Internal Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

Payroll Audit
Cuyahoga County Fiscal Office
January 1, 2014 – December 31, 2014

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Audit Report Highlights

Fiscal Office – Payroll Division **August 2017**

Total Potential Recoveries[1] = None **Total Cost Savings[2] = $35,000**

County Payroll Annual Budget[3] = $558 Million **County Annual Budget[3] = $1.4 billion**

Why DIA Did This Audit

This report provides results and recommendations from the Department of Internal Auditing (DIA) related to financial activity, internal controls and operational procedures in the County's Payroll Department (Fiscal Payroll) in the Fiscal Office. This audit had two purposes:

1) To identify any control weaknesses, data errors, or inconsistencies in the payroll process. This includes accurate calculation of net earnings and amounts reported in W-2's, and timely remittance of paychecks and reports; and,
2) To determine if operational procedures utilized by Fiscal Payroll comply with all governing laws, and policies are carried out accurately and consistently.

What DIA Found

DIA performed audit procedures for the period January 1, 2014 through December 31, 2014 on Fiscal Payroll. We extended the audit period if findings were noted in areas of higher risk (e.g. amounts reported in W-2's). We found internal control weaknesses related to payroll and expenditure cycles. We identified instances of noncompliance with federal regulations and with the County's Personnel Policies and Procedures Manual. The most noteworthy issues identified are listed below.

- We noted instances in which manual checks were issued without appropriate supervision and documentation. Three employees in Fiscal Payroll could issue checks without supervisor or secondary approval. In addition, no supporting documentation was maintained for the issuance of manual checks. 193 manual checks were issued in 2014 totaling over $236,000.
- We noted a lack of standardized timekeeping processes and procedures across all County agencies. Prior to 2011, the payroll process was decentralized for all 23 agencies. Each agency submitted payroll data to the County Auditor (now Fiscal Officer) every two weeks for payroll processing. Since the new form of government in 2011, Human Resources (HR) centralized the HR payroll process for 12 agencies, including the Sheriff's Office and Clerk of Courts. Although over half of the agencies centralized their payroll process under HR, Executive and non-Executive County agencies use various methods of time keeping. Executive agencies submit payroll to Fiscal Payroll through HR's payroll system (SAP) while non-Executive agencies submit manual timesheets or flat files to Fiscal Payroll for payroll processing. Page 9 in the report contains a map of the process.
- The current payroll system, INFOR, had the following limitations:
    - The system limits the number of financial institutions for direct deposit.
    - The system does not allow County employees to receive reimbursements for allowable expenses (e.g. travel reimbursements) through payroll direct deposit.
    - The current payroll system does not separately list each deduction on employee pay stubs, such as medical and dental contributions. Employee contributions are totaled into one-line item ("Flex Pretax").

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[1] *Total overpayments identified by DIA the County could potentially recover.*

[2] *The amount the County could save by implementing recommendations. This is a result of policy changes that could reduce expenses or increase revenue.*

[3] *Taken from the updated 2017 budget approved by Council on December 28, 2016. The County Annual Budget includes operating appropriations from all County funds. The County's Annual Payroll Budget includes all personnel service expenditures (salaries and employer's portion of contributions).*

Audit Report Highlights

Fiscal Office – Payroll Division **August 2017**

What DIA Recommended

We focused on providing County management with best practices and sound internal controls to mitigate potential risks related to various functions in Fiscal Payroll. We made recommendations focused on resolving weaknesses noted above to help move Fiscal Payroll toward a more efficient and productive function prior to the implementation of the County's new Enterprise Resource Planning (ERP) system. We communicated these recommendations to Fiscal Payroll. Based on their responses, we believe corrective action has been or will be taken to mitigate the risks identified during this audit. Management responses follow each recommendation in the report. We made the following recommendations to improve the operations of HR Payroll:

- The issuance of manual checks should be segregated. Issuance of manual checks should be restricted to the Senior Payroll Officers in Fiscal Payroll with approval required by the Fiscal Payroll Manager. If the Fiscal Payroll Manager must issue a manual check the Controller should approve the transaction. Evidence of approval should ensure the manual check is justified, all supporting documentation is maintained, and formal procedures were followed. Supporting documentation should show that a level required authorization was obtained to issue the manual check and that the check was issued for an allowable purpose (e.g. to correct an employee's pay).
- Fiscal Payroll should require consistent submission of payroll by Executive and non-Executive agencies. Each agency should utilize SAP or the new ERP system (upon implementation) to input time.
- We recommend Fiscal Payroll review this audit report and consider implementing applicable recommendations into the new ERP system. Fiscal Payroll should utilize the new ERP system to improve operations and achieve efficiencies. Specifically,
    - The new ERP system should not limit the County to a finite number of financial institutions for direct deposit.
    - The County should consider reimbursing employees for County-related expenses (pre-approved and allowable under County policy) through payroll direct deposit.
    - The new ERP system should display each payroll deduction on employee pay stubs per insurance plan (e.g. medical, dental, vision, etc.).
    - The new ERP system should generate a report that will flag "out of range" transactions prior to finalizing payroll. This exception report should flag potentially unusual transactions, such as significant changes from the prior pay period (e.g. pay rate increases and deduction changes) and transactions that appear too large (e.g. a transaction during a pay period when the employee's gross earnings is greater than a certain threshold, such as $10,000). Fiscal and/or HR Payroll should review these transactions for validity.

CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING

INTERNAL AUDIT REPORT
Cuyahoga County Fiscal Office
Cover Letter

August 22, 2017

To: Fiscal Officer, Dennis Kennedy and the current management of the Cuyahoga County Fiscal Office Payroll Division:

The Department of Internal Auditing (DIA) has conducted an audit of the financial operations and general accounting of the Cuyahoga County Fiscal Office Payroll Division (referred to in this report as "Fiscal Payroll"[1]), for the period of January 1, 2014 through December 31, 2014. DIA extended the audit period where necessary to recognize new processes and procedures in Fiscal Payroll, and to further review significant risks identified.

The objectives of this audit were to conduct audit work related to the internal controls over the payroll function of Fiscal Payroll to ascertain if procedures currently being utilized are operating as intended by management. Another objective was to determine if the payroll procedures used are consistent with the Cuyahoga County's Employee Policies and Procedures Manual (referred to in this report as "PPM") and all governing laws and regulations. In addition, a further objective was to ensure all expenditures and transactions are properly supported, approved and recorded.

To accomplish our objectives, we focused on Fiscal Payroll's operational controls, the payroll and expenditure cycles as well as specific compliance mandates. Interviews with management and staff, along with general walk-throughs of payroll processing and other check-issuing cycles were conducted to document the controls in place. In addition, substantive testing methods included analytical procedures and tests of detail using sampling methods.

Our audit procedures disclosed internal control weaknesses relating to payroll and expenditure cycles, asset safeguarding, and recordkeeping. DIA identified non-compliance with Ohio Revised Code and federal regulations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future

[1] *For clarification, we will reference the Fiscal Office, as whole, as "Fiscal" within this report; and we will reference the Payroll Division in Fiscal as "Fiscal Payroll" within this report.*

periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to the Fiscal Payroll staff and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. We provided a draft report to the Fiscal Officer for comment. Management responses are included within the audit report. Fiscal Payroll's processes could improve if recommendations are implemented currently and with the County's new Enterprise Resource Planning (ERP) system. Based on responses received from Fiscal Payroll and Human Resources[2], we believe corrective action was taken or will be taken to mitigate the risks identified during the payroll audit.

Respectfully,

Cory A. Swaisgood, CPA
Director of Internal Auditing

Cc: Audit Committee
Cuyahoga County Council
Sharon S. Jordan, Chief of Staff
Robert Triozzi, Law Director
Douglas Dykes, Chief Talent Officer

[2] *Human Resources will assume responsibility for the payroll function upon implementation of the new ERP with review from the Fiscal Office.*

Contents

Glossary

ACA	**-**	Affordable Care Act – Also known as the Patient Protection and Affordable Care Act was signed into law in 2010. The Act regulates healthcare and expansion of coverage for Americans.
ERP	**-**	Enterprise Resource Planning – Business management software integrating core business processes. The County was in the planning stages of implementing a new ERP system during the audit.
FAMIS	**-**	Cuyahoga County's accounting information system.
INFOR	**-**	Cuyahoga County's payroll software used by Fiscal Payroll to generate pay registers and other payroll related reports, such as W-2s.
IRC	**-**	Internal Revenue Code – Federal statutory tax law in the United States.
MyHR	**-**	Cuyahoga County's electronic timekeeping system used by most exempt and non-exempt employees.
ORC	**-**	Ohio Revised Code.
OPERS	**-**	Ohio Public Employees Retirement System
SAP	**-**	System Applications Process – Information system utilized by HR to track and store employee benefits and payroll data.
PPM	**-**	Cuyahoga County's Employee Policies and Procedures Manual.
W-2	**-**	A statement sent from an employer to employees at the end of each tax year. The statement includes information on wages earned and taxes withheld from the employee's paychecks, and is used by employees to prepare annual tax returns.

Report Details

Purpose

The purpose of the payroll audit was to identify any control weaknesses, data errors, inconsistencies or noncompliance in the payroll process, which includes calculation of net earnings and W-2 information, deduction payments, and reconciliations. DIA reviewed the payroll process in detail and documented payroll procedures to ensure there were adequate guidelines in place. DIA communicated any deficiencies or noncompliance identified to Fiscal Payroll for corrective action.

This report provides results and recommendations related to financial activity and operational procedures in Fiscal Payroll. We focused on providing County management with best practices and sound internal controls to mitigate potential risks related to various functions in Fiscal Payroll, such as bi-weekly reconciliations, retaining records, segregation of duties, proper authorization and support of documentation, and compliance with statutory legislation.

Audit Objectives

Based on the risk assessment conducted by DIA, the objectives of this audit are to determine whether:

- Procedures currently being utilized are operating as intended by management.
- Fiscal Payroll has a Policies and Procedures Manual that adequately addresses its processes. The manual is current, consistent and user-friendly.
- Fiscal Payroll is operating in a control conscious environment with adequate controls in place to effectively and efficiently achieve the organization's goals.
- All payroll expenditures are accurately calculated, reconciled to the financial system and bank.
- All manual checks are properly approved and accurately recorded.
- All deduction payments (OPERS, income tax, etc.) are authorized, accurate and timely paid.
- Computations of rates, benefits, and deductions are accurate.
- W-2s accurately reflect employees' payroll information and include required information.
- All procedures, transactions, and reports are in accordance with all governing laws, regulations and policy.

Control conscious environment –

Adequate level of internal control awareness; proper separation of duties; existence of a proper monitoring system; appropriate authorization/approval of expenditures; and adequate safeguarding of financial, physical, and information assets.

Scope

Our audit of Fiscal Payroll covered the period of January 1, 2014 through December 31, 2014. DIA extended the audit period in certain areas to accurately report on and recognize new processes and procedures incorporated during the audit. The audit period was also extended to further review significant risks identified.

Methodology

To accomplish our objectives, we focused on operational controls in Fiscal Payroll, the major revenue and expenditure cycles as well as specific compliance mandates. We conducted interviews with management and staff, along with general walk-throughs, to document whether controls were in place and operating effectively. In addition, substantive testing methods included analytical procedures, test of details using sampling methods, as well as confirmation of transactions and/or assets.

To achieve our audit objectives, we:

- Conducted interviews with Fiscal Payroll management and staff.
- Reviewed the County's PPM.
- Reviewed and tested for proper segregation of duties.
- Reviewed proper safeguarding of financial, physical, and information assets.
- Performed substantive and control tests on the expenditure cycle, such as net earnings and W-2 calculations.
- Conducted compliance tests on local, state, and federal regulations.

Background

Fiscal Payroll is staffed by four employees (manager and three staff) reporting to the County Controller. Fiscal Payroll is a processing center for the County's payroll cycle. Each County employee is paid, via direct deposit or physical check, every two weeks. 23 Executive and non-Executive County agencies[3] (over 8,000 employees) submit employee payroll data to Fiscal Payroll. Fiscal Payroll is responsible for issuing paychecks, remitting deduction payments and support to applicable organizations, and generating pay registers in a timely and accurate manner. Fiscal Payroll is also responsible for preparing and distributing employee W-2's each calendar year.

Fiscal Payroll generates payroll through their payroll system, INFOR, after receiving all earnings and deduction data from the Human Resources Payroll Division (HR Payroll) and other outside agencies prior to pay day. Fiscal Payroll distributes pre-

[3] *Prior to the charter form of government, effective January 1, 2010, separate elected officials involved with the County's operations managed their respective County agency (e.g. Sheriff was elected and managed the Sheriff's Office). With the new charter, these formally elected positions, such as Sheriff, Treasurer and Clerk of Courts, became appointed positions under a newly created elected position, Executive. Non-Executive agencies consist of agencies not under the Executive's authority, according to the charter.*

registers to each agency for review. County agencies are responsible for the timeliness and accuracy of payroll data submitted to Fiscal Payroll. Each agency is responsible for communicating payroll changes to Fiscal Payroll prior to the pay run. Final registers are distributed to each agency after the pay run is complete. Employees receive direct deposit or physical checks each Friday of pay week (every two weeks).

In addition, Fiscal Payroll receives notices of IRS garnishments. One payroll clerk verifies the information on the notice and records the deduction for the following payroll cycle.

Fiscal Payroll also generates withholding checks out of INFOR for payment to appropriate organizations. These checks include withholdings for municipal tax, federal tax, garnishments, OPERS, etc.

Findings and Recommendations

Objective #1 - Fiscal Payroll Conforms with Federal Regulations

FINDING In 2015, over $19,000 in local income taxes were not accurately withheld from employee paychecks.

Section 79 of the Internal Revenue Code (IRC) requires employers to report and calculate imputed income for employees with group term life insurance coverage in excess of $50,000 provided by the employer. The ORC (Section 718.01) reinforces the IRC requirement on municipal income taxes for imputed life insurance income. The County should have proper IT and monitoring controls in place to heighten the likelihood that imputed life insurance income is accurately calculated and reported on employee W-2s.

While reviewing W-2s, DIA noted a difference between total Medicare taxable wages and total local taxable wages. Medicare wages were greater than local taxable wages in the amount of imputed life insurance income. DIA confirmed with the Central Collection Agency (CCA), the local income tax administrator for the City of Cleveland, that imputed life insurance income should be included in local taxable wages, meaning local taxes should be deducted from imputed life insurance income. This error resulted in lower local tax deductions on applicable employee paychecks. For example, DIA noted local taxable wages on one County employee's 2015 W-2 was $402 lower than the ORC requirement, which resulted in $8 of local income taxes not being withheld from the employee's paycheck. Fiscal Payroll noted that Regional Income Tax Association (RITA) communities use total Medicare wages to calculate local income taxes.

DIA estimated that approximately $952,439 in imputed life insurance income for 2,419 employees was not included in local taxable wages for the 2015 tax year. The estimated amount not withheld for local income taxes was $19,049 for the 2015 tax year calculated by Cleveland's local income tax rate of 2%. This amount could vary based on the actual municipality the affected employees lived and worked.

INFOR was erroneously configured as imputed life insurance income was coded as non-taxable for local income taxes. The miscalculation may have been an error for over eight years.

FINDING In 2014, the cost of the County's health care coverage was not reported on 97 employees' W-2s.

The Affordable Care Act (ACA) requires employers to report the employer's cost of health care coverage under an employer-sponsored group health plan on an employee's W-2. The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee's income. The cost is reported for informational purposes only, to show employees the value of their health care benefits.

During review of all W-2's issued in 2014 (8,075), approximately 97 employees, 1.2%, that received health care benefits through the County did not have the employer's cost of health care coverage recorded on their W-2's. DIA reviewed 2015 W-2s and noted the issue was corrected for the 97 employees.

Risk to the County if Findings Not Corrected

County employees will continue to underpay local income taxes if INFOR is not properly configured to deduct imputed life insurance income. Additionally, municipalities can subject the County to withholding tax penalties and interest for reporting and withholding inaccuracies.

Violations of the ACA's reporting requirements are subject to IRC §6721. For employers that fail to comply with W-2 reporting requirements, penalties begin at $30 per W-2 up to a maximum of $1.5 million per calendar year depending on the number of failures and date of correction.

Recommendations

1.1 DIA recommends the following preventative, detective, and corrective controls to mitigate the risk of inaccurate income tax reporting:

- The Fiscal Office should reconfigure imputed life insurance income in INFOR to comply with federal, state, and local tax laws. Medicare wages and municipal wages should reconcile on employee W-2s.
- The Fiscal Office should annually review all federal, state, and local tax laws to ensure the County is accurately deducting and reporting taxable wages. Specifically, review of taxable income and deduction calculations in INFOR.
- The Fiscal Office should review prior years' W-2s related to imputed income and determine if amended W-2s are necessary. Since RTIA communities use total Medicare wages from W-2s, the impact on taxes paid could be minimal.

Management's Response:

The Fiscal Office attempted to correct the issue when it was brought to our attention during 2016. Due to system limitations, a change could not be made after the year had already started. The issue was corrected the first pay of 2017.

The effect of imputed income on reissued W-2's would be very minimal, so the Fiscal Office will not be reissuing W-2's.

1.2 DIA recommends the County report the cost of the employer's health care coverage on the W-2s for all employees receiving benefits, in accordance with the ACA.

Management's Response:
The Fiscal Office will ensure the employer's cost of health care coverage is reported on W-2's.

1.3 A reconciliation should be performed between SAP (employees with health care benefits) and the W-2 files to ensure all W-2s are accurate prior to issuing W-2s to employees.

Management's Response:
Fiscal Payroll does review a W-2 audit report prior to creating W-2's. This report is compared to the final payroll register of the year to ensure totals equal. Fiscal Payroll does not have access to SAP and relies on Human Resources to ensure the records from Infor are properly updated to SAP after each payroll is completed.
HR Response*: In response to this recommendation, HR will include development of a process to reconcile W-2s against the ERP payroll system of record as a goal during ERP implementation.*

Objective #2 – Fiscal Payroll Demonstrates Operational Efficiency and Adequate Controls in the Payroll Process

FINDING Issuance of manual checks lacked adequate internal controls.

Manual checks are issued directly out of the payroll system (INFOR) by Fiscal Payroll staff. These checks are normally for correction of employees' pay checks, but also for payments to organizations receiving employee deductions (e.g. unions, deferred compensation, OPERS). There was a total of 193 manual checks issued in 2014 totaling $236,935.

DIA tested controls involved with the manual check process and noted the following:

- There was a lack of segregation of duties in issuing manual checks, as three employees in the department could issue checks. There was no supervisor or second party approval for the issuance of manual checks.

- No supporting documentation was maintained to support issuance of manual checks.
- DIA noted gaps in the check sequence. Some were due to damaged checks during the printing process. There was no evidence to support the gaps noted.

The issuance of manual checks should commence with adequate supporting documentation and supervisor authorization. Communication to initiate a manual check was done by phone or email from a Human Resources (HR) payroll officer. Fiscal Payroll did not maintain the communication from HR, and HR was not maintaining support. In addition, no supervisor approval was evident to authorize the manual payment.

FINDING Inefficient procedures and processes were noted in daily operations.

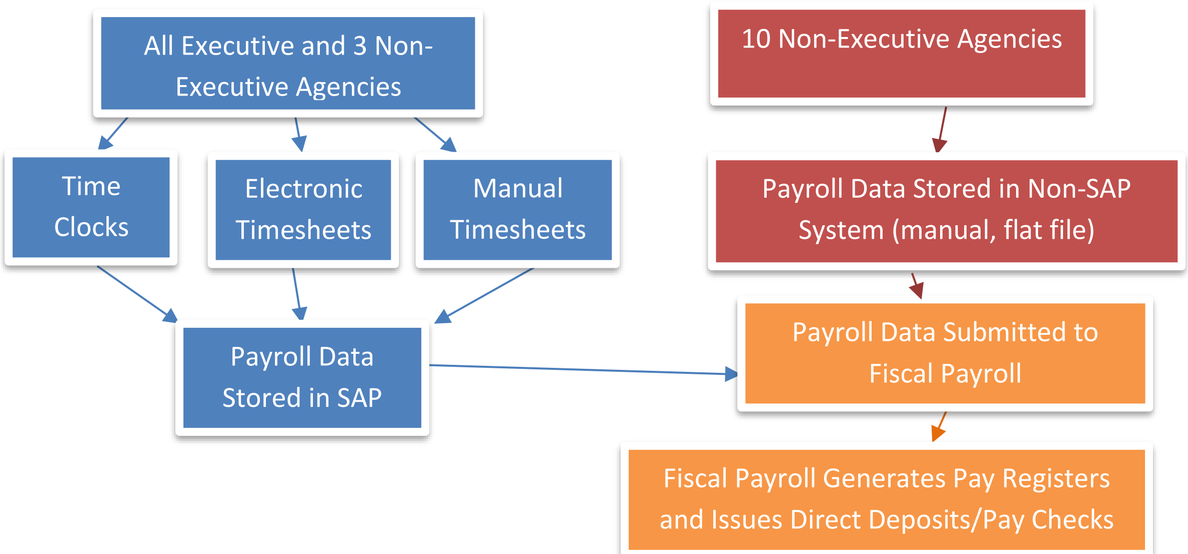
Fiscal Payroll employees should utilize their time in performing duties to ensure daily operations are performed accurately and in the most efficient and timely manner.

During our walk-through of Fiscal Payroll's daily operations, we noted the following inefficiencies:

- OPERS withholdings were paid into the County Treasurer every pay period with checks generated from the payroll system, INFOR. After the last pay of each month, the Accounts Payable Manager electronically sends an employee file to OPERS after verifying the file agrees to INFOR's withholdings register. The Accounts Payable Manager then issues a check for the employee and employer share of OPERS. The checks are mailed certified and are required to be post marked no later than the last day of the following month.
- There is a lack of standardized timekeeping processes and procedures across the County. Prior to 2011, the payroll process was decentralized for all 23 agencies. Each agency submitted their payroll data to the County Auditor (now Fiscal Officer) every two weeks for payroll processing. The SAP group (HR) has been processing payroll for the following agencies since December 1999 as one group: Executive (Commissioners), Public Works, Prosecutors, Sheriff’s Office, Human Services. Since the new form of government in 2011, HR has centralized the HR payroll process for 12 agencies (Medical Examiner, Clerk of Courts, Fiscal, IT, Treasurer, Executive, Human Services, Public Works, Sheriff’s Office, Planning Commission, Solid Waste District and Board of Elections). Although over half of the agencies centralized their payroll process under HR, Executive and non-Executive County agencies[4] use various methods of time keeping. Executive agencies submit payroll

[4] *Prior to the charter form of government, effective January 1, 2010, separate elected officials involved with the County’s operations managed their respective County agency (e.g. Sheriff was elected and managed the Sheriff’s Office). With the new charter, these formally elected positions, such as Sheriff, Treasurer, and Clerk of Courts became*

to Fiscal Payroll through HR's payroll system (SAP) while non-Executive agencies submit manual timesheets or flat files to Fiscal Payroll for processing. See the following table for a visualization on this process as of June 2017.



Agency Name	Agency Type	SAP	Non-SAP	Time Clocks	Manual Timesheets	Flat File	MyHR
County Executive	Executive	X		X			X
Fiscal Office	Executive	X					X
ADP Board (IT)	Executive	X					X
CountyTreasurer	Executive	X					X
County Prosecutor	Non Executive	X					X
County Sheriff	Executive	X		X			X
Medical Examiner	Executive	X					X
County Clerk of Courts	Executive	X					X
Common Pleas Court	Non Executive		X		X		
Domestic Relations	Non Executive		X		X		
Juvenile Court	Non Executive		X			X	
Probate Court	Non Executive		X		X		
Planning Commission	Non Executive	X					X
Solid Waste District	Non Executive	X					X
Public Works	Executive	X		X			X

appointed positions under a newly created elected position, Executive. Non-Executive agencies consist of agencies not under the Executive's authority, according to the charter.

ADAMHS Board	Non Executive		X		X		
Bd of Developmental Disabilities	Non Executive		X	X		X	
Board of Elections	Non Executive	X					X
Board of Health	Non Executive		X			X	
Public Defenders	Non Executive		X		X		
Health and Human Services	Executive	X					X
Veterans Service Commission	Non Executive		X		X		
Municipal Court Officials	Executive		X		X		

SAP=Agencies sending payroll through the Executive's Human Resources Payroll Division. SAP is Human Resources system used to store and track employee, payroll, and benefits information.
Kronos=Timeclocks. Used by Non-Executive and Executive Agencies. Mainly used by Union employees.
Flat File=Electronic file sent to Fiscal Payroll with the agency's payroll data.
MyHR=Electronic timekeeping system utilized by the Executive's Human Resources Payroll Division.

Risk to the County if Findings Not Corrected

The County is at a greater risk of issuing unauthorized or improper checks if supporting documentation is not maintained and supervisor approval is not obtained for the issuance of manual checks.

The County's 23 agencies do not have an integrated process to maximize efficiencies in daily operations; therefore, inefficiencies in procedures will continue until payroll is fully automated. Lack of efficient procedures could result in untimely and inaccurate payroll disbursements. Performing unnecessary steps in day-to-day operations could prevent employees from focusing on timely disbursement and accuracy of payroll data.

Recommendations

2.1 DIA recommends the following regarding issuing manual checks:

- The issuance of manual checks should be segregated. Issuance of manual checks should be restricted to the Senior Payroll Officers in Fiscal Payroll with approval required by the Fiscal Payroll Manager. If the Fiscal Payroll Manager must issue a manual check the Controller should approve the transaction. Evidence of approval should ensure the manual check is justified, all supporting documentation is maintained and formal procedures were followed.
- Supporting documentation should be maintained for the issuance of each manual check. This support should show a level of authorization was obtained to issue the manual check and for an allowable purpose (e.g. to correct an employee's pay).

- Gaps in the check sequence should be documented and maintained. A reason for any gaps should be noted.

Management's Response:
The Fiscal Payroll will create segregation between the creator and approver of manual payroll checks. Supporting documentation which shows this approval and the reason for the issuance will also be maintained. A log showing gaps in checks and the reason for gaps will be maintained going forward.

2.2 We recommend Fiscal Payroll evaluate daily operations to increase the likelihood that procedures are efficient, including but not limited to the following areas:

- OPERS payments should be done via ACH to reduce the cost of issuing checks and certified mail.
- Fiscal Payroll should require consistent submission of payroll by Executive and non-Executive agencies. Each agency should utilize MyHr/SAP or the new ERP system (pending implementation) to input time.

Management's Response:
Currently, OPERS will only allow ACH debits and not ACH credits. If a secondary form of payment is allowed, the Treasurer's Office prefers to utilize another form of payment instead of allowing organizations access to the County's bank account to withdraw funds.

The desire is for all agencies to utilize the new ERP payroll system. However, due to costs associated to agencies not under the auspices of the County Executive, implementation is not mandatory. Use and associated costs will be negotiated between the County Executive and the agency.

Objective #3 – Fiscal Payroll Complies with Requirements set forth in the ORC

FINDING Fiscal Payrolls' record retention schedule was not followed in accordance with County Ordinance and the ORC.

County Ordinance 2011-0012, Section 5.7, states, "Each public office shall have a records retention schedule in place, which shall specify, consistent with state law, the methods by which and the length of time that records shall be kept." In addition, each public office shall propose a public records retention schedule to the County Records Commission, in accordance with the standards set forth in Section 149.38 of the ORC, no later than June 30, 2011. Additionally, ORC Section 149.351(A) states, in part, "All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part."

A records retention schedule was requested for Fiscal Payroll. Fiscal Payroll provided several record retention schedules dating between 1976 and 1980. Most of the records contained in the schedules were no longer used and were obsolete.

FINDING The County elected not to assess garnishment fees on applicable employees' disposable earnings.

ORC Section 2716.041 (C)(4)(e) states "A garnishee to whom a municipal or county court or court of common pleas issues a continuous order of garnishment of personal earnings may deduct a processing fee of up to three dollars from the amount withheld from the judgment debtor's personal disposable earnings for each pay period of the judgment debtor that an amount from the judgment debtor's personal disposable earnings was withheld for that order. A garnishee shall not deduct the processing fee for any pay period in which no amount from the judgment debtor's personal disposable earnings during that pay period was withheld for that order and no garnishee's interim report and answer is filed. The garnishee's processing fee shall not be charged as court costs."

The County did not charge the garnishment processing fee during the audit. There were 64 garnishments during one pay period in 2017 that could have been assessed the processing fee. The County could collect $192 in revenue if the $3 processing fee was charged, which projects to approximately $4,992 for the year.

FINDING Fiscal Payroll posted employee social security numbers in the County's financial system.

Government agencies are entrusted with the duty of collecting sensitive and private information and establishing the necessary processes and procedures to safeguard personal data. ORC Section 1347.12, in part defines personal information as an individual's name, in combination with and linked to any one or more of the following data elements:

- Social security number (SSN).
- Driver's or state identification card number.
- Account number or credit or debit card number in combination with and linked to any required security code, access code, or password that would permit access to an individual's account.

Moreover, ORC Section 1347.05(h) requires an agency to collect, maintain, and use only personal information that is necessary and relevant to the functions that the agency is required to perform and to eliminate personal information when it is no longer necessary or relevant to those functions.

FAMIS is accessible by various County departments and multiple employees within departments across the County. Access is limited to each employee based on their job duties. During review of employee garnishment disbursements, we noted employee SSNs were posted as the description of the expenditure in FAMIS.

Risk to the County if Findings Not Corrected

Failure to establish and enforce a record retention schedule results in unauthorized destroyed or missing records. Furthermore, in the absence of a law or retention schedule permitting disposal of records, Fiscal Payroll lacks the required authority to dispose of those records, and must maintain them until proper authority for disposal is obtained. In the meantime, these records remain subject to public records requests.

The County, reportedly, has discussed implementing the processing fee in the past but deemed the cost outweighed the benefit with the current system. With the new ERP system planned to be implemented in 2018, the County should reassess the benefit of charging the processing fee on garnishments.

Although access is limited to specific employees within the County's Fiscal Office, we believe SSNs could be viewed by unauthorized individuals when FAMIS data is extracted. FAMIS reports are generated for other parties, such as the State Treasurer's online checkbook, which is accessible to the public. This weakness may result in unauthorized use of SSNs for illegal activities. If SSNs are taken from FAMIS and used for illegal activities, the County may be held liable.

Recommendations

3.1 DIA recommends Fiscal Payroll establish an updated record retention schedule in accordance with the resolution above and file the document with the County Records Commission. All records must be maintained in accordance with the newly proposed record retention schedule. Absent a record retention policy for each department, all records need to be maintained.

Management's Response:
Due to the implementation of a new payroll system as part of the ERP within the next year, the Fiscal Office prefers Human Resources, as the owner of the payroll module, to respond to this recommendation.
HR Response: *The Department of Human Resources does have an updated, active record retention schedule on file with the County Records Commission which will address this recommendation.*

3.2 Currently, DIA's projection suggests the processing fee on garnishments may not be beneficial to the County during the audit period. However, the Fiscal Office should periodically assess the benefit of charging the processing fee on garnishments.

Management's Response:
Due to the implementation of a new payroll system as part of the ERP within the next year, the Fiscal Office prefers Human Resources, as the owner of the payroll module, to respond to this recommendation.
HR Response: *In partnership with the Fiscal Office, Human Resources will regularly assess the feasibility of charging a processing fee on garnishments, keeping in mind the costs and benefits to the County as well as potential impact on employees.*

3.3 Fiscal Payroll should consider performing a cost-benefit analysis on the $3 processing fee during implementation of the new ERP system. If implemented, the process on assessing the fee and notifying employees should be formally documented and distributed to County personnel.

Management's Response:
Due to the implementation of a new payroll system as part of the ERP within the next year, the Fiscal Office prefers Human Resources, as the owner of the payroll module, to respond to this recommendation.
HR Response: *In partnership with the Fiscal Office, Human Resources will perform this cost- benefit analysis during ERP implementation, and will document and communicate any change appropriately.*

3.4 Fiscal Payroll should not include employee SSNs as the transaction description in FAMIS for garnishment disbursements.

Management's Response:
Fiscal Payroll will explore other options to provide social security numbers to the Courts as they need the information to process each garnishment.

Objective #4 – All Funds and Subfunds Assigned for Payroll Activity are Periodically Monitored for Inactivity

FINDING Four payroll subfunds had no activity for more than four years.

The Fiscal Office uses FAMIS to record receipts and disbursements to and from various funds and subfunds. The Fiscal Office established subfunds to account for various transactions in the payroll process (e.g. worker's compensation and OPERS).

DIA noted no activity in the following payroll subfunds from 2013-2017.

Subfund	Cash Balance	Last Activity
Payroll Misc. Revolving Account	$552	May 2010
Worker's Compensation	$43,811	April 2009
Miscellaneous Payroll Overpayment Account	$51,742	November 2010
OPERS Buyout	($101,014)	June 2013
Total Balance	**($4,909)**	

Risk to the County if Findings Not Corrected

The Fiscal Office had a net negative cash balance in the above subfunds. The Fiscal Office is at risk of transferring unused subfunds to the new ERP system if these subfunds are not reviewed and closed prior to implementation.

Recommendations

5.1 The Fiscal Office should assess the need for these subfunds and consider closing them out. The Fiscal Office should also perform a comprehensive review on subfunds with little to no activity over the last three years. This review would reduce the risk of transferring unused subfunds into the new ERP.

Management's Response:
The Fiscal Office will explore closing out these subfunds prior to the implementation of the ERP. Other subfunds will also be examined for inactivity and possible closing.

Recommendations for the New ERP System

The County was in the process of planning and implementing a new ERP system during the audit. This system will integrate the Fiscal Office's accounting system (FAMIS) with the payroll system (INFOR). Throughout this payroll audit, control weaknesses found should be corrected with the new ERP system, but correcting these now ensures the process is consistent and data is reliable when migrating to the new ERP. Specifically, the following was noted throughout the audit:

- The current payroll system limits the number of financial institutions for direct deposit.
- The current payroll system does not allow County employees to receive reimbursements for allowable expenses through payroll direct deposit. Employees manually request reimbursement through a hard-copy voucher process.
- The current payroll system does not separately list each deduction on employee pay stubs, such as medical and dental contributions. Employee contributions are totaled into a line item ("Flex Pretax") on employee pay stubs.
- Fiscal Payroll physically issued checks to the Treasurer's Office to transfer payroll deductions, such as medical premiums, out of the payroll agency fund into other County funds. In essence, the checks were issued out of the same bank account they were deposited.
- The current payroll system does not require supervisor approval for any manual edits of earnings or deductions.
- Supporting documentation was not maintained and supervisor approval was not obtained for manual checks issued outside the payroll process.
- Fiscal Payroll generates and distributes reports to each HR agency for review. These agencies review reports for inaccuracies (e.g. payment errors). Automated exception reports are not generated to "flag" unusual transactions (e.g. gross earnings exceeding a specific threshold).

Recommendations

We recommend Fiscal Payroll review this audit report and consider implementing applicable recommendations into the new ERP system. Specifically, the following information technology controls should be included:

- The new ERP system should not limit the County to a finite number of financial institutions for direct deposit.
- The County should consider reimbursing employees for County-related expenses (pre-approved and allowable under County policy) through payroll direct deposit.

- The new ERP system should display each payroll deduction on employee pay stubs per insurance plan (e.g. medical, dental, vision, etc.).
- The new ERP should eliminate the need for the Fiscal Office to issue a check to the Treasurer's Office to transfer cash from one fund to another. Transactions for payroll deductions should consist of an automatic journal entry from the payroll system to the general ledger.
- Electronic supervisor approval should be obtained on all manual entries entered into the payroll system (e.g. changes in earnings or deductions).
- Support should be maintained and supervisor approval should be obtained in the new ERP system for the issuance of all manual checks.
- The new ERP system should generate a report that will flag "out of range" transactions. Prior to finalizing payroll, the system should generate an exception report for Fiscal (and/or HR) Payroll to further review potentially "unusual" transactions. This report should flag transactions such as significant changes from the prior pay period (e.g. pay rate increases and deduction changes). The exception report should also flag transactions that appear too large (e.g. earnings of $10,000 should be $1,000). Fiscal (and/or HR) Payroll should ensure supporting documentation was maintained for these transactions before finalizing payroll.

Management's Response:
Due to the implementation of a new payroll system as part of the ERP within the next year, the Fiscal Office prefers Human Resources, as the owner of the payroll module, to respond to this recommendation.
HR Response:

- *The ERP does not have similar limits regarding the number of financial institutions for direct deposit.*
- *The County will complete cost-benefit and risk analyses of reimbursing County-related expenses through payroll direct deposit during implementation of the ERP.*
- *The ERP system has the ability to display individual payroll deductions on employee pay stubs. A decision regarding how to best utilize this ability will be made during ERP implementation.*
- *In partnership with the Fiscal Office, Human Resources will strive to ensure that the ERP payroll module is fully integrated with core financial modules allowing for automatic journal entries etc.*
- *The ERP includes an option to require electronic supervisor approval on all manual entries entered into the payroll system. How to use this option to the greatest benefit will be a decision point during ERP implementation.*

- *The ERP contains a security setting that allows only authorized personnel to print manual checks. The most beneficial use of this security setting will be a decision point during ERP implementation.*
- *The ERP has the capability to flag "out of range" transactions. It is Human Resource Payroll's intention to fully utilize this flag/exception report and maintain supporting documentation per the records retention policy.*