

SUMMIT COUNTY, OHIO

BERNARD F. ZAUCHA, CPA, MBA, CIA, DIRECTOR

February 1, 2005

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

Re: Final Report for the Fiscal Real Estate's Preliminary Audit

Dear Mr. Donofrio:

Attached is the final report of the Fiscal Real Estate's preliminary audit which was discussed with members of senior management on February 27, 2004. In addition, please note that the Fiscal Real Estate's management action plan was incorporated into the final report.

The report was approved by the Audit Committee at its December 17, 2004 meeting at which time it became public record.

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

Sincerely,

Bernard F. Zaucha
Director, Internal Audit

cc: Audit Committee

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FISCAL REAL ESTATE

Preliminary Audit

04-Real.Fisc-08

February, 2004

Approved by Audit Committee

December 17, 2004

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

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**FISCAL REAL ESTATE
Preliminary Audit
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**FISCAL REAL ESTATE
Preliminary Audit
BACKGROUND**

Auditors: Lisa Skapura, Dan Crews, Joseph George and Deanna Calvin

Background:

The Summit County Real Estate Department reports to the Summit County Fiscal Officer through the Auditor Division. The Real Estate Department evaluates, maintains and updates property record cards for over 269,000 parcels in Summit County. The department determines the eligibility for various tax abatement and reduction programs, appraises real property values, and reviews approximately 12,000 building permits annually.

The State of Ohio mandates that the Real Estate Department conduct reappraisals every six years and update property values in the third year after reappraisal. Reappraisal ensures fairness and equity for all property owners. If reappraisal is not conducted periodically, some property owners may end up paying too little while others pay too much.

The Real Estate Appraisal Department staff divides residential properties into neighborhoods. Each neighborhood is comprised of homes that have common characteristics. The homes are in the same school district and are generally in the same price range. The appraisal staff reviews all recent sales of homes in the area, and this analysis results in a uniform schedule of values that is applied to each parcel of real property in the county.

The Real Estate Appraisal Department is notified of any new construction by all building departments within the county where permits are issued. New value placed on a property is based on the value attributed by the new construction. All new buildings are appraised at construction cost and that cost is added to the value of the existing land. If the construction is added to an existing property, such as a room addition, porch, garage, or new bathroom, the additional value is added to the existing building.

Municipalities, townships, villages and the County levy Special Assessments. Special Assessments such as street lighting, street sweeping and sewer maintenance may be continuous assessments that do not expire at a given date. Term assessments are for a specific number of years. Examples of term assessments include paving, resurfacing, and sewer or water main installation. Special Assessments are never exempted from a real estate tax bill.

TAX ABATEMENT PROGRAMS

- Enterprise Zones and Community Reinvestment Programs are incentives to invest in property improvements and /or create additional jobs. In some cases, real estate taxes are partially or completely waived for a period of up to ten years. In all cases, the property owner must have the approval of the local government entity and /or the county Department of Development and must comply with the requirements provided by the Ohio Revised Code. Once a tax abatement is approved, it is the Real Estate Department's responsibility to appropriate value adjustments and follow the terms of the agreement.
- The Ohio Revised Code provides certain categories of real property that are exempt from

- Taxation. Properties owned and operated by a municipal corporation or belonging to the state or federal government and used exclusively for public purpose are exempt from taxation. Public schools, colleges, academies and churches are also exempt from paying real estate taxes.

TAX REDUCTION PROGRAMS

- The Homestead Exemption is for homeowners 65 years old or those permanently and totally disabled under the age of 65. Total annual income of applicant and spouse cannot exceed \$24,700 for real estate tax year 2003. The applicant must be the owner of the home or manufactured home and the home must be the primary residence. Income requirements are raised annually and are based on the percentage raise given to Social Security recipients. The Real Estate Department processes approximately 800 applications and sends continuing forms to over 14,000 homeowners each year to update existing records.
- The 2.5% Supplemental Rollback is a tax reduction for owner-occupied residential property. The applicant must own the home as of January 1 of the tax year in which application is made. Rental properties are not eligible. The reduction remains until the property transfers or the property is no longer the primary residence.
- Current Agricultural Use Value (C.A.U.V.) allows owners of farmland the opportunity to have their land taxed according to value in agriculture rather than full market value. To qualify for the program, a landowner must devote the land exclusively to agricultural use on at least ten acres or have produced an annual gross income of \$2500 or more from the sales of agricultural products. There is an initial filing fee per application and it may be renewed annually at no cost. If the application is not renewed, the Real Estate Department is required to return the property to its true current market value and recover the taxes for the preceding three years.
- The Ohio Forest Land and Tax Law is a state managed program. Applicants may qualify for a 50% reduction on the taxable value of property that has been certified as forestland by the State of Ohio if they own 10 or more acres of forest woodlands, excluding the home site.

FINANCIAL/OPERATIONAL IMPACT

Real Estate Assessments of \$3,157,900 account for 94% of the Real Estate Department's \$3,345,200 budget for 2004. The General Fund provides the remaining \$187,300 or six percent. The budget is divided among the following units in the Real Estate Department: Appraisal Department - \$2,495,800 (75%), Data Entry - \$675,200 (20%), and the Homestead Department - \$174,200 (5%),

**FISCAL REAL ESTATE
Preliminary Audit
OBJECTIVES**

Objectives:

1. To obtain and review the current policies and procedures.
2. To review the internal control structure through employee interviews and observation.
3. To perform a general overview of existing contracts in the department.
4. To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the department.

Testing Procedures:

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Test procedures for mandatory compliance where applicable.
4. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

5. Meet with the appropriate personnel to obtain an understanding of the control environment.
6. Document the existing control procedures in narratives and/or flowcharts.
7. Compare existing processes to the policies and procedures manual for consistency.
8. Test procedures for compliance where applicable, noting all exceptions.
9. Investigate discrepancies and summarize results.
10. Make recommendations where appropriate.

OBJECTIVE 3 – CONTRACT REVIEW

11. Obtain and review the current operating contracts, i.e., vendor contracts, union contracts, and service contracts.
12. Determine that contracts are current, properly executed, and applicable.
13. Test the contracts for departmental performance, where appropriate, noting all exceptions.

OBJECTIVE 4 – REVIEW OF SECURITY

14. Perform a general overview of the physical environment and security of the department/ agency being audited.
15. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
16. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
17. Test security issues where appropriate.
18. Analyze current policies and make recommendations.

FISCAL REAL ESTATE DEPARTMENT
Preliminary Audit
DETAILED COMMENTS

I. Policies & Procedures Review:

The Real Estate Policy and Procedures manual was obtained and reviewed by the Internal Audit Department. It was noted by IAD that the Real Estate Policy & Procedures manual was comprehensive, concise and well organized. The manual was reviewed by the topics listed below:

- Appraisal
- Homestead
- Office Support
- Data Entry

Issue

The Real Estate Policy and Procedures Manual does not include a signature page for the employee to sign, indicating acceptance of and agreement to comply with the department's policies and procedures.

Recommendation

Copies of the Policy and Procedures manual should be distributed to all employees with a sign – off sheet to be signed and placed in the employee's personnel file, indicating the employee's agreement to abide by the Department's policies and procedures.

Management Action Plan

A copy of the office Policy and Procedure Manual was distributed to all employees on March 12, 2004. All employees were instructed to sign a sign-off sheet indicating they received, read and will abide by the office's policies and procedures within the manual. All sign-off sheets were collected and turned over to the Personnel Office. The sign off sheet will become part of the employee's permanent record. The employees Policy and Procedure Manual will be updated with any additions or deletions if future changes are necessary and the date of the change will be noted in the manual.

II. Internal Control Testing:

Internal control testing and/or observations were performed in the following areas:

- Appraisal Observations
- Property Tax Abatements
- Property Tax Refunds
- Homestead Exemptions
- CAUV (*Current Agricultural Use Value program*)
- Exemptions

- Employee Certifications
- Job Descriptions
- Payroll Files
- Personnel Files

APPRAISAL OBSERVATIONS:

Issue

There is no policy addressing the frequency for which the appraisers should turn in their expense forms.

Some appraisers request reimbursement on a weekly basis and others only periodically, when they have accumulated a number of miles.

Recommendation

The policies and procedures should address the time frame/standards for requesting mileage reimbursement. Appraisers should turn in their expense requests on a regularly scheduled basis (weekly, monthly) to enable tracking of the appraiser's mileage in a more consistent manner.

Management Action Plan

Office policy regarding mileage expense sheets was implemented in April 2004 and given to each employee to add as a supplement to his or her Policy and Procedure Manual. The policy reads: "Mileage expense sheets must be turned in on weekly basis due on Thursday". Some exceptions to this rule will be allowed depending on circumstances.

Issue

Currently there is no procedure in place to monitor an appraiser's mileage usage.

Recommendations

Mileage logs should be periodically reviewed by management to monitor and analyze expenditures. Management should utilize MapQuest, MapBlast, or some other similar product to search for estimated mileage from the Ohio Building to the appraisal sites to confirm the accuracy of mileage reimbursement requests.

Management Action Plan

Office policy regarding mileage log was implemented in April 2004 and given to each employee to add as a supplement to his or her Policy and Procedure Manual. A packet of maps that suggest the quickest route to every destination within the county was assigned to the appraisal staff. The mileage to get to those county destinations accompanied the suggested routes. These maps will serve as a guideline for mileage expense. Based on these guidelines, management will review expense request And question excessive mileage. The appraiser must sign his or her mileage expense statement when turned in for that week. The appraiser's signature indicates that the expenses statement is a true and

accurate statement of the mileage for that week. Disciplinary action will be taken against any employee falsifying a mileage expense statement.

Issue

Appraisers do not complete timesheets or log their time utilized to complete their various projects.

Recommendation

It is recommended that appraisers complete timesheets and/or logs to track time and costs associated with their various assigned projects. This would help to better assist management in analyzing workflow and resource management.

Management Action Plan

Office policy regarding time sheets was implemented in April 2004 and given to each employee to add as a supplement to his or her Policy and Procedure Manual. A daily log indicating the appraiser's tasks for that day is to be turned in to the Appraiser Supervisor every morning before leaving for the field. The job tasks must be logged in the order the work is to be performed. The log sheet must include the parcel number, address of the property, a brief description of the task performed, the date, the time the appraiser left the office and appraiser's name. When the appraiser returns from the field, he or she must sign off on the log sheet with their signature. If there are any additions or deletions of job tasks on the morning log they should be corrected at this time. The appraiser's signature indicates that the log is a true and accurate statement of the work performed that day. Daily logs will be routinely reviewed and field checks will be made by the supervisory staff to ensure that the work stated on the log has been performed. Disciplinary action will be taken against any employee found falsifying a log statement.

Issue

Currently there is no formal orientation program for new Real Estate employees covered in the Real Estate Policy and Procedures manual.

Recommendation

A formal orientation program should be put in place to acquaint new employees with the various codes that govern the Department and the various standards that the Department strives to achieve and maintain such as ORC, USPAP, IAAO.

Management Action Plan

Office policy regarding employee orientation was implemented in April 2004 and given to each employee to add as a supplement to his or her Policy and Procedure Manual. To ensure that all new employees in the Real Estate Office receive consistent and essential information regarding their employment in the Real Estate Division, all new employees must participate in an orientation program. During the orientation:

A Policy and Procedure Manual will be provided to the new employees

- a) Office goals and objectives will be explained
- b) Employees job description will be explained

- c) Employees will see how their job relates to the organization as a whole.
- d) Employees will be introduced to the Ohio Revised Codes and Professional Standards applicable to their job.
- e) Office policy will be explained

HOMESTEAD EXEMPTIONS:

Issue

The current process used to cancel Homestead Exemptions when a property transfers is not thorough and can allow for exemptions to continue under a new property owner who has not established eligibility. Two of the twenty parcels selected for review by IAD (10% of the sample) were currently receiving a Homestead Exemption under the previous property owner's application.

Recommendation

Employees should enter Homestead cancellations completely and accurately in the CAMA system, noting that the property has transferred and selecting the flag that initiates cancellation when appropriate. The Homestead Department should also obtain a listing of transferred property from the Conveyance Department on a cyclical basis and review the property transfers to insure that Homestead Exemptions have been appropriately cancelled.

Management Action Plan

Homestead Employees are instructed to be conscientious while entering Homestead cancellations in the CAMA System. A CAMA report will be ran to identify all properties that have transferred while receiving Homestead Exemption. All parcels appearing on this report will be checked in order to eliminate inappropriate exemptions. The Homestead Office will run this report on an annual basis. This report will help assure that Homestead Exemptions have been appropriately cancelled.

Issue

Two of the twenty parcels selected for Homestead Exemption review (10% of the sample) did not have a Homestead Exemption application on file.

Recommendation

Employees should verify the information contained on a Homestead application before the reduction is initiated in CAMA and the approved application should be filed in a manner that is easily retrievable.

Management Action Plan

Homestead Employees are instructed to be conscientious of verification and entry of the Homestead applications. All files have been put in the correct alphabetical order and the file cabinets were identified with labels. In addition, a file room was constructed and a file room clerk position has been created in the Real Estate Office. Employees who need to view a homestead document (or any document) must log the document out with the file room clerk. The log contains the person name

receiving the document, the parcel number, the date and time the document was taken out. The file room clerk will inquire about the document if it is not returned in a timely manner.

Issue

One of ten Homestead Exemption parcels selected (10% of the applicable sample) did not have a signed disability statement on file where applicable.

Recommendation

Homestead exemption personnel should verify disability certifications for all those taxpayers who apply for the Homestead Exemption under the disability criteria.

Management Action Plan

The Homestead Office will not process any application without the proper documentation. They also must be certain that a signed disability statement is on file at all times. Upon completion of processing, the application and documentation will be filed with the file clerk.

CAUV (Current Agricultural Use Value program):

Issue

Nine out of ten current agricultural use value (CAUV) parcels chosen had the renewal application sent on January 16, 2003. This is 90% of the sample. ORC 5713.36 states "On or before the fifteenth of January of each year, the county auditor shall mail to each current owner of land that was valued as land devoted exclusively to agricultural use during the next preceding calendar year, an application for the valuation of such land as land devoted exclusively to an agricultural use for the current calendar year".

Recommendations

IAD recommends that the Fiscal Office Real Estate department send the renewal applications well in advance of the required date to ensure compliance with the ORC. It was noted by IAD that the applications were sent timely in 2004.

Management Action Plan

The Real Estate Division will allow the Office Services Department ample time to prepare the mailing of CAUV renewal applications to current owners of land devoted to agricultural use. This mailing shall be prepared and delivered to Office Service a week (five working days) in advance of the January 15th deadline for mailing applications. Every effort shall be made to ensure that the office is in compliance with the ORC in meeting deadlines.

Issue

It was noted for one of the twenty exemptions sampled (5 % of sample tested), that a building on the exempt parcel had been destroyed/razed in November of 2002 and therefore should have been moved to taxable in 2003.

Recommendations

A procedure needs to be established and followed to periodically scan the system for parcel/building updates to ensure properties changed in status are timely and correctly adjusted for taxing purposes.

Management Action Plan

A report was created which will compare any primary structures coded for razings against all exempt parcels. If applicable, the exempt status will be removed if the structure receiving the exemption has been razed. This report will be run as part of our end of the year clean up. This was implemented in April 2004.

EMPLOYEE CERTIFICATIONS:

Issue

There are three instances out of seventeen (18% of the sample), where there is no documentation located in the individual personnel files to support that individual appraisal staff personnel passed specific required certifications. These certifications are used for promotional reasons and are position requirements.

Recommendations

IAD recommends that the Fiscal Office Personnel department update these files to include the required support documentation. It is also recommend that a formal procedure be put in place to ensure that required personnel information that is located in the personnel folder.

Management Action Plan

One of three missing certification documents has been located and placed in the employee's personnel file. We are applying for a copy of the other two certification documents from the IAAO in Chicago. Once these documents are received, they will be placed in the employee's personnel files. A new Personnel Check List for required forms/documentation has been created and is in each employee's personnel file of The Fiscal Office with the required information attached.

JOB DESCRIPTIONS:

Issue

Four out of twenty "Position Descriptions" were non-existent at the date of fieldwork. This is 20% of the sample. Per Debbie Cummins, Administrative Asst. Fiscal Personnel, there was a meeting setup for 2/17/04 with the Human Resource Department to create these position descriptions. On 2/26/04, Debbie Cummins provided IAD with two position descriptions that were approved by John Morgan, Chief Deputy Treasurer Personnel on 2/25/04. The employees has not signed off on the new position descriptions.

Recommendations

IAD recommends that position descriptions be created for these positions.

Management Action Plan

Position Descriptions are being completed by bargaining and non-bargaining employees. This is an on going process and has been coordinated by Wayne Vetter of the Executive office and John Morgan of the Personnel Department. The process should be completed by January 1, 2005.

Issue

Sixteen out of sixteen position descriptions presented for review did not have an approval date or a revision date, even though they have an approval signature and date line. Per Wayne Vetter, HR Manager, on 2/12/04, these position descriptions were created in 1994.

Recommendations

IAD recommends that these position descriptions be updated and approved. The date of approval and revision should be noted on the position description.

Management Action Plan

Position Descriptions are being updated by Wayne Vetter of the Executive Office and will be completed for all Fiscal Office employees. This process should be completed by January 1, 2005.

PAYROLL FILES:

Issue

Four employees that no longer work in the Real Estate department are classified under org code AUD011, a code used to identify the RE Dept in the Banner system. One employee currently assigned to the Real Estate department is classified under org code BOE003, a code used to identify the dept where the employee previously worked.

Recommendations

The Real Estate Department should update employee payroll records to reflect the department to which an employee is currently assigned.

Management Action Plan

The Personnel Department completes all Personnel Actions and forwards to the Payroll Department so that Banner may be updated.

PERSONNEL FILES:

Issue

It was noted upon review of Fiscal Real Estate personnel files that there was no standard listing of required forms/documentation for Fiscal Human Resource personnel files contained in the Policies & Procedures manual.

Recommendations

A standard listing of required forms/documentation for Fiscal Human Resource personnel files should be established in the Policies & Procedures manual to help ensure consistent and complete HR files. IAD noted at the end of fieldwork that the Fiscal Department has implemented a checklist and will incorporate it in its Policies & Procedures manual.

Management Action Plan

A new Personnel Check List for required forms/documentation has been created and is in each employee's personnel file of the Fiscal Office with the required information attached. The checklist will be incorporated into the Policies and Procedures Manual.

Issue

Per the Personnel Policy & Procedures Manual for the Summit County Fiscal Officer, Section 4.3 and the Codified Ordinance 169.20, performance evaluations are required to be completed on probationary employees and annually on all other employees. Per John Morgan, Chief Deputy Treasurer Personnel, currently evaluations are only completed on the Auditors division bargaining unit employees.

Recommendations

IAD recommends that all fiscal employees receive annual performance evaluations to measure employee performance as stated in the Personnel Policy & Procedure Manual for the Summit County Fiscal Officer, Section 4.3 and the Codified ordinance 169.20.

Management Action Plan

Appropriate Department Heads and Supervisors attended a class held by Roger Johnson of the Executive's HR Office on job evaluations for non-bargaining employees. We are proceeding and will utilize the Executive Office's system, which is to be Implemented By May 1, 2005.

Issue

Per the Codified Ordinance 169.15 and the Personnel Policy & Procedures Manual of the Summit County Fiscal Officer, exit interviews are a required function upon voluntary terminations. Per John Morgan, Chief Deputy Treasurer Personnel, terminations are currently processed through the Chief of Staff's area which is currently in the process of formulating a list for checking off the receipt of all county assets and equipment originally assigned to a terminated employee prior to receipt of employee's final paycheck. However, this process is not currently being accomplished with any degree of certainty and have only been completed on an optional basis in the past. Completing exit interviews helps ensure that the appropriate departments such as payroll, M.I.S. and security have all been notified of an employee's termination.

Recommendation

IAD recommends that exit interviews be completed as required per the Codified Ordinances and Personnel Policy & Procedures Manual. In addition, a formalized policy and procedure should be created for the termination, resignation, or job change of an employee. The policy should include a form for notification of the termination to departments such as insurance, M.I.S., payroll, the executive area handling I.D. badges, and any other department that the employee is connected to. This policy should also ensure that County assets that are inventoried when the employee is hired so that these items can be collected upon separation from employment.

Management Action Plan

The Personnel Department has implemented the process of the Chief Deputy of Personnel conducting all exit interviews. After the exit interview, proper notification is sent to payroll, MIS, the Executive's Office handling the Kronos badge, and the Insurance Department. All employees of the Fiscal Office have completed an Inventory Checklist and these forms have been filed in the respective personnel file.

Twenty of forty-three employee files were randomly selected for testing. Based on the fact that the Fiscal Personnel Policy and Procedures Manual for the Office of John A. Donofrio, Summit County Fiscal Officer did not include a detailed listing of what documentation needs to be included in each employee file, IAD interviewed John Morgan, Chief Deputy Treasurer Personnel to determine the required documentation. The following observations were noted:

Issues

- 2 of the 20 sampled Real Estate Personnel files did not contain a decision sheet on current healthcare insurance choices by the employee. (10% of sample)

- 3 of the 20 sampled personnel files did not contain an Application for Employment form or Resume. (15% of sample)
- Annual performance evaluations are currently only being performed on Bargaining Unit employees. Therefore, of the 20 personnel files tested, only 15 files were noted as requiring performance evaluations. The following were noted:
 - 2 of the 15 employee personnel files did not contain an employee evaluation representing 13% of the sample tested.
 - 3 of the 15 files contained a current evaluation that was completed later than the required union agreement 30-day completion window following the employee's anniversary date. This represents 20% of the population tested.
 - 1 of the 15 employee files contained an evaluation that was completed earlier than the union agreement's 30-day window for completion of evaluations prior to the anniversary date. This represents 7% of the population tested.
 - 1 of the 15 employee files did not contain a current evaluation; only last year's performance evaluation was present. This represents 7% of the population tested.

Recommendations

Employee HR personnel files should be reviewed and missing documents should be obtained to bring the files up to date.

Employee evaluations should be performed on all fiscal employees whether bargaining or non-bargaining. A process to ensure timely evaluations should be developed and implemented to ensure future evaluations are completed within defined timeframes.

Management Action Plan

Copies of the employees missing documentation were received from the Benefits Department and placed in the employee's personnel files. Employees that were hired under a prior administration and had no resume or application have been found and put into the employee's personnel file. Evaluation dates of union employees are given to the Supervisor by Joyce Cox, Assistant Treasurer, on a monthly basis. After the evaluations are completed they are given back to the Personnel Department to file.

III. Contract Review:

Nine operating contracts were randomly selected for review by IAD. Included in the sample was the contract between the Summit County Auditor and Ohio Council 8 and Local 1229 both of American Federation of State, County and Municipal Employees, AFL-CIO.

Issue

No major exceptions noted.

IV. Security:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with Ohio Revised Code §149.433²⁴⁸.