporting, Payroll Reporting, Pickup, Service Credit and Compensation.

IAD obtained and reviewed 2005 STRS “Employer Cash Remittance Forms” from the Deputy Fiscal Officer of Finance. IAD judgmentally selected one month per quarter and all the pay dates that occurred within that month to perform detailed testing of the “Employer Cash Receipt Remittance Forms.” A WebFocus report was generated showing employee STRS deductions in 2005. IAD verified that the amounts per the Employer Cash Remittance forms agreed to the deductions on the WebFocus report. Additionally, IAD performed a recalculation of the employee and employer withholding amounts to determine if the appropriate amounts were deducted and paid to STRS.

Finally, IAD obtained and reviewed the STRS 2005 and 2006 Annual Report from the CSBMR/DD Payroll Supervisor. Additionally, IAD obtained and reviewed the STRS 2005 and 2006 Annual Reporting Recap sheet which serves as certification of the accuracy of the data submitted on the Annual Report. IAD noted that the date on the recap sheet was before the second Friday in August which is the deadline for when the Annual Report must be submitted to STRS; therefore, it was evident that the Annual Report was sent prior to the second Friday in August.

No issues were noted.

XI. Duplicate Bank Accounts

IAD obtained and reviewed the Payroll Policies & Procedures, Chapter 3 Section C “Direct Deposit Procedures”, in order to gain an understanding of the Fiscal Payroll Department’s direct deposit policy and procedure. In order to determine what users have access to the Banner direct deposit forms, IAD obtained and reviewed a Banner Access Level report from the Computer System Software Analyst. IAD noted that only Fiscal Payroll employees with a specific user class have access to these forms, which appeared reasonable.

IAD judgmentally selected the following pay periods from 2006, for biweekly and monthly direct deposits for detailed testing of duplicate bank account numbers.

- June pay period 12 Bi-Weekly and pay period 6 Monthly
- November pay period 23 Bi-Weekly and pay period 11 Monthly

IAD generated a report in WebFocus of all employees who received direct deposits during the pay periods selected to verify if duplicate bank accounts existed. If there were duplicate bank accounts, IAD confirmed that the individuals had the same last name and they were not a payroll coordinator.

No issues were noted.

XII. Fair Labor Standards Act (FLSA)

In order to gain a basic understanding of the Fair Labor Standards Act, IAD accessed the U.S. Department of Labor-Employment Standards Administration, Wage and Hour Division website. Additionally, IAD obtained and reviewed the Payroll Policies & Procedures to obtain information on the explanation of exempt and non-exempt employees and to identify Banner deduction codes for the bargaining units throughout the County

IAD also met with the Personnel Administrator 2 from the Executive's Human Resources Department, to gain an understanding of the process for determining exempt and non-exempt employees. Per the Personnel Administrator 2, the determination of exempt/non-exempt positions under the Revised Wage & Hour Division of the U.S. Department of Labor Rules was effective August 23, 2004. At this time, the Personnel Administrator 2 utilized an FLSA Exempt Position Eligibility Audit Questionnaire, in order to categorize the following County employee positions as exempt or non-exempt: Clerk of Courts, County Council, Engineer, Executive, Fiscal Office, Internal Audit Department, Prosecutor's Office, Sheriff, Solid Waste Management Authority, and the Veterans Service Commission.

IAD obtained and reviewed the 2004 employee exempt status sheets from the Personnel Administrator 2. These sheets were used to determine whether an employee was exempt from overtime compensation under the FLSA. Per discussion with the Personnel Administrator 2, seasonal employees are not included in the FLSA. IAD also obtained and reviewed the Fair Labor Standards (FLS) Handbook Current Developments and FLS Appendices and Index. Per the Personnel Administrator 2, he did not conduct an audit of exempt/non-exempt employees in outside County Agencies and Boards as they are separate entities. IAD asked the Personnel Administrator 2 if these entities were aware of the FLSA requirements and he stated that he was unaware of the particular Board or Agency's knowledge as he did not notify them of the requirements.

IAD generated a report from WebFocus showing all employees in 2005 and 2006 where "Regular (REG)" hours worked were greater than 80 in a pay period. IAD verified whether the employees listed on the "Hours Greater than 80" report were in a collective bargaining unit. For employees listed in a collective bargaining agreement, IAD performed the following:

- IAD reviewed the employee's bargaining agreement. IAD then contacted the respective payroll coordinator during fieldwork testing to determine if overtime earnings were paid.

For employees not listed in a collective bargaining agreement, IAD performed the following:

- Determined if the employee was exempt or non-exempt from overtime earnings by obtaining the FLSA Exemption from Overtime Compensation form from the Personnel Administrator 2.
- If the employee was exempt, as noted by the exempt status sheets, IAD passed further review as it was up to the discretion of the appointing authority to pay exempt employees' overtime.
- If no Fair Labor Standards Act Exemption from Overtime Compensation form was completed, or the employee was designated as non-exempt, IAD noted this as an item for follow up with the respective department's payroll coordinator during IAD's on-site visit.

IAD contacted an Attorney II from the Executive's Law Department, in regards to FLSA as it applies to the County Boards, Courts, and Agencies. The Attorney II requested the opinion of the Executive Director of the Human Resource Commission, who stated that the FLSA applies to the County as a whole; however, employment matters regarding outside agencies are handled by those agencies. Therefore, IAD inquired with the outside Boards, Courts, Commissions, and Agencies during IAD's on-site visits about their completion of an FLSA audit.

All FLSA-related issues were noted in the individual reports of each County Department, Board, Agency, Court, and Commission, where applicable. In addition, prior to the issuance of this report, IAD noted that the Personnel Administrator 2 completed FLSA audits at all Boards, Courts, Agencies, and Commissions, with the exception of the Probate Court.

XIII. Workers Compensation

IAD obtained and reviewed the following documentation from the Deputy Fiscal Officer of Finance, to gain an understanding of the workers' compensation process, the supporting documentation for meeting compliance with the Bureau of Workers' Compensation (BWC), and for charging back County departments for Workers' Compensation expenses:

- Printout of an email from the Deputy Fiscal Officer of Finance, that outlined the type of BWC plan which the County of Summit participates in and the way departments are charged back for Workers' Compensation.
- County of Summit BWC plan parameters for the January 1, 2005 plan year and the January 1, 2004 plan year dated 1/30/04. The January 1, 2004 parameters dated 1/30/04, were the same as the January 1, 2005 plan parameters.
- Voucher # 594299 for the 2004 BWC premium for the Public Works Relief Employees (PWRE) and supporting documentation.
- Voucher # 594290 for the 2004 BWC premium and supporting documentation.
- Voucher # 594924 for the 1995 through 2004 premium and supporting documentation.
- A Frank Gates (a specialty service provider for the insured and alternate risk market place who provides third party administration services to the County) confirmation that the County of Summit paid the correct premium and the premium payment was deposited with the BWC.
- A packet from the BWC dated December 2003, regarding a notice of the rates that the BWC will use to calculate the premium due in 2005. In addition, a list of claims comprising of the County of Summit's experience, utilizing the tabular and MIRA reserving system, for injuries occurring from January 1, 1999 through December 31, 2002. Separately, a document dated December 2003 regarding a notice of the rates that the BWC will use to calculate the premium due in 2005. Because the administrative cost assessment rate for 2004 would not be determined until July 2004, the policy year 2003 rate would be used.

- A packet from the BWC dated March 2005 regarding the annual retrospective rating plan statement.
- A Gross Payroll YTD at 12/31/04 report that included County departments' year to date gross payroll, deferred compensation totals, and insurance 123 totals (section 125 insurance), a net amount (gross payroll less deferred compensation and insurance 123), and a figure (the net amount multiplied by a rate (.016370) to arrive at the amount to charge back departments).

IAD reviewed the BWC website to gain an understanding of the BWC program. Specifically IAD reviewed the website to gain an understanding of the following:

- a. The differences that exist between alternative rating plans.
- b. Retrospective rating information.
- c. Rating detail history including explanations of the derivation of premium rates.

In addition, IAD verified that the County of Summit's BWC policy status was active and IAD noted that the County of Summit's BWC Managed Care Organization (MCO) was CareWorks.

IAD obtained and reviewed the 2005 County of Summit Operating Budget for the Workers' Compensation Summary of Expenditures to gain an understanding of 2005 actual expenditures.

IAD met with the Benefits Administrator, and the Benefits Specialist 2, to gain an understanding of retrospective rating and the Workers' Compensation claim process. The Benefits Administrator provided IAD with a BWC fact sheet that outlined the responsibilities of the parties involved in the Workers' Compensation process and a draft copy of the Workers' Compensation Employee Handbook.

IAD met with the Deputy Fiscal Officer of Finance, to confirm how the BWC premiums are calculated and paid and to gain an understanding of the billing process.

Conclusion

It is noted from all of the information provided to IAD that the retrospective plan, in the auditor's judgment, is the best suited Bureau of Workers' Compensation plan for the County of Summit.

Based on the fact that IAD determined that Workers' Compensation does not impact the payroll function and the County is not paying claims directly to employees, IAD passed on further review.

Summit County Internal Audit Departmental Objectives, Scope and Methodology (Individual Site Visits)

The following objectives and scope were followed at each individual site visit, if applicable. Nineteen site visits were conducted during this audit.

1. To ensure that the department has formal payroll policies and procedures that are consistent with the Fiscal Office's Payroll Policies and Procedures.
2. To ensure that all new hires are properly authorized by management and accurately and completely recorded in the payroll system.
3. To ensure that terminated employees were properly and timely processed in the payroll system.
4. To ensure that all employee salary adjustments are properly authorized and accurately and completely processed in a timely manner.
5. To ensure that leave entitlements (vacation, sick, etc.) are properly authorized, accurately and completely recorded and updated in the payroll system in a timely manner.
6. To ensure that all overtime hours are properly authorized by management and are in accordance with organizational policies, collective bargaining agreements and/or the law.
7. To ensure that the time sheets for all applicable employees are properly reviewed and approved, where applicable.
8. To ensure that there is an adequate segregation of duties among employees performing the payroll function.
9. To ensure that documentation containing employee personal information is properly secured and access restricted to the appropriate personnel.
10. To ensure accuracy of unearned wages with regards to the amounts paid out and compliance with County/Departmental policies for unearned wages i.e., hospital waivers in 2005 and 2006.

The on-site visits were conducted with the following County departments, Boards, Agencies, and Commissions:

- Alcohol, Drug Addiction, and Mental Health Services Board
- Board of Mental Retardation and Developmental Disabilities (CSBMR/DD)
- Child Support Enforcement Agency
- Children Services Board
- Clerk of Courts Legal Division
- Clerk of Courts Title Division
- Common Pleas Court
 - General Division
 - Adult Probation
 - Psycho Diagnostic Clinic
- Council
- Department of Environmental Services
- Department of Job and Family Services
- Domestic Relations Court
- County of Summit Engineer
- Executive's Office
- Fiscal Office
- Juvenile Court

- Metro Parks
- Prosecutor-Legal Division
- Sheriff's Office
- Veteran's Service Commission

Work Performed

The following is a summary of the general work performed for each of the 10 objectives listed above. In each area reviewed, IAD obtained and reviewed the department's initial internal control questionnaire utilized during the planning of the payroll audit, to gain an understanding of the department's procedures for the area(s) being tested. Additionally, IAD conducted a follow-up interview with the payroll coordinator at the beginning of the on-site visit, to clarify and reconfirm answers obtained during the initial interview.

Policies and Procedures

If the County Department/Board/Agency/Commission (herein "Department") had documented payroll policies and procedures, IAD obtained and reviewed them to determine if they were adequate and met the objectives of the department. If there were no formal payroll policies and procedures, IAD recommended that the department create them.

New Employees

IAD gained an understanding of the Department's procedures for documenting and approving new hires by meeting with the payroll coordinator and reviewing the Department's payroll policies and procedures (where applicable). A WebFocus report was generated showing all new hires in 2005 and 2006 and a sample was judgmentally selected for testing. The majority of testing was performed on new employees hired in 2005; however, in some instances, 2006 and 2007 new hires were tested. IAD verified that there was supporting documentation authorizing the new hire.

Terminated Employees

IAD gained an understanding of the Department's procedures for documenting and approving the termination of employees by meeting with the payroll coordinator and reviewing the Department's payroll policies and procedures (where applicable). A WebFocus report was generated showing all terminated employees in 2005 and 2006 and a sample was judgmentally selected for testing. The majority of testing was performed on employees' terminated in 2005; however, in some instances, 2006 and 2007 terminated employees were tested. IAD verified that there was supporting documentation authorizing the employee to be terminated.

Salary Adjustments

IAD gained an understanding of the Department's procedures for documenting and authorizing employee salary adjustments by meeting with the payroll coordinator and reviewing the Department's payroll policies and procedures (where applicable). A WebFocus report was generated showing employee salaries effective 1/1/05-11/23/06. If an employee received a salary increase/decrease, it would be reflected in the WebFocus report. The report was then filtered by salary increases that were greater than the annual County-wide salary increase for non-bargaining employees, which was 3%. IAD passed on any increases below 4% due to rounding adjustments.

A sample was then chosen from the increases that were 4% or greater. IAD verified that there was supporting documentation showing that the increase was authorized.

Leave Entitlements

IAD gained an understanding of the Department's procedures for documenting and approving employee leave entitlements by meeting with the payroll coordinator and reviewing the Department's payroll policies and procedures (where applicable). A WebFocus report was generated showing leave codes e.g., Sick, Vacation, Personal Sick, etc. for 2005 and 2006. IAD judgmentally selected a sample of employees who used leave time and verified that there was an approved leave form. Additionally, IAD judgmentally selected a sample of leave forms and verified that the type of leave and number of hours were properly entered into Kronos.

Overtime (where applicable)

IAD gained an understanding of the Department's procedures for authorizing overtime by meeting with the payroll coordinator, reviewing the Department's payroll policies and procedures (where applicable), and reviewing applicable bargaining unit agreements. A WebFocus report was generated showing overtime paid in 2005 and 2006. A sample of employees who received overtime was selected and supporting documentation was reviewed to verify that the overtime hours worked was authorized. Additionally, IAD judgmentally selected a sample of overtime authorization forms and verified that the overtime hours were properly entered into Kronos.

Timesheets (where applicable)

IAD gained an understanding of the Department's procedures for timesheets by meeting with the payroll coordinator and reviewing the Department's payroll policies and procedures (where applicable). A sample of timesheets was selected and tested for various items such as employee and supervisor signatures and other Departmental requirements. Furthermore, because the majority of Department's swipe in the Kronos time clocks, IAD discussed the feasibility of that particular Department using Kronos time clocks with swipe cards.

Segregation of Duties

IAD gained an understanding of the Department's current payroll structure to determine if there was a proper segregation of duties by reviewing the initial internal control questionnaire and following up with the payroll coordinator. Additionally, IAD obtained and reviewed a Kronos Access level report showing all Kronos users and their access levels, from the Deputy Fiscal Officer of Finance in the Fiscal Payroll Office. IAD verified that the payroll coordinator entering hours in Kronos was not also the same person signing off on the hours. Where instances of a lack of segregation of duties were found, IAD requested that the Department immediately change the current process and notify the Fiscal Payroll Office to change the access levels.

Security over Documentation

IAD performed an observation of the physical security over the Department's payroll documentation i.e. leave forms, personnel files, etc. to ensure access to private information was limited to authorized individuals only.

Hospital Waivers

The Director of the Department of Insurance & Risk Management contacted IAD in regards to his concern that employees may be receiving additional amounts in excess of the \$600 maximum yearly benefit. Therefore, IAD obtained and reviewed Summit County Codified Ordinance Section 169.15 "Benefit Coverage". Specifically, IAD reviewed section (e) in regards to incentive payments, which are also referred to as hospital waivers. The maximum amount is \$50.00 for all employees, with the exception of the CSBMR/DD, which receives \$100.00 per month. Therefore, the most an employee can receive in a year is \$600.00 (\$1,200 for CSBMR/DD). As a result, IAD generated a WebFocus report listing all 2005 and 2006 taxable and non-taxable hospital waivers by Department. IAD verified that each employee on the listing for 2005 and 2006 received no more than \$50.00 in one month (\$100.00 for CSBMR/DD). Per discussion with the Director of the Department of Insurance & Risk Management, there is no formal policy in regards to hospital waivers being paid on the first of the month and only once per month. Additionally, IAD observed that hospital waiver amounts are being prorated in some Departments for partial months when an employee becomes eligible for the benefit. These amounts are provided by the Insurance & Risk Management Department, and are not done consistently throughout the County. Based on a discussion with the Director of the Insurance Department, pro-rations should not be done at all.

On-site Visit Results

After completing all the Departmental site visits, IAD classified the exceptions by objective and by Department. Figure 3 is a chart reflecting the distribution by objective and Figure 4 is by Department.

Distribution of Exceptions by Objective

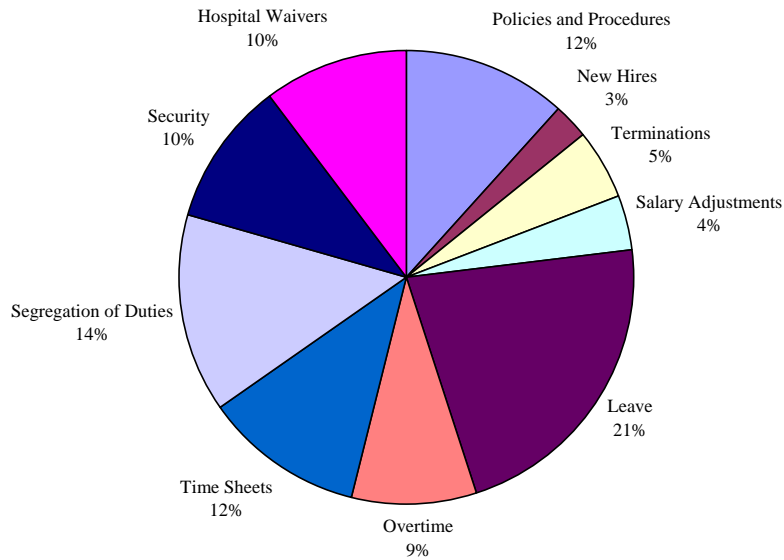


Figure 3

Total Number of Exceptions by Department

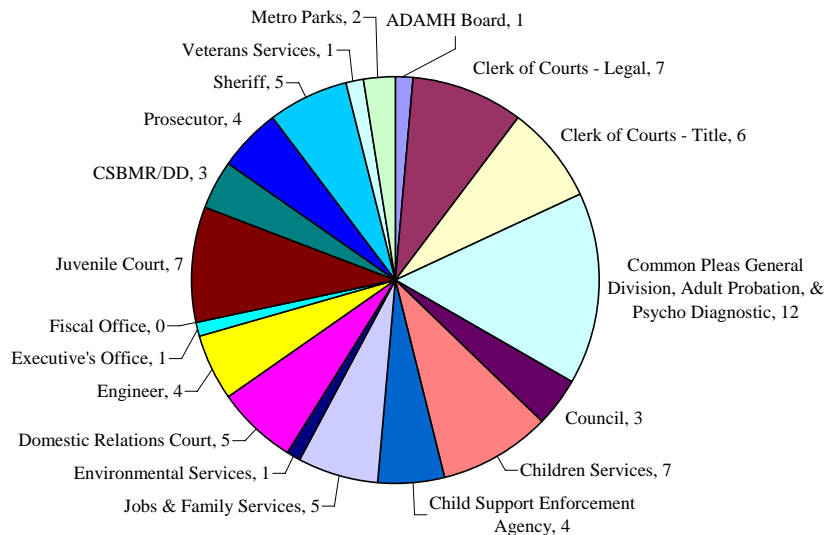


Figure 4

At the conclusion of each site visit, IAD provided management with a report specific to the audit issues identified at a particular Department. The report included IAD’s specific recommendation for each audit issue identified and IAD requested that a management action plan be completed by management before the issuance of the report. In addition, IAD will follow up on the specific management action plans within 6-9 months after the completion of this audit.

Overall Recommendations

Kronos Training

When Kronos Workforce Central was purchased in 2002, departmental payroll coordinators were trained on how to enter time, make adjustments, and approve payroll, etc. by the Fiscal Payroll Office. Upon discussions with departmental payroll coordinators during the departmental payroll audits, it was noted that the payroll coordinators were not fully aware of the capabilities and functions that Kronos offers such as generating reports (e.g., employee accrual balances) and viewing historical time entries i.e., payroll data prior to the previous pay period. Because all County departments (with the exception of the County of Summit Board of Mental Retardation and Developmental Disabilities), have been utilizing Kronos for approximately 3-4 years, it may be beneficial to conduct a refresher course for all current Kronos users as well as new payroll coordinators who may have been hired in the past three years. This would ensure that everyone is utilizing the system correctly and is familiar with its reporting capabilities. Additionally, it might be helpful to inform users of the capabilities of the system i.e., report generating as there were several departments noted throughout the payroll audit that are still tracking employee leave balances manually.

Management Action Plan

The Fiscal Office held a meeting for all payroll clerks on August 28, 2007. All payroll clerks received a Kronos Handbook for Managers at this meeting.

Centralized Payroll Function

After performing payroll audits of several County departments, it was evident that the payroll functions of the County were decentralized. Although not necessarily a negative process, in a decentralized environment, it is important to have a sufficient understanding of a proper internal control structure. This includes the establishment of formal policies and procedures to ensure that operations run efficiently and effectively and specific roles are properly defined and followed to ensure a proper segregation of duties. Through discussions with the Fiscal Payroll Department and each individual department payroll coordinator, the Fiscal Payroll Department sets up all new employees in Banner and Kronos. After this procedure is completed, it primarily depends on the size of the department/agency as to the functions performed by each department. In other words, the larger departments and agencies such as the Sheriff's Office, Executive's Office, and the Board of Mental Retardation and Developmental Disabilities, typically handle most payroll adjustments themselves e.g., salary adjustments, terminations, job changes, setting up deductions and withholdings, etc.. For smaller departments such as the Clerk of Courts, Council, and the Veterans Office, the Fiscal Payroll Department handles all adjustments in the Banner and Kronos systems.

IAD confirmed, through testing of various payroll functions such as new hires, terminations, salary adjustments, and leave entitlements, that the majority of the departments had the proper controls in place to prevent unauthorized changes. However, various inconsistencies noted throughout this report and the lack of segregations of duties in a majority of the departments made the overall payroll internal control structure weak. By establishing and maintaining a centralized environment where access to key documents and systems is restricted to a limited number of individuals, as well as the ability to generate centralized reports for monitoring by the Fiscal Payroll Department, a tightened control structure can be established. Therefore, IAD recommends that the payroll functions be centralized throughout the County i.e., all information entered into the Banner Payroll System should be entered in by the Fiscal Payroll Department. Additionally, the Fiscal Payroll Department should establish a formal policy and procedure requiring that all documentation completed by the individual Departments, Boards, Agencies, and Commissions and submitted to the Payroll Department for entry into Banner, contain authorization by the payroll coordinators as well as management. This will ensure that information in the Banner Payroll System is more accurate and reliable. This will also provide a more proper segregation of duties as there would be a separation between the authorization and recording functions of the payroll process.

Prior to the issuance of this report, the Fiscal Office prepared policies and procedures for all outside agency payroll coordinators and held a training session on August 28, 2007, in which IAD attended. The items covered at the training session included guidelines for centralization of the payroll function, specifically the new policies and procedures, updated Banner and Kronos forms, payroll processing deadlines, and changes to the taxing of vehicle fringe benefits based on Executive Order 07-203 and the IRS guidelines. In addition, IAD notes that the Fiscal Office is currently in the process of preparing internal payroll policies and procedures to be performed exclusively by the Fiscal Office Payroll Department.

As a follow up to the new authorization process established by the Fiscal Office for Banner and Kronos Personnel Action Forms, IAD obtained and reviewed signature forms requested per the August 6, 2007, memo to all Elected Officials and Directors. IAD reviewed these forms to verify a proper segregation of duties within each departmental payroll function. Because the same employee was listed on multiple forms for backup purposes in smaller payroll departments, IAD required as a compensating control, that the Fiscal Office Payroll Department implement a new procedure to determine that the forms do not contain the same signatures which would indicate a lack of segregation of duties.

Management Action Plan

The Fiscal Office has created a Payroll Department Outside Agencies Policies and Procedures manual, and has disseminated the manual to all payroll clerks, as of August 28, 2007. Included in this manual are the policies and procedures for the centralization of payroll. Effective September 3, 2007 the payroll function has been centralized. In addition the Fiscal Office is in the process of putting into writing the Internal Payroll Policy and Procedures for the centralization of payroll and a procedure to determine that required forms do not contain the same two signatures. This manual is exclusively for the use of the Fiscal Office Payroll Department. The manual shall be completed by March 1, 2008.

Hospital Waivers

Departmental payroll coordinators currently enter taxable hospital waivers manually into Kronos. During the on-site departmental payroll audits, it was noted that six of nineteen departments had at least one issue with hospital waivers. Additionally, IAD noted several instances where hospital waivers were pro-rated, based on the date of the employee's eligibility for insurance benefits. There is also no formal policy and procedure documenting when and how often hospital waivers should be given. IAD recommends that the Department of Insurance & Risk Management establish and create formal policies and procedures for hospital waivers. In addition, the ability for a control to be implemented preventing a hospital waiver entered more than once per month should be investigated.

Management Action Plan, Fiscal Office

The Fiscal Office sends a payroll report packet to the independent payroll coordinators, every pay period. Included in the packet is a hospital waiver report for the payroll coordinators to us for monitoring purposes.

Management Action Plan, Insurance Department

169.15 BENEFIT COVERAGE. (e) Incentive Payment. An incentive payment shall be offered to each County employee eligible for health benefits who has proof of other health benefits and elects to have no county coverage. This incentive payment shall be available to all County employees, except those married to other county employees. The amount of the incentive shall be established by the County Council and shall not exceed the limits as established by the Ohio Revised Code.

The Incentive Payment or Cash Option is paid in \$50.00 monthly installments to those eligible employees who decline the medical and prescription coverage provided by the County. The \$50.00 will not be pro-rated and will be paid on the first pay each month with the initial payment effective the first of the month following the effective date of benefit coverage eligibility.

Outsourcing Payroll

IAD recommends that the Fiscal Office review the feasibility of outsourcing specific payroll functions to reduce the liability to the Fiscal Office as well as to the County.

Management Action Plan

The Fiscal Office is continuing to explore the feasibility of outsourcing specific payroll functions and the cost benefit analysis of outsourcing these functions. In addition, the Fiscal Office will evaluate any potential liability to the County as well as to the Fiscal Office.